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LABOR MARKET AND HUMAN CAPITAL IN KOSOVO

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Abstract
The labor market in Kosovo requires an internally consistent projection including an indication on the likely impact of macro developments. It is worth to highlight that the results here are only indicative, and are used only to illustrate the unemployment problem in Kosovo. That is to say, the focus is on consistency, rather than accuracy. The conclusion is that even at the solid rates of growth, the unemployment problem in Kosovo will persist in the years to come. At the outset there are described the main variables, and then along with the assumptions regarding output and labor force a base scenario is built. These are then used to determine a growth rate of employment consistent with balanced growth, which is to be used to answer policy questions.

Human Capital and Labor Market in Kosovo

1. Introduction: A Short Description of Labor Market

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The conclusion is that even at the solid rates of growth, the unemployment problem in Kosovo will persist in the years to come[1].

At the outset there are described the main variables, and then along with the assumptions regarding output and labor force a base scenario is built. These are then used to determine a growth rate of employment consistent with balanced growth, which is to be used to answer policy questions.

2. Employment Relationships

The employment relationships are governed by UNMIK Regulation No. 2001/27 on Essential Labor Law in Kosovo concerning employment contracts and collective agreements, as well as by the predecessor 1989 Kosovo Labor Law.

The Labor law protects employees against discriminatory treatment because of race, color of skin, sex, religion, age, family status, political opinion, national origin, sexual orientation, language or union membership.

Employees have also the right to organize labor unions. Until 1989, labor unions had great influence on corporate management. During the war and afterwards, the influence of workers' organizations started to weaken and many of them are no longer active.

2.1 Labor Contracts

Labor law establishes certain mandatory standards to be provided in labor contracts by giving flexibility to their contents, as long as it does not conflict with applicable law. The law permits defined term employment contracts as well as indefinite employment contracts.

Contracts must be in the mother tongue of the employee and must be in writing.

Labor law mainly contains provisions regarding the termination of employment contracts.

Please note that economic, technological, or structural changes to the enterprise are also reasons that justify a termination by an employer.

When a minimum of 50 employees are discharged within a 6-month period, it is considered a large-scale layoff, to which certain protective provisions are applied. These are essentially:

- prior notification of the plans to decrease the number of personnel and notification of the measures to be taken to alleviate the consequences of such dismissals;
- measures to be taken to limit the number of dismissals;
- severance payments to be paid according to the duration of the employment relationship (between one and five monthly salaries); and
- Notification of termination to employees at least 3 months in advance; the compulsory redundancy payment (termination indemnity) may be up to 3 months salary (it varies according to the employee's years of service).

Finally, it is necessary for a working contract to contain the following elements: working hours, paid leave, unpaid leave, sick leave, and working conditions.

3. Employees of Foreign Investors

Employees of foreign investors are subject to the same laws (applicable in Kosovo) to which employees of Kosovar enterprises are subject. Foreign investors are entitled to employ staff of any nationality.

4. Population and Labor Force

Population and Labor Force data have been very unreliable in the past, particularly due to the lack of a population census and an unreliable Labor Force Survey.

Regarding the population, we take the figure of 2.1 million in 2006 from SOK, and given the numbers for natural growth we extrapolate backwards the number of population and the rate of population growth, at 1.5% per year, as shown below[2].

-Relationship between GDP growth and unemployment

There are examined unemployment rates in Kosovo that are consistent with certain GDP growth paths. The conclusion is that a balanced GDP growth rate of 4.7% in

1 The author acknowledges the contribution of fellow colleagues at the Macroeconomics Department at
MFE: Arianit Blakaj, Selim Thaqi and Valmira Rexhëbeqaj as well as the comments from Douglas Todd
Gregory Thwaites and Peter Thurlow.
Balanced growth means that capital growth is the same as the output growth

2 This estimate does not take into account migration

real terms is necessary to keep unemployment constant, while a 7.3% growth rate will halve unemployment rate by year 2020[3].

Year	Natural Growth	Population	Rate of growth
1999	-	1,896,246	-
2000	31,572	1,927,818	0.017
2001	30,740	1,958,558	0.016
2002	30,482	1,989,040	0.016
2003	25,577	2,014,617	0.013
2004	28,664	2,043,281	0.014
2005	30,011	2,073,292	0.015
2006	26,708	2,100,000	0.013
		Average	**0.015**

Source: SOK and Macroeconomics Department (MEF) internal calculations

Dependency ratio is generally put somewhere in the 61-63% region, and participation rate between 54-57%, and taking the respective averages we get estimates for working age population and active population[4].

The participation rate is a function of structural and actual parameters.

The table below outlines our baseline figures and projections (population figures in thousands)[5]

Population and Labour force	2008	2009	2010	2011
Resident population	2162	2194	2227	2261
Population growth index	1.015	1.015	1.015	1.015
Dependency ratio	0.626	0.626	0.626	0.626
Work Age Pop (num)	1353	1374	1394	1415
Participation rate	0.562	0.567	0.571	0.575
Participation increase index	1.008	1.009	1.007	1.006
Active population	760	779	796	813

Source: Baseline is an average from MSLW-DLE data whereas the projection is from Macroeconomics Department internal calculations

5. Inputs

We indicate the contribution of each factor to GDP growth as a final step before the projection. It is worth noting that these figures are based on the production function embedded in the macro model which was used to calculate the growth of GDP.

Over the projection horizon, we keep constant our factor shares for labor and capital at 0.6 and 0.4 respectively. Depreciation rate is put at 5%.TFP growth is kept constant at 1.5% whereas the growth of capital is a function of previous years' capital stock, investment and depreciation rate.

3 ARBËR DOMI Macroeconomics Department-MEF - Pristina September, 2008

4 The sources of data which are averaged and adjusted are taken from MSLW-DLE 2007 report.

5 ARBËR DOMI Macroeconomics Department-MEF - Pristina September, 2008

The table below summarizes the input contributions to GDP growth.

Inputs to growth	2008	2009	2010	2011
GDP growth (real, local)	0.062	0.080	0.065	0.050
TFP growth	0.015	0.015	0.015	0.015
Share of capital	0.400	0.400	0.400	0.400
Growth of capital	0.035	0.045	0.053	0.055
Share of labor	0.600	0.600	0.600	0.600
Employment growth	0.055	0.079	0.047	0.022

Source: Macroeconomics Department internal calculations

It is worth noting that these figures show the increase in capital stock accelerates over the years and in 2011 even surpasses GDP growth. That is to say, in year 2011 the economy approximately reaches a balanced growth path.

6. Output

As a measure of real output we take what we call the real "local" GDP, that is the GDP less the wages and salaries of internationals working in the donor sector. The latter is viewed as a better indicator of the performance of the Kosovo economy as much of internationals' wages and salaries leave Kosovo as remittances[1]
The table below gives the path of output over years and its projection over the medium run.

Description	2005	2006	2007	2008	2009	2010	2011
Real growth rates (in percent)							
Broad GDP	2.7%	4.1%	5.4%	6.6%	5.7%	5.2%	4.7%
Local GDP	**0.7%**	**5.3%**	**6.2%**	**6.2%**	**8.0%**	**6.5%**	**5.0%**
Private sector disposable income	0.9%	5.5%	9.5%	10.4%	7.1%	5.1%	3.5%
Private Local consumption	9.3%	4.4%	5.7%	2.8%	5.4%	4.0%	2.4%
broad GDP per capita	-0.9%	4.4%	7.4%	10.6%	6.1%	4.3%	3.8%
local GDP per capita	-3.0%	6.0%	8.6%	11.1%	8.3%	5.4%	4.1%

Source: Macroeconomics Department internal calculations

As it can be seen from the evolution of "local" GDP, growth will accelerate over 2008-
2009 period .The rapid growth in 2009 is largely driven by the increase in public investment in 2008.

After projecting output, population, labor force parameters and the contribution of each input to GDP growth, it is easy to obtain the projected unemployment and employment rates[2]
The table below shows the projected values over the medium run (population figures in thousands).

Projected variables	2008	2009	2010	2011
reg Unemployment	308	290	285	290
Unemployment rate	40.5%	37.3%	35.7%	35.7%
Employed	453	488	512	523
Employment rate	33.4%	35.6%	36.7%	36.9%

Source: Macroeconomics Department (MFE) internal calculations

The projections show that there is a steady decline in unemployment rates and a somewhat more gradual increase in employment.
Over the medium run, on average, a one percentage point increase in output leads to a 0.234 percentage point reduction in unemployment. This somewhat low value is driven by labor force dynamics[3].
It is perhaps useful to move further and ask what the unemployment rate would be in say year 2020 if GDP growth is to be kept constant at the average rate of 6.43% which is projected for the medium run[4]. For such a projection we take the value of 0.611 for the employment elasticity of output, since this is consistent with a balanced growth path.

1 In the past, due to the shrinking of the donor sector, "local" GDP growth was higher than what could be called the "broad" GDP growth, where the latter includes the wages and salaries of the donor sector
2 Note that employment rate is calculated as a share of working age population, not the labour force
3 The value of 0.234 is not strictly the counterpart of the Okun's Law for the Kosovo economy given that the economy might be operating below potential
4 A figure like this one is often suggested to be a quite desirable growth rate for the Kosovo economy

Table below shows the evolution of unemployment and employment rates until 2020

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Unemployment	34.6%	33.5%	32.4%	31.3%	30.1%	28.9%	27.7%	26.5%	25.3%
Employment	37.8%	38.7%	39.7%	40.6%	41.6%	42.6%	43.6%	44.6%	45.7%

Source: Macroeconomics Department

It is important to say that this long run projection does not assume a slowing of population growth, which might in fact happen in years to come.

Conclusion: A rate of growth of 7.3% in real terms will by 2020 halves the unemployment rate and bring it to 20%. In order to achieve this, the following table shows the total investments required by each year. (in millions of euro) From what emerges from all of the above, it is fair to say that even at solid rates of growth, the unemployment problem in Kosovo will persists in years to come

Year	Investment
2008	1329
2009	1406
2010	1508
2011	1618
2012	1736
2013	1863
2014	1999
2015	2145
2016	2302
2017	2470
2018	2650
2019	2844
2020	3051

Source: Macroeconomics Department

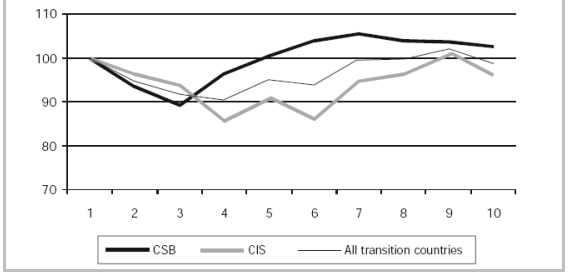
7. The Role of Human Capital on Determining Economic Growth

Growth and schooling are highly correlated and human capital, along with other factors, determines the economic growth (Bills and Klenow, 2000, Hanushek and Kimko, 2000). In the early stages of transition, the opinion whereby the level of human capital in transition countries was thought to be quite high prevailed. Kosova is one of the last countries to embark on the road of transition to a market economy. Unemployment is still high, though it has been decreasing. It is particularly high for young people and women. The labor market in Kosova has some distinctive characteristics, such as being a very young population and having a large-scale emigration. The effects of emigration on the labor market are of particular interest given its scale and the level of remittances. Though an obvious progress has been achieved in reforming the education system in Kosova, much remains to be done. The development and reform of the education and training systems should reflect these developing labor market requirements. There seems to be a systematic pattern regarding the unemployed individuals and the emigrants as well. If there was not a particular pattern, than we would not detect any significant relationship between one's unemployment or an emigrant status and some other characteristics such as the level of education, residence, gender, age etc. The fact that there are such relationships, points to the need for policy considerations to tackle these issues.

8. Unemployment during the Transition

The transition process that started with the breakdown of the command economy in Central and Eastern European countries brought about deep changes in the life of people residing there. These changes were both unique and very profound. They are still going through the process of transforming economies after more than a decade that passed since the communist system was abandoned. Some of these countries have made significant progress, whereas some of them still lack the necessary steps for the foundations of a market economy. Recently, the output has recovered to the pre-transition level (at least in most of the Central European countries), but employment is still lagging behind. The unemployment rate remains high though it has been decreasing. Transition from a command to a market economy is being shaped by two main mechanisms, i.e. reallocation and restructuring (Blanchard, 1997). First, as transition started the governments cut down subsidies and introduced hard budget constraints to state-owned firms. Consequently, there was a disruption in the production process in large industrial state enterprises and a gradual increase in the private sector. Prices were liberalized making it even harder for these firms to operate. New employment moved toward the growing sectors, a process called reallocation. In the pre-transition period, firms were organized differently, around a central plan rather than markets: they had only one supplier for each of their inputs and one buyer (or a certain number) of output. As transition started, these bilateral relations were destroyed.

Figure 1. **Growth in real GDP in transition countries**



Source: EBRD (1999). Years are not in calendar term, year 0 is the year before the transition process started and GDP in that year is equal to 100. This is important since not all countries started the transition process in the same year. In this way we can compare the GDP across countries during the transition.

The second process that shapes transition is restructuring. It implies that some of those

Table 1. **Unemployment rate in transition countries (1990-2001)**

Countries	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
SEE (ave.)	**9.75**	**11.1**	**18.5**	**19.8**	**17.7**	**17.7**	**10.4**	**16.4**	**17.3**	**13.1**	**19.7**	**19.62**
Albania	9.5	8.9	27.9	28.9	19.6	16.9	12.4	14.9	17.8	18.0	16.8	15.2
Bulgaria	1.7	11.1	15.3	16.4	12.8	11.1	12.5	13.7	12.2	14.1	17.9	17.3
Croatia	9.3	13.2	13.2	14.8	14.5	14.5	10.0	9.9	11.4	13.5	20.6	23.0
Macedonia	18.5	19.2	27.8	28.3	31.4	37.7	na	36.0	34.5	na	32.2	34.0
Romania	na	3.0	8.2	10.4	10.1	8.2	6.5	7.4	10.4	6.8	10.8	8.6
The Baltic (ave.)	**0.55**	**0.45**	**2.6**	**6.57**	**9.37**	**15.1**	**15.3**	**12.9**	**12.4**	**13.4**	**11.4**	**na**
Estonia	0.6	na	na	6.6	7.6	9.8	10.0	9.7	9.9	11.7	14.8	na
Latvia	0.5	0.6	3.9	8.7	16.7	18.1	19.4	14.8	14.0	14.5	8.4	na
Lithuania	na	0.3	1.3	4.4	3.8	17.5	16.4	14.1	13.3	14.1	11.1	na
CE (ave.)	**2.55**	**8.28**	**8.98**	**11.1**	**10.7**	**9.7**	**9.34**	**8.42**	**9.78**	**10.4**	**11.7**	**12.6**
Czech Rep.	0.7	4.1	2.6	3.5	3.2	2.9	3.5	5.2	7.5	8.7	8.8	9.0
Hungary	1.8	8.2	9.3	11.9	10.7	10.2	9.9	8.7	7.8	7.0	6.5	6.0
Poland	6.5	12.3	14.3	16.4	16.0	14.9	13.2	8.6	10.4	12.5	16.7	17.0
Slovakia	1.2	9.5	10.4	14.4	14.6	13.1	12.8	12.5	15.6	16.2	18.9	19.0
Slovenia	na	7.3	8.3	9.1	9.1	7.4	7.3	7.1	7.6	7.4	7.5	12.0

Source: 1990-98 OECD (2000); 1999-2000 KILM, ILO (2002); 2001 WIIW, Vienna (2002).

currently employed will lose their job either because of their obsolete human capital or because of the closure of some plants. Therefore, it is expected that under restructuring some employees will be laid off. On the other side, restructuring leads also to an increase in productivity of the remaining employees. Full employment (zero unemployment), centrally set wages and overstaffing characterize the labour market in the pre-transition period. As the transition process started both supply and demand for labor were affected. Given these adjustments, full employment was no longer sustainable. Some six million people became unemployed in Central and Eastern Europe. Many withdrew from the labor force. (Boeri et al. 1998; Svejnar, 1999 etc.). Table 3 provides the unemployment rates for the CE, SEE and the Baltic countries against time. The SEE countries had higher unemployment rate during most of the 1990s compared to the CE and Baltic countries.

Burda (1993) argues that unemployment is not just a by-product of transition; it is necessary for transformations. In his study, he gives three reasons to support this claim: (i) with unemployment, the bargaining power is biased toward employers; indeed, unemployment will provide a worker-disciplining device; (ii) unemployment may be necessary to control the growth of real wages; and (iii) unemployment is necessary to allow the emergence of the private sector.

The most vulnerable groups to become unemployed are those with low education. The unemployment rate for older workers is lower than the rate for young ones, because many older workers took early retirement and, therefore, withdrew from the labor force. Burda (1993) and Nesporova (1999, 2001) argue that one of the causes of unemployment during the transition is 'skill mismatching' – many skills have become obsolete due to changes in production, advanced technologies and new forms of organization.

9. Human Capital and Transitional Economies

The human capital plays a significant role in the economic growth. Consequently, the level of human capital is important from both macro and micro aspect. Given these facts, governments throughout the world pay increasing attention to the quality of education delivered by schools. Using empirical data, greater schooling enrolment in 1960 consistent with one more year of attainment is associated with 0.30% faster annual growth over 1960-1990. Moreover, human capital accumulation seen from an individual perspective explains to a great extent earning differentials among individuals in the labor market.

The role the human capital is also important toward market economies in many countries. While the progress toward the market economy in the early stages of transition depended on the willingness and commitment of governments to implement reforms, the long run adjustment of transition economies depends primarily on the ability of human capital to absorb and to exercise the knowledge that is necessary to compete internationally. Human capital that is able to adjust to technological changes and to the principles of market economy is a prerequisite to bring economic prosperity for the nation as a whole.

Duczynski (2001), using the data set from Barro and Lee (1993) based on a research that evaluates the educational attainment internationally, shows that the average years of schooling in the population aged over 15 in transition countries is found to be 9.31, with a standard deviation of 1.1. In 21 developed countries the average is 8.7 and the standard deviation is 1.8. These data reveal two facts: (i) the transition countries have higher educational attainment (the average years of schooling is higher compared to the developed countries); and (ii) inequality in educational attainment among different groups in transition countries is lower compared to that in the developed countries. Micklewright (1999) shows that comparing enrolment rates

(or, in this case, the average years of schooling) provides limited information, since it neglects the quality of education obtained by the learning actually achieved. Hanushek and Luque (2002) show that one academic year of schooling in the USA is not directly comparable to one academic year in the developing or transition countries. However, it is apparent that the stock of human capital inherited from the socialist period was high compared to other countries at similar levels of economic development. The point is whether the transition countries can maintain this positive element inherited from the previous system and make further improvements.

Education acquired during the previous system is not of the type required under the open market system, and much of the skills inherited were obsolete. Spagat (2002), making use of data from an EBRD report from 2000, concludes that firms in transition countries lag behind advanced industrialized countries in terms of the quality of theirworkforce. The lack of successful reforms and high unemployment mean that over time there will be a continuing loss of skills, leading to an even greater gap in the quality of workforce. The educational system under the communist regime was biased toward producing graduates with very narrow skills. When the transition started, it was revealed that the marketability of these types of skills was low; with diplomas from vocational schools often being very poorly rewarded (Boeri and Terrel, 2002, Orazem and Vodopivec, 1997). Therefore, it was reflected by a decline in enrolment in vocational and technical schools throughout the region, and a rise in enrolment in general secondary schools and in tertiary education. This is a reflection of a mix of demand and supply factors.

Regarding this, a great part of the human capital in the transition economies would have low market value, since it was acquired under communism when priorities were very different from what they are today. Nevertheless, the human capital in the transition countries has an 'intergenerational' value in terms of passing the inherited human capital across generations and creating better chances and choices for the young generation.

10. Kosova among Other South-East European Countries

The countries of South Eastern Europe, including Kosova, are described as latecomers on the stage of transition. Among them are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosova, Macedonia, Romania, Serbia, and Montenegro. The transition process in these countries is described as a 'retard transition', since it was disrupted by conflicts throughout the 1990s. With the total GDP of US$50 billion and 50 million people, this is the poorest region in Europe. The labor market in these countries has been affected substantially by recent conflicts and the resulting movements of people. The combined effect of industrial decline, privatization and economic restructuring caused a dramatic reduction of opportunities for employment. New employment has been driven mainly by self-employment, such as small businesses and farms.

Data on unemployment are not very reliable especially when the informal economy is taken into account.

Kosova is one of the last countries to embark on the road of transition to market economy (Hashi, 2001). The reason is twofold: first, the occupation by Serbia during the period 1989-1999, which started with the abolishment of the Kosovo's Constitution in 1989. Kosovar experts and an ILO report claim that some 145,000 workers (managerial staff in enterprises, teachers and university professors) had been dismissed from their jobs. Secondly, during the war in Kosovo in 1999, Serbian regime displaced through ethnic cleansing around 800,000 Albanian people to the neighboring countries and to the Western Europe. After the war, the reconstruction, stabilization and transformation policies became the responsibility of the UN Mission to Kosova based on Resolution 1244. Some progress has been achieved in terms of establishing new institutions. GDP is recovering and was increased by 11% and 6% in 2001 and 2002, respectively, reaching the level of more than US$1,000 per capita. The reconstruction process absorbed a considerable number of unemployed people. Some 65,000 people are working in the newly established state institutions and in the public sector.

The success of the Kosovo education system in developing high levels of attainment in the key competences will be an important determinant of future national economic development. Equal access to a modern education system is also a major factor in promoting equity and social welfare.

11. Factors Affecting Labor Market

11.1 A Comparison of Kosovo Statistics to Europeans Standards

Activity rates in Kosova are very low by European standards, with only 58% of the resident population of working age out of 1,210,000 economically active (Riinvest, 2003). This is largely due to the low activity rate among women (just over 40%). Such low activity rate, in turn, reflects very high unemployment rate (49%). When adjustments for seasonal factors and the existence of the informal sector are made, the estimated unemployment rate falls below 40%. Currently, these rates are approximately three times the rates of Albania and Bulgaria. The unemployment rate is especially high for women (estimated at 64%), with only the Czech Republic and Albania approaching this degree of a gender gap in unemployment rates in the CEECs. Kosova faces chronic youth unemployment, estimated at 72% for those aged between15-24, and with over 40% of all unemployed coming from this age group this problem is more severe than in any other CEE country. About two-thirds are now in the private sector out of the estimated 36% of the employed population aged between15-64. Agriculture accounts for nearly a quarter of total employment; other main sectors are wholesale/retail trades (12%), health and education (14%) and construction (7%), where manufacturing accounts for less than 4% of employment. There are over 300 state-owned enterprises employing approximately 30,000 workers with a further 30,000 on unpaid leave.

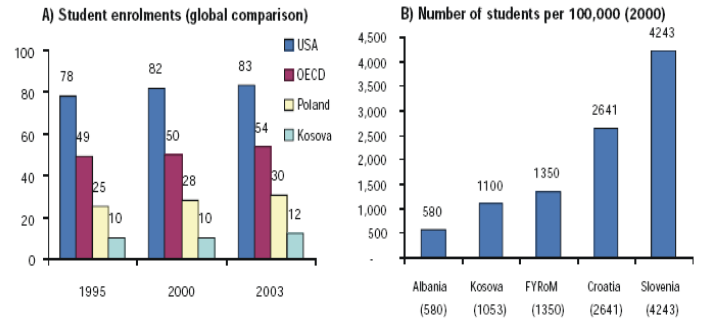
11.2. Education System in Kosova

Only 13% of the Kosovo population in the 25-64 age range hold higher education qualifications (18% of men and 8% of women), compared to 23% of men and 20% of women in the EU, 36% of men and 32% of women in Japan, and

37% of the US overall population. Such low percentage of people with higher education qualifications and an increasing demand in the labor market for these qualifications will put pressure on the education system in Kosova to increase its capacities. (Based on the data from the Riinvest Households and Labor Force Survey (December 2002), The education system in Kosova is undergoing a reform involving every level of the system. Apart from the curricula, the reform involves the organization of education as well as the institutions.

Around 70% is estimated to be the participation rate in secondary education. Policies that target increasing participation in education in general are urgently needed, due to the growing importance of higher education for economic development. For the sake of comparison, the enrolment in higher education institutions in Kosova in 2003 was around 10-12%, whereas in a post-communist country such as Poland it was 30% (in the USA 80% and in the OECD countries 54%, (see *Part A*, Figure 2 below). There are roughly 1,000 students per 100,000 inhabitants enrolled in higher education in Kosova (Riinvest 2004), compared to 1,350 students in Macedonia and 4,243 in Slovenia (see *Part B*, Figure 2 below). Both of these countries have similar populations to Kosovo's one. The increase of enrolment in higher education should be given priority if it is to raise the competitiveness of the Kosovo economy.

Figure 2. **A) Students' enrolment in global comparison; and B) Number of students per 100,000 inhabitants in South-East European countries in 2000**



The majority of the new jobs created in Kosova during the last four years have been created in the sector of small and medium sized enterprises (SMEs), for which the entrepreneurship skills are essential. Consequently, an education system providing the new graduates with such skills ensures faster employment, and economic growth.

Recent structural changes have been introduced with the objective of making the Kosovo education system compatible with education systems in the EU and of other developed countries. Nearly a quarter of the Kosovo's population is participating in education. The University of Prishtina had 23,175 students enrolled in 2002/2003. There are also some private providers of higher education, but they are still in the initial stage of development[1]. Buildings and equipment were in poor condition, and low salaries of teachers and lecturers and the lack of in-service training resulted in multiple job-holding, and a slow and uneven implementation of modern curricula and teaching and learning methods. In the old system the evaluation and assessment was not carried out centrally, all the responsibility for these was devolved to schools. There was no standardization of assessment to enable comparison between schools and teachers, respectively.

Table 2. **Government expenditures in education in Kosova 2000-2004, (in '000 Euros)**

	2000	%	2001	%	2002	%	2003	%	2004	%
Preschool, primary and secondary	49,493	87.3	52,241	87.0	61,740	83.5	61,444	76.8	72,814	78.6
Special needs education institutions	642	0.2	469	0.8	816	1.1	956	1.2	1,112	1.2
Higher education	6,155	10.9	6,395	10.6	9,891	13.4	11,591	14.5	12,943	14.0
National University Library	140	0.2	242	0.4	265	0.4	1,125	1.4	1,385	1.5
Education administration	251	0.4	732	1.2	1,012	1.4	4,499	5.6	2,812	3.0
Teacher training					192	0.3	230	0.3	1,280	1.4
Curriculum Development					65	0.1	200	0.2	273	0.3
Total	56,681	100.0	60,079	100.0	73,981	100.0	80,043	100.0	92,620	100.0
Total Kosova Budget	285,600		288,200		383,708		556,900		619,000	
% of total budget	20%		21%		19%		14%		15%	

Source: MEF and Riinvest (2004).

[1] *Adnett, N. (2002): "Labour market and unemployment in Kosova: Consultant's fact findings report", Riinvest Institute, Prishtina*

The education in Kosovo is mainly public, and participation in private education is still low. Secondary and primary education is financed through grants from the central budget, which are transferred to the municipalities; higher education is financed directly by the Kosovo budget and by students' contributions in the form of tuition fees. Private secondary education, such as private colleges licensed by the Ministry of Education, Science and Technology, are financed through private sources. Table 3 shows how spending in education in Kosovo has evolved during the period 2000-2004. Spending in education is presented in absolute figures and as percentages of the total public expenditure (Hoti et al., 2004).

11.3 Emigration

Emigration and the following impacts, both economic and social, have been widely analyzed in the entire territory of Kosova. It is shown that decisions about emigration depend on: (i) the cost of emigration; (ii) relative wage levels at home and abroad; (iii) the level of, and eligibility criteria for, unemployment benefits and social assistance; (iv) the unemployment rate at home; and (v) the level of education of those tending to emigrate. Restrictions on people's movement both within and across countries prevailed in almost all of the former socialist countries. The [1].

12. Statistics of employment rate

There is a high unemployment rate (49%). Unemployed individuals are concentrated in rural areas (56% of the total number of unemployed live in rural areas compared with just 45% of the employed). The unemployed are younger than the employed and, as discussed below, they are also less educated. Almost two-thirds of the unemployed are under the age of 31. Nearly half of those who are employed work in the private sector. Employment is concentrated in transport and services.

Just above one third of the Kosovo emigrants are from urban areas. This is an indication that people from rural areas are induced to emigrate more that those from urban areas.

13. Unemployment and emigration

Our primary objective in this analysis is to explore what is happening to the human capital in the post-war Kosova. Due to the data limitations we cannot analyze many aspects of human capital formation and deterioration in Kosova. We have, in particular, explored the probability of

1974 Constitution of the former Yugoslavia introduced some elements of market economy, the reforms that made it thus different from other socialist countries. People were allowed, to a considerable degree, to move freely and to choose their residence according to their preferences. As a consequence of having young population and persistently high unemployment rate, Kosova has experienced both temporary and permanent mass emigration over the recent years, with approximately half a million Kosovars living abroad and whose remittances account for about a quarter of the national income. Emigration in Kosova took place during two distinctive time periods. The first one started in the 1980s and continued during the 1990s until the 1999 war, estimated at around 250,000 people. The second wave of emigrants consisted of massive emigration/movements of population; it started during the 1988 conflict and culminated during the open war in 1999. The emigration can be thought of as having two effects: (i) it puts downward pressure on unemployment since it reduces the labor supply for a given level of labor demand and, assuming there is a fixed number of vacancies, those who remain in Kosova have a higher chance of getting a job; (ii) emigration induces private employment creation due to remittances that emigrants send back home not only in cash but also in the form of machinery. It is estimated that such remittances sent by emigrants working in Western European countries amount to around $500 million per annum. This amount is approximately a quarter of Kosovo's GDP and, given the lack of social benefits/assistance, remittances are an important source of income for families residing in Kosova as well

being unemployed and emigrating. Our analysis, therefore, consists of two parts[2].

Schooling is measured by the level of education completed and, we cannot distinguish between different types of schooling. It would be expected that those with vocational education face higher probability of being unemployed compared to those with general education qualifications. The omitted category for education in both models is primary education.

Empirical Findings

Prior to the assessment, we expected that those who are less educated, reside in rural areas and are young face higher probability of becoming unemployed. Regression results for Equation (1) are presented in Table 4 below. In addition, Equation (1) is estimated for all persons in the labor force who reside in Kosova (column 1) and for men and women separately (column 2 and 3, respectively).

All coefficients in column 1 have the asterisk sign and all the coefficients except those in 'age less that 31' and 'no education' are not significant. Based on these results, it can be said that the probability of being unemployed is lower if a person is an urban resident, and a married male. This probability decreases also with age and with the level of education. These results are consistent with other

1 Adnett, N. (2002): "Labour market and unemployment in Kosova: Consultant's fact findings report", Riinvest Institute, Prishtina

2 Basker, E. (2002): "Education, Job Search and Migration", University of Missouri-Columbia Department of Economics Working Paper, No. 02-16.

statistics whereby the unemployed are concentrated in rural areas, among females, youth and less educated individuals[3]. The regression results presented in column 2 and column 3 for men and women respectively show mainly the same pattern as those in column 1, except that the coefficient on urban residence for women is not significant and has the wrong sign.

In general, all coefficients in three columns show consistency that the probability of unemployment is lower for urban residents, for men and for married individuals. It decreases with age and with the level of education.

*Note: t-statistics in parentheses; significant at 5% level of significance; ** significant at 10% level of significance.*

All coefficients have the asterisk sign, though not all of them are significant. From the regression results, the following observations can be made:

(i) urban residents are less likely to emigrate than rural residents;

(ii) men are more likely to emigrate than women;

(i) the probability of emigration decreases with age, but there is no significant difference in the probability of emigration between those aged under 31 and those of 31 and above;

(ii) (iv) married people are more likely to emigrate; and

(iii)(v) the probability of emigration increases with education.

3 Spagat, M. (2002): "Human capital, growth and inequality in transition economies", William Davidson Working Paper, No. 499.

Table 5. **Probability of emigration using logit maximum likelihood estimation**	
Regressors	**Incidence of emigrating**
Constant	-1.45*
	(-3.86)
Urban resident	-0.38*
	(-3.40)
Men	0.82*
	(6.83)
Age	-0.03*
	(-3.41)
Age less than 31	0.04
	(0.19)
Married	0.50*
	(3.59)
No education	0.30*
	(0.91)
Secondary	0.47*
	(3.60)
Uni. & post-uni. education	0.33**
	(1.658)
Sample size	2,301
Goodness of fit	0.806
Pseudo-R-Squared	0.053

Note: t-statistics in parentheses; * significant at 5% level of significance; ** signiicant at 10% level of significance.

Table 5. **Probability of being unemployed using logit maximum likelihood estimation**			
	Dependent variables		
Regressors	**Incidence of unemployment (all)**	**Incidence of unemployment (men)**	**Incidence of unemployment (women)**
	1	**2**	**3**
Constant	3.17*	2.37*	3.27*
	(10.20)	(6.33)	(5.95)
Urban resident	-0.27*	-0.44*	0.10
	(-3.18)	(-4.22)	(0.65)
Male	-0.80*		
	(-9.06)		
Age	-0.05*	-0.04*	-0.06*
	(-6.96)	(-5.28)	(-4.51)
Age less than 31	-0.12	-0.16	-0.09
	(-0.79)	(-0.86)	(-0.37)
Married	-0.48*	-0.66*	-0.28**
	(-4.70)	(-4.82)	(-1.74)
No education	-0.17	-0.30	-0.04
	(-0.51)	(-0.63)	(-0.09)
Secondary	-0.62*	-0.54*	-0.84*
	(-6.13)	(-4.25)	(-4.86)
Uni. Education	-1.41*	-1.39*	-1.54*
	(-7.19)	(-5.20)	(-5.18)
Post-Uni. Educ.	-1.59*	-1.33*	-2.01*
	(-8.25)	-5.39	-6.61
Sample size	2861	1829	1032
Goodness of fit	0.692	0.690	0.696
Pseudo-R^2	0.145	0.123	0.110

14. Conclusions

In this paper I have analyzed the human capital, unemployment and emigration regarding to the Labor Market in Kosovo. Two issues were analyzed in particular. First, we estimated the probability of unemployment for those who are of working age, who are active in the labor force and reside in Kosovo. Empirical findings show that the probability of unemployment is lower for urban residents, for men and for married people. It also decreases with age and with the level of education. From these results we can show that the human capital of women, young and less educated individuals is deteriorating, unless necessary steps are taken to reintegrate these people into the employment world, they will become a burden to the society. In the second part we have explored the probability of emigration. The empirical results show that the probability of emigration is lower for urban residents compared to rural residents and, thus men and married people tend to emigrate more. On the other side, it is also shown that more educated people have higher propensity to emigrate. This is primarily due to the fact their chances of finding a better job and life abroad are higher along with lower emigration costs. These results point to the issue of "the brain drain", which is becoming a real concern for some of the transition countries. In Albania, nearly 1,000 academics who emigrated during the 1990s created a vacuum in the academic life there. Although in Kosovo this phenomenon is still not strong, there are signs that as time passes it will become a real concern. More educated people constitute the most productive part of the society and their emigration has a strong impact on domestic economy. From this point of view, the government should create better environment for the highly-educated people in order to stimulate them to stay and to work in their home country[1].

The debate over the right emigration policy is still going on. It seems that this debate is balanced stating both positive and negative aspects of emigration. Given the high unemployment rate in Kosovo, emigration is playing an important part in financing the consumption expenditure of the families in Kosovo, as well as financing investment expenditure by the private sector. We did not explore the latter issue and this might be an interesting topic for another research. Further, men and married people face lower probability of unemployment. But they also tend to emigrate more compared to their respective counterparts. There is no straightforward explanation for this; although one might say that emigration is also a function of the family size (i.e. individuals from larger families - married people - tend to emigrate more). Thirdly, although more educated individuals face lower probability of

[1] *Bils, M. and P. Klenow (2000): "Does schooling cause growth", American Economic Review, Vol. 90, No. 5, pp. 1160-83.*

unemployment in Kosovo, they tend to emigrate more than less educated individuals.

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