About the Policy Spotlight

In 2016, the American Chamber of Commerce in Kosovo (AmCham Kosovo) has started to publish the ‘Policy Spotlight’ – a publication that aims to bring attention on different economic policies. In addition, this document is also intended to outline the challenges for the development of such policies, in order to pave the way for addressing them. The Spotlight will be published on a bi-monthly basis. While this edition places the spotlight on Kosovo Labor Policies, the following editions will center on other policies that are of interest to the private sector.

Spotlight on Labor Policies

This document provides an overview of the labor market in Kosovo, with focus on structure of the market, unemployment levels, and spread of unemployment across different age groups. Then, the document moves on to describing some of the key labor market policies in Kosovo, including the legislation, vocational training, etc. The document is concluded by presenting the challenges faced by the sector and the way forward for Kosovo.

Overview of Kosovo Labor Market

In the postwar period, the labor market in Kosovo has continued to remain in a relatively unfavorable position, both from the labor supply side but also from the labor demand front. Consequently, this has been depicted in low levels of labor participation rate, as well as high numbers of unemployment.

Before moving on to analysis of the labor market in Kosovo, it must be noted that great controversy exists with regards to employment data. This is mainly a result of the use of different methodologies from different agencies, as well as different estimations of the informal employment. Nonetheless, Kosovo data presented in this document pertains to the Kosovo Agency of Statistics and has been retrieved from their archives.

As can be seen from Figure 1, labor force participation rate has slightly increased throughout 2012-2014, even though the difference between male and female participation rate still remains relatively high. According to UNDP’s 2012 Kosovo Remittance Study, remittances are one of the main reasons why the labor participation rate is small in Kosovo, as they raise people’s reservation wages and decrease incentives to work (2012, p. 45).
Even though the labor participation rate in Kosovo is low, the unemployment remains relatively high – especially among the youth, who make around 60% of Kosovo’s population (Kosovo Agency of Statistics, 2013), and women. The high unemployment rate despite the low labor force participation rate presents a gloomy prospect for the economy of Kosovo, and respective institutions should consider this as a signal for thorough policy reform. Figure 2 depicts the difference in unemployment levels between the overall country unemployment rate and the unemployment between the youth. While, the employment rate in men has varied between 39 and 44% in 2012-2014, this indicator has marked only 10 to 12.9% in women for the same period.

Placing Kosovo in the regional scene, one of IMF’s Regional Economic Issue Reports put forth that unemployment is likely to persist in the region as labor markets here do not reflect the performance of the economies (International Monetary Fund, 2015). That, coupled with the common past that the regional countries have had under planned economies focused around social and employment policies, indicate that labor market transition in Kosovo and the region, will continue to be relatively slow (International Monetary Fund, 2015).

Informality continues to be a prevalent feature in the overall Kosovo economy, including the employment sector. According to World Bank, the level of labor informality in Kosovo is 31% in general; it is highest in the 15-24 age groups with around 50%, while it is the lowest – at 4% - for those with a tertiary education degree (Handjiski, 2010). There are different views with regards to the causes of labor informality in Kosovo to be discussed in the subsequent sections of this document.

**Key labor market policies**

Government of Kosovo has included labor market policies as part of its strategic plans and national development plans. In this regard, the first pillar of the National Development Strategy 2016-2021, drafted by the Government of the Republic of Kosovo is focused on Human Development, with specific measures on improving employability. Nonetheless, it is still very early to see the effects of this strategy, even though thus far there are no tangible positive movements.

The labor policy in Kosovo is mainly focused around the Law No. 03/L-212 on Labor and the sublegal acts deriving from it. Other related legislation is on topics related to safety at work, working in the public sector, etc. The General Collective Agreement, as a means of collective bargaining between the social partners that function within the Socio-Economic Council – namely employers, employees, and the government – was signed in 2013.
However, after concerns regarding its compatibility with Labor Law provisions on the entities responsible to implement it were raised first by AmCham Kosovo, and later by the business community, the Minister of Labor has suspended its implementation in the private sector until further notice.

Further, government has also undertaken several initiatives to promote vocational training, as an attempt to close the existing skills gap. With regards to this purpose, the Ministry of Labor and Social Welfare has also initiated several – self-funded and donor-funded – projects in order to provide employment services and meet jobseekers with employers. All of these aspects of the labor policy in Kosovo will be elaborated in greater detail below.

**Legislation**

**Law No. 03/ L–212 on Labor**

Approved in December 2010, the Law No. 03/ L-212 on Labor regulates the employer-employee relationship in the Republic of Kosovo. The law applies to both public and private sectors, and it supersedes all other acts – including collective agreements, employment agreements, etc.

The Law foresees specific provisions on hiring and firing employees, protection of working places, working overtime and during national holidays, and so forth. The law also includes provisions on maternity leave, which have proven to be very difficult to implement from the private sector, as being discriminatory towards women and increasing their costs to a large extent.

**General Collective Agreement**

Signed in June 2014 between the members of the Socio-Economic Council, the General Collective Agreement sought to further regulate the employer-employee relationship, by treating some more specific parts of employment arrangements.

The General Collective Agreement offers additional fringe benefits for employees, including free meals, longer leaves, and higher levels of compensation, including pay increases of 0.5% of the basic wage for each additional year of work experience.

This agreement also foresees that at the end of each calendar year, the Government of Kosovo will set the minimum wage for the following year. Many concerns with regards to the one-sidedness of this agreement have been voiced by private sector representatives, including AmCham Kosovo. These and other aspects of the General Collective Agreement will be discussed further below in this document, under Labor Issues.
Vocational Training

The skills gap has been a very widely discussed topic among both the public and the private sector in Kosovo. Businesses' continuous challenges in finding skilled labor have pushed the government to increase its efforts in reforming the education system. In this regard, one of the main initiatives undertaken by the Government of Kosovo, specifically the Ministry of Labor and Social Welfare include the improvement of vocational training. This has been done through self-funded projects of the Government of Kosovo as well as co-financed initiatives in cooperation with other institutions.

Currently, vocational training is regulated by the Law No. 04/L-138 for Vocational Education and Training whose purpose is to create an avenue that meets the needs of economic and technological changes, demands of the labor market and the needs of individuals during the transition towards the free market economy, by using financial, human, and infrastructure resources. These centers offer free vocational trainings in 28 occupations selected based on labor market analysis. A USAID funded project, EMPOWER, has recently began establishing Local VET Councils for facilitating the dialogue between the private sector and respective centers, so that the labor force is equipped with skills that are actually needed in the labor market.

In 2013, Kosovo Assembly approved the Law on the Employment Agency of the Republic of Kosovo, whereby this Agency, has been established under the framework of the Ministry of Labor and Social Welfare, technically substituting the role of the Department of Labor and Employment and the Vocational Training Division by overseeing Vocational Training Centers and the Employment Centers.

Employment Services

Among the projects undertaken by the Ministry of Labor and Social Welfare is also the provision of employment services, through the Regional Employment Offices. Such offices are responsible to register and keep constant contact with the unemployed that are seeking for a job. Their work is mainly focused on intermediating between employers and jobseekers.

The success of Regional Employment Offices is measured by the number of people that register and the number of jobseekers that find jobs. While the second part is pretty self-explanatory, the first condition refers to the trust that jobseekers have in the Agency and how much the Ministry of Labor has done to promote the work and success of the former.

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Jobseekers</td>
<td>21,979</td>
<td>19,462</td>
<td>19,914</td>
<td>20,125</td>
<td>24,879</td>
<td>17,984</td>
<td>15,108</td>
</tr>
<tr>
<td>Deregistered Jobseekers</td>
<td>20,632</td>
<td>16,509</td>
<td>23,549</td>
<td>30,124</td>
<td>90,799</td>
<td>9,221</td>
<td>8,725</td>
</tr>
<tr>
<td>Difference in %</td>
<td>0.4%</td>
<td>0.9%</td>
<td>-1.1%</td>
<td>-3.0%</td>
<td>-20.3%</td>
<td>3.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>
With regards to this, as can be seen from Table 1 below, the number of registered jobseekers has decreased, along with the number of deregistered jobseekers. The overall net effect is that from 2010-2012 there has been a trend that was decreasing at an increasing rate, while in 2013-2014, the trend was increasing at a decreasing rate (Ministry of Labor and Social Welfare, 2015).

**Labor Issues**

The underlying issue with regards to the labor market in Kosovo is the weak performance of the labor market policies undertaken by the Government of Kosovo in the postwar period. This has also been reflected in the aspect of economic growth and forgone private sector development opportunities. Lack of support from the Government with regards to directing employment in the service and production-oriented sectors in Kosovo, has caused for the unemployed to lose their existing skills, hence deteriorating the future situation for both jobseekers and employers.

The portion below presents the challenges in terms of labor policies and the development of human capital in Kosovo.

**Skills Gap**

As in many developing countries, in Kosovo too, despite the high unemployment rates employers still struggle to find adequately qualified personnel to fill vacant positions (Deutsche Investitions- und Entwicklungsgesellschaft, 2016). Prospects do not seem bright in the future as well, as supply and demand imbalances are expected to only increase. With respect to this, private sector representatives in Kosovo continuously report difficulties in filling vacant positions owing to the unavailability of adequately trained staff.

Moreover, businesses usually reiterate the fact that more technical skills are increasingly lacking in the market, while diplomas from social sciences and humanities have overflooded the market. For instance, as presented in figure below, in the academic year 2014/2015, the Faculty of Economics leads with the number of students, followed by the Faculty of Law, and Faculty of Education.

This indicates that the Ministry of Education has not pursued a strategy of estimating the demand for labor force needs and make decisions accordingly. According to Deutsche Investitions- und Entwicklungsgesellschaft, where government fails in providing what the private sector requires, the latter shall step in to bridge the gaps in hard and soft skills (2016, p. 6). As such, many businesses in Kosovo do conduct on-the-job trainings and other education required prior to employing people. For instance, according to ICT Skills Gap Analysis, 83% of ICT firms train their employees within their company and 3% train them outside their firms (2013, p. 16). On the other hand, according to the same report, less than half (48%) of non-ICT firms train their employees within their company and 12% train them outside their companies.

![No. of Students](image-url)
Maternity Leave

In 2011, the American Chamber of Commerce in Kosovo expressed its concerns about maternity leave provisions, claiming that the latter places an impediment to private sector development in the country. In a position paper published by the AmCham in 2011, it is put forth that “Given the current stage of economic development and the conditions that businesses face in Kosovo in terms of cash flow and access to finance, it has been proven in practice that this provision [maternity leave] increases the burden on Kosovo businesses.” In light of this, the doing business environment in Kosovo seems to have been affected by the policy, as businesses face higher costs of compensating employees on maternity leave. Coupled with the former, businesses also face additional hiring, training, and wage costs for new employees that substitute those on maternity leave. Consequently, businesses sacrifice further investments in favor of expenses related to maternity leave and they are obliged to almost double their costs, without any increase in efficiency.

Additionally, this provision also seems to hurt the position and participation of women in the labor market in Kosovo. According to the Results of the Kosovo 2014 Labor Force Survey, published by the Kosovo Agency of Statistics, the participation of women in the labor force has continued to be weak as it is, with only 12.5% of working age women were employed, as compared to 41.3% of working age men (p. 11). Such a situation is also affected by the hesitancy of employers to employ women who have higher chances of becoming pregnant and making use of their maternity leave in the near future. A similar point has been made by AmCham’s report, which claims that the provisions of maternity leave as specified by the Law on Labor can encourage discrimination against women at the hiring stage in the business community (Position Paper on the Maternity Leave Provision of Law on Labor: Problems and Possible Solutions, 2012, p. 3). Moreover, upon utilization of their right to maternity leave, women employees are more likely to be faced with termination of their employment contracts (either in the early stages of pregnancy or upon giving birth). In this regard, while keeping in mind that, women consist of 49.75% of the population of the Republic of Kosovo, their alienation from the workforce and discrimination thereof, are problems that require attention and careful solution (Kosovo Agency of Statistics, 2015, p. 15).

Recently, in a new draft of the Law on Labor which is being discussed at the Ministry level, the maternity leave is foreseen to be reduced to a total of nine months, 3+3+3 while the compensation structure remains the same. Thus far, this policy proposal has been welcomed by the business community.
Labor Inspectorate

The Labor Inspectorate is an executive body who, according to Article 82 of the Law on Labor, is obliged to protect employee rights for issues falling under the competencies of this organ. The Labor Inspectorate is obliged by law to take decisions within 30 days or inform parties about the deadline in a timely manner.

The phrasing of the duties of the Labor Inspectorate itself allow one to deduce that the institution is more biased towards employees, as has been the case in practice. For instance, businesses have complained of unfair treatment and bias towards employee rights, as opposed to looking at cases objectively; making prejudiced visits to businesses, and so forth.

General Collective Agreement

The General Collective Agreement has been the center of debate from January 2015, when it was supposed to enter into force. AmCham Kosovo has been one of the first business associations to question the validity of this agreement, namely it being in contradiction with the provisions of the Law on Labor.

Additionally, due to the composition of the Socio-Economic Council, where only two business associations are present, many businesses have claimed that they were not duly represented in the negotiation procedure of this agreement. They have further claimed that businesses have not been consulted prior to the conclusion of this agreement, and hence they have not undertaken the responsibility to implement this agreement.

Currently the General Collective Agreement has been suspended for private sector implementation by the Minister of Labor and Social Welfare, given that its provisions do not coincide with the level of economic and private sector development in Kosovo. Additionally, Kosovo Chamber of Commerce has since withdrawn its signature from the General Collective Agreement. Nonetheless, every now and then the topic resurfaces again by labor unions or other employee associations, still leaving room for ambiguities with regards to its provisions.

Conclusions and way forward

As comprehensively stated on this Policy Spotlight, the business community has pinpointed lack of skilled labor as a major obstacle to their growth. This paradoxical situation, whereby despite the high level of unemployment, the private sector is unable to find qualified employees, should be addressed thoroughly. While the National Development Strategy has provided the general framework for future reform, relevant ministries, particularly the Ministry of Labor and Social Welfare and the Ministry of Education should use this momentum to identify laws and regulations that need to be amended. These policies should be developed in close dialogue with the business community in each region. In addition to business associations, municipalities can also play an important role in terms of facilitating this dialogue. An important starting point for this process would be an annual survey conducted by the Ministry of Labor in eight regions in Kosovo, whereby businesses would project their labor needs and respective profiles for 3-5 year intervals. This might enable a better planning by institutions and would help in increasing the employability of the labor force.
In addition, Kosovo should strive to adopt flexible and business-friendly labor policies. While the role of labor unions in protecting employee rights is commendable, it should be noted that the stricter the policies are, businesses will hesitate to increase the number of their employees. In countries with high unemployment rate such as Kosovo, logical reasoning would dictate that a lenient approach towards regulating the market will have more positive results in increasing the number of employees. Also, this will might encourage some businesses operating in informality to register employees and begin paying taxes and contributions.

Given the high level of unemployment among women, the initiative to lower the maternity leave period from 12 to 9 months based on the current draft law, is a step in the right direction. This type of amendment is expected to improve women’s position in the labor market and lower unemployment rate. Similarly, the government in consultation with the business community can develop policies to encourage youth employment through internships, traineeships and similar types of activities.

Last but not least, institutions such as the Labor Inspectorate, should adopt a neutral approach vis-à-vis employee-employer contests. The role of the institution should be to make sure the law is respected by all parties, and should not take a biased approach towards businesses, which represent the largest employer and taxpayer base in the country.

References


