

**Implications of Unregistered Employment in  
Kosovo's Pension System**

***An Honors Society Project***

*Drin Çela*

***Advisor***

*Venera Demukaj*

***Second Readers***

*Mimoza Mustafa, Albina Balidemaj and Fadil Sahiti*

*September, 2022*

## Abstract

Governments give substantial importance towards retirement. Pension spending accounts for one of the largest spending items of public expenditure. The importance of pensions is going to increase in the future, as demographic trends reflect the greying of the population, in which a decreasing number of working people will need to support an increasing amount of retired people. At the same time, informal employment is a pressing economic issue as is apparent when comparing its size to the general economy. Kosovo is a country that faces both problems, ageing and high informal employment. This study explores the relationship between these two topics, specifically analyzing the ways in which informal employment affects the pension system and reviewing the attitudes of working age people as they pertain to pensions and work contracts. Informal employment is analyzed through various filters such as age, gender, educational attainment, living situation, and type of work. This study finds that informal employment has a substantially negative effect on the Kosovo pension system by affecting both the tax-funded component and the individual savings fund of the pension system. Lastly, the study offers recommendations related to the relationship of informality and pensions.

## Acknowledgments

I wish to express my most sincere gratitude to the people who have helped me complete this research paper. I am greatly indebted to my supervisor, prof. Venera Demukaj, whose guidance was crucial in conducting this study. Prof. Demukaj was readily available to meet and discuss with me, and her perceptive comments have significantly shaped this project. I also wish to thank the Honor's Committee for their support and constructive comments. I would like to extend a large thank you to prof. Mustafa for her incipient comments as my second reader.

Special thanks go to all the survey respondents who took the time to answer my questions. Without them, this research would not be possible. I would also like to thank my interviewees, from whose insights I benefited greatly. I also thank my professors at RITK for shaping my academic life these past four years and for the knowledge and guidance they have imparted to me during this time.

Aspects of this paper have been discussed with a large number of friends, of which there are too many to count. I want to thank them for having the patience to listen to my ramblings and sometimes incessant train of thought, and for always providing thoughtful and valuable feedback.

As is true of all my achievements, I am forever grateful to my family for being a pillar of unrelenting support and help, and a vast source of inspiration. I would not be where I am today without you!

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## List of Abbreviations

CBK – Central Bank of Kosovo

GDP – Gross Domestic Product

ILO – International Labor Organization

IMF – International Monetary Fund

KAS – Kosovo Agency of Statistics

KPST – Kosovo Pension Savings Trust

MLSW – Ministry of Labor and Social Welfare

OECD - Organization for Economic Co-operation and Development

PAYG – Pay As You Go

UN – United Nations

WB – World Bank



## 1. Statement of the Problem

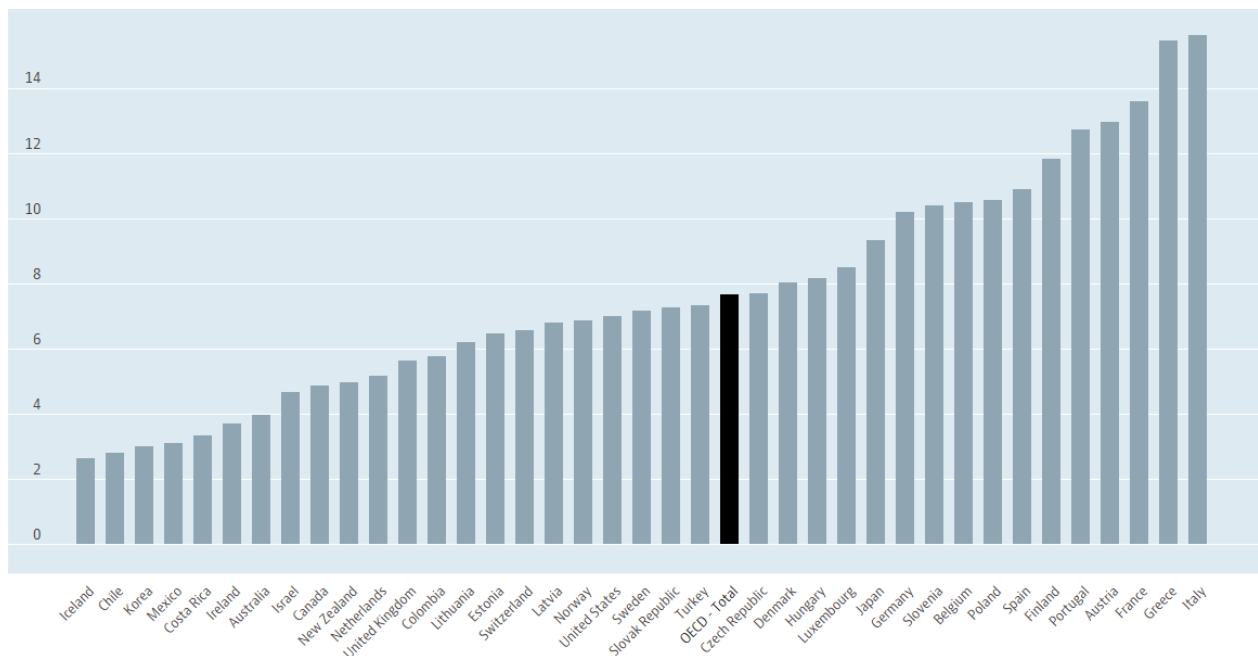
In modern industrial societies, people are expected to work to support themselves and contribute to keeping the engine of the economy running. At the same time, these societies recognize that past a certain age, 65 years old for most countries, people cease work and go into retirement (*Retirement Ages*, 2021). To support themselves during retirement, pension benefits were developed. Specifically, the objectives of pensions are to distribute consumption throughout a person's life and to provide insurance for daily needs or, in a worse case, provide security against poverty (Hyman, 2010). Germany led the way in this aspect, introducing pension insurance as a form of state transfer to the elderly in 1889. Other countries quickly followed, with most industrialized countries having established their own pension systems by 1920 (Petring et al., 2012).

For Kosovo, the pension system was completely revamped as the country designed its new pension system in 2002, departing from the Yugoslav system of which it was previously part of. This new system featured two mandatory pensions, a Basic Pension and an Individual Savings Account. While the Basic Pension is financed through the government budget, the Individual Savings Account is financed through monthly contributions of a person's salary throughout their working life (Kllokoqi, 2018; *Regulation N. 2005/20*, 2005). This latter pension has the effect of incentivizing people to work, since it means they are responsible for the amount of their pension upon retirement. At the same time, Kosovo's economy is characterized by a high degree of informality in which many workers do not have contracts (Lecaj & Sylja, 2020). Without contracts, these workers do not pay their contributions to the pensions fund. Moreover, considering the pressure that the country's high unemployment puts on the workforce, many job-seekers will accept work without a work contract. This study examines the effect that unregistered employment has on Kosovo's pension system, analyzing the implications of informal work on a person's pension and inspecting the attitudes of working age people on work and retirement pension. It does so by assessing these views through various demographic filters such as age, gender, level of education, type of work, as well as living arrangement. Through its findings, the study then offers recommendations aimed at improving the pension system and aligning to the beliefs and expectations of Kosovo citizens.

## 2. Introduction

Governments spend a lot of money on social assistance, and particularly on retirement benefits. In fact, pensions and elderly care are the largest item of public spending on social assistance for OECD countries (Ortiz-Ospina & Roser, 2016). Pension spending, on average for OECD countries, accounted for 7-8% of GDP. Among this group, some countries spend upwards of a quarter of their GDP to support the retired. (*Pension spending, 2019; Public expenditure on pensions, 2019; Ortiz-Ospina & Roser, 2016*).

Figure 1 Pension Spending as % of GDP in OECD countries



Source: *Pension spending* (2019). OECD.

Another way that highlights the size of spending on pensions is looking at them as a percentage of total government spending. In 2015, pension spending was 18.4% of total government spending for OECD countries (*Public expenditure on pensions, 2019*). Pension spending in Kosovo was smaller than the OECD average, but still a sizable 4.2% of the GDP (*Social Protection and Health Expenditure Note, 2018*). Extrapolating from the latest data for Q3 of 2021, the Kosovo government spent around 300 million euros for some 190,000 beneficiaries (*Llogaritë Qeveritare të Kosovës TM3 2021, 2021*). This amount of spending equates to 13.6% of the government budget for that year (*Llogaritë Qeveritare të Kosovës 2015-2020, 2021*).

Pensions are due to become more relevant with the passing of time. This is because of what the World Bank (WB) calls the “greying” of the world’s population (*Averting the Old Age Crisis*, 1994). The UN expects that by 2050, the proportion of people older than 65 as percentage of the world population will be 16%, which would mean approximately one out of every six people will be 65 years or older. (*World Population Ageing 2019*, 2020). Kosovo too, has followed in these trends. According to the latest census data, 67% of Kosovo’s population is of working age (15-64) while retirement age population accounts only for 9% of total population (*Kosova në Shifra 2020*, 2021). However, this is expected to change in the future. Projections by the Kosovo Statistical Agency (KAS) predict that the share of retired people will increase in the coming decades. In the mid-case scenario, by the year 2061, the share of retirement age people will be almost 1/3 of total population (*Parashikimi i Popullsisë së Kosovës 2011-2061*, 2013). Considering these population trends, the topic of pensions will become more important with the passing of time.

Table 1 Projection for % of Population 65+ years old (Kosovo)

Year	Share of 65+ year old as % of population
2011	6.9
2021	9.4
2031	13.1
2041	18.1
2051	22.8
2061	29

Source: *Parashikimi i Popullsisë së Kosovës 2011-2061* (2013)

Likewise of high importance and economic impact is the issue of the informal economy, specifically informal employment. The informal economy is very large, ranging from a fifth of the economy of Europe to over 40% for that of Latin America and Sub-Saharan Africa (*Measuring the Informal Economy*, 2021). Within labor markets, informality is more rule than exception – two billion people, that is to say 2/3 of the worlds labor force, is employed informally (*Is Informal Normal?*, 2009; *Measuring the Informal Economy*, 2021). The various estimates of unregistered employment in Kosovo point that 30-40% of workers are informally employed (Gashi & Williams, 2019; Mustafa et al., 2021). Aside from not paying taxes, workers

without a contract also fail to pay contributions to their pension fund, thus negatively affecting their pension balance upon retirement. This study investigates this relationship between informal work and retirement pensions, and it provides an analysis of how the country's pension system is affected by this relationship.

### 3. Old Age Pension systems

This section provides an overview of important concepts and definitions regarding old age pension. It continues by giving an overview of the main pension systems, their characteristics, and respective strengths and weaknesses. This review leads to the discussion of modern day multipillar systems, of which, the ILO and WB frameworks are summarized. Lastly, the Kosovo pension system is reviewed, looking at the design of the system and the pension expenditure compared to the size of the economy and the state's budget.

#### 3.1 Defining Pensions

The Oxford Learner's Dictionary defines a pension as "an amount of money paid regularly by a government or company to somebody who has retired from work" (*Pension 1*, n.d.). Another definition for pensions is "a regular payment made by the state to people over a certain age to enable them to subsist without having to work" (*Pension 2*, n.d.). Similarly, Barr and Diamond (2006) define it as an annuity with the purpose of consumption smoothing and insurance. We can draw a set of commonalities from the different definitions. Firstly, the pension is a regular payment, secondly it is usually paid by state but can also be paid by a company, and thirdly it is an income source whose purpose is to offer subsistence to people who do not work.

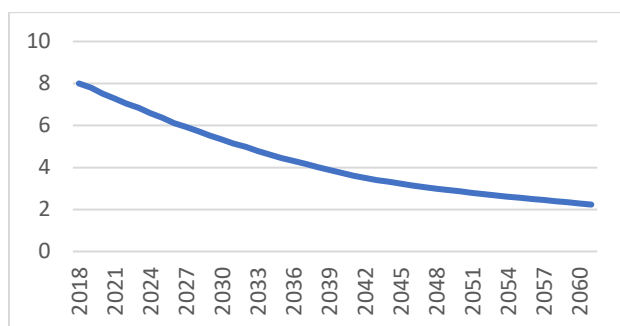
The term pension is used for a number of social assistance benefits, such as retirement pension, disability pension, child-rearing pension, among others. In this study, however, the term pension is always used to indicate old-age or retirement pension, unless specified otherwise. People are entitled to benefits only after reaching a certain age – the retirement age – after which they can receive retirement benefits (Hyman, 2010). In most countries, Kosovo included, the retirement age is 65 years old (*Retirement Ages*, 2021; *Ligji Nr. 04/L-131*, 2014). Some countries allow for early retirement, usually involving some reduction in the retirement amount, but this depends by country (Hyman, 2010). With increasing life expectancy, many countries have or plan to push their retirement age (*Retirement Ages*, 2021).

## 3.2 Types of Pensions

### 3.2.1 Pay-As-You-Go System

When it comes to financing a pension there are two main types of system. A pay-as-you-go system (PAYG) is one in which pensions are paid to retirees from contributions or taxes paid by the currently working (Hyman 2010, Barr and Diamond, 2006; Kllokoqi, 2018). In a PAYG system current income is used to pay pensions, meaning the generation producing the income does not benefit by it, rather, it pays it forward to the older generation. In other words, there is redistribution between generations. This social contract between generations is a core feature of PAYG systems. PAYG was practically the universal standard of pensions in the world because of its simplicity, transparency, and low administration costs. Additionally, because PAYG systems are tax-financed they have the additional effect of progressive redistribution, meaning they transfer funds from the wealthy to the poor (Verulava, 2018). Nevertheless, with the current population trends PAYG systems have become less sustainable. As people live longer, there are fewer workers that need to finance the pension of an increasing number of retirees (Verulava, 2018; *World Population Ageing 2019*; 2020). The ageing of the world population means a decrease in the support ratio – the measure of the population of working age (15-65) compared to that of people older than 65 years old. There are around 7 people of working age for every person above 65 in Kosovo in 2022, but this number will fall to 4 by 2038, and close to 2 by 2061 (*Pension Policy Challenges*, 2020).

Figure 2 Support Ratio in Kosovo (Population 15-65 to Population 65+)



Source: *Pension Policy Challenges* (2020)

### 3.2.2 Fully Funded System

In response to the sustainability issues of PAYG systems, a fully funded pension system is one in which retirement benefits are financed from regular contributions which develop into a fund that is invested (Barr & Diamond, 2006; Hyman, 2010; Kllokoqi, 2018). A fully funded system breaks the intergenerational relationship, ensuring that every generation is responsible for their own pension. In retirement, people receive a pension based on the amount of contributions and the return from investing the fund. Essentially, this system is a form of savings. The contributions into a fully funded scheme can be made by employees, employers, or shared between the two. Since contributions to the fund come as percentage of a worker's salary, such a system has the effect of incentivizing people to work (Barr & Diamond, 2006; Hyman, 2010; Kllokoqi, 2018). Although the fully funded system has these advantages over PAYG, this system faces some difficulties too. First, the transition to a fully funded system is costly because the transitory generation will carry the double burden of paying for the last generation benefiting under PAYG and simultaneously setting up contributions for their own pension. Second, fully-funded systems have regressive effects on the distribution of income – those who were unable to work will have less to support themselves in retirement. This necessitates the creation of some social security safety net. Finally, fully funded systems are higher risk because the funds are vulnerable to market fluctuations and returns will vary from one economic period to another (Verulave, 2018).

### 3.2.3 Defined Benefit vs Defined Contribution

Relating to a person's work contributions pensions can be divided into defined benefit (DB) and defined contribution (DC) (Barr and Diamond, 2006). In defined benefit (DB) schemes a retiree receives a fixed amount of benefit for their pension. This amount is either the same for everyone, or it is indexed by a person's wage level and/or years of work. In contrast, a defined contribution (DC) scheme is one in which a person's pension is dependent on the amount of contribution, usually a fraction of earnings, that are paid into the pension fund. Typically, PAYG systems are defined benefit schemes and fully funded systems are defined contribution schemes.

### 3.2.4 Multipillar Systems

As both above mentioned systems have their respective strengths and weaknesses, pensions in the real world have followed various combinations of the principles of the two systems into forming multipillar systems. These systems feature mixes of characteristic of both PAYG and fully funded systems as well as DB and DC systems. Both the WB (Pension Conceptual Framework, 2008) and the ILO (Multipillar Pension Model, 2018) have set models to serve as templates, which can then be tailored by governments according to the specificities of their country.

#### *World Bank Multipillar Model*

The WB Multipillar model is made up of five pillars. The pillar structure is as follows (Holzmann et al., 2008; Pension Conceptual Framework, 2008):

- I. Zero Pillar – a non-contributory pension meant to serve as general social assistance to alleviate poverty. The pension amount should be enough to provide basic protection in old age. This pillar would be a PAYG scheme run by the state.
- II. Mandatory First Pillar – also a PAYG scheme whose benefits would aim to replace a portion of pre-retirement earnings.
- III. Mandatory Second Pillar – a defined contribution plan in the form of an individual savings account. Essentially following a fully funded system approach where contributions are regularly made and invested only to be withdrawn after a certain time.
- IV. Voluntary Third Pillar – an optional choice that may take the form of either a defined benefit or a defined contribution plan for those that want to augment the mandatory pensions. It may take many forms such as individual savings, employer sponsored pension, or private pension fund.
- V. Non-financial Fourth Pillar – this pillar would comprise of access to alternative mechanism of support such as family support, as well as other social program of non-financial nature such as healthcare and housing.

### *ILO Multipillar Model*

The ILO model strongly resembles the WB conceptual framework, although it has some differences (Multipillar Pension Model, 2018):

- I. Zero Pillar – also referred to as the Pension Floor, this pillar is meant to provide social protection through a non-contributory pension scheme. It is financed by the state’s general budget and should provide a minimum level of income that allows “for a life in decency and dignity” (p.3).
- II. First Pillar – this is a mandatory, defined-benefit pension scheme financed through employer and employee contributions. The aim is for a person to be able to maintain their standard of living in retirement.
- III. Second Pillar – a complementary pillar that may be voluntary or mandatory, defined benefit or defined contribution. Typically financed through employer’s contributions. The purpose of this complementary pillar is to supplement the benefits of the first two pillars.
- IV. Third Pillar – also complementary, this pillar is comprised of voluntary private pension schemes that would be managed by private pension administrators and overseen and regulated by government.

### *The Five Multipillar Principles*

Multipillar designs, through their incorporation of various instruments, edge out single pillar systems in five core criteria of a good pension system (Holzmann et al., 2008; Pension Conceptual Framework, 2008; Multipillar Pension Model, 2018):

1. Adequacy – provides sufficient benefits to prevent poverty in old age for the entire population in addition to providing sufficient consumption smoothing for the vast majority of those retiring
2. Solidarity – allows for collective financing alongside private financing and has positive redistributive effects by transferring income to the economically disadvantaged
3. Sustainability – offers a system that is financially, fiscally, and economically sustainable and one that can be maintained over a large time horizon
4. Predictability – means that retirees can expect a certain amount of benefits and is fairly insulated by such economics factors as inflation.



5. Robustness – can withstand large fluctuations and shocks whether they are demographic, economic, or political in nature.

### 3.3 Kosovo Pension System

#### 3.3.1 Pension System Prior to 1999

Kosovo's pension system was first established in 2002, following a complete revamp of the system after the 1999 war. Prior to this, Kosovo's pensions operated under the Yugoslav pension system. This was a PAYG system in which worker's contributed into a pension fund from which pensions were paid out. The pension was a DB scheme which included a benefit formula that used years of work and wage level to determine the pension amount (Klllokoqi, 2018). After the war, a completely new multipillar system was implemented. The new pension system was a clean slate, bearing no transition from the previous Yugoslav system .

#### 3.3.2 Kosovo Multipillar System

Kosovo's pension system is comprised of three pillars (*Fondet Pensionale*, n.d.; *Ligji Nr. 04/L-101*, 2012; *Ligji Nr. 04/L-131*, 2014; *Profili i Sistemit të Sigurisë Sociale në Kosovë*; 2010)

- I. First Pillar – a basic pension that is administered by the ministry of labor and social welfare (MLSW). It is tax-funded, meaning it is paid from the general state budget under a PAYG system. Every permanent citizen in Kosovo above the retirement age of 65 is entitled to the basic pension.
- II. Second Pillar – an individual pension savings account managed by the Kosovo Pension Savings Trust (KPST). It is a mandatory defined contribution scheme in which both employers and employees pay a percentage of the worker's gross salary. The KPST invests the fund and pensions are paid out after the age of 65.
- III. Third Pillar – a voluntary pension to supplement the two mandatory pillars. It may be individual or employer sponsored.

#### *Pillar I – Mandatory Basic Pension*

The first pillar consists of the tax-funded pensions. Apart from the basic old-age pension, this pillar covers a number of other benefits schemes termed as pensions, including an ex-

contributory pension, a disability pension, security forces pension, among many others (Kllokoqi, 2018; *Ligji Nr. 04/L-131*, 2014). However, only two pensions are related to old-age retirement, the basic pension and the ex-contributory pension.

The basic pension is paid out to all those above the age of 65 who are of Kosovo nationality and have a permanent residency in Kosovo. This pension amount was first in the value of 75€ per month (*Ligji Nr. 04/L-131*, 2014) and was adjusted several times, with the last update in January 2022. Now, the basic pension is 100€ per month (*Mbledhja e 54-të e Qeverisë*, 2022). The ex-contributory pension also has the 65-year age criterion, but on top of this criterion an eligible recipient must have contributed at least 15 years of work in the former Yugoslav system (Kllokoqi, 2018; *Ligji Nr. 04/L-131*, 2014). People meeting these criteria receive the ex-contributory pension instead of the basic pension. This pension is aimed at paying an increased pension to workers who had contributed for a long time in the Yugoslav fund, but never got to receive their payouts because of the fallout of the system. Unlike the basic pension that has a flat rate, the ex-contributory pension is classed into four tiers, based on the level of income the beneficiary had in the past. Because of poor data on the level of earnings, education level is used as a proxy for income. The four tiers are based on the highest completed level of education as follows:

*Table 2 Ex-contributory Pension Tiers Based on Level of Education*

Level of Education	Pension Amount
Elementary School	€ 158.00
High School	€ 172.00
Vocational School	€ 186.00
University	€ 230.00

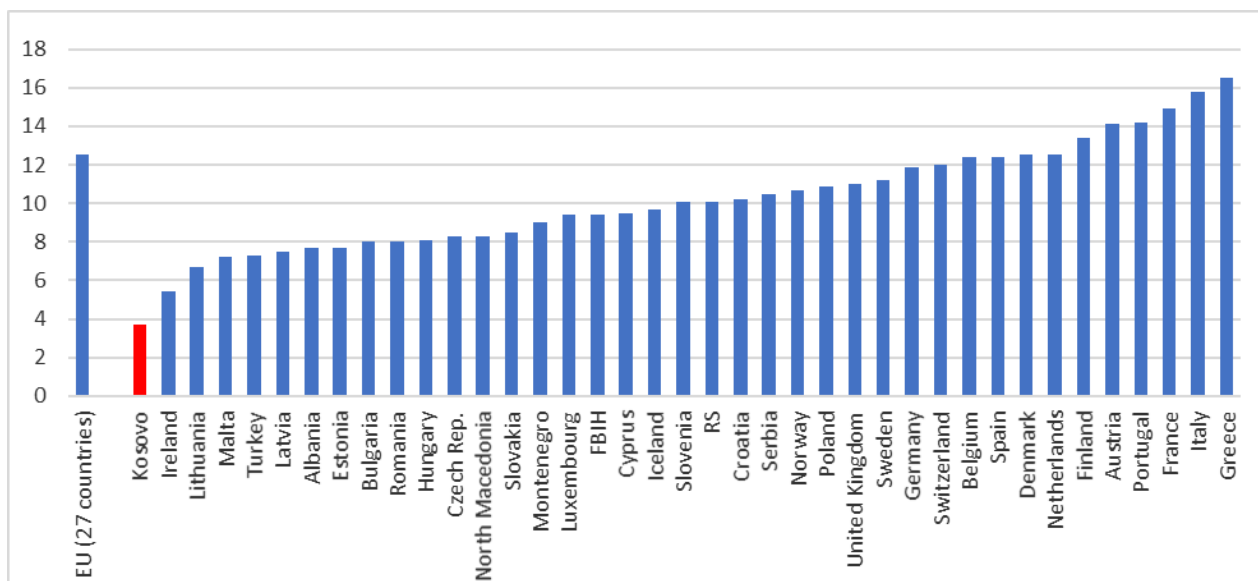
Source: Kllokoqi (2018)

This pension scheme is temporary in nature, with the last individuals able to meet the eligibility criteria born in 1966; this is assuming they started working at 18 years old (in 1984) and worked and contributed to the old system for 15 years, up to 1999 (Kllokoqi, 2018).

In 2020, the Kosovo government spent a total of 166 million Euros on the basic pension and 120 million Euros on the ex-contributory pension, amounting to a total of 286 million Euros paid for

first pillar pensions (*Statistikat e Mirëqenies Sociale TM4 2020*; 2021). To put it into context, old-age retirement spending accounted for 42% of spending on social security benefits, which itself is the largest item of expenditure of the state’s budget. Moreover, state-funded retirement benefits accounted for approximately 11.4% of the state’s budget in 2020 and 3.9% of its GDP (*Llogaritë Qeveritare të Kosovës 2015-2020*, 2021; *BPV 2008-2020*). This is approximately three times less than the EU average (*Pension Policy Challenges*, 2020).

Figure 3 Pension Expenditure as % of GDP in Europe



Source: *Pension Policy Challenges* (2020)

### Pillar II – Kosovo Pension Savings Fund

The second pillar of Kosovo’s pension system is the mandatory individual savings account that is administered by the KPST. Under this pillar every worker pays at least 5% of their pre-tax wage as a monthly contribution, and the employer matches this value of 5%. Essentially, 10% of a worker’s salary is contributed every month into their personal savings account. This 5% contribution is a legal minimum, and the contributing parties can voluntarily contribute up to 15% of the salary rate, for a maximum total contribution of 30% every month (*Ligji Nr. 04/L-101*, 2012).

Depending on the amount of the individual fund, several options exist for withdrawal. After reaching the retirement age a person gains access to their individual account. If the account

amount is below 3,000€, this amount is paid out in lump-sum through a single installment. If the pension amount is between 3,000€ - 20,000€ the retiree will receive monthly 200€ installments, until the fund is drained. Additionally, this category has the option to take out up to 20% of the savings in the first installment. For accounts that have over 20,000€ in value, the pension is paid at a monthly rate of 1% of the savings amount, until it is depleted 100 months later (Klllokoqi, 2018, *Tërheqja e Kursimeve*, n.d.). This distinction is very important, since it means that the longest anyone can receive pensions through the second pillar is for 8 years and 4 months (100 months) after retirement. In other words, this means that no one receives a pension from the KPST past the age of 73 years and 4 months. This information should be contrasted with the expected years of life a retired person has. Unfortunately, there is no data on life expectancy at retirement, meaning only comparisons with life expectancy at birth can be made. The average life expectancy at birth in Kosovo is 76.7 years; it is slightly more for women compared to men at 79.4 and 74.1, respectively (*Kosova në Shifra 2020; 2021*).

At the end of 2020, the KPST was managing a fund of 1,986,800€ - an amount roughly 85% of the state budget that year (*Trusti 2020, 2021*).

Table 3 Funds Managed by KPST at the end of 2020

Year	Funds Managed by KPST (in million €)
2002-2016	€ 1,416.90
2017	€ 216.90
2018	€ 46.60
2019	€ 285.90
2020	€ 20.60
<b>Total</b>	<b>€ 1,986.80</b>

Source: *Trusti 2020 (2021)*

Moreover, in the same period there were 331,910 active contributors to the fund. The fund has seen steady increase of contributors in the last few years as can be seen when comparing the number of active contributors in the past five years:

Table 4 Number of Active Contributors to the KPST

Year	No. of Active Contributors at the End of the Year
2016	239,295
2017	265,469
2018	255,841
2019	324,755
2020	331,910

Source: *Trusti 2020 (2021)*

Below are the yearly contributions and pensions paid, where a similar increasing trend can be observed:

Table 5 Pensions Paid by 2nd Pillar in a Year (in million €)

Year	Pensions Withdrawn in a Year (in million €)
2004-2015	€ 72.60
2016	€ 19.20
2017	€ 27.70
2018	€ 31.30
2019	€ 52.60
2020	€ 235.00
<b>Total</b>	€ 438.40

Source: *Trusti 2020 (2021)*

Although all core indicators of the KPST are upward trending, a disheartening fact is that the average balance amount is only 3,486€ (*Trusti 2020, 2021*). This means that the average balance at the KPST would pay monthly pensions for only 1.5 years, after which it would be depleted. One reason for the low average balance is of course the young age of the institution – no one has contributed to the fund for a full working life since the institution was only founded in 2002. That said, the average balance is still very low, and pays pensions for a very short period of time.

### *Pillar III – Voluntary Pension*

The third pillar, unlike the first two that are mandatory, covers voluntary pensions that may either be individually funded or employer sponsored (*Fondet Pensionale*, n.d.; *Ligji Nr. 04/L-101*, 2012; Kllokoqi, 2018). These pensions are run by private companies. The Kosovo Central Bank regulates and oversees such private companies. The third pillar is the most underdeveloped in Kosovo, with only one company offering a private pension fund (*Lista e Institucioneve Financiare të Licencuara*; 2021), which is the Slovenian-Kosovan Pension Fund. The third pillar is the most underdeveloped part of the current pension system, and there seems to be low interest among citizens in private pension funds of this sort (Kllokoqi, 2018).

## 4. Informality

This section provides an overview of the existing literature on informality and unregistered employment. Estimates of the size of informal employment are discussed at both the global scale in general and for Kosovo in particular. Further, measures of the informal employment in Kosovo are discussed and analyzed by breaking down characteristics that influence the prevalence of informal employment. Literature is reviewed discussing the various ways pension systems have been adopted by various countries to ease access to pensions for informal workers.

### 4.1. The Informal Economy

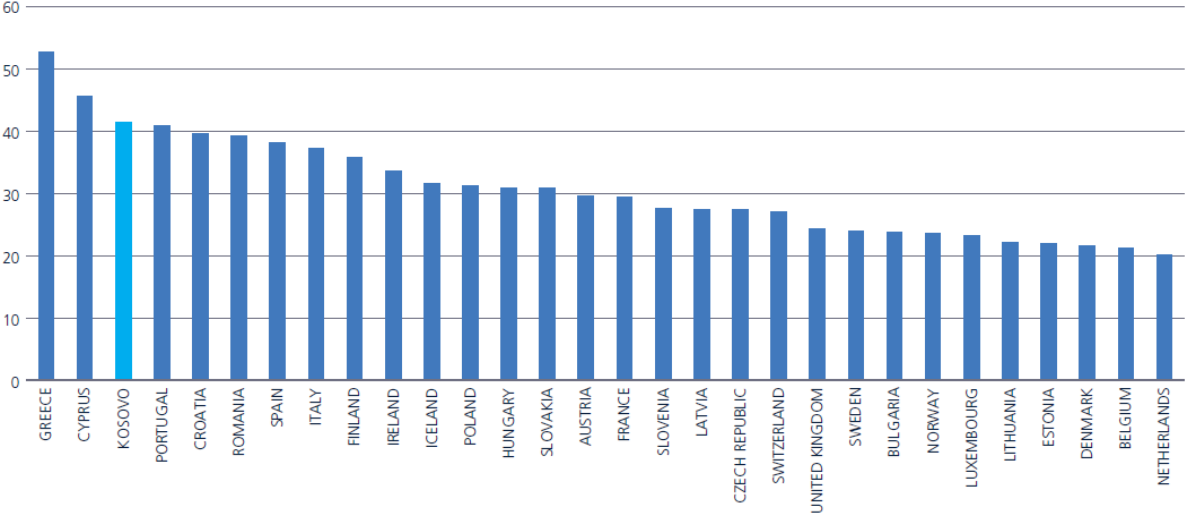
The informal economy is somewhat of an umbrella term that has seen a myriad of definitions. Other terms such as the shadow economy, the underground economy, or the undeclared economy have been used to describe essentially the same phenomenon (Mustafa et al., 2019). One definition for the informal economy is “any legal economic activity that takes place outside the government’s control radar” (qtd. in Lecaj and Sylva, 2020, p.3). Another definition for the informal economy is the production of goods and services by legitimate firms, but who purposefully hide these activities from public authorities (Mustafa et al., 2019) An important distinction here is that the informal economy excludes illegal activities that fit under the criminal economy; activities of the informal activity are legal, it is only the skirting of government rules that is illegal (Lecaj & Sylva, 2020; Mustafa et al, 2019; *Resolution Concerning Decent Work and the Informal Economy*, 2002). The IMF (2021) defines the informal economy as those economic activities not covered by formal arrangements which include government regulations related to

business registration, payment of taxes, and payment of social contributions. Similarly, ILO defines this section of the economy as that which is “driven by tax and social security evasion or by attempts to avoid compliance with certain legal and administrative procedures” (Krasniqi and Topxhiu, 2012, p.2).

4.1.1. Size of the Informal Economy

The size of the informal economy in Kosovo has been measured in multiple occasions with varying results presented. One WB study measured the size of the informal economy to be 40% of the GDP, while another study conducted by the Riinvest Institute estimated it to be 34.4% (Cojocaru 2017; Mustafa, 2019). Meanwhile the estimate of Mustafa et al. (2018), valued the informal economy at 39.5% of GDP. A recent government publication reported the size of the informal economy to be 32% of the GDP (*Economic Reform Programme, 2021*). Although the nuances of methods used to produce this statistic vary by study, there is consensus among studies that the size of the informal economy in Kosovo is very large; as big or even bigger than 1/3 of the formal economy.

Figure 4 Size of the Informal Economy (as % of GDP)

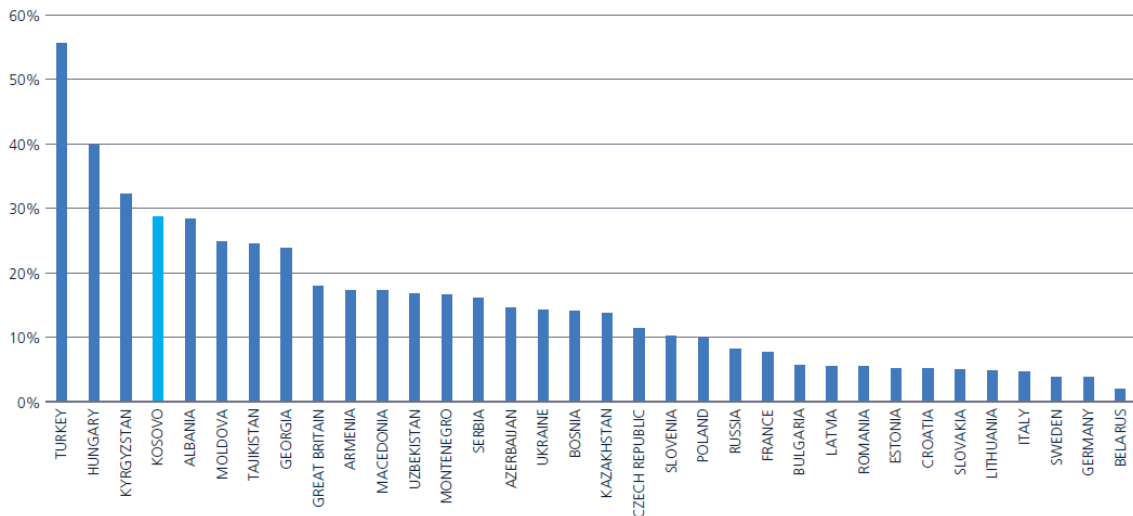


Source: Cojocaru (2017)

## 4.2 Informal Employment

Informal Employment is a major component of informal economies. Informal employment refers to jobs that are not registered by the state. Workers employed informally do not pay taxes and social contributions and they simultaneously lose the social security benefits guaranteed by work contracts (Cojocaru, 2017; *Is Informal Normal?*, 2009). Gashi and Williams (2019) estimate that 34.6% of workers in Kosovo are unregistered. The contribution of informal employment in Kosovo’s informal economy is very large. Unreported employees, that is to say those without contracts, account for 28.5% of the informal economy (see Figure 6) (Cojocaru, 2017; Mustafa et al. 2019).

Figure 5 Informal Employment Rate



Source: Cojocaru (2017)

If the definition of informal employment is loosened to include “envelope salaries”, then informal employment is the largest “slice” of the informal economy, accounting for 52.5% of its size. The “envelope salary” is a cash payment a worker receives beyond the salary specified in their official work contract. This means that the complete salary of a worker is made through a non-written verbal agreement (Mustafa et al., 2019)

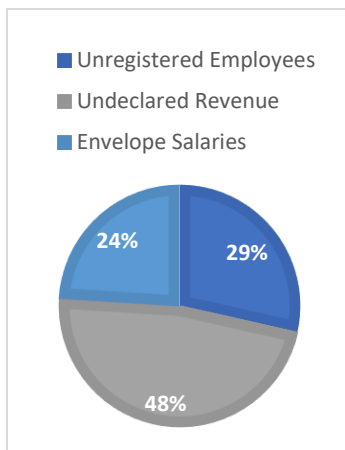


Figure 6 Components of the Informal Economy

Source: Mustafa et al. (2019)



Informality is rule rather than exception for most of the world. In fact, the ILO states that 60% of workers worldwide are employed informally – 2 billion people of the world’s population (*Is Informal Normal?*, 2008; *Women and Men in the Informal Economy*, 2018) But why do people work informally? Broadly speaking, informal employment can come from people being shut out of formal arrangements or voluntarily choosing to work informally (*Is Informal Normal?*, 2008). Additionally, barriers related to the bureaucracy and the difficulty in conforming to employment regulations also drive informal work (Lecaj & Sylja, 2020). Many businesses make the choice to operate informally because payments of social security, like pension contributions, inflate their costs (*Is Informal Normal?*, 2008). This gives a cost advantage to the firms evading legal duties. In Kosovo, nearly 6 out of 10 firms say they are in competition with firms in the informal sector and they recognize this as one of their biggest challenges. Informal employment indirectly hurts the formally employed too, since in order to compete, firms increasingly offer temporary instead of permanent contracts (Cojocar, 2017; Mustafa et al., 2019). In many situations, the choice of informal work is driven by necessity rather than preference. Informal employment for some is the only way to secure livelihood and avoid poverty. This is evidenced by the strong positive relationship between unemployment and poverty (Cojocar, 2017; *Is Informal Normal?*, 2008). The unemployment rate stands at 25.8% in Kosovo (*AFP TMI 2021*, 2021). In a labor market with high unemployment, people may opt for informal work because it is the only one they have access to (*Is Informal Normal?*, 2008). Unemployment is particularly high among the youth (48.6%) and the lesser educated (55.4% for those without any formal education and 35% for those who only completed elementary education) (*AFP TMI 2021*, 2021). Thus, it is no coincidence that informal employment is more prevalent among these groups (Cojocar, 2017; Gashi & Williams, 2019; *Women and Men in the Informal Economy*, 2018).

#### 4.2.1 Profiles of Informal Employment

Certain groups are more likely to work in the informal economy. Globally, the highest informal employment is among the youth and the older workers. Furthermore, education follows a negative correlation with informality, with the least educated more likely to work without a contract (Cojocar, 2017; Gashi & Williams, 2019; *Women and Men in the Informal Economy*, 2018).

Figure 8 Share of Informal Employment by Age

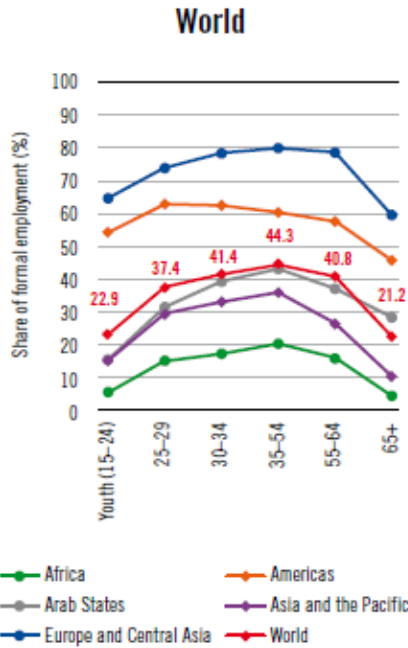
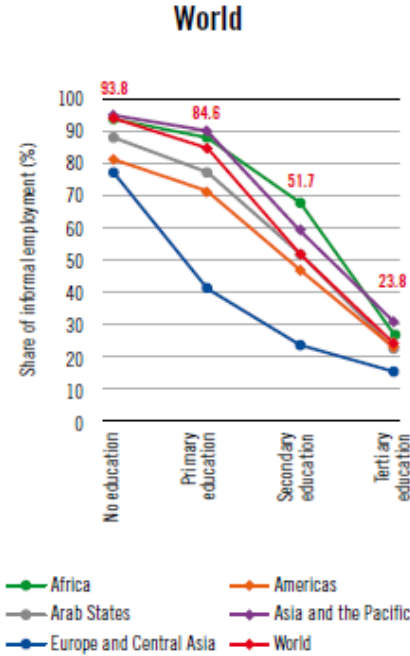


Figure 7 Share of Informal Employment by Education



Source: Cojocaru (2017)

By gender, informal employment is a larger source of employment for men, as 1.26 billion of the 2 billion informally employed workers are men. Additionally, those living in rural areas are two-times more likely to be working informally compared to those living in urban areas. Informal employment also varies by sector. Globally, the most widespread informal employment is in agriculture where the informal employment rate is 93.6%, followed by the industry (57.2%) and the service (47.2%) sectors (*Women and Men in the Informal Economy*, 2018). These trends are reflected in the Kosovo labor market. The WB Kosovo Job Diagnostics Report (2017) finds that Informal employment is significantly higher among youth, with nearly half being unregistered. Furthermore, informal employment falls with increased education, dropping from over 2/3 for those without tertiary education to 11% for those with tertiary education. Similar to global trends, males and those living in rural areas in Kosovo more likely to be informally employed (see Figure 9).

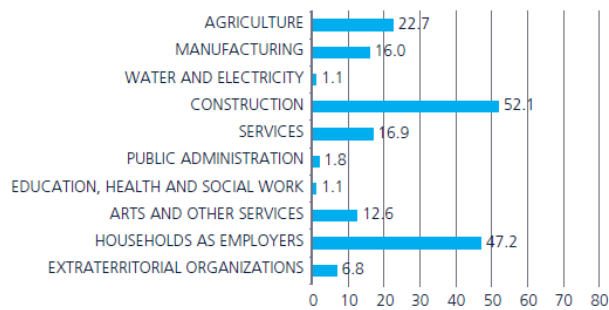
Figure 9 Share of Informal Employment in Kosovo by Age, Education, Gender, and Area



Source: Cojocaru (2017)

On a sectorial perspective, as shown in Figure 10, informal economy is highest in the construction industry, where over half of the workers are unregistered. Second in place are households as employers, which cover jobs such as maids, caretakers, cooks, and babysitters. On the flipside, the sectors with the highest level of formal employment are education, health, social work, water, and electricity (see Figure 10) (Cojocaru, 2017).

Figure 10 Informal Employment by Sector



Source: Cojocaru (2017)

Gashi and Williams (2019) developed a model for informal employment, where they considered variables under three categories: individual characteristics (sex, age, education, marital status etc.), household characteristics (size of household, urban or rural area, etc.), and employer and job-related characteristics (employment sector, full or short-time position, wage level, etc.). Their findings suggest that propensity for informal employment is higher among men, younger age group, those divorced, widowed, or single, and those with fewer years of education. However, there was no statistically significant relationship with informal employment for those that are heads of households compared to those who are not, and no significant difference between ethnicities. On the household perspective, no relationship was found between household size and propensity to work informally, but those residing in urban areas are less likely to be informally employed. Related to job-related characteristics it was found that certain sectors have much higher degrees of unregistered employment with the highest being in construction, manufacturing, and the service sector. Those in full-time positions, those with higher wages, and those with longer years in employment are less likely to engage in unregistered work. Finally, elementary occupations and craft related trades are more likely to participate in informal employment compared to managers, professionals, and technicians.

#### 4.3 Pension Approaches to Informal Employment from other Countries

Kosovo is not an isolated case when it comes to the challenges of pension coverage stemming from informal employment. A wide spectrum of developing and developed economies have adopted their pension policies to try to extend coverage to include informal workers. The most common method of doing this is to establish a basic pension available to everyone subject to

certain tests. South Africa and Bangladesh for example, have a non-contributory pension based on a means-test (Hu & Stewart, 2009). The goal of the means-test is that the pension is distributed to those who are most in need of it. That said, in Bangladesh only one member per family may be entitled to the pension. Kosovo's basic pension is more akin to that of Kenya, where the benefit is status-tested so everyone fulfilling the retirement age criteria, among some others, is entitled to the pension (Hu & Stewart, 2009). These approaches are essentially following the zero-pillar model of the WB and ILO.

Some countries have focused on flexibility for pension contributions. For example, Chile allows for flexible contribution amounts depending on economic conditions. In its substantial agricultural economy, most of which is informal, farmers are allowed to have irregular contributions to their pension schemes depending on the success of the crop that year. When the season is fruitful and the soil fertile, they can make larger than normal contributions. On the flip side, during a bad year, farmers' income may not be enough to cover current consumption needs much less set aside funds for pension saving (Hu & Stewart, 2009). Kosovo, as mentioned above, has a minimum contribution level of 5%+5% that can be voluntarily increased to 15%+15% of the gross wage. While it has some flexibility to the contribution amount it does not allow those not formally employed to contribute when they have periods in which they can afford to save. Another form of flexibility regarding pensions can be observed in Australia, which allows for early withdrawals from pension funds under cases of grave economic difficulty (Hu & Stewart, 2009). Kosovo's system does not have such a provision, but notably in 2020 account holders were allowed to withdraw up to 10% of their funds to smooth consumption because of the Covid-19 pandemic (*Trusti 2020, 2021*). This measure was a part of the larger economic policies designed to minimize the damage of the pandemic, but it did create a precedent for early withdrawals. Early withdrawals are risky, because they can lead to account holders not having sufficient funds for their retirement. Such a problem has been faced by South Africa and Singapore (Hu & Stewart, 2009).

A non-financial measure regarding the problem has been to increase financial education of citizens. Hu & Stewart (2009), recognizing the negative relationship between education and informality, posited that increased financial education can play a role in extending pension coverage to all, but especially to informal workers. Limited knowledge about pensions was

recognized as a problem both in developing economies like India as well as in developed economies such as the United Kingdom. Knowledge about the pension system in Kosovo is discussed in some of the findings below.

## 5. Methodology

The aim of this project is to explore the relationship between Kosovo's pension system and its labor market, specifically looking at informal employment. The study reviews Kosovo's pension system, finding its main present weaknesses and assesses how the informal landscape perpetuates these weaknesses and how it ultimately affects a person's pension. A number of studies were reviewed to gain a deep understanding on the subject and several of them provided a basis for the methodology of this study (Barr and Diamond, 2006; Cojocaru, 2017; Mustafa et al., 2019; Kllokoqi, 2018; Gashi & Williams, 2019). Secondary data was collected from reports published by international organizations, chiefly the WB, ILO, IMF, and OECD. Publicly available reports from the Kosovo Statistics Agency and other government sources provided information reinforcing Kosovo's developmental challenges regarding the labor force, informality, and budget limitations. Additionally, three interviews were conducted with professionals involved in the discussed fields that supplemented findings from secondary data. A survey was conducted with working age people that analyzes propensities for informality and measures people's attitudes about the pension system and retirement. The study reviews the survey findings through various individual, household, and job filters such as age, gender, level of education, type of work, as well as living arrangement.

### 5.1 Primary Data Collection

#### *5.1.1 Semi-structured Interviews*

Three semi-structured interviews were conducted with professionals who work closely on the issues treated in this paper. The interviews were conducted with the aim to have a first-hand account of people that work on Kosovo's pension system and to gain critical view of the pension pillars. The interviews lasted approximately 30 minutes each. Interviewees were thoroughly briefed about the project and its objectives, and they were asked to sign a consent form. Their personal identities are kept anonymous.

Interviewee A – is a high-level executive at KPST

Interviewee B – is a public policy analyst and researcher

Interviewee C – is a senior government official

The interviewees A, B, and C were asked nine, seven, and six questions, respectively. The consent form and the full list of questions can be found in Appendix 4 and 5.

### *5.1.2 Survey*

The survey was designed to target working age people from 18-65 years old. The survey was developed using the Qualtrics survey software and was distributed online through personal communication channels and social media outlets including Facebook and LinkedIn. A convenience sampling method was used that yielded a total of 504 responses. The survey questions were intended to measure the level of informal employment and the factors that affect the propensity for informal employment. Beyond that, the survey measured attitudes on a number of job characteristics, primarily centered around work contracts and the pension contribution entailed in these contracts. The survey also collected beliefs and expectations on pensions and the planned support mechanism in retirement. All questions were close ended, with the measuring techniques used being multiple choice, paired comparison, and Likert scales. The survey was written and distributed in Albanian in order to be more accessible. The original survey as well as an English translation is in Appendix 2 and 3.

### *5.2 Limitations*

The study faced limitations in secondary data collection and in the survey sampling. There is lack of data on the specific relationship being discussed in this survey – while there is a wealth of data on pensions and pension systems and likewise large studies done on informality and unregistered unemployment, few studies linked these topics. The nature of informality being very hard to measure explains the differences in the estimates of informal employment in Kosovo. The sample's main limitation was the lack of tools for proper sampling, with convenience sampling being the only viable option at the present moment. Because of this, the survey respondents are heavily skewed towards urban areas and the majority of respondents are from Prishtina. While the sample is sizable, a larger sample would allow the drawing of stronger

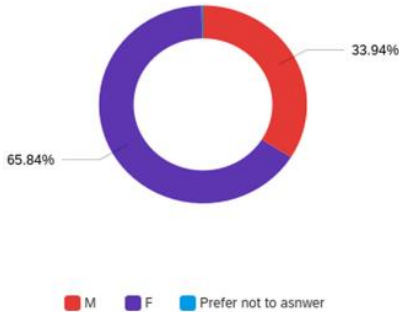
conclusions. Preferably, the survey would use a stratified sampling method ensuring proportional representation between municipalities, urban and rural settlements, ethnicities, and economic backgrounds.

## 6. Findings and Analysis

### 6.1 Survey Results: Demographics

The survey was conducted with 504 respondents between the ages of 18-65. As can be observed from Figure 11, In terms of gender, more females than males completed the survey, with 2/3 of responses being female.

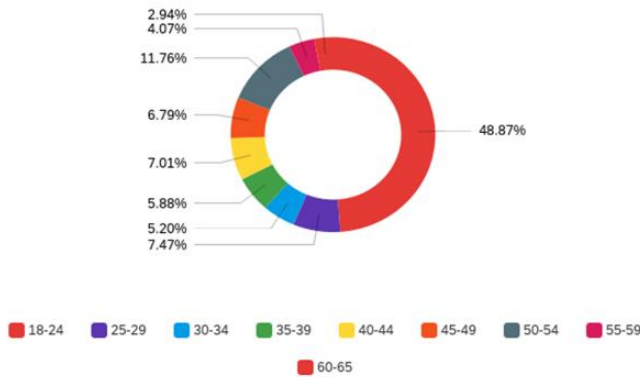
Figure 11 Survey respondents by Gender



By age, the largest participating group was 18-24 (48.87%). This age category also had the largest age range, which might be a contributing factor to the large figure. The age group with the least representation were those closest to retirement aged 60-65, who accounted for 2.94% of responses (see Figure 12).

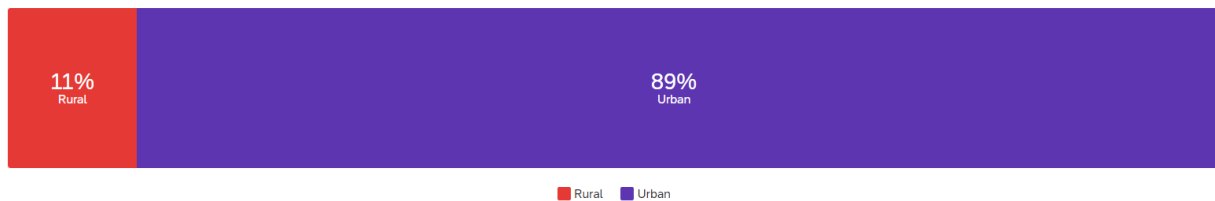


Figure 12 Survey Respondent by Age



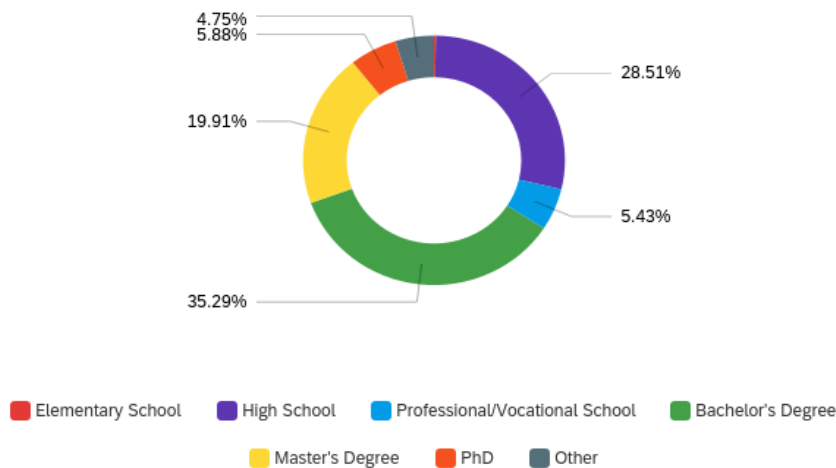
By living area, the survey was heavily skewed towards urban residents, with 9 out of 10 surveyed people living in urban areas.

Figure 13 Survey Respondents by Living Area



Regarding educational attainment 28.51% of respondents had finished high-school, 5.43% professional or vocational school, 35.29% had bachelor’s degrees, 19.91% had master’s degrees,

Figure 14 Survey Respondents by Level of Education



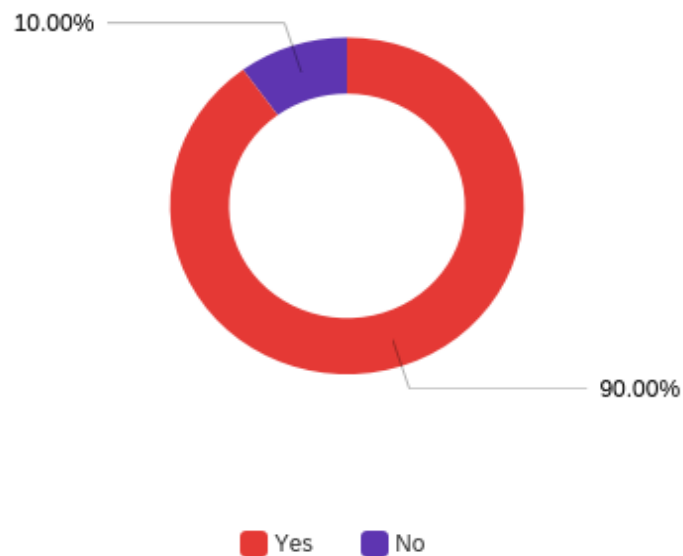
and 5.88% had completed doctoral studies. This means that in total, over 61% of the respondents had completed some form of tertiary education.

The full list of survey demographic results is available in Appendix 1.

## 6.2 Overall findings from survey and interviews

In this study, informal employment was defined as the state of being employed without a work contract. The informal employment rate of our sample is 10%, a figure significantly smaller than the estimates for informal employment in Kosovo, which stood at around one-third of employment. The reasons for the higher formality of our sample relate to the limitations faced in the sampling design.

*Figure 15 Share of Respondents with a Work Contract*



Among a list of nine job characteristics, being equipped with a work contract had the highest rate of ‘very important’ responses. 66.3% of respondents said having a work contract is very important to them. Additionally, more people rated job stability over salary pay as very important, with the former nearly 5 percentage points above the latter. Ability to work from home was valued lower in importance compared to the other job characteristics. Job stability was rated as important or very important by 94.3% of respondents, compared to 92.2% for pay and 91.7% for having a work contract. The relationship with colleagues and the supervisor were similarly rated, and both reflected high importance for the respondents.

Table 6 Job Characteristics by Importance

Question	Not at all important	Slightly important	Moderately important	Important	Very Important
Pay	1.2%	1.2%	5.4%	35.5%	56.7%
Job stability	0.3%	0.0%	5.4%	32.8%	61.5%
Relationship with colleagues	0.9%	1.8%	10.4%	38.8%	48.1%
Relationship with supervisor	1.2%	1.2%	9.0%	37.9%	50.7%
Flexible working hours	1.2%	4.5%	16.4%	37.3%	40.6%
Ability to work from home	10.7%	10.4%	25.7%	29.6%	23.6%
Opportunities for promotion	2.1%	1.5%	6.9%	30.7%	58.8%
Work contract	1.2%	1.5%	5.7%	25.4%	66.3%
Health insurance coverage	3.3%	2.1%	11.9%	26.9%	55.8%

A series of questions, direct and indirect, was asked to assess the importance people give to having formal employment. These questions reveal how important having a contract is for them as well as the sacrifice they would be willing to incur to move from an informal to a formal working arrangement.

Figure 16 Importance Placed on Having a Work Contract



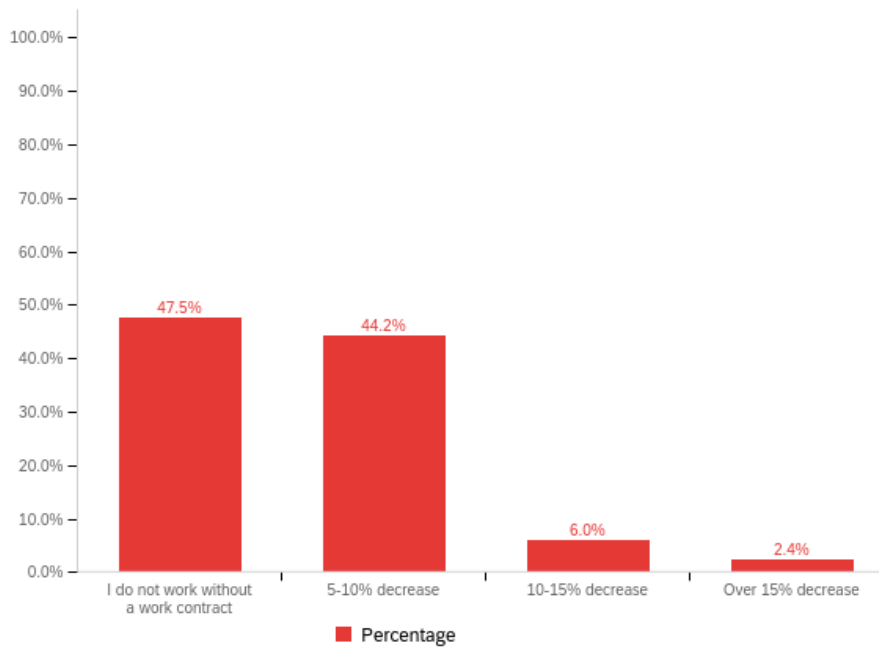
The respondents placed a very high importance in having a work contract. 67% of respondents stated that having a contract was very important for them and 23% stated it as important. In other words, 9 out of 10 respondents said that having a contract is important or very important to them.

Data from the interviews revealed that the harmful effect of informal employment on pensions is multi-faceted. First and most directly, the lack of a work contract means that neither the

employer nor the employee pay pension contributions, and by doing so sacrifice financing the employee's pension account. Second, informality, in all its forms, impairs the ability of government to raise tax-revenue. Informal employment specifically means that taxes levied on the salary are not collected. Third, it increases government spending because people working informally are officially recognized as unemployed and can apply for support programs. Fourth, informal employment indirectly affects workers with contracts, since the firms employing them face unfair competition and may take measures that hurt formal workers in order to stay competitive. This can mean a number of things, from lowering pay to offering temporary contracts, both of which affect pension contributions.

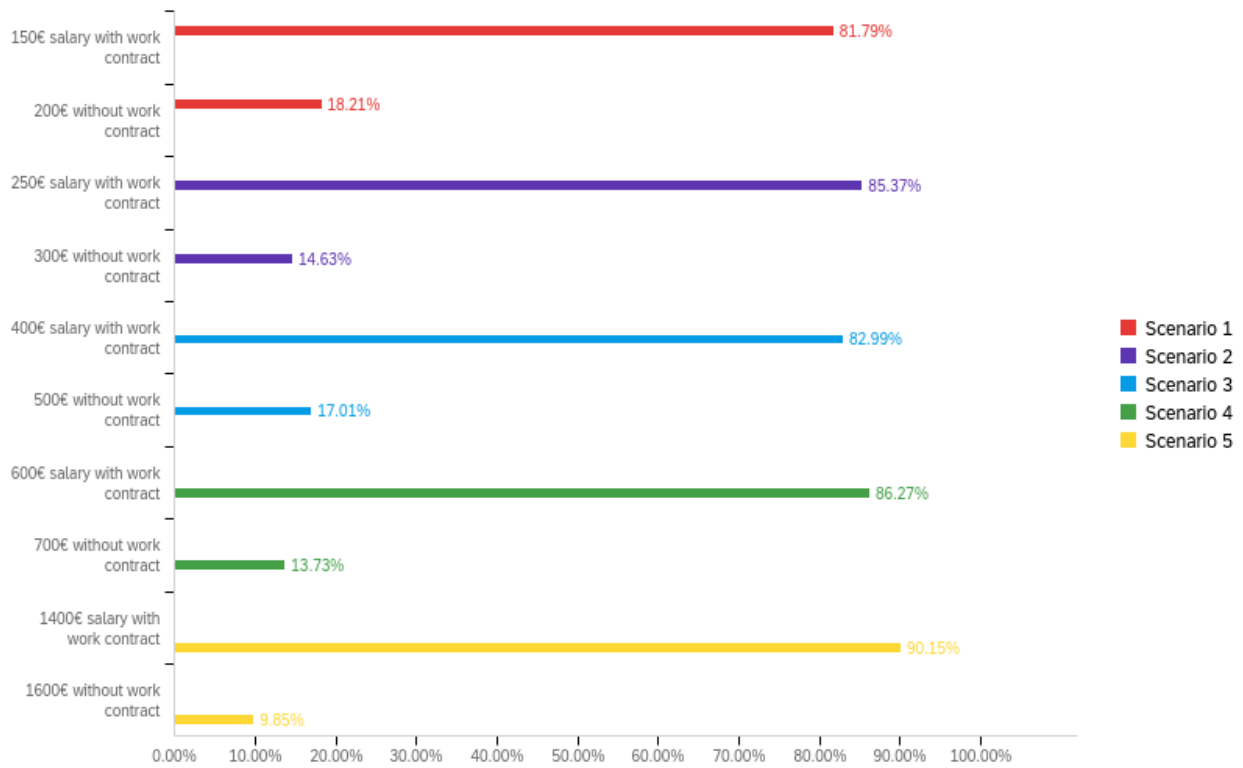
Employers benefit by circumventing work contracts since it reduces their costs. In doing so, it makes them more competitive than the firms following the rules. Employees also sometimes interpret the effect of the work contract primarily in how big a gap it will drive between the gross and net salary. Interviewee C highlighted how contributions made to pensions are perceived as a 'tax' on the salary, reducing the net pay. In reality, this amount is actually saved for the future, and unlike the rest of the salary, pension contributions are deducted from tax. The future time horizon adds to the feeling of these funds being given away. To measure the value workers place on contracts, respondents were asked to value the work contract as a percentage of their salaries; the question measured their willingness to take a pay cut for a work contract. As seen from Figure 17, nearly half of the respondents were non-compromising regarding a work contract – they only accept jobs that offer a work contract. 44.2% of respondents would accept a salary decrease of 5-10% if it meant having a work contract. This figure was 6% for a larger sacrifice in salary of 10-15% and 2.4% for a sacrifice of over 15%.

Figure 17 Percentage Decrease in Salary to Obtain a Work Contract



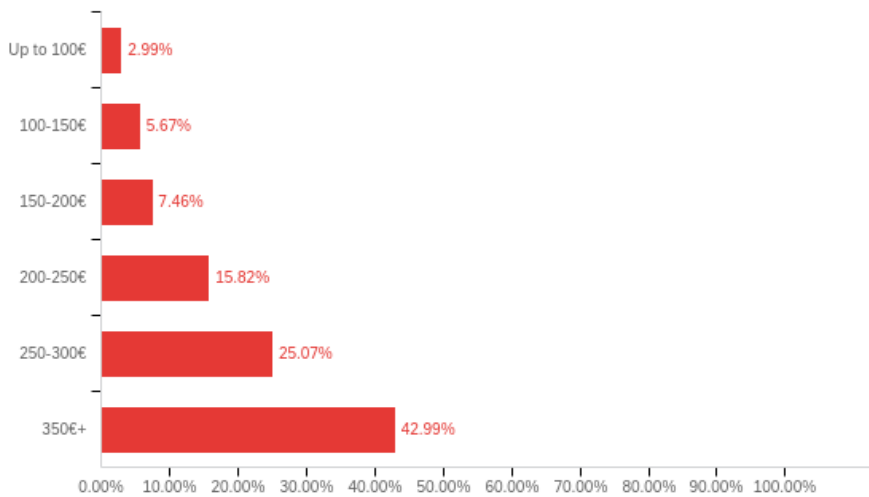
The same conclusion was arrived at when respondents were posited with a number of hypothetical scenarios where they had to choose between a work with a contract and without a contract – with the difference being a higher salary for the informal option. The hypothetical scenarios were designed to represent 5 salary levels, a low-income, middle-low income, middle income, middle-high income, and high income. This essentially measures the same parameter as the last figure, but with absolute values instead of percentages. Throughout the salary levels respondents overwhelmingly choose the option with lower pay and a contract over the higher pay without a contract. Interestingly, this choice was most preferred for the two highest paying scenarios, suggesting that as the salary level increases, people are less compromising when it comes to the contract.

Figure 18 Preference Between Lower Pay with Contract and Higher Pay Without Contract



While less than 9% of respondents say that a pension of up to 150€ is adequate, 43% of respondents disagree, believe that an adequate pension must be well over double that amount (see Figure 19).

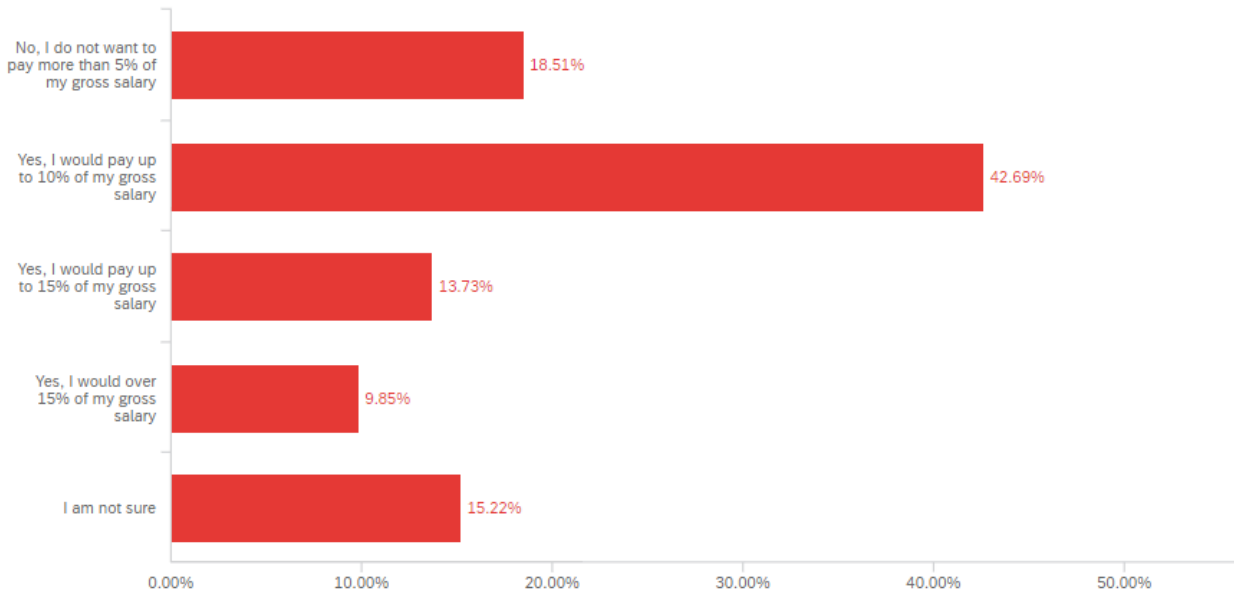
Figure 19 Respondents Evaluation for an Adequate Pension Amount



The current basic pension is 100€, and the standard KPST payment is 200€, meaning that the monthly pension from the mandatory pensions is 300€ - and higher if the retired person benefits from the ex-contributory pension. However, as was revealed earlier, this pension is not received long for many, since the average account in the second pillar is depleted after 1.5 years. As all interviewees highlighted, the pension savings account balance is determined by the years of contribution, the contribution amount (salary level), and the return on investment. Given the relatively young age of the KPST, together with the high unemployment and low wages in Kosovo, a low balance is expected. In fact, Interviewee A stated that a continued contribution of at least 25 years is needed to have sufficient savings in the pension fund. The low balance and short paying period of the pension account is the reason interviewee B hesitated in calling the second pillar a pension. Interviewee B believed that a retirement pension must be an annuity, i.e., an amount that is paid monthly until the rest of a person's life. This puts the answers of Figure 19 into perspective – the pensions that people actually receive during the entirety of their retired life is way below the amount the respondents expressed as adequate for Kosovo's living standard.

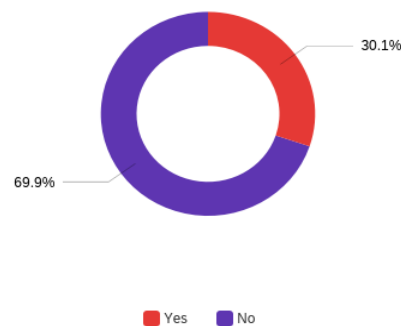
As mentioned earlier, the mandatory amount that must be contributed to the second pillar pension is 5% of the worker's salary and a likewise contribution of 5% matched by the employer, for a total of 10% of the gross salary. However, either or both of the parties can increase these contributions to 15%. Since the survey targeted working age people, only the employee's perspective could be measured. What we find is that while 18.51% are not willing to pay more than the minimally required amount, two thirds (66.27%) of respondents are willing to pay more than the minimum amount. Specifically, when broken down, 42.7% are willing to pay up to 10%, 13.73% are willing to pay up to 15%, and 9.85% are willing to pay over 15% of their gross salary towards their pensions savings account (see Figure 20). Interviewee A reported that the KPST had not considered increasing the minimum contribution percentage thus far. The main reason for holding this position was the level of wages, specifically the minimum wage. If the contribution percentage was increased, it would take away from the already low purchasing power the minimum wage offers and might drive more people towards informality. While this study has no data on how employers would react to such a change, the survey findings suggest that employees are willing to pay more towards their pension fund. That said, an increase in payment towards the fund should ensure it does not hurt lower wage earners.

Figure 20 Willingness to Increase Share of Salary Towards the Pension Contribution



The willingness to increase percentage paid towards pension contributions is in contrast with the amount of people that are aware such an option even exists. The survey revealed that 70% of respondents were unaware that they can increase their pension contribution past 5%, up to 15% of their gross salary. This reveals a low level of awareness of the Kosovo pension system.

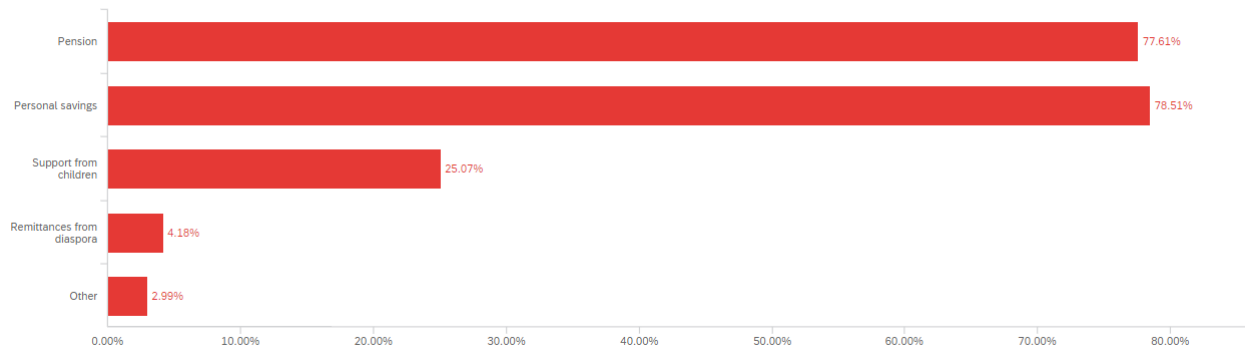
Figure 21 Awareness of Voluntary Option to Increase in Pension Contribution



We can see that respondents plan on additional support mechanisms, both pecuniary and non-pecuniary, to support them in retirement. Respondents plan to rely as much on personal savings as they do from pensions, both mechanisms being a support source for around 78% of respondents. The collectivistic nature explains the societal expectations for support from family and relatives. In this sample specifically, 25% of respondents expect their children to take care of them in old age and 4.18% rely on support from diaspora (see Figure 22).

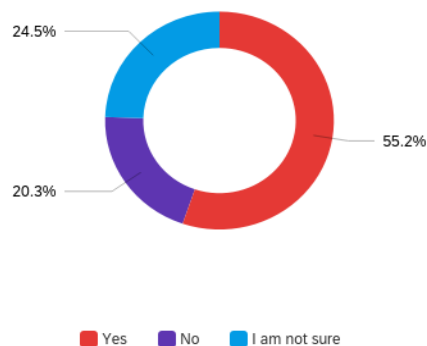


Figure 22 Support Sources in Retirement



At the end of the survey respondents were asked if they would like to have early access to their savings from their personal pension fund. Only 20% of respondents said they would not want to have early access, while 55.2% wanted early access and 24.5% were not sure. This suggests a preference for current consumption over consumption smoothing in the future. The funds from the individual pension accounts can only be accessed after the age of 65, but there have been exceptions to this rule. The first was in 2012 when physically disabled war veterans were allowed to have early withdrawal. The second, more major precedent, happened in 2020 when individuals were allowed to withdraw 10% of their savings for the purpose of smoothing consumption during the economic downturn caused by the Covid-19 pandemic. Interviewee A and C, representatives of the KPST and the Government, stated that the current state of funds cannot afford for early withdrawal, and that early withdrawal should not be considered as an option since it would go against the very purpose of the institution, which is to offer protection in old age. They fear that such desires are harmful in the long run.

Figure 23 Share of Respondents that Want Early Withdrawal Access to their Pension Fund



## 6.3 Factors Influencing Likelihood of Informal Employment

This section of the analysis looks at the level of informality through applying filters in three levels: individual demographic characteristics, family and household characteristics, and job-related characteristics. The findings are then contrasted with findings from the Gashi and Williams (2019) study and the World Bank’s (2017) Job Diagnostics Report.

### 6.3.1 Individual level factors

Regarding age, the highest likelihood to be in informal employment is in younger age groups. Informal employment is higher among youth ages 18-24 (13.4%) and 25-29 (16.7%). The highest level of formality is seen in middle age, also commonly recognized as the most productive years during a person’s working age (see Table 7). The data is inconclusive for old age with the last two age brackets having a big disparity in result. Thus, the survey confirms the findings that youth are more prone to informality but remains inconclusive about old age, siding with the Gashi & Williams (2019) study over the WB (2017) report.

*Table 7 Share of Respondents that have a Work Contract by Age*

Do you have a work contract in your current job?			
		Yes	No
Q: Age	18-24	86.6%	13.4%
	25-29	83.3%	16.7%
	30-34	89.5%	10.5%
	35-39	100.0%	0.0%
	40-44	94.4%	5.6%
	45-49	100.0%	0.0%
	50-54	100.0%	0.0%
	55-59	77.8%	22.2%
	60-65	100.0%	0.0%

In terms of gender, men were more likely to be in informal employment over women. These findings concur with the global trend and the previous studies in Kosovo, although the difference between genders is significantly less pronounced in the survey sample than in the other studies.

Table 8 Share of Respondents that have a Work Contract by Gender

Do you have a work contract in your current job?			
		Yes	No
Q: Gender	M	88.9%	11.1%
	F	90.7%	9.3%

Living area has a much stronger correlation than gender in regard to informality. People living in rural areas were over twice more likely to work without a contract. This finding is in sync with the results of previous studies.

Table 9 Share of Respondents that have a Work Contract by Living Area

Do you have a work contract in your current job?			
		Yes	No
Q: Living area	Rural	81.0%	19.0%
	Urban	90.8%	9.2%

Education was a strong predictor of informality, where each successive increase in education level was associated with a decrease in informal employment. The sharpest drop in informality was between completing high-school and a vocational school. This suggests that specialization increases formal work options and reaffirms the findings that informality is greater among elementary occupations. Those with only a high-school diploma are nearly twice as likely to be informally employed compared to someone who holds a bachelor’s degree.

Table 10 Share of Respondents that have a Work Contract by Education Level

Do you have a work contract in your current job?			
		Yes	No
Q: Highest level of completed education	High School	82.5%	17.5%
	Professional / Vocational School	88.9%	11.1%
	Bachelor’s Degree	90.9%	9.1%
	Master’s Degree	93.3%	6.7%
	PhD	94.4%	5.6%

### 6.3.2 Family and Household Level Factors

There is an interesting relationship between the number of people one lives with and informal employment. From the sample, those living alone, with a partner, or a roommate were all formally employed, while those living in families of 3 or more people had an informality rate

between 11-13%. The level of informality does not change drastically when moving from a three to a five-person family. Here again, the limitations of the small survey sample become apparent as we would not expect results of 100% for none of the categories (see Figure 25 in Appendix 1 for further information).

*Table 11 Share of Respondents that have a Work Contract by Household Size*

Do you have a work contract in your current job?			
		Yes	No
Q: Household Size:	Living alone	100.0%	0.0%
	Living with a partner	100.0%	0.0%
	Living with a room mate	100.0%	0.0%
	Living with a family of 3 members	87.5%	12.5%
	Living with a family of 4-5 members	88.6%	11.4%
	Living with a family of more than 5 members	86.8%	13.2%

While 7.8% of those without dependents are informally employed, this number is 14.9% for those that have 1-2 dependents and 8.3% for those that have three or more dependents. At this level of analysis, it is difficult to observe any predictable relationship between number of dependents and informality. Informality by number of dependents thus resembles findings from Gashi & Williams (2019) that heads of households are not more likely to work informally than those who are not heads of households.

*Table 12 Share of Respondents that have a Work Contract by Number of Dependents*

Do you have a work contract in your current job?			
		Yes	No
Q: Number of family members dependent on respondent's income	None	92.2%	7.8%
	1-2 members	85.1%	14.9%
	3 or more members	91.7%	8.3%

### 6.3.3 Job and Employment Level Factors

Those employed in full-time positions were most likely to have a job contract, with only 4.3% of workers employed full-time being unregistered. The informality rate for part-time workers was 11.4%, so they were 2.65 times more likely to be unregistered compared to full-time workers. This is in line with global and local trends. Further, a third of per-diem employees were working

without a contract. The highest level of informality is observed among the self-employed where the rate of informality is 44%.

Table 13 Share of Respondents that have a Work Contract by Employment Status

Do you have a work contract in your current job?			
		Yes	No
Q: Employment status	Employed, full-time	95.7%	4.3%
	Employed, part-time	88.6%	11.4%
	Employed, per diem	66.7%	33.3%
	Self-employed	56.0%	44.0%

When filtered by employment sector, informality is highest in manufacturing (50%), art, entertainment, and recreation (50%), followed by electricity, gas, steam, and air conditioning supply (33.3%), real estate (25%), and wholesale and retail trade (22.2%). This crosstabulation is where the limitations of the survey are most expressed because of the small sample size. Because of few entries in certain sectors, the calculations present 100% employment formality in agriculture, construction, gastronomy, among others (see Figure 27 in Appendix 1 for further information). These results flat out contradict the previous studies on informal employment. A larger sample size is needed to arrive to robust conclusions.

Table 14 Share of Respondents that have a Work Contract by Employment Sector

Do you have a work contract in your current job?		Yes	No
Q: Employment sector	Agriculture, forestry, and fishing	100.0%	0.0%
	Mining and quarrying	100.0%	0.0%
	Manufacturing	50.0%	50.0%
	Electricity, gas, steam, and air conditioning supply	66.7%	33.3%
	Water supply, sewerage, and waste management	0.0%	0.0%
	Construction	100.0%	0.0%
	Wholesale and retail trade, repair of vehicles and motorcycles	77.8%	22.2%
	Transport, logistics, and warehousing	100.0%	0.0%
	Gastronomy and food services	100.0%	0.0%
	Hotels, accommodation, and tourism	100.0%	0.0%
	Information and communication	89.7%	10.3%
	Finance and insurance	100.0%	0.0%
	Real estate	75.0%	25.0%
	Professional, scientific, and technical activities	90.0%	10.0%
	Administrative and support activities	93.8%	6.3%
Public administration and defense	100.0%	0.0%	
Education	100.0%	0.0%	

	Healthcare and social work	100.0%	0.0%
	Civil society	81.8%	18.2%
	Art, entertainment, and recreation	50.0%	50.0%

6.3.4 Value Placed on Pension Contributions by Gender

Regarding an increase in the contribution amount paid towards a person’s individual pension fund, we observe that males are more resistant to paying above the minimum legally required amount (27% of males compared to 13% of females). While the unsure responses do not differ by gender, female respondents were more willing to pay more than 5% of their gross salary throughout the table.

Table 15 Willingness to Increase Salary Contribution Towards the Pension Contribution by Gender

Q: Would you accept an increase in the percentage of your gross salary paid towards your pension contribution?						
		No, I do not want to pay more than 5% of my gross salary	Yes, I would pay up to 10% of my gross salary	Yes, I would pay up to 15% of my gross salary	Yes, I would pay over 15% of my gross salary	I am not sure
Q: Gender	M	27.0%	38.9%	10.3%	8.7%	15.1%
	F	13.0%	45.2%	15.9%	10.6%	15.4%

6.3.4 Value Placed on Work Contract by Gender

Following the trends of the previous table, we observe that females are less compromising between a work with and without a contract. While 41.3% of males do not work unless the job offers a contract, this figure is more than half for females. This higher insistence for a work contract might be a contributing reason why informal employment is less prevalent among females. However, male respondents (51.6%) were more likely to accept a 5-10% fall in pay to have a contract compared to female respondents (39.9%).

Table 16 Percentage Decrease in Salary to Obtain a Work Contract

What percentage decrease in salary would you accept to have a work contract?					
Q: Gender		I do not work without a work contract	5-10% decrease	10-15% decrease	Over 15% decrease

	M	41.3%	51.6%	4.0%	3.2%
	F	51.0%	39.9%	7.2%	1.9%

### 6.3.5 Early Access to Pension Fund Withdrawal by Age

When early withdrawal of pension funds is broken down by age, we can see that the highest percentage of those demanding the option of early withdrawal is for those aged 25-29 (71%) and 55-59 (70%), and it is lowest among those aged 60-65 (33.3%) and 50-54 (36.4%). The age brackets most against this are those aged 50-54 (45.5%) and 45-49 (33.3%). Furthermore, the highest rates of unsure responses are at the group aged 60-65 (50%).

Table 17 Early Access to Pension Funds by Age

Do you want to have early access for withdrawal of savings from your pension fund (Trusti)?				
		Yes	No	I am not sure
Q: Age:	18-24	54.6%	15.7%	29.7%
	25-29	71.0%	16.1%	12.9%
	30-34	57.1%	19.0%	23.8%
	35-39	57.1%	23.8%	19.0%
	40-44	55.6%	27.8%	16.7%
	45-49	52.4%	33.3%	14.3%
	50-54	36.4%	45.5%	18.2%
	55-59	70.0%	20.0%	10.0%
60-65	33.3%	16.7%	50.0%	

### 6.3.6 Early Access to Pension Fund Withdrawal by Gender

When filtered by gender we see that there are small differences between genders. More than half from both genders would like to have early access to their individual pension funds, around 20% are opposed to this and slightly less than a quarter are unsure.

Table 18 Early Access to Pension Funds by Gender

Do you want to have early access for withdrawal of savings from your pension fund (Trusti)?				
		Yes	No	I am not sure
Q: Gender	M	54.8%	21.4%	23.8%
	F	55.8%	19.7%	24.5%

## 6.4 Key Findings from Survey

Below is a short summary of the main findings from the survey results:

- Kosovo trends fall in line with global patterns and the survey results largely confirm the existing literature on predispositions for informal employment. Youth, men, rural dwellers, and the less educated are more likely to work as unregistered employees.
- Respondents overwhelmingly place a high importance on having a work contract. This was expressed both explicitly from direct questions, and implicitly in the willingness to accept an option with a lower wage if it meant having a work contract. A notable pattern is that the importance given to a work contract increases as compensation goes up. This seems to confirm findings from Gashi and Williams (2019) that the lower income groups are more prone to informality. On top of this, this finding underscores the importance of financial education mentioned by Hu and Stewart (2009).
- Relating to the last point, while willingness to increase contribution amount is very high, knowledge of the pension systems is low. Apart from showing high importance placed on work contracts, the survey demonstrated large willingness of respondents to increase their contribution to their pension funds. That said, knowledge that such an option currently exists was extremely low, with 70% of respondents not aware that they can increase their contribution beyond the minimum 5% amount. This suggests a need to raise awareness among the public on the features of Kosovo's pension system.
- The current pension amount people receive falls short of most respondents' expectations for an adequate pension amount. With the basic pension at 100€ and the KPST monthly pension at 200€, the two mandatory pensions would have a benefit of 300€ per month. More than 43% of respondents feel that an adequate pension ought to be higher than this. More realistically, accounting for the low average account balance in individual pension accounts means that for most of their old age, pensioners will only receive the 100€ basic pension. At this level, only 3% of respondents believe such an amount is adequate to support a person in old age.



## 7. Recommendations

Below is a list of three recommendations derived from the main lessons extracted from this study. They present specific advice for policy workers engaged in pension policy.

### Recommendation 1 – Targeted Approach to Fight Informality

This study confirms the findings of many previous studies that informality is highest among certain groups than others. Our study highlighted that informality was significantly higher among the youth and the less educated. These two groups are also the ones facing the highest level of unemployment – making them more prone to informality. The government should prioritize increasing the average level of completed education. Specifically, the largest amount of effort should be in vocational training. While every increase in education attainment was associated with a decrease in informality, the largest jump was observed between those that had only a high-school diploma and those that had completed a professional or vocational school after completing secondary education. Increase in education in general is important, as low awareness of the pension system results in lower enrollment in pension schemes. Additionally, some sectors were much more prone to having unregistered workers than others. The government should focus implementing the existing labor laws and increase inspection in those sectors where informality is more present, namely construction, manufacturing, agriculture, and services.

### Recommendation 2 – Increase Minimum Contribution Amount

The survey conducted in this study found a very high willingness of people to increase the percentage on the monthly contribution paid towards the individual pension account. 18.5% of respondents would not be willing to pay more than 5% of their gross salary, but over 66% are willing to pay at least 10% of their pay. In all likelihood this percentage would be even higher for a smaller increase, so the measure does not need to be a doubling of the minimum amount. Further study is needed to estimate an optimal increase. An increased contribution would directly increase the size of the fund collected over-time and in so doing would increase the size of the average pension balance. Special precaution would need to be taken for lower salaries, perhaps by introducing a progressive tier system. That said, the government should only undertake such a recommendation after carefully evaluating side effects. This study shows strong support for increasing the contribution amount by employee's but does not have information on how

employers would react if the increase in minimum amount is equally applied to both employers and employees. An increase should make sure not to damage lower-income groups and increase informality.

### Recommendation 3 – Do Not Allow for Early Withdrawal of Pension Funds

Despite the high demand to allow early access for withdrawal from the pension savings account, such an option should not be granted. Doing so would go against the principles and the objectives of the pension system. While it would offer more consumption in the present, this would have a high cost in the long run. The current average balance is very low, providing pensions for only 1.5 years after retirement (on average). Taking away from these funds would endanger their existence all together. The basic pension was not designed as a means to reliably depend upon, rather, its purpose is to serve as a form of a social security net that protects against poverty. For the pension to achieve its goal of enabling a smooth transition from working to retirement, the focus should be in increasing the support provided from the second pillar. Although some precedents for early withdrawal exist, the government should avoid repeating them.

## 8. Conclusion

This study has analyzed the Kosovo pension system, detailing its design and the current state of pensions. These findings have been juxtaposed by data on informal employment in Kosovo. A clear negative relationship has been established between pensions and informal employment. Informal employment hurts the pension system by simultaneously affecting the first and second pension pillars:

Effect on Pillar I – Without an employment contract, taxes are avoided. This has the double effect of decreasing government revenues and increasing spending. Governments' budget is affected because taxes from salaries are not collected. This leaves less money available for the basic pension. Furthermore, since those informally employed are recognized by government as officially unemployed, they increase spending by benefiting from social assistance programs.

Effect on Pillar II – Aside from not paying taxes, pension contributions are also not paid. This means no amount of the salary is saved for the pension fund. Moreover, because informal employment distorts competition between firms, the firms employing workers with a contract take measures that harm their workers in order to compete. Employers have been known to shorten contract duration and opt for more temporary rather than permanent contracts. This impacts one of the most important factors for increasing the pension balance, namely continued and uninterrupted pension contributions.

Kosovo's high unemployment rate (25.8%) reveals that opting for informal employment is for some the only available choice in order to secure livelihood. The study found that where unemployment was the highest, namely youth and the less educated, so was the likelihood to be engaged in informal employment.

The study was able to establish that people plan to support themselves on personal savings as much as they plan to depend on their pensions. Moreover, support from children is expected from a quarter of the sampled population.

In spite of the unfavorable situation regarding pensions, a majority of people would like the option to withdraw from their pension funds before retirement.

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# Appendices

## Appendix 1 – Additional Demographic Survey Results

Figure 24 Survey Respondents by Employment Status

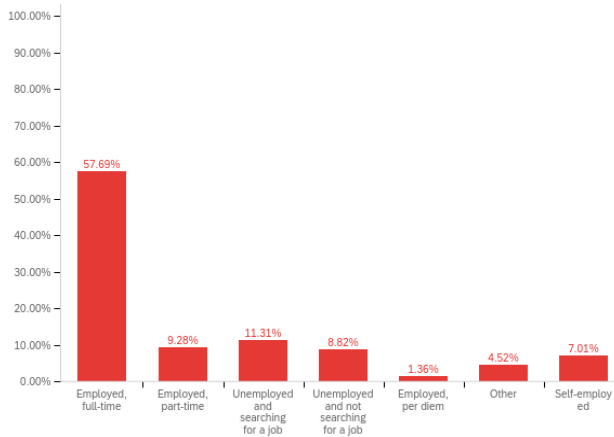


Figure 25 Survey Respondents by Household Size

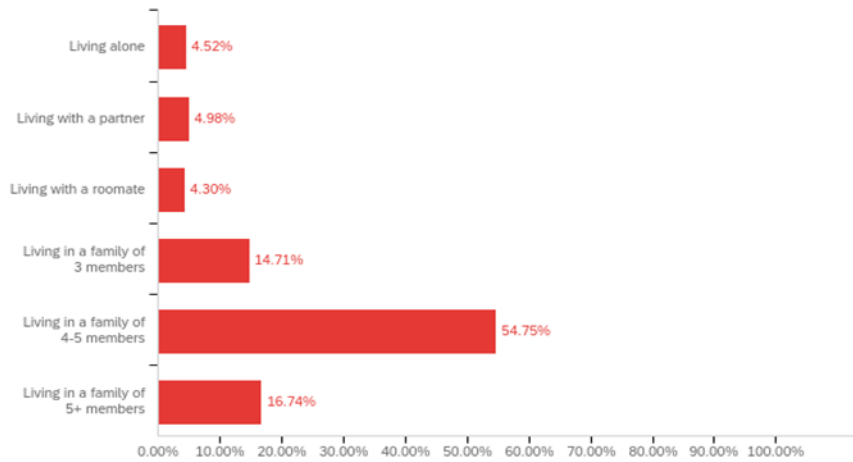


Figure 26 Survey Respondents by Household Income

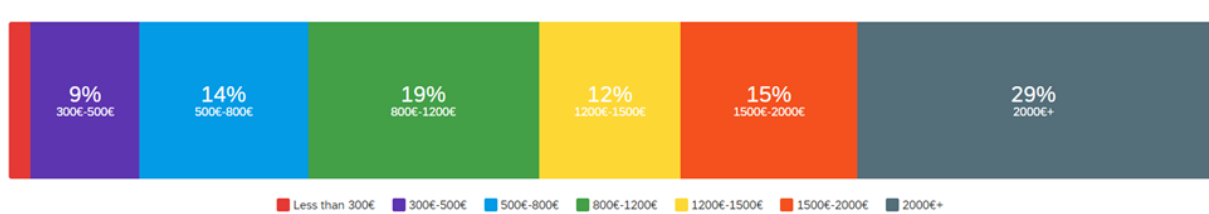


Figure 27 Survey Respondents by Employment Sector

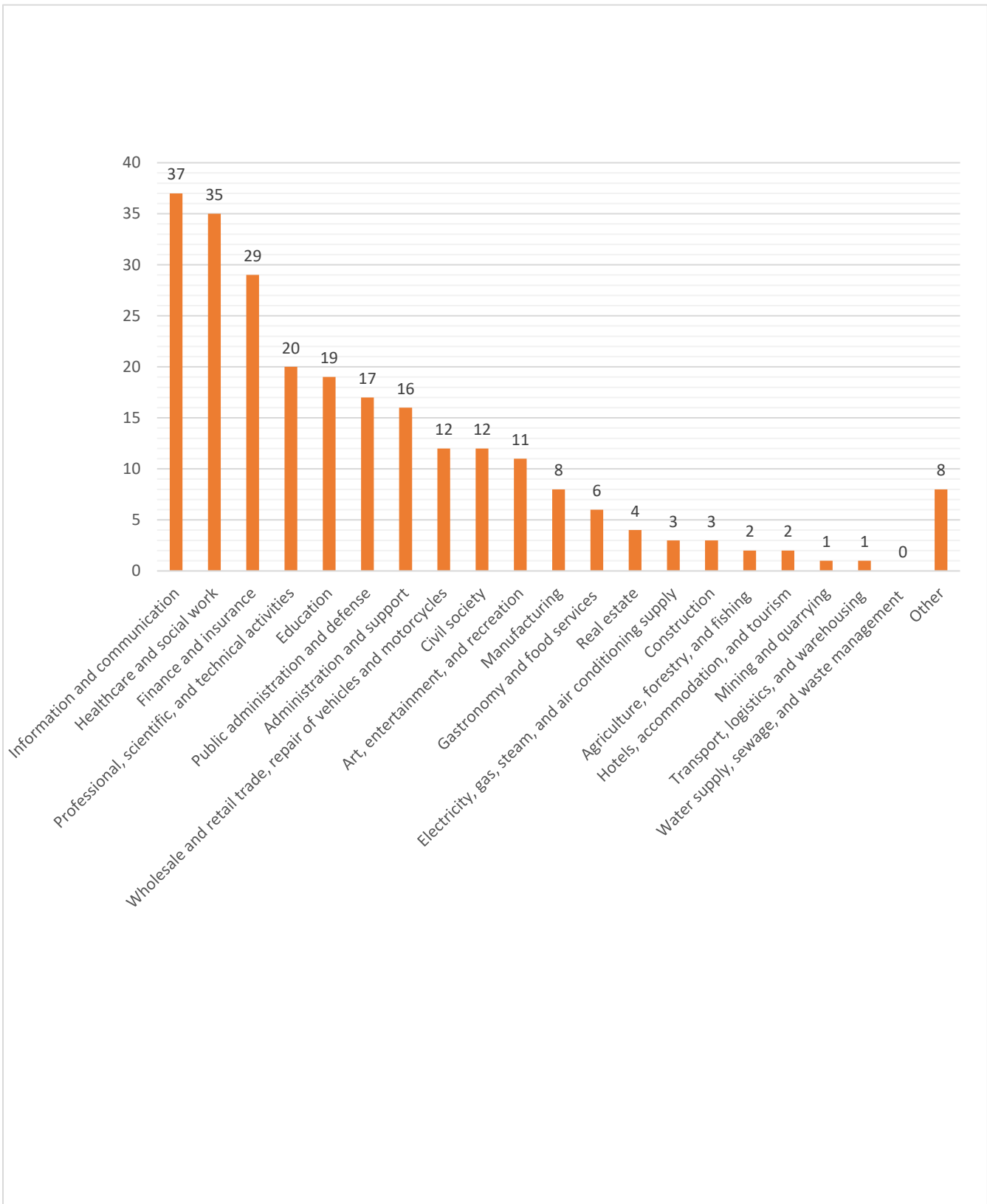
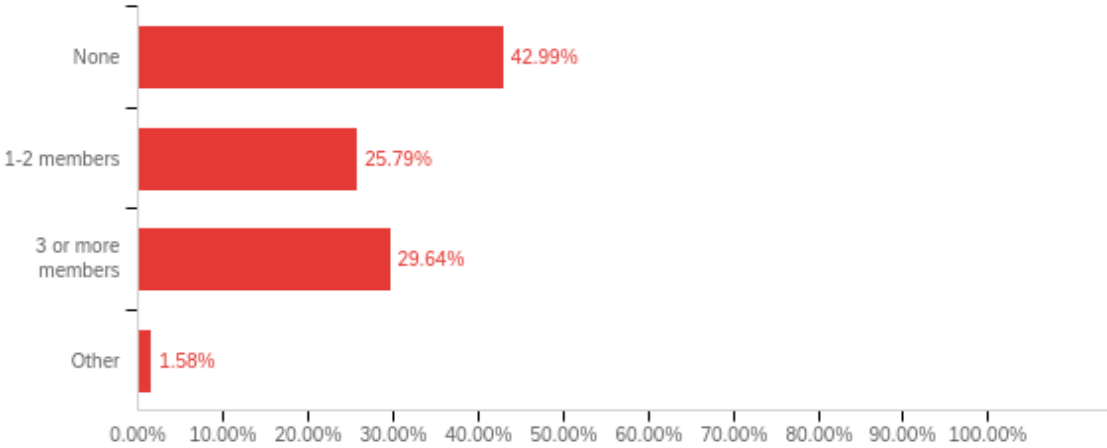


Figure 28 Survey Respondents by Number of Dependents



## Appendix 2 – Survey (Original in Albanian)

Qëllimi i këtij hulumtimi është eksplorimi i marrëdhënies mes sistemit pensional të Kosovës dhe tregut të punës, duke analizuar ndikim e ekonomisë joformale dhe punësimit të peregjistruar në pensionin e moshës. Ky hulumtim kryhet nga Drin Çela për temën e diplomës në RIT Kosovo.

Pyetësi do të ju marrë përafërsisht **tre minuta** për t'u plotësuar. Pjesëmarrja juaj në këtë pyetësor është **vullnetare** dhe ju mund të ndërprisni pyetësin në çdo moment. Të dhënat tuaja janë plotësisht **anonime**. Gjetjet e këtij pyetësi do të përdoren vetëm për qëllime hulumtimi.

Nëse keni ndonjë pyetje, ju lutem kontaktoni: [drinc@auk.org](mailto:drinc@auk.org)

Ju faleminderit për kontributin dhe kohën tuaj për plotësimin e këtij pyetësi!

Q0 Unë pranoj të marrë pjesë në këtë pyetësor:

Po

Jo

*Skip To: End of Survey If Q0 = Jo*

---

Q1 Moshë juaj:

18-24

25-29

30-34

35-39

40-44

45-49

50-54

55-59

60-65

---

Q2 Gjinia:

M

F

Preferoj të mos përgjigjem

---

Q3 Rajoni:

- Prishtinë
- Mitrovicë
- Pejë
- Prizren
- Gjakovë
- Ferizaj
- Gjilan

---

Q4 Vendbanimi:

- Rural
  - Urban
-

Q5 Statusi i punësimit:

- I/e punësuar me orar të plotë
  - I/e punësuar me gjysmë orari
  - I/e punësuar me medijtje
  - I/e vetëpunësuar
  - I/e papunë, por ne kërkim të punës
  - I/e papunë dhe nuk jam në kërkim të punës
  - Tjetër (të lutem specifiko) \_\_\_\_\_
-

Q6 Niveli i shkollimit të përfunduar:

Shkollë fillore

Shkollë e mesme

Shkollë profesionale

Diplomë Bachelor

Diplomë Master

PhD

Tjetër (të lutem specifikoj) \_\_\_\_\_

---



Q7 Statusi juaj i banimit:

- Jetoj vetëm
  - Jetoj me partner
  - Jetoj me shok/shoqe dhome
  - Jetoj në familje 3 anëtarëshe
  - Jetoj në familje 4-5 anëtarëshe
  - Jetoj në familje 5+ anëtarëshe
-

Q8 Sa janë të ardhurat mujore për shtëpinë tuaj?

- Me pak se 300€
  - 300€-500€
  - 500€-800€
  - 800€-1200€
  - 1200€-1500€
  - 1500€-2000€
  - 2000€+
- 

Q9 Sa anëtarë varen nga të ardhurat tuaja?

- Asnjë
  - 1-2 anëtarë
  - 3 ose më shumë anëtarë
  - Tjetër (të lutem specifikoj) \_\_\_\_\_
-

*Display This Question:*

*If Q5 = I/e punësuar me orar të plotë*

*Or Q5 = I/e punësuar me gjysmë orari*

*Or Q5 = I/e punësuar me medijtje*

*Or Q5 = I/e vetëpunësuar*

Q10 A keni kontratë pune në punën aktuale?

Po

Jo

*Display This Question:*

*If Q5 = I/e punësuar me orar të plotë*

*Or Q5 = I/e punësuar me gjysmë orari*

*Or Q5 = I/e punësuar me medijtje*

*Or Q5 = I/e vetëpunësuar*

Q11 Në cilin sektor jeni të punësuar?

- Bujqësi, pylltari dhe peshkatari
- Xehëtari dhe gurëthyerje
- Prodhim
- Furnizim me energji elektrike, gaz, avull dhe ajër të kondicionuar
- Furnizim me ujë, kanalizim dhe menaxhim mbeturinash
- Ndërtimtari
- Tregti me shumicë dhe pakicë, riparimi të mjeteve dhe motoçikletave
- Transport, logjistikë dhe magazinim
- Gastronomi, shërbime ushqimore
- Hotileri, akomodim dhe turizëm
- Informim dhe komunikim
- Aktivitete financiare dhe të sigurimit
- Aktivitete të patundshmërisë
- Aktivitete profesionale, shkencore dhe teknike
- Aktivitete administrative dhe mbështetëse
- Administratë publike dhe mbrojtje

- Arsim
  - Shëndetësi dhe aktivitete të punës sociale
  - Shoqëri civile
  - Art, zbavitje dhe rekreacion
  - Tjetër (të lutem specifiko) \_\_\_\_\_
- 

Q12 Sa është e rëndësishme për ju që të keni kontratë pune?

- Aspak e rëndësishme
- Pak e rëndësishme
- Mesatarisht e rëndësishme
- E rëndësishme
- Shumë e rëndësishme

Q13 Sa janë të rëndësishme për ju këto karakteristika të vendit të punës?

	Aspak e rëndësishme	Pak e rëndësishme	Mesatarisht e rëndësishme	E rëndësishme	Shumë e rëndësishme
Paga	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stabiliteti i vendit të punës	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marrëdhënia me kolegët	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marrëdhënia me mbikëqyrësin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Orari fleksibil	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mundësia për punë nga shtëpia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mundësia për ngirtje në detyrë	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kontrata e punës	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mbulimi i sigurimit shëndetësor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

---

Q14 Zgjidhni opsionin e preferuar:

Skenari 1	<input type="radio"/> Paga 150€ me kontratë pune	<input type="radio"/> Paga 200€ pa kontratë pune
Skenari 2	<input type="radio"/> Paga 250€ me kontratë pune	<input type="radio"/> Paga 300€ pa kontratë pune
Skenari 3	<input type="radio"/> Paga 400€ me kontratë pune	<input type="radio"/> Paga 500€ pa kontratë pune
Skenari 4	<input type="radio"/> Paga 600€ me kontratë pune	<input type="radio"/> Paga 700€ pa kontratë pune
Skenari 5	<input type="radio"/> Paga 1400€ me kontratë pune	<input type="radio"/> Paga 1600€ pa kontratë pune

---

Q15 Sa përqind ulje të pagës do të pranoni për të pasur kontratë pune?

- Unë nuk punoj nëse nuk kam kontratë pune
  - 5-10% ulje
  - 10-15% ulje
  - Mbi 15% ulje
- 

Q16 Çfarë shume mendoni se ofron një pension adekuat për standardin e jetesës në Kosovë?

- Deri në 100€
  - 100-150€
  - 150-200€
  - 200-250€
  - 250-300€
  - 350€+
-



Q17 A do të pranoni rritje të përqindjes së kontributit për pension nga paga juaj?

- Jo, nuk dua të paguaj më shumë se 5% të pagës
  - Po, do të paguaja deri në 10% të pagës
  - Po, do të paguaja deri në 15% të pagës
  - Po, do të paguaja mbi 15% të pagës
  - Nuk jam i/e sigurt
- 

Q18 A e dini se ju mund të paguani deri në 15% të pagës tuaj për kontribut pensional?

- Po, e kam ditur
  - Jo, nuk e kam ditur
-

Q19 Cilat burime do t'ju mbështesin në moshë të pensionuar (zgjedh të gjitha opsionet që të përkasin):

- Pensioni
  - Kursimet personale
  - Mbështetje nga fëmijet
  - Remitanca nga diaspora
  - Tjetër (të lutem specifik)
- 

Q20 A dëshironi të keni mundësi për tërheqje të hershme në kursimet tuaja të fondit pensional (Trustit)?

- Po
- Jo
- Nuk jam i/e sigurt

**Fundi i Pyetësorit**

## Appendix 3 – Survey (English Translation)

### Survey on Employment and Pension

The purpose of this research is exploring the relationship between Kosovo’s pension system and the labor market, analyzing the impact of the informal economy and unregistered unemployment on the retirement pension. This research is conducted by Drin Çela for the Senior Capstone Project at RIT Kosovo.

The survey will take approximately **three minutes** to fill. Your participation in this survey is **voluntary** and you may choose to stop the survey at any moment. Your data remain completely **anonymous**. The findings of this survey will be used for research purposes only.

If you have any questions, please contact: [drinc@auk.org](mailto:drinc@auk.org)

Thank you for your time and contribution in completing this survey!

---

Q0 I agree to participate in this survey:

Yes

No

*Skip To: End of Survey If Q0 = No*

---

Q1 Age:

18-24

25-29

30-34

35-39

40-44

45-49

50-54

55-59

60-65

---

Q2 Gender:

M

F

Prefer not to answer

---

Q3 Region:

- Prishtinë
  - Mitrovicë
  - Pejë
  - Prizren
  - Gjakovë
  - Ferizaj
  - Gjilan
- 

Q4 Living Area:

- Rural
  - Urban
-

Q5 Employment Status:

- Employed, full-time
- Employed, part-time
- Employed, per diem
- Self-employed
- Unemployed and searching for a job
- Unemployed and not searching for a job (Not Employed)
- Other (please specify)\_\_\_\_\_



Q6 Highest level of completed education:

- Elementary School
  - High School
  - Professional / Vocational School
  - Bachelor's Degree
  - Master's Degree
  - PhD
  - Other (please specify) \_\_\_\_\_
- 

Q7 Residence status:

- Living alone
- Living with a partner
- Living with a roommate
- Living with a family of 3 members
- Living with a family of 4-5 members
- Living in a family of 5+ members

---

Q8 What is your household's monthly income?

- Less than 300€
  - 300€-500€
  - 500€-800€
  - 800€-1200€
  - 1200€-1500€
  - 1500€-2000€
  - 2000€+
- 

Q9 How many family members depend on your income?

- None
  - 1-2 members
  - 3 or more members
  - Other (please specify) \_\_\_\_\_
-



*Display This Question:*

*If Q5 = Employed, full-time*

*Or Q5 = Employed, part-time*

*Or Q5 = Employed, per diem*

*Or Q5 = Self-employed*

Q10 Do you have a work contract in your current job?

Yes

No

---

*Display This Question:*

*If Q5 = Employed, full-time*

*Or Q5 = Employed, part-time*

*Or Q5 = Employed, per diem*

*Or Q5 = Self-employed*

Q11 In which sector are you employed?

- Agriculture, forestry, and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam, and air conditioning supply
- Water supply, sewage, and waste management
- Construction
- Wholesale and retail trade, repair of vehicles and motorcycles
- Transport, logistics, and warehousing
- Gastronomy and food services
- Hotels, accommodation, and tourism
- Information and communication
- Finance and insurance
- Real estate
- Professional, scientific, and technical activities
- Administration and support
- Public administration and defense
- Education

- Healthcare and social work
  - Civil society
  - Art, entertainment, and recreation
  - Other (please specify) \_\_\_\_\_
- 

Q12 How important is it for you to have a work contract?

- Not at all important
  - Slightly important
  - Moderately important
  - Important
  - Very important
-

Q13 How important are the job characteristics below?

	Not at all important	Slightly Important	Moderately Important	Important	Very important
Pay	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Job stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Relationship with colleagues	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Relationship with supervisor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Flexible working hours	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ability to work from home	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Opportunities for promotion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work contract	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Coverage of health insurance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

---

Q14 Pick the preferred option:

Scenario 1	<input type="radio"/> 150€ salary with a work contract	<input type="radio"/> 200€ salary without a work contract
Scenario 2	<input type="radio"/> 250€ salary with a work contract	<input type="radio"/> 300€ salary without a work contract
Scenario 3	<input type="radio"/> 400€ salary with a work contract	<input type="radio"/> 500€ salary without a work contract
Scenario 4	<input type="radio"/> 600€ salary with a work contract	<input type="radio"/> 700€ salary without a work contract
Scenario 5	<input type="radio"/> 1400€ salary with a work contract	<input type="radio"/> 1600€ salary without a work contract

---

Q15 What percentage decrease in salary would you accept to have a work contract?

- I do not work without a work contract
  - 5-10% decrease
  - 10-15% decrease
  - Over 15% decrease
- 

Q16 What amount do you believe offers an adequate pension for the living standard in Kosovo?

- Up to 100€
  - 100-150€
  - 150-200€
  - 200-250€
  - 250-300€
  - 350€+
-

Q17 Would you accept an increase in the percentage of your gross salary paid towards your pension contribution?

- No, I do not want to pay more than 5% of my gross salary
  - Yes, I would pay up to 10% of my gross salary
  - Yes, I would pay up to 15% of my gross salary
  - Yes, I would pay over 15% of my gross salary
  - I am not sure
- 

Q18 Did you know you can pay up to 15% of your gross salary towards your pension contribution?

- Yes, I knew this
  - No, I did not know this
-

Q19 Which sources will support you in retirement? (pick all options that apply):

- Pension
  - Personal savings
  - Support from children
  - Remittances from diaspora
  - Other (please specify) \_\_\_\_\_
- 

Q20 Do you want to have early access for withdrawal of savings from your pension fund (Trusti)?

- Yes
- No
- I am not sure

End of Survey

---



## Appendix 4 – Informed Consent Form

### Informed Consent Form for Social Science Research RIT Kosovo

**Title of Project:** Implications of Unregistered Employment in Kosovo’s Pension System

**Principal Investigator:**

Drin Çela, RITK Student  
Dr. Shpëtim Robaj Street  
Prishtina 10000, Kosovo  
044-830-127; [drinc@auk.org](mailto:drinc@auk.org)

1. **Purpose of the Study:** The purpose of this research study is to explore the relationship between Kosovo’s pension system and the country’s informal economy sector, specifically unregistered unemployment. The study aims to analyze the attitudes of working age people on informal work as it affects their pension fund. This assessment will be viewed through various demographic and job characteristic lenses.
2. **Procedures to be followed:** You will be asked to answer 5-10 during this interview.
3. **Duration:** It will take about 30 minutes to complete the interview.
4. **Statement of Confidentiality:** Your participation in this research is confidential. The data will be used only for analysis of this RIT Honors Capstone Project. The completed project will be shared online on RIT’s Scholar Works website.
5. **Voluntary Participation:** Your decision to be in this research is voluntary. You may decide to stop the interview at any time. You do not have to answer any questions you do not want to answer.

You must be 18 years of age or older to take part in this research study. If you agree to take part in this research study and the information outlined above, please sign your name and indicate the date below.

You will be given a copy of this form for your records.

---

Participant Signature

---

Date

---

Person Obtaining Consent

---

Date

## Appendix 5 – Interview Questions

### Interview A Questions

1. What is the purpose of the KPST and what function does it serve to the society of Kosovo?
2. Why is it important for Kosovo to have a defined benefit pension fund (fully funded pension scheme) instead of only a PAYG system?
3. Why is it important for the KPST to be an independent institution?
4. Have there been movements to change the 5% contribution rate?
5. Do you believe a retired person should simultaneously benefit from both the basic pension and their individual pension from their pension fund?
6. What stance does the KPST have towards unregistered unemployment? Has it taken any measures against unregistered unemployment?
7. Should people have early access to their pension fund? Why/ why not?

### Interview B Questions

1. What words would you use to describe Kosovo's pension system?
2. Please describe the events related to the pension system in 2002
3. What do you think about the basic pension amount? How do you evaluate the choice between coverage of pension programs and individual pension amount?
4. In previous statements you have stated that the KPST (2<sup>nd</sup> column of the pension system) is not a real pension. Can you please explain why?
5. Do you believe people who receive a pension from their individual pension account should simultaneously benefit from the basic pension?
6. What are the main reasons for Kosovo's high unregistered unemployment?
7. What measures can be taken from institutions and what from employers to promote formal employment?
8. Could informal unemployment be preferred by employees? In your opinion, where is the root cause for informal work: at the employees, employers, or institutional incentives?

9. How do you judge the impact of unregistered employment on the state's ability to generate revenues? More specifically, how would formalizing employment impact the burden of paying the basic pension?

### Interview C Questions

1. In what ways does the informal economy sector, specifically unregistered unemployment, affect the economy of Kosovo?
2. Some studies estimate unregistered unemployment to be around one third of all employment in Kosovo. Why do you think unregistered unemployment is such a widespread phenomenon?
3. What specific tools can be used to combat unregistered unemployment? Are there specific institutional tools or economic incentives that can be used?
4. What words would you use to describe Kosovo's Pension system? Do you believe the current system offers enough support for comfortable living in old age?
5. Should people in retired age benefit from both the basic pension and their personal pension fund (Trusti) or should they benefit from the basic pension only after exhausting their personal pension fund savings? Why?
6. Should people be able to access the savings from their personal pension fund before retirement age? What would be the economic implications of doing so?