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## IMPLICATIONS OF HEALTH INSURANCE IN KOSOVO'S ECONOMY

The impact of health insurance in Kosovo's economy, its implications on youth employment and recommendations for its efficient implementation.

FOL MOVEMENT

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## Introduction

Among many problems, citizens identify unemployment as the biggest problem in Kosovo<sup>12</sup>. Unemployment is to a considerable extent a product of several indicators. Further, research also shows that corruption, inefficient policymaking, lack of stability and a host of other indicators contribute to the fact that Kosovo is one of the countries with the highest unemployment rate in Europe<sup>3</sup>. High rates of unemployment affect social insurance, as any formal contractual relation will burden the employer with social insurance fees, and equip the employee with social insurance<sup>4</sup>. Conversely, the lack of employment, in the most optimistic scenarios, not only hinders the long awaited social insurance scheme but also endangers the general welfare of the people.

Deriving from these, FOL has prepared this policy papers, through which it analyses the implications of employment and social insurance, putting youth employment as a cornerstone. It is vital to mention that since the reduction of unemployment, and the improvement of social insurance, are dependent upon several complex factors, the aim of this paper is narrower, thus, analysing only some of the factor.

This policy paper provides an overview of the (un)employment trend for the last two years (2014 - 2016). It examines the orientation of labour market, and education (be that in vocational schools or universities) and presents the (in)consistencies between the skills and labour market demands. It has also focused on the readiness among businesses to invest in their employees. As social insurance will create extra costs, knowing the readiness of businesses to invest is vital. This serves to understand the impact of implementation of health insurance system in economy.

The paper will provide a general background of Kosovo's journey towards the Law on Health Insurance<sup>5</sup>. This section will show the history of the law, including the health system in Kosovo before entry into force of this law, and developments that occurred during the 3 years the law has been into force. Taking into account all the obstacles, and issues from 2014 when the Law on Health Insurance entered into force until now, the paper also brings forth a comparative analysis of practices in other countries as Croatia, Serbia, Germany, and Albania, which could serve as a good practice for the institutions to follow. Empirical and theoretical data also indicate that implementation of health insurance is necessary and beneficial for the economy and welfare. The report also shows that health insurance would not present such a heavy burden for businesses in order for them to reduce their employment. This, of course, if the system would be implemented in an efficient and transparent way.

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<sup>1</sup> UNDP Kosovo. Public Pulse XII. November 2016. Retrieved from:

<http://www.ks.undp.org/content/dam/kosovo/docs/PublicPulse/pp12/PP%2012%20shq.pdf?download>

<sup>2</sup> FOL Movement. Corruption Scan 2016. November 2016. Retrieved from: <http://levizjafol.org/skenimi-i-korrupsionit-2016-2/>

<sup>3</sup> Trading Economics. "Unemployment Rate". 2017. Retrieved from: <https://tradingeconomics.com/country-list/unemployment-rate?continent=europe>

<sup>4</sup> International Labour Organization. Retrieved from: [http://ilo.org/ifpdial/areas-of-work/labour-law/WCMS\\_CON\\_TXT\\_IFPDIAL\\_EMPREL\\_EN/lang--en/index.htm](http://ilo.org/ifpdial/areas-of-work/labour-law/WCMS_CON_TXT_IFPDIAL_EMPREL_EN/lang--en/index.htm)

<sup>5</sup> Official Gazette of the Republic of Kosovo. LAW NO. 04/L-249 ON HEALTH INSURANCE.

## The workforce trend (2014 – 2016)<sup>6</sup>

This section will analyse the statistics of labour force survey that is published by the Kosovo Agency of Statistics (KAS). There are cases when the data published by KAS<sup>7</sup> are contested, however, this institution remains the only legitimate body that can provide data on the labour force in Kosovo. In this context, the theoretical argument that unemployment and employment are not linked with causal relation<sup>8</sup>, as the reduction of unemployment is not necessarily a result of increase in employment, becomes more relevant in Kosovo's case.

**Labour force**, which is calculated by adding employees and the unemployed, decreased for about **45 thousand people** during these two years. Such a decrease is a direct result of decrease in employment or of unemployment. The number of **unemployed people** in these two years was reduced for **50 thousand**. Reductions in employment and unemployment have directly reduced the labour force, as the latter is the addition of these two. Employment increased for about 8 thousand people during these two years. Here we can see more concretely that reduction of unemployment does not necessarily bring employment. Another important factor that should be taken into consideration is also the illegal migration of Kosovars, where only from 2014 to 2015 around 50 thousand people migrated from Kosovo to European countries<sup>9</sup>. There is no official evaluation that shows the number of Kosovars which have reached formal and official employment in Germany, however, from statements of public officials this number can go to thousands.

The aforementioned theory of employment and unemployment not having causality is proven with these statistics. In other words, employment and unemployment are affected by a broad range of factors. Thus, even though we can say that unemployment for the last two years in Kosovo has gone down, this has not been a product, nor has been replaced with people finding employment.

During these two years number of inactive people increased for 24 thousand. Number of inactive persons are those who are not employed, and are neither looking actively for a job. Also, the number of old people has increased for about 15 thousand<sup>10</sup>.

The difficulties to calculate the impact on the labour force comes because they do not possess data on the mobility of the labour force. It is evident, however, that the reduction of unemployment did not come as a direct result of the increase of number of employed people. The same can be noticed among youth, where the employment has increased for only 2 thousand, while unemployment has been reduced for 12 thousand. In the chart below are

<sup>6</sup> The period 2014 – 2016 was selected for this analysis because in 2014 a new government was established and there are data from KAS on annual reports on labour force.

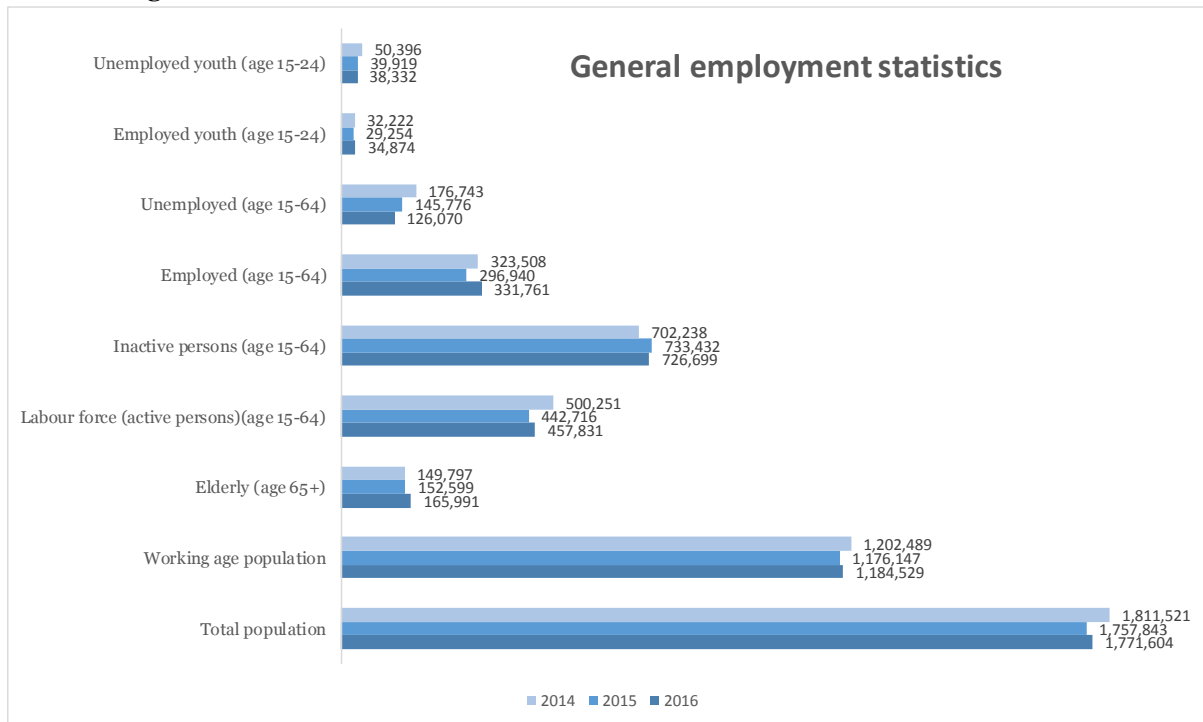
<sup>7</sup> Telegrafi. ASK: Hoti kontestoi të dhënat e veta. June 2016. Retrieved from: <http://telegrafi.com/ask-hoti-kontestoi-te-dhenat-e-veta/>

<sup>8</sup> Tomoev, L. & Meinardus, M., (2012). Employment Policies in South-East Europe – Common Challenges and Different Scenarios, FES: Bulgaria

<sup>9</sup> INDEP. Një vështrim mbi imigrimin e kosovarëve në BE: imigrimi si dukuri shumëdimensionale. 2015. Marrur nga: [http://indep.info/wp-content/uploads/publikimet\\_sq/Nj%C3%AB%20v%C3%ABshtrim%20mbi%20imigrimin%20e%20kosovar%C3%ABve%20n%C3%AB%20BE%20imigrimi%20si%20dukuri%20shum%C3%ABdimensionale%20%5bZana%20Dobruna%20Burim%20Ejupi%20Dhe%20Larta%20Hollaj%202015%2006%20Qeverisje%20Demokratike%5d.pdf](http://indep.info/wp-content/uploads/publikimet_sq/Nj%C3%AB%20v%C3%ABshtrim%20mbi%20imigrimin%20e%20kosovar%C3%ABve%20n%C3%AB%20BE%20imigrimi%20si%20dukuri%20shum%C3%ABdimensionale%20%5bZana%20Dobruna%20Burim%20Ejupi%20Dhe%20Larta%20Hollaj%202015%2006%20Qeverisje%20Demokratike%5d.pdf)

<sup>10</sup> Kosovo Agency of Statistics. Labour Force Survey 2016. May 2016. Retrieved from: <http://ask.rks-gov.net/media/3229/afp-2016.pdf>

shown the general data on the labour force.



### Employment policies in Kosovo and health insurance

Ministry of Labour and Social Welfare (MLSW), by the end of 2016 and 2017, have initiated the review of the sectoral strategy, which also treats the high level of unemployment. In regards to this strategy, MLSW has also developed the action plan for 2017 -2018. It is important to mention that the sectoral strategy addresses also issues presented in the base document for national policies, known as the National Development Strategy<sup>11</sup>, for the period of 2016-2021, approved by the government in 2016. This document, among 34 issues, has identified 5 provisions that in one form or another reflects employment and welfare issues. In their implementation, however, there were many shortfalls<sup>12</sup>. The high level of unemployment is also part of the European Reform Agenda, which puts forth the need for a preparation of an action plan which would address the issue of unemployment, taking measures for increasing women employment, functionalizing the employment agency, improving the link between tertiary education and the job market, and/or improving the quality of education and vocational education training programmes.

Nevertheless, these goals will be hard to achieve if there is no increase in the budget's allocation towards projects that promote and contribute to active employment policies. Especially it will be hard to achieve if there is no coordination between different sectors. The lack of efficiency and effectiveness can be clearly seen as the Government of Kosovo has yet to approve the aforementioned sectoral strategy of employment, and there are still no steps taken forward to calculate the budgetary costs that the policies of the sectoral strategy propose, thus, also there is no evaluation as to how much should this depend on the public

<sup>11</sup> Prime Minister's Office. National Development Strategy 2016-2021. Retrieved from: [http://www.kryeministri-ks.net/repository/docs/Strategjia\\_Kombetare\\_per\\_Zhvillim\\_2016-2021\\_Shqip.pdf](http://www.kryeministri-ks.net/repository/docs/Strategjia_Kombetare_per_Zhvillim_2016-2021_Shqip.pdf)

<sup>12</sup> The European Union Office in Kosovo. Report for Kosovo 2016. Retrieved from: [https://eeas.europa.eu/sites/eeas/files/20161109\\_kosovo\\_report\\_2016\\_alb.pdf](https://eeas.europa.eu/sites/eeas/files/20161109_kosovo_report_2016_alb.pdf)

funds and how much on other potential donors. Similarly we also have the establishment of the Employment Agency of Republic of Kosovo, whose role is to stimulate active employment measures, however, no results have been seen from this Agency yet, so steps should be undertaken faster for its full operationalisation.

### **The applicable legislation on health insurance in Kosovo**

Since the period after the war, health and health insurance system in Kosovo have remained problematic sectors<sup>13</sup>, the stumbling of which is reflected on the low level of welfare of Kosovo citizens.

Legal framework regulating health insurance was adopted in 2014, however, the law has not been implemented yet and has been constantly target of criticism for not meeting the criteria stipulated in the law.

The law defines mandatory health insurance as a right and obligation of all citizens and residents of Republic of Kosovo, and voluntary health insurance as a right of citizens and residents of the Republic of Kosovo<sup>14</sup>.

The Health Insurance Fund presents a public health insurance institution with the capacity of a legal entity with special rights, obligations, responsibilities and authorizations, for implementation of the Law on Health Insurance on behalf of the insured, including effective collection of financial resources for the provision of health care services by health institutions in all types of ownership.

Premiums for mandatory health insurance for employees and employers represent seven (7) % of the gross income to be shared equally by the employer and the employee.

Implementation of this law faced difficulties due to the process of fund collection, but also because of legal gaps that were addressed by entities like Association for the Rights of Patients, American Chamber of Commerce and Federation of Health Trade Unions<sup>15</sup>. The implementation of the law on Health Insurance was postponed due to its amending and supplementing, leaving citizens without health insurance until the constitution of the new government and initiation of collection of premiums<sup>16</sup>.

After a process with little to no transparency, lately we have a declaration from the Minister of Health who declares that based on consultations with the Ministry of Finance they feel that the optimal date for collecting premiums is January 1<sup>st</sup>, 2017. According to mr. Imet Rrahmani, " private companies and businesses have demanded that the start date for the premium collections to be in line with the start of the new fiscal year, so that they can be

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<sup>13</sup> After 2000, began the phase of revitalizing health institutions which was the beginning of establishment of health system in Kosovo. This process was finalized in 2004 with the adoption of Law on Health, which opened the way for development of health insurance systems. In 2007, the Law on Health Insurance was developed, which subsequently was not successful due to inefficient methods of collection of required funds for health insurance scheme. A characteristic of the 2007 draft was supplementary voluntary insurance, which enabled citizens to have health care services beyond those provided under this law.

<sup>15</sup> Telegrafi. Nuk ka sigurime shëndetësore pa u ndryshuar ligji. Article. Accessed on 12.07.2017, at: <http://telegrafi.com/nuk-ka-sigurime-shendetesore-pa-u-ndryshuar-ligji/>

<sup>16</sup> Ibid.

prepared with the budget, as everyone, employer and employee, will pay 3.5% of their wage.”<sup>17</sup>

The whole process of the lack of implementation of the law, the discussions of collecting premiums, respectively the readiness and capacity of the private sector, has not been accompanied with proper all-inclusive, well-constructed, and transparent discussions. In this context, the public has not seen a clear and proper stand from the Kosovo Economic Council, who should have tread more meticulously and seriously the legal violations and the lack of implementation for the law, and come up with concrete recommendations for implementing the law. Thus, as much as the rights of employees should be protected from their representatives at KEC, they are still violated, and thus pose a risk for the economic households.

The 2015 Survey on Economic Household Budget shows that household consumption has declined from an average 7,611 € in 2014, to 7,503 € in 2015<sup>18</sup>. In this aspect we can state that the issues that arise from the attempt to reduce unemployment, and at the same time to provide social insurance for citizens, affect negatively the socio-economic state of Kosovo, and also negatively affecting the use of human resource capital.

### Health insurance models and systems

In Europe, there are three types of financing of health insurance systems: the Bismarck system, the Beveridge system and Semashko system<sup>19</sup>. The systems are explained in more detail below:

- The Bismarck system: This system incorporates “sickness funds” which are jointly financed by employers and employees via payroll deductions. So, this system means benefits of employees via employer-sponsored health insurance coverage. The characteristic for this system is that the institutions working with “sickness funds” are not profit-generating entities (usually hospitals). This type of system is present in Kosovo, where employer and employee share equally 3.5% of gross income in order to cover health insurance. This system is also present in countries like Germany, France, the Netherlands, Belgium and Switzerland.
- The Beveridge system: This system functions through special taxes that cover health insurance services. It represents a more decentralized system where hospitals are managed by the government. Whereas private doctors for every service delivered are paid by the government fund. Countries that apply this system are United Kingdom, Spain, Scandinavian countries and New Zealand.
- The Semashko system: Represents a completely centralized system where state manages hospitals and other places delivering health services. This was a characteristic for the countries of the former Eastern Bloc. This system existed also in Kosovo during the time when Kosovo was under the administration of Yugoslav Federation.

<sup>17</sup> Indeksonline. Sfidat e zbatimit të Ligjit për Sigurime Shëndetësore në Kosovë. Gusht, 2016. Marrur nga: <http://indeksonline.net/lajmet/sfidat-e-zbatimit-te-ligjit-per-sigurime-shendetesore-ne-kosove-8388/>

<sup>18</sup> Health care systems and health policy. Retrieved from:

<http://www.pharmpress.com/files/docs/Sample%20chapter%20Health%20Pol%20Eth.pdf>

<sup>19</sup> Health care systems and health policy. Retrieved

from:<http://www.pharmpress.com/files/docs/Sample%20chapter%20Health%20Pol%20Eth.pdf>

There are 3 health insurance systems known in practice, which can be used by the insured person in case of sickness: mandatory health insurance, voluntary health insurance and supplementary insurances, elaborated as follows<sup>20</sup>.

- **Mandatory health insurance:** This type of insurance is guaranteed for all citizens of a country. It is regulated with a special law defining all social categories for which health insurance is applicable.
- **Voluntary health insurance:** According to this system, the insured is provided with health services depending on the payment he has made. This model is mostly found in cases of companies involved in health insurances.
- **Supplementary insurance:** This system applies for the insured persons who are employed. In this case, healthcare service is provided based on the amount of premium that is paid. This system is different from the mandatory system because of the fact that it includes services that are not included under the mandatory health insurance.

### Case studies on the legislation and health insurance systems

In order to have a clearer overview how the regulation of health insurance in Kosovo, we have analysed the regulation of health insurance systems in countries of the region, as countries with a shared past, and in more developed countries of Europe which are considered to offer more favourable health insurance for their citizens. The tables below show sources of health insurance funding, level of decentralization of this process and sharing of contributions between employees and employers.

| Health insurance funding sources      |                       |                      |                       |                       |
|---------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
|                                       | Albania <sup>21</sup> | Serbia <sup>22</sup> | Croatia <sup>23</sup> | Germany <sup>24</sup> |
| State budget                          | 75%                   |                      | 15%                   | 77.2%                 |
| Mandatory and voluntary contributions | 25%                   | 69.48%               | 76%                   |                       |
| Pension scheme contributions          |                       | 29.01%               |                       |                       |
| Special                               |                       |                      | 9%                    |                       |

| Decentralization level of health insurance system |         |        |         |         |        |
|---|---------|--------|---------|---------|--------|
|   | Albania | Serbia | Croatia | Germany | Kosovo |
| <b>Centralized</b>                                | X       | X      | X       |         | X      |

<sup>20</sup> Shkoza A., Lekiqi, F. (2012). Healthcare Insurance in Kosovo: A delayed right. FES, Pristina.

<sup>21</sup> Beci, A. et al. (2015). Who pays: Financing of health insurances in Albania. Tirana

<sup>22</sup> Centre for Advances Economic Studies. 2014. Retrieved from: <http://ceves.org.rs/wp-content/uploads/2014/01/Health-Care-System-and-Spending-in-Serbia.pdf>

<sup>23</sup> European Observatory on Health Systems and Policy Monitor. 2015. Retrieved from: <http://www.hspm.org/countries/croatia30062014/countrypage.aspx>

<sup>24</sup> Jacobs, R., Goddard, M. (2000). *Social Health Insurance Systems in European Countries*. The University of York. Retrieved from: <https://www.york.ac.uk/che/pdf/op39.pdf>



Decentralized

X

**Contributions by employer and employee (in % of gross salary)**

|          | Albania | Serbia <sup>25</sup> | Croatia | Germany <sup>26</sup> | Kosovo |
|----------|---------|----------------------|---------|-----------------------|--------|
| Employer | 1.7     | 6.5                  | 7.5     | 7                     | 3.5    |
| Employee | 1.7     | 6.5                  | 7.5     | 8                     | 3.5    |

**Current situation of health insurances in Kosovo**

The main problem that is faced in implementation of health insurance in Kosovo is the financial planning and coverage of costs for financing the health insurance fund.

According to the assessment of Health Financing Agency<sup>27</sup>, in addition to regular budget one should calculate the cost for both public and private sectors. According to this agency, the cost in the public sector, based on the basic salary, should be 18 million Euro for employees, and 18 million Euro for the government.

Whereas in the private sector, in VAT registered companies, as stipulated in the Law on Health Insurance, based on the basic salary, the annual cost would be 19 million Euro for employers, and 19 million Euro for employees. The percentage of premiums is equally shared. The third group of population are those not registered in these categories. These citizens will pay 2 Euro a month. About six million Euro will be collected from these payments, and subsequently these citizens will obtain the status of the health insured persons.

Seen from the citizen's point of view, most of the citizens are in favour of paying the contributions needed to gain social insurance. According to a survey conducted with citizens by Solidar Suisse<sup>28</sup>, 91.7% of respondents have expressed to be ready to pay for health insurances, whereas 8.1% have stated that they do not pay due to financial burden and suspicion of abuse by relevant institutions.

The survey also highlights readiness of citizens to share the costs of healthcare where 97.7% of respondents stated to be ready for sharing costs for healthcare services, whereas 2.3 percent of them were not ready to share costs for healthcare services.

According to the same survey, average family costs are 716 Euro a year. The size of the family on average consisted of six members. Most of the costs happen as result of use of services in the private sector and payments for medicines and medical supplies. Therefore, it is evident that even though there is a high level of corruption, low level of citizen's trust in institutions, low average earnings for economic households, high level of expenditure on medical services,

<sup>25</sup> Karajicic, S., Muzik, R. (2014). Serbia: Brief health system review. Retrieved from: <http://www.hpi.sk/en/2014/01/serbia-brief-health-system-review/>

<sup>26</sup> Busse, Reinhard. 2009. Retrieved from: [http://www.commonwealthfund.org/~media/files/resources/2008/health-care-system-profiles/germany\\_country\\_profile\\_2008\\_2-pdf.pdf](http://www.commonwealthfund.org/~media/files/resources/2008/health-care-system-profiles/germany_country_profile_2008_2-pdf.pdf)

<sup>27</sup> Free Europe. (2016). Çavdërbasha: Fondet shtyjnë sigurimet shëndetësore. Article. Accessed on: 11.07.2017, at: <https://www.evropaelire.org/a/27469189.html>

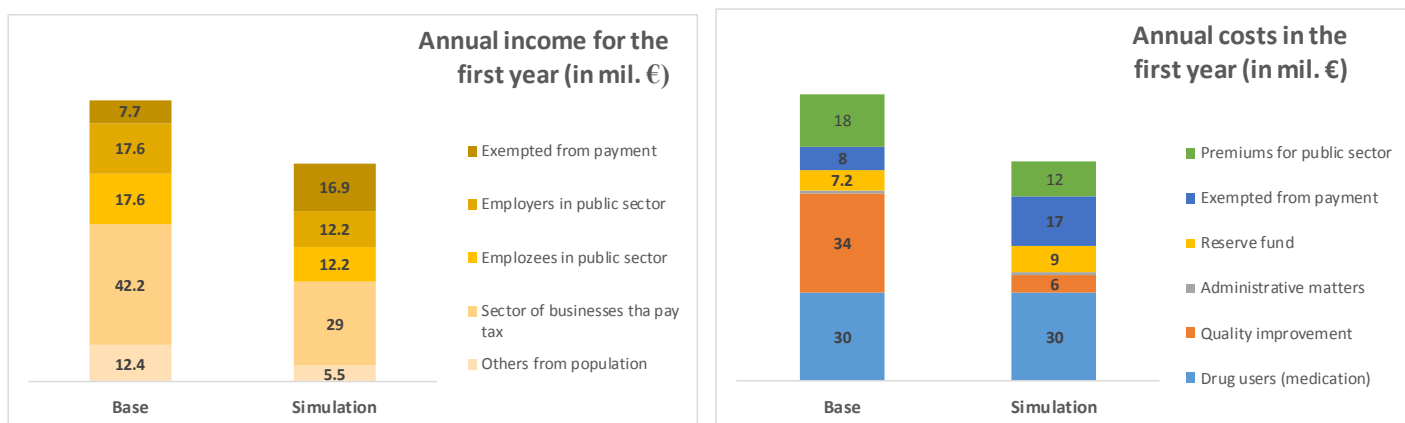
<sup>28</sup> Solidar Suisse. (2012). Proposed health insurance scheme: What does it mean for citizens?!

and a high percentage of citizens readiness to pay for social insurance, show that social insurances play a pivotal role in the wellbeing of the population.

### The impacts of health insurance on income, and costs for the state budget

Entry into force of the Law on Health Insurance will have an impact on fiscal situation of Kosovo only after the start of premium collection. Based on the law, and number of employees and households we may calculate how much will the budget of healthcare sector will increase in Kosovo. With 7% premiums as provided in the current law, budget of health sector will increase for about **€72 million**<sup>29</sup>. This is calculated considering the payments that would be made by the public sector, and businesses.<sup>30</sup> Family households will also be obliged to pay, which will pay a fixed amount of **€3.50**. The World Bank based this calculation on the assumption that 40% of these family households will make a payment of €3.50. If this assumption turns to be correct, then the gross income to the budget will reach €91 million, and after the reimbursements (€25 million), they will remain 66 million or 1.3 percent of GDP.

According to the recommendation provided in the same report if the obligation for paying premiums instead of 7% would be 5%, the gross income would reach at 45 million, or 0.9% of the GDP. Both these recommendations would have an impact on the increase of state GDP. The graph below presents data according to calculations of the World Bank. The base represents data if the applicable law is implemented (with 7% premiums), whereas the simulation is in the case of application of recommendation of the World Bank for 5% premiums.



The increase of annual income, taking into consideration the base of 7% in premiums, would result in a first year to have an income of € 72 million, and only after three years they would reach a figure of €100 million.

<sup>29</sup> World Bank. “Kosovo Public Finance Review: Fiscal Policies for a Young Nation”. June 2014. Pg. 91. Retrieved from:

[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0ahUKEwjN6\\_yX7IXVAhVnRQKHR21CioQFggxMAI&url=http%3A%2F%2Fdocuments.worldbank.org%2Fcurated%2Fen%2F654811468270617376%2Fpdf%2FACS93510WPoP13oICooFinaloKosovoPFR.pdf&usg=AFQjCNG6BK24fvYDWIPJhmc3KS9w8PZdNw&cad=rja](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0ahUKEwjN6_yX7IXVAhVnRQKHR21CioQFggxMAI&url=http%3A%2F%2Fdocuments.worldbank.org%2Fcurated%2Fen%2F654811468270617376%2Fpdf%2FACS93510WPoP13oICooFinaloKosovoPFR.pdf&usg=AFQjCNG6BK24fvYDWIPJhmc3KS9w8PZdNw&cad=rja)

<sup>30</sup> Only businesses with a turnover over 50.000 will be included in payment of premiums.

The differences between these two, present law and the World Bank recommendation, are that through simulation compared to the present law there would be: (a) bigger number of people exempted from payment, (b) lower income from private and public sector, (c) reduction of costs for premiums that would be paid by public sector, (d) increase of costs for those exempted from payments, (e) increase of costs for the reserve fund, and (f) less costs for improved quality. All these calculations stand if we take the constants of economic growth, population, salaries and if there is stability at the public sector and private sector sees an increase in employment<sup>31</sup>.

### Risks in the implementation of health insurance

The health insurance system, basis its principle of functionality on the readiness of citizens to pay their contributions. In case this readiness will fall, the entire system will be at risk. Therefore, it is important to emphasize the risks accompanying this system, and make recommendations for addressing such risks. Some of the biggest risks that implementation of health insurances may face are:

1. Formal economy may suffer a downfall. Law on Health Insurance heavily relies on the private sector, more precisely on the formal economy. With an unemployment among the highest in Europe and with huge informal economy,<sup>32</sup> payment obligations may result with an even greater increase of informality.
2. Increase of the large number of those exempted from payment could damage the system. In cases when the list of exempted persons begins to include also groups that should not be included it would create a burden for the costs, which could damage the insurance system. The damage could occur as: (a) loss of credibility leading to non-payment, (b) heavy burden of additional costs, and (c) lack of system stability. Such inflation of lists has been seen before with other schemes<sup>33</sup>.
3. Lack of detailed benefit specifications could lead to the loss of citizens' trust in the system. The moment citizens are denied a service, in absence of a genuine awareness campaign, they would feel betrayed by the system.
4. Low public trust in institutions, and a high perception of corruption in health<sup>34</sup> may discourage citizens from being part of the system.

### Recommendations for addressing the risks

Three years have passed since the entry into force of the law and no proper preparations have been done yet for its implementation. Therefore, two things are very important: (a) all necessary preparations should be finalized as soon as possible, (b) the complete process

<sup>31</sup> World Bank. "Kosovo Public Finance Review: Fiscal Policies for a Young Nation". June 2014. Pg. 91. Retrieved from:

[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=oahUKEwjN6\\_yX7IXVAhVnNRQKHR21CioQFggxMAI&url=http%3A%2F%2Fdocuments.worldbank.org%2Fcurated%2Fen%2F654811468270617376%2Fpdf%2FACS93510WPoP13oICooFinaloKosovooPFR.pdf&usq=AFQjCNG6BK24fvYDWIPJhmc3KS9w8PZdNw&cad=rja](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=oahUKEwjN6_yX7IXVAhVnNRQKHR21CioQFggxMAI&url=http%3A%2F%2Fdocuments.worldbank.org%2Fcurated%2Fen%2F654811468270617376%2Fpdf%2FACS93510WPoP13oICooFinaloKosovooPFR.pdf&usq=AFQjCNG6BK24fvYDWIPJhmc3KS9w8PZdNw&cad=rja)

<sup>32</sup> Riinvest Institute. To pay or not to pay: Informality from businesses' perspective in Kosovo. 2013. Pg. 19. Retrieved from:

[http://www.riinvestinstitute.org/uploads/files/2016/October/17/BUSINESS\\_INFORMALITY\\_5mm\\_bleed\\_no\\_inside\\_ALB\\_FINAL\\_v613964385731476692858.pdf](http://www.riinvestinstitute.org/uploads/files/2016/October/17/BUSINESS_INFORMALITY_5mm_bleed_no_inside_ALB_FINAL_v613964385731476692858.pdf)

<sup>33</sup> Lajmi.net. "Fryrja e listave të veteranëve, kërkohet ndjekje penale". October, 2016. Retrieved from: <http://lajmi.net/fryrja-e-listave-te-veteraneve-kerkohet-ndjekje-penale/>

<sup>34</sup> UNDP Kosovo. Pulsu Publik XII. November, 2016. Taken from:

<http://www.ks.undp.org/content/dam/kosovo/docs/PublicPulse/pp12/PP%2012%20shq.pdf?download>

should be transparent and accessible for the entire public. In absence of any of these two primary requirements the system chances are very high that system will fail in the very start. Recommendations below will only address risks deriving from the applicable law. In the other section that addresses general recommendations, are also proposed amendments to the present legislation.

1. Fulfilment of all requirements stipulated in the law before starting to collect premiums.
2. List of the exempted persons should contain only those who are on social assistance. The link between the Ministry of Labour and Social Welfare with health insurance systems should be done beforehand in order for the list to be updated automatically.
3. Implementation of the Law on Health Insurance with focus on establishment and management of Reserve Fund. Although this is stipulated in the law, which regulates the management of Reserve Health Insurance Fund, it is important for this part to be implemented in such a way so as to ensure the stability of the fund.
4. Tax inspectors to be more efficient in addressing informality at work, particularly after the start of premium collection.

## Youth in the labour market

Youth in the labour market of Kosovo is characterized with a high unemployment rate, where 54.4% of them are unemployed, low participation rate in the labour force (6.2%) and, most concerning, considerable number of youth that are not employed and are not going to school or training (30.1%)<sup>35</sup>. In the beginning of this paper it was stated that unemployment is an issue that depends from many institutions. In this section, we will discuss on some aspects that have been researched previously by other organisations through surveys.

### How ready are the youth to be employees?

This section examines the preparation of youth for labour market in short steps. GAP Institute through a research interviewed 28 businesses in the service sector. The service sector is the largest sector related to business activities, so it is a good base to be taken as example. Findings of this research indicate that, according to businesses, young boys and girls in Kosovo lack proper qualifications.

The key data presented in the report indicate that interviewed companies in most of the cases (82.1%) have failed to find a qualified worker. The impacts this has had on those companies are many, but it should be mentioned that they consider that in most of the cases (57.1%) the lack of qualified workers presented obstacles to these businesses for developing new services. Businesses recruiting young workers have stated to have invested on their employees through trainings. More than 4 out of 5 interviewed companies (81.5%) have stated that they provide training for their employees. This indicates that these companies find it reasonable to invest on employees in cases when such investment is returned to them in productivity and better service quality<sup>36</sup>.

The vast majority of businesses in Kosovo are oriented in the service sector. The 35% overall unemployment and 52% of youth unemployment indicate that the potential of being a state

<sup>35</sup> Kosovo Agency of Statistics. Labour Force Survey 2016. May, 2016. Retrieved from: <http://ask.rks-gov.net/media/3229/afp-2016.pdf>

<sup>36</sup> GAP Institute. Përgaditja profesionale për tregun e punës: Analizë e sektorit privat të shërbimeve. May, 2017. Retrieved from: [http://www.institutigap.org/documents/76037\\_Pergaditjaprofesionalepertregunepunes.pdf](http://www.institutigap.org/documents/76037_Pergaditjaprofesionalepertregunepunes.pdf)

with largest number of youth has not been utilized. Establishment of vocational schools, vocational training centres and aligning the literature with market demands did not have such a radical impact. Every year 30.000 young people enter into labour market, while new jobs are generated only for half of them. While those who complete vocational schools find jobs in 36% of the cases, only 27% of those who complete tertiary education find jobs. However, the graduates of vocational schools have a higher unemployment rate (41.3%) because they do not have any possibility for further education<sup>37</sup>. Clearly, there is a discrepancy between the supply and demand. While there are some profiles on a high demand in the labour market, yet they are not covered by supply. Concrete examples such as profiles of welders and plumbers are very much demanded in the market, but the youth does not see it as appropriate field to be qualified at. While youth is largely focused on IT sector, it is observed that the Kosovo market is not yet ready to absorb such a huge mass. Therefore, they go to other countries outside Kosovo for employment in such profiles<sup>38</sup>.

### **The impact of health insurance on youth employment**

Businesses will have more obligations after the implementation of health insurances. The new insurance law will translate this obligation into 3.5% of gross employee salary. Of course, this would have an impact on the way businesses operate, more precisely on employee benefits. This section of the paper will address some alternatives that may occur once the collections of premiums starts.

#### **1. Increased informality in economy**

One of the options that businesses see as a way for not paying premiums is non-registration of employees. Informality is already very high and businesses to a large extent do not declare their income.<sup>39</sup> Only businesses that have annual turnover higher than €50.000 will be part of health insurance system. Even before the start of premium collection, there are strong incentives for people not to exceed this amount. Thus, they create several companies and provide the same services in order not to reach the threshold of €50.000. Therefore, even in the collection of premiums there may be tendencies for increased informality, but it is not believed that this will play important role in reduction of employment of youth entering the labour market. Main problem for the companies will be lack of qualifications.

#### **2. The impact on employee salaries**

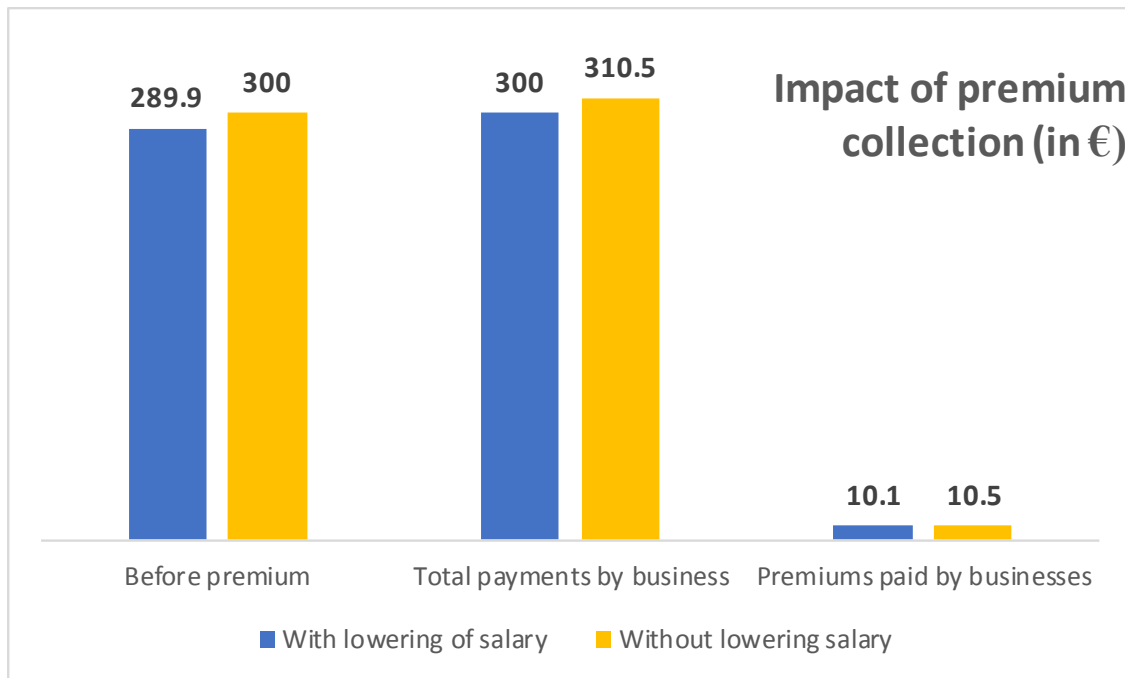
Payment of 3.5% that will be added to businesses will result in lower salaries. While an employee earlier has had a salary of €300, businesses may choose to transfer their burden on this payment amount. Two scenarios are shown in the graph below: (a) businesses are not impacted and there is no impact on lowering of salaries, (b) businesses lower the salaries in order to pay the same amount they paid before premiums. Here we see how salaries may change in order for businesses to transfer the real burden of payment on employees.

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<sup>37</sup> Democracy for Development. Stimujt për reformë: Rritja e mundësive për nxënësit/et dhe të diplomuarit/at e AAP-së në tregun e punës. January, 2017. Retrieved from: [http://d4d-ks.org/wp-content/uploads/2017/07/D4D\\_PI\\_09\\_SHQ\\_WEB.pdf](http://d4d-ks.org/wp-content/uploads/2017/07/D4D_PI_09_SHQ_WEB.pdf)

<sup>38</sup> *ibid.*

<sup>39</sup> Nadie Ahmeti. Vetëm gjysma e bizneseve të regjistruara paguajnë tatim. February 2014. Retrieved from: <https://www.evropaelire.org/a/25273079.html>



This, however, is questionable since it depends on many factors, such as: (a) mobility of labour force, (b) average salaries in companies with a turnover of more than €50.000, and other factors that may contribute. The same salary standards are also applied for employees entering the labour market.

### 3. Impact on increasing employment and quality work

Companies that will offer contracts, and thus pay their share of premiums, will be significantly distanced from companies that do not do that. Health insurance creates certainty among employees and thus, there can be an increased productivity at work.

## Conclusions and recommendations

Implementation of the Law on Health Insurance, although it provides to citizens better services and financial easements, presents a process which requires careful budget planning in order not to face crises during the implementation, the consequences of which would be suffered by citizens and the state budget.

Additional income coming from payment of contributions and premiums, present opportunity for improving the quality of healthcare and taking medicines. This, however, depends on the approach that is used for implementation of insurance scheme, lack of planning of which would open the way to informal economy and subsequently, would impact on the decrease of well-being of citizens<sup>40</sup>.

<sup>40</sup> The World Bank Group. (2015). Country Snapshot-Kosovo

Premium collection presents another issue, as employees of the public sector are still not issued health cards in accordance with legal provisions of the Law on Health Insurance<sup>41</sup>. Furthermore, 5 out of 6 criteria defined in the law are not yet met, fulfilment of which would precede the premium collection.

| Legal requirements that should be met before the premium collection starts. |  |
|---|--|
| Met   | Not met  |
| Co-payments and other co-financing levels have been agreed.                 | List of primary healthcare services and the relevant financial statement for respective fiscal year adopted in accordance with Article 14 of the law.  |
|   | List of free of charge services defined  |
|   | Price of every healthcare service for the respective fiscal year agreed  |
|   | At least 75% of employees in the public sector and in registered private and public-private companies with stated VAT and turnover exceeding fifty thousand Euro (50.000) have received health insurance cards or any other tool confirming the health insurance registration status |
|   | At least 75% of individuals belonging to exempted categories are issued health insurance cards or any other means verifying the health insurance registration status.  |

Pushing this forward and implementation of the Law on Health Insurance will mainly benefit the citizens of Kosovo by reducing their financial costs for obtaining health services. This would reflect in the most frequent cases that appear to health institutions such as patients with diabetes, patient with malignant sicknesses, births and postnatal care.

The health insurance scheme would have a significant impact on financial burden for malignant cases, which in some cases have to be treated outside Kosovo. In parallel, it would benefit hospitals not only in providing better services but also for their institutional development and improving capacities<sup>42</sup>.

Subsequently, for a more appropriate implementation of this law and efficiency of insurance scheme, this report recommends:

1. Law on Health Insurance should define accurately the process of operationalization of Health Insurance Fund.
2. Ministry of Health should consult again all actors and interest groups and incorporate their comments in the action plan.
3. Harmonization of premium prices with principles of market economy in order to minimize the misuse of the system.

<sup>41</sup> Koha. (2016). *Rrahmani tregon pse u shty mbledhja e premiumeve për sigurime shëndetësore*. Article, accessed on 11.07.2017, at: <http://archive.koha.net/?id=27&l=149609>

<sup>42</sup> Solidar Suisse. (2012). Proposed health insurance scheme: What does it mean for citizens?!

## IMPLICATIONS OF HEALTH INSURANCE IN KOSOVO'S ECONOMY

4. Fair treatment of public and private sector. In providing health services one should ensure that there is no discrimination or favouring of one or the other sector.
5. Full transparency in the entire process of the system. Ensure that entire process is open in all its steps, such as: premium collection, spending, reserve fund, budget allocation, etc. This is the most important step that should be followed.
6. Better institutional coordination, particularly with Ministry of Labour and Social Welfare in order to link the lists of persons on social assistance with the health insurance system.
7. Consider alternative sources of financing (such as excise tax on tobacco). These alternative sources would help minimize the risk of system failure in case the planned targets are not reached.
8. Lowering premiums to 5% to encourage participation in the fund and preserve the fund's stability.