

# **Employment Strategy – Kosovo**

## **2024-2028**

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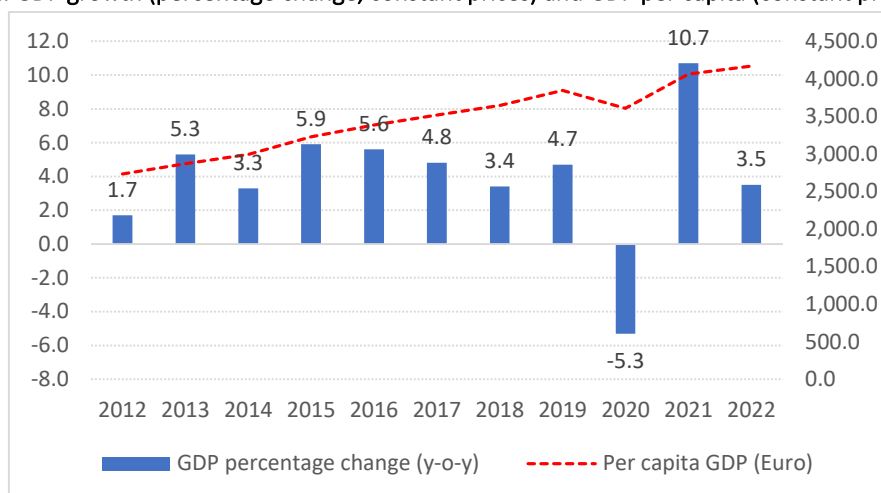
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## 1. Overview of the economic and social context

### 1.1. Macroeconomic trends

In the last decade, Kosovo has progressed in terms of economic growth - with an average increase of Gross Domestic Product (GDP) of 4.2 per cent annually - and poverty reduction, with the poverty rate declining from 23.7 per cent in 2012 to 18 per cent in 2017. GDP per capita in real terms increased by over 50 per cent in the period 2012-2022 (from 2,732 to 4,170 euro), but this level is equivalent to just 12.3 per cent of per capita output recorded in EU-27 countries in 2022 (Figure 1).<sup>1</sup>

Figure 1: GDP growth (percentage change, constant prices) and GDP per capita (constant prices, euro)



Source: International Monetary Fund: *World Economic Outlook Database*, April 2022

In the period 2010-2022, the main drivers of growth were private consumption - fuelled by workers' remittance inflows (which averaged 15 per cent of GDP annually) - credit expansion and public sector spending.<sup>2</sup> During the period, the share of the different economic sectors to value added remained substantially stable, with a slight decrease in sectors real Estate activities, agriculture, mining and quarrying and an increase in sectors like wholesale and retail trade, electricity, manufacturing, accommodation and food service activities.<sup>3</sup> Also, the contribution of consumption, investment and net exports to output growth remained stable throughout the decade (Table 1).

Foreign direct investment (FDI) inflows decreased from 9.2 per cent of GDP in 2010 to 3.6 per cent in 2019 to then raise again in 2020 (5.1 per cent). In 2021 and 2022 the trend remained positive (with growth rates equal to 5.3 per cent and 8.6 per cent, respectively).<sup>4</sup> FDI inflows have been consistently lower than the average recorded in peer countries and focused largely on non-tradable goods and towards the domestic market – mainly construction and real estate. Investment in export-oriented, higher-value-added manufacturing and in services is still limited,<sup>5</sup> although in the last two years, an increase investment in the mining sector, as well as in manufacturing have been recorded.<sup>6</sup>

<sup>1</sup> World Bank: *World Development indicators*, available at <https://data.worldbank.org/>

<sup>2</sup> For remittances inflows see World Bank: *World Development indicators*, available at <https://data.worldbank.org/>.

<sup>3</sup> Kosovo Agency of Statistics: National Account Statistics, GDP by economic activities and expenditure approach: 2008-2022.

<sup>4</sup> World Bank, Databank: available at <https://data.worldbank.org/>

<sup>5</sup> World Bank: *Boosting Foreign Direct Investment: Kosovo Country Economic Memorandum* (World Bank, Washington D.C., 2021).

<sup>6</sup> World Bank: *Western Balkan Regular Economic Report. Testing Resilience*, (World Bank, Washington D.C., 2023).

In 2022, trade in goods (export and import) represented 68.7 per cent of Kosovo's GDP, while trade in services accounted for 40.5 per cent. Since 2010, the structure of exports has been shifting from metal and mineral products towards vegetable products, foodstuff and beverages, tobacco, plastic and rubber.<sup>7</sup> It is worth mentioning that in the period 2020-2022 a certain degree of diversification occurred, with manufactured articles experiencing a significant increase.

**Table 1 - Key macroeconomic indicators and projections (2016-2025)**

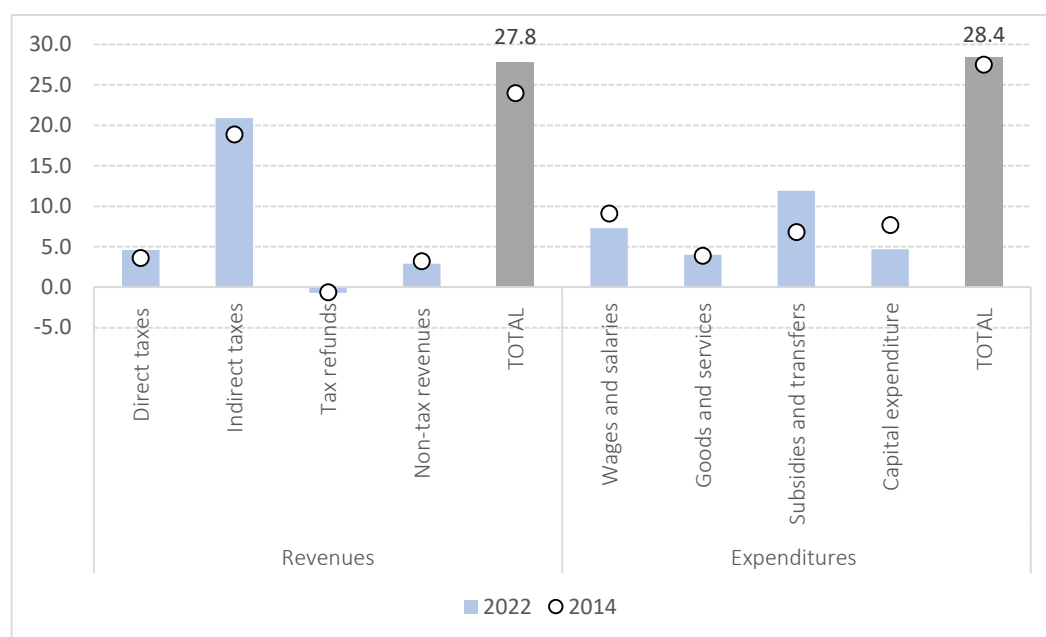
	2016	2017	2018	2019	2020	2021	2022 Estimates	Projections		
								2023	2024	2025
<b>Real GDP growth (% change)</b>	5.6	4.8	3.4	4.8	-5.3	10.7	3.5	5.2	5.5	5.8
<i>Consumption (contribution to GDP)</i>	4.7	1.5	4.3	5.8	2.3	7.7	1.1	1.4	4.5	5.4
<i>Investment (contribution to GDP)</i>	2.1	1.5	2.0	-0.1	-2.3	3.6	-0.5	1.9	2.7	2.5
<i>Net exports (contribution to GDP)</i>	2.1	1.5	-3.1	-0.3	-5.3	-0.2	1.4	2.0	-1.7	-2.1
<b>General government balance (% GDP)</b>	-1.3	-1.2	-2.8	-2.9	-7.0	-1.3	-0.5	-3.4	-2.7	-2.0
<b>Revenue</b>	26.3	26.2	26.4	27.0	25.6	27.7	27.8	29.3	28.0	27.6
<b>Expenditure</b>	27.6	27.5	29.2	29.9	32.6	28.9	28.4	32.8	30.7	29.6
<b>Total public debt (% GDP)</b>	14.3	16.3	17.0	17.7	22.4	21.5	19.9	22.6	25.4	26.0
<b>Current account balance (% GDP)</b>	-8.0	-5.5	-7.6	-5.7	-7.0	-8.7	-10.5	-8.2	-9.2	-10.2
<b>Remittances received (% of GDP)</b>	11.4	11.8	12.0	12.1	14.5	14.5	13.7	13.0	12.6	12.3

Source: Kosovo Agency of Statistics (KAS): *Gross Domestic Product* (various years); International Monetary Fund (IMF): *Kosovo, IMF Country Report No22/5*; IMF: *Kosovo IMF Country Report No 18/368*; Ministry of Finance Labor and Transfers, Medium Term Expenditure Framework 2026-2026

Over time, there has been a moderate increase of government revenues and expenditures – from 25-26 per cent to 29-30 per cent of GDP. The fiscal rule that imposes a 2 per cent of GDP cap on the central government balance has been broadly maintained, except in 2020, when the fiscal deficit raised to nearly 8 per cent to finance the policy response to the crisis engendered by the Covid-19 pandemic. The structure of government revenues has remained stable in the period 2014-2022. In 2022, indirect taxes represented 75.3 per cent of total revenues, while direct taxes amounted to 16.7 per cent. The structure of spending, conversely, show a progressive increase in social spending (from 6.8 per cent of GDP in 2014 to 11.9 per cent in 2022), due to increased government support for vulnerable households and firms to cushion the potential impact of adverse shocks coming from international developments such as the energy crisis and the war in Ukraine, as well as the climate change as a long-term driver of socio-economic change.

<sup>7</sup> Kosovo Agency of Statistics: *Kosovo International Trade Statistics* 2019

Figure 2: Structure of government revenues and expenditures, percentage of GDP (2014-2022)



Source: International Monetary Fund (IMF): *Kosovo, IMF Country Report No23/54* (IMF, Washington D.C., 2023).

In 2020, the economy contracted by 5.3 per cent due to the lower value added of the hospitality (-28.9 per cent between 2019 and 2020), construction (-7.5 per cent) and trade sectors (-4.8 per cent).<sup>8</sup>

The economy rebounded in 2021, with a GDP increase of 10.7 per cent, driven by increasing private consumption (by 6.5 per cent year on), record export growth (by 50.5 per cent between 2020 and 2021), diaspora inflows (remittances, tourism, and real estate investments, which reached 43 per cent of GDP), credit growth (increasing by 15.5 per cent) and the approval of the Economic Recovery package (amounting to 6 per cent of GDP).<sup>9</sup> This package include measures to support employment (EUR 50 million); promote economic recovery (EUR 108 million) and public services (EUR 112 million); improve infrastructure investment and protect the environment (EUR 100 million); and assist households at risk of exclusion (EUR 50 million). In 2022, the economic performance was slightly below potential, with a real growth rate of 3.5 per cent, driven by the expansion of private consumption and net export, while investment fluctuated in negative territory.

The Economic Recovery package was renewed in 2022 to mitigate the negative impact of inflationary pressures on households and enterprises (11.6 per cent in 2022). As part of this package, the Government introduced one-off allowances to students, social assistance beneficiaries, pensioners, and public and private employees. In 2023, the economy is expected to witness a slightly enhanced real GDP growth, estimated at 5.2%.<sup>10</sup> Small and medium-size enterprises (SMEs) in Kosovo represent the near totality of companies (99.8 per cent in 2020, latest available year), with micro enterprises (less

<sup>8</sup> KAS: Gross Domestic Product (GDP) 2008 – 2021 by economic activities and expenditure approach, 2022.

<sup>9</sup> KAS: Gross Domestic Product (GDP) 2008 – 2021 by economic activities and expenditure approach, 2022. According to the IMF, diaspora inflows (remittances, tourism, and real estate investments) averaged 37.5% of GDP in 2018-19. This fell to 31% in 2020, but exceeded the level of pre-pandemic in 2021, reaching about 43% of GDP. The level of credit increased by 15.5 per cent during 2021 (household credit by 18.6 per cent and corporate credit by 13.6 per cent).

<sup>10</sup> Ministry of Finance Labor and Transfers, Medium Term Expenditure Framework 2026-2026

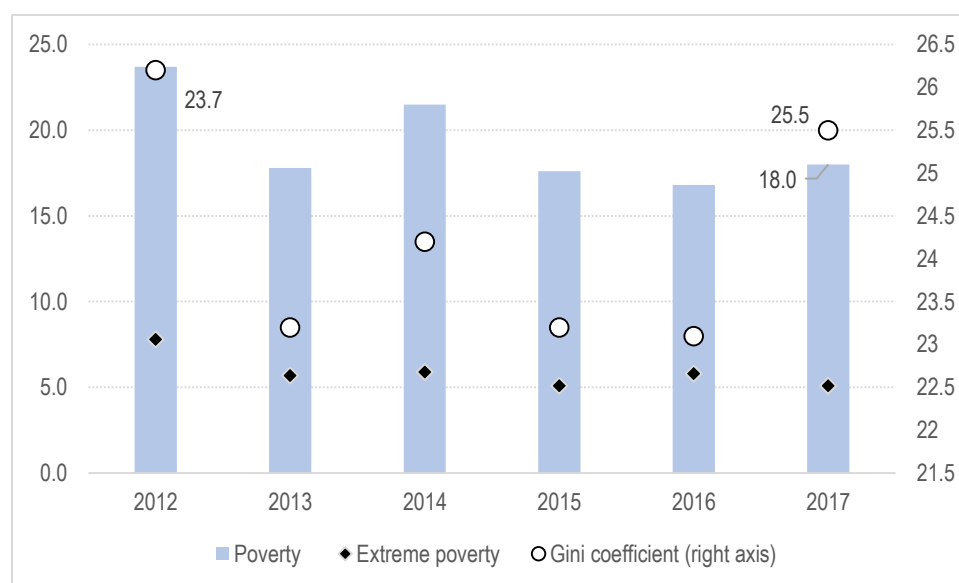
than 10 employees) representing 92 per cent of the total. SMEs contributed in 2020 (latest available year) to 75.5 per cent of total employment. The dominant industry for SMEs continues to be the trade sector, accounting for 38.7 per cent of the total.<sup>11</sup> Over one third of all enterprises (31.7 per cent) is located in Pristina.

## 1.2. Poverty and inequality

Based on the latest data available, poverty in Kosovo declined in the period 2012-2017 by 5.7 percentage points (from 23.7 per cent to 18 per cent), driven by positive economic growth, increasing consumption, remittance inflows and higher social spending. Extreme poverty also declined in the period, from 7.8 per cent of the population in 2012 to 5.1 per cent in 2017 (latest available year). Despite these improvements, over one third of the population (34 per cent) lived with less than 6.85 US dollar per day, twice the 17 per cent average recorded in the Western Balkan region.

Poverty is higher in rural areas (19.4 per cent), among households with seven members and over (22.4 per cent), families with children (26.3 per cent), households headed by a woman (18.9 per cent) or a low-skilled individuals (21.5 per cent). Poverty is highest among the unemployed (25.5 per cent), those employed only occasionally (19.6 per cent) and among own account workers (16.6 per cent) and lowest among full-time employees (9 per cent). Living with a disability or living on social assistance increases the poverty risk, as 30 per cent of disabled persons and 80 per cent of social assistance beneficiaries are poor. Inequality, as measured by the Gini index, declined from 26.2 in 2012 to 23.1 in 2016 to then raise again (to 25.5 in 2017, latest available year).

Figure 3: Poverty and extreme poverty headcount (left axis) and Gini coefficient (Right axis), 2012- 2017.



Source: Kosovo Agency of Statistics: *Consumption Poverty in the Republic of Kosovo*, 2019

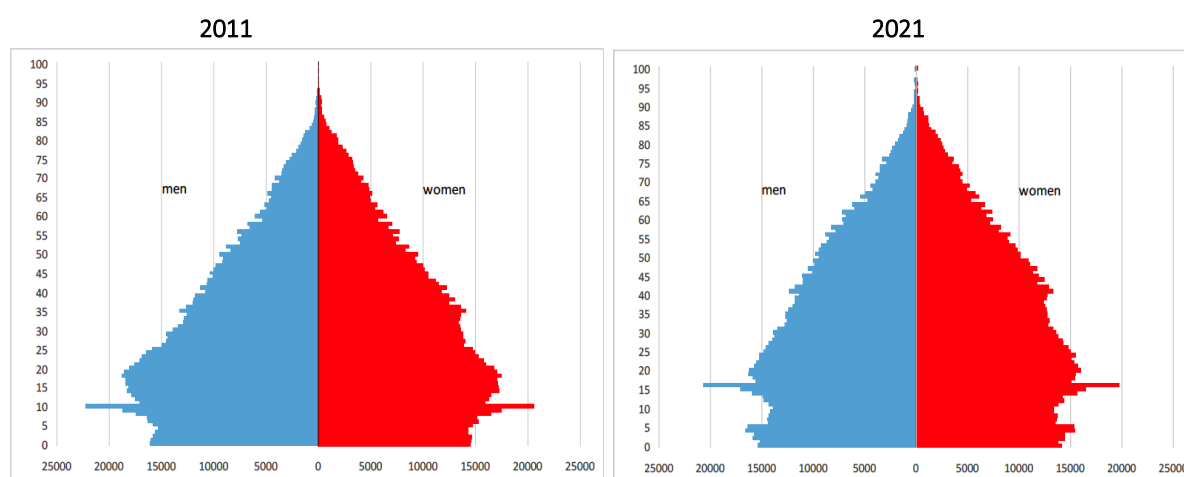
<sup>11</sup> See OECD: Kosovo Economy Profile, at <https://www.oecd-ilibrary.org/sites/ec7a78a6-en/index.html?itemId=/content/component/ec7a78a6-en#section-d1e72341>.

## CHAPTER 2 - THE LABOUR MARKET<sup>12</sup>

### 2.1. Demographic trends

According to the population estimates of the Kosovo Agency of Statistics (KAS), the country had, at the end of 2021, approximately 1.7 million inhabitants, 0.5 per cent less than in 2011. In 2021, the share of women in the total population was 50.5 per cent.

Figure 4 – Population pyramid of Kosovo, by age-group, 2011-2021



Source: Kosovo Agency of Statistics: *Kosovo Population Projection 2017 – 2021*.

The population of Kosovo is relatively young, with 47.3 per cent of the total being under 25 years old. In 2021 only 8 per cent of Kosovo's population was over 65 years of age - compared to 19 per cent in the EU-27. In the next five years, approximately 150,000 young people will reach working age, while 80,000 people will retire. Available population projections show that only by 2031 the share of elderly persons in the population will start to increase sensibly and the working age population (i.e., persons aged 15-64) will start to decline (Table 2).<sup>13</sup>

Table 2: Kosovo population according to age group and year (medium variant)

Population by age (percentage)			
Year	0-14	15-64	65+
2017	25.0	67.0	8.0
2021	24.0	67.0	9.0
2031	20.0	67.0	13.0
2041	17.0	65.0	18.0
2051	15.0	63.0	22.0
2061	13.0	60.0	27.0

Source: Kosovo Agency of Statistics: *Kosovo Population Projection 2017 – 2061*,

According to the data collected by the Kosovo Agency of Statistics during the 2011 Census, the total number of persons who emigrated abroad amounted to over 380 thousand individuals (21.4 per cent of the population). The main destination countries are Germany and Switzerland, followed by Italy and Austria. Large emigration flows are reflected in the contribution of workers' remittances to GDP

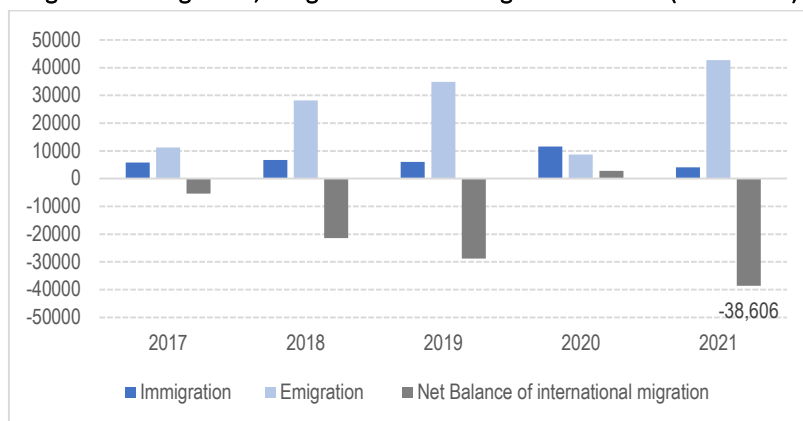
<sup>12</sup> This chapter reviews key labour market indicators of Kosovo, as estimated by the Kosovo Agency of Statistics.

<sup>13</sup> Kosovo Agency of Statistics: *Kosovo Population Projection 2017 – 2061*.



(10-16 per cent in the period 2005-2020, with an increase of 17 per cent recorded between 2020 and 2021). The skills profile of migrants shows a predominance of low- and medium skills individuals (primary and secondary general education). However, the net emigration flows of the highly educated is also substantial (and like the level recorded in Albania), indicating the existence of brain drain of recent graduates.<sup>14</sup>

**Figure 5: Immigration, emigration and net migration balance (2017-2021)**



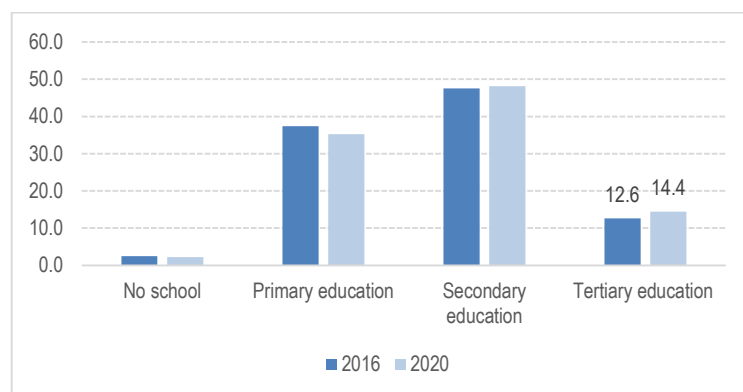
Source: KAS data base on international migration.

The Republic of Kosovo will start working on the labor integration of foreign employees (including refugees, asylum seekers). Currently, there is no accurate statistical data from the Kosovo Agency of Statistics regarding the number of foreign employees in Kosovo. Their integration in the labor market is regulated through Regulation No. 09 / 2019 on the Integration of Foreigners.

## 2.2. Trends in education

The education system in Kosovo shows increasing gross enrolment rates in primary education (101 per cent in the academic year 2020-21 compared to 94.7 per cent in 2015-16). Only 6.2 per cent of children aged 0-5 attend early childhood education and care, well below the OECD average (over 87 per cent).<sup>15</sup> The educational attainment of the working age population has been increasing over time (Figure 6), but it is still below the EU27 average especially in terms of share of individuals with tertiary educational attainment (14.4 per cent in Kosovo compared to 27.5 per cent in European countries).

**Figure 6 – Working age population (15-64) by educational attainment level (%), 2016-2020**



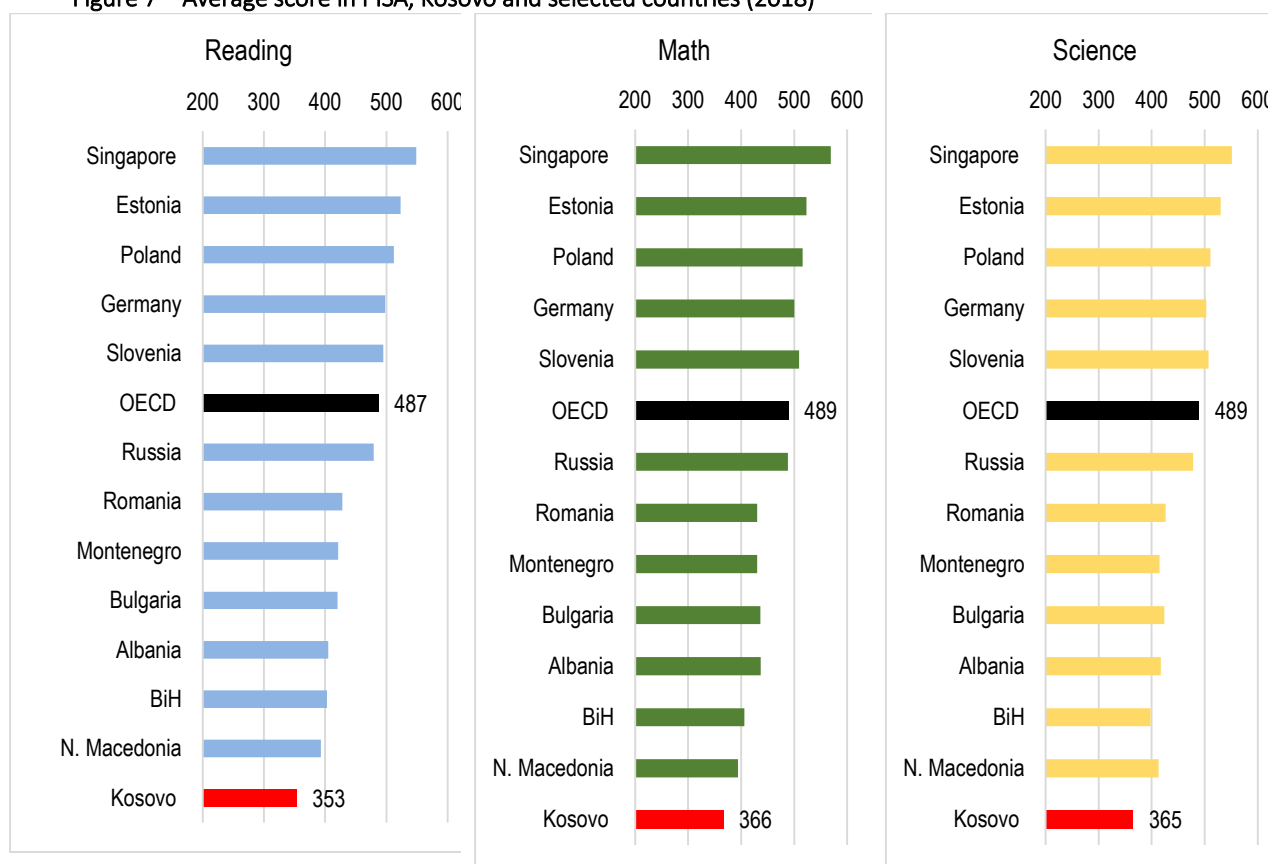
<sup>14</sup> S.M. Leitner: *Net Migration and its Skill Composition in the Western Balkan Countries between 2010 and 2019: Results from a Cohort Approach* (WIIE Policy notes and reports, n. 47/2021).

<sup>15</sup> ARISE (Action for Reducing Inequalities in Education): *Policy brief Kosovo* (January 2021)

In 2020, roughly 59.1 per cent of men had attained secondary education, compared to 37.2 per cent of women. The share of women with tertiary education remains lower than men (13.8 per cent and 15 per cent, respectively). Over half of all upper secondary students attend vocational education (53.8 per cent), with boys more likely to enrol in vocational streams compared to girls (58.4 per cent and 41.6 per cent, respectively). Over two thirds of girls (62.8 per cent) attending vocational schools are enrolled in business, administration, law, health and welfare studies, while over 43 per cent of boys are enrolled in engineering, manufacturing and construction.

Despite improving trends in the educational attainment of the population, the quality of educational outcomes – as measured by the Programme of International Student Assessment (PISA) - is below peer countries (Figure 7), with no measurable progress recorded between 2015 and 2018 (rather, there was a worsening performance in science). The average achievement score of Kosovo students was 365 points (353 points in reading, 366 in mathematics and 365 in science). The results show that 15-year-old students in Kosovo are approximately four years behind compared to their peers in OECD countries. A matter of specific concern is the over 77 per cent of students who do not reach the minimum level of skills in the three subjects, compared to neighbouring countries (less than 50 per cent) and the OECD average (22 per cent, approximately).<sup>16</sup> The same data show that 5 per cent of variation in pupils' performance in mathematics is explained by socio-economic background (i.e., pupils with disadvantaged background fare worse than their peers). However, this variation is lower than that recorded among OECD countries (14 per cent).

Figure 7 – Average score in PISA, Kosovo and selected countries (2018)



<sup>16</sup> K. Bajrami: *Evaluation of the Implementation of the Kosovo Education Strategic Plan 2017-2021. Insufficient achievement*, op.cit.

Source: OECD: *PISA 2018 results. Snapshot of students' performance in reading, mathematics, and science*, [https://www.oecd.org/pisa/PISA-results\\_ENGLISH.png](https://www.oecd.org/pisa/PISA-results_ENGLISH.png).

In 2020, the level of public spending in education was 4.7 per cent of GDP (11.3 per cent of total Government spending). Although the amount invested in education as a percentage of GDP is similar to that of EU-27 countries, spending per student is considerably lower due to the low GDP base and the larger number of pupils in the total population compared to EU countries (22.5 per cent and 17.8 per cent, respectively).

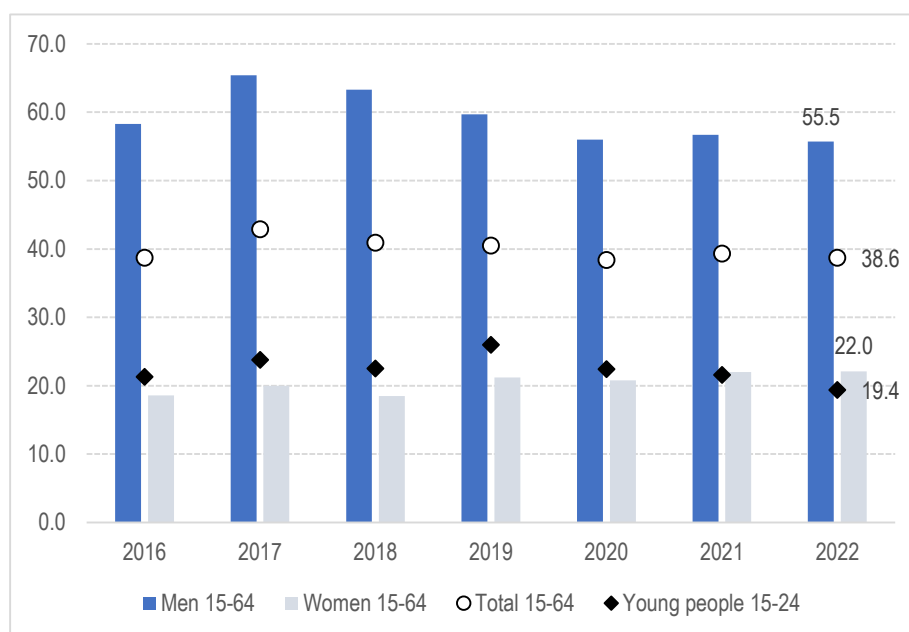
In 2019 (latest available year), the participation of adults (25-64) in learning was 2.7 per cent, six times lower the rate recorded at the EU level in the same year (16.8 per cent).<sup>17</sup> Women are considerably less likely to participate to adult learning compared to men, as they represented less than one third of total participants (28.4 per cent) in the academic year 2020/2021.

## 2.3. Labour market

### 2.3.1. Labour force participation<sup>18</sup>

In 2022, the labour force participation rate of the population aged 15-64 was 38,6 per cent – 55.5 per cent for men and 22 per cent for women – which is still below the EU-27 level (74.5 per cent for the population aged 15-64 in 2022). Low participation rates are due to the very low activity rates among women and among young people 15-24 years old (19.4 per cent).

Figure 8 – Labour force participation of youth and adults, by sex, 2016-2022



Source: Elaboration on data of the Labour Force Survey, various years

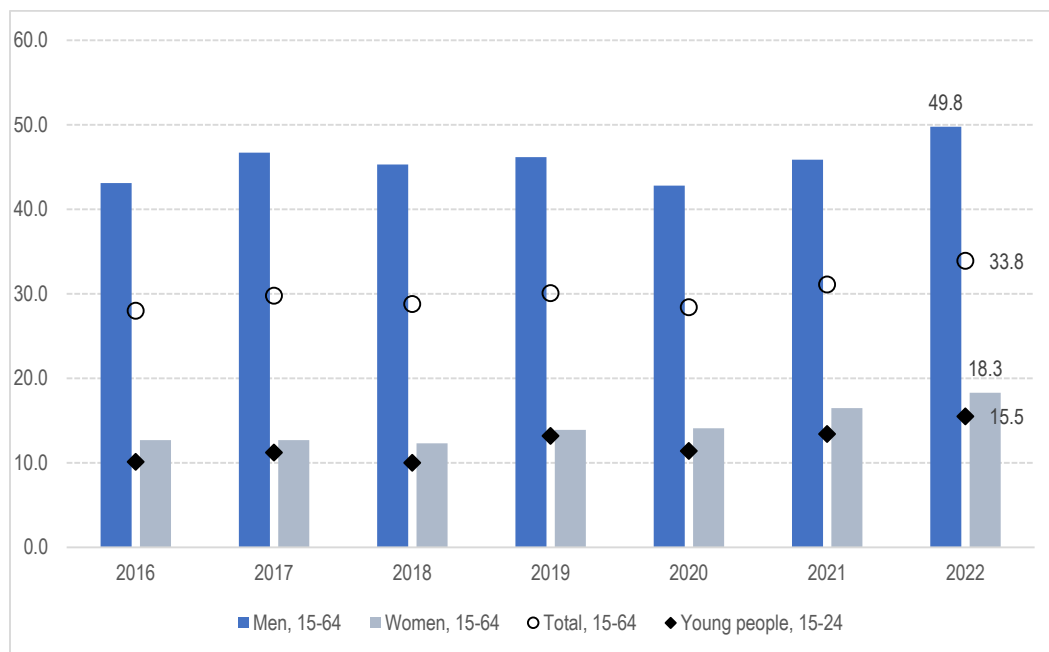
<sup>17</sup> ETF (2022): Kosovo: Education, Training and Employment Developments for 2021

<sup>18</sup> Kosovo Agency of Statistics, Labour Force Survey 2022

### 2.3.2. Employment trends

Employment-to-population ratios in Kosovo have been stable since 2016 at around 28-30 per cent of the 15-64 age group, with an increase in 2022 equalled to 33.8 per cent.

Figure 09 – Employment-to-population ratios, young people and population 15-64, by sex, 2016-2022



Source: Elaboration on KAS data of the Labour Force Survey, various years

The employment-to-population ratio is particularly low among young people aged 15-24 (15.4 per cent in 2022, compared to 34.1 per cent in the EU countries) and among women (15-64) (18.4 per cent in Kosovo and 64.9 per cent in the EU27 countries). In 2022 men (15-64) were nearly three times more likely to be employed (49.4 per cent) compared to women (18.4 per cent), with a gender gap in employment of over 30 percentage points. This gender gap, however, has been narrowing since the peak recorded in 2017 (34 percentage points) due to an increase in women's employment (by 6 percentage points) between 2018 and 2022<sup>19</sup>.

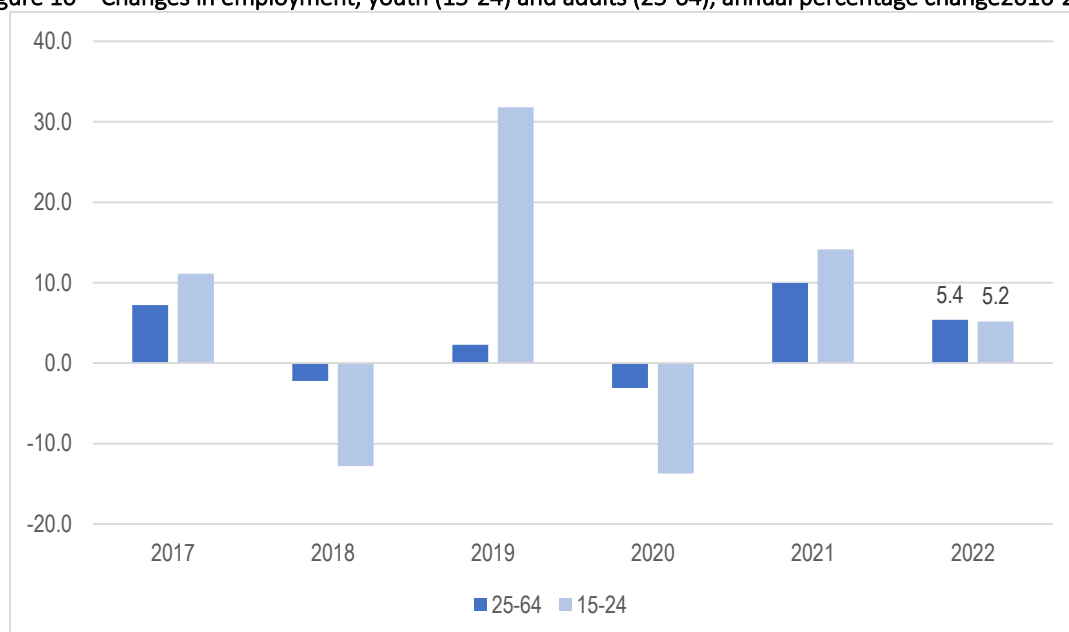
In the period 2016-2022 the employment levels for adults (25-64) increased significantly (by 21.7 per cent), with women's employment increasing much more than men's (48.6 per cent and 13.9 per cent, respectively). For young people (15-24) employment levels increased by over 32 per cent in the period, driven by a fast raise in the number of young women working (by over 96 per cent), while employment levels among young men increased by nearly 16 per cent in six years. The sectorial composition of employment shows that the increases recorded between 2022 and 2021 are due to increasing recruitment of people in education, construction, transportation and storage and accommodation and food service activities.<sup>20</sup>

<sup>19</sup>KAS data on Labour Market- Employment and employment-to-population ratio; employment rate, by sex and age group, 2012 - 2022

<sup>20</sup> KAS data on Labour Market - Employment and employment-to-population ratio; employment rate, by sex and age group, 2012 - 2022

Figure 11 below show that the labour market crisis engendered by the Covid-19 pandemic affected youth employment more than adults', with employment levels among young people dropping by nearly 14 per cent, compared to a decrease of adult employment of 3 per cent.

**Figure 10 – Changes in employment, youth (15-24) and adults (25-64), annual percentage change 2016-2020**



Source: Elaboration on KAS data of the Labour Force Survey, various years

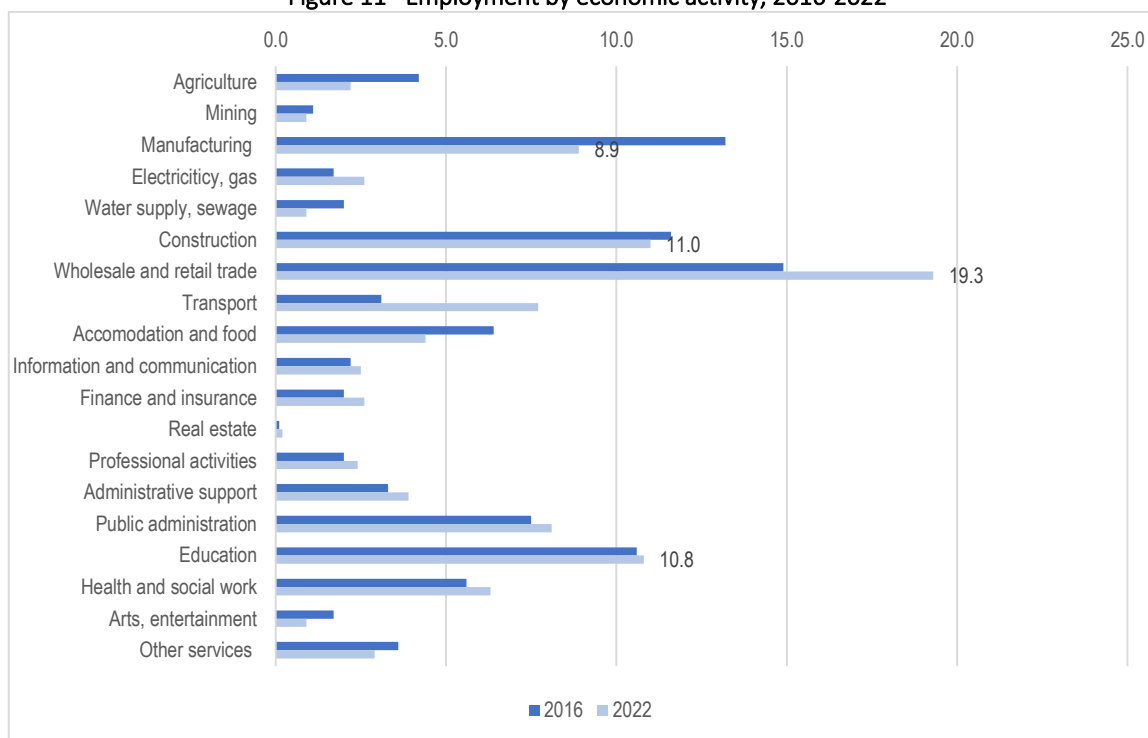
Individuals with tertiary education are more than five times more likely to be employed compared to low-skilled individuals. In 2022, the employment-to-population ratios of individuals with primary education was 12.1 per cent, compared to 64.8 per cent for persons with tertiary educational attainment. The gender gap in employment does not change substantially at higher levels of educational attainment. In 2022, the employment gap for low-skilled women (15-64) compared to men was nearly 22 percentage points (4.2 per cent and 26 per cent employment-to-population ratios, respectively), while it was nearly 16 percentage points at university level (with women employment-to-population ratio at 57 per cent and men's ratio at 72.8 per cent). This means that higher educational attainment pays an employment premium for women - with tertiary educated women nearly fifteen times more likely to be employed compared to low-skilled ones - but not so much compared to their male peers.<sup>21</sup>

The structure of employment in 2022 shows that workers are mostly concentrated in wholesale and retail trade (19.3 per cent of total employment), construction (11 per cent), education (10.8 per cent) and manufacturing (8.9 per cent).<sup>22</sup>

<sup>21</sup> KAS data on Labour Market - Employment and employment-to-population ratio; employment rate, by education attainment and sex age group 15-64, 2012 – 2022.

<sup>22</sup> KAS data on Labour Market - Employment by activity and sex in thousand ('000), age 15 and over, 2012 – 2022.

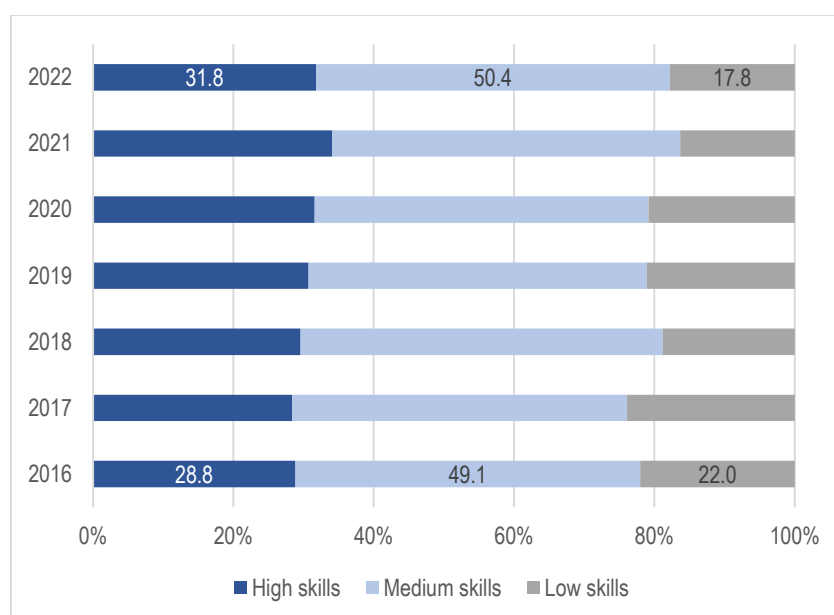
**Figure 11– Employment by economic activity, 2016-2022**



Source: Elaboration on KAS data of the Labour Force Survey, various years

The distribution of employment by broad occupational category (Figure 13) shows that in the last years there has been a slight shift towards medium- and high-skilled occupations and a decline of low-skilled ones. In 2022, high and medium-skilled occupations (category 1 to 8 of the International Standard Classification of Occupations, ISCO 2008) comprised over 82 per cent of total employment, while elementary occupations represented around 17.8 per cent.<sup>23</sup>

**Figure 12 – Employment by skills level, 2016-2022 (%)**



Source: Elaboration on KAS data of the Labour Force Survey, various years

<sup>23</sup> KAS data on Labour Market- Employment by occupation and sex, age 15 and over, 2012 – 2022.

Skills polarization is more pronounced among women, since employment is concentrated in high-skilled occupations (almost 50 per cent of total female employment), while over 71.5 per cent of men's employment is in medium- and low-skilled occupations (53.4 per cent and 18.1 per cent, respectively).

Based in the last analysis done in 2020, vertical skills mismatches amounted to 42.2 per cent of total employment (42.6 per cent for men and 40 per cent for women). Over-qualification (22.2 per cent, cells shaded grey in Table 3) is mostly accounted for by upper-secondary graduates working in elementary occupations, and tertiary graduates working as service workers. In both these categories, men are more represented than women. Under-qualification represents 20.2 per cent of overall employment (cells shaded in blue) and mostly comprises low-skilled individuals working as craft persons and sellers. Compared to 2016, there has been a shift in vertical skills mismatch, with over-qualification increasing (from 20.4 per cent of total employment to 22.2 per cent) and under qualification decreasing (from 22.6 per cent to 20.2 per cent). Among young workers (15-24), skills mismatches are higher (46.3 per cent), mostly accounted for by over qualification (29.7 per cent), due to large numbers of secondary educated youth working in elementary occupations.

**Table 3 – Skills mismatch, 2020 (thousands)**

	ISCED 0-2	ISCED 3-4	ISCED 5-8
<b>Legislators, senior officials and managers</b>	1,420	15,451	14,743
<b>Professionals</b>	269	12,634	46,125
<b>Technicians and associate professionals</b>	1,311	12,903	7,545
<b>Clerks</b>	488	10,503	11,879
<b>Service workers and shop and market sales workers</b>	9,851	59,535	12,077
<b>Skilled agricultural and fishery workers</b>	4,575	3,965	419
<b>Craft and related trades workers</b>	7,911	24,386	2,572
<b>Other occupations</b>	3,862	14,896	944
<b>Elementary occupations</b>	19,666	46,089	3,856

*Source:* Elaboration on KAS data of the Labour Force Survey, 2020

The employment structure in Kosovo has changed over time. The share of wage employees 15-64 in total employment increased in the period 2016-2022, from 69.9 per cent to 79 per cent, while the share of contributing family workers and own account workers progressively declined (from 22.9 per cent of total employment in 2016 to 13.3 per cent in 2022). Women are more likely than men to be wage employees (89.3 per cent and 75.1 per cent, respectively), while men are more likely than women to be own account workers.

The share of vulnerable employment in 2022 (i.e., the sum of own account workers with no employees and contributing family members over all workers) was approximately 13 per cent, down from the 22.9 per cent recorded in 2016. Vulnerable employment affects mostly men compared to women (15.7 per cent and 6.9 per cent, respectively), service and craft workers (workers in these sectors represent 47.5 per cent of total vulnerable employment in 2022), and individuals with secondary gymnasium education (they represent 39.9 per cent of all vulnerable employment in the same year). As expected, vulnerable employment decreases at higher levels of education - with individuals with primary

education being twice more likely to be in vulnerable employment compared to university graduates (22.8 per cent and 11.8 per cent, respectively in 2022).<sup>24</sup>

In 2022, the incidence of part-time work among workers aged 15-64 was around 5 per cent, on a similar trend since 2016 (6.1 per cent). The difference between men and women in part-time work is negligible (5.9 per cent and 4.3 per cent, respectively). Involuntary part-time (i.e., individuals working part-time because no full-time job could be found) affects 51.9 per cent of all part-time workers, with men much more exposed to involuntary part-time compared to women (57.3 per cent of total male part-time employment and 34.9 per cent among part-time women workers). Involuntary part-time reached a peak in 2018 (at 80.3 per cent of all part-time workers), driven by increasing numbers of men workers in involuntary part-time (from less than 7,000 men in 2016 who were in involuntary part-time to over 15,000 in 2019).<sup>25</sup>

Temporary employment affects nearly two thirds of all workers (57.5 per cent), with men more likely to be employed temporarily compared to women (58.9 per cent and 53.9 per cent). The overwhelming majority of temporary workers could not find a permanent job (89.6 per cent), with just small differences between men and women (90.4 per cent for men and 87.2 per cent for women).

Table 4 – Structure of employment (15-64), 2020

	All	Men	Women
<b>Status in employment</b>			
<b>Employees</b>	74.3%	70.9%	85.0%
<b>Own-account workers, with employees</b>	7.2%	10.9%	4.1%
<b>Own-account workers, no employees</b>	11.9%	13.8%	5.9%
<b>Contributing family workers</b>	4.6%	4.5%	5.0%
<b>Type of contract</b>			
<b>Full-time</b>	92.5	92.4	92.7
<b>Part-time</b>	7.5	7.6	7.3
<b>Involuntary part-time</b>	66.6	72.9	45.1
<b>Permanent contract</b>	42.5	41.1	46.1
<b>Temporary contract</b>	57.5	58.9	53.9
<b>Involuntary temporary work</b>	89.6	90.4	87.2

Source: Elaboration on KASS data of the Labour Force Survey, 2020

### 2.3.3. Informal employment

Informal employment in Kosovo was estimated in 2017 at 35 per cent of total employment, but this rate did not account for workers receiving envelope wages.<sup>26</sup> According to the data collected by the Labour Force Survey, approximately 8.5 per cent of all workers was engaged without a contract (15 per cent in 2017), and the overwhelming majority of workers (93 per cent) did not benefit from a social security scheme.<sup>27</sup> The European Commission, in its assessment of the 2022 Economic Reform Programme stated that there are approximately 45,000 full-time equivalent employees engaged in the informal sector, mostly in agriculture, construction and retail. Irrespective of the difficulties in

<sup>24</sup> KAS, *Labour force survey 2022*, op.cit.

<sup>25</sup> KAS Data on Labor Market - Reasons for working part-time by sex in percentage (%), age group 15-64, 2012 - 2022

<sup>26</sup> World Bank, *Jobs diagnostics Kosovo*, World Bank, Washington D.C., 2017. In this research, the definition of informal employment comprises unpaid family workers, self-employed workers in small firms, self-employed in non-professional occupations, workers in firms with less than five employees.

<sup>27</sup> KAS, *Labour force survey 2020*, op.cit.



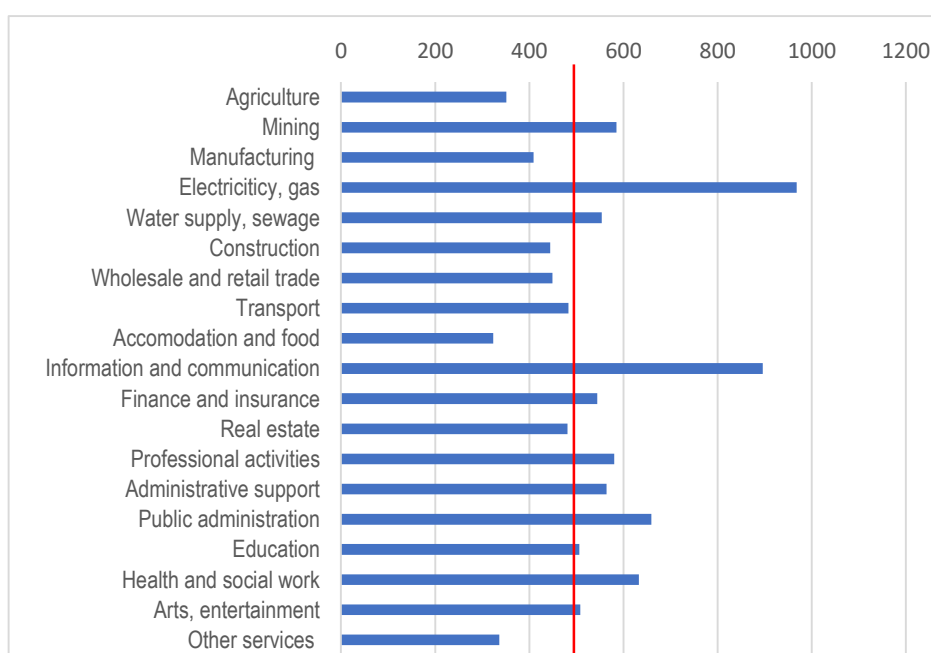
estimating the size of informal employment in Kosovo, the data shows higher informality among men (38 per cent), young workers 15-24 (50 per cent), workers with low educational attainment (65 per cent), and among workers in rural areas (40 per cent) compared to urban workers (30 per cent).

#### 2.3.4. Wages and other conditions of work

Average gross wages increased by 23 per cent in the period 2016-2022. Such increase was driven by raising gross wages in both the public and the private sector (15 per cent and 39.1 per cent increases, respectively).

The highest average wage is paid in the electricity, gas and steam industry, while the lowest is found in the hospitality sector (Figure 14). Other sectors paying above the national average wage are public administration, health and social work, information and communication technologies as well as mining and water supply. Economic sectors that in 2022 accounted for nearly 58 per cent of total employment (agriculture, industry, construction, trade, hospitality and other services) paid less than the average wage.

Figure 13 – Average gross monthly earnings by economic sectors, 2022 (EUR)



(Agriculture, mining, manufacturing, electricity - gas, water supply - sewerage, construction, wholesale and retail trade, transport, accommodation and food, information and communication, finance and insurance, real estate, professional activities, administrative support, administration public, education, health and social work, arts - entertainment, other services).

Source: Elaboration on KAS: Wage levels in Kosovo, 2022

Mean hours of work for the population aged 15-64 averaged 42 per week, with men more likely than women to work longer hours (43 and 39 average hours, respectively). The share of individuals who work excessive hours (48+) equalled 15.7 per cent of total employment, with men more than two times

more likely than women to be exposed to excessive working hours (18.8 per cent and 7.6 per cent, respectively).<sup>28</sup>

In 2017 (latest available year), in-work poverty affected 15.2 per cent of total employment, on a declining trend compared to 2012 (22 per cent). Men, young people aged 18-24 and low-skilled individuals are more likely to be working poor compared to other groups (Table 5).

Table 5 – Structure of in-work poverty (15-64), 2012-2017

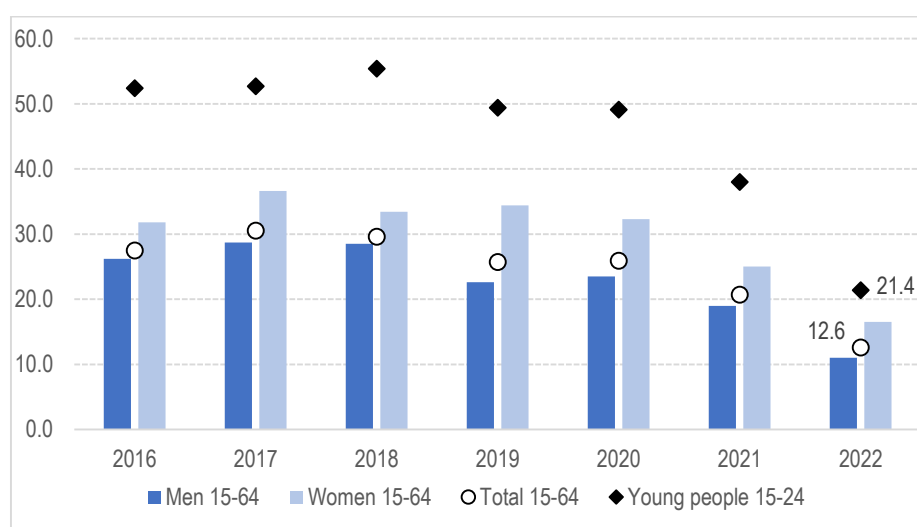
	2012	2013	2014	2015	2016	2017	Change 2012/2017
<b>In-work poverty rate, all</b>	<b>22.0</b>	<b>19.1</b>	<b>14.5</b>	<b>17.8</b>	<b>19.5</b>	<b>15.2</b>	<b>-6.8</b>
Men	22.0	19.2	14.5	17.9	19.6	15.3	-6.7
Women	21.7	14.9	19.3	15.4	6.3	11.0	-10.7
Youth (18-24)	100.0	17.9	45.2	41.8	...	58.5	-41.5
Prime age (25-54)	24.2	21.5	15.0	19.6	21.3	19.0	-5.2
Elderly workers (55-64)	14.8	12.3	12.2	13.1	15.2	7.0	-7.8
Primary education	41.6	33.5	30.9	34.0	33.9	24.6	-17.0
Secondary education	18.6	18.3	11.8	17.3	19.0	16.6	-1.8
Tertiary education	3.0	2.7	1.7	2.6	...	...	-0.4

Source: Haxhikadrija, Amir; Mustafa, Artan; Loxha, Artan (2019). *ESPN Thematic Report on In-work poverty – Kosovo*, European Social Policy Network (ESPN), Brussels.

### 2.3.5. Unemployment

The unemployment rate for the working age population in Kosovo has been declining since 2017 (Figure 15). By 2022 the unemployment rate had levelled at 12.6 per cent of the labour force (11 per cent for men and 16.5 per cent for women). Young people (15-24) are nearly twice more likely to be unemployed compared to the overall population, with the youth unemployment rate levelling at 21.4 per cent in 2022. Young women are more likely to be unemployed compared to young men (27 per cent and 18.6 per cent, respectively). The unemployment rate, however, is not a good indicator of the health of the labour market in Kosovo, since this indicator is affected by the low participation rate of the working age population.<sup>29</sup>

Figure 14 – Unemployment rate, young people and population 15-64, by sex (2022)



<sup>28</sup> KAS, *Labour force survey 2022*, op.cit.

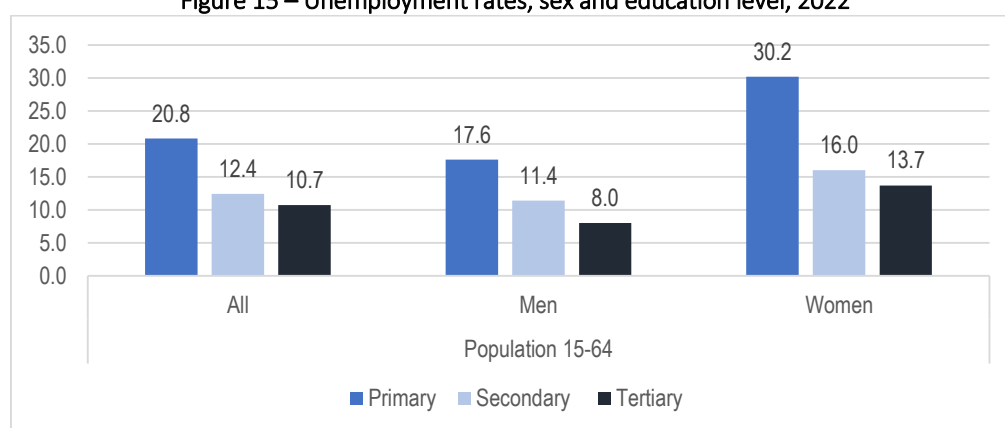
<sup>29</sup> KAS data on Labour Market- Unemployment and unemployment rate, by sex and age group, 2012 - 2022

Source: Elaboration on KAS data of the Labour Force Survey, various years

In terms of unemployment levels, the period 2021-2022 recorded a 42 per cent decrease, caused by a strong drop in the number of unemployed young people 15-24 (by 53.3 per cent), the level of unemployment declined for adults as well by around 38 per cent.

A higher level of educational attainment protects individuals from unemployment - since the unemployment rate decreases from 20.8 per cent for those with primary education only, to 10.7 per cent for those with tertiary educational attainment – but not so for youth (Figure 16).

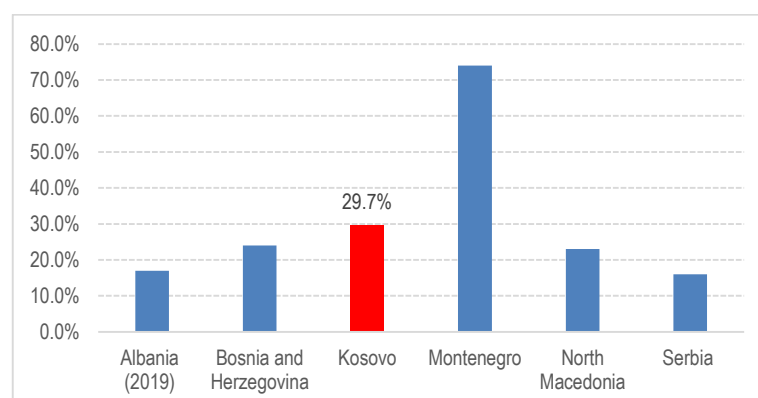
**Figure 15 – Unemployment rates, sex and education level, 2022**



Source: Elaboration on KAS data of the Labour Force Survey, 2022

Long-term unemployment (over 12 months) in 2022 accounted for 65.1 per cent of total unemployment (population 15-64), nearly equally distributed between men and women (69.2 per cent and 58.4 per cent, respectively). Six out of ten young unemployed have been looking for work for over one year in 2020 (61.6 per cent), with young women more likely than young men to fall into this group (63.4 per cent and 60.6 per cent, respectively). The composite rate of labour underutilization (i.e., a measure that counts unemployment, time-related underemployment and the potential labour force) in Kosovo was 29.7 per cent in 2020 (Figure 17), higher than neighbouring countries and especially so for men (33.6 per cent) compared to women (25.9 per cent).

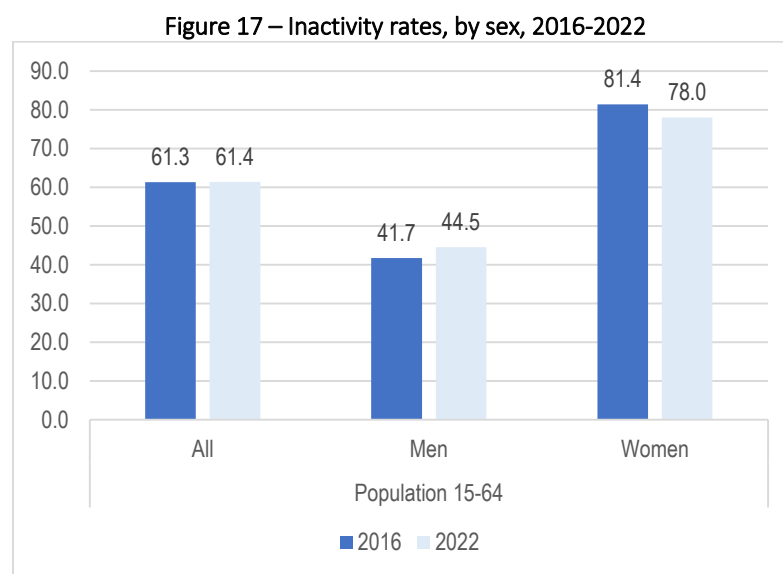
**Figure 16: Labour under-utilization, Kosovo and peer countries (2020)**



Source: ILOSTAT: *Statistics on unemployment and supplementary measures of labour underutilization* (at <https://ilostat.ilo.org/topics/unemployment-and-labour-underutilization/>) and own elaboration for Kosovo, based on KAS, labour force survey.

### 2.3.6. Inactivity and discouragement

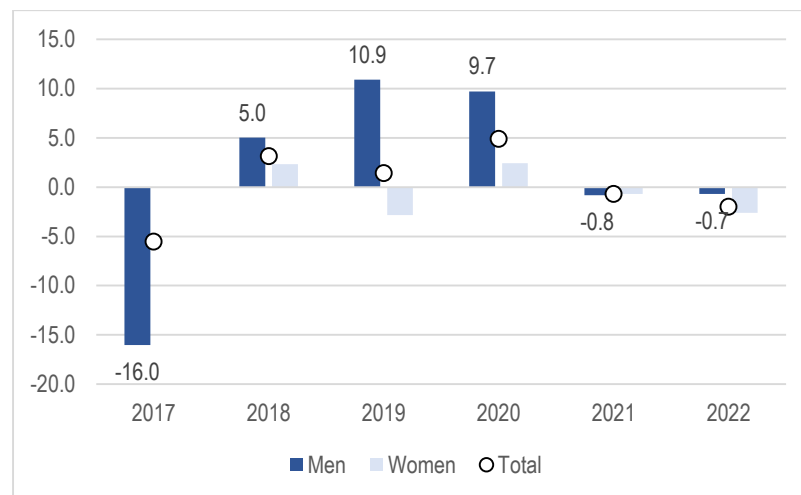
Between 2016 and 2019, the inactivity rate of the population 15-64 decreased slightly (from 61.3 per cent to 59.5 per cent). Inactivity increased in 2020 (61.6 per cent) to then decline in 2021 (60.7 per cent) and in 2022 it was close to two years before (61.4 per cent). These inactivity rates are twice those recorded in the EU (25.5 per cent of the working age population in 2022). High inactivity rates are due to the high inactivity rates among women (78 per cent in 2022).



Source: Elaboration on KAS data of the Labour Force Survey, various years

During the period 2016-2022, overall inactivity rates remained stable. The changes in men's inactivity levels, however, have been rather pronounced year-on, while women's inactivity levels have remained substantially stable throughout the period (Figure 19). Between 2016 and 2017, for example, the number of inactive men declined by 16 per cent, while women's inactivity levels remained unchanged. The same applies to the biennium 2018-2019, which recorded an increase in inactivity among men by nearly 11 per cent (and a decline in women's inactivity levels), and in the biennium 2019-2020, with a nearly 10 per cent increase in the number of inactive men. This appears to indicate that, among men, there is high permeability between activity (most likely unemployment) and inactivity, with working age men shifting from unemployment to inactivity and vice versa on an annual basis, alongside the performance of GDP. This is to say that output growth lower than 4-5 per cent caused drops in employment and increasing inactivity, and especially among men given their prevalence in the labour force (in 2020 men comprised 73 per cent of all active individuals). A contributing factor to these activity/inactivity shifts among men may also be due the lack of an unemployment benefit system (no incentive for the unemployed to remain in this status, as compared to shifting into inactivity). In the last year, the inactivity levels have declined by around 2 per cent in total (with stronger decline among women (2.6 per cent)).

**Figure 18– Changes in inactivity levels (percentage), 2017-2022**



Source: Elaboration on KAS data of the Labour Force Survey, various years

The main reason for inactivity among young people (15-24) was participation in the education system and discouragement. Inactivity among prime age individuals (25-64) shows that this labour status is primarily due to family responsibilities and discouragement.

In 2022, the share of young people (15-24) neither in employment nor in education and training (NEETs) was 33 per cent of the total youth population (over 98 thousand young people). Women and men have the same likelihood to be NEET (33.8 per cent and 32.2 per cent, respectively),

Figure 19 – NEET rates (15-24) by sex, 2022



Source: Elaboration on KAS, data of the Labour Force Survey, 2020

In the period 2016-2021, the NEET rate climbed from 30.1 per cent to 33 per cent. This increase was rather progressive among young men (from 26.5 per cent in 2016 to 32.2 per cent in 2022, with a low peak in 2017 at 23.8 per cent). For young women, the progression has been uneven. The NEET rate among young women was 34.2 per cent in 2016, then it declined in the next two years to reach the 30 per cent low, to then spike up in 2019 at 34.2 per cent. The same applies to the cohort 15-29: the lowest peak is recorded among men in 2017 (27.8 per cent), while for women the lowest rate was achieved in 2018 (at 40.6 per cent).

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Available figures on economic and labour market trends for 2021-2022 show a strong rebound of GDP growth (10.5 per cent increase for 2021 and 3.5 per cent in 2022). This growth was driven by the strong recovery of wholesale and retail trade with contribution in growth by 2.4 percentage point in 2021 and 1 percentage point in 2022 as well as of the manufacturing sector with contribution of 1.4 percentage point in 2021 and 1.1 percentage point in 2022. Other sectors like transport and financial activities had positive contributions as well.<sup>30</sup> Strong output growth spilled over the labour market with increasing activity and employment rates and declining unemployment.

The positive effect of strong output growth also affected the youth labour market with the employment-to-population ratio for young workers increasing from 13.4 per cent to 15.4 per cent, and unemployment declining from 38 per cent in 2021 to 21.4 per cent in 2022.

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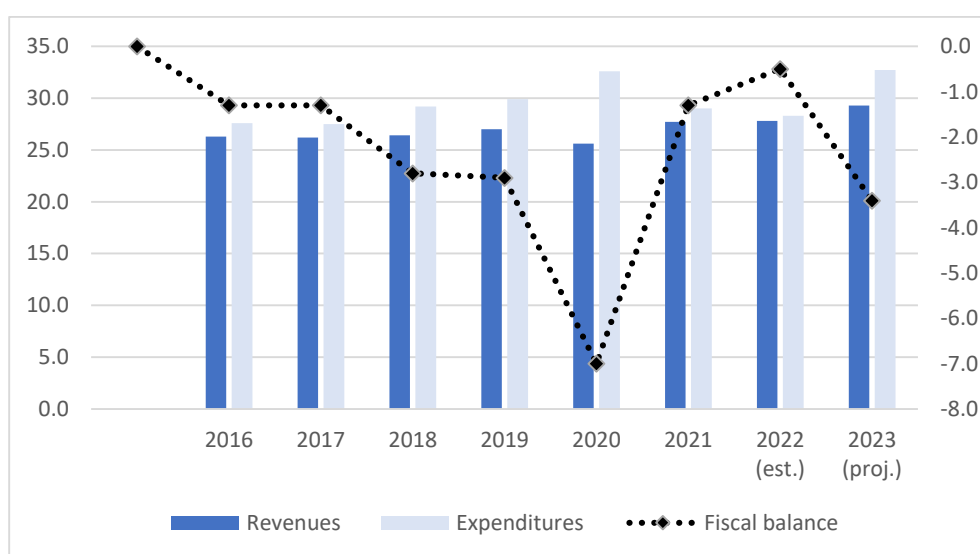
<sup>30</sup> KAS: *Gross Domestic Product (GDP) by expenditure and production approach, 2008-2022.*

## CHAPTER 3 – REVIEW OF POLICIES AND INSTITUTIONS

### 3.1. Macroeconomic and sectorial policies

Kosovo maintained a low fiscal deficit since 2014 (year of the introduction of the two per cent fiscal rule), except for 2020 when the deficit reached 7.0 per cent due to the mitigation measures introduced by the government to cushion the crisis engendered by the Covid 19 pandemic (Figure 21). The deficit rapidly decreased in 2021 within the fiscal rule of deficit below 2 per cent, while in 2022 there was a modest surplus of 0.1%, due to the fiscal consolidation. In 2023 it is expected the balance to at 2% deficit which is within the fiscal rule and the overall fiscal deficit is projected to be 3.4 per cent of GDP. .

Figure 20 – Revenues, expenditures and central government balance (right axis), 2016-2023



As already mentioned, both revenues and expenditures increased slightly in the period 2016-2022. In this period the revenues experienced a positive uptrend, with a notably pronounced surge in the last two years. The composition of revenues shows that indirect taxes contribute the most (75.3 per cent of total revenues in 2022), with the Value Added Tax (VAT) amounting to 49.1 per cent of total revenues or 13.2 per cent of GDP in 2022, while personal income and corporate taxes amounted to 2.4 and 1.5 per cent of GDP, respectively.

Table 7 – Composition of revenues and expenditures (% GDP), 2019-2023

	2019	2020	2021	2022	2023(pr.)
<b>Revenues, of which</b>	26.7	25.0	27.5	27.8	29.3
VAT	12.0	11.4	13.0	13.6	14.1
Corporate tax	1.3	1.3	1.4	1.8	2.0
Personal income tax	2.3	2.3	2.4	2.4	2.7
Property tax	0.4	0.3	0.5	0.4	0.5
<b>Expenditure, of which</b>	29.9	33.5	29.0	28.4	32.8
Wages	8.7	9.8	8.4	7.3	7.6
Capital expenditures	7.6	5.7	5.3	4.7	8.3
Subsidies and transfers	8.9	12.8	10.6	11.9	11.2

Source: International Monetary Fund (IMF), *Staff Report for the 2014 Article IV Consultation*, 2018-2023, Ministry of Finance Labour and Transfers, Medium Term Expenditure Framework 2024-2026

On the expenditure side, there has been an increase in spending in subsidies and transfers to households (mainly pensions and social assistance), due to different fiscal packages undertaken to address the last years crises while the spending in investment has remained stable over the period. The key challenge in terms of capital investment remains their timely realization. The wage bill is estimated to increase in 2023 due to the new law on wages and salaries, although this increase is within the fiscal rule for wage bill.

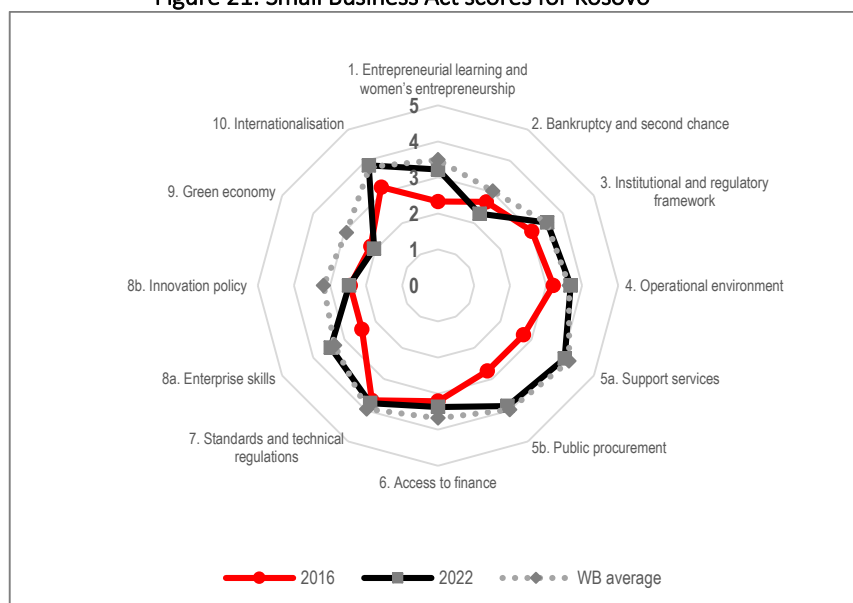
The tax system in the country comprises a progressive three-tier personal income tax (ranging from 4 per cent for annual incomes up to 3,000 euro, to 8 per cent for incomes up to 5,400 euro and 10 per cent for incomes over 5,400 annually) and a corporate income tax of 10 per cent (for turnover over 50,000 euro). The amount of income exempt from the personal income tax is set at 960 euro per year. This is expected to change with the new law on minimum wage which foresees the increase of the amount of income exempted from personal income tax. The law is under regular procedures of ratification. The VAT rate is set at two different rates, 8 per cent for elementary goods and services, and 18 per cent for other goods and services.

In addition to the personal income tax, workers are subject to pension contributions (with 5 per cent paid by the employee and 5 per cent paid by the employer). The overall tax burden on labour is lower than in neighbouring countries. For workers earning at the minimum wage the tax wedge is 11 per cent, 14 per cent for workers earning at the average wage and 18 per cent for workers earning more than 1,800 euro per year.

Available data show that in the period 2016-2020, Kosovo has made moderate progress in developing a favourable investment environment for small and medium sized enterprises (SMEs). The policy frameworks and governing mechanisms, established in the early 2000s, have been significantly strengthened, and several regulations have been brought into line with those of the EU. The establishment of one-stop shops under the Kosovo Business Registration Agency reduced red tape and lowered barriers to entry for entrepreneurs. The establishment of the Ministry for Innovation and Entrepreneurship in 2017 has strengthened the institutional framework for streamlining innovation in policy making. The new laws on bankruptcy and business organisations, adopted in 2016 and 2018 respectively, laid the basis for efficient insolvency procedures. The government reinforced the Kosovo Investment and Enterprise Support Agency (KIESA)'s institutional capacity, which resulted in improved quality and range of its services. Skills intelligence has been boosted through the development of three statistical barometers (Labour market, Vocational education and training and the Skills barometer reporting on current and future needs and skills development. The country made considerable advancements in digitalising export promotion services by enabling SMEs to apply for export support online, which greatly streamlines the procedures, further reducing the administrative burden (Figure 22).



Figure 21: Small Business Act scores for Kosovo



Source: OECD: *SME Policy Index: Eastern partner countries* (OECD, Paris, 2016 and 2022)

However, more could be done in building an environment conducive to business. The sector is still characterized by micro-enterprises, which are less productive and have higher net firm turnover, lower survival rates, and lower employment growth. In the last decade, the average annual net rate of firm creation in Kosovo was close to zero, an indication of a lack of dynamism.<sup>31</sup> In 2020 the country ranked 57th out of 190 economies in the World Bank *Doing Business Report*, compared to 2012, when it ranked 117<sup>th</sup>. Lagging competitiveness scores relate to innovation, the green economy, construction permits, protecting minority investors, contract enforcement and insolvency.<sup>32</sup> In 2019 enterprises reported as main challenge for businesses unfair competition, finding skilled employees and workforce emigration.<sup>33</sup>

The fiscal policy – grounded since 2012 on the 2 per cent rule on central government balance – has maintained macroeconomic and financial stability and served to anchor public debt below the ceiling of 40 per cent of GDP. The response of the Government to the crisis engendered by the Covid-19 pandemic – equal to 4.3 per cent of GDP – was able to mitigate the shock for enterprises, workers and households and supported the rebound recorded in 2021. The 2021 Economic Recovery Package extended most of the measures enacted during the pandemic (support to households, workers and firms), but it also added new measures, such as employment support, child and maternity allowances, support for publicly owned companies to improve their operations, and a blanket reserve for additional capital expenditures. The main uncertainties relating to short-term economic performance are due to increasing energy prices and raising inflation, which will affect household disposable income. On the upside, the increase in diaspora inflows recorded in 2021 may prove to be sustained over time and lead to stronger activity.<sup>34</sup>

In the medium term there are several challenges that the country needs to address to promote output growth, increase the quantity and quality of employment and accelerate convergence with the

<sup>31</sup> World Bank: *Raising firm productivity* (World Bank, Washington D.C. 2019).

<sup>32</sup> World Bank: *Doing Business 2022: Comparing Business Regulation in 190 economies* (World Bank, Washington D.C., 2020).

<sup>33</sup> Riinvest Institute: *Employment and labour market analysis* (Pristina, 2019), at <https://www.riinvestinstitute.org%2Fuploads%2Ffiles%2F2021%2FOctober%2F05%2FEmployment-and-Labour-Market-Analysis-ENG1633434888.pdf&usg=AOvVaw325S8KdhnCqk81pIR1FyDz>.

<sup>34</sup> International Monetary Fund (IMF), *Staff Report for the 2014 Article IV Consultation*, 2022

region's income levels. The first challenge is closing the gaps in physical infrastructure, the skills of the labour force and institutional capacity. Addressing these challenges would increase domestic and foreign investment, leading to higher output growth. The second challenge is to diversify economic growth, still dependant on diaspora inflows. The third challenge is managing the digital transition and greening the economy and exploiting their potential for creating new jobs. Finally, the high level of informality negatively affects competition, working conditions and firm size, leaving the economy below potential.

The Kosovo Development Strategy 2030 is structured around four main development goals, namely: (i) sustainable economic development; (ii) equitable human development; (iii) safety and the rule of law; and (iv) good governance. The Strategy envisages a series of policy actions aimed at reducing poverty through better access to and targeting of social protection and social services; improving the quality of education by developing competencies aligned to labour market needs; developing a competitive economy by improving the business environment, accelerating innovation in SMEs, improving agriculture productivity; and promoting decent work and an inclusive labour market by increasing labour force participation and employment (especially for women and young people), addressing informal employment and strengthening the capacity of the Kosovo Employment Agency.

### 3.2. Education and training policy

The education system in Kosovo is composed of one year of pre-primary education (Grade 0) for children between the ages of five and six; nine years of compulsory basic education, which includes five years of primary (Grades 1-5) and four years of lower secondary education (Grades 6-9); followed by three years of non-compulsory upper secondary education (Grades 10-13); and tertiary education.

In 2020, only 6.7 per cent of children up to four years old attended any form of early childhood education and care, while the share of children 5 and 6 years old participating to pre-primary education was 88.1 per cent.<sup>35</sup> Children in rural areas have less opportunities to participate to early childhood education compared to their urban peers (7.9 per cent and 25.5 per cent, respectively).<sup>36</sup>

Upper secondary education is organized into gymnasium (four years) and vocational education (three years). Vocational education and training (VET) is organized into three levels: (i) grades 10 and 11 leading to a certificate of craftsperson; (ii) grade 12, leading to a certificate of qualified worker; and (iii) grade 13, which can be a course leading to a technical-managerial level qualification or a one-year course that allows progression to tertiary education.<sup>37</sup>

Available data indicates that over half of upper secondary education students are enrolled in vocational education schools. There is no entry criteria for enrolment in vocational schools and they are often a second choice for students who cannot enrol in gymnasium.<sup>38</sup> The profiles most requested are engineering, manufacturing and construction (over 13,000 students) and business, administration and

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<sup>35</sup> Ministry of Education, Science Technology and Innovation: *Education Strategy 2022-2026*, pp 32 et seq. See also: World Bank: *A Situational Analysis of Early Childhood Development (ECD) Services in Kosovo*, World Bank Group, 2021. The European Commission reports a rate of enrolment in early childhood education and care of 8.5 per cent in 2020. See Commission Staff Working Document, Kosovo 2021 Report.

<sup>36</sup> Ministry of Education, Science Technology and Innovation: *Education Strategy 2022-2026*, op.cit.

<sup>37</sup> Safet Krasniqi. *Education and Vocational Training in Kosovo, a Challenge and Objective of the 21st Century*. Jilin Daxue Xuebao (Gongxueban)/Journal of Jilin University (Engineering and Technology Edition), ISSN : 1671-5497. Vol: 40 Issue: 09-2021.

<sup>38</sup> See K. Bajrami: *Evaluation of the Implementation of the Kosovo Education Strategic Plan 2017-2021. Insufficient achievement*, op.cit.

justice (over 10,000 students). A research conducted in 2019 revealed that 77 per cent of the VET profiles offered by vocational schools are not based on occupational standards and therefore, they not aligned to labour market needs.<sup>39</sup> Progression from VET to university education is relatively high, while completion rates at tertiary level are well below EU averages.<sup>40</sup> Over the period 2017-2020, nine school-based Career Centres have been established in partnership with municipalities and with the Agency for Vocational Education and Training and Adult Education. These Centres serve students of ten VET schools, with ten other Centres to be established in the period 2022-2023. The primary function of these school-based Centres is to equip VET students with job readiness skills, offer labour market information and facilitate connection with the labour market through internships, work-based learning and employment. The quality of services delivered, however, still varies across schools and depend mostly on the maturity of the establishment and the staff experience and initiative.<sup>41</sup>

Funding for vocational education within the general budget for education has not shown any significant increase in the last few years. The increase in expenditures on vocational education has been devoted almost entirely to expenditures on teachers' salaries. Government investments in other categories of VET spending such as capital investments, goods and services and other current expenditures have gradually declined. The budget allocation for vocational schools does not consider the special needs of the profiles offered by different schools (spending is calculated per student, rather than by profile). The legal framework regulating the VET system is rather fragmented, with several pieces of primary legislation (education, VET, decentralization, Kosovo Qualification Framework) and a growing body of secondary legislation. The development of the core curriculum for VET has been on the policy agenda for several years, but work in this regards has not started yet. New curricula for certain VET profiles have been designed, but they continue to be delivered on a pilot basis. Lack of teaching and learning materials remains a challenge, partly due to the fragmentation of the VET system in many profiles and the low returns for publishing companies. Although work-based learning is integrated in the VET curriculum, it is not systematically delivered. To a large extent, teaching in the workplace is organized in the form of a block system only for students in the 12th grade, while for lower grades there is only practical teaching in school. In recent years there has been progress in the establishment of partnerships between VET schools and employers, but work-based learning remains too limited to substantially improve students' prospects in the labour market.

The most recent policy document aimed at improving both the quantity and quality of education and training is the *Education Strategy (2023-2027)*. This Strategy centres on five broad objectives, each linked to a specific area of the education system: (i) increase inclusion and equal access to early childhood education (adaptation of existing facilities and building of new ones; consolidation of the legal framework on early childhood education; policy coordination and awareness raising); (ii) improve the quality of pre-university education through the consolidation of quality assurance mechanisms and provision of quality teaching (strengthen institutional capacity; quality assurance system; increase participation of marginalize children; improve the school environment; increase reliability of national testing mechanism; implement all elements of curriculum; provide quality teaching materials and aids; implement the teachers' licensing system; upgrade teachers' training; promote multi-culturalism and diversity) (iii) harmonize vocational education and training with the developments in technology and the labour market (improve the governance, funding and information management system of VET and adult education; strengthen quality assurance mechanisms; finalize curriculum in line with labour

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<sup>39</sup> ALLED2- EIPP: *Gjendja aktuale në Arsimin dhe Aftësimin Profesional në Kosovë*, 2019, at <http://alled.eu/wp-content/uploads/2019/12/Vocational-Edu-AL-Final-Print.pdf>.

<sup>40</sup> European Training Foundation: *Policies for human capital development Kosovo* (ETF, 2019); L. Barnhardt et al. "Educational success in a new democracy: Modelling university student persistence and completion in Kosovo" in Higher education, 2021

<sup>41</sup>ILO: *Career guidance services in Kosovo. An initial appraisal* (ILO, mimeo, 2022)

market needs; implement practical learning and the provision of career guidance services; improve the supply of adult learning); (iv) Improve the quality of higher education (review study programmes, promote excellence in teaching; foster research and development; improve governance, funding and services to students; enhance linkages with labour market and business; promote international exchanges); (v) digitalization of education (use of digital technology to improve services and quality in education; develop digital teaching materials; foster digital competence; create institutional to implement digitalization processes).

The teachers' development system was established between 2017 and 2020. In 2017 the Strategic Framework for Teacher Development was approved, which sets standards for the teaching profession, including pre-service teacher training, the initial phase of practicing the profession, and career development. The model of professional development of teachers is based mainly on training programmes offered by various institutions and providers, which are selected based on criteria set by the Ministry of Education. The Ministry regularly publishes a catalogue of accredited and approved programmes for professional development of teachers, but accredited courses are available only for education profiles (and not for specific VET profiles). Consequently, VET teachers have no development opportunity on the implementation of sectoral curricula.

Kosovo's 2011 Law on Higher Education currently regulates higher education, although revisions have been under consideration since 2014. The Law provides foundational alignment with European Higher Education Area (EHEA) and Bologna objectives by connecting quality, accreditation, and licensing practices in the national regulations. In Kosovo there are 32 accredited institutions of higher education, of which nine are public institutions and 23 are private ones.

Gross enrolment rates in higher education were 56.7 per cent in the academic year 2019/2020.<sup>42</sup> The number of students enrolled declined in the last three years (from over 133,000 students in 2017 to just over 95,300 in 2021) and this trend is expected to continue in the next few years. The accreditation process, managed by the Kosovo Accreditation Agency (KAA) is applied based on the quality assurance approach or meeting the minimum quality criteria set out in local legislation. However, in lack of human resources, the KAA is unable to regularly monitor whether the institution continues to maintain the quality standards on the basis of which it was initially accredited.<sup>43</sup>

Recent research on tertiary students enrolled in public universities shows that the overall average rate of bachelor's degree completion is 22 per cent.<sup>44</sup> In European countries the bachelor's completion rates range from a low of 46 per cent (Italy) to a high of 80 per cent (Denmark). The pattern of student persistence in Kosovo declines steadily, with students' enrolment in the second semester lowering to 87.7 per cent, 63.2 per cent in the second year, 50.7 per cent in the third year and 17.6 per cent in the fourth year. Women are more likely than men to complete their course of study (28.8 per cent and 15.1 per cent, respectively). In terms of academic majors, the rate of completion in the arts field is 42 per cent (although students of this major represent only 2 per cent of total students). Students of science, technology, engineering and mathematics courses (STEM) represent 34 per cent of university students, with completion rates of 17.4 per cent.

Adult education and training - part of the educational system – is aimed at all those persons who have lost the status of regular student and have not exercised their right to education. In other words,

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<sup>42</sup> K. Bajrami: *Evaluation of the Implementation of the Kosovo Education Strategic Plan 2017-2021. Insufficient achievement*, at <http://kec-ks.org/wp-content/uploads/2021/06/Evaluation-of-the-Implementation-of-KESP-2017-2021.pdf>.

<sup>43</sup> K. Bajrami: *Evaluation of the Implementation of the Kosovo Education Strategic Plan 2017-2021. Insufficient achievement*, op.cit.

<sup>44</sup> This refers to those who finished in 100 per cent or 133 per cent time Barnhardt, C.L., Halilaj, F., Bytyqi, H. et al. "Educational success in a new democracy: Modelling university student persistence and completion in Kosovo" in *High Education* 2021, op.cit.

the adult education system provides both second chance opportunities (compensatory education), as well as the possibility for adults to acquire additional learning. Additional education can be provided by both public institutions and private (licensed) providers, on the basis of programmes approved by the Ministry of Education. These programmes are fee-based. According to the data provided by the Education Management of Information System (EMIS), in the academic year 2019/2020, a total of 1,869 adults attended vocational secondary education. No data is available, however, on other forms of non-formal adult education. In 2020 there were 74 accredited institutions of adult education, mostly providing courses at level III and IV of the National Qualification Framework.

### 3.3. Labour market policies and institutions

In the period 2018-2022, the employment policy of Kosovo has been guided by the principles set forth by the Sectorial Strategy of the Ministry of Labour and Social Welfare, which was centred on: (i) employment (reduce inactivity, increase employment, develop skills in line with labour market needs; reduce informality and improve working conditions); (ii) social welfare (reduce poverty, increase the coverage of vulnerable groups in social schemes and provide integrated social and employment services) and (iii) the pension system (develop a sustainable pension system, enhance management capacity and foster equality). The establishment of a contributory unemployment benefit was proposed, but never adopted and the country still lacks a social security coverage against employment injuries.

The Ministry of Finance, Labor and Transfers is undertaking a series of reforms, which target, among others, the Kosovo Employment Agency and are expected to have a positive impact on the employment of disadvantaged groups. These reforms consist of revising the structure of the Employment Agency, increasing the number of staff, and providing continuous training, drafting the law on employment promotion, drafting a new regulation on active Labor market measures, as well as implementing of the Youth Guarantee.<sup>45</sup>

#### 3.3.1. Wage policy

Kosovo introduced a minimum wage in 2011. The amount - proposed by the Economic and Social Council (ESC) - was set at 130 euro for young workers (15-34) and 170 euro for adult workers (35-64). The minimum wage level - not indexed to inflation or productivity - remained unchanged over time. This is due to the reluctance of the Government to increase the base upon which social benefit outlays (primarily the war veteran pensions) are computed.<sup>46</sup>

The gross average wage, conversely, raised by 36 per cent (from 383 euro to 521 euro) between 2012 and 2022. Such increase was mainly due to the increases of wages in the public sector (by 48 per cent in the period). The ratio of the minimum wage to the median wage in Kosovo – which is a common proxy used to measure the restrictiveness of minimum wages - is slightly lower than the level observed in most EU countries (0.38 in 2018 for those aged 15-34 and 0.40 for those aged 35-64).<sup>47</sup>

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<sup>45</sup> *Implementation of MLSW Sectorial Strategy in 2018 and 2019. Assessment report.*

<sup>46</sup> Many other benefits are also tied to the minimum wage such as benefits for blind persons and paraplegic and tetraplegic persons

<sup>47</sup> World Bank: *Ex-ante evaluation of the impact of increases in minimum wages on labour market outcomes in Kosovo* (World Bank, Washington D.C., 2019).

The Government's programme 2021-2025 envisages an increase of the minimum wage to 264 euro. This would affect 30 per cent of total employment (approximately 105 thousand employees), most of whom are private sector workers.<sup>48</sup> Concurrently, the personal income tax exemption would cover earnings up to 250 euro. It is expected that the combination of these two measures would reduce the incentives of informal employment.

### 3.3.2. Active labour market policies

#### 3.3.2.1. Public employment service (PES)

The Employment Agency of Kosovo was established in 2014 as an independent Agency within the Ministry of Labour and Social Welfare. The role and responsibilities of the Agency are encompassed in the Law No 04/L-205 of 2015 (*On the Employment Agency of the Republic of Kosovo*) and Law No 05/L-077 (*On registration and providing services for unemployed, jobseekers and employers*). According to these two legal instruments, the Agency is mandated to register jobseekers, unemployed individuals and job vacancies; provide counselling and guidance services; carry out job brokering; implement active labour market programmes; and issue short-term work permits to foreigners. The Agency also manages a network of eight regional Vocational Training Centres (VTCs), which provide institution-based vocational training.

At the end of 2021 there were approximately 82 thousand persons registered with the Kosovo Employment Agency, half the number recorded at the end of 2020 (169 thousand). This drop is due to the labour market recovery recorded in 2021 and the end of the Covid-19 emergency package (which required jobseekers to register with the Agency for financial support). The market penetration of the Agency is equal to 66 per cent.<sup>49</sup> In Kosovo only about 17 per cent of private sector jobs are filled through the PES and private employment agencies, while the remaining job vacancies are filled through networking and family connections.<sup>50</sup>

The service delivery model of the Agency distinguishes between jobseekers and unemployed individuals. Jobseekers register through the Agency's web system and receive online services, while unemployed individuals are required to visit an Employment Office and register in person. This latter group has access to the full range of employment services and programmes, based on their individual risk profile (no risk, medium risk and high risk).<sup>51</sup> To each risk category of clients corresponds a list of services. Low risk individuals are directed to self-services, the job vacancy database, web job listing, while those in the medium risk category can access labour market information, institution-based training (VTCs), job search training and job brokering. High-risk clients are offered intensive employment counselling, career guidance, individual employment planning and access to active measures and motivational training. Both low- and high-intensity services (labour market information, job search assistance, job placement, individualized counselling, referral to active labour market measures) are offered one-to-one and there are no group counselling sessions that would lower the workload of counsellors. Job matching services envisage a two-step procedure: (i) the IT platform provides a list of

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<sup>48</sup> Of the employees that will be affected by the increase of the minimum wage to 264 euro, about 28 per cent are employed in the trade sector; 15 per cent in the processing industry; and 11 per cent in the food industry. About 49 per cent will be workers aged 15 to 34, equally distributed between men and women. GAP Institute: *Who is affected by the increase in the minimum wage in Kosovo?*, Pristina 2022.

<sup>49</sup> Market penetration is calculated as the number of unemployed registered with the Public Employment Service and the number of unemployed recorded by the Labour Force Survey.

<sup>50</sup> World Bank (2019): Kosovo Country Report: Findings from the skills towards employment and productivity survey

<sup>51</sup> This assignment is based on the results of past labour market trends, rather than through a probability model.

potential candidates for a vacancy based on four-digit occupation code; and (ii) the caseworker selects manually the clients to be referred to the employer.

The Agency faces several challenges in the management of its core business. First, the legal framework regulating employment services and labour market policies would warrant a consolidation exercise to avoid contradictory provisions and to include uncovered policy areas (e.g., activation strategies). Second, the functional organization of the Employment Agency is flat and overly centralized, which complicates service delivery. There are key functions of modern public employment services that are not currently covered by the Agency (analysis, planning, monitoring and evaluation; internal audit; public procurement), while the local level would benefit from a better allocation of tasks among counselling figures; the separation of administrative and counselling functions; and the introduction of a service line targeting employers. Third, the ratio of staff to individual registered with the Agency is over 1: 1,000, over ten times the benchmark used for determining quality service delivery.<sup>52</sup> The human resource structure of the Employment Agency is skewed towards management and back-office positions, while additional front staff would be needed to manage individualized service delivery.<sup>53</sup> The duties assigned to counsellors range from administrative tasks (registration, de-registration) to the counselling and guidance of registered individuals, job vacancy canvassing, referral to active measures and monitoring of individual transition pathways. There is no specialization of counsellors, and the Agency does not have an in-service training programme for staff development, relying mostly on the capacity building included in donor-funded projects.

### **3.3.2.2. Labour market integration programmes**

Until 2022, Kosovo invested in employment services and active labour market programmes 0.1 per cent of Gross Domestic Product, five times less than the average found in neighbouring countries. As of 2022, the investment increased to 0.4 per cent of GDP (20 million euro). In 2021, approximately 7.8 per cent of registered unemployed participated to an active labour market measure, mostly vocational training (45 per cent of total beneficiaries) and traineeship (43 per cent).

The portfolio of active labour market programmes offered by the Agency to registered unemployed comprises: (i) adult vocational training programmes (off and on-the-job); (ii) recruitment incentives; (iii) internship; (iv) self-employment schemes, and (v) public works. The largest programme offered by the Agency (two thirds of referrals) is the institution-based training offered by the network of regional Vocational Training Centres (VTCs), mostly demand-driven. Participants are mostly individuals 25 to 39 with secondary educational attainment. Participants are neither entitled to an allowance nor to the reimbursement of transport costs. The Agency also organizes on-the-job training with partner enterprises. The programme – lasting from two to six months – targets mostly young people and individuals with secondary vocational education. Recruitment subsidies are available to long-term unemployed, social assistance beneficiaries, returning migrants, and individuals who have completed a training programme and are still unemployed six months after completion. Subsidies are available to employers for six, nine and twelve months. The Agency also offers a self-employment programme that includes basic business skills training, the preparation of a business plan, a non-refundable grant, mentoring and coaching. The internship programme (lasting from two to six months) targets young graduates and it is hosted by both private and public institutions. All programmes are

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<sup>52</sup> The staff to client ratio is calculated over the total number of persons who are registered with the Employment Agency, since also “registered jobseekers” receive employment services and may access institutional-based training.

<sup>53</sup> In 2019, only 43 per cent of total staff was assigned to serving clients, while the remaining staff was responsible for back-office duties.

implemented with the assistance, and sometimes with the financial resources of international technical cooperation projects.

The appraisals run on the effectiveness of the measures implemented by the Agency revealed return rates (employment of participants at follow up) that are well below the average recorded in neighbouring countries. These return rates range from 50 per cent for the recruitment subsidy to 21.2 per cent for the VTC institution-based training and 10 per cent for public works.

### 3.3.3. Passive labour market policies

The social protection system in Kosovo comprises: (i) contributory pension system complemented by a general budget-funded pension system providing basic/universal old age pensions, early retirement pensions, family pensions, work disability pensions, and special pensions for certain groups; (ii) pensions for war veterans and other war-related categories; (iii) non-contributory disability pensions for adults with permanent disability and compensation schemes for specific types of disability; and (iv) last resort social assistance. There is no unemployment benefit in place in Kosovo. The only financial support available is the last resort social assistance scheme designed to support poor households. Government spending on social protection increased from 4.4 per cent of GDP in 2008 to 7 percent in 2019. Most expenditures (92 per cent) go to pensions (old age, war veterans, disability) and only 7 per cent to the last resort social assistance system.<sup>54</sup>

The Social Assistance Scheme (SAS) is a flat cash transfer scheme aimed at poverty reduction. However, targeting remains a challenge since only 50.6 per cent of the poor are covered by social transfers.<sup>55</sup> There are two category of beneficiaries: in Category I, all household members must be either incapable of working or not of working age; Category II covers families with one member able to work, at least one child under five years old or those who are permanent guardians of an orphan under 15 years old. The family member capable of working must register with the Employment Agency as unemployed. The eligibility criteria exclude poor families with school-age children. The no-working-adult criterion creates an adverse effect since many SAS beneficiaries cannot afford to not work (due to the low level of the benefit) and do so informally.<sup>56</sup>

As a result of the exclusionary nature of the eligibility criteria, many beneficiaries move from Category II to Category I to avoid the more stringent eligibility requirements. Category I beneficiaries receive benefits for 12 months, whereas Category II beneficiaries only receive benefits for 6 months. After expiry, the beneficiary status is subject to renewal (re-validation). There is no limit on the number of applications, and the benefit can be renewed indefinitely if the household keeps fulfilling the eligibility criteria. There are no explicit legal regulations for integrated social service provision or for complementing the SAS cash assistance with other care services. As a result, the links between SAS and other social care services are weak.

Category II SAS recipients registered with the Employment Agency are rarely treated with activation measures, and even more rarely sanctioned for refusing to take part in activation programmes. This situation is due to: (i) the design criteria of the benefit, whereas any form of additional income (for instance a traineeship allowance, or remuneration part of a public work programme) involves the loss of the benefit; (ii) limited financial and human resources available to the Employment

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<sup>54</sup> Spending on the social assistance decreased from 0.7 percent to 0.5 percent of GDP between 2009 and 2019; while the number of social assistance beneficiaries declined from over 40,000 to about 25,600 households between 2005 and 2020.

<sup>55</sup> In this policy area the draft Kosovo Development Strategy 2030 envisages a coverage of 80 per cent by 2026.

<sup>56</sup> World Bank: *Kosovo Social Assistance Scheme Study. Assessment and Reform Options* (World Bank, Washington D.C. 2019)



Agency to provide longer-term, intensive support to this group, and (iii) lack of activation strategies that would help social assistance beneficiary take up formal jobs.

The reform and the legislative changes introduced since 2012 have improved the overall scheme, but they neither tackled the disincentives to take up formal work or the lack of an effective activation strategies in the Employment Agency. The data of the Employment Agency shows that most SAS beneficiaries registered as unemployed are men (95 per cent), in the age group 30 to 49 (80 per cent, while 20 per cent are in the cohort 18-29 years old), with low educational attainment (70 per cent have at most primary education), no work experience (97 per cent) and with unemployment spells exceeding four years (over 80 per cent).<sup>57</sup>

### **3.3.4. Social dialogue**

The development and promotion of social dialogue is entrusted to the tripartite Social and Economic Council (SEC) – first established in 2016. It is composed of 15 members (with the government, employers' and workers' organizations each appointing five members). It provides advice and submits proposals in the areas of labour, employment and social protection. Law No. 04/L-008 on Social Economic Council (2011) determines the organization, scope, forms of work and overall functioning of the Council. The Law on the establishment of the SEC was expected to be amended in 2021 (as part of the government legislative programme), especially as regards representation criteria for employers' and workers' organizations, greater financial independence for ESC and empowerment of the Secretariat.

The newly created Sectorial Workforce Councils targeting the technology, information and communication (ICT), agribusiness and wood processing sectors, complement and form part of the social dialogue by bringing together private businesses, public institutions, AFP providers and other relevant stakeholders to identify the requirements, articulate the needs, as well as to offer solutions for the development of the workforce.

Public consultations law and policy making is mandatory (Regulation No.05/2016 on Minimum Standards for the Public Consultation Process). The Office for Good Governance/Office of the Prime Minister is obliged to create and maintain an online platform, which provides an opportunity for all relevant parties to be invited and included in the decision-making process.

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<sup>57</sup> World Bank, *Kosovo Social Assistance Scheme Study. Assessment and Reform Options, 2019, op.cit.*

## CHAPTER 4—PRIORITY POLICIES FOR EMPLOYMENT (2022-2026)

### 4.1. Problem Identification

There has been progress in output growth and poverty reduction in Kosovo in the last decade. These positive developments, however, have been grounded on a growth model based on consumption - mostly fuelled by remittances – and the expansion of economic sectors characterized by low productivity. Output growth – averaging 3.9 per cent annually in the period 2009-2019 – has been insufficient to increase participation and employment rates - and especially among women and young people - and reduce outbound migration. Labour force participation rates - at just 39.3 per cent of the population 15-64 in 2021 – and employment-to-population ratios (31.1 per cent) are among the lowest in South and Eastern Europe. Young people, women and low-skilled workers are the groups most affected by low participation and employment rates.

The analysis of the labour market situation points to the following persisting challenges:

- Kosovo will enjoy a demographic advantage in the next decades, as the percentage of the population in the working age is projected to decrease only from 2051 onwards. However, there are two policy areas that would need to be tackled in the next years to counteract demographic changes. First, the progressive decline of the school age population will require a restructuring of the education system (especially in terms of financing, infrastructure and teachers). Second, it is of paramount importance to tackle inactivity, and especially among women with care and family responsibilities and among individuals who are discouraged workers. Additional research and more reliable statistical information on the transition across different labour market statuses (and especially employment/unemployment and unemployment/inactivity) will provide the background for the design and implementation of activation strategies and will inform the design of additional social protection mechanisms.
- Education pays a premium in the labour market and has a positive impact on participation, employment and unemployment for adults, but it does not protect against skills mismatches and does not shield young people from unemployment. Higher education achievements for the population 15-64 are positively related to labour market outcomes, as individuals with primary education are more likely to be unemployed than individuals with secondary and tertiary education. The fact that the unemployment rate of tertiary educated youth is similar to that of young people with secondary education only reflects a misalignment of higher educational outcomes with the requirements of an economic system characterized by small enterprises unable to absorb increasing cohorts of young high-skilled individuals. Labour demand is shifting towards high and medium-skilled workers, but the education and training system remains unable to provide individuals with the skills required by employers, leading to high skills mismatches. The quality of education is a persistent concern: PISA results in the period 2015-2018 have not improved, despite the level of government investment in education. Training among adults remains limited, with the share of adults (18+) attending adult learning six times lower than the EU average (2.7 and 15.4 per cent, respectively). In the last few years, education reforms have focused on the pre-university education system, but the outcomes of these reforms – and especially among young people – have still to materialize. In addition, the low completion rates at university level remains unaddressed. Despite the lack of institutional data regarding the representation of minority groups in education, it has been observed that minorities are not proportionally represented.

- The late structural transformation experienced by Kosovo, the limited output performance of the last few years, coupled with a low responsiveness of employment to economic growth has slowed employment returns. Most firms are micro-enterprises (less than 10 workers): this affects their capacity to innovate and absorb new technology. The unfair competition exerted by firms in the informal economy, the enforcement of the rule of law, insolvency proceedings and the capacity to innovate remain the most problematic areas still to be addressed for private sector development. Employment in the informal economy remains high with higher incidence among young people, low skilled workers and within certain sectors of the economy, such as agriculture, construction and retail trade. Government policies to improve the business environment and support SMEs appear to have been effective (with improvements in international ranking), but much still needs to be done to establish a level-playing field and ensure a favourable business environment.
- Informal employment remains high and current policies (e.g., low tax wedge) do not seem to have a measurable impact on its incidence. Available figures show that informality affects mostly low-skilled individuals and workers in agriculture, construction and retail services. Working informally put workers at higher risk of job loss during periods of economic downturns. Recent research provides useful policy pointers to address informal employment and – more specifically - the practice of envelop wages. Strategies to address informality should be multi-pronged and focused on improving the regulatory and business environment; enhancing the effectiveness of the deterrence system; and providing workers and firms with effective incentives to shift to the formal economy. The Labour Inspectorate – as the main agency responsible to tackle informal employment and ensure occupational health and safety – face several challenges in executing its mandate: (i) there is no register of employees, making it difficult for both the inspectors and the Tax Office to pursue undeclared work; and (ii) the Labour Inspectorate has a low endowment of human resources, technical means and capacity to execute its mandate.
- The Government investment in employment services and active labour market programmes has improved in 2022 (0.4 per cent of GDP against the 0.5 per cent of GDP invested by South-East Europe). The functions of the Kosovo Employment Agency are constrained by several challenges relating to its functional organization; human resources (quantity of staff and profile); processes (registration, counselling) and service delivery model (no statistical profiling system, no separate career guidance services, limited monitoring and evaluation). The implementation of active labour market measures has been constrained till 2022 by lack of funding, but also by the low absorption capacity of the Agency (due to the lack of human and infrastructural resources necessary for the roll-out of active measures), and – not least – the expansion of passive measures during the Covid-19 crisis, which de facto nearly doubled the number of clients of the employment service.
- The workers' social protection framework is incomplete since there is no insurance against accidents at work and against unemployment. The lack of an unemployment benefit system may favour informal employment on the one hand and promote the shifting into inactivity of young and adult workers, on the other. The last resort Social Assistance programme provides disincentives for beneficiaries to participate to activation measures, and it is, therefore, an ineffective tool to promote the return to work. The effectiveness of the social assistance system for poverty reduction could be enhanced by increasing the resource available to it (to increase coverage), while reducing the resources provided to other, less effective measures; and by improving targeting mechanism (as only 50 per cent of the poor are covered by social outlays). Lack of statistical data, in the specific case of Labor market data for each of the disadvantaged

groups such as, for example, given in relation to participation in the Labor market for persons with disabilities, members of communities, foreigners, etc. makes it difficult to design comprehensive policies. In these circumstances, more efforts will be made to improve the quality of active employment policies.

### Box 1: Main employment determinants

Macroeconomic framework	<ul style="list-style-type: none"><li>▪ Low employment intensity of growth, requiring GDP growth rates in the double digits to accelerate convergence of GDP per capita to regional levels, reduce inactivity and expand employment; capital spending too low to boost employment and especially among young people and with low realization rates; low effectiveness of social transfers in reducing poverty compared to the EU.</li><li>▪ The Economic Recovery Package, focused on employment promotion, economic recovery, support to households and investment promotion could in part mitigate the negative effects of the energy crisis, provided that the delivery of the package is timely and that fiscal policies do not enter a consolidation stance too soon.</li></ul>
Education and training	<ul style="list-style-type: none"><li>▪ Insufficient quality of education outcomes; lack of relevance of education outcomes to labour market needs; still limited linkages with industry and the world of work.</li><li>▪ Low level (quantity and quality) of adult training provision; few lifelong learning opportunities for those who missed out; qualification and certification system as well as recognition of prior learning still lagging.</li><li>▪ Low returns of public investment in education, with education spending skewed towards wages and failing to achieve increases in the quality of education. University completion rates still unaddressed; low labour market premium of tertiary education.</li><li>▪ The shift of demand towards high and middle-skilled workers has not been accompanied by the pace of education reforms, with skills mismatches still prevalent.</li></ul>
Enterprise development	<ul style="list-style-type: none"><li>▪ Endogenous and exogenous productivity constraints to enterprise development; still low innovation capacity of firms, due to a structure skewed towards micro and small enterprises; difficulties in entering global value chains; insolvency proceedings and unfair competition exerted by informal firms still unaddressed.</li><li>▪ Scant investment in human resource development; still limited access to quality business development services, especially for small enterprises; poor institutional coordination and policy coherence.</li><li>▪ Informal economy still large and undermining Government revenues, which could be invested in infrastructure, skills and innovation.</li></ul>
Labour market	<ul style="list-style-type: none"><li>▪ Low participation of population 15-64 and especially women and young people, slow employment growth, excessively high inactivity levels due to family responsibilities and discouragement, especially regarding the minorities.</li><li>▪ Lack of activation strategies to address low labour force participation rates, especially among young people, women and communities.</li><li>▪ Poor job quality, with most workers engaged in sectors with lower productivity and wages below the national average; higher incidence of informality among young people, the low-skilled and those engaged in certain economic sectors (agriculture, construction, trade).</li><li>▪ Uncomplete social protection framework (no insurance against accidents at work and against unemployment). Limited effectiveness of the last resort social assistance programme, which provides disincentives to participate to activation strategies. Social protection system skewed towards pensions. Labour Inspectorate role affected by human, technical and financial constraints. Ineffective implementation of the legal framework on occupational health and safety.</li><li>▪ Inadequate investment in the capacity of the employment services to manage its core business. The Kosovo Employment Agency lacks human resources, processes, infrastructures and a well-developed service delivery model. Limited capacity to absorb additional funds for the implementation of the active measures envisaged in the Economic Reform Programme and of the Youth Guarantee.</li></ul>

## 4.2. Policy priorities

The Kosovo Employment Strategy is a cross-sectorial strategy, as it combines the impact of labour supply and labour demand policy actions implemented by different government Ministries and agencies under the aegis of the National Development Strategy 2030. The policy priorities established by this latter strategy, together with the policies set out in the *Economic Reform Programme 2022-2024* and the Youth Guarantee (YG) implementation plan, provide the guiding scenario for the identification of employment policy options for the period 2023-2027.

In the period 2023-2027, the economy is projected to grow at an average rate of 3.5-3.9 per cent on an annual basis.<sup>58</sup> Economic forecasts indicate an output growth of 3.5 per cent in 2023, driven by lower inflation (from 11 to 5 per cent) combined with a fiscal impulse of roughly 2 percentage points of GDP, which will offset lower workers' remittances inflows. Key downside risks relate to higher energy prices, which in turn will affect economic activity, revenues and inflation and may result in additional financial needs. The fiscal policy will return to the two per cent fiscal rule deficit ceiling as of 2023, and this will provide some fiscal space to cushion shocks and maintain the debt below the legal threshold of 40 per cent of GDP.

The policy priorities to improve overall employment touch upon education and training, private sector development, labour market policies and social protection. Their interaction with macroeconomic, fiscal and investment policies is expected to improve both the quantity and quality of employment.

The paragraphs that follows: (i) explore the policy actions already included in the *National Development Strategy 2030* (NDS 2030) in the economic, fiscal, education and training and enterprise development policy areas, to be developed and implemented under the mandate of other government Ministries and agencies; and (ii) articulates the specific labour market and social protection policies that will be pursued by the Ministry of Finance, Labour and Transfers (MFLT) in the programming period 2024-2028, including those set out in the Youth Guarantee.

Policy coherence and coordination between the Ministry of Finance, Labour and Transfers (MFLT) and other Ministries with mandate on macroeconomic, education and enterprise development policies will maximize the impact of the planned policy actions on employment and social inclusion. Such impact will be regularly measured by the MFLT through the indicators indicated in the following paragraphs. The MFLT will also constantly monitor migration figures and the effects future policy decisions will have on the propensity to migrate of the population, which in turn will affect key labour market indicators.

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58 See IMF Country report N. 23/54, IMF, Washington D.C., January 2023.

### Box 2: Visa liberalization and emigration patterns: Lessons from Poland and Croatia

Since 2004, when Poland entered the European Union, there has been a dramatic increase in the scale of migration. The first post-accession years saw a spectacular increase in the scale and dynamics of the international mobility of Poles, comparable only with the migration propensity of Romanians. The stock of Polish citizens living abroad temporarily increased from around 1 million in 2004 to over 2.3 million (6.6 per cent of the total population) in 2007 (peak year). Contrary to previous flows, new migrants from Poland tend to be male, strongly work-oriented, young, relatively well-educated and temporary. Migration after entry in the EU, though different in structural terms, follows a similar logic to previous decades. It is driven by differences in economic conditions and employment opportunities, networks and social ties, as well as institutional changes (e.g., the introduction or relaxation of transitional arrangements). There is no doubt that emigration after Poland's EU accession was characterised by selectivity and overrepresentation of young people and university graduates compared with the general population. However, migrating Poles rarely found positions characterised by seniority or high pay. On the contrary, the common pattern of employment abroad involves serious over-education and skill mismatches. This situation is only partially attributable to (low) quality of education, a lack of transferability of skills (for example, due to low language skills) or migrant networks (employment in certain migrant niches). Rather, empirical research points to the importance of the structure of demand for foreign labour, which is strongly concentrated at the low-skilled end.

International migration from Croatia has a long tradition: it initiated in the 1960s and still has a lasting effect on subsequent migration flows, particularly as regard destination countries. The main reasons for emigration are the poor economic situation and a better standard of living and higher career opportunities abroad. The support of networks, e.g., friends, family and acquaintances living already in the country of destination, play a critical role for Croatian citizens wanting to work abroad and are important sources of information about job opportunities in other countries. Croatia joined the EU in 2013, and transitional arrangements regarding labour mobility applied till 2015 (period in which EU member States could apply restrictions to the entry of Croatian workers). Available data show increases in the number of individuals migrating from Croatia: 42 per cent higher in 2015 compared to 2014, 22 per cent in 2016 and 30 per cent in 2017. Thereafter the outflows started to stabilize (at around 35-40,000 individuals per year).

In the Western Balkan economies, Albania has the highest emigration rate (28 per cent), followed by Kosovo (22 per cent) and Bosnia and Herzegovina (20 per cent). This points to the fact that even prior to visa liberalization the propensity to migrate from Kosovo is high and will remain so until pro-capita income levels converge to those of the EU 27. A 2019 research on the likely effect of visa liberalization on migration patterns in Kosovo confirms that the key determinant for emigration is the level of income (i.e., the main push factor is the wage differential between the Kosovo labour market and the wage levels offered in the EU27 countries). Another factor likely to influence migration patterns is the extensive network of Kosovo workers living abroad, which represent another strong pull factor, especially for destinations such as Germany, Switzerland and Austria. Conversely, if transitional arrangements during visa liberalization are applied by key destination countries, the likely effect will not be on the number of people migrating from Kosovo, but rather the choice of destination country. Research on visa regimes, in fact, shows that transitional agreements are important determinant of final destination choices.

*Sources:* A. Schellinger (Ed.) *Brain Drain – Brain Gain: European labour markets in times of crisis*, Friedrich-Ebert-Stiftung (FES) 2017; OECD: *Labour migration in the Western Balkans: Mapping patterns, addressing challenges and reaping benefits*, OECD, Paris, 2022; H. Vidovic and I. Mara, *Free movement of workers, transitional arrangements and potential mobility from Croatia*, The Vienna Institute for International Economic Studies, research Report n. 402, 2015; U. Zeka, *The impact of visa liberalization on Kosovo's migration patterns*, Rochester Institute of Technology, 2019; S. Bertoli and J.s Fernández-Huertas Moraga: "The effect of visa policies on international migration flows", in ifo DICE Report 1 / 2018 March Volume 16.

## 1. Economic, fiscal and sectoral policies

The National Development Strategy policy actions relating to digital transformation, the shifting of industry towards value added products, export-oriented investment as well as infrastructure development (transport, telecommunications and clean energy) are expected to produce positive medium-term effects on employment.<sup>59</sup> The actions planned for improving the business environment, (i.e., digital transformation, promotion of small and medium size enterprises, further investment in agricultural productivity) will realize short term benefits for the labour market. For the longer term, it is of particular importance the new Industrial Strategy 2030, focused on five objectives: (i) expansion of industrial production and of the industrial base; (ii) reduction of the industrial trade deficit (more export of industrial goods and substitution of imported goods with national production); (iii) creating more and better jobs in the manufacturing sector); (iv) supporting the manufacturing sector to switch to “green” production; and (v) ensuring that Kosovo benefits from the maximization of gross value added.

In order to achieve the objective to create more and better jobs, it will be necessary to address widespread skills mismatches and labour shortages, while at the same time improving the regulatory framework and investing in technological development. In this way, the sector will generate jobs requiring higher skills, which in turn will command higher wages and working conditions. A special focus will be placed on improving the participation of young people and women in the industrial sector.<sup>60</sup>

Progress in the above-mentioned policy areas is expected to have a positive impact on: (i) the employment levels of the population 15-64 (increases in the number of people employed on an annual basis); (ii) the performance of Kosovo in global business rankings (infrastructure, ICT adoption, innovation capability, contract enforcement and business dynamism); and (iii) the number of persons employed in SMEs (SBA Kosovo). The trends in these indicators will be regularly measured by the Ministry of Finance, Labour and Transfers within the monitoring framework developed for the Employment Strategy (see chapter 4.5), whereas for the Industrial Strategy, the Ministry of Industry, Entrepreneurship and Trade will be responsible to measure trends in two main indicators: (i) percentage of the labour force engaged in production (currently at 12 per cent), and (ii) total labour income in the industry sector in gross value added (currently at 35 per cent).

## 2. Education and training

The education and training policies implemented in the last decade were instrumental to ensure access to basic education for all and increase educational attainment rates. The general increase in the quantity of education, however, was not accompanied by an increase in its quality and relevance for the labour market. This is evidenced by the mismatch between workers’ skills and those demanded by enterprises (approximately 42 per cent of all workers have skills that do not match the job they perform) and the high unemployment rate of young people with a university degree (47.5 per cent in 2020).

The reforms of the **education and training system** envisaged by the Education Strategy 2023-2027 – and involving all levels of the education system – are expected to have an impact on both the quantity and the quality of education and this in turn will improve the employment outcomes of the population

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<sup>59</sup> The impact of infrastructure development – and especially investment in public housing, road construction/maintenance, and urban infrastructure – on job creation is well documented, with one additional job generated every USD20-30,000 invested. See World Bank: *Jobs and Distributive Effects of Infrastructure Investment. Argentina* (World Bank, 2021). For other examples of employment multipliers of infrastructure projects see International Finance Corporation (IFC), *Jobs study: Assessing private sector contributions to job creation and poverty reduction*, Washington D.C. 2013.

<sup>60</sup> Ministry of Industry, Entrepreneurship and Trade: Strategy for industrial development and business support, 2030. Draft.



(especially for the younger cohorts). More specifically, the policy actions that will have the highest impact on employment prospects in the medium-term related to: (i) the improvement of pre-university education (quality assurance mechanisms, quality teaching materials and aids, development of teachers' competence); (ii) the alignment of the vocational education curriculum to labour market requirements and technological development (curricula development, extended opportunities for practical learning, career services, improving the supply of adult training offers) and (iii) the improvement of higher education quality (better linkages with the labour market, partnership with enterprises).

Another policy driver that will have an impact – albeit indirect – in the labour market is the investment planned in the field of early childhood education. This objective aims at increasing the share of children (0-5 years old) enrolled in early childhood education facilities from 19.6 per cent in 2021 to 32 per cent in 2026. The putting at disposition of additional, affordable child education facilities will improve the entry of women with family and care responsibilities in the labour market, thus contributing to reduce the gender participation gap in the Kosovo labour market.<sup>61</sup>

The expected effect of the above-mentioned education and training reforms on employment prospects relate to: (i) the decline of the share of workers who are mismatched (under- and over-qualification); (ii) the increases in PISA scores (reading, math and science); and (iii) the employment outcomes by level of educational attainment for young people (15-24) and the working age population (15-64). These indicators will be measured regularly by the MFLT as part of the monitoring system of the Employment Strategy.

### 3. Enterprise development

There are several policy priorities in the NDS 2030 aimed at improving - directly or indirectly - the investment climate. The implementation of policies geared to strengthening the rule of law, fighting corruption, improving public administration and ensure an effective and efficient judicial system will have a positive impact on economic growth and (indirectly and in the longer-term) on enterprise formation and expansion.<sup>62</sup> Policy priorities focused on the improvement of the investment climate (digitalization, innovation, energy efficiency), conversely will have measurable effects in the short- to medium-term on enterprise development and on job creation. Additional employment gains are likely to occur in the longer-term, when supply side gains (competitiveness, innovation and productivity) will take hold.

Policies for enterprise development and the rule of law are expected to affect: (i) the levels of employment of the population 15-64 (increases in the number of people employed on an annual basis); (ii) the performance of Kosovo in global business ranking (infrastructure, ICT adoption, innovation capability, contract enforcement and business dynamism); (iii) the value added by SMEs (SBA Kosovo); (iv) the number of persons employed in SMEs (SBA Kosovo); and (v) the employment rate of groups most at risk in the labour market (young people, women, long-term unemployed, low-skilled individuals). These indicators will be measured at regular intervals by the Ministry of Finance, Labour and Transfers within the monitoring framework developed for the Employment Strategy 2026.

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<sup>61</sup> It is currently impossible to project the likely impact of this policy action on women's labour force participation.

<sup>62</sup> The positive relation between rule of law and GDP growth has been empirically tested in R.J. Barro: "Rule of law, democracy, and economic performance", in *2013 Index of Economic Freedom*, while examples of the positive impact of the rule of law at enterprise level can be found in L. Gomez: *How does rule of law affect firm performance? – Comparing the effect of rule of law in companies located in countries with different level of development*, 2016.

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Whereas the above-mentioned policy priorities are expected to increase the qualification of the workforce, address skills mismatches, improve the investment climate and support the job creation capacity of enterprises, the availability of effective labour market policies and institutions are expected to improve the functioning of the labour market, while efficient social protection mechanisms will ensure that no one is left behind. The policies under the direct responsibility of the Ministry of Finance, Labour and Transfers, therefore, will focus on: (i) developing the competences of the workforce; (ii) increasing the participation in the labour market of groups at risk of exclusion; and (iii) improving working conditions and decent work opportunities. These objectives will be accompanied by the improvement of institutional capacity to deliver on the objectives of the labour, employment and social protection reforms (Kosovo Employment Agency, Labour Inspectorate, social service network) and fostering social dialogue.

#### **4.3. Specific employment objectives and targets**

The overarching goal of the *Kosovo Employment Strategy 2024-2028* (KES) is to ensure decent and inclusive employment for all. The Government is pursuing the policy actions planned in the *Economic Reform Programme 2022-2024*, which focuses on promoting economic recovery after the Covid-19 pandemic, ensuring fiscal stability, increasing capital investment as an engine of growth, supporting competitiveness and raising living standards. In order to ensure that the outcomes of the above-mentioned policies reach out to all segments of the population of Kosovo, the following employment and social protection policy objectives will be pursued.

##### **1. *Develop skills and competences of the workforce and reduce skills mismatches.***

This policy objective has two targets, namely a decrease of 4 percentage points of the vertical skills mismatch for the population aged 15-64 (from 42 per cent in 2020 to 38 per cent in 2026); and an increase to 10 per cent of the share of adults (25-64) who participate to adult training programmes.

Equity concerns demands that public policies be geared towards those population groups who are most at risk of social exclusion. To this end, the second objective of the Strategy is to:

##### **2. *Increasing participation in the Labor market of other groups at risk of exclusion (women, young people, people with disabilities, ethnic communities.***

The achievement of this objective will be measured through a decline of the gender gap in activity and employment (to 5 percentage points and 15 percentage points, respectively); a decline of NEET rates to 20 per cent (from 32.1 per cent in 2021); and a reduction of long-term unemployment (from 70.8 per cent in 2021 to 60 per cent in 2026).

Improving the quantity of employment for youth and adult alike will be accompanied by policy actions to ensure that workers enjoy safe and decent working conditions. The third objective of the KES, therefore, will be to:

##### **3. *Improve working conditions and decent work opportunities.***

The achievement of this objective will be measured through: (i) a decline of the share of workers who are poor (from 15.2 per cent to 10 per cent); (ii) a decline of the share of workers with temporary contracts (from 57.5 per cent to 45 per cent), (iii) a decline of workers who became inactive after losing their job; and (iv) an improvement of health and safety in the workplace (with the number of occupational health and safety violations declining by 5 per cent year on).

#### 4.4. Key policy outcomes and indicators

The *Kosovo Employment Strategy* focuses on both short-term policy outcomes – aimed at protecting individuals from poverty and social exclusion – as well as medium-term policy initiatives aimed at creating more and better jobs and enhance the capacity of public institutions to minimize labour market distortions.

##### **4.4.1. Expanding work-based learning improves learning outcomes in vocational training and education programs, provides job seekers trained in Vocational Training Centers the skills needed to enter the labor market, and reduces skills mismatches.**

The achievement of this employment objective builds on the policy actions already planned in the Education Strategy 2023-2027 (expansion of early childhood education, improvement of pre-university education, alignment of vocational education and training to labour market requirements and enhancement of the quality of university education) as well as those related to the early intervention phases of the Youth Guarantee (quality assurance in VET, expansion of adult training, enhancement of the Education Management of Information system). These actions will be combined with: (i) the development of the adult training system; and (ii) the upgrading of work-based learning.

##### ***Outcome 1.1. A better offer of adult learning opportunities increases the competences of the workforce.***

By 2027, the participation rate of adults (25-64) in training on an annual basis will reach 10 per cent.

By 2027, the share of workers vertically mismatched will have declined to 38 per cent.

**Baseline:** In 2019 (latest available year), the participation of adults (25-64) in learning was 2.7 per cent, six times lower than the rate recorded at EU level. In 2020, approximately 42.2 per cent of all workers were vertically mismatched.

**Policy guidance:** In the context of economic recovery, increasing adult participation in training is paramount to improve employability, boost innovation and close the skills gap. To this end, the offer of adult training will be expanded – by delivering more adult training courses and by providing enterprises with tax and other incentives to train their workforce. A key precondition for the attainment of this policy outcomes relates to the implementation of the policy reforms and actions envisaged in the early intervention phase of the Youth Guarantee implementation plan, namely: (i) the strengthening of career and entrepreneurship education and guidance at the pre-university level; (ii) revision and consolidation of the VET legal framework, including changes to the VET funding formula; (iii) development of occupational standards and alignment of VET programmes; (iv) extension of work-based learning opportunities in partnership with firms; (v) expansion of recognition of prior learning (RPL) and of

continued education and training offers for adult learners; and (vi) upgrading of the Education management of information system to track the educational pathways of pupils, students and learners, record accredited service providers and programmes, and enable data exchange with other administrative databases.

***Outcome 1.2. The expansion of work-based learning improves learning outcomes, provides students with the skills required to enter the labour market, and reduces skills mismatches.***

By 2027, the share of young people (15-29) who are neither in employment nor in education or training is 20 per cent.

The vertical skills mismatch in Kosovo for individuals aged 15 to 64 decreases to 38 per cent by 2027.

**Baseline:** In 2021, the share of young people (15-24) neither in employment nor in education and training (NEETs) was 32.1 per cent of the total youth population (over 105 thousand young people), while for the age group 15-29 the NEET rate was 40.4 per cent (37.9 per cent for men and 43 per cent for women). In 2020, vertical skills mismatches amounted to 42.2 per cent of total employment, with over-qualification (22.2 per cent) mostly accounted for by upper-secondary graduates working in elementary occupations, and tertiary graduates working as service workers. X

**Policy guidance:** The goal of a systemic education and training reform – touching upon all levels of the education and training system – is to increase learning outcomes and ensure that pupils and students are equipped with the competences required to progress to upper education levels or to the labour market. Better learning outcomes and a higher responsiveness of the education system to individual, labour market, and society requirements will have a measurable effect on completion rates, the transition from school to work and, therefore, on the share of young people who are NEETs.

The expansion of work-based learning, combined with career education services (see also Outcome 1.1), is expected to have a measurable effect on the alignment of individuals' competences to labour market requirements, and therefore, contribute to a progressive decline of the vertical skills mismatch for the working age population.

**4.4.2. Increasing participation in the Labor market of other groups at risk of exclusion (women, young people, people with disabilities, ethnic communities.**

The achievement of this objective will depend on the combination of several policy options. First, the policy actions included in the Education Strategy 2023-2027 aimed at: (i) increasing access to and participation into early childhood education; and (ii) addressing gender-related choices in the education and training system are expected to promote women's participation to the labour market and increase their employability. Second, the implementation of the policy actions planned in the Youth Guarantee Implementation Plan (early intervention, outreach, preparation services and quality offers of continued education and training, employment and traineeship) will improve the prospect of young people aged 15 to 29. Third, in order to promote the participation in the Labor market of women, young people, persons with disabilities, ethnic communities as foreseen in the Employment Strategy, the collection of accurate statistical data is required. Finally, the focus of Labor market policies will be the creation of an effective system of employment and social inclusion services, as well as the design, monitoring and evaluation of policy initiatives focused on the inclusion of the most vulnerable population groups.

Against this backdrop, the following policy outcomes are considered key to contribute to the achievement of the second employment objective of the KES: (i) the Kosovo Employment Agency is provided with the human, financial and technological means to expand service and programme delivery, implement effective activation strategies and contribute to the achievement of employment and social inclusion policy objectives; (ii) the employment services delivered by the Kosovo Employment Agency (employment services and job matching); are enhanced; and (iii) the implementation of dedicated employment service and programme lines contribute to the social inclusion of groups at risk in the labour market (youth, women, long-term unemployed, social assistance beneficiaries, low-skilled individuals).

***Outcome 2.1. The Kosovo Employment Agency is provided with the human, financial and technological means to expand service and programme delivery, implement effective activation strategies and contribute to the achievement of employment policy objectives.***

By 2027 the national investment in active labour market policies (ALMPs) will be 0.5 per cent of GDP.

By 2027 the Agency staff-to-unemployed ratio will have halved.

By 2027 the percentage of registered unemployed participating to ALMPs will have increased to 15 per cent.

By end 2026, the Youth Guarantee will provide an offer within four months to at least 30 per cent of total youth registering on an annual basis.

By 2027 the share of long-term unemployment over total unemployment will be around 60 per cent.

**Baseline:** In 2022, the investment in ALMPs reached 0.4 per cent of GDP (20 million euro). In 2021 the ratio of staff to individual registered with the Agency was over 1: 1,000, over ten times the benchmark used for determining quality service delivery. In the same year, approximately 7.8 per cent of registered unemployed participated to an active labour market measures. Long-term unemployment (over 12 months) in 2021 accounted for 70.8 per cent of total unemployment (population 15-64).

**Policy guidance:** The Employment Agency requirements for the effective implementation of its core mandate (labour market intermediation and administration of ALMPs to ease the transition to employment) has long been neglected. The policy initiatives required to strengthen the capacity of the Agency to deliver on employment policy objectives are already highlighted in the Youth Guarantee implementation plan, namely recruitment of additional human resources, implementation of an in-service training programme to professionalize the delivery of employment services; upgrading of the ICT system (hardware and software); introduction of statistical profiling approaches; deployment of online tools to ease registration and basic service delivery; the establishment of a new service line for employers; the introduction of a more efficient workflow in local employment offices; the re-shaping of basic employment services and the introduction of a robust monitoring and evaluation system. The strengthening of Agency's capacity will be accompanied by increased funding for ALMPs - which is of the essence to address the needs of long-term unemployed, low-skilled individuals, disengaged young people, women re-entering the labour market and other groups at risk of poverty and social exclusion.

**Outcome 2.2.** *The delivery of employment services by the Kosovo Employment Agency is enhanced to improve skills and job matching.*

By 2027, the vertical skills mismatch in Kosovo for individuals aged 15 to 64 decreases to 38 per cent

By 2027, the job placement services provided by the Kosovo Employment Agency increases by 30 per cent

By 2027, the share of unemployed attending adult training programmes will have increased by 20 per cent, and employment rate at follow-up will be at least 45 per cent.

**Baseline:** In 2020, vertical skills mismatch affected over 42 per cent of the working age population (15-64). Job placement services in 2021 covered approximately 3,000 unemployed persons. In 2021, over 3,100 unemployed attended different forms of adult training offered by the Kosovo Employment Agency, but the return rates for the training offered by the Vocational Training Centres (VTC) was just 21 per cent.

**Policy guidance:** International evidence suggests that employment services (generally) and job placement (specifically) are the most effective tools to smooth the transition to work of unemployed individuals. In addition, the delivery of quality employment services improves the matching of individuals to jobs and increases retention rates. Against this backdrop, this policy outcome is focused on the implementation of the policy reforms required to build a strong delivery system as planned in the Youth Guarantee Implementation Plan, namely: (i) revise the organizational and functional structure of the Kosovo Employment Agency; (ii) revise the content and delivery modes of employment services (individualized assessment, individual employment planning, employment counselling and career guidance) and substantially expand job placement services; and (iii) establish an effective service line for employers to promote the acquisition of job vacancies. Finally, the offer of adult training of the Kosovo Employment Agency will be revised in the context of the reforms already planned under the Kosovo Youth Guarantee Implementation Plan (outsourcing, enterprise-based learning, development of labour market intelligence to inform training delivery).

**Outcome 3.5.** *The implementation of dedicated employment service and programme lines contribute to the social inclusion of groups at risk in the labour market (youth, women, long-term unemployed, welfare beneficiaries' low-skilled individuals, disabled persons and ethnic communities).*

By 2027 the gender gap in employment will be lower than 20 percentage points.

By 2027 the percentage of registered unemployed participating to ALMPs will have increased to 15 per cent.

In 2027, the Youth Guarantee will provide an offer within four months to at least 30 per cent of total youth registering on an annual basis.

By 2027 the share of long-term unemployment over total unemployment will be around 60 per cent.

**Baseline:** In 2021 the gender gap in employment was equal to 29 percentage points. In the same year, approximately 7.8 per cent of registered unemployed participated to an active labour market measures. Long-term unemployment (over 12 months) in 2021 accounted for 70.8 per cent of total unemployment (population 15-64).

**Policy guidance:** A adequately endowed Employment Agency will enable the implementation of dedicated employment service and programme lines targeted to population groups most at risk in the labour market. Guidance in this sense is provided by the European Union flagship programmes on young people (Youth Support Service or reinforced Youth Guarantee) and long-term unemployed (Council Recommendation on the integration of the long-term unemployed into the labour market, 2016). These two policy documents emphasize the importance of activation strategies, individualized delivery modes, case management and the availability of a wide spectrum of active labour market programmes to ease the transition to the labour market. The availability of a robust monitoring and evaluation system, in addition, provides the possibility of adjusting service and programme delivery to the needs of individuals and enterprises. These new service lines will pay particular attention to the returns of adult training programmes and job subsidies for supporting low-skilled individuals, the long-term unemployed, welfare beneficiaries and other individuals at risk of social exclusion back into the labour market. The Government will also appraise the feasibility to introduce in-work benefits - to address the disincentives to labour market participation posed by the social protection system – and research the rationale for the low impact of social assistance on the poverty risk of adult persons.

#### 4.4.3. Improve working conditions and decent work

The job quality frameworks developed at international and European level (ILO; UNECE; OECD; EMCO; Eurofound) concur in considering earnings, job security, hours of work, safety and health at work and lifelong learning opportunities as key elements to measure the quality of employment.<sup>63</sup> In Kosovo, all the key elements of job quality need improvement. In terms of earnings, the minimum wage represented in 2021 only 35 per cent of the average wage, de facto pushing workers earning at the minimum wage below the poverty threshold. Job security elements comprise the duration of the contract and the protection of workers during unemployment spells (unemployment benefit and/or allowance). In Kosovo nearly two-thirds of workers are employed temporarily and there is no protection against unemployment. Health and safety at work are core elements of the quality of the working environment and have several implications for the wellbeing of workers and their families (human and financial costs of work-related injury or disease), for enterprises (e.g., interrupted production, damaged to equipment) and for society at large (e.g., loss of output, costs of treatment and rehabilitation). In this regard, the MFLT will initiate policy actions to introduce an insurance system against accidents and illness at work to ensure that workers are not left alone after an accidents or due an illnesses caused by work activities.

Against this backdrop, this objective of the Kosovo Employment Strategy builds on four policy outcomes, namely: (i) the minimum wage level is revised through tripartite consultations and provides workers with decent earnings; (ii) the employment protection legislation is reviewed through tripartite negotiations with the aim to establish a system to protect workers against the loss of earnings during

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<sup>63</sup> See ILO: *Assessing the quality dimensions of youth employment offers*, ILO, Geneva, 2017.

unemployment; (iii) the occupational health and safety system is reformed to ensure that workers' are protected against work-related accidents and illnesses; and (iv) the capacity of the Labour Inspectorate to enforce employment protection legislation and equality in the labour market is enhanced and effectively contributes to the reduction of informal employment, inequality and decent work deficits.

***Outcome 3.1. The minimum wage level is revised through tripartite consultations and provides workers with decent earning opportunities***

The share of workers who are poor declines to 10 per cent in 2027 (from 15.2 per cent in 2017)

By 2027, the minimum wage level raises to 50 per cent of the average wage.

**Baseline:** In 2021, the minimum wage level was 35 per cent of the average wage, while over 15 per cent of all workers were poor.

**Policy guidance:** The minimum wage protects workers against low pay, and it may contribute to overcome poverty and reduce inequality. The ex-ante appraisal of the World Bank points to two key actions that may be considered to maximize the benefits (better living standards, less inequality) and minimize the adverse effects of an increase of the minimum wage (higher unemployment and informality). First, the increase needs to be progressive (over time), based on tripartite consultations and continuously monitored to verify outcomes. Second, the minimum wage can be used as a redistributive tool if accompanied by a safety net for the unemployed (see Outcome 3.2), the reform of the last resort social assistance scheme (to be planned in the new Social Protection Strategy), the increase of adult training opportunities (see Outcome 1.1.) and a decline in informal employment (see Outcome 3.4.).

***Outcome 3.2. Employment protection legislation is reviewed through tripartite negotiations with a view to establish a system to protect workers against the loss of earnings during unemployment and ensure job security***

By 2027, the share of workers with temporary contracts declines to 45 per cent

In 2027, the share of workers becoming inactive after an unemployment spell declines by 5 per cent.

**Baseline:** The share of workers holding a temporary contract in 2020 was 57.5 per cent. Between 2018-2019 there was an increase in inactivity among men by nearly 11 per cent, while in the biennium 2019-2020, the increase was equal to 10 per cent. This indicates permeability between unemployment and inactivity status among men along the economic cycle, but also the lack of incentives (income replacement during unemployment) for unemployed persons to continue job search, as compared to shifting into inactivity.

**Policy guidance:** The share of workers holding a temporary contract in Kosovo in 2021 was four times the average share recorded in the EU27 (57.5 per cent and 14 per cent, respectively). Research has



found temporary jobs to be more likely to have poor quality characteristics, i.e. they are more likely to be lower paid, and provide workers with less access to training and development and career progression. When individuals work a series of temporary jobs over a prolonged period of time, this is associated to wage penalties and a lower likelihood of being able to obtain permanent work. Research also found that firms employing larger shares of temporary workers have lower productivity growth. In order to balance flexibility and job security, the rules governing temporary work will be revised, also with a view to increase enterprise investment in the skills of the workforce.

Another aspect to be reviewed is the protection of workers during unemployment spells. Work on an income replacement scheme during unemployment is long overdue in Kosovo, and the MFLT with the social partners will start working on the system (contributory or non-contributory) as well as its key pillars (eligibility, duration, amount). Such work will include research on the costs and benefits of the income-replacement scheme and the expected impact on key labour market indicators and especially as regard the potential of the scheme to: (i) reduce the permeability between unemployment and inactivity; and (ii) decrease the incentives for workers to engage in the informal economy.

***Outcome 3.3. The occupational health and safety system is reformed to ensure that workers are protected against work-related accidents and illnesses.***

By 2027, Kosovo has a mandatory workers' insurance system.

**Baseline:** Not available.

**Policy guidance:** The last element of workers' social protection package relates to the introduction of mandatory insurance against work-related accidents and illnesses, still missing in Kosovo. The activities that will lead to the outcome will include: (i) a comparative review of insurance systems (neighbouring countries and EU); (ii) analysis of potential delivery system (private providers vs. national insurance institute); and (iii) costs-benefit analysis related to contributions and entitlements (different scenarios). This research work will inform the policy decision to be taken by end 2026 for the introduction of a mandatory insurance system covering all types of workers (employees in the public and private sectors, self-employed workers).

***Outcome 3.4. The capacity of the Labour Inspectorate to enforce employment protection legislation and equality in the labour market is enhanced and effectively contributes to the reduction of informal employment, inequality and decent work deficits.***

The share of workers engaged informally will have declined by 10 per cent by 2027.

By 2027 the number of inspections will have increased by 30 per cent.

Drop in the number of occupational health and safety violations by 5 per cent annually.

**Baseline:**

In 2020 temporary employment affected 57.5 per cent of all workers (58.9 per cent for men and 53.9 per cent for women). Informal employment in Kosovo was estimated in 2017 at 35 per cent of total employment. In the same year, in-work poverty affected 15.2 per cent of total employment. In 2021

the Labour Inspectorate conducted 10,162 inspections, covering 38,035 workers (10.9 per cent of total employment). In 2021 the Labour Inspectorate found over 1,900 workers without protective equipment and nearly 1,400 firms did not have any worker trained in providing first aid. The number of violations of occupational health and safety rules was on the rise.

**Policy guidance:** The protection of workers rests – among others – on the capacity of institutions to adequately enforce the employment protection legislation. The number of annual inspections carried out by the Labour Inspectorate, together with the coverage rate of active enterprises and employed workers, is a key indicator of the effectiveness of this service to adequately enforce the rule of law and to act as deterrent for labour law violations. In order to equip the Labour Inspectorate with the resources, tools and procedures to adequately fulfil its mandate, the Government will accelerate the implementation of the measures already envisaged under the *Strategy to formalize the informal economy*, as well as carry out a functional and organizational assessment of the Inspectorate, including its relationship with other enforcement authorities – to plan the policy reforms required to make the Inspectorate an efficient enforcement institution.

#### 4.5. Resources

The financial resources estimated to be available for the implementation of the Employment Strategy amount to approximately 90,234,248.

#### 4.6. Implementation and coordination mechanism

The relevant line Ministries and Government institutions will be responsible for the implementation of the policy outcomes set forth in the *Kosovo Employment Strategy*, as per attached Action Plan. The group of experts of the various line Ministries and the social partners that develop the Strategy will act as Advisory Group to the Ministry of Finance, Labour and Transfers during implementation. One member of the Advisory Group will be from the Ministry of Communities and Returns. The staff of the Employment Department of the MFLT will be tasked to coordinate overall implementation and to present regular progress reports to the Government, and especially in relation to the effect that economic, education and training, and enterprise development policies included in the Kosovo Development Strategy 2030 have/are likely to have on main labour market indicators (as set out in Table 7).

This Department will work closely with the mechanisms that coordinate donors' and technical assistance programmes and liaise with the Ministries involved in implementation of Strategy and the social partners.

**Table 7: Main indicators to monitor the performance of KDS 2030 policies with an impact on employment**

Indicator	Baseline										
Employment levels of the population 15-64	<ul style="list-style-type: none"> <li>• 347,072 workers in 2020 (86,480 women)</li> <li>• 363,304 workers in 2021 (101,853 women)</li> <li>• 43,847 young (15-24) workers (12,664 young women)</li> </ul>										
Performance of Kosovo in global business rankings	<ul style="list-style-type: none"> <li>• In 2020 the country ranked 57th out of 190 economies in the World Bank <i>Doing Business Report</i></li> </ul>										
Share of persons employed in SMEs	<ul style="list-style-type: none"> <li>• In 2020 (latest available year) SMEs contributed 75.5 per cent of total employment</li> </ul>										
Share of workers vertically mismatched	<ul style="list-style-type: none"> <li>• 42.2 per cent in 2020 (22.2 per cent overqualification and 20.2 per cent underqualification)</li> </ul>										
Average PISA score, Kosovo	<ul style="list-style-type: none"> <li>• In 2018, the average PISA score was 365 points for Kosovo (against an average of 488 points in OECD countries)</li> </ul>										
Employment-to-population ratios by level of educational attainment, (15-64).	<p>In 2021, the employment to population ratios for the cohort 15-64 were:</p> <table> <tr> <td>No education</td><td>3.3 per cent</td></tr> <tr> <td>Primary</td><td>11.3 per cent</td></tr> <tr> <td>Secondary, VET</td><td>37.1 per cent</td></tr> <tr> <td>Secondary, general</td><td>32.9 per cent</td></tr> <tr> <td>Tertiary</td><td>62.6 per cent</td></tr> </table>	No education	3.3 per cent	Primary	11.3 per cent	Secondary, VET	37.1 per cent	Secondary, general	32.9 per cent	Tertiary	62.6 per cent
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Tertiary	62.6 per cent										
Employment-to-population ratios of groups at risks (young people, women, low-skilled individuals).	<p>In 2021, the employment ratios were:</p> <ul style="list-style-type: none"> <li>• 13.4 per cent for youth 15-24</li> <li>• 16.5 per cent for women 15-64</li> <li>• 11.3 per cent for low skilled individuals (primary education only)</li> </ul>										

The Employment Department of the MFLT will cooperate with Sectorial Committees (agro-business, ICT and wood production, at present), with a view to establish a skills forecasting system, able to guide policy-decisions in the area of vocational education, adult training and employment. More specifically, the Employment Department will promote the running of regular establishment surveys (see Box 3), with a view to build the data trends required to feed into the skills/occupational forecasting system.<sup>64</sup> The possibility of building an Occupational Outlook will also be explored, with a view to make labour market information available to the wider public.<sup>65</sup>

The Ministry of Finance, Labor and Transfers will work closely with the Kosovo Agency of Statistics, in order to improve the Labor Force Survey and ensure accurate statistical data for each disadvantaged group. This would allow the design of concrete measures for groups at risk in the Labor market (youth, women, long-term unemployed, social welfare beneficiaries, low-skilled individuals, disabled people, and ethnic communities).

<sup>64</sup> There are three main challenges that at present limit the possibility of forecasting which sectors and occupations will create more jobs in the short to medium term: (i) a limited time series of data on employment by economic sector and occupational category; (ii) the lack of establishment surveys; and (iii) the still limited coverage of Sectorial Committee (only three sectors at present).

<sup>65</sup> See for example the United States Occupational Outlook Handbook, available on the web platform of the Department of Labour. This provides information by occupation groups (job summary, median wage and entry level educational requirements) and allows users to browse by highest paying and fastest growing occupations as well as by number of new jobs (projected). The web page also features occupational profiles (by alphabetical listing). US Department of Labor, *Occupational Outlook Handbook*, accessible at <https://www.bls.gov/ooh/>.

### Box 3: Skills anticipation (forecasting) systems

Skills anticipation systems allow determining the sectors in which employment will be growing, which occupations and qualifications will be in demand and what potential labour market imbalances may occur. There are four main approaches to anticipate skills needs: (i) formal, quantitative methods, including complex econometric models with behavioural content; (ii) employer and occupational skills surveys; (iii) qualitative approaches, including focus groups, Delphi studies, and scenario development exercises; and (iv) sectoral studies, regional and labour market observatories, which often use a combination of both qualitative and quantitative methods.

In emerging and transition countries, rapid structural change, the extent of informal employment and weak labour market attachment makes long-term skills anticipation especially difficult. In some instances, the administrative capacity to carry out long-term macroeconomic skills forecasts is lacking. In these contexts, short-term sectoral skills forecasts based on employers' surveys may be more useful for providing up-to-date information about current labour demand to school leavers, labour market participants and training providers. Establishment surveys on employment and earnings provide data to measure trends and short-term changes in industry employment, average earnings and hours of work. They often form the main source of data on employment and wages at detailed industry levels and geographical regions. Establishment surveys also provide information on the type of jobs that employers require and are available to working age individuals. To obtain these data the questionnaire poses either direct questions on new hiring or indirect questions to employees on the number of months or years of work experience in the establishment. Employees with less than one year with the establishment are considered as new hiring. The data on new hiring may be analysed by size of establishment or by branch of economic activity or any other relevant characteristics of the establishment. If the establishment survey also collects data on individual employees, the analysis of new hiring patterns may be extended to the characteristics of workers (e.g., sex, age, educational attainment, occupation, hours of work and wages).

*Source: CEDEFOP, Systems for anticipation of skill needs in the EU member states, CEDEFOP, Thessaloniki, 2008; European Training Foundation (ETF), Skills anticipation and matching systems in transition and developing countries. Conditions and challenges, ETF, Turin, 2012; ILO, Data requirements for youth labour market analysis: A training package, ILO, Geneva, 2013*

The general responsibilities of key Ministries, agencies and the social partners in the implementation of the *Strategy* are provided in the Action Plan appended as Annex 1, while the main functions of the coordination mechanism are described below.

The **Employment Department** of the MFLT will provide overall coordination for the implementation of the Strategy. Specifically, it will

- Provide technical support, advice and guidance to partner Ministries and agencies in all aspects related to implementation of Strategy. The Department will prepare periodical progress and monitoring reports and it will assist in the preparation of evaluation reports;
- Facilitate the exchange of information and good practices among government agencies and between the Government, the social partners and civil society;
- Keep the expert group that developed the Strategy informed of implementation progress.

The **Advisory Group** will:

- Review the progress and monitoring reports prepared by the Employment department prior to their dispatch to the Government;
- Advise on emerging concerns in the area of employment that need to be addressed in the timeframe of the Strategy; and

- Reformulate, on the basis of the findings of the evaluation reports, the specific objectives, targets and policy outcomes, as necessary.

#### 4.7. Monitoring and evaluation

The monitoring of the *Kosovo Employment Strategy* will comprise the regular examination of the outcomes of policy interventions. It will be based on a system of information gathering and analysis of the performance indicators set for each policy outcome. The Employment Department of the MFLT will have the responsibility to systematize the monitoring information generated by line Ministries and partner agencies for presentation to the Government annually.

The evaluation system will be integrated into the policy/programme cycle and will comprise two evaluation exercises, one at the end of the first phase of the Strategy (2023-2025) and one at its completion (2027). The Employment Department shall be responsible for coordinating both mid-term and final evaluations.

The first evaluation exercise will analyse the results of policy interventions, financial management, the quality of the monitoring and of its implementation. By comparison with the baseline situation, it will highlight changes in the general context and judge whether the objectives remain relevant. This evaluation will also examine whether the evolution of national priorities and policies poses a problem of coherence. The interim evaluation will rely on information drawn from the monitoring system of the Strategy, from the monitoring framework of the Youth Guarantee and from the overall context, with a view to provide feedback into the management of action planning.

The summative evaluation, to be carried out at the end of 2027, will judge the entire Strategy's performance. It will report on the effectiveness and efficiency of interventions and the extent to which expected outcomes were achieved. The primary evaluative and research questions will revolve around:

- *Relevance*: the extent to which the employment policy objectives responded to national needs and priorities;
- *Effectiveness*: the extent to which the objectives were achieved; whether the interventions and means used had the expected results; and whether more could have been obtained by using different means;
- *Efficiency*: whether the objectives were achieved at the lowest possible cost; and
- *Sustainability*: the extent to which the results, including institutional changes, are durable over time.

## Annex 1 – Employment Action Plan (2024-2025)

