



SUPPORT
TO SOCIAL
PARTNERS



MINIMUM WAGE STUDY

IDENTIFYING THE BEST MODEL FOR
KOSOVO

: MODELS & GOOD PRACTICES IN
DETERMINING MINIMUM PAY

Policy brief prepared for
Kosovo Economic and Social Council



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CONTENTS

EXECUTIVE SUMMARY	1
MINIMUM WAGE: KEY ELEMENTS	4
Advantages and disadvantages of introducing minimum wages	4
Under what conditions is minimum wage necessary?	7
ILO standards for setting and enforcing the minimum wage	15
MINIMUM WAGE IN KOSOVO	20
Legal provisions	20
MINIMUM WAGE IN KOSOVO IN CONTEXT	23
ADJUSTMENTS TO THE MINIMUM WAGE: SOCIAL PARTNERS	30
RECOMMENDATIONS	33
REFERENCES	42
ANNEX	45

ACRONYMS

BSPK: The Union of Independent Trade Unions of Kosova

CPI: Consumer Price Index

EU: European Union

ILO: International Labour Organisation

IMF: International Monetary Fund

KAS: Kosovo Agency of Statistics

KIESA: Kosovo Investment and Enterprise Support Agency

KLA: Kosovo Liberation Army

LFS: Labour Force Survey

MLSW: Ministry of Labour and Social Welfare

NACE: Statistical Classification of Economic Activities in the European Community

OECD: Organisation for Economic Co-operation and Development

PPS: Purchasing Power Standard

SEC: Social and Economic Council

TAK: Tax Administration of Kosovo

UNDP: United Nations Development Program in Kosovo

EXECUTIVE SUMMARY

The purpose of this study is to assess the methodologies and practices that are used to set minimum wages and the indicators that need to be taken into account, with the aim of informing the process and dialogue between stakeholders in Kosovo on setting the minimum wage. In no way does this study aim to recommend a certain level or method of setting the minimum wage, as this can only be a product of dialogue between stakeholders. The main aim is to illustrate key considerations to have in mind while going forward on a decision on the methodology, and to highlight the overall policy and socio-economic implications of any policy changes in the context of Kosovo.

Minimum wages are an essential component of a country's social protection system aiming to reduce poverty and increase social justice. Studies find that in many countries minimum wages have been effective, among other things, in reducing income inequality, poverty, reducing government expenditure on social benefits and strengthening social stability. On the other hand, studies have also shown that the minimum wages may reduce employment rates and drive workers towards informality, while higher minimum wages might also decrease private sector competitiveness.

Most countries in the Western Balkans have set the minimum wage at between 40-50% of the average wage. In 2011, Kosovo introduced a minimum wage at €170 (gross), with a reduced minimum wage of €130 for employees under 35 years of age. There is no evidence to indicate what formula was used in deciding on the minimum wage. The IMF noted in 2013 that the criteria were not concisely determined and that a more rule-based treatment was necessary, leading to the establishment of an Administrative Instruction for criteria and determination of procedure of

minimum wages issued by MLSW. This AI notes that the methodology for calculating the minimum wage may be reviewed every three years.

There is no uniform and best way of setting a minimum wage. Countries in the Western Balkans and the EU use different criteria and approaches.

Factors such as labour market outcomes, productivity and wage distribution are some of the most common economic elements taken into account, whereas among the social/living standards criteria, countries commonly list the needs of the employees and their families, consumer price index (CPI) (change in the standard of living), inflation rate, income from social security benefits and comparison with living standards of other groups. Different countries assign different weights to criteria - thus the methodology is a product of dialogue between stakeholders.

Currently there is a disagreement between social partners and business associations in Kosovo on the merits of an increase in the minimum wage, with the former noting that the minimum wage is not a living wage that meets minimum needs of an average family of a worker, whereas the latter notes that any increase would damage private sector competitiveness.

Who would be impacted by a change in the minimum wage in Kosovo?

Disaggregation of data by economic activity suggests that minimum wages are more likely to affect the following sectors: agriculture, other service activities, accommodation and hospitality, and the real estate services sector. The minimum wage also impacts budgetary expenditures as it is closely connected to the KLA Water Veterans scheme, which is the only scheme that is set based on the minimum wage. Therefore, any decisions for its adjustment must take into account budgetary implications for this scheme, having in mind that the number of beneficiaries is expected to be large (latest reported number being 46,230 beneficiaries!).

While moving forward with a dialogue on establishing a methodology of setting the level of the minimum wage, we note in this study that

stakeholders need to ensure the availability of reliable data on key indicators to feed the formula for calculation. To this end, it is essential to define the precise minimum living wage and the current average wage, which we attempt to do in this paper based on existing data and assumptions. Furthermore, it is essential to estimate the impact of a proposed minimum wage on labour costs, average wage, distribution, as well as the feasibility of implementation. Based on the dialogue between stakeholders, the methodology must ultimately specify any other relevant criteria in setting the minimum wage and specify their weight, while also devising a formula and frequency for adjustments. It should also ensure that all other side effects are taken into account, including the cost of the War Veterans bill, for which at the end of this study we run a simulation based on current assumptions.

MINIMUM WAGE: KEY ELEMENTS

Advantages and disadvantages of introducing minimum wages

The ILO defines the minimum wage as: “the salary which constitutes the floor of the wage structure with the objective of protecting workers who occupy the lowest position in wage distribution” (ILO, 2012). The term “decent wage floor” is commonly associated with minimum wage, implying that it must be linked to a [minimum] standard of living but that it should also be low enough to remain at the bottom of the wage distribution. As such, the minimum wage should be only one of the many components of a social protection system aiming to reduce poverty and fulfill the needs of wage earners and their families, as stipulated by Article 1 of the ILO R135 Minimum Wage Fixing Recommendation, 1970¹.

Considering that it uses the standards of living as a basis, the minimum wage is argued to contribute to poverty reduction and social justice by improving the lives of women and men working in low-paid jobs (ILO, 2012). Evidence from a number of countries across the world supports this argument. For instance, studies on Brazil show that coupled with Bolsa Familia (a family benefit program), minimum wage has contributed to poverty reduction. In South Africa, minimum wage has enabled inclusion of workers in low-wage sectors such as

¹ The purpose of the ILO R135 Minimum Wage Fixing Recommendation, 1970 concerning Minimum Wage Fixing, with Special Reference to Developing Countries was to introduce criteria which make minimum wages effective in social protection while at the same time contributing to economic and social development.

farming, hospitality, and domestic workers, in an economy highly fragmented due to decades of racial discrimination. In a number of countries in Asia, minimum wage regulations have successfully been introduced in response to violations of basic workers' rights, especially in the garment sector (ILO, 2012). Through econometric analysis, Belser & Rani (2011) also find that controlling for all personal characteristics, receiving a minimum wage reduces the probability of being poor by 10%. Its impact is especially crucial for the sectors of agriculture, of low productivity, and among casual workers, characterized with an overrepresentation of low wage workers. The same researchers find that minimum wages rank the third in importance after education and geography for poverty reduction.

In economies with increasing income inequality, minimum wages are argued to contribute to sustainable economic development by slowing the income inequality and reducing the number of "working poor". Herr, Kazaniziska & Mahnkopf-Praprotnik (2009) argue that minimum wages have an impact on income inequality through income distribution between capital and labour as well as between different groups of workers. In the European Union (EU), minimum wages are argued to also have a positive socio-economic effect as they lighten the burden on the state to pay social protection benefits, increase private demand as low-wage workers use the whole salary for consumption, and prevent price deflation. By providing the low wage earners with a minimum income, minimum wages also contribute to peace and prevention of social unrest stemming from social injustices in highly unequal societies (ILO, 2012).

Depending on the set criteria, minimum wage can also have an impact on reducing the gender pay gap. Introduction of a minimum wage of general application – that is, applicable to all low-wage workers regardless of

characteristics or sectors of employment – could be especially effective in reducing the gender pay gap in economies where women are overrepresented in low-wage sectors, or at the bottom of wage distribution in general (ILO, 2012).

Using evidence from Latin America, Boeri, Garibaldi & Ribeiro (2010) find that an increase in minimum wages has a positive impact even on the wages in the informal economy. An increase in the minimum wage in the formal sector “signals” wage adjustments in the informal economy, labeled as “The Lighthouse Effect”, by inducing the workers of this sector to require higher wages. Under such circumstances, the authors argue, firms and employees will self-select the formal or the informal sectors.

A number of other studies on the other hand argue that introduction of the minimum wage may have an adverse marginal effect on the quantity of wage employment in the formal and informal economy. If the minimum wage is set too high – it is argued – it may offset price inflation, reduce employment, and will push the formal private sector into informality as [especially] the Small and Medium Enterprises (SMEs) cannot afford to pay for it. In cases where it is affordable, increasing labour costs has a negative impact on competitiveness, especially in sectors dominated by SMEs or those that employ a comparably larger share of low-wage workers (ILO, 2012).

Under what conditions is minimum wage necessary?

The ILO report *Minimum Wage Systems* (2014) provides the following taxonomy of minimum wages applicable across different countries in the world:

- Minimum wage of general application – a minimum wage applicable to all or almost all categories of workers (e.g. UK, France);
- Minimum wages by geographical area – intended especially to account for differences in standard of living and/or economic development;
- Minimum wages by sector or occupation (e.g. garment industries in Asia);
- Minimum wages by other criteria: sex, age, disability, nationality, etc.

Research shows that minimum wages are almost a universal policy as around 90% of the countries around the world have it in place², regardless of their labour market outcomes, economic development, characteristics of the economy, or level of generosity in their social protection system. As shown on Table 1, the majority of countries in the EU have a minimum wage. Two major differences may be observed when comparing them: 1) Level of coverage of the minimum wage: universal through the national minimum wage or non-universal through sectoral/occupational minimum wages and 2) Instruments through which the minimum wages are set: statutory regulation or collective (bipartite or tripartite) agreements. All countries in the Western Balkans also

² ILO, 2012.

have a minimum wage policy in place, even though criteria for setting it may differ from one country to the other. In contrast to the other countries, Kosovo and Albania also apply a reduced minimum wage for youth between the age of 15-24 years.

Table 1. Different systems of minimum wage setting in Europe

	Statutory regulation	Collective agreements
A single national minimum wage as a universal wage floor	<p>Western countries: France, Luxembourg, Netherlands, Ireland, United Kingdom</p> <p>Southern countries: Malta, Spain, Portugal</p> <p>Eastern countries: Croatia, Czech Republic, Hungaria, Latvia, Lithuania, Romania, Slovenia, Turkey</p>	<p>Bipartite agreements: Belgium, Estonia, Greece</p> <p>Tripartite agreements: Bulgaria, Poland, Slovakia</p>
No universal wage floor but sectoral and occupational minimum wages	Cyprus	<p>Nordic countries: Denmark, Finland, Norway, Sweden</p> <p>Continental countries: Austria, Germany, Italy, Switzerland</p>

Source: ILO. (2012). Social justice and growth: The role of the minimum wage

As shown on Table 2, countries in the Western Balkans and the EU use different criteria to set the minimum wage. Factors such as labour market outcomes, productivity, and wage distribution are some of the most common

economic elements taken into account, whereas among the social/living standard criteria, the countries commonly list the needs of the employees and their families, consumer price index (CPI) (change in the standard of living), inflation rate, income from social security benefits, and comparison with living standards of the other groups.

As shown on the table, comparisons of other macroeconomic indicators of countries do not show any patterns in terms of the level of minimum wage. In the majority of the countries in the region, the minimum wage is set at between 40% and 50% of the average wage, regardless of the unemployment rate, GDP per capita or labour productivity. Only two countries – Kosovo and Albania – use a reduced minimum wage, but this decision seems to be unrelated to the unemployment rate among youth which is 29% in Albania and 61% in Kosovo. These figures reinforce the argument that it is the social partners and dialogue that determine what criteria – whether social or economic – will have more weight, hence determine the level of the minimum wage.

Table 2: Minimum wage and macroeconomic indicators in the Western Balkans and selected EU countries³

Country	Has minimum wage?	Criteria used to set the minimum wage	Minimum wage in Euros	Minimum wage as % of average country wage	Minimum wage in PPS (Purchasing Power Standards)	Reduced minimum wage for young workers	Unemployment rate	Youth unemployment rate (15-24 years old)	GDP per capita (current international \$)	Labour productivity (GDP per person employed constant PPP \$)
Albania	YES	a) Economic factors: needs of the economic development, the decrease of unemployment, and the increase of production. b) The needs of the employees and their families, taking into consideration the	156	47.3%	329	The Council of Ministers may fix a reduced minimum wage for young workers (provision not implemented according to the Government)	16.1%	29.2%	11108.0	25943.0

³ Poland, Slovenia and Luxembourg were selected since they represent the highest bound of their groups (3 in total) composed by Eurostat, based on rankings of EU and Candidate Countries using the minimum monthly wage in EUR. http://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics

		general level of living of the employees in the country, the income benefited from social insurance, and the living standards of different groups.								
FYR of Macedonia	YES	N/A	214	39.6%*	458		27.9%	50.8%	13523.0	38520.0
Montenegro	YES	N/A	288	No less than 30% of the mean wage in the preceding 6 months*	519		19.1%	39.5%	15054.7	45423.0
Serbia	YES	Needs of workers and their families; Mean wage; Unemployment rate; Employment trends	234	43.7%	480		22.2%	49.5%	13594.1	26580.0

Bosnia and Herzegovina	YES	Consumer Price Index (CPI) for changes in living standards; overall economic development; Mean wage; Overall economic development.	210	No less than 55%* of average wage			27.9%	57.5%	10429.9	34314.0
Poland	YES	Forecast in GDP	791	51.3%	792		9.2%	24.0%	25261.6	55110.0
Slovenia	YES	Inflation rate; employment trends	1923	47.6%	968		9.5%	20.8%	30402.7	62002.0
Luxembourg	YES	Consumer Price Index (CPI)	431	45.1%	1597	From 15-17 years of age: 25% reduction in the minimal social wage From 18-18 years of age: 20% reduction	6.1%	16.0%	98459.5	203037.0

Kosovo	YES	Living costs; unemployment rate; the general state of the labour market; competitiveness and productivity rates.	170	48.3%**	Not available		35.3%	61%	9113.7	Not available
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Sources: Eurostat, World Bank Databank of development indicators, Kosovo Labour Force Survey Results (2014)

*PPS (purchasing power standard) is an artificial currency unit. Theoretically, with one PPS one can buy the same amount of goods and services in each country (Eurostat, 2016)

*Minimum wage as % of average country wage for FYR of Macedonia, Montenegro and Bosnia and Herzegovina refers to the ILO report Minimum Wage Systems (2014), i.e. legislation in these countries, and does not include calculations.

**Calculated by authors using €360 as the average wage in Kosovo reported by the KIESA

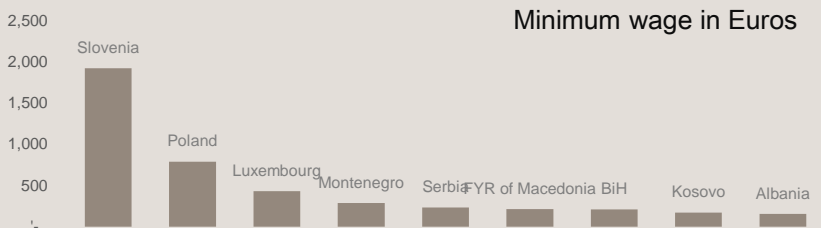


Figure 1. Minimum wage in EUR

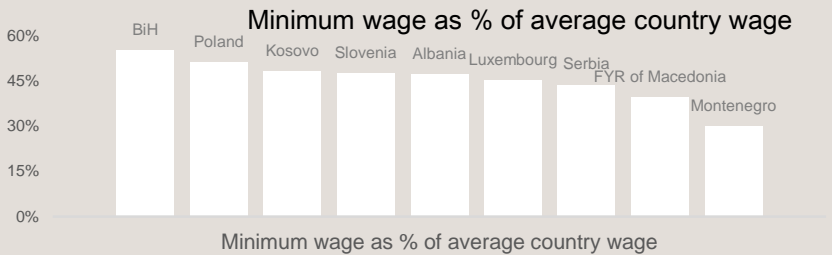


Figure 2. Minimum wage as % of average country wage

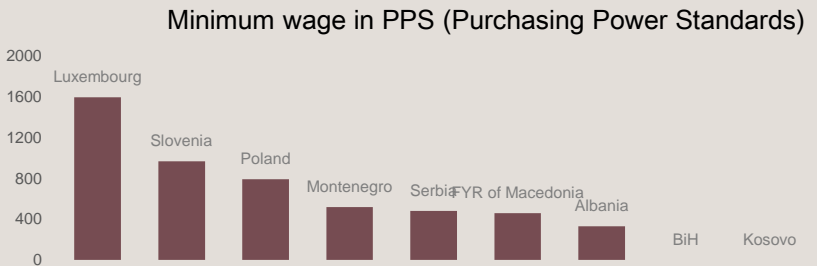


Figure 3. Minimum wage in PPS (Purchasing Power Standards)

ILO standards for setting and enforcing the minimum wage

Article 3 of the C131 ILO Minimum Wage Convention, 1970, includes a list of elements of standards of living and economic factors that should be used as criteria for setting the minimum wage. Specifically, it stipulates that the following elements need to be taken into account when determining the minimum wage:

1. The needs of workers and their families, taking into account the general level of wages in the country, the cost of living [and changes therein], social security benefits, and the relative living standards of other groups;
2. Economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

Chapter “At what levels should countries set their minimum wages” of the ILO report *Social justice and growth: The role of the minimum wage* (2012), summarizes the indicators for setting the minimum wage, data sources that can be used for each one of them, as well as discusses other important elements of the process of setting the minimum wage. Identification of data sources, calculation and selection of statistics are only the starting point of the process of minimum wage fixing. The report, which collects evidence from practices of numerous countries around the world, uses the Minimum Wage Convention 1970 to group these indicators into the following categories:

1. A minimum wage threshold. The mix of goods and services included in the threshold of a minimum standard of living depends on discussions of the stakeholders involved in the policy dialogue, as they may change from time-to-time and there are usually diverging views of what it should consist of. International or national poverty lines could be used as the starting lowest benchmark in this process. Since the Convention stipulates that the needs of workers and their families need to be taken into consideration, Anker (2011) argues that it is important to set a minimum living wage which takes into account the household size and the number of full time working persons in the household of the minimum wage. If this methodology is pursued, it is important to: 1) Identify the characteristics of a typical household with low incomes; and 2) Define household size using adult equivalence scales⁴ that take into account the economies of scale and different consumption needs of household members based on their age. The proposed formula for the minimum living wage is as follows:

$$\text{Minimum living wage} = (\text{Poverty line} * \text{adult equivalents in the household}) / \text{household members who work full time}$$

Source: ILO. 2012. Social justice and growth: The role of Minimum wage

⁴ OECD methodology of equivalence scales assigns a value of 1 to the first household member, of 0.7 to each additional adult and of 0.5 to each child: <http://www.oecd.org/eco/growth/OECD-Note-EquivalenceScales.pdf>

As stated previously, the mix of goods and services included in the minimum living wage depends largely on the social dialogue. Certainly, other elements may be considered as basic across different countries and contexts, such as: shelter/housing, clothing, transportation, education, healthcare expenditures, and the like. It must be emphasized that this model is not affected by the labour market factors but it is by changes in prices, including such changes across regions.

2. The ratio of the minimum wage to the average (mean or median) wage. This methodology takes into account the economic factors, namely wage distribution in the country. In its review of numerous countries' policies, the ILO finds that the countries that use this methodology typically set their minimum wage between 35% and 45% of the average wage, ideally at 40%. Nevertheless, having in mind that the average wage may be overestimated or underestimated from outliers, the median income is a better indicator of wage distribution. The review of practices of different countries by the ILO shows that the countries that use this indicator typically calculate the minimum wage as 50-60% of the median wage. The report suggests taking into consideration two factors if this methodology is used: 1) Usage of latest establishment and LFS data;

and 2) Calculation of derived hourly⁵ and monthly wages (to account for the variation in the number of hours worked).

3. The number of employees directly affected by minimum wage, and the impact on the country's total wage bill. This figure depends on the number of workers affected and the average wage increase as a result of the introduction/increase in the minimum wage. The impact of the wage increase in prices will then depend on labour productivity and the share of labour in total production costs where the minimum wage workers are more concentrated.

Considering the sensitivity in setting the minimum wage – deciding on a minimum living standard and intervening in the labour market – it is imperative that the governments make a decision based on full consultations and negotiations with social partners. Even though the evidence is very important in this process, ideally, the social partners will make a final selection of indicators to be used and decide which one of them is more important. The Minimum Wage Convention 1970 also suggests that the minimum wage is fixed through involvement of governments, social partners, and independent experts.

The Minimum Wage Fixing Recommendation, 1970, suggests that the consultations are especially important for:

- Selecting the criteria to set the level of the minimum wage;

⁵ Calculated by dividing earnings with the number of hours worked (ILO, 2012).

- Setting the rate (s) of the minimum wage;
- Deciding on the adjustment schedule and form;
- Discussing the problems with enforcement of the policy/legislation [and feeding them back into the system for revision].

While the Recommendation treats periodic adjustments in a separate article as a must to reflect changes in living costs and the economic conditions, it also highlight the importance of “installing” enforcement mechanisms for the minimum wage policy:

- Ensuring sufficient capacities for implementation of minimum wage;
- Introducing and executing penalties for provisions relating to minimum wages;
- Simplifying the legal provisions to enable workers to exercise their rights to minimum wage, including reclaiming the amounts which they were not paid.

MINIMUM WAGE IN KOSOVO

Legal provisions

Kosovo introduced a legally binding minimum wage in 2011. A standard monthly minimum wage was set at €170 (gross), with a reduced minimum wage at €130 (gross) for employees under 35 years. The minimum wage refers to full-time employment, accounting for 174 hours per month. According to the Administrative Instruction No.09/2013 for part-time employment i.e. for employment under 174 working hours, the minimum hourly wage should be applied (0.98 per hours for those aged between 35-65, and 0.78 for those less than 35 years old). Minimum wage is not obligatory for compensation (payment when employee is in public holidays, annual leave, while participating in training programs) and probation practice.

Based on discussions with Social and Economic Council (SEC), employees' and employers' representatives, there is no evidence on what formula was applied in setting the actual minimum wage. The common understanding was that it was arbitrarily set by the government. According to the Labour Law, minimum wage may be determined by collective agreements at branch and enterprise level, but it cannot be set at lower than the national minimum wage.

As defined by this Law (Article 57), the minimum wage has to be set based on the following factors: costs of living expenses; unemployment rate; general conditions in the labour market; and, general level of competitiveness and productivity in the country. Article 61 of the Collective Agreement specifies the

same criteria in setting the minimum wage including but with a stronger emphasis in costs of living (criteria include: cost of living; the needs of workers and their families; workers' living standard in Kosovo, and economic development level).

The International Monetary Fund (IMF) report of May 2013 (IMF, 2013a), claims that criteria for setting the minimum wage were not concisely determined and a more rule-based treatment was considered necessary. Following this criticism, in the same year the IMF established a so-called rules-based framework for setting minimum wage levels, concluded in the Administrative Instruction No.09 /2013 for criteria and determination procedure of the minimum wages issued by Ministry of Labour and Social Welfare, in August 2013 (IMF, 2013b).

The Labour Law (Article 57) obliges the government to adjust the minimum wages at the end of every calendar year. According to Administrative Instruction (AI) No.09 /2013, the minimum wage can be raised if two conditions are met: one, if the overall CPI rate (average change over 12 months, October-October) published by Kosovo Agency of Statistics increases by more than 2%; and, two, if the real effective exchange rate (over the 12 months) published by Central Bank of Kosovo is lower than 0.5%.

The formula for increasing the minimum wage level for each age category is as follows:

$$\text{Growth Rate of Minimum Wage} = 0.5 * \text{percentage change in CPI} + 0.5 * \text{percentage change in minimum wage in the private sector}$$

To calculate the growth in Euro for the two groups of workers, the growth rate needs to be multiplied by the minimum wage (for employees under 35 years old + current minimum wage for workers over 35 years)/2. The Administrative Instruction specifies that the following indicators and sources of information are to be used to calculate these formulas: 1. The average private sector wage, according to statements in the Tax Administration of Kosovo; 2. Consumer price index, divided by COICOP⁶ components, published by the Kosovo Agency of Statistics; and 3. Real Effective Exchange Rate published by the Central Bank of Kosovo.

Article 4 of the Administrative Instruction stipulates that the formula for setting the minimum wage can be revised every three years based on social dialogue with stakeholders and a thorough analysis of the labour market conditions.

⁶ Categories of food and non-food product used in the Household Budget Survey.

MINIMUM WAGE IN KOSOVO IN CONTEXT

Based on discussions with the Secretariat of SEC, there is no supporting document explaining the methodology applied in setting the national minimum wage introduced in 2011. Although SEC at that time proposed that the minimum wage is set between 50-65% of the average wage, the government arbitrarily set the minimum (although the Decision Note states that the level of the minimum wage is set following the proposal from SEC). A comparison of the minimum average wage (€170) with the average wage in Kosovo (€354) shows that the minimum wage is set at 48.3% of the average wage. Comparisons with the median average could not be made because the LFS collects wage data only through wage categories. The results of the LFS (2014) net wages show that the minimum wages covered between 2.1% and 8.6% of the employed men and between 2.6% and 11.4% of employed women. These figures imply two important facts: 1. That the share of employees paid less than the minimum wage is small and 2. That a higher percentage of women are represented in the bottom of the wage distributing, hence the minimum wage may have a positive impact on reducing the gender pay gap.

Table 3: Net wages by gender

Wage brackets (EUR)	Men	Women
0-100	0.9%	1.0%
101-150	1.2%	1.6%
151-200	6.5%	8.8%
Total 0-200	8.6%	11.4%

Source: KAS. LFS (2014)

Disaggregation of data by economic activity suggest that minimum wages are more likely to affect the following sectors: agriculture, other service activities, accommodation and hospitality, and real estate services sector, as a result of wages that they pay. Disaggregation of the share of employed using NACE codes and net wages of these employees shows that: 18% of the workers in agriculture, forestry and fishing own between under €50 and €150 net wage in a month; followed by almost 7% of the employed in accommodation and food service activities; 16% in real estate activities; and 11% of the employed in the sector of other service activities (KAS, own calculations using the LFS 2014 data).

A comparison of the value of the minimum wage with the amounts of different schemes of the social protection system shows that the minimum wage is higher than most of the schemes: all the pension schemes except for that of Kosovo Security Forces and even Social Assistance for families with more than

15 children (€120). Compared to the benefits for the families of martyrs and war invalids (which includes also a payment for caregivers of war invalids), the minimum wage is in the middle, depending on the number of family members and the category. It must be pointed out that despite provisions that the schemes should be adjusted to the living standards on a regular, yearly basis (most commonly using the CPI), most of the benefits, especially the Social Assistance one, have remained the same since their inception. Also, in contrast with the majority of the schemes that are based on the living standards, the scheme of the Kosovo Liberation Army (KLA) War Veterans is the only one that is based on the minimum wages, therefore any decisions for its adjustment must take into account the budgetary implications for this scheme, having in mind that its beneficiaries are projected to go beyond 20,000. (NOTE: Despite expectation by the government itself, the latest report approved in one of government meetings puts this number at 46,230!)

Table 4: Social protection schemes in Kosovo

Social protection scheme	Monthly amount
Basic (minimum pension) – all citizens of Kosovo above 65 years	€75
Second tier – contribution-based pension (65 year-olds that have contributed in the previous Pension Scheme in Kosovo)	€145
Pensions for adults with permanent disabilities (age 18-65 years)	€75
Trepça (mine) pensions (Law nr. 04-L-31)	/
Pensions for Kosovo Defence Troops	/
Pensions of Kosovo Security Forces (Law nr.04/084)	40% of the basic gross wage, with 2 point-increase every year until it reaches 60% of the gross wage
Compensation for blind people (Law nr. 04/L-092)	
Families of martyrs and war invalids (includes also a payment for caregivers of war invalids)	€50.1 (for caregiver of the person with more than 80% incapacitated body) - €672.2 for families (with more than 4 members) of martyrs or missing KLA soldiers
War veterans of the KLA	Based on minimum wage (currently €170)
Material support for children with permanent disability (up to the age of 18 years)	€100
Social Assistance Scheme (targeted to poverty alleviation)	€40 for families with one family member - €120 for families with 15 family members

Source: KAS. 2015.Social welfare statistics (TM3-2015) & related legislation on the MLSW website

Even though required by law, there is no official document to prove that the methodology for setting the minimum wage took into consideration the living conditions in Kosovo. In an attempt to measure the adequacy of the Social Protection Scheme in Kosovo, using the poverty line methodology and the HBS (2012) data, UNDP Kosovo used three methodologies to calculate the minimum living standard (accounting for economies of scale and household structure):

1. Methodology 1: Minimum food basket of year 2002 with 2012 prices
2. Methodology 2: Minimum food basket of year 2002 with annual food CPI-adjust prices
3. Methodology 3: Average food consumption of households in 2012 (reflecting also changes in the food basket composition).

The results show that there has been indeed been an increase in the minimum living costs in Kosovo, and that instead of €40, the minimum living costs ranged between €63 and €74 for a single-member household, depending on the methodology used. If a family of 6 members (4 adults and 2 children) is considered a “model/representative family” for the low wage earners whereby only family member is working full-time, the calculations show that the minimum wage reflects the extreme (food) poverty line per month during 2003-2004, while the minimum living costs for such a family ranged between €225 and €267 in 2012 when the changes in food prices were taken into account.

Table 5. Monthly amounts of Social Assistance (2012), by family size and composition, actual, adjusted for prices and adjusted for prices and food basket composition

Household size	Adult	Children	The value of extreme poverty line per month (2002 - 2003)	Monthly Gross Standard Rates plus child allowance of October, 2012*	Methodology I: 2002 quantities, 2012 prices	Methodology II: 2002 quantities, annual food CPI-adjusted prices	Methodology III: new minimum basket using HBS 2012 data
1	1	0	€47	€40	€69	€63	€74
2	1	1	€72	€60	€104	€95	€113
	2	0	€80	€55	€115	€105	€125
3	1	2	€94	€70	€136	€124	€148
	2	1	€101	€65	€147	€134	€159
	3	0	€108	€60	€156	€143	€169
4	1	3	€115	€80	€166	€151	€180
	2	2	€121	€75	€176	€160	€190
	3	1	€128	€70	€185	€169	€200
	4	0	€134	€65	€194	€177	€210

5	1	4	€134	€90	€194	€177	€210
	2	3	€140	€85	€203	€185	€220
	3	2	€147	€80	€212	€193	€229
	4	1	€153	€75	€221	€201	€239
	5	0	€159	€70	€229	€209	€248
6	2	4	€159	€95	€229	€209	€248
	3	3	€165	€90	€238	€217	€258
	4	2	€170	€85	€246	€225	€267
	5	1	€176	€80	€255	€232	€276
	6	0	€182	€75	€263	€240	€285

Source: UNDP Kosovo. The real value of Social Assistance: Adequacy assessment of the Social Assistance Scheme in Kosovo

ADJUSTMENTS TO THE MINIMUM WAGE: SOCIAL PARTNERS

Even though mandatory by legislation, the minimum wage has not been revised since its inception in 2011. In 2013, SEC requested from the Committee for Finance, Economy and Privatization to assess the minimum wage in this year. Based on labour market indicators, inflation, effective real exchange rate and minimum wages in the region, the Committee estimated that the minimum wage would increase by €5 only.

SEC considers that taking into account the costs of living in Kosovo, the current minimum wage is low. According to the Secretary of SEC, the Council has agreed to propose a minimum wage at 60% of the average wage, whilst according to the BSPK, SEC will propose a minimum wage equalling between 70-75% of the average wage, but it sounded that they would also agree with the proposal of 60% of the average wage.

According to BSPK, to ensure that each employee can ensure a minimum living standard, the minimum net wage should be between €210-230. However, it has not stated if the calculations would be done based on the national average wage (i.e. including both public and private sector) or to refer only to the average wage in the private sector. The latter one would be more adequate, given that the minimum wage would only influence the private sector. This is because in the public sector it is considered that wages are higher than the aimed minimum wage. Data from KAS show that the average wage in 2014 in Kosovo was €352 (KAS, 2015). In case all parties agree to set the minimum

wage as 60% of the national average wage, applying the 2014 average wage, the minimum wage would increase to €210, marking a €40 increase.

According to the American Chamber of Commerce (not part of SEC), given the current economic conditions and labour market indicators, the labour market should be very flexible, hence, there should not be a minimum wage at all. If the minimum wage remains applicable, the proposal of the American Chamber of Commerce is not to increase it further. Increasing the minimum wage would increase informal employment, which in turn further deteriorates labour market indicators and also worsens position of employees.

Although the BSPK proposes to increase the minimum wage, they are also aware of potential costs that the increase would have in the Kosovo budget. The compensation for war veterans is set at the level of the minimum wage, which implies that once the minimum wage is raised this will automatically oblige the government to raise compensations for the war veterans. This would be translated in extra costs for this category for about €10 million (currently there are about 46,230 veterans although not yet officially confirmed, assuming the minimum wage increase to €210 i.e. €40 more * 20,000 veterans = nearly 1.0 million additional budget per month).

There is a general agreement that categorization of minimum wages by age of employees is discriminatory, hence it should be abolished. The proposal is to apply a uniform minimum wage for all. From all discussions, it was stated that sectors that are more likely to be influenced with the current and an increased

minimum wage are: construction, services (cleaning, security, and maintenance businesses), gastronomy and trade sector.

Members of SEC strongly emphasized the need to have a transparent defined formula for setting the minimum wage. As it is now, the Administrative Instruction does not align with the Labour Law.

RECOMMENDATIONS

- Since there are no official documents or reports explaining the methodology on which the minimum wage is based, it is very important that different data sources are consulted to understand what data are available to feed into changing the formula of setting the minimum wage. In order to facilitate an informed social policy dialogue, collection of data is very important. In this regard:
 - A minimum living wage threshold needs to be defined. For this purpose, the latest Household Budget Survey of the KAS can be used to calculate the new national poverty line (taking into consideration the product-specific CPI) and perhaps even changing the composition of the basket to include other-than-food products (e.g. housing, transportation, healthcare, education) based on the dialogue with social partners. HBS data should also be used to gain insight on the household characteristics of low wage earners in order to calculate the formula for this indicator as well as determine what household structure represents best those of low wage earners. As shown in the previous section, the minimum food basket for a “typical/model” family in 2012 (of 4 adults and 2 children) was €225, 32% higher than the minimum wage in Kosovo;

- Using the data from the Tax Administration of Kosovo to calculate the average wage will yield biased results because the register includes only formal, registered and reported employees of the private sector. Considering the size of the informal sector in Kosovo – 34% to 37%⁷ - it is imperative that these wages are also used in calculating the mean or the average wage, because they also are part of the wage distribution in the country. Therefore, it is recommended that the LFS data on wages are used instead. However, since the LFS collect data on the wage only through wage ranges – e.g. €50-100, €100-150 – efforts should be made to change the methodology and record wages as a continuous variable. Then, the “standard/average” of existing countries can be used, 35%, 40% and 45% of the average wage and especially 50-60% of the median wage (as a more accurate/less biased indicator of the wage distribution);
- Information must be collected on the existing minimum wage and its impacts on the labour costs (i.e. production costs of the private sector), the average wage, and the wage distribution. Evidence on hurdles in implementing the policy on the minimum wage shall also be collected considering that

⁷ Riinvest (2014) assessment of the size of the informal sector using two methodologies: tax evasion by the enterprises and the share of reported employees to the related, TAK authorities.

the enforcement measures are as important as the setting ones;

- The methodology must clearly specify whether the minimum wage (including the reduced one for youth) is net or gross and whether it is based on net or gross average wage. It should also specify whether it is based on the wage distribution of the public and private wage distribution, or both;
- The methodology must specify what is the weight of each indicator in calculating the minimum wage. Also, it must be clarified what other criteria will be used in setting the minimum wage – unemployment rate, economic development level, etc., how will these be measured, what are the data sources, and what is their importance/weight in setting the minimum wage;
- The formula of adjustments and the frequency must also be clearly specified. In this regard, it is very important that the budgetary implications for the War Veteran's Scheme are taken into account considering that the minimum wage is used as a basis for setting the benefit level of this scheme. A simple calculation of increasing the minimum wage from €170 to the minimum standards of living €225 in 2012, assuming a total of 20,000 (Note: see comment above!) beneficiaries and disregarding the administrative costs yields an increase of €1.1 million (from €3.4million to €4.5 million) for the Budget of Kosovo;

- Diverse enforcement criteria introduced through the Minimum Wage Fixing Recommendation, 1970, should be introduced for effective policy implementation;
- Broader, sectoral efforts need to be vested into enhancing the social dialogue between different stakeholders in order to ensure that the needs and interests of different groups are represented in fixing the rate of the minimum wage. Consultations for this research have shown that the number of stakeholders involved in the process was rather limited, even though social dialogue is essential to this process;
- Even though the Kosovo Socio-Economic Council (SEC) holds the perception that the minimum wage among youth should be abolished to avoid unequal treatment of the labour market, assessments of practices, especially in the EU countries should be conducted before any debate is initiated on the issue. Many countries in the EU, including the Czech Republic, the Netherlands, and Spain use even multiple rates for different age groups among youth. A few other arguments to have in mind against a universal minimum wage are the lower productivity levels of young workers, preference of employers for older workers should the minimum wage be set at the same level, and the incentive for young workers to terminate education due to a relatively high income considering their skills and working experience (ILO, 2014).

Building up on ILO standards and practices around the world for setting the minimum wage, the following section uses available data to simulate the minimum wage using different criteria and the financial implications that each may have on Kosovo's budget. Since only the Scheme for the War Veterans of the Kosovo Liberation Army is based on minimum wage, the financial burden of the scheme on Kosovo's budget will be calculated using only the figures of beneficiaries for this scheme.

- **Minimum wage threshold.** As shown in the previous section, using the World Bank methodology for poverty calculations in Kosovo – 2002 minimum basket of food, model/typical family of 6 family members (4 adults and 2 children), and food category-specific CPI – UNDP Kosovo finds that the minimum standard of living for these families is €225⁸. Multiplying this figure with the forecasted number of beneficiaries of the Scheme for the War Veterans of the Kosovo Liberation Army (46,230), yields a figure of €10.4 million of expenditures for Kosovo's budget if this figure were used to set the minimum wage.
 - It must be noted however, that the figure of €225 takes into account only the minimum food intake for families of this household size and structure. If the social dialogue requires that additional elements are used in calculations, such as housing, transportation, and clothing, additional calculations

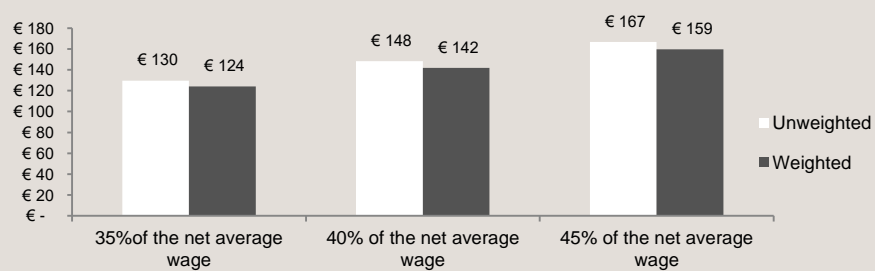
⁸ This methodology is preferable as it uses the minimum food basket composition (still utilized by the KAS for poverty calculations) and the annual CPI figures by food item category.

need to be made for the model family expenditures, and the additional costs added to the amount of €225 per month;

- The typical/model 6-member household used in poverty calculations is based on 2002-2003 demographic data and does not take into consideration the employment status of family members. Additional analysis of the Household Budget Survey data need to be conducted to determine the demographic characteristics of the model/typical family with one employed family member;
 - The minimum food basket of the typical/model family needs to be re-calculated to account for any changes in its composition over time.
- **The ratio of the minimum wage to the average (mean or median) wage.** Considering that the LFS data in Kosovo collects information on wages only through wage brackets, midpoints and the weight of each wage bracket need to be used to calculate the minimum wage as share of the average wage. Using LFS 2015 data on net monthly wages by gender and the ILO criteria of 35%, 40% and 45% of the average wage, the graph below shows that the minimum wage ranges between €130 and €167 if the wage distribution is not accounted for, while taking the latter into account yields a figure of between €124, €142 or €159 net minimum salary per month.

- It must be highlighted that as opposed to the current legislation, these figures represent the net minimum wage;
- Having in mind that the median wage is a more accurate indicator of wage distribution, and that its calculation is impossible with the given wage ranges, it is recommended that the KAS collects wage data as a continuous variable rather than in terms of wage ranges;
- Since they are collected through the LFS, these figures include both the public and private sector and the formal and informal economy. Even though these data are favoured over the TAK data, figures only from the private sector need to be used in the calculation for accuracy purposes.

Figure no. 4. Weighted and unweighted minimum wage as % net average wage



Source : KAS. 2016. Kosovo Labour Force 2015 results

*Note: The weighted figures calculated using the average (€354.4) of men's (€357.8) and women's (€351) net salary wage.

Using these figure with the forecasted number of beneficiaries of the Scheme for the War Veterans of the Kosovo Liberation Army (46,230), shows that the costs for Kosovo's budget would range between €6 and €7.7 million if the unweighted net average wage were used for setting the minimum wage, whereas if the weighted net average wage is used the expenditures would range between €5.7 and €7.3 million per month.

Minimum wage as % of net average wage	Unweighted	Weighted
35%of the net average wage	€ 5,993,257.20	€ 5,734,223.58
40% of the net average wage	€ 6,849,436.80	€ 6,553,398.37
45% of the net average wage	€ 7,705,616.40	€ 7,372,573.17

- **Number of employees directly affected by minimum wage and the impact on the country's total wage bill.** The KAS LFS and other data sources do not allow for calculations of the Kosovo's total wage bill with introduction of or changes in the wage bill. Nevertheless, the LFS (2015) data do show the distribution of employed men and women across net wage salaries as shown on the table below. However, despite the given number of total women and men employed across Kosovo, considering that these figures are provided for the private and the public sector, the data do not allow for calculations of the total wage bill.

Net wage bracket	Men	Women
€(0-100)	0.2%	0.3%
€(101-150)	1%	1.3%
€(151-200)	5.9%	7.2%
Total men and women earning between €(0-200) net per month	7.1%	8.8%

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ANNEX

	Net wage mid-point	Men	Women	Weighted net average wage (men)	Weighted net average wage (women)
	€50	0.20%	0.30%	€0.1	€0.15
	€125.5	1%	1.30%	€1.255	€1.6315
	€175.5	5.9%	7.20%	€10.3545	€12.636
	€225.5	12.20%	11%	€27.511	€24.805
€(251-300)	€275.5	19%	17.40%	€52.345	€47.937
€(301-400)	€350.5	30.40%	32.80%	€106.552	€114.964
€(401-500)	€450.5	21.40%	22.30%	€96.407	€100.4615
€(501-600)	€550.5	5.40%	4.40%	€29.727	€24.805
€(601-800)	€700.5	2.50%	2.20%	€17.5125	€15.411
*€801+	€800	2%	1.10%	€16	€8.8
	Unweighted net average wage 370.4	100%	100%	€357.764	€351.018

Source: KAS (2016) Results of the Kosovo 2015 Labor Force Survey.

*For this bracket, we used the lower bound €801 to calculate the weighted and unweighted averages.

ABOUT US

The Kosovar Stability Initiative (IKS) is an independent, not-for-profit think tank focusing on empirical research and analysis of socio-economic development in Kosovo. IKS was created in 2004 in recognition of the pressing need for independent, in-depth analysis of important issues involved in promoting stability and prosperity in Kosovo. Its innovative and policy-relevant research aims at initiating debates on important issues for Kosovo's future.

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