Summary

Most government spending on social protection is devoted to old-age pensions. The Social Assistance Scheme (SAS), the main poverty-targeted program, has low coverage and stringent categorical eligibility criteria that exclude most of the poor, while spending on social services and labor market programs is very low. Social assistance benefits are not always adequate, and, in some cases, the program design may discourage individuals from seeking work. Social services and labor market programs are largely ineffective due to the low level of spending and a lack of systems to ensure that households receive the appropriate assistance. The pension systems may face substantial financial difficulties in the coming years. Lastly, Kosovo’s social protection programs cannot respond effectively to shocks and crises, as witnessed during the COVID-19 pandemic.

Recommended key areas of reform

- Increase social assistance to households in need through reallocating spending from less efficient programs to programs more effective in serving the poor (for example, the poverty-targeted SAS).
- Expand disability pension coverage to the partially disabled persons, while reducing inequalities among schemes.
- Increase funding for social services and invest in their human resources.
- Increase efforts to understand the needs of members of a household so that they can be referred to appropriate programs, supported by integrated data systems.
- Limit the basic pension to households below a given income and set a minimum benefit level.
- Shift some of the pensions for various categories of recipients, for example, war-related pensions, towards the general pension system over time and ensure benefits are limited to the poor.
- Improve labor market programs by devoting more resources to the Employment Agency of the Republic of Kosovo, entering into partnerships with private providers of services and undertaking rigorous monitoring and evaluation of programs.
- Assess options for providing unemployment benefits.

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1 This note is one of a series that reviews the challenges facing social protection programs in the Western Balkans. It is based on a longer version prepared by the World Bank and funded by the European Union.
Cash transfers to support the poor, the vulnerable and persons with disabilities

Cash transfers largely fail to reach the poor. Although the coverage of total cash transfers is high in Kosovo compared to other Western Balkan countries, only about 7 percent are targeted towards the poor through the Social Assistance Scheme (SAS). Over 90 percent of cash transfer spending is devoted to old-age basic pensions (provided to all citizens 65 years of age or older regardless of income), war veterans and other war-related pensions, and disability pensions.

Spending on and coverage of the SAS fell sharply over the past decade. Spending on the SAS fell by 8.4 percent (after adjusting for inflation) between 2009 and 2019; the number of households receiving SAS benefits declined from over 40,000 in 2005 to about 25,600 in 2020. Over the last decade, increases in spending on more generous categorical programs have crowded out spending on the SAS.

Many poor households are not eligible for the SAS. Only about one in four people in the poorest 20 percent of the population receive SAS benefits. Eligible households either must have all adults defined as ‘dependent’ (not required to work) or one adult must be registered as unemployed and caring for a child under five years of age or an orphan under 15 years of age. Households falling into these categories also must have low income, few assets, and poor living conditions. Such restrictive conditions exclude the working poor and may encourage people to work in the informal sector and/or to obtain ‘dependent’ status to maintain eligibility. These conditions also exclude many poor households where all children are above five years old, even though household poverty tends to rise with the number of children, regardless of age.

Benefits are relatively generous, but benefits may not be sufficient for some households. The SAS covers a larger portion of the consumption of the poorest households than do poverty-targeted programs in most countries in Europe and Central Asia. However, the SAS benefit covers a lower share of consumption of larger families compared with smaller ones. While adjustment for inflation is ad hoc, discretionary increases of the benefit amount have led to an increase in the purchasing power of SAS benefits. Relatively frequent (either 6 or 12 months) verification of household eligibility undermines the security of this support (as well as eligibility for other programs) for beneficiaries while increasing caseworkers’ administrative burden.

The SAS proved difficult to expand quickly during the COVID-19 crisis, requiring ad hoc measures. In response to the COVID-19 pandemic, SAS benefits were increased temporarily, eligibility criteria were eased, and automatic recertification provided for those due to reapply. However, with eligibility based in part on the presence of children or inability to work, it was difficult to significantly expand the SAS to new recipients during the crisis. Thus, a time-bound emergency program, Measure 15, was implemented to provide cash transfers to additional poor households, although poor households with any formal income were ineligible, limiting the effectiveness in addressing the crisis. A streamlined application system was launched to implement Measure 15, with application data verified with other government registries.

Spending on war veterans and war-related pensions rose over the last decade. The number of war-related beneficiaries increased from 12,000 to 52,000 between 2009 and 2020. The number of groups claiming compensation from the war continues to grow. While some war-related pensions may be warranted given the consequences of the war, the high level of such payments raises concerns about equity, affordability, and the potential to reduce incentives to work.

Spending on disability pensions has increased, but the system is inequitable and does not adequately insure against the risk of disability. A disability pension that is equal to the basic pension is available to residents ages 15-64 who are 100 percent disabled. Spending on disability pensions increased from 0.28 percent of GDP in 2009 to 0.5 percent in 2019. Nevertheless, at 52 percent of the minimum wage, the pension benefit is inadequate to replace lost income. Partially disabled workers are not entitled to any pension prior to the age of 65, even if they lose the effective ability to work with a disability level close to, but less than, 100 percent. On

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1 As long as they are not receiving another pension.
2 There are separate, more generous pensions for the blind, those disabled due to work injury or illness, and survivors (family) pensions. Children under 18 are covered by a separate benefit. Disabled individuals 65 years or older become eligible for the basic pension.
the other hand, eligibility for war-related disability pensions starts with 20 percent disability levels and at higher benefit levels. The disability assessment system for pensions, social assistance, and students is outdated, as it does not measure the ability to work or perform basic life tasks (e.g., cooking, cleaning, ability to move around). Disability assessment procedures for war-affected individuals and its monitoring and control results are neither available nor transparent.

The Ministry of Finance, Labor and Transfers (MFLT) is seeking to reform the SAS. This would include providing all benefits based on poverty rather than on category of recipient (e.g., dependent adults, presence of children), introducing a new approach to assessing household eligibility and increasing the benefit amount provided for larger families. In addition to improving the program’s effectiveness in reducing poverty, these changes would improve the ability of the SAS to quickly provide resources to those affected by future crises.

Social services

The decentralization of social services has failed to ensure local autonomy or adequate funding levels. Social services include direct social care, counseling, and, in exceptional circumstances, material assistance to people in need. Social services were transferred to the municipalities in 2009. However, the MFLT Department of Social and Family Policies retained the authority to determine where, how and by whom social services would be delivered, as well as the direct administration and supervision of certain social services providers. Resources transferred to municipal governments for social services are not earmarked (that is, legally required to be spent on social services), raising concerns regarding adequate and equitable service delivery across municipalities. The MFLT has proposed that social services transfers be earmarked similarly to the grants that finance municipal health and education services.

Most social services tend to respond to crises rather than seeking out households in need. While municipal residents may apply for a specific service (often promoted through the media, community, or other outreach methods) and social service organizations may initiate care for individuals, most services seem to be offered in response to referrals from the police or judiciary. Proactive outreach and identification of services help families in need to access support before emergency situations may occur, thus reducing the potential harm or loss of welfare that incurs in such situations.

**Case management and referrals are limited.** Most social services target a single family member. Case management is needed to make it easier for social service workers to assess the needs of both the beneficiary and their family and provide the appropriate services to all family members. Management information systems are not equipped for case management, as they are organized by type of single benefit. Lastly, there are no linkages between social benefits. For example, social workers who conduct home visits to determine SAS eligibility are not expected to seek information useful for referral for other services.

**Pensions**

Kosovo has several separate pension systems. All permanent residents of Kosovo aged 65 or older are eligible for a basic pension that does not require pension contributions when working. Contributors to the former Yugoslav system are eligible for a contributory pension, however, at the expense of Kosovo’s taxpayers. Since the contributory records are incomplete and unreliable, the benefits are scaled with education level instead of actual contributory income, with benefit levels determined unsustainably high. There is also a growing funded contributory system (second pillar) based on individual accounts that would serve as a key source of income replacement in the future. Additionally, some households receive war-related pensions. This results in wide discrepancies in the adequacy of pension benefits across households. Moreover, cost of living adjustments are made on an ad hoc basis, introducing some uncertainty about the purchasing power of benefit amounts.

**The pension systems face financial challenges in the short run and adequacy challenges in the long run.** The fiscal cost of pensions (general budget-financed and war-related pensions) increased from 2.7 percent of GDP in 2008 to 5.7 percent in 2019. The continuous introduction of new benefits based on categories of persons threatens the predictability and security of the pension system. The second
pension pillar funded by workers’ contributions pays fixed amounts until the account is depleted and needs to be adjusted to provide lifetime income support instead. Ad hoc pension indexation would need to be replaced with a formal indexation rule in order to prevent erosion of pension adequacy and increasing the risk of poverty at old age. The government has prepared a concept document for pension reform to establish a single legal framework for pensions, and Parliament established a Pension Reform Commission to work on this matter.

The government introduced a menu of pension measures to support households during the COVID-19 pandemic. These included a temporary pension increase in March, April, and May 2020, and easing requirements for withdrawing money for individuals contributing to mandatory pensions (KPST). The latter measure tends to benefit better off workers (who tend to be the ones contributing to pension schemes) and could carry high fiscal costs and negatively impact future pensions.

Kosovo will be hard-pressed to finance meaningful pension benefits for the elderly if it relies extensively on taxation. The number of active contributors for each retiree is projected to fall from 78 at the end of 2018 to three by 2047. While the amount of money in individual accounts of the relatively new contributory pension system should rise over time, the 10 percent contribution rate may not be enough to finance sufficient lifetime benefits if individuals do not contribute for a substantial portion of their working lives and if the retirement age is not adjusted upward with increased life expectancy.

Employment and labor market policies

Kosovo spends little on employment and labor market policies. Services largely depend on funding from international organizations, non-governmental organizations, and bilateral donors. Total expenditures on labor market policies equaled 0.1 percent of GDP in 2018, considerably less than in all other Western Balkan countries except Albania.

The Employment Agency of the Republic (EARK) of Kosovo, the main coordinator of labor market policies and public employment services, has limited capacity, and the services provided do not meet the needs of the population. The agency has a low number of counselors and high caseloads; lacks specialized counseling for groups such as youths, women, and the long-term unemployed; and does not enter into partnerships with non-public providers of employment support services. In 2019, the number of jobseekers registered with the EARK represented only about 57 percent of the unemployed in Kosovo. The lack of youth-sensitive programming and counseling continues to pose significant barriers. Deficiencies in monitoring and evaluation, and in the use of evidence in the design and adaptation of labor market programs, undermine effectiveness.

Training provided to the unemployed is often inadequate. Around 16 percent of the registered unemployed were beneficiaries of active labor market programs (ALMPs) provided by the EARK in 2019. Process evaluations conducted by donors indicate that vocational training does not match the labor market’s demand for skills. Training offered at vocational training centers is limited to basic levels, mostly provided by long-time civil servants and, hence, often does not meet the labor market demands for youths.

Women face constraints to participating in the labor market. Lack of access to childcare is a significant barrier to women’s employment. The long duration of maternity leave (12 months, nine of which are paid) and employer’s partial liability for maternity pay could discourage employers from hiring women. Policies that EARK could undertake, such as flexible time schedules, gender-sensitive outreach, or adding safe spaces for women, and also program-specific aspects, such as emphasizing on-the-job training to expand social networks or offering suitable work options for women in public works programs, have been shown to improve program effectiveness.

During the pandemic, the government supported alternative labor market programs to protect workers’ jobs and support those who had lost employment. These included salary compensation, newly introduced unemployment assistance and other social welfare measures, salary subsidies for new formal employees, wage subsidies for employees working in businesses affected by the pandemic, and the allocation of funds to the Ministry of Culture, Youth and Sports to support youth employment.
Recommendations

Cash transfers: (i) improve SAS poverty targeting and promote the employability of SAS beneficiaries; (ii) expand the coverage of SAS, including by reallocating spending from less efficient programs; (iii) assess the adequacy of the disability pension, expand coverage to partial disabilities, and drop regular reassessments of eligibility, and, (iv) introduce a social registry to better identify eligible households across programs.

Social services: (i) increase resources to social services, including through earmarked funding within municipalities; (ii) strengthen service delivery and human resources; (iii) improve links between social services and cash benefits, including appropriate referrals across agencies, and (iv) introduce a case management model.

Pensions: (i) redesign the basic pension to provide a minimum floor, reduce benefits for receipt of other pension income, and impose a means test; (ii) phase out ex-contributory benefits; (iii) consolidate existing categorical benefits; and (iv) introduce a mechanism to provide annuities or scheduled withdrawals for contributory pensions.

Labor market policies: (i) increase public resources for active labor market programs and allow partnerships with non-public organizations to provide services; (ii) strengthen the capacity of the EARK by hiring and training counsellors, including for employer outreach, proactive case management and support for vulnerable groups; (iii) base programming decisions on labor market and jobseeker information; (iv) establish rigorous monitoring and evaluation; and (v) assess options for providing unemployment benefits.

Emergency response to shocks: (i) systematically assess the ability of social protection programs to respond to crises; (ii) based on this assessment, establish the legal basis to respond to shocks or crises through social protection programs, starting with the SAS; (iii) modify social protection information system so that they can be used to assess household eligibility in the midst of a crisis; (iv) identify ways of facilitating emergency financing, including budget reallocations, as well as reinsurance and reserve funds, to rapidly expand coverage of key social protection programs.