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# Social Policies in Kosovo: institutional reforms in the context of globalization and international administration

Armend Muja

University for Business and Technology, [Armend.Muja@ubt-uni.net](mailto:Armend.Muja@ubt-uni.net)

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# **Social Policy in Kosovo: institutional reforms in the context of globalization and international administration**

Armend Muja

UBT – Higher Education Institution, Lagjja Kalabria, 10000 p.n.  
Pristine, Kosovo  
armend.muja@ubt-uni.net

**Abstract.** Social policy broadly focuses on pensions system, health insurance, education, family policies, disability and injury insurance, unemployment benefits, war victims' benefits and other aid to the poor. The main features of Western Balkans' welfare system during communism can be characterized by three pillars: full employment and quasi-obligatory employment; broad and universalistic social insurance; and a highly developed typically company-based, system of services and fringe benefits. This system was eliminated after the fall of communism, as it became impossible for the state to provide the necessary funds to cover new social costs associated with transformation. The welfare system reform in the form of introduction of choice and marketization was delayed and implemented unevenly due to protracted conflicts, internal and external determinants. The paper initially will comparatively examine the similarities and differences in social policy in Western Balkans taking into account different initial conditions, legacy, political systems and the influence of international actors. Secondly, it details the case of social policy reform in Kosovo explaining resulting institutional set-up and policies adopted in the context of international administration and globalisation. The paper narrows down to pension system reforms.

**Keywords:** Kosovo, Social Policy, Pension System, Marketization, institutional actors, globalization

## **Introduction**

Social policy broadly focuses on pensions system, health insurance, education, family policies, disability and injury insurance, unemployment benefits, war victims' benefits and other aid to the poor. The main features of Western Balkans' welfare system during communism can be characterized by three pillars: full employment and quasi-obligatory employment; broad and universalistic social insurance; and a highly developed typically company-based, system of services and fringe benefits. This system was eliminated after the fall of communism, as it became impossible for the state to provide the necessary funds to cover new social costs associated with transformation.

Issues of pension system reform and sustainability had been a recurrent theme during the transition process in Central Eastern Europe. States embarked on similar reform paths to tackle the fiscal challenges that resulted due to initial tendencies to use social protection measures to cushion the shock of post-communist economic reforms. Two reform paths could be differentiated – parametric

reforms and pension privatization. Pensions reform had been a politically sensitive issue for CEE governments seeking reelection. However, the turn of neoliberal ideas in social policy reform and external actors had played an essential role for overcoming the hold up problems. The pension system transformation in Western Balkans in the form of introduction of choice and marketization was delayed and implemented unevenly due to protracted conflicts, internal and external determinants. Kosovo pension system reform process provides an interesting academic example of the impact of international factors in implementing a neoliberal policy blueprint. In the absence of path-dependent institutions and domestic opposition, Kosovo has implemented some of the most radical reforms in pension privatization and marketisation. The paper takes an actor-centered structural approach in political economy to provide a framework of analysis for the case study. Muller (2002) has similarly used the methodological framework to explain the dynamics of pension reform in Poland and Czech Republic. The methodological approach was determined by the nature of the topic and resource constraints. The study combines qualitative data analysis of relevant literature, discourse analysis of pension reform in Kosovo and secondary statistical data of the Kosovo Statistical Agency. The paper will initially examine the main global perspectives in pension reform process. A comparative analysis of pension reform process in Western Balkans is presented in the second part. The third part details the case study of Kosovo pension reform in explaining resulting institutional set-up and policies adopted in the context of international administration and globalization.

## **The pension reform perspectives**

Social policy broadly focuses on pensions system, health insurance, education, family policies, disability and injury insurance, unemployment benefits, war victims' benefits and other aid to the poor (Wilensky, 2002). Social policy focus varies in different countries because some might prioritize income security and insurance compared to other cases where poverty reduction is the main goal. The scale and scope of social policy development varies across countries and depends on the funding. The funding for social policy usually comes from income contribution, general tax and trade unions.

Social programs have often been interpreted as a power struggle between different social strata. Ruling political parties have tried to strike a balance between capitalism and redistribution. Economic growth and resources created therein enable political parties to compete on redistribution campaigns. Resource redistribution in electoral cycles have enabled governments to ensure peace and stability in the enduring struggle between left and right (Maier, 1997). According to this interpretation, many of the free public services resulted because of negotiations between labour and employers and as a combination of large cross-class coalition of industrial capitalists, unions, social democrats.

Political environment in which actors as political parties, trade unions, experts and business interest groups operate is also important. Citizens can replace their politicians or parties whenever the policies that they adopt are disagreeable and if they do not implement those policies that they've promised during electoral campaign (Tsebelis, 2002). On the other hand, in all democratic societies there are examples of how interests groups seek to exercise influence on policy-making in an attempt to promote their narrow interests.

Social Policy scholars also stress path-dependency and maintain that prior policy arrangements determine the future of social welfare choices. Attempts to change social policy are seen in a new context of strong and politically salient groups that oppose or favor the reforms. Social policy generally affects large groups of people and potential voters. The existence of regular electoral intervals in a democracy and the fact that changes in social policy tend not to generate significant

pay-offs in a single election cycle makes it rather complex for political parties and governments to implement fiscally sound reforms.

Iversen and Cusak (2000) noted that social policy programs in contemporary democracies would have to be developed as a means to smooth the changes in the economy. Technological innovation, higher productivity, change in demands for goods and the collapse of traditional industrial base will make part of the workforce structurally unsuitable for the labour market. Hence, political parties social programs could be interpreted as a competition to win over the losers of economic transformation. Baldwin (1990) views social policy is a form of social insurance. In essence, he sees social policy as an attempt to pool the risk among different risked groups. Thus, social policy has a social insurance function rather than a redistribution of wealth function. The shape of various social policy is a result of the bargaining power of the different risked groups instead of one group wanting to get resources from the other

Other views advanced by Rodrik and Scharpf (1991) say that the development of social policy is more as an attempt by the governments to buy the support of the poor for the liberalization of trade in the neoliberal economic order. The wisdom is that economic openness would mostly hurt the weakest and therefore they stand the chance to counter the policies using democratic means. According to this thinking logic the social assistance scheme depended on the good performance of private sector and industry and as such it was a result of the negotiations where businesses associations would support the social schemes in exchange for Social stability (Mairers,1987).

Another important dimension of social policy in recent years is recognized by Hausserman (2010). In essence, we have a change in family structure and the male-breadwinner and female caregiver divide is diminishing and we would therefore see new instruments to compensate former male breadwinners and new demand by women for childcare and elderly care. Thus, the new social risks are a less protected male with outdated skills, a less protected female which is disadvantaged by the dualisation of labour market - women have lower incomes and less protected jobs - and demands for new services due to changes in family structure.

However, after the European debt crisis (2008-2012), a new turn on social policy retrenchment has emerged. Social policy faces several challenges caused by economic crises, low fertility rates, population aging and rising female participation in economy. Questions over the sustainability of funding for social programs have taken the center stage of the debate. Parametric reforms in the pension system and introduction of means-tested assistance has become more prevalent across Europe.

Marketisation and introduction of choice in pension systems, education, healthcare and active labour market policies have gained traction in the reform trajectory. In pension reform process saw the introduction of choice instead of traditional contribution and benefit based government run pension schemes. Unemployment benefits were reforms from being mainly passive incomes to active incomes – this means that they states were no longer willing to just give incomes to the unemployed but made the conditional on them being active in educating themselves and looking for jobs.

## **Trends in Pension Reforms in Western Balkans**

Former communist countries in Central Eastern Europe (CEE) implemented the key doctrines of communism in economic, political and social spheres. Policy options were heavily influenced by the developments in former Soviet Union. However, internal dynamics had influenced varying models of social policy. The main feature of the system were prevalent – full employment, broad and

universal social insurance and an extensive system of state-enterprise based services and fringe benefits (Esping-Andersen, 1996).

After the collapse of communist economic and political system in 1989, post-communist countries had to go through the process of transition towards democracy and market economy. The initial years of the reform process was marked by falling outputs, high levels of unemployment and decreased capacity of the state to respond to emerging social challenges. The move from the old system of universal social benefits and 'intexistent' unemployment towards market economy resulted in high levels of unemployment, inflation and increased poverty rates (Kaufman, 2007).

Wester Balkans transition countries responded to the new challenges with generous social transfer schemes to buy in the social stability. Issues of pension system sustainability that had existed even before the transition to market economy were exacerbated by the lack of capacity to collect contributions (Hulzeman, 2009) and tendencies to use social protection measures to cushion the shock of reform (Kaufman, 2007).

Western Balkans countries adopted a number of reform strategies to cope with the emerging challenges in their pension systems. In the early period of transition, some countries shifted their pension indexation from gross wages to prices. This reform was later followed by longer-term reforms which aimed to transform the existing public pensions. The transformation was aimed at increasing the pensionable age, benefit formulas and contribution collection. As a result of negotiations between national governments and trade unions the pensionable age increased by about three years for men and three-six for women in most cases (Fultz, 2004).

In terms of benefit formulas, countries introduced reforms which aimed to tighten benefits by making the minimum contribution period longer. The tendency of the reform process was to make pensions more individualized and earnings-related. However, by mid-90' it had become clear that the old-age pension system inherited from socialist past were undouble in dire need of reform. Two basic reform paths can be differentiated in the region – parametric reforms and pension privatization. By the end of 90' a number of countries introduced a multi-pillar system and privatization. Kosovo opted for a radical systemic reform introducing a multi-pillar system.

## **Kosovo pension system reforms**

### **Kosovo Socialist Pension System**

Kosovo pension system dates back to former Yugoslavia. The general provisions of social policy and pension system were laid out in Yugoslav Federal Law on Pension and Disability Insurance. The by laws of the former Autonomous Socialist Province of Kosovo regulated the retirement conditions and benefits. Th retirement age for men was 60 while for women 55 years provided that a minimum of 20 years contribution was made. Retirees could expect to benefit up to 80% of their last wage. Benefits were fully indexed to wage growth (World Bank, 2008). The Socially Owned Enterprises were given the competencies to set the level of contribution rates and administration system.

Kosovo social welfare dates back to former Yugoslavia. The main characteristics of the social security system were the following: every worker was paid the same, low wage, generous universal benefits such as family allowances, pensions, subsidized food, housing and guaranteed jobs for life. The main features of the communist welfare system can be characterized by three pillars: full employment and quasi-obligatory employment: broad and universalistic social insurance: and a highly developed typically company-based, system of services and fringe benefits. The retirement age for men and women was 60 and 55 years respectively provided that they contributed to the

system for at least twenty years. Workers could expect to benefit up to 80% of their last wage after retirement and benefits were fully indexed to wage growth (World Bank, 2008). Due to the specifics of the former Yugoslav communist system, socially owned enterprises were given the competencies to set the level of contribution rates and administering the system.

Former Socialist Federation of Yugoslavia collapsed in 1992. The expected political and economic transition from communism to market economy were largely delayed by inter-ethnic conflicts of 1992-1999. Kosovo lost its status as a unit of the Federation and was forcefully brought under Serbia. The former pay-as-you-go (PAYG) pension system was integrated into the Serbian Pension Fund (Gubbels, 2007). The number of contributors fell drastically as Kosovo Albanian population was expelled or boycotted the Serbian politics and economic life. There were very few claimants and beneficiaries from the newly established Serbian Pension Fund. The pension system collapsed during the bitter war in Kosovo 1998-1999. However, the province was placed under UN Administration following the withdrawal of Serbian authorities.

### **Pension reform under international administration**

The UN Mission in Kosovo (UNMIK) established a new pension system in Kosovo in 2002. The appropriation of the former Kosovo socialist PAYG was left aside and any new settlement was to be discussed during the Kosovo final status negotiations with Serbia (Gubbels, 2007). The newly established multi-pillar pension system followed the blueprints of neo-liberal reforms in Latin America. The first pillar was managed by the Ministry of Labour and Social Welfare and provided basic social transfers to all Kosovo residents above 65 years of age. The second pillar was a private funded scheme managed by the newly established autonomous institution called Kosovo Trust Fund (KTF). The Fund obliged all employers and employees to deposit 10% of monthly income to individual accounts. Employees that have reached the retirement age (65 years) would be eligible for a monthly pension determined on the basis of contributions. The third pillar was introduced the voluntary pension scheme to be operated by private insurance companies holding a license from the Kosovo Central Bank.

Kosovo pension system reform during international administration is considered to be an emergency response in the context of early post—conflict situation. The choice of pension reform path was heavily influenced by a new neo-liberal paradigm. The initial conditions in the post-war period offered a window of opportunity to introduce both pension system privatisation and liberalization. Political opposition to reform was absent. The policy choice was not necessarily constrained by path-dependent institutions or interest groups since the former Serbian administered PAYG system was not applicable due to the United Nations Security Council Resolution mandating a withdrawal of Serbian administration. While the policy choice was implemented in a new context of international administration and reign of neoliberal paradigm, economic factors were also a key contributing factor. Kosovo's economy was small and the labour market largely informal. The newly established fiscal authorities in Kosovo lacked administrative capacities and the tax base was inconducive to large social expenditure projects.

External determinants played probably the most significant part in shaping the welfare systems and pension policy development in Kosovo (Xhumari, 2010). The international factors influence came in three forms: direct competencies over decision-making in Kosovo, conditionality and expertise. The decision-making authority in Kosovo over social policy has been within the mandate of UNMIK Economic Pillar IV which was financed and staffed. The World Bank laid out the main provisions for the future Kosovo pension system in 2001 in its report on economic and social reforms in Kosovo. The actual Working Group for the design of the pension system in Kosovo was led by USAID with the involvement of representatives of EU Commission, IMF, World Bank and ILO

(Gubbels et al, 2007). The financial support and expertise for the implementation of the first pillar was offered by the EU Phare Program (EU Commission, 2008) while USAID and World Bank supported the establishment of second and third pillars.

The international administration influenced both constitutional and legal barriers to frame the future pension policy. In order to allay international concerns over potential future government interference in the Pension Fund, the Final Status Settlement for Kosovo proposed by UN Envoy Maarti Ahtissari n KTF autonomy and composition. The new Constitution of the Republic of Kosovo (2008) mandated that the body in charge of pensions fund should be outside of direct government control. Half of the Board Members of KFT were to be internationals. The General Manager of the body was also international (Gubbels, 2007).

An equally important factor during the design phase of the new pension system was economic in nature. The initial design process occurred in the context of low government revenues, high unemployment levels and ailing economy. The process of privatization of the formerly socially owned enterprises had been rather complex due to unresolved political status of Kosovo. The lack of financial resources and tax revenues to finance the social welfare programs were also influential actors in the minds of international administrators (Gubbels et al, 2007). Issues over financial sustainability took precedence over social concerns and pension adequacy. Even the level of pension contributions (10%) was purposely left low as to encourage firms to move away from economic informality.

Kosovo population is generally young and did not face the aging problems that have challenged policy-makers in other European and CEEC transition economies. At the time of pension reforms only 6 percent of population were older than 65 years of age (KSA, 2011). The dependency ratio was generally low. There were roughly ten people of working age for one retiree. Despite its demographic advantage, the level of employment and collection capacities were very low (Bartlett et al, 2009).

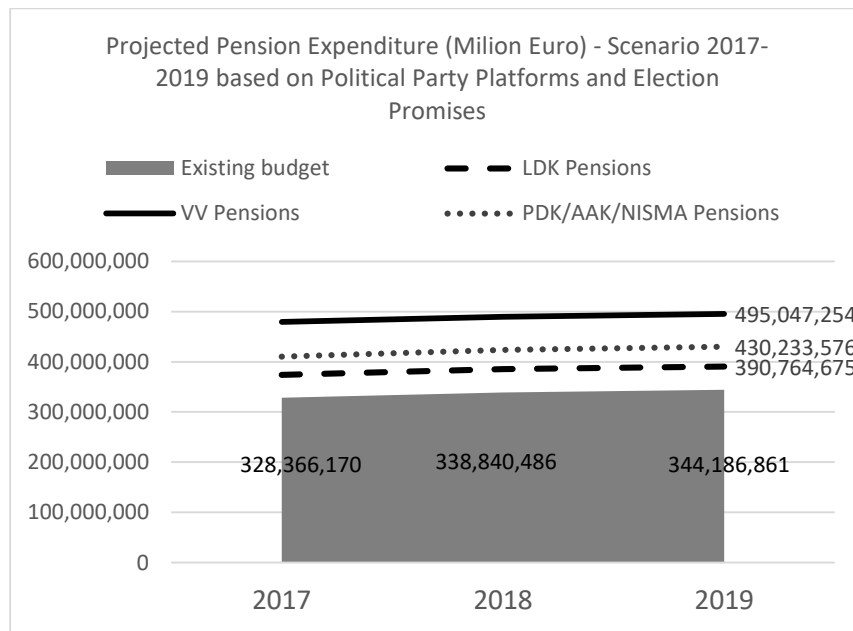
## **Pension reform in the post-independence years**

The Government of Kosovo initiated a reform of pension system in 2011 in response to the challenges of the European financial crisis. The initiative addressed the issue of the loss of revenues of KTF in international markets during the Debt Crisis 2008-2011. The reform proposal sanctioned that the lions share of future investment should be re-oriented to the domestic market in the form of government bonds and banking assets. These steps appeared to address a major public opinion concern that the earlier institutional set-up has done little to stimulate the development of national financial market.

The Government of Kosovo advanced a proposal in 2011 to amend the Law on Pensions in order to institute a version of PAYG in the first pillar. The proposal found support among a number of interest groups and political parties. However, the proposal was shelved amid concerns of the international financial institutions. The proposal to increase the level of pension contributions were assessed to be premature and with potential to encourage economic informality.

Proposals for pension reform became a salient political issue during the central parliamentary elections of 2014 and 2017. Nearly all major political parties had inserted specific proposals for pension reform in their party programs. The proposals were considered to be corrective measures to address issues of pension adequacy and extension of pension programs. During the 2017, political parties offered different proposals to address concerns over adequacy. The ruling Kosovo Democratic Party (PDK) proposed an increase on pension benefits by 25 percent. The rightist opposition party Kosovo Democratic League (LDK) advanced a similar proposal but limited to

certain categories. The leftist Vetevendosje Movement (Self-Determination Movement) proposed a much more generous policy indicating the aim to double the benefits. The proposed changes have significant fiscal implications and run the risk of generating opposition among international financial institutions. With all things remaining the same, the Kosovo budget would run additional 100-150 million Euro deficits. With economic growth forecasts remaining around 4% in the foreseeable period and political party fiscal policy lacking specifics, Kosovo would have to increase the national debt from 14% to 17% of GDP.



In the absence of structural changes in the form of tax and contribution levels increases, the VV proposal would need an additional 150 million Euro from the state budget. Technically, the increase of contribution rate could help generate an additional 80 million to finance the scheme. The rest could be financed by rising taxes. Assumptions for increasing the tax base by combating informality in the economy could take years to materialize. Under every scenario the proposal will likely generate significant opposition among other stakeholders – businesses, workers and international community. The proposal advanced by PAN would require an additional 100 million Euro. Compared to VV proposal, it lacks specifics about how they would cover the budget hole. The LDK proposal would require another 46 million Euro. It targets only a section of the pension beneficiaries (basic pensions).



## Conclusion

The challenge to reform social policy was one of the main features of transition economies. Maintaining the traditional PAYG systems was difficult due to a combination of social and economic challenges. Western Balkans countries responded to these challenges differently depending on political, economic and international factors. In the initial years some countries undertook more radical structural reforms while others chose parametric reforms.

The starting initial conditions differed in significant ways depending on national political, social and economic specifics. Attempts to reform pensions were generally unpopular. Domestic opposition was an important variable determining the scale of reforms. Only the impact of the international financial crisis during 2008-2011 had created a favorable momentum to tackle the concerns over fiscal sustainability of pension systems. International actors were quite influential in inducing the reform process both in terms of policy expertise, reform ideas and conditionality.

Kosovo pension system design and reform process has followed an uneven path compared to other Western Balkans countries. While it did not face immediate demographic and path dependency challenges as a result of being placed under UN protectorate, it did face significant fiscal challenges. Since Kosovo was under international administration, political parties and interest groups did not levy the usual political pressure noticed in Serbia and Albania. The initial years of pension reform 2000-2010 could be considered as an emergency response to the post-conflict situation. Reforms occurred in a new context of influential neoliberal turn in pension reform. Its multi-pillar system followed the Latin American blueprint.

The second decade (2010-2017) several initiatives were launched to shield Kosovo from the volatility of international markets and address concerns over pension adequacy. Extending pension schemes, eligibility and level of benefits were some of the most common proposals during electoral cycles. However, these corrective measures have increased pension expenditure beyond tax collection capacity.

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