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# Kosovo Social Assistance Scheme Study

## Assessment and Reform Options

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Social Protection and Jobs Global Practice

Europe and Central Asia Region



**WORLD BANK GROUP**

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## List of Acronyms

AI	Administrative Instruction
ADePT	Software platform for automated economic analysis in different areas, including social protection, using micro-level data from different types of surveys
ALMP	Active Labor Market Policy
ASPIRE	Atlas of Social Protection Indicators of Resilience and Equity
BiH	Bosnia and Herzegovina
CSW	Center for Social Work
CPI	Consumer Price Index
DHSW	Directorate of Health and Social Welfare
EARK	Employment Agency of the Republic of Kosovo
ECD	Early Childhood Development
EMIS	Employment Management Information System
EU	European Union
EUR	Euro
FYR	Former Yugoslav Republic
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
HBS	Household Budget Survey
ID	Identification Number
IMF	International Monetary Fund
IT	Information Technology
KAS	Kosovo Agency of Statistics
KLA	Kosovo Liberation Army
LRIS	Last Resort Income Support
LTU	Long-term unemployed
MIA	Ministry of Internal Affairs
MGSR	Monthly Gross Standard Rate
MISSCEO	Mutual Information System on Social Protection of the Council of Europe
MISSOC	Mutual Information System on Social Protection in the European Union
MLGA	Ministry of Local Governance Administration
MLSW	Ministry of Labor and Social Welfare
MT	Means / Income Test
NGO	Non-Government Organization
OECD	Organization for Economic Co-operation and Development
PES	Public Employment Service
PMT	Proxy Means Test
PWP	Public Work Program
RAE	Roma, Ashkali, and Egyptian
SA	Social Assistance
SAS	Social Assistance Scheme
SP	Social Protection
SPEED	Social Protection Expenditure and Evaluation Database
TAK	Tax Administration of Kosovo

## Key Messages

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Kosovo is one of the poorest countries in Europe with one in five Kosovars living in poverty according to the most recent data from 2015. The poor are overrepresented in households headed by women, in households in which the head has not completed secondary education, and in larger households and those with more children. Importantly, poverty is related to labor market attachment. Contrary to expectations, poverty is not highest among the unemployed, but among those in occasional employment and low productivity jobs as well as among persons with disability.

The Social Assistance Scheme (SAS) is the main social assistance program in Kosovo. It absorbed around 88 percent of the budget for social assistance in 2017<sup>1</sup>. The SAS is the sole program targeted at poverty reduction in Kosovo and, importantly, the only program in which household income and assets are used to identify beneficiaries. In the absence of SAS, the overall poverty gap would have been 1.8 percentage points higher in 2016, and the poverty rate would have been 1.5 percentage points higher. SAS is considered a cost-effective program; its cost-benefit ratio of 0.6 in 2016 is the highest when compared to other benefits in Kosovo, and average when compared to last resort income support programs in other countries in Eastern Europe and Central Asia.

Yet, the importance of SAS in Kosovo's social protection system has declined, and the government has failed to exploit the potential of SAS to protect the poor. Overall spending on social protection has increased over the past decade, while the relative spending on SAS has decreased. Spending rose most for old-age and war veteran pensions, and these contributed most to increases in overall spending on social protection. At the same time, between 2009 and 2016, spending on SAS fell by 12.3 percent in real terms, from 19 percent of total social protection spending to 8.13 percent or from 0.69 to 0.48 percent of GDP. In parallel, the number of beneficiaries declined from over 40,000 households in 2005 to 26,000 in 2017. Decreases in spending on targeted social assistance in Kosovo goes against a worldwide trend.

The Government of Kosovo seeks to reform the Social Assistance Scheme to eliminate discrimination in program design, promote inclusion and reduce poverty. The analyses presented in this report indicate that there is considerable room for improvement. Specifically, revising the design of SAS and expanding coverage would significantly increase its equitability and overall effectiveness.

Kosovo's government should consider expanding coverage of the poor with the SAS program by eliminating the categorical criteria (beneficiary categorization into Category I and Category II), which serve as inexact proxies of poverty, powerful exclusion filters, and drivers for seeking the status of dependent (not required to work) family member. The targeting measures of SAS are pro-poor, but they can be improved with (a) a more comprehensive means test that counts all observable incomes and household members and does not disqualify based on a single source of income, and with (b) a new PMT formula comprising indicators which are identified with a statistical model, with each indicator assigned a weight based on the strength of its correlation to household income and no single indicator disqualifies from eligibility.

The SAS transfer is an important source of livelihood for the poor in Kosovo, but its generosity has declined over time. The government of Kosovo can achieve higher benefit adequacy with a new equivalence scale. The present (implicit) equivalence scale is well below the scales typically used in comparator countries and

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<sup>1</sup> Excluding energy subsidies.

discriminates against larger families due to its strong assumption of economies of scales. At the same time, the SAS benefit levels would be more predictable if their updates were not ad hoc but in accordance with the legally set rules for indexation.

The study proposes a number of reforms in the design and implementation of SAS, among them:

- Improve coverage and maintain it at a high level that corresponds to the incidence of poverty and reflects the pivotal role of SAS in the social assistance system of Kosovo
- Improve SAS targeting accuracy with a new targeting/new beneficiary selection procedure which includes:
  - A means test that counts all observable incomes and all household members
  - A new PMT based on an econometric model, and
  - Removal of categories (Category I and Category II) to avoid *a priori* exclusion of groups that are poor according to the poverty profile
- Maintain equity in SAS benefit adequacy by:
  - Application of equivalence scale to give more weight to larger households
  - Following indexation rules to improve SAS budget planning and ensure predictability of benefit levels (compared to ad hoc benefit increases)
- Introduce modern design elements in SAS to make it incentive-compatible, promote activation of able to work beneficiaries, and reduce dependency on benefits
  - Link able to work SAS beneficiaries to employment services
  - Introduce profiling based on 'distance' from the labor market
  - Improve EARK capacity for tracking of unemployment registration and job search behavior, also for provision of job matching services and ALMPs
  - Introduce incentives for behavior changes, e.g., link with ECD
  - Link SAS beneficiaries to social services
- Simplify SAS implementation by prolonging the recertification period (currently at 6 months for Category II) to 12 months; improving the PMT questionnaire and increasing the share of indicators which are cross-checked with the help of the SAS information system

Under a budget neutral reform, the highest poverty impact can be achieved by eliminating the categorical filters, introducing a new combined means and proxy means test (new targeted scheme), and revising the equivalence scales. In this case, and compared to the current scheme, both the poverty headcount and the poverty gap would be reduced by an additional 12 percent (or 1.7 percentage points for the poverty headcount and 0.4 percentage point for the poverty gap.) Targeting accuracy would increase from 64 percent to 76 percent and coverage would increase from 26 percent to 40 percent.

Increases in the SAS budget would result in even higher rates of poverty reduction. In the case of a budget increase of EUR 7 million for a revised SAS with new targeting method and optimal equivalence scales, the poverty headcount would be further reduced by 16 percent (or 2.3 percentage points) compared to the current scheme with the current budget. Without any increase in budget but with *reallocation of funds* (EUR 3.9 million from savings that could be achieved when reducing by half the categorical benefits for the two richest quintiles, excluding old-age and disability pensions) to a revised SAS using the new targeting method and optimal equivalence scales, poverty would be reduced by 14 percent (or 2 percentage points).



Overall, the design of SAS discourages the employment of beneficiaries. Working formally and receiving SAS exclude one another. Only two categories of families can qualify for SAS – those in which all family members are dependent and thus not capable of working (Category I) and those in which only one family member is able to work and at least one child under 5 years of age lives in the home (Category II). This incentivizes any additional adults in the family to seek the status of not able work or not required to work (dependent). The family member who is able to work must be registered as unemployed, which decreases labor supply and promotes benefit dependency. Last resort income support systems with modern design do not discourage work; they apply certain income disregards, especially for income from activation measures or occasional work, or from income during a gradual phasing out of benefits when taking a job or placement in public works. Adversely, the current design of SAS is focused on its redistributive role, and not on promoting activation and productive use of available labor. Design-related limitations of activation are complemented by limited capacity of the employment services to activate SAS beneficiaries, limited funding for active labor market measures and absence of activation measures which are specifically targeted to SAS beneficiaries. Last but not least, the possibilities for activation are restricted by the profile of the SAS beneficiaries who are registered as unemployed. Compared to the general pool of unemployed, they are more disadvantaged in the labor market and more distant to jobs due to longer unemployment spells, less work experience, lower education attainment, and less willingness to be trained.

Finally, there are serious caveats in the institutional capacity for implementing SAS that, in turn, affect the accuracy of beneficiary identification. One option to consider is establishment of a social registry information system as the key system for integration of information about beneficiaries of all social programs that serves as a tool for registration and determination of potential eligibility, based on both means test and proxy means test (PMT). Such a registry would serve to improve inclusion, enhance targeting and proactively include vulnerable groups into the social protection system.

## Overview of the Social Assistance Scheme

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**About one in five Kosovars are poor according to official data.** Kosovo is one of the poorest countries in Europe. According to official figures from 2015, about 18 percent of Kosovars lived in poverty and 5 percent in extreme poverty.<sup>2</sup> The poor are overrepresented in households headed by women and in households in which the head has not completed secondary education. Furthermore, poverty is higher in rural areas. Poverty is also related to household size and household composition. Larger households and those with more children are more likely to be poor. Finally, and most importantly, poverty is related to labor market attachment. Contrary to expectations, poverty is not highest among the unemployed, but among those in occasional employment and low productivity jobs as well as among persons with disability<sup>3</sup>.

**The poor, including minority groups, face difficulties in accessing basic services, leaving room for improvements in health and education outcomes.** The infant mortality rate (12 per 1,000 live births)<sup>4</sup> and the under-five mortality rate (15 per 1,000 live births)<sup>5</sup> are three times the European Union average and higher than in neighboring Albania, Serbia, and Montenegro<sup>6</sup>. An estimated 4.3 percent of children under five suffer from chronic malnutrition; the rate is more than threefold (14.9 percent) among Roma, Ashkali, and Egyptian (RAE) children. Less than 54 percent of RAE children under five have been vaccinated against measles, compared to 94 percent of the rest of child population<sup>7</sup>. Enrollment in early childhood development (ECD) programs is low compared to neighboring countries.<sup>8</sup> High costs of private preschool education services due to limited supply in the public sector and favoring of children with two working parents in public kindergartens severely hinders access of children from poor households to ECD.<sup>9</sup>

**Reforms in the energy sector and high out-of-pocket expenditure in the healthcare sector pose major risks to the well-being of the most vulnerable.** In 2017, 43 percent of households in Kosovo could not afford to pay for utility and other bills at least twice during the year and an equal share could not afford to heat their homes sufficiently during the cold season.<sup>10</sup> Out-of-pocket healthcare payments accounted for 40 percent of spending in the health sector in 2011 and were estimated to contribute to the national poverty headcount rate by an additional 7 percent.<sup>11</sup>

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<sup>2</sup> In 2015 the national poverty line was €1.82 per adult equivalent per day and the extreme poverty line €1.30 per adult equivalent per day.

<sup>3</sup> KAS (2017).

<sup>4</sup> KAS (2014).

<sup>5</sup> Ibid.

<sup>6</sup> Infant mortality rate per 1,000 live births (2017): Serbia (5), Albania (7.8), FYR of Macedonia (12), and Montenegro (3.2); Under-five mortality per 1,000 live births (2017): Serbia (5.7), Albania (8.8), FYR of Macedonia (13.7), Montenegro (3.5). The World Bank Databank (2018).

<sup>7</sup> KAS (2014): Multiple Indicator Cluster Survey in the Republic of Kosovo 2013-2014: Roma, Ashkali, and Egyptian communities.

<sup>8</sup> Kosovo 14 percent (2013-14), Montenegro 40 percent (2013), Albania 40 percent (2005), Serbia 50 percent (2014). No data available on FYR of Macedonia. Retrieved from the UNICEF Data web portal: <https://data.unicef.org/topic/early-childhood-development/overview/> and KAS, Multiple Indicator Cluster Survey in the Republic of Kosovo 2013-14: Key Findings <http://ask.rks-gov.net/media/1876/multiple-indicator-cluster-survey-in-the-republic-of-kosovo-2013-2014-key-findings.pdf>.

<sup>9</sup> Only seven percent of children age 3-4 years from the poorest wealth quintile compared to more than 37 percent of children from the richest wealth quintile attended a preschool education program in 2013-14 (KAS, 2014) and UNICEF (October 2016): The Cost of Introducing Universal Childhood Education in Kosovo\*.

<sup>10</sup> KAS (2018b).

<sup>11</sup> World Bank (2017a).

**Economic growth over the past decade has not been associated with robust job creation in the private sector, making it hard for Kosovars, and especially the young, to provide a sufficient living for their families.** Net job creation has been positive over recent years, but insufficient to provide good quality jobs for most jobseekers. Kosovo stands out as the Western Balkan country with the highest rate of youth unemployment (over 50 percent) and the highest rate of inactivity (over 57 percent), especially among women (80 percent). At the same time, Kosovo's informality is among the highest in Europe with about 35 percent of workers in the informal sector. With high rates of unemployment and inactivity, all jobs – formal and informal – can help to boost the welfare of poor households. Informal jobs help those with low educational levels who find it harder to compete for formal jobs, but informal sector jobs lack security and exclude workers from many benefits, thus increasing their vulnerability to negative shocks.<sup>12</sup>

**Social assistance programs aim to reduce and prevent poverty, and Kosovo's Social Assistance Scheme seeks to support and provide temporary assistance for families in poverty.** Social assistance is an essential tool for social risk management that provides a last resort safety net. Building human capital among the poor so that they regain the ability to sustain their lives from work is another key goal of modern social assistance.

**The Government of Kosovo seeks to reform the Social Assistance Scheme to eliminate discrimination in program design, improve inclusion and reduce poverty.** The objective of this report is to provide the necessary elements to critically assess the scheme, both in design and performance, to provide directions for reform, and simulate reform options.

## The Social Assistance Scheme in Context

**Conceptually, social protection systems rest on three main pillars:** social insurance, social assistance, and labor market programs. Social insurance typically comprises benefits based on contributions (i.e., pensions, disability, survivor, unemployment) whereas social assistance typically encompasses noncontributory means-tested programs, social pensions, and family and child related benefits. Finally, labor market programs aim to improve the functioning of the labor market (through employment services), enhance labor supply (through training) and increase labor demand (through subsidies or public works).

**Figure 1 shows the five key elements of social protection in Kosovo:** (i) Kosovo has a well-designed fully-funded pension (defined contribution) system complemented with a general budget-funded pension system providing basic/universal old age pensions, ex-contributory pensions<sup>13</sup>, early retirement pensions, family pensions, work disability pensions<sup>14</sup>, and special pensions for certain groups; (ii) pensions for war veterans and other war-related categories<sup>15</sup> which are characterized by rapid growth of spending dedicated

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<sup>12</sup> Cojocar (2017).

<sup>13</sup> Ex-contributory or contribution-payer old-age pensions are the pensions for previously employed citizens of the Republic of Kosovo, who have paid contributions to the former Kosovo Pension Fund before 01.01.1999, under the provisions of the Law on Pension and Disability Insurance No. 011-24/83 (Official Gazette of SAPK No. 26/83) and who meet the criteria foreseen by this law. The right to such pensions is acquired after reaching the age of sixty-five (65) if evidence is provided of work experience and contribution payment. Persons who meet these criteria receive ex-contributory instead of basic pension. The amount of the ex-contributory pension has four rates as of January 2016 ranging between the minimum of EUR 158 and maximum of EUR 230. Rates vary based on the level of education of the recipient.

<sup>14</sup> The work disability pensions are regulated legally but not yet implemented.

<sup>15</sup> As defined by Law No.04/L-054 on the Status and the Rights of the Martyrs, Invalids, Veterans, Members of Kosovo Liberation Army, Sexual Violence Victims of the War, Civilian Victims and Their Families; Law No.04/L-172 on Amending Law No.04/L-054.

to them in recent years; (iii) non-contributory disability pensions for adults with permanent disability<sup>16</sup> and compensation schemes for specific types of disability<sup>17</sup>; (iv) social assistance is comprised mainly of the Social Assistance Scheme and smaller programs and services<sup>18</sup>. Kosovo has no separate child and family benefit schemes; and (v) labor market programs are small (less than 0.1 percent of GDP) and mainly comprised of employment services, including active labor market programs (ALMPs).

Figure 1: Overview of the social protection system in Kosovo

Pensions	War-related pensions	Disability pensins and compenations	Social assistance benefits and services	Labor market programs
<ul style="list-style-type: none"> <li>•Basic old-age pensions</li> <li>•Mandatory contributory pensions</li> <li>•Voluntary contributory pensions</li> <li>•Ex-contributory pensions</li> <li>•Special pensions for Kosovo Protection Corps, Kosovo Security Forces and former political prisoners</li> <li>•Early retirement pension scheme for Trepça company employees</li> <li>•Family pensions</li> <li>•Work disability pensions</li> <li>•Compensations for former political prisoners</li> </ul>	<ul style="list-style-type: none"> <li>•Pensions for war veterans</li> <li>•Pensions for different war-related categories, including: martyrs' families, war invalids and their families, civilian vicitims of war and their families, sexual victims of war, etc.</li> </ul>	<ul style="list-style-type: none"> <li>•Pension for persons with a permanent disability (age 18-64 years)</li> <li>•Benefit/compensati on for blind persons</li> <li>•Compensation for persons with tetraplegia and paraplegia</li> </ul>	<ul style="list-style-type: none"> <li>•Last resort social assistance - the Social Assistance Scheme (SAS)</li> <li>•Material support for foster families</li> <li>•Assistance for exceptional needs</li> <li>•Energy/electricity subsidy</li> <li>•Material support for families with children (of age 0-18 years) with permanent disability</li> <li>•Social and family services</li> </ul>	<ul style="list-style-type: none"> <li>•Vocational training</li> <li>•Public works</li> <li>•Wage subsidies</li> <li>•On-the-job-training and internships</li> <li>•Entrepreneurship support</li> <li>•Maternity benefit (tax-financed, flat rate, linked to formal employment but not to contributions)</li> </ul>

Source: Legislation in the Official Gazette of the Republic of Kosovo.

**The Social Assistance Scheme (SAS) is a targeted cash transfer and the only program geared specifically towards poverty reduction.** The SAS is the main social assistance instrument in Kosovo. Whereas the other social protection programs mainly provide insurance functions or are geared towards specific groups such as war veterans, other war-related categories or the disabled, the SAS aims to explicitly reduce poverty through targeted cash transfer linked with certain in-kind benefits and fee exemptions<sup>19</sup>. The unit of

<sup>16</sup> Regulated with Law No.2003/23 on Disability Pensions in Kosovo.

<sup>17</sup> The compensation for blind persons is regulated with Law No.04/L-092 For Blind Persons. The Government of Kosovo has also set compensation for paraplegics and tetraplegics persons; the respective law was approved on May 2016 but the amounts are not yet set.

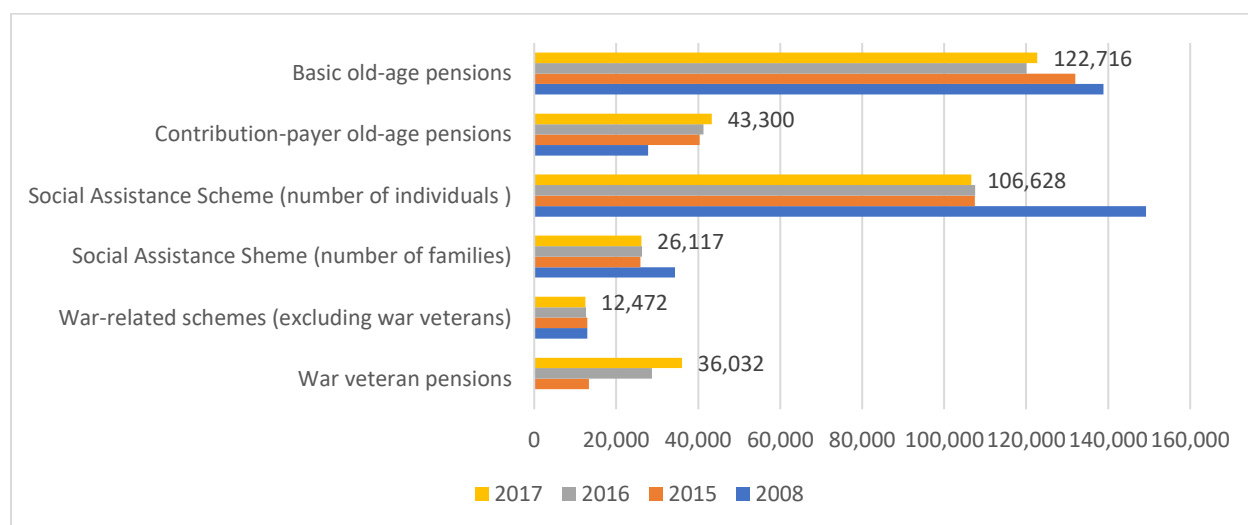
<sup>18</sup> Like foster care (Law No.02/L-17 on Social and Family Services, or material support to families of children with permanent disabilities (Law No. 03/L-022).

<sup>19</sup> Administrative Instruction No.15/2012 on the Calculation of Monthly Social Assistance Amount, Article 5 Types of payments from the Social Assistance Scheme and other benefits paragraph 2, stipulates that SAS beneficiaries are entitled to the following: 2.1. coverage of a certain amount of the electricity bill, 2.2. exemption from payments of primary and secondary health care services,

assistance for the SAS is the family which is composed of “all family members that are present in the household: spouse or co-habiting partner, parents and children including adopted, fostered or children of the spouse”. An individual with no other family members in the household is considered a one-member family.<sup>20</sup>

**In terms of scope, the SAS is the second largest social protection program after basic pensions.** In 2017, the SAS covered 26,117 families (106,628 individuals), compared to 122,716 beneficiaries of basic old-age pensions (Figure 2). Other social protection programs have significantly lower number of beneficiaries. It is important to note, however, that the number of beneficiaries for old-age pensions and social assistance is not directly comparable. The old-age pensions cover individuals, all of who receive the same monthly benefit amount (EUR 75), whereas the SAS targets households and the benefit amount depend on household size.

Figure 2: Beneficiaries of selected social protection programs, 2017



Source: KAS (2018a).

Note: Beneficiaries of the pension schemes are individuals, beneficiaries of the social assistance scheme can be considered the families where one member is the applicant (direct beneficiary) or all members of the SAS recipient family (direct and indirect beneficiaries).

**Expansion in social protection spending over the last decade has been driven mainly by ad-hoc introduction of new categorical benefits for special interest groups, crowding out spending on the SAS.** The largest increase occurred in 2016 from the drastic increase in the number of war veteran pension beneficiaries<sup>21</sup> (Figure 3, green line, left scale). Increases in the other years resulted from inception of the compensation scheme for former political prisoners, compensation scheme for the blind and their caregivers, and changes

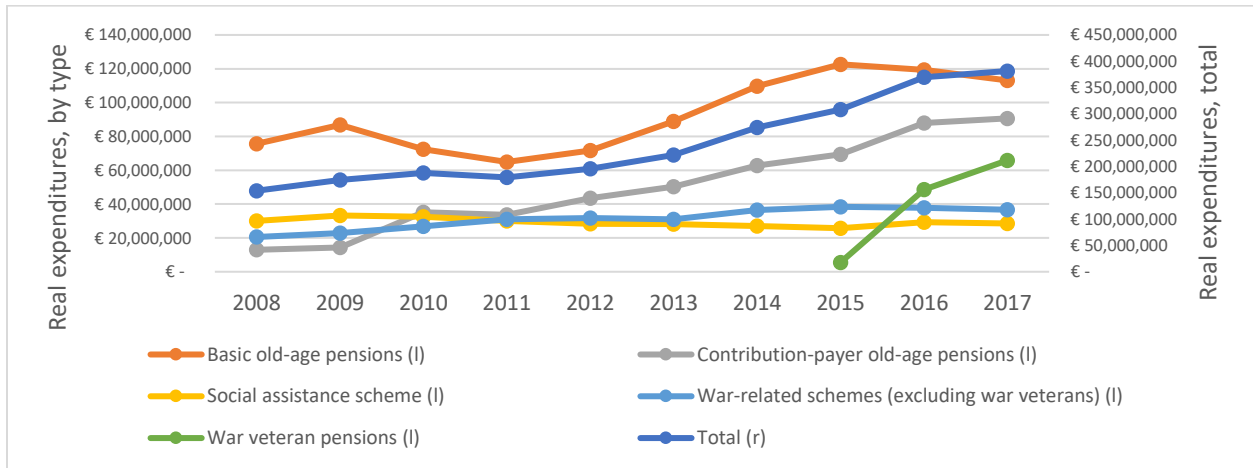
2.3. free books for primary and secondary education, 2.4. exemption from payment of semester registration for students (tuition fee), 2.5. exemption from payment of municipal administrative taxes, and 2.6. exemption from payment of other utilities.

<sup>20</sup> Law No.2003/15 on the Social Assistance Scheme in Kosovo, Section 2 (2.1). Following the broad definition of ‘family’, further in the text the terms ‘family’ and ‘household’ are used interchangeably when referring to the SAS unit of assistance.

<sup>21</sup> War veteran pensions were introduced recently with Law No.04/L-054 on the Status and the Rights of the Martyrs, Invalids, Veterans, Members of Kosovo Liberation Army, Sexual Violence Victims of the War, Civilian Victims and Their Families (December 28, 2011) and Law No.04/L-172 on Amending Law No.04/L-054 (March 20, 2014). See also Feher et al. (2016).

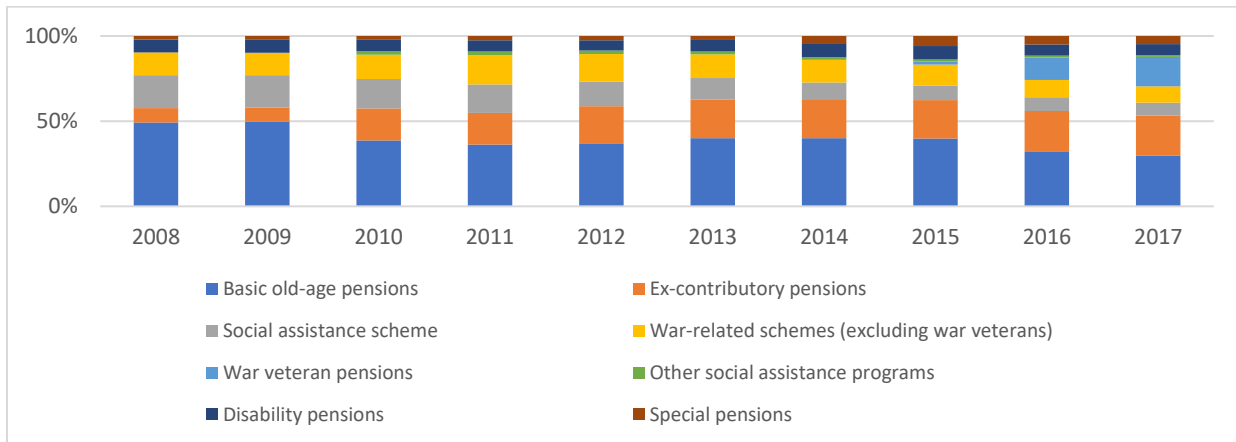
to benefit levels and/or eligibility criteria for basic old-age pensions and ex-contributory pensions. Overall spending increased from slightly over 150 million Euro in 2008 (at 2017 real values) to over 380 million Euro in 2017 (Figure 3, blue line, right scale). In contrast to all other social protection, spending on the SAS assistance has remained constant over the past decade (yellow line, left scale). In fact, spending on the SAS has been crowded out over the past decade (Figure 4). In 2017, about 8 percent of social protection spending went towards the SAS, down from about 20 percent in 2008.

Figure 3: Trends in social protection expenditure (total, right axis) and by major programs (left axis), real spending (in 2017 EUR)



Source: MLSW administrative data (2008-2017), KAS Social Welfare Statistics (2008-2017) and KAS Harmonized Indices of Consumer Prices (2008-2017).

Figure 4: Trends in composition of social protection expenditure<sup>22</sup>, 2008-2017



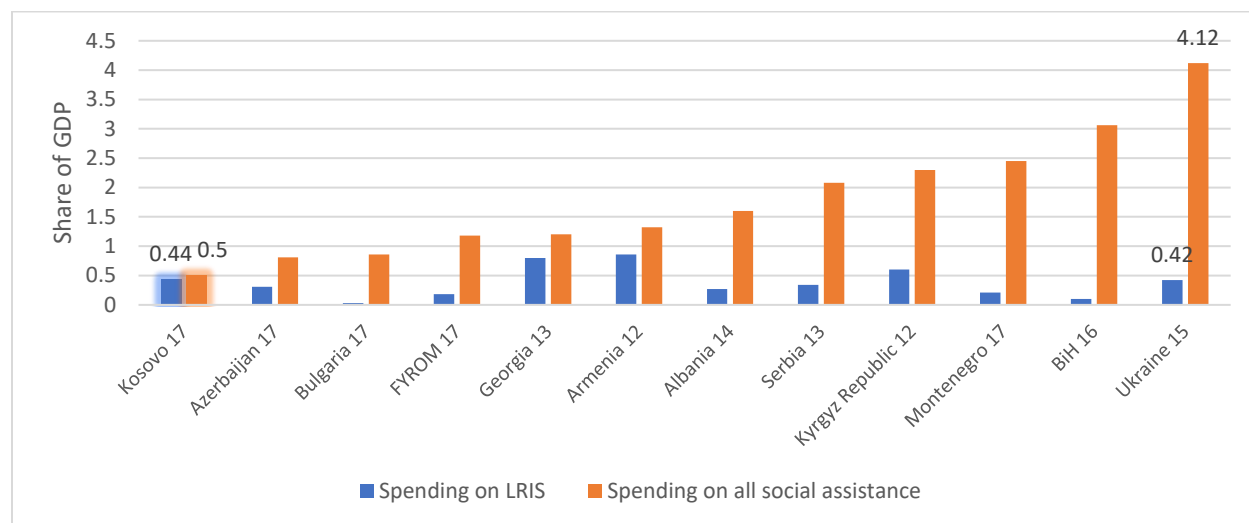
Note: Other social assistance programs excluding energy subsidies (4.5 million EUR).

Source: MLSW (2018) administrative data, KAS (2017) Social Welfare Statistics and KAS Harmonized Indices of Consumer Prices (2008-2017).

<sup>22</sup> Other social assistance includes: (1) Material support for families with a child(ren) with permanent disability (age 0-18 years), (2) Material support for foster families – relatives, and (3) Material support for foster families – non-relatives; Disability pensions includes: (1) Pension for permanent disability and (2) Compensation scheme for the blind and their assistants; and Special pensions includes: (1) Early retirement pension for Treпча miners, (2) KPC early retirement pension; (3) KSF pensions; and (4) Compensations for former political prisoners.

SAS spending is above the average level for LRIS programs in Europe and Central Asia but small when compared with spending on overall social assistance in other countries. Spending on SAS is small when considering that SAS is Kosovo’s main social assistance program whereas other countries in ECA often have multiple additional SA programs that are very small in size and narrowly targeted. On average, ECA countries spent 2.2 percent of GDP on social assistance in 2017 (Figure 5), while lower middle-income countries spent 1.4 percent of GDP.

Figure 5: Spending on LRIS programs and Social Assistance programs, by country



Source: World Bank calculations using national statistical data.

## Objective, Financing, and Evolution of SAS

The SAS is a last-resort income support (LRIS) scheme that aims at supporting and providing temporary financial assistance to families in poverty<sup>23</sup>. The SAS is Kosovo’s only direct program for poverty reduction and is aimed at families that do not have sufficient income from employment or other sources. It focuses its resources on poor families with young children and on families where all or most members are dependent and/or not able to work.

The SAS is financed through taxes and its budget allocation is determined at the central government level. SAS financing is determined in the consolidated budget and the funds are disbursed to the Ministry of Labor and Social Welfare (MLSW) from the Ministry of Finance. Financing is determined annually based on availability of funds and in accordance with the Law No. 03/L-048 on Public Financial Management and Accountability. According to Article 15a of Law No. 4/L-096, fiscal constraints can lead to reducing or eliminating the SAS benefits even when financing for them is already allocated in the MLSW budget. While this has yet to occur, it undermines the standing of SAS as a poverty reduction instrument. Explicit conditioning of LRIS programs on budget availability and legal provisions for their reduction or elimination in the case of fiscal constraints is not a common practice in the EU Member States and other Western Balkan countries.

<sup>23</sup> Law No.04/L-096 on Amending and Supplementing the Law No.2003/15 on the Social Assistance Scheme, Art. 1.

The SAS was originally introduced in in 2000 with a Regulation of the United Nations Mission in Kosovo and in 2003 legislated with Law No. 2003/15 and underwent a reform in 2012 with Law No. 04/L-096 on Amending and Supplementing the Law No. 2003/15. The main amendments included (i) change in benefit base<sup>24</sup> and introduction of flat rate benefit<sup>25</sup>; (ii) introduction of a child allowance / supplement of EUR 5 per month for each child under the age of 18; (iii) further tightening of eligibility criteria by restricting the number of able to work members in a SAS recipient family to only one for Category II, and (iv) abolishment of the ceiling on the number of family members counted in determining the benefit level. The amended law introduced the possibility for increasing gradually the age of the child in Category II depending on budget availability. It clarified that the family members who have reached the age of 18 and have completed mandatory upper secondary education should be considered able to work even if enrolled in university or other training program.

**Other countries often have a different architecture of their social assistance system with numerous programs to protect the poor.** They run LRIS schemes that target relatively fewer beneficiaries and are complemented with a variety of other benefits, such as categorical or means-tested child and family benefits, housing and utility subsidies, or benefits for providers of care for people with disability that are mostly absent in Kosovo. A combination of LRIS with additional benefits often results in better coverage of the poor<sup>26</sup>. In contrast to other countries, the SAS in Kosovo aims at protecting against falling in poverty but also against other risks like disability, unemployment, and caregiving responsibilities including for children.<sup>27</sup>

## Eligibility and Targeting

**Since 2012, eligibility for the SAS consists of two steps:** Categorical criteria that filter applicants, followed by a poverty test. The rationale for this two-step procedure is to identify need for assistance proxied by household characteristics on the one hand, and household's ability to generate sufficient income and assets on the other.

**The first step of determining eligibility through categorical criteria defines two categories of beneficiaries.** Eligibility for SAS requires that all family members are habitually residing in Kosovo and the families must

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<sup>24</sup> According to Law No.2003/15, Section 9 (9.1), the SAS benefit base was set in EUR as monthly Gross Standard Rate of social assistance which is adjusted according to family size and CPI. Law No.04/L-096 on Amending and Supplementing the Law No.2003/15 on the Social Assistance Scheme, Art. 8 stipulates that the SAS monthly amounts should be set based on the number of family members and the cost of the food basket; that SAS benefit levels are regulated with a sub-legal act; and that the Ministry of Finance in collaboration with the Minister of Labor and Social Welfare issues decision on the SAS monthly amounts. The referenced sub-legal act is Administrative Instruction No.15/2012 on the Calculation of Monthly Social Assistance Amounts. It introduced a point system for the purposes of SAS calculation where each point equals EUR 1, and the points vary with family size starting at 40 points for one-member family.

<sup>25</sup> According to Law No.2003/15, Section 9 (9.2), the benefit amount is determined with a formula where it is the *difference* between the monthly Gross Standard Rate for a family of certain size and its total reckonable income. This formula has never been applied in practice. Law No.04/L-096 on Amending and Supplementing the Law No.2003/15 on the Social Assistance Scheme, Art. 8 abolished this formula while Administrative Instruction No.15/2012 on the calculation of monthly social assistance amounts introduced flat rates of SAS which are determined by family size and should be adjusted to the cost of the minimum food consumption basket.

<sup>26</sup> For example, countries like Bulgaria, Romania, Latvia, Slovakia, Serbia, Montenegro, or FYR Macedonia run small and even 'niche' LRIS schemes targeted to relatively small beneficiary groups and complement them with a range of other non-contributory benefits. See: European Commission (2018a) and European Commission (2018b).

<sup>27</sup> Similar in terms of objectives and design social assistance schemes exist for example in Albania (Ndhima Ekonomike), Georgia (Targeted Social Assistance), and Armenia (Family Benefit Program).



fall into one of two narrowly defined categories: *Category I* – all family members are dependent<sup>28</sup> and none is employed. Families applying because one or more family members are permanently and severely disabled and thus dependent are required to have such members' health status reviewed by a Medical Commission. *Category II* - families can have one family member who is able to work but must be registered as unemployed with the Employment Office. All other family members must be dependent. In addition, the family must be parenting at least one child under the age of 5 or providing permanent care for an orphan under the age of 15.

**As a second step, the SAS evaluates eligible applicants using a poverty test that assigns scores based on sources of income, household composition, ownership of certain type of assets, and observable living/housing characteristics**<sup>29</sup>. The module of reckonable incomes of the test considers all types of formal income above EUR 80 per month recorded in the Tax Administration of Kosovo (TAK) system and income from most MLSW benefit schemes.<sup>30</sup> Income from basic old-age pensions, permanent disability pensions (18-64 years), family pensions, work invalidity pensions, material support for families of children with permanent disability (age 1-18 years), material support for foster families and formal income below EUR 80 per month captured by the TAK is considered non-reckonable<sup>31</sup>. Their recipients are not included in the household size to set the benefit level (if the household is found eligible). The PMT component assesses the household based on ownership of certain types of assets and characteristics of the household's dwelling (see Box 1). Households with a score between 1 and 130 points are eligible to receive social assistance, whereas households with a score of 150 or more points are not eligible to benefit from the SAS.<sup>32</sup>

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<sup>28</sup> Family members are considered dependent if they belong to one of the following groups: (i) persons over 18 years of age with permanent and severe disabilities rendering them unable to work, (ii) persons 65 years of age and older, (iii) full-time caregivers of person(s) or of children under the age of five, (iv) persons up to 14 years of age, (v) persons between the age of 15 and 18 (inclusive) who are in full-time education, and (vi) single parents with at least one child under the age of 15.

<sup>29</sup> Kosovo is one of the countries in Europe and Central Asia that uses a PMT as part of the beneficiary identification methodology, like Albania, Armenia, Georgia, Moldova, Turkey, Azerbaijan and Uzbekistan, and this is justified with the high level of informality in the economy and difficulties in verifying certain sources of income. The prevailing beneficiary identification method in the EU Member States is an income and asset test. Four of the Western Balkan countries (Serbia, Montenegro, Bosnia and Herzegovina, and FYR Macedonia) also apply an income test which is supplemented by exclusionary asset filters. Significant advantage of the PMT is that the indicators in the formula are selected based on econometric model.

<sup>30</sup> Reckonable incomes includes the following MLSW programs: (1) scheme for blind persons; (2) early retirement Trepça pension, (3) Kosovo Protection Force pension; (4) Kosovo Security Force pension; (5) benefits for war veterans and their close family members, and families of war veterans after their death; (6) pensions for different war-related categories (families of war martyrs, civilian war invalids, war invalids, families of missing civilians, families of civilian invalids of war after their death, families of civilian victims, caregivers of civilian invalids, families of war invalids after their death, caregivers of war invalids, families of missing KLA members); (7) Pensions from abroad; and (8) Pensions for persons with paraplegia and tetraplegia.

<sup>31</sup> For single member households, income from basic old-age pensions, permanent disability pensions, family pensions, and work invalidity pensions are considered reckonable incomes.

<sup>32</sup> For households scoring between 131 and 149 points the CSW SAS Unit Head has the discretion to decide on eligibility status based on assessment of collected evidence.

The SAS poverty test assesses the eligibility of households by assigning corresponding scores to each item across the following modules in Form A3 which is filled out during the Verification Visit to households: (2) Ownership of dwelling; (3) Ownership/rent of land and its surface size; (4) Type of the dwelling; (5) Surface size of the dwelling; (6) Type of construction material; (7) Type of insulation; (8) Type of doors and windows; (9) Type of floor; (10) Water and sanitation; (11) Type of sewerage system; (12) Type of heating; (13) Basic furniture; (14) Household appliances; (15) Information devices; (16) Additional dwelling units (e.g. summer kitchen); (17) Personal property ownership (e.g. vehicle); (18) Production assets and tools (agriculture, construction, others); (19) Livestock; (20) Non-reckonable income from social schemes; (21) Reckonable income from other social schemes; and (22)<sup>33</sup> Income from other sources (e.g. formal work, rent, remittances, etc.).

Most of the items in Form A3 are binary variables, even though there are few cases when there may be more than two categories such as number of livestock, type of floor, type of doors and windows, etc.

In the means test component:

- The following sources of income are assigned 150 points and have exclusionary power: (1) benefit for blind persons and their caregivers; (2) early retirement Trepça pension, (3) Kosovo Protection Force pension; (4) Kosovo Security Force pension; (5) benefits for war veterans and their close family members, and families of war veterans after their death; (6) pensions for different war-related categories (families of war martyrs, civilian war invalids, war invalids, families of missing civilians, families of civilian invalids of war after their death, families of civilian victims, caregivers of civilian invalids, families of war invalids after their death, caregivers of war invalids, families of missing KLA members); (7) pensions from abroad; (8) pensions for persons with paraplegia and tetraplegia; (9) ex-contributory pensions; and (10) monthly formal income above EUR 80 from any source captured by the TAK system;
- Income from: (1) old-age pensions, (2) scheme of material support for families of children with permanent disability (age 1-18 years), (3) scheme of material support for foster families, (4) family pension, (5) work invalidity pension, and (6) monthly formal income below EUR 80 from any source captured by the TAK system, are considered non-reckonable incomes, each is assigned 5 points if applicable, and the individual recipients of the benefit(s) are excluded from family size when calculating the benefit level (if the family is found eligible);
- In cases of single-member households, income from 1) old-age pensions, (2) ex-contributory pensions, (3) family pension, and (4) work invalidity pensions, is considered reckonable, assigned 150 points, and has exclusionary power.

In the PMT component of the poverty test, the following are assigned 150 points and have exclusionary power: (1) possession or rent of more than 0.5 hectares of land; and (2) ownership of a vehicle<sup>34</sup>. The points for most of the other assets, housing conditions, productive assets, livestock, etc., range between 0 and 20. See Form A3 in Annex 1 with corresponding scores for each item.

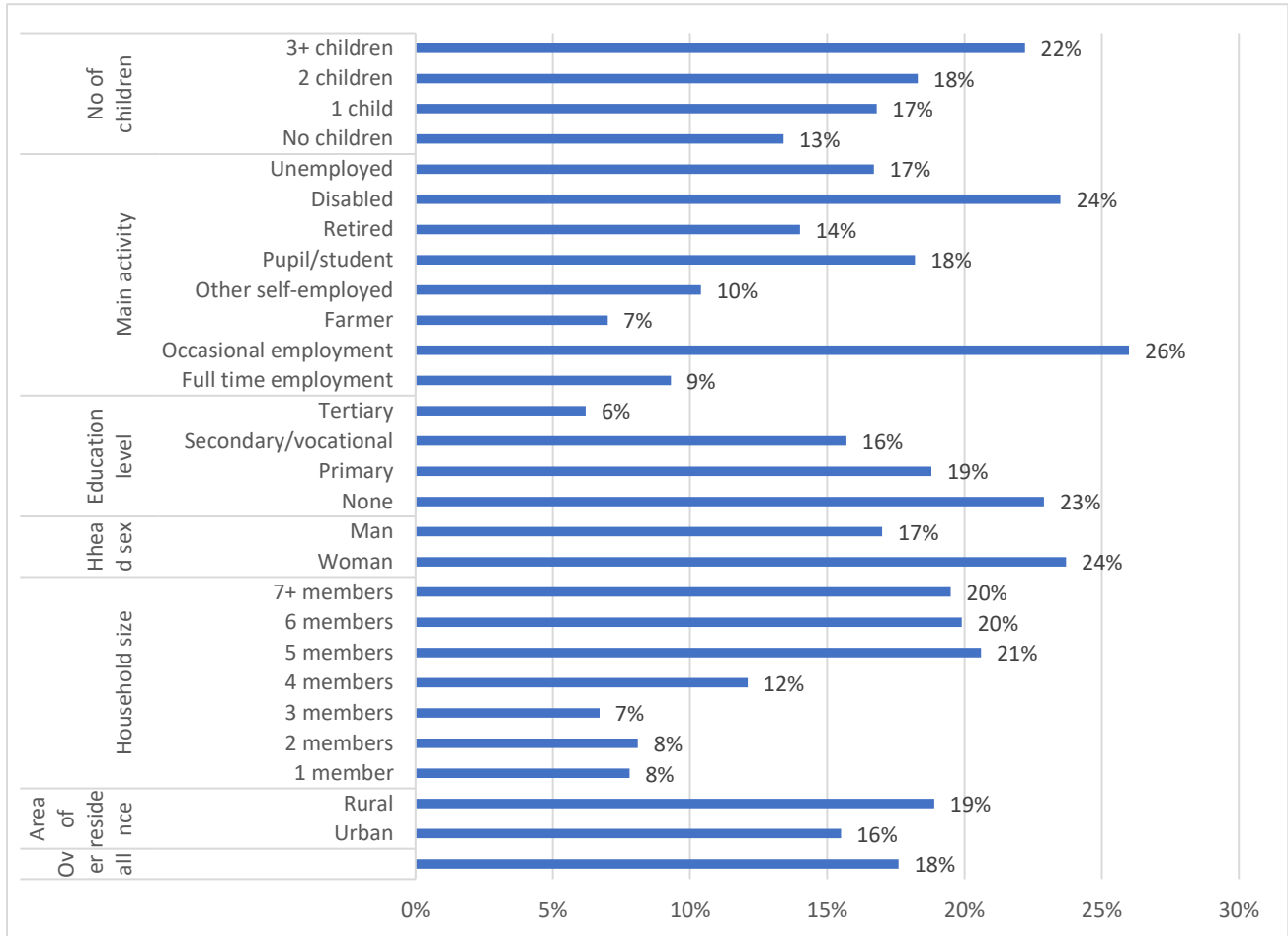
Source: Administrative Instruction No.06/2013 to Calculate Material and Non-Material Goods and Calculated Revenue and Non-Accountable, meeting with the SAS Database Administrator and developer, and observation of the SAS system.

<sup>33</sup> Due to issues with data verification, in module (22) only formal income can be verified, typically what is captured/recorded by the TAK. Verification of inheritance is circumstantial during the field verification visit.

<sup>34</sup> Excluding vehicles used for transportation of persons with disability.

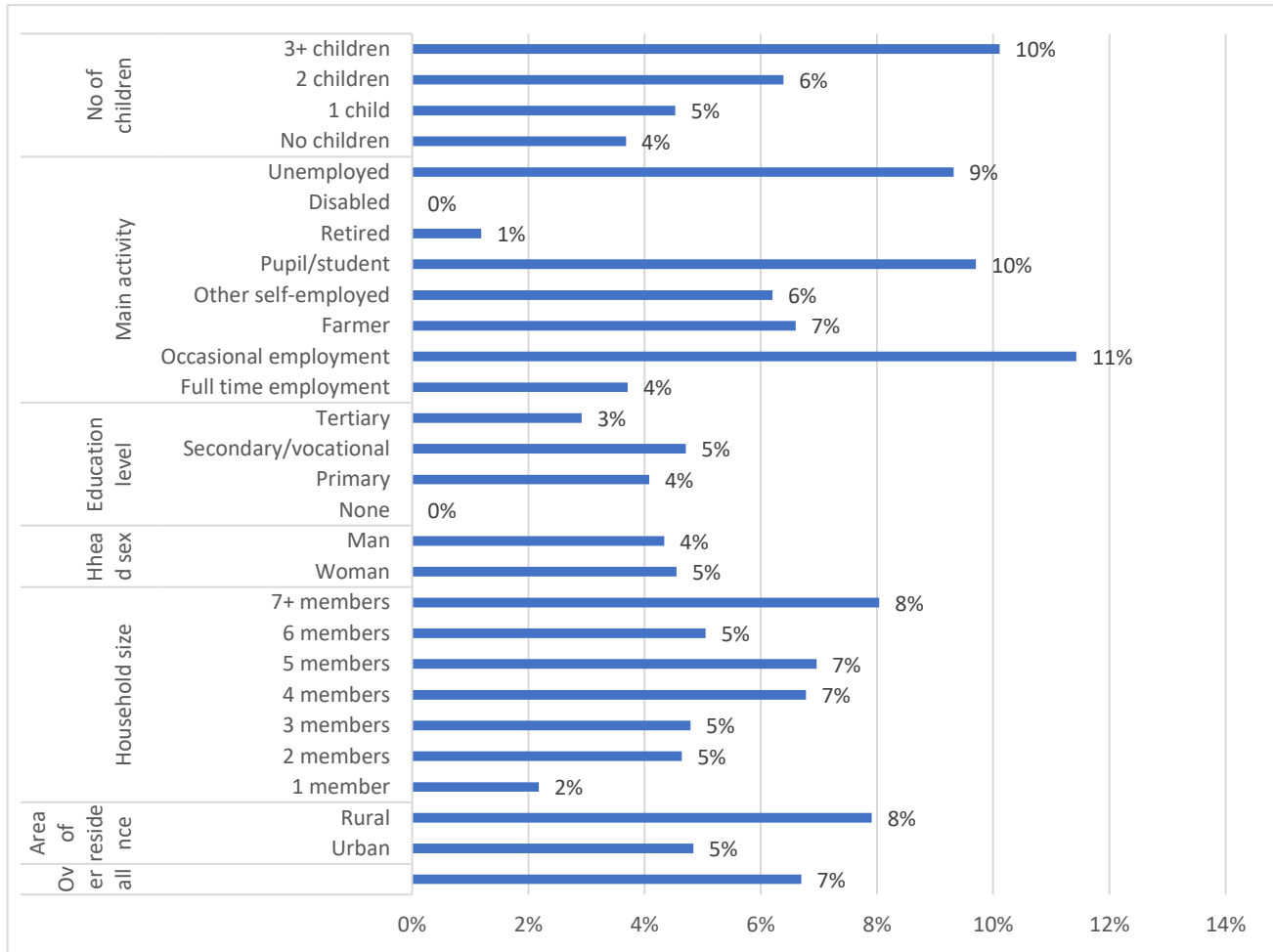
**The SAS's incidence does not correspond to the country's poverty profile.** Figure 6 shows poverty incidence for different groups of the population in 2015. Poverty is highest for the occasionally employed (26 percent), the disabled (24 percent), women (24 percent), and big households with more than 2 children. In contrast, while the incidence of receiving SAS is high in some of these groups it is low in others, suggesting that SAS does not consistently benefit the poorest groups in society (Figure 7). For example, about 20 percent of big households (5 or more members) are poor, but only between 5 and 8 percent of them receive SAS.

Figure 6: Poverty incidence among different groups



Source: Kosovo Agency of Statistics and World Bank (2017).

Figure 7: SAS incidence among different groups



Source: Kosovo Agency of Statistics and World Bank (2017).

The SAS Category II criterion that the youngest child is younger than five<sup>35</sup> results in exclusion of poor families with school-age children. The use of this criterion for LRIS eligibility is unique to Kosovo and has not been supported by research. Its choice seems counterintuitive as there is no reason to believe that the cost of raising a child decreases once the child turns five years old and the family becomes less poor. On the contrary, poverty incidence increases with number of children in the household (Figure 6).

Furthermore, many households who do not have a child under the age of five nevertheless receive SAS in Category II, indicating circumvention of categorical criteria. Survey data indicates that 73 percent of households who receive SAS and are not in Category I have no child under the age of 5. Thus, many households circumvent the formal eligibility criteria of SAS which undermines the effectiveness and credibility of the system.

The Category II criterion that the family cannot have an employed family member further excludes many poor families. Figure 6 indicates that poverty is highest among the occasionally employed (26 percent).

<sup>35</sup> Or the youngest orphaned child under family's care is younger than 15.

However, SAS Category II criteria prohibit any work for SAS recipients. Furthermore, once a child turns 18 the family loses eligibility for Category II even if he/she is still in secondary education or university. These conditions create incentives to work informally and/or to obtain a disability status to maintain eligibility for the scheme.

**The no-working-adult criterion creates adverse effects as many SAS beneficiaries simply cannot afford to not work.** Survey data indicates that 52 percent of SAS-receiving households have at least one working family member. This number is especially astonishing as these families should legally be excluded from SAS eligibility. Given that the consumption of many of these families is still below the poverty line, it is likely that they simply cannot afford to not work. This situation is problematic for several reasons: First, it drives working family members of SAS households into informality and potentially reduces their desired working hours as formal work would have them risk losing the SAS benefit. Second, it undermines credibility in the social assistance system as the formal criteria for receiving SAS are not implemented, thus adding an element of arbitrariness and opacity to SAS award decisions.

**Strict enforcement of the SAS Category II criteria would thus significantly reduce the number of SAS beneficiaries and lead to a substantial increase in poverty.** If all families with at least one working family member or without a child under the age of 5 would be excluded from SAS eligibility, coverage would decrease by 52 percent of households. This would significantly mitigate the poverty-reducing impact of the SAS and reduce the effectiveness of the scheme.

**As a result of the exclusionary nature of the categorical criteria, many beneficiaries move from Category II to Category I to avoid the more stringent eligibility requirements.** Policymakers attribute the relatively slower pace of decline in the number of Category I recipient families to a shift of Category II families into Category I<sup>36</sup>. This transition occurs when eligibility for Category II is lost because the youngest child turns 5 or older children turn 18 and are considered to be work able. Interviews with SAS administrators suggest that those who lose eligibility for Category II for these reasons seek ways for qualifying as dependent by certifying the corresponding members as disabled and in need of care.

**The poverty test does not necessarily ensure targeting SAS to the poorest households.** First, there is no evidence that the current scoring formula was developed using a statistical model. Second, two items in the PMT have exclusionary power – ownership of a vehicle and ownership/rent of land above 0.5 hectares – even though possession of these assets does not make a household non-poor. In addition, the means test component does not assess whether the household has sufficient income to meet basic needs against a certain (minimum) threshold but ambiguously assigns scores to each source of income regardless of household composition. While there is a standard questionnaire for assessing household characteristics in the PMT, some issues reducing the PMT's objectivity remain. The questionnaire leaves room for subjective scoring, such as assessing the quality and type of windows, basic furniture and appliances, and other household conditions. These and other concerns were raised in recent interviews with SAS Unit Heads and staff (see Box 2).<sup>37</sup>

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<sup>36</sup> Based on interviews with MLSW and CSW officials.

<sup>37</sup> It is noteworthy that covering the poorest 5 percent (assuming perfect targeting) would require financing of about EUR 16 million. Under the current budget, coverage of the poorest quintile is 66 percent using the new selection procedure (and maintaining current benefit rates). However, as it becomes progressively harder to identify the poorest, achieving full coverage of the bottom 5 percent would require more than doubling the current scheme as the PMT is an imperfect predictor of consumption poverty.

Capacity assessment of the Centres for Social Work (CSWs) carried out during September-November 2017 for the project Targeting health insurance exemptions identified the following issues with design of the poverty test through qualitative research:

- The PMT indicators do not always correlate with the poverty status and evaluation of some allows for arbitrary judgements by the Verification Teams (e.g. window/door type, furniture);
- Difficulty in verifying land ownership as land tenure is rarely transferred to successors upon the owner's death;
- Difficulty in verifying vehicle ownership due to lack of data exchange with Car Registry of the Ministry of Internal Affairs;
- Exclusionary power of land ownership and vehicle ownership even though they do not determine whether a family is poor;
- Difficulty in verifying employment status and income from employment due to the high rate of informality in the country.

Source: Qualitative research with MLSW SAS Officials, SAS Unit Heads, SAS Unit Officials, and CSW Directors during September-November 2017.

## Benefit formula, Rates and Duration

**The Social Assistance Scheme provides a flat rate benefit.** Unlike many other LRIS schemes, SAS is **not** a guaranteed minimum income scheme. It does not complement other public transfers or incomes of applicants with the objective to bring recipients to a pre-defined guaranteed minimum income standard. Instead, it is a fixed amount flat rate benefit.<sup>38</sup> Law No.4/L-096 stipulates that the monthly amount of SAS is set based on the number of family members and based on the cost of the minimum food basket.

**Since inception of the SAS, there have been several reforms to the calculation of the benefit amount.** Until reform of the SAS in 2012, a ceiling/cap was applied to the benefit amount for households with more than 7 members (Table 1). With the amendments from 2012 the benefit formula points range from 40 for a one-member family to 120 for a family/household of 15 members, with each point corresponding to one Euro of benefit. In addition, these amendments expanded the scope of the benefit: (1) the ceiling for households with more than 7 members was lifted, and the benefit amount adjusted for household size by adding 5 Euros to the monthly amount for each additional person for households with 3 or more household members; and (2) a monthly child allowance of an additional 5 Euros for each child under 18 years was introduced.

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<sup>38</sup> AI No.15/2012 on the Calculation of Monthly Social Assistance Amounts.

Table 1: Trends in social assistance monthly benefits by household size, (nominal values)

Household size	2003	2009	2012*	November, 2015*	January, 2018*
1 member	€ 35	€ 40	€ 40	€ 50.0	€ 60.0
2 members	€ 50	€ 55	€ 55	€ 68.8	€ 82.5
3 members	€ 55	€ 60	€ 60	€ 75.0	€ 90.0
4 members	€ 60	€ 65	€ 65	€ 81.3	€ 97.5
5 members	€ 65	€ 70	€ 70	€ 87.5	€ 105.0
6 members	€ 70	€ 75	€ 75	€ 93.8	€ 112.5
7 members	€ 75	€ 80	€ 80	€ 100.0	€ 120.0
8 members	€ 75	€ 80	€ 85	€ 106.3	€ 127.5
9 members	€ 75	€ 80	€ 90	€ 112.5	€ 135.0
10 members	€ 75	€ 80	€ 95	€ 118.8	€ 142.5
11 members	€ 75	€ 80	€ 100	€ 125.0	€ 150.0
12 members	€ 75	€ 80	€ 105	€ 131.3	€ 157.5
13 members	€ 75	€ 80	€ 110	€ 137.5	€ 165.0
14 members	€ 75	€ 80	€ 115	€ 143.8	€ 172.5
15 members	€ 75	€ 80	€ 120	€ 150.0	€ 180.0

Source: MLSW administrative data and SAS legislation.

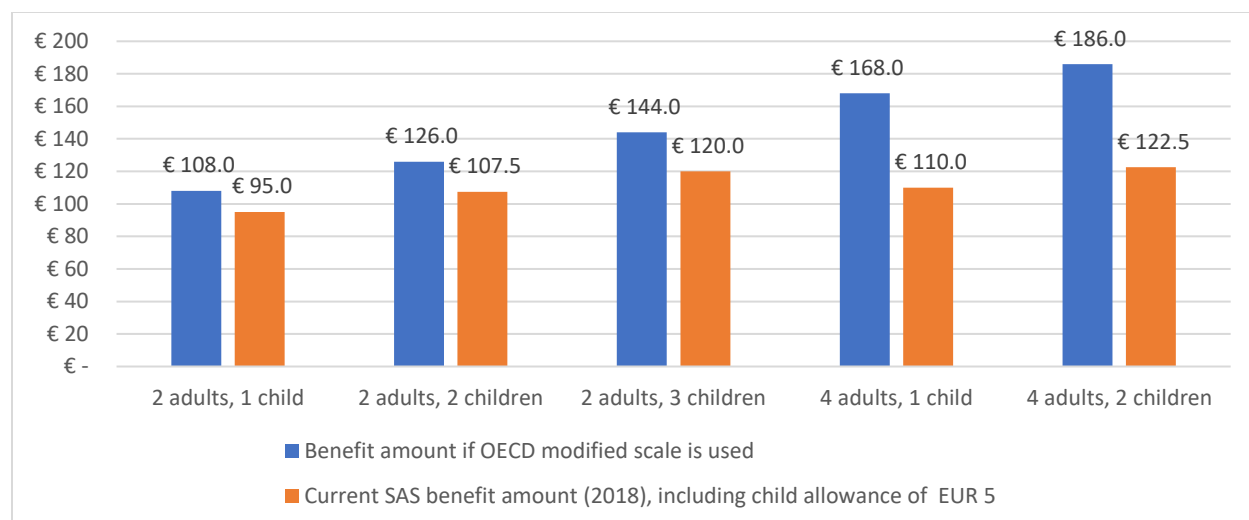
\*Note: Monthly amounts do not include child allowance.

**Although there has not been any formal inflation indexation of the SAS benefit, discretionary increases of the benefit amount have more than offset benefit erosion and led to an increase in the real value of SAS.** Due to Kosovo using the Euro as its currency, cumulative inflation of food and non-alcoholic beverages between 2002 and 2017 has only been 41 percent. During the same period, the government increased the amount of the SAS benefit four times (Table 1). Depending on household size, the cumulative increase of the benefit amount totaled to between 60 and 140 percent, far outweighing inflation.

**The SAS benefit covers a lower share of the consumption needs of large families compared with smaller families.** By design, the equivalence scale of the SAS assumes disproportionately high economies of scale for larger families. Beyond the second family member, the incremental benefit amount is only EUR 7.5 per month for adults and Euro 12.5 for children. As a result, the incremental benefit amount in response to an additional family member is smaller than that envisaged by the most common equivalence scales and does not reflect adult equivalent family size. Most other countries in the region apply more generous scales<sup>39</sup>. Comparison of current SAS benefit levels by family size and characteristics with benefit levels based on OECD modified scales shows that the adequacy of the SAS decreases with family size (Figure 8). The SAS benefit covers 88 percent of consumption needs of families with 2 adults and 1 child based on the modified OECD equivalence scales and for families of 4 adults and 2 children SAS coverage of consumption needs diminishes to 66 percent.

<sup>39</sup> In the Western Balkan region, Serbia and Albania apply OECD equivalence scales in the design of their LRIS benefits. The remaining countries apply national scales which are overall more generous than the SAS scale. Exception is the LRIS in Montenegro where the increment for the second family member is 0.2.

Figure 8: Lower adequacy of SAS benefit for larger families



Source: Authors' calculations using the OECD modified scale, SAS legislation, and MLSW administrative data.

**The SAS benefit duration is short by international standards, especially for Category II beneficiaries.** Category I beneficiaries receive benefits for 12 months, whereas Category II SAS beneficiaries only receive benefits for 6 months. After benefit expiry, the beneficiary status is subject to renewal (re-validation) for the next 6 or 12 months. There is no limit on the number of applications, and the benefit can be renewed indefinitely if the household keeps fulfilling the eligibility criteria. However, having to reapply for the SAS every 6 months places an undue burden on households and creates unnecessary workload for the administrative system. In most of the EU countries, the LRIS benefit requires re-certification after at least 12 months<sup>40</sup>, similar to the requirements in the other Western Balkan countries. Any change in circumstances of the SAS recipient family (such as family size and composition, incomes, assets, etc.) that takes place within the period of benefit receipt, must be reported to the CSWs.

### Relation to Other Benefits

**The SAS is the gateway for other in-kind benefits and associated rights for its recipients.** The SAS benefit package includes<sup>41</sup>: (i) coverage of a portion of the electricity bill, (ii) exemption from payment of primary and secondary healthcare services, (iii) free books for primary and secondary school pupils<sup>42</sup>, (iv) coverage of student tuition fees, (v) exemption from payment of other utilities, and (vi) exemptions from municipal administration tax payment. Exemptions from additional municipal fees/taxes which vary by municipality leads to unequal benefit generosity.

**There are no explicit legal regulations for integrated social service provision or for complementing the SAS cash assistance with other care services.** As a result, the links between SAS and other social care services

<sup>40</sup> Exceptions are the Active Solidarity Income (FSA) in France where income of beneficiaries is re-evaluated quarterly and Latvia's GMI benefit where re-certification takes place every 3 or 6 months (<https://www.missoc.org/missoc-database>, January 2018).

<sup>41</sup> AI No. 15/2012 on the calculation of monthly social assistance amounts.

<sup>42</sup> The Ministry of Education, Science and Technology provides free books to all school children in Kosovo.



are weak. SAS and social services are delivered by separate units of the CSWs and as a result cases are not managed in an integrated manner.

**Social and family services in Kosovo were introduced in 2005 with Law No.02/L-17 on Social and Family Services.** They are targeted to persons and families in need, such as children without parental care, neglected and/or with delinquent behavior, elderly in need of care, persons with physical and mental disabilities or exposed to risks of exploitation, abuse, domestic violence and/or human trafficking, people affected by natural disasters. There are three main types of services: direct social care, counseling, and cash or in-kind assistance for people in need. The direct care involves help with domestic duties, personal care, help for mobility and communication. It can be provided in a person's own home, in a day-care center or in a residential institution. Counselling involves providing information, advice and guidance aimed at helping an individual or a family to improve their social circumstances. The assistance includes support in cash, temporary shelter, food, clothing, payment of medical fees, or other support in case of urgent need.

**Regarding employment services, Category II SAS recipients are rarely treated with activation measures, and even more rarely sanctioned for refusing to take part in activation programs.** The sole formal linkage with SAS is the requirement for able-bodied SAS Category II family members to register as unemployed. There are no legal provisions for specifically targeted employment measures, even Public Work Programs (PWP), which could – according to their definition<sup>43</sup> - combine public and social objectives.

**Compared to other Western Balkan countries, generosity of the SAS benefit package is low.** Combined with only sporadic benefit indexation, this further reduces the ability of the SAS to tackle poverty effectively.

**The SAS is not effectively linked to employment and social care services, inhibiting effectiveness of service delivery.** Weak linkages with social services increase administrative burden and duplicity and reduce the effectiveness of delivering public services in an integrated manner. Furthermore, they also undermine the government's ability to target poverty in a multifaceted manner. Lack of coordination between employment services and SAS greatly reduces the potential for activation and (re)integration of SAS recipients into the labor market. Moreover, lack of sanctions increases long-term benefit dependence.

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<sup>43</sup> Regulation (MLSW) No.01/2018 on Active Labor Market Measures, Article 33.

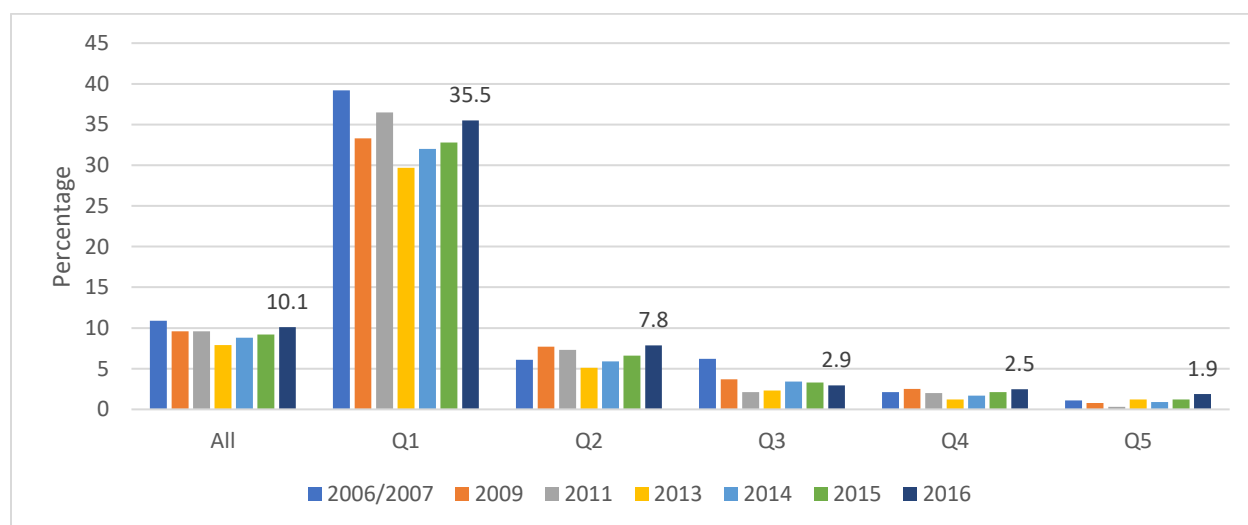
## Performance

To assess performance of the SAS in international comparison, this section presents data on (i) coverage of intended beneficiaries/population, (ii) targeting accuracy, (iii) benefit adequacy, and (iv) the importance of SAS transfers in reducing poverty in Kosovo. This is a standard set of indicators used in the World Bank global data base on social protection programs – Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) and in the Social Protection Expenditure and Evaluation Database (SPEED) of the European and Central Asian countries. To calculate the performance indicators for Kosovo we use HBS 2006 to 2016 data. For international comparisons, the poverty rate is set as the bottom 20 percent of the population (bottom quintile) and Kosovo’s SAS<sup>44</sup> is compared both with other LRIS schemes and broader social assistance systems in other Eastern European and Central Asian countries.

### Coverage

Coverage of the poor with SAS is low, only about one third of the bottom quintile receives SAS benefits. In 2016, about two thirds of the poorest quintile did not receive any SAS benefits (Figure 9). Between 2006 and 2016 coverage has fluctuated between 30 and 39 percent. On average, about 10 percent of the population received SAS benefits according to HBS 2016, compared with about 6 percent according to 2016 administrative data.

Figure 9: Coverage of SAS by consumption quintile, direct and indirect beneficiaries, 2006-2016, percent



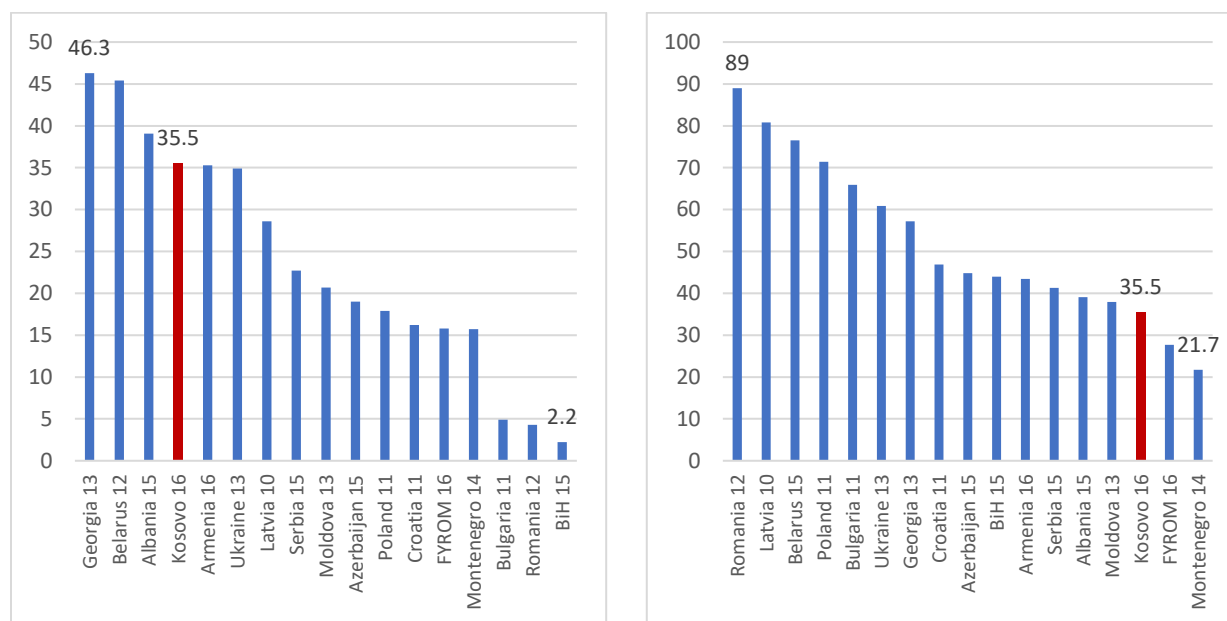
Source: World Bank calculations using HBS 2006-2016 with ADePT.

Maintaining adequate coverage of the poor through the SAS is of great importance because SAS is the only poverty-targeted social benefit in the protection system in Kosovo. In the presence of a coverage gap, there is no other instrument capable (based on its objectives and design) to reach a significant portion of the poor and needy. In Kosovo, coverage through the SAS as a last-resort income support scheme is therefore almost equivalent to the coverage through all social assistance programs (Figure 10). In contrast, most

<sup>44</sup> The Kosovo HBS does not allow to distinguish between (1) Social Assistance Scheme; (2) Material support for families of children with permanent disability; (3) Cash transfer for foster families; and (4) One-time social assistance for exceptional needs. Given the small sizes of schemes 2 and 3, all benefits in the category “social assistance” is attributed to the SAS in the subsequent analyses.

comparator countries operate multiple social assistance programs with poverty alleviation objectives and cover a significantly higher share of the poorest quintile. For example, the LRIS benefit in Bulgaria covers only 4.9 percent of the poorest quintile but 48.9 percent of the same quintile receive a means tested child allowance, and 13.3 percent receive a heating allowance. The LRIS benefit in Croatia covers 16 percent of the poorest quintile, but when combined with the child benefits and local government support, total social assistance reaches around 20 percent of the population<sup>45</sup>. The countries with a structure of social assistance benefits similar to Kosovo as well as similar LRIS benefit design (Georgia, Albania, Armenia) also achieve higher coverage of the poorest quintile.

Figure 10: Coverage of the poorest quintile (Q1) with LRIS programs (left) and with all social assistance programs (right), selected countries, latest year available, percent



Source: World Bank's SPEED data with authors' updates for all Western Balkan and Caucasus countries.

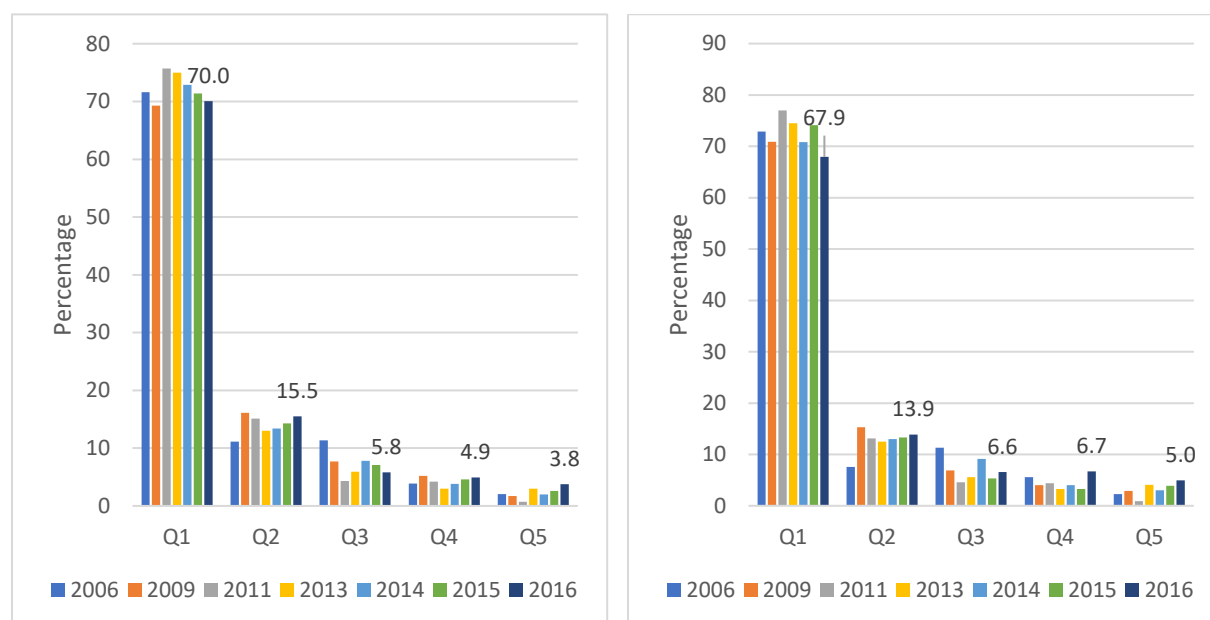
Note: Numbers next to country names refer to the year of the household survey used in the analysis.

## Targeting Accuracy (Beneficiary and Benefit Incidence)

**Targeting accuracy of the SAS is good, with the poorest quintile representing about 70 percent of SAS beneficiaries.** The SAS beneficiary incidence (the proportion of SAS beneficiaries in each population quintile) is progressive, with close to 85 percent of SAS recipients belonging to the bottom 40 percent (Figure 11, left). Similarly, the SAS benefit incidence (SAS transfer to the poorest quintile as share of the total SAS transfer) is highly progressive. Between 2006 and 2016, 68 to 78 percent of total SAS benefits have been accrued by the poorest quintile, but with a noticeably downward trend and reaching a low in 2016 (Figure 11, right). Still, over 10 percent of benefits in 2016 accrued to the richest 40 percent, indicating flaws in beneficiary identification. The targeting methodology incorporated a PMT since 2012, but this has not led to improved targeting performance. On the contrary, benefit and beneficiary incidence deteriorated somewhat after 2012.

<sup>45</sup> Tesliuc et al. (2014).

Figure 11: Beneficiary (left) and benefit incidence (right) of SAS by consumption quintile, direct and indirect beneficiaries, 2006-2016, percent.



Source: World Bank calculations using HBS 2006-2016 with ADePT.

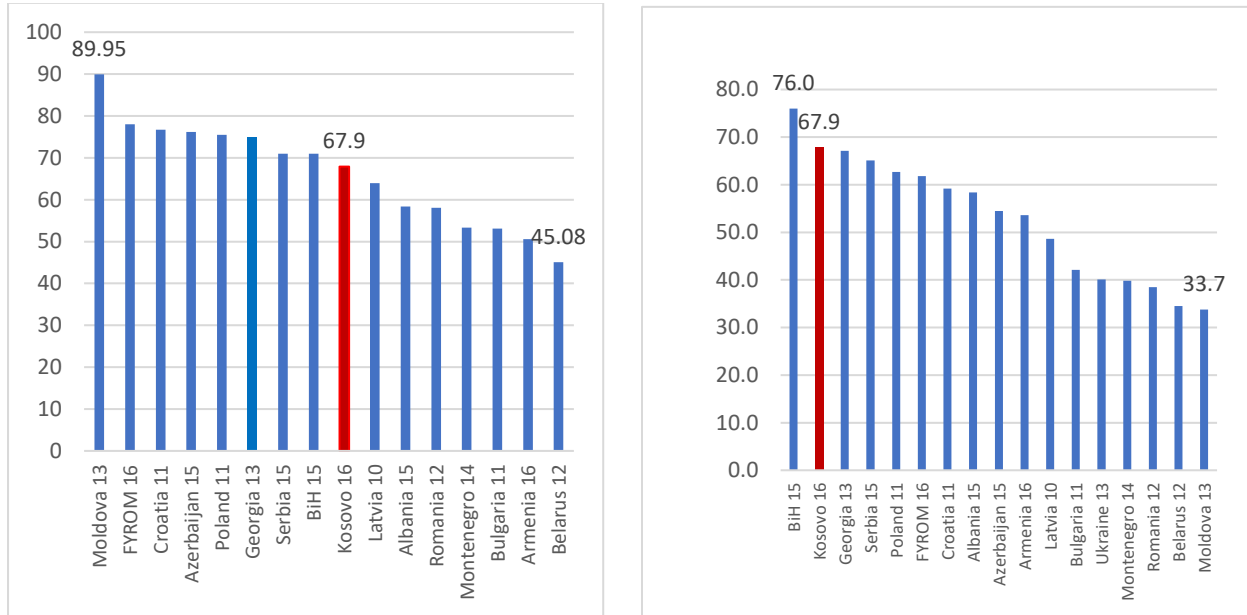
**Relative to comparator countries, the SAS is one of the well targeted LRIS programs in Eastern Europe and Central Asia.** While SAS targeting compares well with other programs in ECA (Figure 12), other countries achieve even higher targeting performance with means tests, notably FYR Macedonia, Croatia, Poland, Serbia, Bosnia and Herzegovina, or with hybrid tests and/or PMT (like Moldova, Georgia or Azerbaijan). Furthermore, the leakage of SAS to the richest quintile is not high in Kosovo (4.1 percent of SAS benefits accrued to the richest 20 percent in 2016) compared to some other LRIS schemes. At the same time, in a number of comparator countries, notably FYR Macedonia, Poland, Belarus and Georgia, the leakage of LRIS benefits to the richest 20 percent of the population is up to 2 percent.

**Targeting accuracy in Kosovo is a consequence of low coverage rather than a result of good beneficiary identification.** The SAS by design excludes poor households if they do not satisfy the criteria for Category I (all household members dependent) or Category II (only one work capable household member) and the budget for SAS is small and insufficient to cover a sizable share of the poor. High targeting accuracy therefore is a result of high poverty rate and a small beneficiary base rather than good targeting of the poor. There is a high risk that targeting accuracy would deteriorate if coverage were to increase without improvements in beneficiary identification. While SAS is a small component in Kosovo's social protection system, it is the only program explicitly targeted to the poor. While close to 70 percent of SAS beneficiaries are poor, other social protection programs, such as war-related benefits or old-age pensions<sup>46</sup>, transfer much lower shares of the budgets to the bottom 20 or 40 percent of the population (Figure 13). A relatively

<sup>46</sup> The Kosovo HBS does not allow to distinguish between different social protection programs. Income from: (1) Social Assistance Scheme, (2) Material support for families with children with permanent disability (age 1-18), (3) One-time social assistance for exceptional needs, and (4) Income for foster families are grouped into one variable. Similarly, incomes from different pension schemes – old-age, disability, war-related categories, special pensions, etc., - are all grouped into one variable.

sizable share of the poorest 40 percent receives private transfers (remittances), which is important for these households given the limited scope of public social assistance.

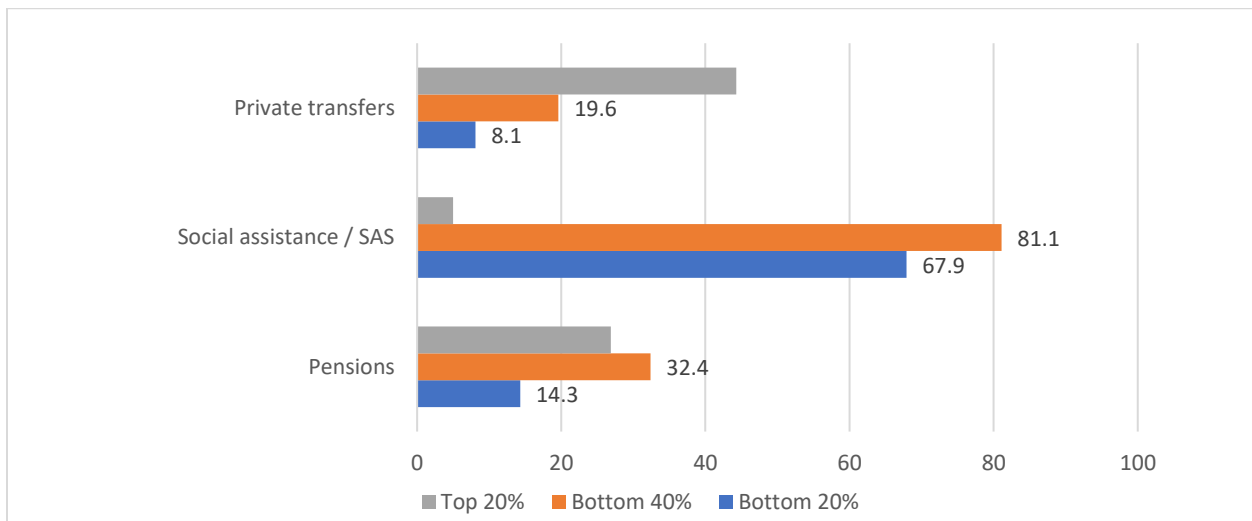
Figure 12: Benefit incidence of the poorest quintile (Q1) of LRIS programs (left) and of all social assistance programs (right), selected countries, latest years available, percent



Source: World Bank's SPEED data with authors' updates for all Western Balkan and Caucasus countries.

Note: Numbers next to country names refer to the year of the household survey used in the analysis.

Figure 13: Benefit incidence by consumption quintile (Q1, Q1/Q2, and Q5) of social assistance programs, pensions, and private transfers, 2016, percent

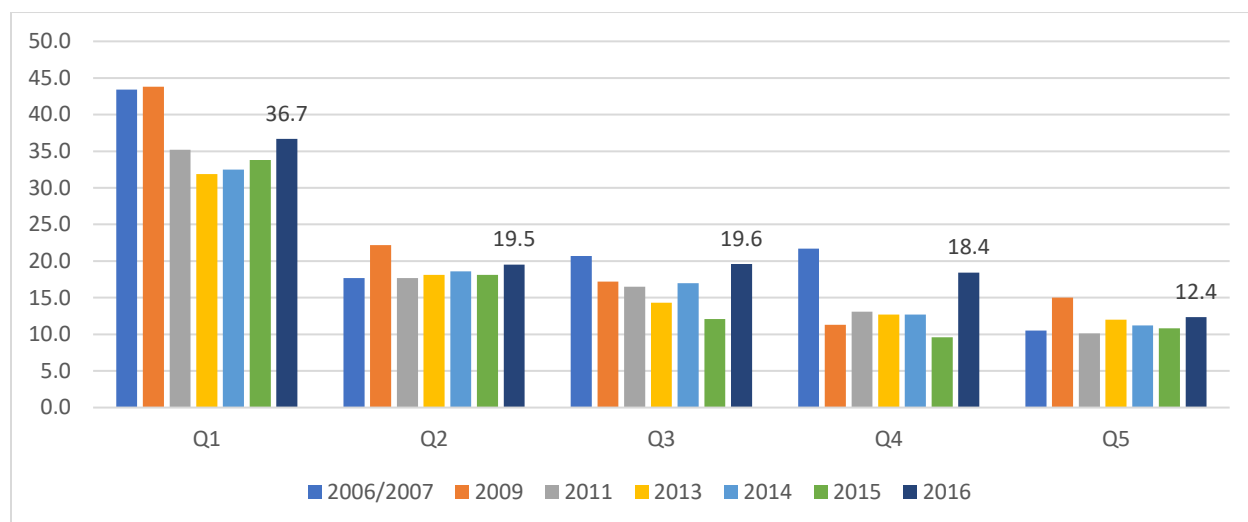


Source: World Bank calculations using HBS 2006-2016 with ADePT.

## Benefit Adequacy / Generosity

**Social assistance transfers are an important source of livelihood for the poor.** Between 2006 and 2016, SAS benefits contributed to between 32 and 44 percent to the consumption of the poorest quintile (Figure 14). Relative to comparator countries, benefit adequacy of SAS in Kosovo is about average compared to other LRIS schemes (Figure 15, left). While generosity of the SAS is at the average level for similar benefits in the Eastern Europe and Central Asia region, it has been decreasing over time. In the first decade of the 2000s, SAS transfers amounted to 43-44 percent of the consumption of the poorest quintile compared to an average generosity of LRIS programs in Eastern Europe and Central Asia at that time of around 25 percent<sup>47</sup>. However, in response to the 2008 crisis, LRIS benefit amounts were increased in many countries and as a result, LRIS generosity in Eastern Europe and Central Asia increased to an average of 36 percent in 2016, matching generosity of the SAS in Kosovo. Compared with broader social assistance schemes, however, the generosity of the SAS is modest (Figure 15, right).

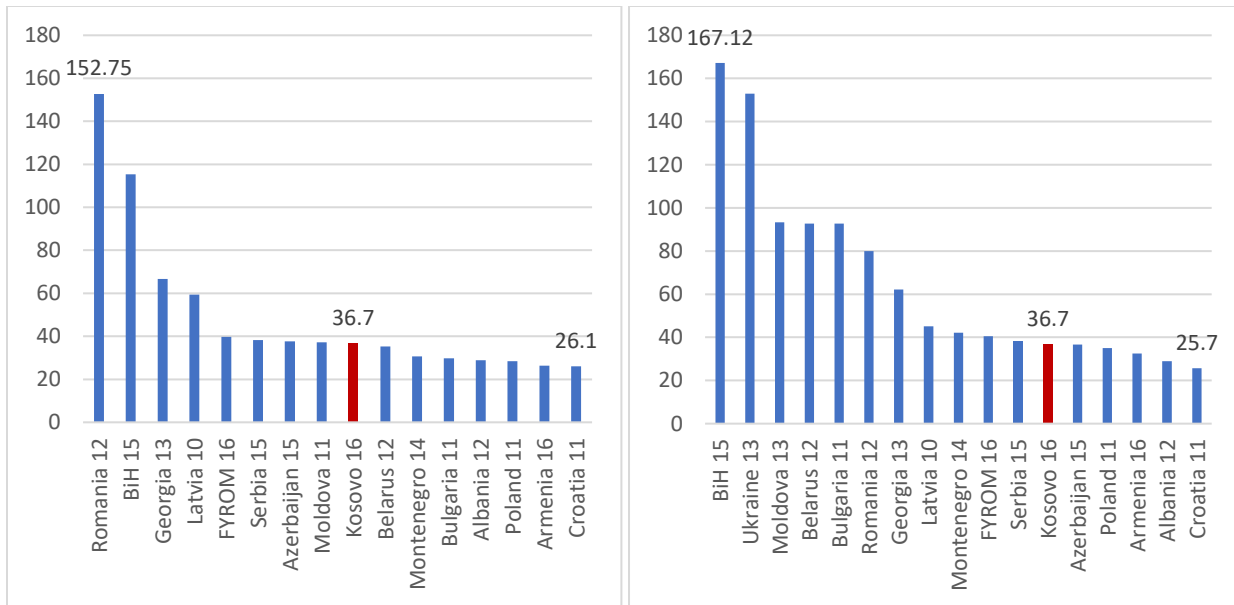
Figure 14: Adequacy of SAS by consumption quintile, direct and indirect beneficiaries, 2009-2016, percent



Source: World Bank calculations using HBS 2006-2016 with ADePT.

<sup>47</sup> Tesliuc et al. (2014).

Figure 15: Generosity of LRIS programs (left) and all social assistance programs (right), selected countries, percent

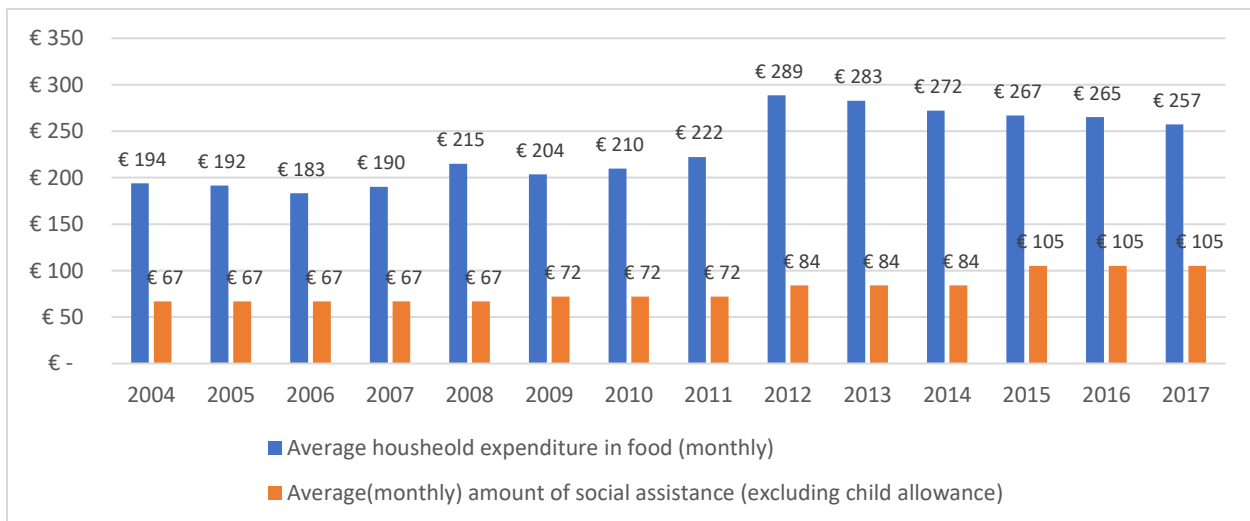


Source: World Bank’s SPEED data with authors’ updates for the Western Balkan countries (except for Albania) and for the Caucasus countries.

Note: Numbers next to country names refer to the year of the household survey used in the analysis.

**Compared to the average expenditure on food per household the SAS benefit has increased favorably over time.** Figure 16 gives the average monthly SAS benefit (excluding child allowances) and compares it with the average monthly household expenditure on food. In 2004, SAS benefits represented about a third of overall household expenditure. This share slightly decreased over the years 2008 to 2014 due to increasing food cost and inadequate benefit level adjustments. However, the benefit levels were increased in 2015 and food costs decreased as a result of a low inflation environment. In 2017, SAS benefits represented about 40 percent of the average food expenditure per household.

Figure 16: Average monthly SAS benefit (excluding child allowances) and monthly household food expenditures



Source: KAS, Results of Household Budget Surveys 2004-2017 and MLSW administrative data.

## Poverty Impact

**Due to limited program size and coverage, the SAS’s poverty headcount reduction impact has been only modest.** If SAS was eliminated and households were unable to compensate for the loss of income, the overall poverty rate would increase by 1.5 percentage points in 2016 (Table 2). In 2009, SAS decreased the poverty headcount by 2.2 percentage points. While nominal benefit amounts were increased in the following years, the tightening of eligibility criteria offset this effect.

**SAS is more successful at reducing the poverty gap.** In 2009, SAS reduced the poverty gap from 6.9 to 4.9 percentage points. This number decreased only slightly over time with SAS reducing the poverty gap from 6.4 to 4.6 percentage points in 2016 (Table 2). These numbers imply that SAS benefits reduced the poverty gap of some households without lifting them above the poverty line, thus leaving the poverty headcount unchanged.

Table 2: Impact of SAS on poverty and inequality, 2009-2016

	Poverty headcount index (%)		Poverty gap index (%)		Gini coefficient	
	With transfer	Without transfer	With transfer	Without transfer	With transfer	Without transfer
<b>2009</b>	20.0	22.2	4.9	6.9	0.314	0.329
<b>2011</b>	20.0	21.8	4.9	6.4	0.276	0.290
<b>2013</b>	20.0	21.6	4.8	6.1	0.264	0.275
<b>2014</b>	19.9	21.5	4.9	6.3	0.273	0.284
<b>2015</b>	20.0	21.5	4.4	6.0	0.261	0.274
<b>2016</b>	20.0	21.5	4.6	6.4	0.258	0.272

Source: World Bank calculations using HBS 2006-2016 with ADePT.

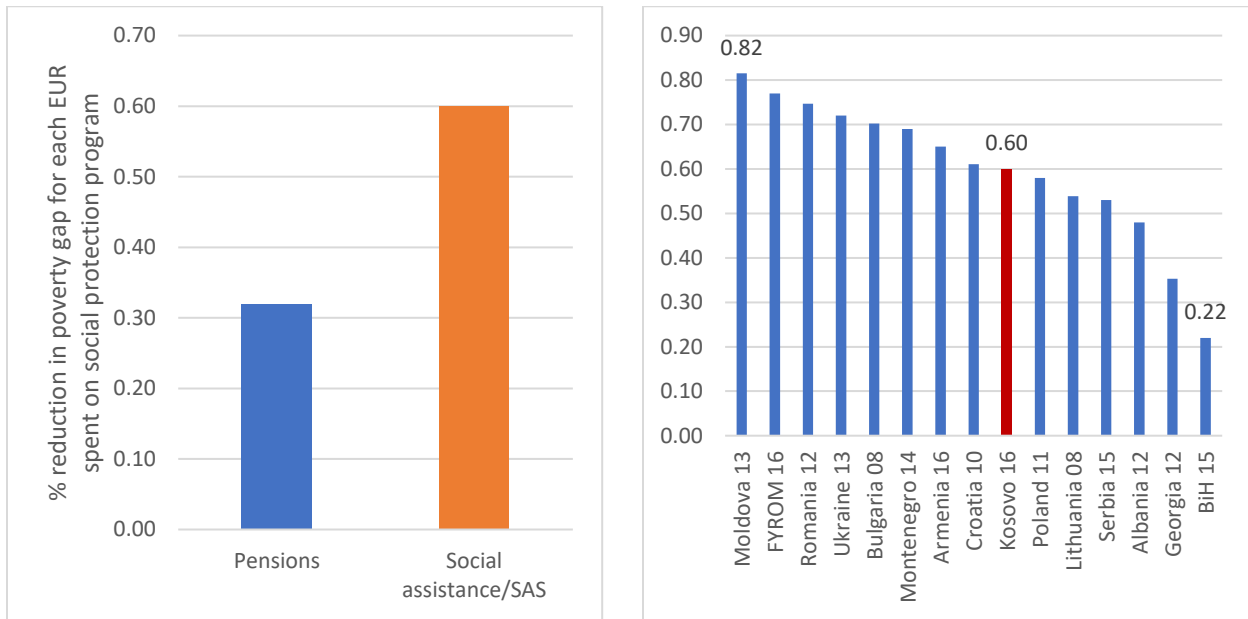
**SAS is Kosovo’s most cost-effective social protection program.** The SAS cost-benefit ratio, which specifies how much the poverty gap is reduced by each euro spent on the program, was 0.6 in 2016, implying that 60 percent of SAS spending went directly to reducing the poverty gap.<sup>48</sup> The SAS cost-benefit ratio is the highest of all social protection programs in Kosovo (Figure 17, left), and in line with the average compared to LRIS in other countries in Europe and Central Asia (Figure 17, right).

**Compared to other LRIS programs in Europe and Central Asia, SAS has a high poverty-reducing effect.** While the poverty headcount reduction effect of SAS is modest, it is still larger than the effect of most other LRIS programs in comparator countries when measured as a percentage of the pre-transfer index. In addition, SAS reduces the poverty gap by almost 30 percent, a figure which is only trumped by the LRIS program in Armenia (Figure 18).

<sup>48</sup> This calculation of the cost-benefit ratio does not take into account administrative costs which – according to recent research – are on the order of 7-10 percent of total program costs (Tesliuc et al., 2014).



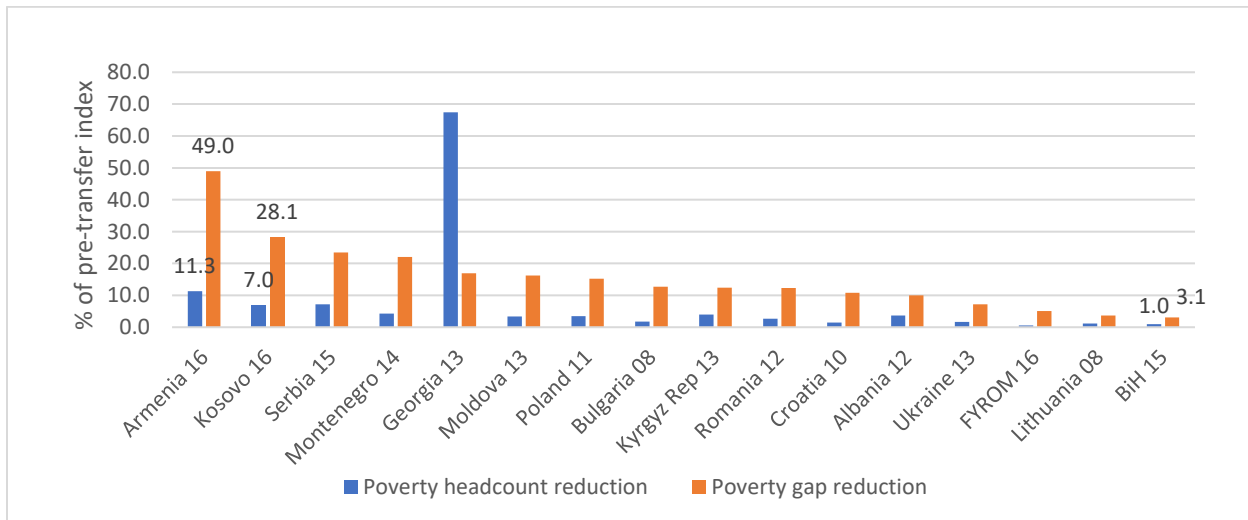
Figure 17: Cost-effectiveness of Kosovo's SAS compared to pensions, 2016 (left) and compared to other LRIS schemes in selected countries



Source: World Bank calculations using HBS 2006-2016 for Kosovo with ADePT (left). World Bank calculations using HBS for the respective countries with ADePT (right).

Note: Numbers next to country names refer to the year of the household survey used in the analysis.

Figure 18: Reduction in poverty headcount and poverty gap after LRIS transfer, selected countries, percent



Source: Authors' calculations based on World Bank ASPIRE and SPEED data, and updated HBS data for Kosovo, Armenia, Georgia, Serbia, Montenegro, Bosnia and Herzegovina and FYR Macedonia.

Note: Numbers next to country names refer to the year of the household survey used in the analysis.

## Directions for Reform

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**The results of this study underscore the potential for increasing the efficacy of the Social Assistance Scheme in Kosovo.** The Social Assistance Scheme (SAS) is the sole program targeted at poverty reduction in Kosovo and, importantly, the only program in which household income and assets are used to identify beneficiaries. Yet, the analyses presented here indicate that there is considerable room for improvement. Specifically, revising the design of SAS and expanding coverage would significantly increase its equitability and overall effectiveness.

**The importance of SAS in Kosovo’s social protection system has declined, and the government has not managed to exploit the potential of SAS to protect the poor.** Overall spending on social protection has increased over the past decade, while the relative spending on SAS has decreased. Spending rose most for old-age pensions and war-related benefits, and these contributed most to increases in overall spending on social protection. Specifically, between 2009 and 2016, spending on SAS fell by 12.3 percent in real terms, from 19 percent of total social protection spending to 8.13 percent or from 0.69 to 0.48 percent of GDP. At the same time, the number of beneficiaries declined from over 40,000 households in 2005 to 26,000 in 2017.

**Decreases in spending on targeted social assistance in Kosovo goes against a worldwide trend.** A recent World Bank study on social safety nets finds “an explosion of activity in social safety nets programs around the world, with increasing complexity of programs in pursuit of greater results and growing commitment to spend more on them over time”.<sup>49</sup> Globally, low middle-income countries spend an average of 1.4 percent of GDP on social assistance and developing and transition economies spend an average of 1.6 percent of GDP, with the countries from Eastern Europe and Central Asia on the forefront with an average spending of 2.2 percent of GDP. **The government of Kosovo should consider increasing spending on SAS and increasing the number of beneficiaries while taking measures to improve the program’s targeting performance.** Recommendations for improving the targeting performance, and thereby the equity and effectiveness of SAS, are provided below.

**Coverage of SAS in 2016 was 35.5 percent for Q1, low when compared with national rates of absolute poverty and thus leaving many poor families unassisted.** SAS coverage is also low relative to comparator countries. Most countries in Eastern Europe and Central Asia report significantly higher coverage of the poorest population quintile with various social assistance programs. Even countries with LRIS benefit design similar to Kosovo’s SAS report equal (Armenia) or higher (Georgia, Albania) coverage of the poorest quintile.

**Kosovo’s government should consider expanding coverage of the poor by eliminating the categorical criteria** (beneficiary categorization into Category I and Category II), which serve as inexact proxies of poverty, powerful exclusion filters, and drivers for seeking the status of dependent (not required to work) family member. Currently, all poor families with more than one family member able to work and, at the same time, who are not raising at least one child under 5 years of age or an orphan under 15 years age are

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<sup>49</sup> World Bank (2017b).

excluded. The able to work family member cannot be employed and must be registered as unemployed with the EARK and comply with job search requirements.

**The targeting measures of SAS are pro-poor, but there is significant room for improvement.** Close to 68 percent of the SAS benefit budget accrued to the poorest 20 percent of the population and around 85 percent of beneficiaries belonged to the bottom 40 percent in 2016. These indicators place SAS above the average of targeted LRIS programs in Eastern Europe and Central Asia. However, other countries achieve higher targeting performance with means tests (Moldova, FYR Macedonia, Croatia, Poland, Serbia, Bosnia and Herzegovina) or with hybrid tests and/or proxy-means test (Georgia, Azerbaijan). At this point, the high targeting accuracy in Kosovo is a consequence of low coverage of the poor rather than of precise beneficiary identification, and there is a high risk that it would deteriorate if coverage were to increase without revising the beneficiary identification methodology. The current methodology has been applied since 2012 but has not led to improved targeting performance. On the contrary, benefit and beneficiary incidence declined somewhat after 2012, and leakage to the richest was not curtailed. **Targeting can be improved with (a) a more comprehensive means test that counts all observable incomes and household members and does not disqualify based on a single countable income source, and with (b) a new PMT formula comprising indicators which are identified with a statistical model each assigned a weight based on its positive correlation to household income, and no single indicator having an exclusionary effect on its own.**

**The SAS transfer is an important source of livelihood for the poor in Kosovo, but its generosity has declined over time.** The SAS transfer as a share of consumption in the bottom quintile indicates that the poor in Kosovo have very few income sources beyond SAS. Relative to LRIS schemes in comparator countries from Eastern Europe and Central Asia, SAS benefit adequacy is about average; relative to broader social assistance schemes, it appears modest reflecting the limited capacity of social assistance in Kosovo to increase the consumption of the poor. SAS benefit adequacy has decreased over time – from 43-44 percent of the consumption of the poorest quintile in the first decade of the 2000s, to 33-37 percent in 2011-2016, in contrast to the benefit adequacy increase from an average of 25 percent to over 30 percent in most of the comparator countries.<sup>50</sup> **The government of Kosovo can achieve higher benefit adequacy with a new equivalence scale.** The present (implicit) equivalence scale is well below the scales typically used in comparator countries and discriminates against larger families due to its strong assumption of economies of scales. **At the same time, the SAS benefit levels would be more predictable if their updates were not ad hoc but in accordance with the legally set rules for indexation.**

**In the absence of SAS, the overall poverty gap would have been 1.8 percentage points higher in 2016, and the poverty rate would have been 1.5 percentage points higher.** The SAS has a higher poverty reduction impact than a number of other LRIS programs in comparator countries. SAS reduces the poverty gap by almost 30 percent, a figure which is trumped only by the LRIS program in Armenia. SAS is considered a cost-effective program; its cost-benefit ratio of 0.6 in 2016 is the highest when compared to other benefits in

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<sup>50</sup> Tesliuc et al. (2014).

Kosovo, and average when compared to last resort income support programs in other countries in Eastern Europe and Central Asia.

**Using national scales to assess coverage, targeting accuracy, and poverty impact, the performance of SAS looks even less encouraging.** To be comparable to the official poverty measurement methodology in Kosovo, key performance indicators need to be computed using the Euro 1.82/day adult equivalized consumption poverty line and the Euro 1.30/day adult equivalized consumption extreme poverty line. These numbers are based on the Euro-conversion of the international poverty line of \$1.90/day and the international extreme poverty line. Kosovo uses a customized equivalence scale to calculate adult equivalent consumption at the household level, which is used in subsequent analyses.<sup>51</sup> Using these national scales, 26 percent of poor households receive a benefit from SAS (coverage) and 64 percent of all individuals who receive SAS are poor. In other words, about 35 percent of SAS beneficiaries are non-poor. In terms of poverty reduction, SAS reduces the poverty headcount by about 2 percentage points and the poverty gap by about 1.5 percentage points.

**Overall, the design of SAS discourages employment of beneficiaries.** Working formally and receiving SAS exclude one another. Only two categories of families can qualify for SAS: (i) families with no work-able members (Category I) and those with one able to work member, if the family has at least one child under 5 years of age (Category II). This incentivizes any additional adults in the family to seek the status of not work-able or not required to work (dependent). The able to work family member must be registered as unemployed and not working, which decreases labor supply and promotes benefit dependency. LRIS systems with modern design do not discourage work; they envisage certain income disregards, especially for income from activation or occasional work, or the gradual benefit phase-out when taking a job or placement in public works.<sup>52</sup> In the case of SAS design, the main work and activation incentives are *requirements* (for job search, participation in public work programs, and mandatory registration with the employment service) and *sanctions* (non-compliance with requirements is sanctioned with discontinuation of eligibility for SAS). Yet, certain design features of SAS should act against disincentives to work and benefit dependency. SAS is not a guaranteed minimum income type of LRIS program; its flat-rate benefit eliminates the disincentive effect of taxing away any additional income or earning. Also, the relative generosity of SAS is not great enough to cause long-term benefit dependency. Same is true for the effect of 'benefit packaging'; eligibility for SAS is a gateway to some other benefits and services but the access is not always automatic, the programs are less numerous compared to other countries and do not offer generous benefits or associated rights. **The government should redesign SAS to decrease work disincentives, encourage activation and reward efforts toward self-sufficiency.**

**The characteristics of the SAS beneficiaries who are registered as unemployed indicate that substantial effort is required for their activation, which goes beyond removing the disincentives to work in program design.** Compared to the pool of unemployed registered with the Employment Agency of the Republic of Kosovo

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<sup>51</sup> To calculate official poverty numbers, Kosovo uses the following equivalence scale:  $AE = (n_{adult} + 0.75 * n_{child})^{0.75} * \frac{6}{6^{0.75}}$ . Children are defined as individuals <15 years.

<sup>52</sup> A summary of LRIS design features which could promote activation of beneficiaries are given in Annex 2.

(EARK), the able to work SAS beneficiaries who are registered as unemployed are farther removed from the labor market and they face multiple employability and participation constraints: almost all (97.5 percent) have no work experience, three quarters are with only primary or no education, and almost 80 percent have an unemployment spell of over 4 years. Combined with very low willingness to participate in training or unrealistic preferences for training further hampers the potential for activating this group. Key prerequisites for success of activation efforts in this context are proper functioning and capacity of the EARK, adequate profiling to understand SAS beneficiaries' barriers to transition to work, and targeted activation measures and/or potential adaptations of existing programs in line with the specific needs of SAS beneficiaries. This includes also putting in place adequate financing and human resource management to ensure an adequate counselor-client ratio that would allow for individualized guidance and follow-up. **Kosovo should enhance EARK's capacity and resources for service provision to the hard-to-employ drawing on the experience and learning from countries with more advanced systems for employment and social support.** Annex 2 provides further details on disincentives to work in the design of SAS, the institutional capacity for activation of SAS beneficiaries, the profile of beneficiaries, and examples of activation approaches.

**There are serious caveats in the institutional capacity for implementing SAS that, in turn, affect the accuracy of beneficiary identification.** Capacity constraints in the SAS Units of the CSWs include: understaffing; limited number of SAS staff able to use the SAS IT database and an overall shortage of staff with data management skills; unfulfilled training needs on implementation of the targeting system, using the SAS database, and understanding amendments to the legal framework; insufficient technology, equipment, and other forms of physical infrastructures; low salaries and limited career development prospects of SAS staff. Contrary to the widespread perception among SAS staff, however, caseloads are below what is considered reasonable by the community of social workers, and low by international comparison. According to administrative data only three municipalities exceed the recommended / reasonable caseload (*number of SAS direct beneficiaries per SAS staff which includes both managers and SAS officials*) of 250 cases per staff, and a fourth municipality is close to reaching 250. The average caseload is 140, and variation across CSWs is great (caseloads range between 23 and 323). Details on SAS-related implementation capacity constraints in the CSWs are provided in Annex 3. **The MLSW and the municipal authorities should work together towards reducing capacity constraints in the CSWs.**

**There are also weaknesses in the functioning of the SAS IT system with respect to informing policy making and implementation of the SAS targeting method.** While the SAS IT system is linked and exchanges data with most MLSW social transfer schemes and the Tax Administration, there is no data exchange with other programs either due to lack of IT systems in certain institutions or lack of formal agreements for data exchange where such systems exist. Concerns related to implementation are especially numerous at the CSW level. Although the SAS database is electronic, some PMT items are still verified manually in some CSWs, and do not reduce significantly the administrative burden. The staff can only access the SAS IT system during the first 20 days of the month. Knowledge gaps emerge in the staff's skills and knowledge to utilize the full capabilities of the IT system. **The government of Kosovo should consider investing in an upgrade of the SAS IT system and in the development of a unified SAS beneficiary registry.** This will help inform policymakers of the full range of benefits and services that a poor and/or vulnerable family or individual

receives and their costs, as well as improve the identification of SAS beneficiaries and users of other benefits, services and rights.

**The highlighted results of this study point to the importance of reforming several components of the SAS program.** It is crucial, however, that the reform measures fit into a well-articulated policy vision, are not introduced in a piecemeal fashion and are based on the multiple objectives of encouraging employment, adequately protecting the poor, ensuring fiscal sustainability and enabling efficient and effective administration. These results call for a review of the SAS design to increase its potential for becoming a poverty-targeted scheme covering a larger share of the deserving poor and excluding all others. The key recommendations regarding the design of SAS are:

- Improve coverage and maintain it at a high level that corresponds to the incidence of poverty and reflects the pivotal role of SAS in the social assistance system of Kosovo
- Improve SAS targeting accuracy with a new targeting/new beneficiary selection procedure which includes:
  - A means test that counts all observable incomes and all household members
  - A new PMT based on an econometric model, and
  - Removal of categories (Category I and Category II) to avoid *a priori* exclusion of groups that are poor according to the poverty profile
- Maintain equity in SAS benefit adequacy by:
  - Application of equivalence scale to give more weight to larger households
  - Following indexation rules to improve SAS budget planning and ensure predictability of benefit levels (compared to ad hoc benefit increases)
- Introduce modern design elements in SAS to make it incentive-compatible, promote activation of able to work beneficiaries, and reduce dependency on benefits:
  - Link able to work SAS beneficiaries to employment services
  - Introduce profiling based on 'distance' from the labor market
  - Improve EARK capacity for tracking of unemployment registration and job search behavior, also for provision of job matching services and ALMPs
  - Introduce incentives for behavior changes, e.g., link with ECD
  - Link SAS beneficiaries to social services
- Simplify SAS implementation by prolonging the recertification period (currently at 6 months for Category II) to 12 months; improving the PMT questionnaire and increasing the share of indicators which are cross-checked with the help of the SAS information system.

## Reform Simulations and Recommendations

To assess the relative importance of the various recommendations for reform, this section uses **microsimulations to evaluate the impact of modifications to the existing SAS scheme**. In the analysis we compute household consumption under different scenarios using data from the Household Budget Survey (HBS) 2016 and comparing the resulting consumption poverty and SAS targeting indicators to the current scheme, which provides the baseline current scenario. A detailed outline of the methodology is given in Annex 4.

**The primary simulation involves the removal of the two categorical filters (Categories I and II) and the introduction of a new beneficiary selection procedure based on a reformed poverty test.** Figure 19 shows the different reform scenarios for the simulations. The first reform option (new targeted scheme) removes the categorical eligibility criteria and identifies potential SAS beneficiaries through a new means and proxy means test instead. Applying this new method for identifying the deserving poor, the next reform simulations use different equivalence scales (the modified OECD equivalence scale and an “optimal” equivalence scale for Kosovo). In a final reform simulation, a two-tier benefit that provides higher benefits for the extreme poor is introduced (see Table A4.1).

**The new SAS beneficiary selection procedure uses a means test that takes into account all household members and their incomes that can be captured formally as a first step.** In this new means test all household members are accounted for, including those receiving pensions and other benefits. This represents a change from the current model in which basic old-age pension recipients, persons receiving the permanent disability, work disability, or family pension, children aged 1-18 who receive benefits under Law No. 03/L-022, and children in foster care are excluded. A second change is that all formal incomes that can be captured through data exchange with the Tax Administration of Kosovo (TAK) and other MLSW programs – including the ones listed above - are counted. Households whose adult equivalent formal income exceeds the poverty line are excluded from eligibility for the SAS.

**In a second step, households are ranked based on their predicted poverty status.** Given the high prevalence of informal incomes such as remittances in Kosovo, formal income is an imperfect measure of the overall living conditions of the household. Therefore, the beneficiary selection procedure features a PMT as a second step. The PMT assigns every household a score based on their levels of asset ownership, the conditions of their dwelling, and some demographic characteristics that are correlated with poverty. When applying the PMT, households can be ranked by predicted poverty status and thus potential SAS eligibility.

**In a third step, after having selected beneficiaries with the new poverty test, households are assigned benefits based on alternative equivalence scales.** To analyze the effect of different scales and resulting benefit levels, five scenarios are used in the simulations (using the new targeting criteria): (i) the current equivalence scale<sup>53</sup>, (ii) a modified OECD equivalence scale, and (iii) an “optimal” scale that is chosen by maximizing the

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<sup>53</sup>Kosovo Agency of Statistics uses the following formula to calculate the adult equivalence scales in Kosovo used in poverty estimations:  $AE = (nadult + 0.75 * nchild)^{0.75} * \frac{6}{6^{0.75}}$

poverty reduction impact of the new scheme<sup>54</sup>, (iv) a two-tier benefit based on current equivalence scales that assigns a higher benefit rate to those families that the PMT predicts to be extremely poor and a lower benefit rate to other families, and (v) the same two-tier benefit based on “optimal” equivalence scales.

Finally, the budget envelope for the next budget cycle needs to be decided upon by the government. All reform simulations are based on three different alternatives: (i) a *budget neutral* version of EUR 35.2 million, (ii) a *budget neutral* version achieved through a *budget reallocation* of 3.9 million<sup>55</sup>, and (iii) a budget increase of 7 million, without reallocations.

Figure 19: Reform scenarios for simulation



<sup>54</sup> The optimal scale is the following:  $Benefit_{Optimal\ Scale} = 60 * [1 + \max(nadult - 1, 0) * 0.25 + nchildren * 0.2]$

<sup>55</sup> According to simulations using HBS 2016, Euro 3.9 million is equivalent to the savings that could be expected if the pensions payments of the top 40 percent of the distribution that are unrelated to old age or disability were reduced by 50 percent.



## Results

Figure 20 shows the results for the four best performing reform options; the current scheme represents the baseline against which the other options are assessed. The estimated impact of the five reform scenarios on the change in poverty headcount, the change in the poverty gap, the percentage of beneficiary households that are poor (targeting), and the percentage of poor households that would be covered (coverage) are calculated using three different budget ceilings: (i) the current budget, (ii) increasing the SAS budget by about Euro 3.9 million, and (iii) increasing the SAS budget by Euro 7 million. Detailed results can be found in Table 3.

Significant improvements in SAS performance could be achieved through a reform that removes the categorical eligibility criteria and implements a new poverty test. Using the newly devised selection procedure, revisions to the SAS could result in significant poverty reduction, higher targeting accuracy and greater coverage. Moving from the current scheme to a new targeted scheme could reduce the poverty headcount by 10 percent (or 1.5 percentage points) and reduce the poverty gap by 11 percent (or 0.4 percentage point). Targeting accuracy would increase from 64 to 69 percent and coverage would increase from 26 to 45 percent.

Figure 20: Reduction in the poverty headcount and the poverty gap reduction under different SAS design and spending scenarios



Note: For methodological details see Annex 4 and for exact figures see Table 3.

Under a budget neutral reform, the highest poverty impact can be achieved by eliminating the categorical filters, introducing a new combined means and proxy means test (new targeted scheme), and revising the equivalence scales. In this case, and compared to the current scheme, both the poverty headcount and the poverty gap would be reduced by an additional 12 percent (or 1.7 percentage points for the poverty headcount and 0.4 percentage point for the poverty gap). Targeting accuracy would increase from 64 percent to 76 percent and coverage would increase from 26 percent to 40 percent.

**Increases in the SAS budget would result in even higher rates of poverty reduction.** In the case of a budget reallocation (allocating EUR 3.9 million from the pension schemes) for a new targeted scheme with optimal equivalence scales, the poverty headcount would be further reduced by 14 percent (or 2 percentage points) compared to the current scheme with the current budget. Increasing the budget by EUR 7 million would result in an additional 16 percent (or 2.3 percentage points) reduction in poverty headcount over the current scheme with the current budget.

**Reforms to SAS could deliver a significant improvement in targeting accuracy.** Table 3 shows the targeting impact of different reform scenarios. Under the current scheme, 64 percent of SAS beneficiary households are poor. Reforming SAS and maintaining the budget could increase this figure to between 69 and 83 percent. The high levels of variance among different reform options are due to the impact of different equivalence scales. If more generous equivalence scales are used (such as the modified OECD), fewer households receive the benefit overall, leading to lower leakage to the non-poor. Increasing the budget would reduce targeting accuracy as fewer households are covered. However, even under a budget increase of EUR 7 million, targeting accuracy would not fall below 65 percent, and be as high as 71 percent using the optimal equivalence scale.

**Reforms could increase coverage.** Table 3 shows the coverage of the poor of different reform scenarios. Currently, about 26 percent of the poor receive SAS. Reforming SAS and maintaining the budget would increase this to between 30 and 45 percent. Again, high variance is a result of different equivalence scales. The less generous the equivalence scales are set, the more households can be covered overall, increasing coverage. Increasing the budget would lead to higher coverage rates. For example, a budget increase of EUR 7 million could result in a coverage of the poor of up to 50 percent.

**Introducing a two-tier benefit in general reduces SAS's ability to reduce poverty.** As Table 3 indicates, the two-tier benefit reform scenarios perform worse in term of poverty headcount and gap reduction than the unified benefit reform scenarios. This is because a PMT cutoff is used to assign the higher and lower benefit rates. While the PMT is useful for predicting poverty, it is a less accurate predictor of the distinction between extreme poverty and absolute poverty.<sup>56</sup> Therefore, the simulations do not do a good job in assigning the different benefit rates to the right households.

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<sup>56</sup> This is because even very poor households usually have some minimum level of consumption. Thus, there is a spike at the lower end of the consumption distribution which makes it hard for the PMT estimation procedure to predict consumption for the households at the left tail of the consumption distribution.

Table 3: Changes in performance indicators under different SAS design and spending scenarios

Scheme	Change in Headcount (percentage points)	Change in Poverty Gap (percentage points)	Change in Headcount (percent)	Change in Poverty Gap (percent)	Targeting Accuracy	Coverage of poor	Benefit Adequacy	Number of beneficiaries	Number of families
<i>Budget Neutral</i>									
Current scheme	1.911	1.57	0	0	64%	26%	39%	106,416	28,276
New targeted scheme / current benefit level	3.368	1.941	10%	11%	69%	45%	43%	168,890	27,561
New targeted scheme / OECD modified benefit level	3.326	1.926	10%	11%	83%	30%	80%	93,427	15,121
New targeted scheme / optimal benefit level	3.642	1.965	12%	12%	76%	40%	53%	150,648	22,289
New targeted scheme / two-tier benefit level current	3.088	1.994	8%	13%	69%	45%	44%	169,855	27,722
New targeted scheme / two-tier optimal benefit	3.402	2.013	10%	14%	73%	42%	48%	149,750	24,710
<i>Budget Reallocation (3.9 million from pension scheme)</i>									
New targeted scheme / current benefit level	3.661	2.038	12%	14%	67%	48%	42%	186,491	30,989
New targeted scheme / OECD modified benefit level	3.647	2.02	12%	14%	80%	32%	80%	103,754	16,656
New targeted scheme / optimal benefit	3.954	2.094	14%	16%	73%	43%	53%	166,547	24,838
New targeted scheme / two-tier benefit level current	3.419	2.1	11%	16%	67%	49%	42%	189,450	31,497
New targeted scheme / two-tier optimal benefit	3.72	2.097	13%	16%	69%	45%	48%	168,890	27,561
<i>Increased budget (7 million)</i>									
New targeted scheme / current benefit level	3.769	2.162	13%	18%	66%	51%	42%	199,918	33,458
New targeted scheme / OECD modified benefit level	3.851	2.103	14%	16%	79%	34%	80%	111,628	17,864
New targeted scheme / optimal benefit level	4.201	2.15	16%	18%	71%	44%	53%	178,804	26,631
New targeted scheme / two-tier benefit level current	3.515	2.213	11%	20%	65%	52%	42%	206,731	34,468
New targeted scheme / two-tier optimal benefit	3.989	2.187	14%	19%	67%	48%	47%	182,527	29,918

Note: Reform options highlighted in red are illustrated graphically in Figure 20.

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## Annex 1: Form A3 -Means and Proxy Means Test

### 1. General Information<sup>57</sup>

Type of assessment	Application	Re-assessment
Application number	{Filled out by the database automatically}	
Assessment number	{Filled out by the database automatically}	
Date of request for assessment	{Filled out by the database automatically}	
Date of assessment		
Head of Commission	(First Name, Last Name, Signature)	
Commission Member (1)	(First Name, Last Name, Signature)	
Commission Member (2)	(First Name, Last Name, Signature)	
Total score	{Filled out by the database automatically}	

### 2. Ownership of dwelling

The family owns property (residential facility)	Yes	No	Yes=5; No=0
Is the residential facility your own or rented	Yes	No	Own=5; Rental=0

### 3. Ownership/rent of land

Own inherited land (hectare)	<0.50 hectares =0; >50 hectares=150
Rental working land	<0.50 hectares =0; >50 hectares=150

### 4. Type of dwelling

House	5
Apartment	4
Individual shelter	3
Collective shelter	0
Other	0

### 5. Surface size of dwelling

Up to 70 m <sup>2</sup>	0
More than 70 m <sup>2</sup>	5

### 6. Type of construction material

Solid/permanent	3
Non-permanent	0

### 7. Type of insulation

Facade with insulation	3
Simple facade	2
No facade	0

### 8. Type of doors and windows

PVC with blinds	4
PVC without blinds	3
Wood	2
Other material	1

### 9. Type of floor

Parquet	4
Laminate	3
Wood	2
Concrete	0
Earth	0
Other	0

### 10. Water and sanitation

Bathroom inside the dwelling	Basic		Basic=0; Average=3; Superior=5
	Average		
	Superior		
Drinking water inside the dwelling	Yes	No	Yes=2; No=0

<sup>57</sup> Based on the AI No.06/2013 for assessing financial and other means and calculating reckonable and non-reckonable income and consultations with MLSW SAS Officials.

### 11. Type of sewerage system

Connected to the sewerage system	Yes=2, No=0
Septic hole	Yes=1, No=0
Other	Yes=0, No=0

### 12. Type of heating

Own heating system	5
[Municipal] Central heating system	1
Electricity	2
Wood	1
Coal	1
Other	1

### 13. Basic furniture

Sleeping bed	Yes	No	Yes=2; No=0
Fully furnished living room	Yes	No	Yes=3; No=0
Improvised sleeping room	Yes	No	Yes=0; No=0
Closet	Yes	No	Yes=2; No=0
Fully furnished bedroom	Yes	No	Yes=3; No=0

### 14. Household appliances

Kitchen	Basic		Basic=0; Average=3; Superior=5
	Average		
	Superior		
Type of oven	Wood	Electricity	Wood=0; Electricity=1
Refrigerator	Yes	No	Yes=1; No=0
Refrigerator with deep freezing	Yes	No	Yes=1; No=0
Dishwasher	Yes	No	Yes=5; No=0
Washing machine	Yes	No	Yes=1; No=0

### 15. Information/electric devices

Radio	Yes	No	Yes=1; No=0
Music player	Yes	No	Yes=2; No=0
Video VHS	Yes	No	Yes=1; No=0
DVD	Yes	No	Yes=2; No=0
TV LCD	Yes	No	Yes=5; No=0
TV CRT	Yes	No	Yes=1; No=0
Computer desktop	Yes	No	Yes=1; No=0
Internet	Yes	No	Yes=2; No=0
Lap top	Yes	No	Yes=3; No=0
Fixed phone	Yes	No	Yes=1; No=0
Mobile phone	Yes	No	Yes=1; No=0

### 16. Additional dwelling units

Waiting room	Yes	No	Yes=1; No=0
Summer kitchen	Yes	No	Yes=1; No=0
Store/business/office space	Yes	No	Yes=3; No=0
Storage room	Yes	No	Yes=3; No=0
Stable for livestock	Yes	No	Yes=3; No=0
Granary	Yes	No	Yes=3; No=0
Garage	Yes	No	Yes=3; No=0
Garden fence	Yes	No	Yes=3; No=0

### 17. Personal property ownership

Vehicle (car)	Yes	No	Yes=150; No=0
Transportation vehicle	Yes	No	Yes=150; No=0
Vehicle for persons with disabilities	Yes	No	Yes=0; No=0

### 18. Production assets and tools

<b>Agriculture</b>			
Tractor	Yes	No	Yes=5; No=0
Motocultivator	Yes	No	Yes=5; No=0
Trailer	Yes	No	Yes=5; No=0
Plow	Yes	No	Yes=5; No=0
Trin (no translation)	Yes	No	Yes=5; No=0
Pijator (no translation)	Yes	No	Yes=5; No=0
Milling machine	Yes	No	Yes=5; No=0
Planting machine	Yes	No	Yes=5; No=0
Combine harvester	Yes	No	Yes=20; No=0

<b>Construction</b>			
Scaffolding	Yes	No	Yes=15; No=0
Crane	Yes	No	Yes=5; No=0
Concrete mixer	Yes	No	Yes=5; No=0
Excavator	Yes	No	Yes=5; No=0
Concrete vibrating machine	Yes	No	Yes=5; No=0
Concrete drilling machine	Yes	No	Yes=5; No=0
Motor saw	Yes	No	Yes=5; No=0
Fork lifter	Yes	No	Yes=10; No=0
Carpentry tools	Yes	No	Yes=5; No=0
Plastering tools	Yes	No	Yes=5; No=0

<b>Other</b>			
Water compressor for car wash	Yes	No	Yes=5; No=0

## 19. Farming

Livestock			
Cows	Number		1=0; 2=5; >2=20
Calves	Number		1=0; 2=5; >2=20
Sheep	Number		0-10=0; 11-20=3; 20 or more=20
Goats	Number		0-10=0; 11-20=3; 20 or more=20
Pigs	Number		0-10=0; 11-20=3; 20 or more=20

Other			
Poultry	Number		0=0; 1-20=3; >20=10
Beekeeping	Number of hives		0=0; 1-10=3; >10=10
Agriculture	Greenhouses	1. For family needs	0=0; 1=3; 2=20
		2. For commercial purposes	
Animal feed		1. For own livestock	0=0; 1=2; 2=20
		2. For sale	

## 20. Non-reckonable income from other social schemes

20.1.	Basic old-age pensions	Does not receive (0)	Receives (5)
20.2.	Pensions for persons with permanent disability (age 18-65 years)	Does not receive (0)	Receives (5)
20.3.	Material support for families of children with permanent disability (age 1-18 years)	Does not receive (0)	Receives (5)
20.4.	Foster care	Does not receive (0)	Receives (5)
20.5.	Family pension	Does not receive (0)	Receives (5)
20.6.	Work invalidity pension	Does not receive (0)	Receives (5)

## 21. Reckonable income from other social schemes (and other sources of income)

21.1.	Pensions for martyrs' families	150
21.2.	Pensions of war invalids	150
21.3.	Pensions of families of civilian victims of war	150
21.4.	Pensions for civilian war invalids	150
21.5.	Pensions for families with missing family members from the war	150
21.6.	Benefit for blind persons and their caregivers	150
21.7.	Early retirement Trepça pension	150
21.8.	Kosovo Protection Force pension	150
21.9.	Kosovo Security Force pension	150
21.10.	Benefits for war veterans and their close family members, and families of war veterans after their death	150
21.11.	Pensions for persons with paraplegia and tetraplegia	150
21.12.	Ex-contributory pensions	150
21.13.	Income from subsidies and grants from the Government/ministries/municipalities	150
21.14.	Income from formal employment or other sources	150

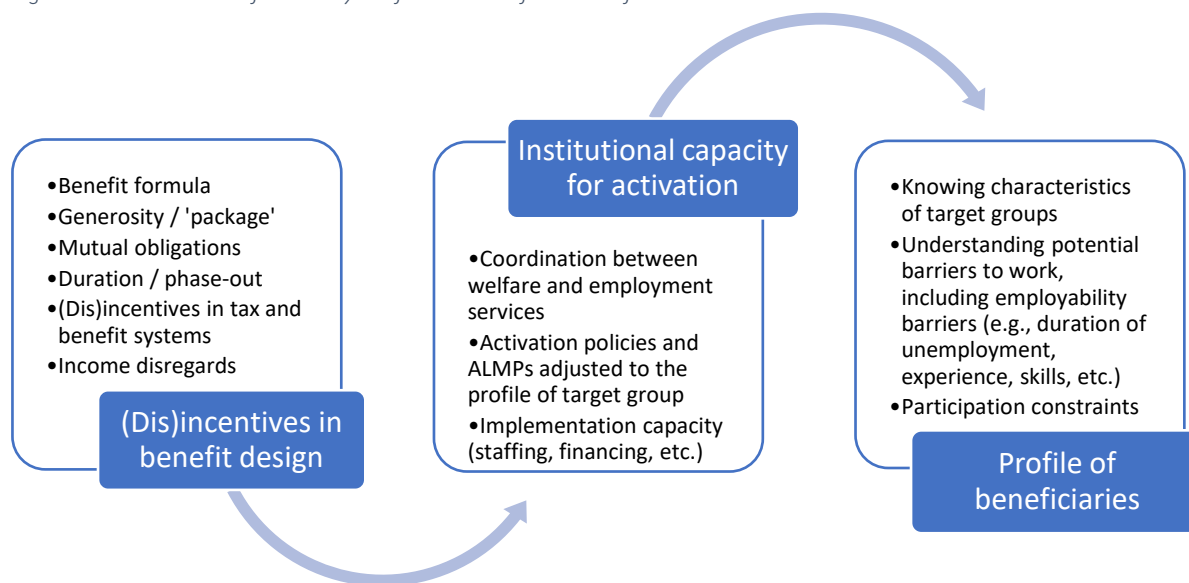


## Annex 2: Activation

Social assistance reform, including in Southeastern Europe, has gradually shifted from a focus on targeting and coverage to a focus on activation measures. The so-called *first-generation reforms* of LRIS schemes typically involve improving the targeting and coverage of benefits, reducing leakage to the non-poor, reducing benefit fragmentation, and establishing unified registries of recipients of benefits and social services. The so-called *second-generation reforms* entail the creation of “smart” safety net programs that also focus on decreasing dependency on welfare among the LRIS recipients who are able to work and promoting their employability with a combination of incentive-based cash transfers and services<sup>58</sup>. In other words, this process could be described as moving beyond “how to get the right people into the social assistance programs” toward “how to activate and help social assistance beneficiaries graduate from dependency on transfers.” **Successful activation of social assistance beneficiaries requires a number of demand- and supply-side factors.** These can be organized into three ‘building blocks’ (Figure A2.1):

- (i) (Dis)incentives to work in the design of social assistance benefits
- (ii) Institutional capacity for activation of SAS beneficiaries, and
- (iii) Profile of beneficiaries, including barriers to work.

Figure A2.1 Framework of the analysis of activation of LRIS beneficiaries



Source: This analytical framework has been used for the analysis of activation of LRIS beneficiaries in the Western Balkan countries in World Bank (2014).

<sup>58</sup> World Bank (2014).

## (Dis)incentives to work in the design of social assistance benefits

**Work disincentives in SAS are on the reform agenda, and legislative changes have addressed them to some extent.** Disincentives in SAS design and implementation were identified with the support of World Bank technical assistance.<sup>59</sup> SAS design changes were made with Law No. 04/L-096 to remove or reduce some of the generic disincentives, specifically:

- SAS is no longer a guaranteed minimum income benefit. The SAS benefit formula was changed from paying the difference between actual income and a certain threshold to paying a flat rate. This removed the work disincentive effect emerging from taxing away any additional income in full and immediately from the due amount.<sup>60</sup>
- The previous eligibility formula, which encompassed an income and asset test combined with exclusion filters, was replaced with an income test and a PMT. The purpose of this reform was to create fewer disincentives for saving and asset accumulation compared to the previous asset test.<sup>61</sup>

**Notwithstanding reform and legislative changes, there remain elements of the SAS design that create disincentives to work. The main *SAS-specific* legal impediments include:**

- SAS is accessible only by families with no or one family member who is capable of working. If, for example, a second family member becomes able to work (e.g., when a child turns 18 and is not in compulsory secondary education), or if the second adult no longer has caregiving obligations (e.g., because the youngest child in the family reaches 5 years of age, or an orphan cared for by the family reaches 15 years of age), then the family no longer qualifies for SAS.
- Working and receiving SAS exclude one another. Any formal job—even if sporadic or low-paid—makes the family of the working individual ineligible for SAS.

**Other SAS design characteristics, which are *common* for a number of LRIS programs, also impact disincentives to work.** These stem from the design of the eligibility criteria (e.g., treatment of earned income), the benefit formula, benefit generosity, sanctions in the case of non-compliance, and incentives to graduate. Table A2.1 benchmarks incentives and disincentives in SAS design against key LRIS design characteristics which affect the behavior of beneficiaries in the labor market.

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<sup>59</sup> Gotcheva and Sundaram (2011); World Bank (2013) and World Bank (2014).

<sup>60</sup> As mentioned earlier, MLSW states that the SAS benefit formula defined with Law No. 2003/15 has not been applied in practice and thus has not created a work disincentive effect. However, this effect did exist even without taxing away actual income because the SAS benefit design influenced the decision of able to work beneficiaries on whether to look for work and earning, or to be a passive recipient of SAS.

<sup>61</sup> The asset test applied until the reform consisted of binary filters for the presence of certain assets – possessing one asset from the list led to exclusion from eligibility. This treatment of assets strongly discouraged any type of asset ownership and disincentivized saving. With the reform some exclusionary filters were retained, however, such as land and car ownership.

Table A2.1:4 Design characteristics of LRIS schemes which create incentives and disincentives for working and earning

LRIS design element	Likely impact	Status in SAS design
<b>Level and duration of benefit</b>		
Calculation of benefit / benefit formula – flat rate or difference between a minimum income standard and actual income	Strong disincentive when the benefit is calculated as difference, as each additionally earned income is withdrawn at 100 percent	SAS is a flat rate benefit and does not pose disincentives to increase income while receiving the benefit, however there are administrative limitations on working formally while receiving SAS
Level of benefit / generosity of the LRIS benefit itself and generosity of the ‘package’ of benefits and rights that are associated with it	Lower benefits and lower generosity of the benefit ‘package’ can increase job search and decrease the reservation wage	Benefits are relatively low, especially in the case of larger families; the benefit ‘package’ is modest
Duration of benefit	Limited benefit duration may imply an increased job search effort	SAS is of unlimited duration as long as the eligibility conditions are met
<b>Financial incentives</b>		
Income disregard / treatment of earned incomes in the income test at eligibility determination and recertification	Counting of all incomes for LRIS eligibility determination creates a disincentive to earn formal income	The income test for SAS counts all incomes from work, including income from activation measures <sup>62</sup> , and denies access to SAS based on availability of income from work
Income disregards / possibility for disregard of some work-related incomes earned while receiving LRIS	Disregarding some work-related incomes can encourage accepting job offers	Working and receiving SAS cannot be combined
Possibility to gradually phase out benefits with taking a job / ‘in-work’ benefit/bonus	Like income disregards, bonuses can help reduce disincentives to accept job offers; they also reduce risks related to immediate and full loss of the benefit	SAS design does not allow for gradual phase out when taking a job
Possibility to keep for a limited period of time some benefits that are associated with LRIS (‘the package’) after taking a job	Can help reduce disincentives to accept job offers; they also reduce risks related to immediate and full loss of the benefit	No possibility for continuing access to benefits that stem from SAS receipt
Earned income tax credits	Earned income tax credits can increase attractiveness of formal jobs	No earned income tax credits
<b>Mutual obligations, requirements and sanctions</b>		
Mandatory registration of applicants for LRIS with the employment service, and regular	Links formally LRIS beneficiaries to the employment service which	The able to work applicants for SAS are required to register with EARK as

<sup>62</sup> Above EUR 80 per month.

renewal of registration while receiving LRIS	is a necessary step to proceed with activation	unemployed. The registration is verified and renewed every 3 months
Existence of job search requirements	The mere anticipation of job search, work or training requirements changes the valuation of time in the program and elsewhere, and can influence the entry and exit of beneficiaries	No explicit job search requirements; registered unemployed are expected to take offered job or training if they have no valid reason to decline
Monitoring of job search behaviour	Monitoring of job search requirements may increase job search and decrease unemployment spell	Job search requirements for SAS beneficiaries are the same as for all registered unemployed; job search behaviour is monitored infrequently
Sanctions in case of refusal to take up a job or participate in activation measure, and sanctions enforcement	Strong sanctions could 'force' taking up activation measures; weak sanctions and weak enforcement could increase work disincentives	SAS design has only weak sanctions which are combined with weak monitoring and enforcement mechanisms
Legal provisions for intensive engagement of job counsellors (and social workers) with activation - individual plan, tracking of job search behaviour, etc.	Intensive engagement sustains links with employment services, increases beneficiaries' chances of participating in the labour market and allows individual approach to activation	No legal provisions for intensive engagement with able to work SAS beneficiaries
Conditions for re-entry in LRIS after treatment with PWPs and other activation measures	Easy or "automatic" re-entry reduces disincentives to take up activation measures	SAS design mandates the standard recertification procedures after participation in PWPs or other activation measures
Priority access of LRIS beneficiaries to certain activation measures	Increases beneficiaries' chances of participating in the labor market	No legal provision for activation measures specifically targeted to SAS recipients

Source: European Commission (2018a); Law No.2003/15, Law No.04/L-096 and AIs for SAS, and Almeida et al. (2012).

**Based on the above, there remains significant potential to enforce new incentives to work in the design of SAS.** Most effective or powerful in terms of incentivizing work and activation is the treatment of earned incomes when determining eligibility for SAS, the possibility for disregard of particular fully or partially earned incomes and for gradual benefit phase out. Such features are already present in the design of certain LRIS schemes in Europe. Future reforms of the design of SAS should build on international experience to make it incentive-compatible and conducive to activating beneficiaries and overcoming benefit dependency. Box A2.1 provides examples of good practices of income disregards and gradual phase out of benefits from selected EU Member States.

**There is also room to curtail the existing disincentives and to strengthen the incentives that are already present in the design of the SAS.** The following work incentives, although limited in scope, are embedded in the SAS design:

- Eligibility for SAS is linked to *requirements* for mandatory registration as unemployed / jobseeker with EARK, for taking up a job, training or participation in PWP when offered by EARK, and *sanctions* (termination of the unemployment registration and of SAS) are applied in the case of non-compliance without a legitimate reason. Stricter requirements and sanctions are expected to have a stronger positive effect on the labor market participation of the able to work SAS recipients. They are the vehicle for linking the able to work SAS beneficiaries to the system of services for unemployed and to active labor market programs and measures.
- SAS benefit amounts are not generous when compared to potential labor market earnings, thus incentivizing beneficiaries to pursue employment. The highest transfer value of SAS is 45.3 percent of the minimum wage, in the case of a single adult claimant / one-member family. The SAS transfer value per capita decreases significantly with increases in family size.
- The benefits and rights which are linked to SAS are not numerous and not generous compared to ‘packages’ associated with other LRIS programs. The combined generosity of SAS and the benefits and rights associated with SAS, are not high compared to a number of LRIS programs in Western Balkan and EU countries (Box A2.2).<sup>63</sup>

*Box A2.1 Earned income disregards, LRIS gradual phase-out and in-work benefits*

Income disregards

Partial disregard of earnings of LRIS recipients are allowed by the social assistance legislation in many countries in Europe, such as Germany, the Czech Republic, Cyprus, the Netherlands, Portugal, Romania, Slovakia, Slovenia, and Sweden. For example, Slovenia does not count certain incomes from informal work, as well as casual and non-recurring income, when determining eligibility for LRIS. Another example is Serbia where, according to the 2011 Social Welfare Law, incomes received by able to work LRIS beneficiaries for participating in training activities organized by the National Employment Service are not counted as additional income and do not require re-assessment of eligibility for LRIS. Also, PWP participants keep their right to monthly child allowance (which is means

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<sup>63</sup> However, the ‘package’ of benefits for a SAS recipient would appear considerably more generous if taking into account the guaranteed access to universal and not necessarily work-related basic pension. Currently, at 65 years of age SAS beneficiaries can “retire” from the SAS and start immediately receiving equal or more generous basic pension.

tested and can be lost if the PWP income is counted). Re-entry into the LRIS scheme is automatic after completion of the PWPs. A large scope of income disregards is found in Slovakia where 25 percent of wage income, 25 percent of income from occasional work, 25 percent of the activation allowance for voluntary service, and all allowances related to participation in ALMPs are disregarded in the income test for LRIS.

#### Gradual phase-outs of benefits

Gradual phase-outs or tapered withdrawal of benefits over time (in the case of transition from LRIS to employment) stimulate (self) employment and reduce the incidence of welfare traps. Beneficiaries can increase their take-home income by combining the earned income with the benefits. Many EU Member States allow gradual phase-outs. Lithuania, for example, continues to pay 50 percent of the previously paid benefit for 6 months to those graduating from the LRIS scheme in order to encourage their labor market participation. Hungary modified the design of its social assistance system so that LRIS beneficiaries continue to receive some benefits for up to 6 months after gaining employment. Along similar lines, Latvia's guaranteed minimum income benefit can be received in reduced amounts for a limited duration after securing a salaried job. In Croatia, as of September 2015, LRIS beneficiaries who find work can continue receiving benefits in decreasing amounts during the first 3 months of employment. As of 2013, Slovakia pays a part of the LRIS benefit together with the wage for a period of 12 months. In France, the minimum income benefit is received when the beneficiary is employed for up to 750 hours per year (for a maximum of 12 months).

Source: National legislation in the respective countries.

#### *Box A2.2: Impact of 'packaging' of LRIS with other benefits and rights in selected countries*

In Poland, certain categories of families can have high labor income replacement rates because the national LRIS benefit gives access to health insurance coverage and can be combined with other benefits such as payment of social insurance contributions for caregivers, child tax credits, consumer price reductions for large families, and monthly parental benefits for unemployed parents.

In Montenegro, the benefit package that is associated with eligibility for the national LRIS benefit makes the program generous. The package can include up to ten different benefits, among them a monthly child allowance if the claimant has children, benefits for care (in the case of disability of the recipient), one-off assistance payments, electricity subsidies, free textbooks, free meals in kindergarten, coverage of costs for children's summer and winter camps, funeral grants and municipal transfers. Furthermore, all members of LRIS families are provided with free health insurance. Estimates show that a welfare trap can emerge in four-member LRIS family if one of the adults takes a minimum wage job and, as a result, the benefit package is withdrawn.

In Croatia, Latvia, Bulgaria and other countries with small-scale LRIS programs, the LRIS receipt can be combined with other social assistance benefits at the household level. This possibility of accumulating numerous benefits could lead to work disincentives because (i) cumulative coverage, including coverage of the able to work, increases significantly, (ii) some social assistance programs are, in fact, income-replacement programs offering generous benefits, and (iii) some individual-level benefits do not require beneficiaries to work.

Source: European Commission (2018a). For Poland: Bargu and Morgandi (2018).

#### *Incentives to circumvent strict eligibility criteria*

**Strict eligibility criteria for Category II SAS recipients incentivize beneficiaries to switch to Category I by changing their dependence status.** Strict eligibility criteria for SAS Category II incentivize beneficiaries to qualify as disabled because access to SAS is easier for the dependent than for those who are able to work.

According to anecdotal feedback from CSW officials, this occurs most often when the youngest child in a Category II SAS family turns five years of age, and the family faces losing eligibility. The same trend for moving from Category II into Category I is observed as a result of work-related conditions for the receipt of SAS when a child turns 18 years, that is, the household has more than one able to work member. The sanctioning of non-participation in activation measures, and the lack of disregard for incomes earned through participation encourage a portion of the able-bodied SAS beneficiaries to seek the status of dependent and thus circumvent the requirement for participation in employment measures (Box A2.3).

*Box A2.3 Motivation and possibilities for acquiring the status of disabled SAS recipient*

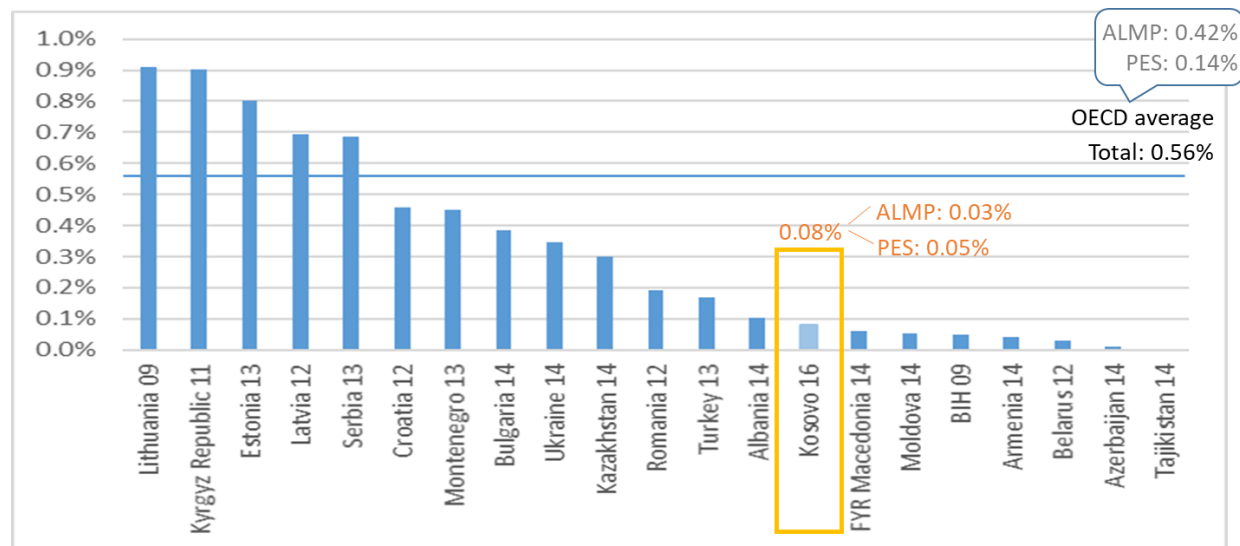
The verification of disability status is not stringent at the time of determining SAS eligibility. A 2011 EU-financed survey revealed fraud when applying criteria for disability determination. CSW staff confirms this. Anecdotal evidence suggests that up to 90 percent of Category Two claimants move into Category One after their youngest child reaches 5 years of age or the oldest (non-dependent) child turns 18 years of age, on the grounds of disability. This shift occurs possibly because of poor gatekeeping mechanisms in the social assistance system (for example, disability certificates not being verified) as well as poor gatekeeping in the medical commissions that certify disability. The MLSW has no administrative capacity for detecting error and fraud in the medical certification of disability. Tightening the criteria for disability certification and strengthening control over the process will prevent leakage of able to work into the category of unable to work.

*Source:* Qualitative research findings for CSW Capacity Assessment for targeting social health insurance contribution exemptions.

### Institutional capacity for activation of SAS beneficiaries

**Public financing for activation measures in Kosovo has been consistently low, thus constraining the government's ability to serve and activate a large number of unemployed.** Kosovo's spending on ALMPs stood at 0.08 percent of GDP in 2016, a small fraction of the spending on pensions and social assistance. Despite high levels of inactivity and unemployment, public spending on employment services and active measures has remained almost the same or saw only minimal increases since 2009. Spending is also very low compared to other countries in the region (Figure A2.2). In particular, government spending is extremely low, making the availability of activation programs highly dependent on donor funding. Active measures reach only a small share of the registered unemployed (9.4 percent in 2017) and inactive. The total number of people placed in jobs through job matching and ALMPs is reported to be around 6,000, or approximately 6 percent of the registered unemployed.

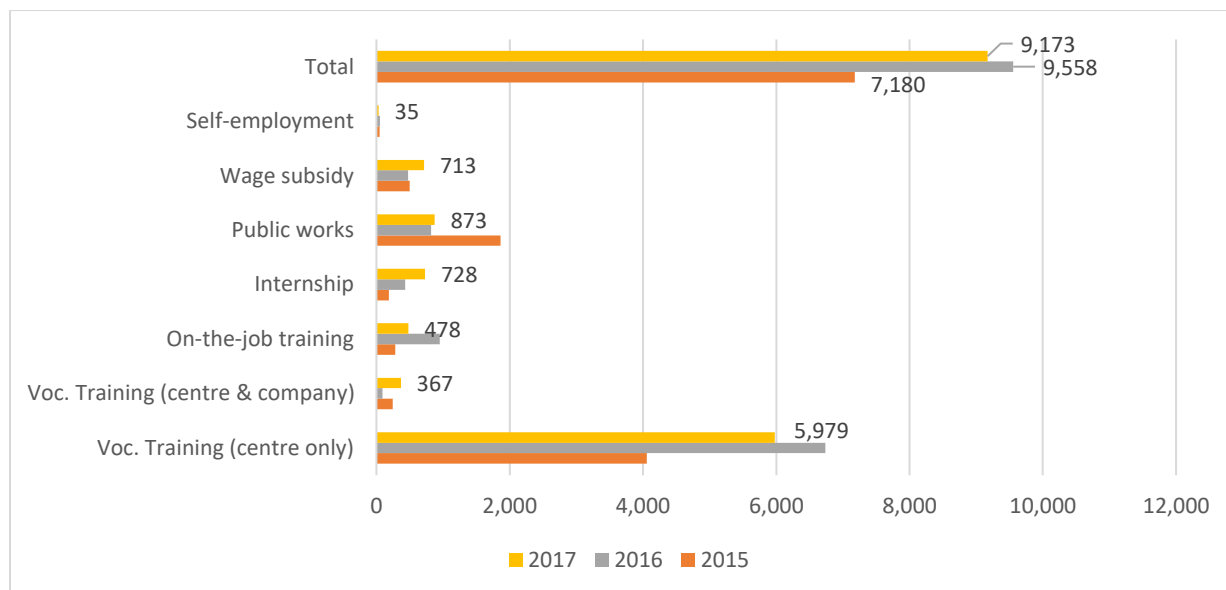
Figure A2.2 Spending on employment services and active measures in Kosovo and selected ECA countries



Source: World Bank ASPIRE and SPEED data.

**Notwithstanding low funding, there has been an increase in ALMP beneficiaries in recent years.** This increase has been driven primarily by the expansion of vocational training, which is by far the most widely available active measure. In 2017, 9173 of the unemployed received some sort of ALMP from employment services, 69 percent of whom (6346 unemployed) participated in (mostly center-based) vocational training (Figure A2.3).

Figure A2.3 Number of participants in ALMPs by program, 2015-2017



Source: EARK (2017).



However, low funding of ALMPs has translated into a number of challenges limiting the functionality of the Employment Agency, in particular:

- **Limited staff for ALMPs.** The Employment Agency of the Republic of Kosovo (EARK), which is responsible for ALMPs, operates as an independent body within the MLSW. The EARK operates labor market and vocational training departments at a central level, 38 employment offices in each of the Kosovo municipalities, and 8 regional vocational training centers<sup>64</sup>. Given the limited number of employment counselors (92 counselors in 2017) relative to the number of registered unemployed, the counselor-to-client ratio is above 1:1000.<sup>65</sup> Moreover, many positions are unfilled (e.g., due to retirement), further exacerbating staffing problems.
- **Lack of equipment.** Regional and local employment offices often lack the necessary equipment and operating funds (e.g., for transportation, communication, and IT) to conduct their work effectively. This also negatively affects the quantity and quality of interactions with job seekers and employers.

Moreover, employment services and active measures are not yet sufficiently adapted to the needs of specific groups of jobseekers and their effectiveness is limited. Several groups of the unemployed, such as women or minorities, are currently underrepresented among beneficiaries of employment services and activation programs, reflecting failure to take their specific needs into account (e.g., targeted outreach, specialized services). Moreover, several measures face design and implementation challenges, such as the lack of practical orientation and labor market relevance of vocational training. As a result, the available evidence suggests that the effectiveness of existing measures is limited.

While several reforms have been introduced in recent years, the progress in operationalizing them has been inconsistent. A number of new processes have been introduced, such as profiling of registered unemployed into three risk categories; a new service delivery model that distinguishes between jobseekers (using online services) and registered unemployed served by employment offices; creation of an individual employment plan for those categorized at high risk of longer-term unemployment; an internal training system; and a performance measurement system for branch offices. However, not all of these changes have been fully institutionalized.

Moving forward, increasing the participation of vulnerable groups, including SAS beneficiaries, is reflected in EARK's strategy. The Policy for Employment Services 2019-2021 sets out the strategic objectives for the Employment Agency over the next years. These include:

1. Increasing the effectiveness of employment services and active measures;
2. Increasing the coverage of employment services and active measures; and
3. Increasing the participation of vulnerable groups in EARK services.

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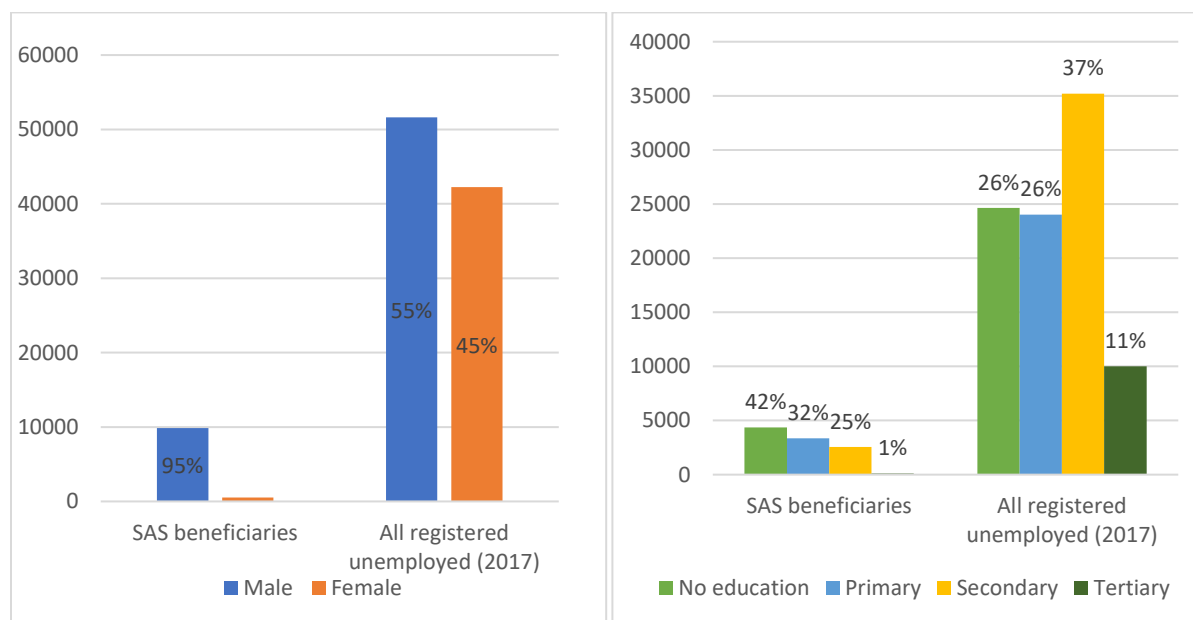
<sup>64</sup> According to Kosovo Education and Employment Network report (2017).

<sup>65</sup> It is usually recommended that this ratio should not exceed 1:150.

## Profile of beneficiaries

Close to 40 percent of SAS beneficiary families have able to work members who are registered as unemployed, most of them being male with primary education or less. The EARK collects administrative data on the characteristics of the SAS beneficiaries who are registered as unemployed<sup>66</sup>. Data records on their key characteristics are available for 10,389 SAS beneficiaries as of end-2017 (Figure A2.4). Among the SAS beneficiaries who are registered at EARK, 95 percent are men. This contrasts strongly with the general profile of the registered unemployed, in which almost half (45 percent) are women. This difference is consistent with the SAS eligibility criteria for Category II, in which only one able bodied person per recipient family can be registered as unemployed whereas all other family members must be primarily dependent persons, including due to caregiving obligations in the family. The data also shows that SAS beneficiaries who are registered as unemployed are more disadvantaged in terms of educational attainment than the general pool of registered unemployed: over 70 percent of registered unemployed SAS beneficiaries hold at most a primary education degree compared with approximately 50 percent among the registered unemployed in general.

Figure A2.4 Characteristics of SAS recipients vis-a-vis all registered unemployed, by gender (left) and education (right)



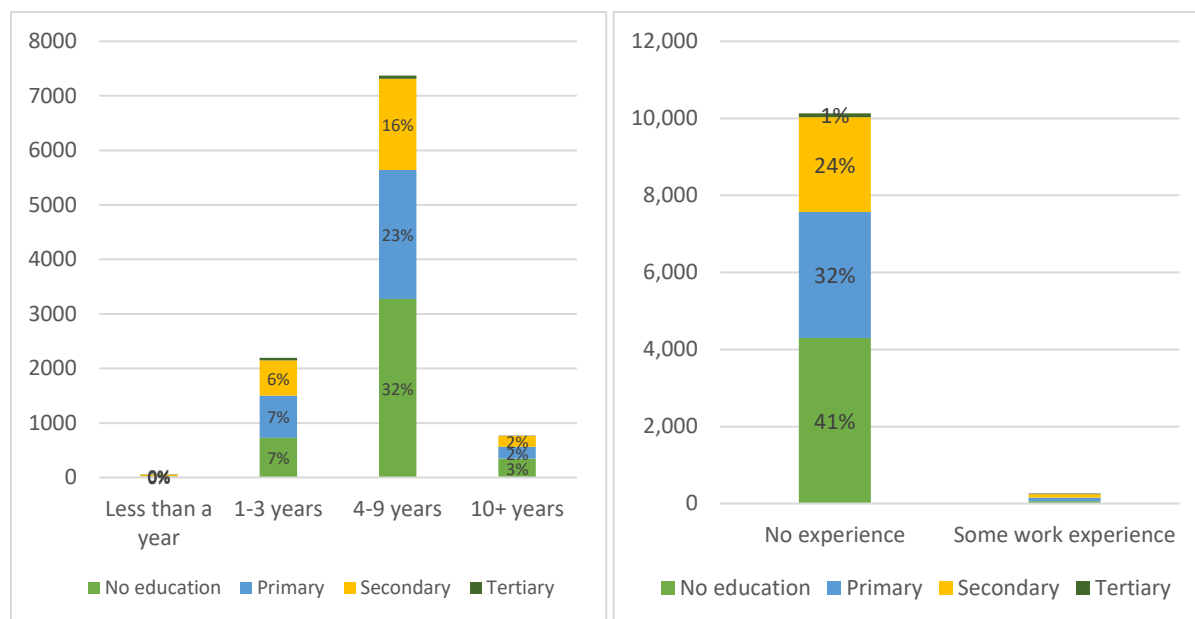
Source: EARK databases of unemployed.

<sup>66</sup> There are other members of SAS families who are of working age. In 2017, around half of the direct and indirect beneficiaries were working-age adults between 18 and 64 years old, however they qualify for SAS as 'dependent' and not required to work due to disability, temporary incapacity to work, caregiving obligations in the family (single parents, parents of children under 5 years of age or orphans under 15 years of age, caregivers of disabled or elderly family members, etc.).

Most of the registered unemployed SAS beneficiaries are between 30 and 49 years of age and have been unemployed for a very long time (between 4 and 9 years), without having any prior work experience. Close to 80 percent of SAS beneficiaries who are registered as unemployed are between the ages 30 and 49 and less than 20 percent are between 18 and 29 years old. Nearly three quarters of them (70 percent), have been registered unemployed for between 4 and 9 years. Among these, 32 percent have not finished school and another 23 percent has only finished primary education (Figure A2.5). Virtually none of the unemployed SAS beneficiaries has any prior work experience. Less than 2.5 percent reported having any type of previous work experience. Absence of work experience is a serious barrier to activation. It not only indicates to potential employers a lack of skills but also a possible lack of motivation to search for work and acquire skills, and a lack of work habits and ‘soft’ skills required for successful employment.

Only a very small share of the SAS beneficiaries who are registered with EARK have expressed willingness to participate in training organized by or offered through the EARK. Only one quarter of all registered (25.5 percent) formally expressed willingness to participate in training and indicated areas of interest. Moreover, 84 percent of those willing to undergo training expressed interest in financial management, despite 69 percent having no or only primary levels of education.

Figure A2.5 Characteristics of SAS Category II able to work beneficiaries



Source: EARK database of unemployed.

Overall, the characteristics of the able to work SAS beneficiaries indicate that substantial effort is required for activation. The combination of limited work experience, limited educational attainment, and long spells of unemployment impedes the potential of activation measures. In this context, Kosovo could learn from other countries with advanced systems for social and employment support of hard-to-employ citizens, such as long-term unemployed (see Box A2.4 for examples). Many countries design ALMPs specifically for the

hard-to-employ and strengthen incentives for employers to hire and train them. A common trend is strengthening the interaction between the employment services and the CSWs, which can be as far-reaching as consolidation and institutional integration (integrated job centers). Also common is the move towards integrated provision of benefits and complementary services<sup>67</sup> in one-stop-shops, and/or merging unemployment benefits for the long-term unemployed with social assistance. Another common trend is the involvement of different levels of government and different institutional actors, including from the private sector and civil society. Box A2.5 brings two examples of activation models for LRIS beneficiaries with strong barriers to labor and social inclusion.

**In summary, a comprehensive activation system for SAS beneficiaries requires a combination of conditions.** These include (i) removing disincentives to work or to participate in activation measures, (ii) proper functioning and capacity of the EARK, (iii) adequate profiling to understand SAS beneficiaries' barriers to the transition to work, and (iv) targeted activation measures and/or potential adaptations to existing programs in line with the specific needs of SAS beneficiaries.

**Specifically, the implementation of targeted measures for SAS beneficiaries requires other conditions to be met.** Targeted efforts to activate SAS beneficiaries will likely be ineffective if potential beneficiaries are not interested in work due to remaining disincentives in the social assistance scheme. Similarly, since SAS beneficiaries are far removed from the labor market and therefore difficult to integrate, a key prerequisite for success is that EARK in general and employment counselors in particular have the necessary tools and capacity to serve different target groups, including SAS beneficiaries. This includes putting in place adequate financing and human resource management to ensure an adequate counselor-client ratio that would allow for individualized guidance and follow-up. To date, EARK does not yet have the resources and capacity to provide such services.

**When introducing new activation instruments or revising existing ones to meet the needs of SAS beneficiaries, experience from other countries can serve as a guide,** for instance, profiling, individual plans for activation, multi-disciplinary approaches to reducing employability and participation barriers, and an integrated provision of benefits and services. Introducing these instruments should go hand-in-hand with strong monitoring and evaluation in order to test their effectiveness and allow for rapid iterations. In this context, EARK should also consider partnering with non-public service providers (e.g., NGOs) that have experience with SAS beneficiaries in the piloting and implementation of activation measures.

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<sup>67</sup> Complementary services could include (but are not limited to) debt counselling, counselling and help for the homeless and tenants in trouble, counselling for resolution of conflicts within the family, community, or school system, daycare, childcare, development of parenting skills, psychosocial counselling, counselling and assistance for drug addiction, medical rehabilitation, literacy training.

### **Employment services and counselling**

- **Profiling and segmentation.** Several public employment services (PES) use in-depth profiling systems to identify those at risk of LTU as early as possible and segment customers into categories of support or distinguish between ‘standard’ support and ‘case management’. Detailed profiling tools can also support the development of action plans in the case of complex personal situations.
- **Individualized and ‘person-centered’.** An increasing number of employment services offer intensified case management for the hard-to-place (e.g. Germany, Latvia). Counsellors in charge of individuals at a greater distance to the labor market may have a smaller caseload than ‘generalist’ counsellors (e.g. in France or Germany) to ensure more frequent meetings and intensive support to their clients. Public employment services aim to ensure that job seekers have a personal counsellor, which allows the building of mutual trust and cooperation.
- **The motivational and personal issues of the long-term unemployed (LTU) should be tackled first.** Counselling and coaching can make a difference, especially for those who lack the personal behavior and social skills required. In a number of countries (e.g. Bulgaria) group work has proved successful in obtaining such motivational outcomes. Achieving gradual integration into the labor market along a well-defined ‘pathway’ also requires support to be provided for long periods. Several employment services employ psychologists, specifically trained counsellors, coaches (e.g. in Estonia) or mentors of a particular ethnic origin (e.g. in Bulgaria) to meet the specific needs of hard-to-place clients.

### **Active Measures**

- **Step-by-step.** LTU furthest away from the labor market require a step-by-step approach, starting from strengthening life skills or basic skills and coaching for working life, to be followed by workplace-oriented training, vocational training and job search assistance.
- **Mix of measures.** Active measures for disadvantaged groups tend to be more effective if the job center has close contacts with employers and can develop mutual trust. Most public employment services rely on incentives for employers to hire LTU, such as wage subsidies, bonuses for hiring LTU, and/or training cost subsidies. Public works may be efficient in disadvantaged regions where jobs are scarce.

### **Delivery arrangements**

Many employment services rely on service delivery in partnership with contracted or other specialized providers.

- **Partnerships with employers.** Overcoming prejudices in recruiting LTU is a challenge that can be countered through partnerships with employers in order to raise awareness and encourage them to provide employment opportunities to LTU. Several PES currently have a dedicated employer service or specialized counsellors working with employers, but their role is not restricted to promoting LTU into jobs as they also work with other customers.
- **Coordination.** Municipalities, youth services, family services and other social services are common partners for employment services when working to support the LTU. Some public employment services hold regular meetings with local stakeholders and develop coordinated programs for labor market integration and service delivery.
- **Referral and subcontracting.** The public employment service may also use the services of various partners by referring LTU to them (e.g. social or health services) or by contractual arrangements (e.g. education and training providers, NGOs specialized on LTUs with specific challenges).

Source: European Commission (2014).

***Portugal: integration contracts, multi-agency and interdisciplinary approaches to activation with interventions at individual, household and community levels***

Portugal operates a social integration minimum income benefit (*Rendimento social de inserção*, RSI) with two complementary dimensions: (i) pecuniary benefit and (ii) integration and social inclusion program. To get the benefit, the claimant must register as a jobseeker and accept the obligations stemming from the integration contract, in which obligations affect household members as well. A prime example is the local model of the Lisbon Social Security District Center which implements a project for social monitoring and follow-up of 200 socially vulnerable families that receive RSI. The Center combined the efforts of different institutions in an action plan for social monitoring and established a multi-disciplinary team to conduct social diagnostics of the vulnerable households, manage the households' integration process, prepare integration plans and support integration at individual, household and community levels. With respect to labor market integration, the project offers group counselling sessions on job search techniques, preparation for interviews, self-assessment of labor market related skills and skill gaps, and self-esteem building.

***Chile Solidario: cross-sectoral management model; guaranteed cash social assistance during activation***

The Chile Solidario (CHS) is a management model / coordination mechanism for service delivery to help families in extreme poverty overcome social and economic hardship with four key attributes: (i) accessibility - institutional arrangements that facilitate the beneficiaries' entry into the system (single entry point); (ii) quality - continuous adjustment to the content of social services and benefits and services; (iii) timeliness - mechanisms to ensure effectiveness of the institutions to meet the beneficiaries' demands; and (iv) local provision - institutional network close to the beneficiaries. CHS guarantees social protection to poor families for 5 years, comprising of a protection grant of 24-month duration, and an exit grant of 36-month duration. The protection grant period emphasizes psychosocial support and direct services to families, family counselling and linking the target family to social services. The exit grant phase emphasizes guaranteed benefits and social services (health, family dynamics, education, housing, income support and employment). The employment dimension of the exit grant involves registration with the local employment service and preferential access to childcare services, job placement programs, self-employment, and employability. Evaluations indicate a positive impact on employment: (i) CHS participants are more likely to be involved in labor and training programs; (ii) rural households achieve significant gains in employment, total income, labor income and poverty status; (iii) urban households achieve gains in the labor income of young families and in the labor force participation of women (second earners).

Source: Instituto da Segurança (2016) and Silva (2014).

## Annex 3: Implementation of the SAS

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**The Ministry of Labor and Social Welfare (MLSW) sets the rules and procedures for the Social Assistance Scheme (SAS) and develops and maintains the SAS IT system.** The MLSW is responsible for the drafting of policies and strategies, planning of benefit budgets and impacts, and monitoring of benefit delivery. Within its Department for Social Policies and Family, the MLSW runs the Division of the Social Assistance Scheme which is responsible for (i) the drafting of strategic plans and policies for development and operation of the SAS, (ii) drafting of related legislation and regulations, (iii) drafting of minimum standards for the provision of SAS, (iv) monitoring, auditing, and inspection of these services at the CSW level, (v) and planning and allocation of the budget for SAS payments. Furthermore, the MLSW serves as a second instance body for complaints and redress against decisions on reward or refusal of SAS and maintains a complaint commission for this purpose. The MLSW also develops and maintains the SAS IT system, which supports the calculation of the PMT score for each applicant. The system is used for verification of applications, cross-checking of applicants' characteristics, and for authorizing monthly payments. To support the system, the MLSW issues sub-legal acts/administrative instructions that determine how to determine the applicant's family size and demographic characteristics, how to verify the applicant's incomes and assets, and how to perform the home visit for administering the PMT questionnaire (Figure A3.1).

**SAS implementation is delegated to the municipal level.** The municipal Directorates for Health and Social Welfare (DHSW) are involved in the planning and overseeing of the activities of the CSWs in their respective municipality. Together with the MLSW, the DHSWs appoint the heads of the SAS units in CSWs who report directly to the DHSW. Furthermore, the DHSW is responsible for recruitment and payment of CSW officials, as well as for staff training and professional development. This implementation model was introduced in 2009, with the decentralization of the implementation of the Social Assistance Scheme at municipal level. Pursuant to the provisions of several laws<sup>68</sup> and the Memorandum of Understanding signed between the MLSW, the Ministry of Local Government Administration and the Ministry of Finance, in January 2009 the CSWs became municipal organizational units which operate under the dual supervision of the municipal DHSW and the MLSW. The details of the decentralized model, including division of roles and responsibilities, were further regulated with an administrative instruction of the Government of Kosovo.<sup>69</sup>

**The SAS is implemented at the municipal level by the Centers for Social Work.** The CSWs carry out the day-to-day management and implementation of the SAS. There are currently 40 CSWs in the Republic of Kosovo, which employ 448 staff<sup>70</sup> and cover all 38 municipalities<sup>71</sup>. Stand-alone administrative units in the CSWs - SAS Units - are responsible for the scheme's implementation at the municipal level<sup>72</sup>. Their tasks include:

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<sup>68</sup> Law on Local Self Government No.03/L-040, Law on Social and Family Services, Law No.02/L-17, 21 April 2005, Law on the Social Assistance Scheme in Kosovo No.2003/15, Law on Public Financial Management and Accountability No.2003/2, and Law on Local Government Finance No.2008/3 L-049.

<sup>69</sup> Administrative Instruction No.01/2010 on Procedures for Delegation of Responsibilities for the Social Assistance Scheme to the Municipal Level, 29 March 2010.

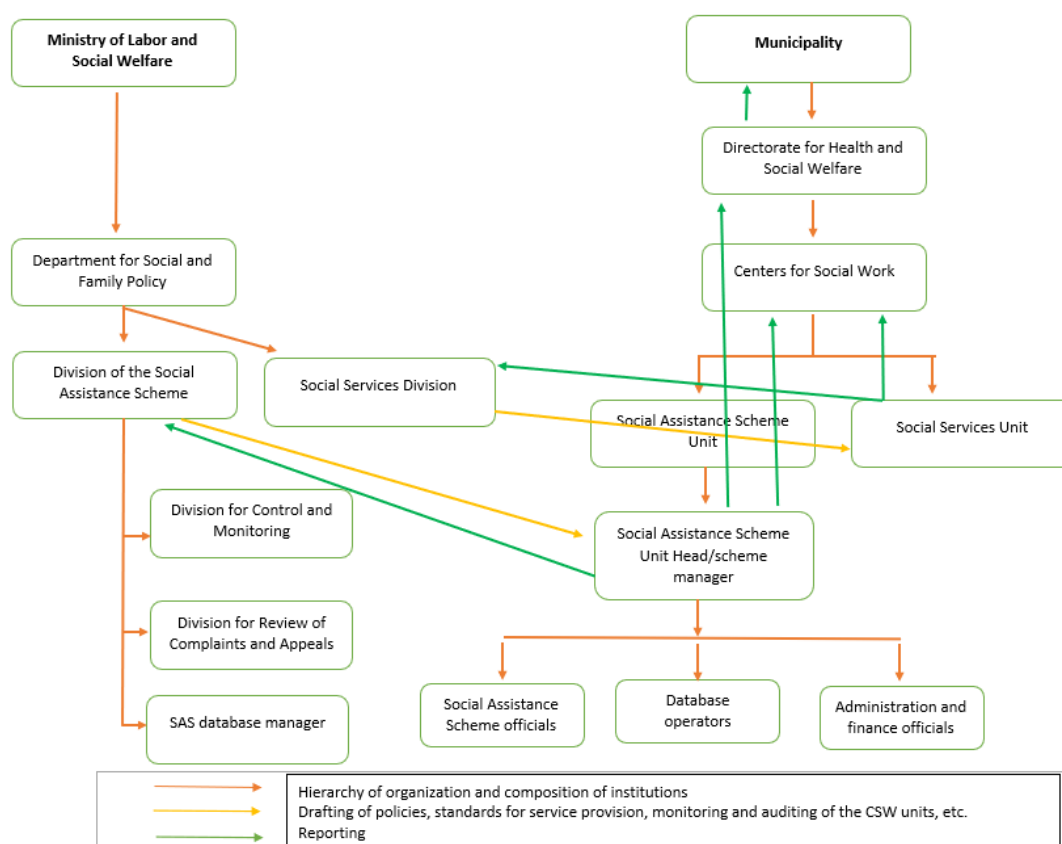
<sup>70</sup> This includes 65 managers and 333 social workers.

<sup>71</sup> Only Pristina, the largest municipality in terms of population, maintains 3 CSWs.

<sup>72</sup> The SAS Unit also operates the SAS registry/SAS IT system. The SAS Units employ 181 officials (4.5 on average per CSW) who are engaged exclusively with the implementation of the SAS scheme as Unit Heads, case managers or database operators.

(i) dissemination of information and outreach for identification of families and individuals in need, (ii) acceptance and initial review of application documents and mentoring of applicants and re-applicants, (iii) verification of demographic characteristics of the applicants and re-applicants, (iv) filling out the PMT survey questionnaire, (v) liaison with MLSW on beneficiary identification, (vi) liaison with applicants and feedback on their eligibility status, (vii) managing the first instance of complaints and liaison with MLSW on final decisions on complaints and redress cases, including on reasons for rejections, and (viii) maintenance of paper files/dossiers of beneficiaries.

Figure A3.1 Organizational Structure for SAS Implementation and the Provisions of Social Services



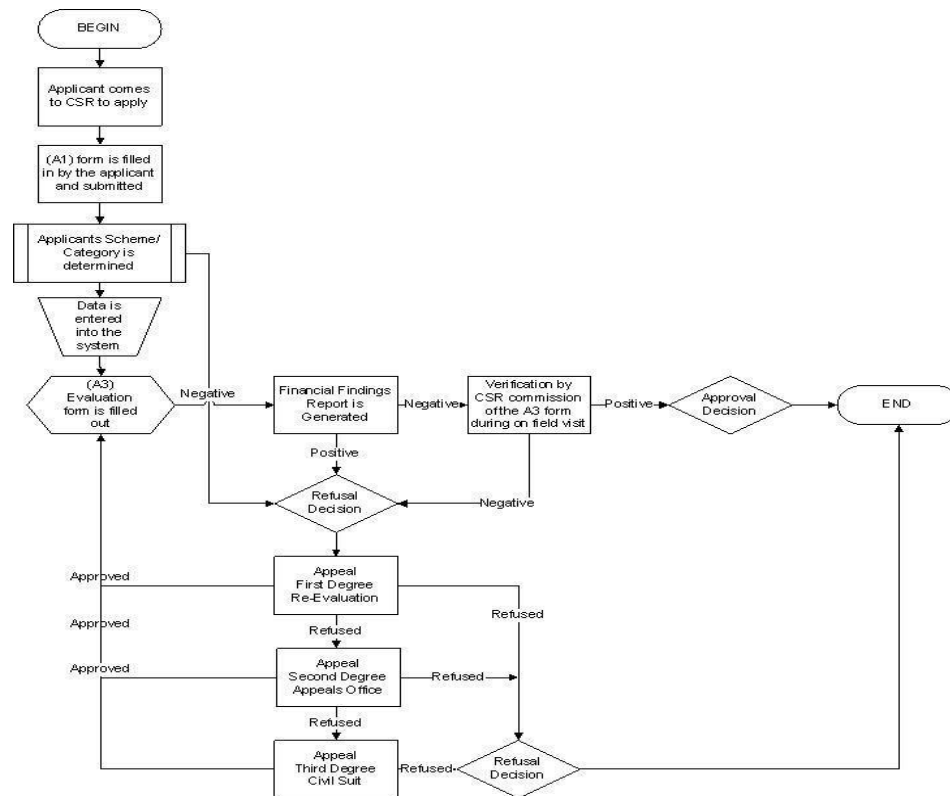
Source: World Bank (2018b) based on: Law No. -03/L-040 on Local Self-Government, Law No.02/L-17 on Social and Family Services; Law No.2003/15 on Social Assistance Scheme, last amended May 10, 2012 through Law No.04/L-096; AI No.04/2013 for submission of claims procedures for Social Assistance; AI No.06/2013 to calculate material and non-material goods and calculated revenue and non-accountable.

**The CSW is the primary contact point for application submission, re-application, filing for grievance and redress, and informing on change of circumstances. SAS application is based on applicants' own initiative**



with limited outreach from implementing institutions. The SAS decision-making process starts with potential beneficiaries' application, followed by applicants' allocation into category I or II, the means-test, and the PMT. Figure A3.2 sketches this process. The SAS scheme official (case manager) is the agent responsible for following procedures, preparation of cases, verification of socio-economic status, and selection or rejection of applicants. The decision-making responsibility for the approval of an application is with the SAS Unit Head. While information is available through different channels, application for SAS is more likely to occur from a family's initiative rather than from the CSWs' active outreach. The decision to apply for the SAS is dependent on the availability of public information, applicants' self-assessments of eligibility, but also the potential stigma associated with asking for help in the CSWs. Public information is disseminated primarily by the national and local media, and on-site in the CSWs. There is little space and few incentives for the CSWs to undertake active identification of potential beneficiaries through outreach to vulnerable communities and households.

Figure A3.2 SAS workflow and decision-making



Source: MLSW.

### *Key implementation issues*

The information in this section draws heavily on the recent capacity assessment of the SAS Units of Kosovo's CSW, which was implemented to provide recommendations regarding the capacity of CSWs to take on the responsibility of identifying beneficiaries of exemptions from Social Health Insurance (SHI) contributions. In the report (World Bank, 2018b), the SAS Units' capacity in terms of geographical distribution and coverage, human resources, physical equipment and infrastructure, current caseload, and other characteristics is evaluated and analyzed in light of this new mandate. Findings are informed by results from a quantitative staff survey, semi-structured interviews with key informants, and direct field observations.

The assessment identifies gaps and shortcomings in the implementation capacity of the CSWs' SAS Units, which affect the accuracy of beneficiary identification. Capacity constraints in the SAS Units are related to:

- **Understaffed SAS Units.** According to legislation, there should be at least three staff members in a SAS Unit to administer the PMT survey and fill and sign Form A3. However, the number of staff members in a unit range between one and eleven. Three CSWs operate the SAS scheme with only one staff member who is responsible accepting applications and re-applications, carrying out verification, inputting data in the SAS system, handling complaints, and reporting to MLSW and the municipal authorities. In eight other CSWs, just two SAS staff are employed.
- **Only a limited number of SAS staff can use the SAS IT database and there is an overall shortage of staff with data management skills.** As many as 68 percent of SAS staff work with paper files only, and 32 percent report having no personal computers in the workplace. These gaps lower the productivity of the respective SAS unit. Most of the IT work is handled by one or two database operators in each unit. Furthermore, a significant number of staff is satisfied with the current division of labor where only dedicated database operators work with the SAS IT system.
- **Unfulfilled training needs.** Although SAS officials have substantial work experience with 75 percent of staff having worked for the CSWs for more than ten years, they report significant training needs on (i) the targeting system, (ii) using the SAS database, and (iii) on the new law and by-laws. Training needs were particularly pronounced when the new SAS registry and the PMT formula were introduced in 2014. Although training was delivered in the form of instructions for two staff per CSW, it was not sufficient to ensure efficient and uniform implementation of the PMT across CSWs administration and full use of the SAS IT system's capacity.
- **Insufficient technology, equipment, and other forms of physical infrastructures.** There is a shortage of sufficient number of rooms, office furniture, modern IT equipment, reliable internet connectivity, and vehicles necessary for the management of SAS cases and the administration of the PMT questionnaires. Another challenge related to physical infrastructure is that office space is not organized in ways that allow confidentiality when discussing applicants' cases.

- **Low salaries of SAS staff.** The salary coefficient that is assigned to staff working in CSWs by the Ministry of Public Administration, which determines entry wage and the salary curve, is low (5.5) compared to other government entities. This can impede the recruitment of educated and experienced professionals, and lower the motivation of existing staff, especially in the context of limited opportunities for professional development.
- **The SAS staff faces challenges in filling out the PMT questionnaire (Form A3).** This relates in part to the relevance of indicators, which was discussed in the context of the SAS design (content of Form A3), and to inaccurate assessment practices. Other challenges relate to the format and the user-friendliness of the PMT form. The challenges identified by SAS officials are summarized in Box A.1.

Box A3.1: Highlighted issues with filling in Form A3

Form A3 is perceived as too long (9 pages) and as requiring too much time to complete. SAS officials administering the PMT find it inflexible for several reasons:

- Additional information cannot be added between the formal deadlines for verification (e.g., before the end of each 6-month period for Category II).
- It does not provide sufficient space for a more comprehensive qualitative assessment, clarifications and remarks.
- Form A3 contains information which cannot be changed at the CSW level despite falling within the CSW's competence.

The difficulties with the completion of Form A3 are part of the broader issue of limited capacity for regular recertification of SAS beneficiaries.

Source: Qualitative research with CSW SAS Unit Heads, SAS Unit Officials, and CSW Directors in September and October 2017.

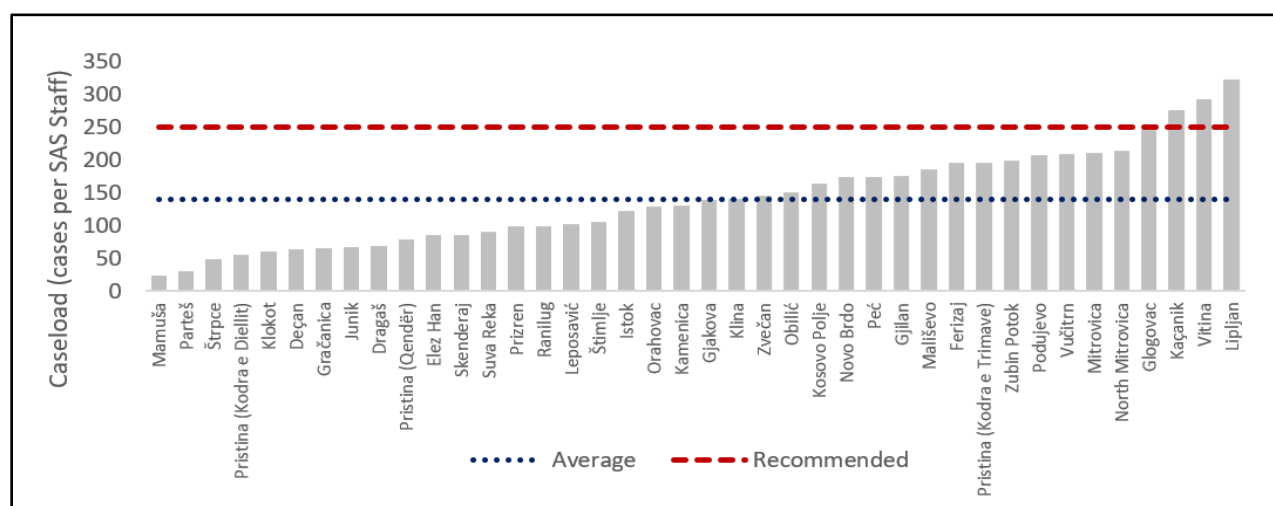
- **The issues with assessing poverty status in the field and filling Form A3 could lead to significant exclusion and inclusion errors.** One way of their reduction is to strengthen grievance and redress procedures in the CSWs and MLSW. Currently, the CSWs mostly facilitates referring complaints to the second instance (MLSW) which increases administrative burden and delays case resolution. Other reason for exclusion error is the absence of proactivity in identification of potential SAS beneficiaries. Social workers have no incentives and resources for active identification, and are not empowered for outreach to municipal authorities and local communities in search of potentially eligible for SAS cases.

**In addition, there is a widespread perception among SAS staff of voluminous caseload, whereas the actual caseload in most cases is below the recommended caseload and low in international comparison.** Contrary to these perceptions, administrative data shows that only three municipalities exceed the recommended caseload (*number of SAS direct beneficiaries per SAS staff which includes both managers and SAS officials*) of 250 cases per staff<sup>73</sup> (with a fourth municipality close to reaching 250, Figure A3.3). The average caseload is 140 and but there is great variation (caseloads range between 23 and 323).

<sup>73</sup> The 'norm' of 250 number of cases has been arrived at by the community of social workers based on their experience and perception of reasonable caseload for the circumstances of CSWs in Kosovo.

Furthermore, there is seasonal variation as a surge in the number of *new* applicants occurs in the winter months because of lack of employment opportunities. There is also a ‘clustering’ of re-certifications in the winter for administrative reasons. The caseload in the SAS units appears low compared with those of other countries’ institutional units that administer LRIS schemes. A tentative comparison with other Western Balkan countries<sup>74</sup> suggests that the SAS Units in Kosovo handle a lighter caseload. The average caseload per SAS staff is approximately 11-13 percent lower than the average caseload per social administrator of the Social Assistance scheme in Albania, and more than 60 percent lower than the caseload per CSW professional staff who administers the LRIS benefit in Serbia (Table A3.1).

Figure A3.3 Caseload by SAS Unit, 2017



Source: World Bank (2018b).

**To deal with excessive caseload, SAS staff apply informal risk profiling of applicants, particularly during field visits.** When not able to comply with the statutory deadlines for recertification, SAS Units resort to an informal prioritizing and ‘profiling’ of cases for the PMT questionnaire (i.e., the verification procedure). This approach is not authorized by administration, but SAS Units justify it with their staff shortages and high workloads. Information on such practices was gathered from interviews with SAS Unit Heads conducted in over a quarter of all CSWs (World Bank, 2018b). They find that during times of higher workloads (e.g., due to seasonal variations or periods of increased demand for SAS) administrators focus on the cases that are perceived as riskier<sup>75</sup>.

<sup>74</sup> Comparisons are tentative and should be treated with caution due to caveats related to differences in the definition of LRIS administrator, and differences in LRIS design and implementation across countries, including: (i) range/scope of implemented benefits; (ii) targeting methods, especially the extent to which the respective LRIS program involves labor intensive field visits/verification; (iii) scope of use of management information systems; (iv) duration of eligibility and frequency of recertification. Caseloads also depend on how labor-intensive error and fraud prevention policies are, as well as complaint redress procedures, community outreach activities, reporting, monitoring, and evaluation arrangements.

<sup>75</sup> The understanding of risk is to a large extent common/consistent across different CSWs despite informal and subjective evaluation (e.g., drawing on personal experience and observations).

Table A3.1: Key Characteristics of CSWs in the Western Balkans, 2015-2017

Indicator	Kosovo	Albania	FYR Macedonia (1)	Serbia (2)	Montenegro (3)
Population	1,792,471 <sup>76</sup>	2,876,000	2,081,000	7,057,000	622,781
Number of CSWs (administering last-resort social assistance)	40	61	30	151	13
Population per CSW (administering last-resort social assistance)	47,170	47,147	69,367	46,735	47,906
Number of direct beneficiaries of last-resort social assistance	26,117	82,302	29,215	106,439	8,218
Number of last-resort social assistance beneficiaries per CSW	653	1,350	974	705	632
Number of social workers	181	520	1,116	1,934	N/A
Average number of beneficiaries per social worker	140	158	N/A	225	N/A
Targeting method for last-resort social assistance	Hybrid: MT (income and asset) and PMT	PMT	MT (income and assets)	MT (income and assets)	MT (income and assets)

Source: World Bank (2018b) based on: National demographic and social protection statistics of Serbia, Montenegro, FYR Macedonia, Albania and Kosovo 2015-2017.

Notes: (1) Data for caseload in CSWs in FYR Macedonia refers to all 'rights' / cash benefits, including Temporary and Permanent Financial Assistance, one off / ad hoc financial assistance, child and family benefits (see State Statistics Office. Social Welfare for Children, Juveniles and Adults in the Republic of Macedonia—Statistical Review: Population and Social Statistics. Skopje. 2016); (2) The number of municipalities in Serbia includes city municipalities. According to the Law on Territorial Organization of the Republic of Serbia ("Official Gazette of RS" No. 129/2007), Serbia is organized in 122 municipalities (local self-governments), and 22 city municipalities that belong to two cities (Nis (5) and Belgrade (17)). For Serbia, data on caseload is derived from CSW reports to the Republican Institute for Social Protection in Serbia for 2015 (Republički zavod za socijalnu zaštitu. Izveštaj o radu centara za socijalni rad u 2015 godinu. Beograd. Jul 2016 godinu); (3) Data for Montenegro is as of September 2017 (MLSW social welfare database); and Izveštaj o radu i stanju u upravnim oblastima iz nadležnosti ministarstva rada i socijalnog staranja za 2016 godinu. Podgorica. March 2017).

**Those informal procedures include putting additional scrutiny on new applications and prioritizing of reapplications.** SAS officials believe that their understanding of risk factors allows partial verification without compromising targeting accuracy.

- New applications /cases are considered most risky in terms of their legitimacy and most prone to errors. For these, the protocol for identification of new SAS recipients is implemented in full. All conditions are scrutinized, verified, validated with documents, and cross-checked with administrative data registries and the PMT questionnaire.
- Recurrent cases are profiled according to their perceived riskiness. Some cases are verified but others are postponed until a window of opportunity for the PMT field visit opens. Those cases that

<sup>76</sup> KAS population projections, 2016.

are postponed continue to receive the benefit they previously received until the case is scrutinized at a later point.

- Category I SAS beneficiaries are perceived to be least at risk, as their situation is less likely to change, and are thus less often prioritized. Among Category II, those deemed least at risk are the more recent beneficiaries who have recently been subjected to the full PMT and where no improvements in circumstances or acquisition of new assets (e.g., cattle, household appliances, vehicles, wall insulation, new windows or doors) has taken place<sup>77</sup>.
- Overall, CSWs report verifying between 50 percent and 80 percent of reapplications within the legal timeframe and postponing the rest.

The decentralization of social assistance function to the municipalities that took place in 2009, only delegated the administrative / bureaucratic functions and changed some of the accounting and reporting responsibilities of SAS Unit Heads and staff, but without making major changes in decision making authority. The legislative framework for the decentralization which mainly relies on the details identified in the Memorandum of Understanding signed between the MLSW, the Ministry of Local Government Administration and the Ministry of Finance, and an administrative instruction, does not seem sufficient to provide a strong legal binding framework for the municipalities. With time it became clear that such transfer of functions has not contributed to better outreach and client-oriented approach (for example through integration of cash benefits and municipal social services) or more precise identification of beneficiaries. The strong reporting lines to the MLSW have been disrupted, while municipal commitment in terms of resource allocations for physical infrastructure and improvement of work conditions and staff capacity has not been strengthened fundamentally. No authority has been delegated to the municipalities for benefit payment. Similarly, the existing framework does not provide incentives for the municipalities to prioritize this task over other core functions. Decentralization has not affected the organization of work in the CSWs. Compared to some other Western Balkan countries, the CSWs are lacking key regulations of staffing norms, professional profile, education and qualification, training, compensation and career development. Box A3.2 provides an example of CSW regulation in Montenegro.

*Box A3.2: CSWs in Montenegro – organization, staffing and job requirements*

Montenegro adopted in 2013 a *Rulebook* was adopted on the organization, norms, standards and modes of operation of the CSWs. It envisages the establishment of municipal and inter-municipal CSWs, and their extended offices. The CSWs which service more than one municipality have 'headquarters' and regional units in each of the other serviced municipalities. The extended offices service less accessible settlements and neighborhoods. Currently, there are 13 CSWs, covering all 23 municipalities. Majority are the inter-municipal CSW.

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<sup>77</sup> However, some CSWs, report that they also prioritize within Category II because they are unable to verify all Category II recurrent applicants within the legally prescribed timeframe of 45 days.

The organizational structure of the CSW includes four types of service units for: (i) monetary benefits and legal affairs; (ii) children and young people; (iii) adults and elderly persons; and (iv) financial and administrative and technical matters.

The unit for monetary benefits and legal affairs can be established as a stand-alone service if it has at least two specialists in legal affairs and one professional worker in social and child care.

There is a minimum requirement for the number and profile of professional workers in a CSW. The CSW should have at least 3 professionals in the area of social and child protection, one legal expert, 2 administrative and financial staff members and one technical specialist. The regional unit should have at least 2 professionals in the area of social and child protection, one legal expert, one administrative and financial staff member and one technical specialist. Extended office can be established with one professional staff. When a CSW has up to 10 professional workers, its tasks are performed by all professional workers within one professional service. When a CSW has over 11 professional workers, its activities are organized within the listed above four types of service units. At least 50 percent of the skilled (professional) staff in a CSW should consist of social workers. Additional staff positions are opened based on needs which are determined with the population of the serviced municipality or a group of municipalities.

The service unit for monetary benefits and legal affairs can be organized as a separate expert service unit if it has at least 2 specialists in legal affairs and one social worker. One of the legal experts is appointed as the head of the service unit.

The job description of the professional worker on material benefits includes the following activities:

- (i) to collect data for the realization of the right to material benefit;
- (ii) to assess the situation and needs of applicant and users, in particular whether the user belongs to groups that are particularly protected, in accordance with the law;
- (iii) to assess findings and provide opinions;
- (iv) to motivate and involve the user in appropriate forms of activation, to make efforts for removing obstacles to community involvement and activation, and provide support;
- (v) together with the user, to prepare an individual activation plan, monitor the implementation of the plan, inspect and evaluate its outcomes;
- (vi) to support to the case manager and participate as a member of the team in the implementation of the activities from the individual service plan;
- (vii) to make recommendations for additional services and measures necessary to stabilize and improve the welfare status of the user.

Source: World Bank (2018b).

### ***Design and operation of the SAS IT system***

**The SAS IT system has the dual objective of informing policy making and supporting the implementation of the SAS targeting method.** The SAS management and information system (database or registry) is centrally designed and maintained by MLSW. Its main functions involve supporting the implementation of the SAS PMT targeting mechanism and data generation for policy development, monitoring and evaluation. The SAS system is designed in such a way that it can exchange data with any type of system in any type of interface, if there is a common personal identifier.

**While the SAS IT system is linked and exchanges data with most MLSW social transfer schemes and the Tax Administration, there is no data exchange with other programs.** The SAS cross-checks data electronically

(through the web-based system) with 10 electronic beneficiary datasets within the MLSW, and with the TAK. The electronic connection with MLSW beneficiary databases allows cross-checking of receipt of pensions and several categorical cash benefits<sup>78</sup>. However, the social services schemes which are operated by the CSWs (like residential care for the elderly and people with disabilities, victims of domestic violence, victims of human trafficking) are not connected to the SAS despite being delivered by the CSWs. Some of these other services do not currently maintain web-based databases which obviates data exchange.

**Data exchange with some institutions is limited by lack of systems in and formal agreements with those institutions.** MLSW has an agreement for data exchange with the MIA to be used for connection with the MIA Civil Registry to verify the demographic characteristics of applicants (e.g., personal IDs, family/household size and composition), and for connection with the Vehicle Registry to verify ownership of vehicles by beneficiaries. However, MIA systems are not yet operational which inhibits data exchange. Furthermore, the Department of Pensions and the Department of Martyrs' Families and War Invalids are developing IT systems for the recently introduced schemes which could lead to expansion in data exchange in the future.

**Although the SAS database is electronic, some PMT items are still verified manually in some municipalities.** Some CSWs carry out verification of information on land ownership through comparison with municipal cadaster lists on a monthly basis for new applications and re-applications. At the MLSW level, income from agricultural grants and subsidies provided by the Ministry of Agriculture, Forestry, and Rural Development is at times verified manually by a comparison of lists of SAS beneficiaries and the lists provided by the Ministry. Similarly, incomes from participation in Active Labor Market Programs (ALMPs) through the EARK is at times verified manually.

**There are some implementation issues regarding the IT database and there is room for improvement.** Database operators and other SAS staff point to issues and bottlenecks they face while using the SAS IT system:

- The CSW can only access the SAS IT system during the first 20 days of each month. The MLSW closes the system to conduct verification in the last 10 days of the month. During that period the CSWs cannot input data, and focus instead on collecting applications, carrying out verification visits in the field, and filling in the paper-based Form A3. SAS officials highlights that the monthly closure inhibits their workflow.
- Semi-structured interviews with CSW SAS Units and MLSW point to knowledge gaps in using the SAS IT system at the local level.

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<sup>78</sup> These schemes are the following: 1) Pensions for People with Disabilities (age 18-64); 2) Basic Pension (minimum pension scheme) and Contributory Pensions; 3) Benefits for war categories (war martyrs' families, families of missing Kosovo Liberation Army members, war invalids, families of war invalids after invalids' death, families of missing civilians, civilian invalids of the war, families of civilian invalids after their death); 4) Pensions of Kosovo Protection Corps; 5) Pensions for Trepca miner workers; 6) Pensions of the Kosovo Security Force; 7) Material Support Scheme for Families of Children with Disabilities (age 0-18 years); 8) Material support for foster families (relatives or non-relatives) of abandoned children; 9) Veterans of war; 10) Compensation scheme for the blind.



- SAS Units highlighted the need to automate notifications on changes in demographic characteristics of beneficiaries to gain efficiency in both targeting and redress of appeals. The information that CSWs receive from the SAS IT system on the reasons for rejecting cases is often insufficient for responding to complaints. This leads to an increased volume of second instance complaints or even to ‘bypassing’ the CSWs level for grievance and redress. Eventually, this increases the administrative burden in the MLSW and also undermines the function of the CSWs.

**The capacity assessment of Kosovo’s Centers for Social Work concludes with the following recommendations for optimizing capacity and effectiveness of SAS Units:**

- **Additional physical equipment should be allocated to SAS Units in need.** Malfunctioning and obsolete hardware should be replaced in view of increasing computerization of activities.
- **Additional human resources should be allocated to SAS Units in need,** including temporary staff to help manage the initial inflow of applications and junior skilled staff to replace retirees.
- **Connectivity to the internet should be improved in SAS Units in need.**
- **All staff should be trained on and tasked with using the SAS Database.** All staff should also receive training on the SHI contribution exemption process, to be delivered in CWSs as the scheme is rolled out.
- **Field verification should become risk-based and should be carried out by smaller teams of SAS staff.**
- **Applicants’ data should be directly recorded in the SAS Database whenever possible** (e.g., via laptops or tablets), as opposed to transferred from paper records.
- **The SAS should be reformed to allow for simpler business processes and revised eligibility criteria,** possibly using the same PMT tool that will be adopted for the SHI contribution exemptions.

## Annex 4: Methodology

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### *Data*

The simulations use data from the 2016 Household Budget Survey (HBS). The data is nationally representative and includes 2,312 households (11,761 individuals) selected through two-stage stratified random sampling.

The dataset has information on

- Household members' demographic characteristics
  - Region, age, gender of all household members
  - Labor market situation
  - Disability status
- Income from work and other sources
- Housing situation
- Possession and sale of durable goods, land, and farm assets
- Household related businesses
- Daily recording of expenditures

In addition to the data from the survey, the simulations rely on administrative data on

- The number of SAS beneficiaries
- The number of registered unemployed by region, age group, and gender.

### *Methodology*

The methodology for simulating changes to SAS consists of the following steps.

1. **Design a means-test as a first step to determine potential eligibility for the SAS.** The objective of the means-test is to add up total income of a household and then exclude all households from potential eligibility whose income exceeds a certain threshold. To simulate the impact of a means-test on the targeting of SAS, we filter applicants based on the formal income that can be verified through data exchange the Tax Administration of Kosovo (TAK) and MLSW schemes. Although the survey has information on a broad range of income categories, we only take into account objectively verifiable incomes as informal or non-verifiable incomes can easily be misrepresented in the SAS application. More specifically, we add up the following income sources from the survey:

- a. Income from full-time and part-time employment if the recipient is not occasionally employed, a farmer, or self-employed,<sup>79</sup>
- b. Income from pensions, and
- c. Income from being a business owner if the recipient is not occasionally employed or a farmer.

At the same time, we exclude income from rents, dividends, interest, per diem work, and remittances as we assume that the TAK cannot account for most of these types of income. We then compare the total (calculated) household income to the consumption poverty line per adult equivalent<sup>80</sup>. Every households whose income is above this threshold is excluded from eligibility.

2. **Design a proxy means-test as a second step to evaluate the remaining potential beneficiaries.** Those households whose income falls below the threshold determined in 1. are then subjected to a proxy-means test (PMT). The PMT takes stock of a household's assets and some other characteristics and assigns a score to each household. The rationale behind the PMT is twofold: (i) exclude households which have high informal income (such as e.g. remittances) from SAS, (ii) exclude households which have low income but high wealth from SAS. The PMT (detailed description is given below) relies on a household visit by a CSW employee, along the lines of the visits currently performed to populate Form A3. Apart from ownership of assets (e.g. car, land) and dwelling characteristics (e.g. condition of walls), the PMT takes into account household characteristics (e.g. number of disabled, sex and age of household head, number of children). The households are then ranked according to their PMT score.
3. **Calculate new consumption aggregates.** To evaluate the effect of the newly designed SAS benefit, we construct a new consumption aggregate. First, we calculate what consumption would be in the absence of the existing SAS. To do so, we subtract existing SAS benefits from the household consumption aggregate (thereby assuming that SAS benefits are used entirely for consumption). We then add the simulated SAS benefits to the consumption aggregate of the households who were selected for the new SAS through the MT and PMT. Depending on the chosen benefit level (a detailed description of benefit levels is given below), low-ranking households are then assigned the new SAS benefit until the total budget is exhausted.
4. **Use the new consumption aggregates to assess the impact of the new SAS on targeting and poverty reduction.** We then evaluate the new SAS by calculating the change in poverty headcount, poverty gap, and targeting compared to the effects of the existing SAS benefits.

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<sup>79</sup> Assuming that all self-employed income is informal is a strong assumption. In particular, members of the professions (doctors, lawyers etc.) might be self-employed but nevertheless have a very high income. However, these households are likely going to be excluded from eligibility anyways as part of the proxy means-test.

<sup>80</sup> We use the international poverty line of \$1.90/day. However, in order to replicate official poverty numbers we use a customized equivalence scale (used currently in poverty calculations in Kosovo by the KAS) to calculate effective household size:  $AE = (n_{adult} + 0.75 * n_{child})^{0.75} * \frac{6}{6^{0.75}}$

*Additional methodological details:*

*PMT*

The PMT consists of the following linear regression model.

$$hhincomewithoutSAS_i = + \mathbf{X}_i * \boldsymbol{\beta} + \varepsilon$$

Where  $\mathbf{X}_i$  is a 1 x 28 row vector with the following variables:

1. Household owns the house
2. Number of rooms per capita
3. Characteristics of walls
4. House has central heating
5. House has an indoor bath
6. House has an indoor tap
7. House has indoor hot water
8. House has an indoor toilet
9. House has indoor electricity
10. House has a washing machine
11. House has a telephone
12. House has color TV
13. House has a computer
14. House has internet
15. Number of mobile phones owned by the household
16. Household owns a car
17. Household size
18. Household has a child under the age of 5
19. Household has a child between 5 and 15
20. Household has a child between 15 and 24
21. Gender of the household head
22. Marital status of the household head
23. Interaction of household head gender and marital status
24. Number of female adults
25. Household head age
26. Household head age squared
27. Education of the household head
28. Number of disabled in the household
29. Number of dependent in the household

### *Choosing benefit levels*

There are different methodologies to calculate benefit levels. Currently the benefit level is a function of household size and number of children in the family. The level of SAS is calculated using the following formula:

$$SAS_{benefit} = \begin{cases} 60, & \text{if } householdsize = 1 \\ 82.5 + 5 * nchildren, & \text{if } householdsize = 2 \\ 82.5 + 7.5 * householdsize + 5 * nchildren, & \text{else} \end{cases}$$

This formula gives a particular high weight to children as the marginal benefit increases more for children than for adults.

Two other commonly used formulae to adjust benefit levels to household size are the (i) OECD scale and the (ii) modified OECD scale.

$$OECD_{scale} = 1 + nadult * 0.7 + nchildren * 0.5$$

$$OECD_{modified\ scale} = 1 + nadult * 0.5 + nchildren * 0.3$$

To arrive at the benefit rate using these formulae, the resulting scales are simply multiplied by the basic rate of the benefit (Euro 60 for SAS). Both the OECD and the modified OECD scales are more generous than the current SAS formula. However, compared to the current SAS formula, the OECD scale shows particularly low economies of scale. Thus, we only use the OECD modified scale, which is slightly less generous, as a comparison.

Furthermore, we calculate a customized scale that assumes economies of scale in between the current SAS formula and the OECD formula.

$$Scale_{cust} = 1 + nadult * 0.25 + nchildren * 0.2$$

To select the parameters for this formula, we used an optimization algorithm that compared the impact of different parameters in the formula on poverty reduction. Thus, the above formula is the specification that minimizes poverty in the 2016 HBS.

## Different equivalence scales

Table A4.1: Different equivalence scales used in simulations

Family size	Family composition	Current SAS benefit (2018), including child allowance (EUR 5)	OECD modified scale	Optimal benefit	Two-tier current rate: extreme poor	Two-tier current rate: poor	Two-tier optimal: extreme poor	Two-tier optimal: poor
1	1 adult	€ 60.0	€ 60.00	€ 60.00	€ 80.00	€ 40.00	€ 70.00	€ 50.00
2	2 adults	€ 82.5	€ 90.00	€ 75.00	€ 108.13	€ 56.88	€ 87.50	€ 62.50
	1 adult, 1 child	€ 87.5	€ 78.00	€ 72.00	€ 113.13	€ 61.88	€ 84.00	€ 60.00
3	3 adults	€ 90.0	€ 120.00	€ 90.00	€ 117.50	€ 62.50	€ 105.00	€ 75.00
	2 adults, 1 child	€ 95.0	€ 108.00	€ 87.00	€ 122.50	€ 67.50	€ 119.00	€ 85.00
	1 adult, 2 children	€ 100.0	€ 96.00	€ 84.00	€ 127.50	€ 72.50	€ 98.00	€ 70.00
4	4 adults	€ 97.5	€ 150.00	€ 105.00	€ 126.88	€ 68.13	€ 122.50	€ 87.50
	3 adults, 1 child	€ 102.5	€ 138.00	€ 102.00	€ 131.88	€ 73.13	€ 119.00	€ 85.00
	2 adults, 2 children	€ 107.5	€ 126.00	€ 99.00	€ 136.88	€ 78.13	€ 115.50	€ 82.50
	1 adult, 3 children	€ 112.5	€ 114.00	€ 96.00	€ 141.88	€ 83.13	€ 112.00	€ 80.00
5	5 adults	€ 105.0	€ 180.00	€ 120.00	€ 136.25	€ 73.75	€ 140.00	€ 100.00
	4 adults, 1 child	€ 110.0	€ 168.00	€ 117.00	€ 141.25	€ 78.75	€ 136.50	€ 97.50
	3 adults, 2 children	€ 115.0	€ 156.00	€ 114.00	€ 146.25	€ 83.75	€ 133.00	€ 95.00
	2 adults, 3 children	€ 120.0	€ 144.00	€ 111.00	€ 151.25	€ 88.75	€ 129.50	€ 92.50
	1 adult, 4 children	€ 125.0	€ 132.00	€ 108.00	€ 156.25	€ 93.75	€ 126.00	€ 90.00
6	6 adults	€ 112.5	€ 210.00	€ 135.00	€ 145.63	€ 79.38	€ 157.50	€ 112.50
	5 adults, 1 child	€ 117.5	€ 198.00	€ 132.00	€ 150.63	€ 84.38	€ 154.00	€ 110.00
	4 adults, 2 children	€ 122.5	€ 186.00	€ 129.00	€ 155.63	€ 89.38	€ 150.50	€ 107.50
	3 adults, 3 children	€ 127.5	€ 174.00	€ 126.00	€ 160.63	€ 94.38	€ 147.00	€ 105.00
	2 adults, 4 children	€ 132.5	€ 162.00	€ 123.00	€ 165.63	€ 99.38	€ 143.50	€ 102.50
	1 adult, 5 children	€ 137.5	€ 150.00	€ 120.00	€ 170.63	€ 104.38	€ 140.00	€ 100.00
7	7 adults	€ 120	€ 240	€ 150	€ 155	€ 85	€ 175.0	€ 125.0
	6 adults, 1 child	€ 125	€ 228	€ 147	€ 160	€ 90	€ 171.5	€ 122.5
	5 adults, 2 children	€ 130	€ 216	€ 144	€ 165	€ 95	€ 168.0	€ 120.0
	4 adults, 3 children	€ 135	€ 204	€ 141	€ 170	€ 100	€ 154.5	€ 117.5
	3 adults, 2 children	€ 140	€ 192	€ 138	€ 175	€ 105	€ 151.0	€ 115.0

	2 adults, 1 child	€ 145	€ 180	€ 135	€ 180	€ 110	€ 147.5	€ 112.5
	1 adult, 6 children	€ 150	€ 168	€ 132	€ 185	€ 115	€ 144.0	€ 110.0
8	8 adults	€ 127.50	€ 270	€ 165	€ 164.38	€ 90.63	€ 192.5	€ 137.5
	7 adults, 1 child	€ 132.50	€ 258	€ 162	€ 169.38	€ 95.63	€ 189.0	€ 135.0
	6 adults, 2 children	€ 137.50	€ 246	€ 159	€ 174.38	€ 100.63	€ 185.5	€ 132.5
	5 adults, 3 children	€ 142.50	€ 234	€ 156	€ 179.38	€ 105.63	€ 182.0	€ 130.0
	4 adults, 4 children	€ 147.50	€ 222	€ 153	€ 184.38	€ 110.63	€ 178.5	€ 127.5
	3 adults, 5 children	€ 152.50	€ 210	€ 150	€ 189.38	€ 115.63	€ 175.0	€ 125.0
	2 adults, 6 children	€ 157.50	€ 198	€ 147	€ 194.38	€ 120.63	€ 171.5	€ 122.5
	1 adult, 7 children	€ 162.50	€ 196	€ 144	€ 199.38	€ 125.63	€ 168.0	€ 120.0
9	9 adults	€ 135	€ 300	€ 180	€ 173.75	€ 96.25	€ 210.0	€ 150.0
	8 adults, 1 child	€ 140	€ 288	€ 177	€ 178.75	€ 101.25	€ 206.5	€ 147.5
	7 adults, 2 children	€ 145	€ 276	€ 174	€ 183.75	€ 106.25	€ 203.0	€ 145.0
	6 adults, 3 children	€ 150	€ 264	€ 171	€ 188.75	€ 111.25	€ 199.5	€ 142.5
	5 adults, 4 children	€ 155	€ 252	€ 168	€ 193.75	€ 116.25	€ 196.0	€ 140.0
	4 adults, 5 children	€ 160	€ 240	€ 165	€ 198.75	€ 121.25	€ 192.5	€ 137.5
	3 adults, 6 children	€ 165	€ 228	€ 162	€ 203.75	€ 126.25	€ 189.0	€ 135.0
	2 adults, 7 children	€ 170	€ 216	€ 159	€ 208.75	€ 131.25	€ 185.5	€ 132.5
10	1 adult, 8 children	€ 175	€ 204	€ 156	€ 213.75	€ 136.25	€ 182.0	€ 130.0
	10 adults	€ 143	€ 330	€ 195	€ 183.13	€ 101.88	€ 227.5	€ 162.5
	9 adults, 1 child	€ 148	€ 318	€ 192	€ 188.13	€ 106.88	€ 224.0	€ 160.0
	8 adults, 2 children	€ 153	€ 306	€ 189	€ 193.13	€ 111.88	€ 220.5	€ 157.5
	7 adults, 3 children	€ 158	€ 294	€ 186	€ 198.13	€ 116.88	€ 217.0	€ 155.0
	6 adults, 4 children	€ 163	€ 282	€ 183	€ 203.13	€ 121.88	€ 213.5	€ 152.5
	5 adults, 5 children	€ 168	€ 270	€ 180	€ 208.13	€ 126.88	€ 210.0	€ 150.0
	4 adults, 6 children	€ 173	€ 258	€ 177	€ 213.13	€ 131.88	€ 206.5	€ 147.5
	3 adults, 7 children	€ 178	€ 246	€ 174	€ 218.13	€ 136.88	€ 203.0	€ 145.0
11	2 adults, 8 children	€ 183	€ 234	€ 171	€ 223.13	€ 141.88	€ 199.5	€ 142.5
	1 adult, 9 children	€ 188	€ 222	€ 168	€ 228.13	€ 146.88	€ 196.0	€ 140.0
	11 adults	€ 150	€ 360	€ 210	€ 192.50	€ 107.50	€ 245.0	€ 175.0
	10 adults, 1 child	€ 155	€ 348	€ 207	€ 197.50	€ 112.50	€ 241.5	€ 172.5
	9 adults, 2 children	€ 160	€ 204	€ 204	€ 202.50	€ 117.50	€ 238.0	€ 170.0
	8 adults, 3 children	€ 165	€ 204	€ 201	€ 207.50	€ 122.50	€ 234.5	€ 167.5
7 adults, 4 children	€ 170	€ 204	€ 198	€ 212.50	€ 127.50	€ 231.0	€ 165.0	
6 adults, 5 children	€ 175	€ 204	€ 195	€ 217.50	€ 132.50	€ 227.5	€ 162.5	

	5 adults, 6 children	€ 180	€ 204	€ 192	€ 222.50	€ 137.50	€ 224.0	€ 160.0
	4 adults, 7 children	€ 185	€ 204	€ 189	€ 227.50	€ 142.50	€ 220.5	€ 157.5
	3 adults, 8 children	€ 190	€ 204	€ 186	€ 232.50	€ 147.50	€ 217.0	€ 155.0
	2 adults, 9 children	€ 195	€ 204	€ 183	€ 237.50	€ 152.50	€ 213.5	€ 152.5
	1 adult, 10 children	€ 200	€ 204	€ 180	€ 242.50	€ 157.50	€ 210.0	€ 150.0
12	12 adults	€ 158	€ 390	€ 225	€ 201.88	€ 113.13	€ 262.5	€ 187.5
	11 adults, 1 child	€ 163	€ 378	€ 222	€ 206.88	€ 118.13	€ 259.0	€ 185.0
	10 adults, 2 children	€ 168	€ 366	€ 219	€ 211.88	€ 123.13	€ 255.5	€ 182.5
	9 adults, 3 children	€ 173	€ 354	€ 216	€ 216.88	€ 128.13	€ 252.0	€ 180.0
	8 adults, 4 children	€ 178	€ 342	€ 213	€ 221.88	€ 133.13	€ 248.5	€ 177.5
	7 adults, 5 children	€ 183	€ 330	€ 210	€ 226.88	€ 138.13	€ 245.0	€ 175.0
	6 adults, 6 children	€ 188	€ 318	€ 207	€ 231.88	€ 143.13	€ 241.5	€ 172.5
	5 adults, 7 children	€ 193	€ 306	€ 204	€ 236.88	€ 148.13	€ 238.0	€ 170.0
	4 adults, 8 children	€ 198	€ 294	€ 201	€ 241.88	€ 153.13	€ 234.5	€ 167.5
	3 adults, 9 children	€ 203	€ 282	€ 198	€ 246.88	€ 158.13	€ 231.0	€ 165.0
	2 adults, 10 children	€ 208	€ 270	€ 195	€ 251.88	€ 163.13	€ 227.5	€ 162.5
	1 adult, 11 children	€ 213	€ 258	€ 192	€ 256.88	€ 168.13	€ 224.0	€ 160.0
13	13 adults	€ 165	€ 420	€ 240	€ 211.25	€ 118.75	€ 280.0	€ 200.0
	12 adults, 1 child	€ 170	€ 408	€ 237	€ 216.25	€ 123.75	€ 276.5	€ 197.5
	11 adults, 2 children	€ 175	€ 396	€ 234	€ 221.25	€ 128.75	€ 273.0	€ 195.0
	10 adults, 3 children	€ 180	€ 384	€ 231	€ 226.25	€ 133.75	€ 269.5	€ 192.5
	9 adults, 4 children	€ 185	€ 372	€ 228	€ 231.25	€ 138.75	€ 266.0	€ 190.0
	8 adults, 5 children	€ 190	€ 360	€ 225	€ 236.25	€ 143.75	€ 262.5	€ 187.5
	7 adults, 6 children	€ 195	€ 348	€ 222	€ 241.25	€ 148.75	€ 259.0	€ 185.0
	6 adults, 7 children	€ 200	€ 336	€ 219	€ 246.25	€ 153.75	€ 255.5	€ 182.5
	5 adults, 8 children	€ 205	€ 324	€ 216	€ 251.25	€ 158.75	€ 252.0	€ 180.0
	4 adults, 9 children	€ 210	€ 312	€ 213	€ 256.25	€ 163.75	€ 248.5	€ 177.5
	3 adults, 10 children	€ 215	€ 300	€ 210	€ 261.25	€ 168.75	€ 245.0	€ 175.0
	2 adults, 11 children	€ 220	€ 288	€ 207	€ 266.25	€ 173.75	€ 241.5	€ 172.5
1 adult, 12 children	€ 225	€ 276	€ 204	€ 271.25	€ 178.75	€ 238.0	€ 170.0	
	14 adults	€ 173	€ 450	€ 255	€ 220.63	€ 124.38	€ 297.5	€ 212.5
	13 adults, 1 child	€ 178	€ 438	€ 252	€ 225.63	€ 129.38	€ 294.0	€ 210.0
	12 adults, 2 children	€ 183	€ 426	€ 249	€ 230.63	€ 134.38	€ 290.5	€ 207.5
	11 adults, 3 children	€ 188	€ 414	€ 246	€ 235.63	€ 139.38	€ 287.0	€ 205.0
	10 adults, 4 children	€ 193	€ 402	€ 243	€ 240.63	€ 144.38	€ 283.5	€ 202.5



14	9 adults, 5 children	€ 198	€ 390	€ 240	€ 245.63	€ 149.38	€ 280.0	€ 200.0
	8 adults, 6 children	€ 203	€ 378	€ 237	€ 250.63	€ 154.38	€ 276.5	€ 197.5
	7 adults, 7 children	€ 208	€ 366	€ 234	€ 255.63	€ 159.38	€ 273.0	€ 195.0
	6 adults, 8 children	€ 213	€ 354	€ 231	€ 260.63	€ 164.38	€ 269.5	€ 192.5
	5 adults, 9 children	€ 218	€ 342	€ 228	€ 265.63	€ 169.38	€ 266.0	€ 190.0
	4 adults, 10 children	€ 223	€ 330	€ 225	€ 270.63	€ 174.38	€ 262.5	€ 187.5
	3 adults, 11 children	€ 228	€ 318	€ 222	€ 275.63	€ 179.38	€ 259.0	€ 185.0
	2 adults, 12 children	€ 233	€ 306	€ 219	€ 280.63	€ 184.38	€ 255.5	€ 182.5
	1 adult, 13 children	€ 238	€ 294	€ 216	€ 285.63	€ 189.38	€ 252.0	€ 180.0
15	15 adults	€ 180	€ 480	€ 270	€ 230.00	€ 130.00	€ 315.0	€ 225.0
	14 adults, 1 child	€ 185	€ 468	€ 267	€ 235.00	€ 135.00	€ 311.5	€ 222.5
	13 adults, 2 children	€ 190	€ 456	€ 264	€ 240.00	€ 140.00	€ 308.0	€ 220.0
	12 adults, 3 children	€ 195	€ 444	€ 261	€ 245.00	€ 145.00	€ 304.5	€ 217.5
	11 adults, 4 children	€ 200	€ 432	€ 258	€ 250.00	€ 150.00	€ 301.0	€ 215.0
	10 adults, 5 children	€ 205	€ 420	€ 255	€ 255.00	€ 155.00	€ 297.5	€ 212.5
	9 adults, 6 children	€ 210	€ 408	€ 252	€ 260.00	€ 160.00	€ 294.0	€ 210.0
	8 adults, 7 children	€ 215	€ 396	€ 249	€ 265.00	€ 165.00	€ 290.5	€ 207.5
	7 adults, 8 children	€ 220	€ 384	€ 246	€ 270.00	€ 170.00	€ 287.0	€ 205.0
	6 adults, 9 children	€ 225	€ 372	€ 243	€ 275.00	€ 175.00	€ 283.5	€ 202.5
	5 adults, 10 children	€ 230	€ 360	€ 240	€ 280.00	€ 180.00	€ 280.0	€ 200.0
	4 adults, 11 children	€ 235	€ 348	€ 237	€ 285.00	€ 185.00	€ 276.5	€ 197.5
	3 adults, 12 children	€ 240	€ 336	€ 234	€ 290.00	€ 190.00	€ 273.0	€ 195.0
2 adults, 13 children	€ 245	€ 324	€ 231	€ 295.00	€ 195.00	€ 269.5	€ 192.5	
1 adult, 14 children	€ 250	€ 312	€ 228	€ 300.00	€ 200.00	€ 266.0	€ 190.0	