**The Kosovar Basic Age Pension as Universalist Exception amid Clientelistic Fragmentation**

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**Abstract**

Kosovo’s universal non-means-tested basic age pension provides an income floor to all resident citizens aged 65 and over, who do not qualify for other budget-financed schemes. It is regarded as administratively simple and cost-efficient. However, being a universalistic scheme, it is ill-equipped to provide for the clientelistic needs of Kosovo’s politicians. To free up budget resources, the Labour Ministry planned in 2016 to cut the zero pillar to finance the special schemes for war veterans and their families that mushroomed in recent years. This article argues that dismantling the basic pension is potentially harmful to the poorest strata of the elderly population and out of touch with Kosovo’s labour market reality.

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# Introduction

Kosovo falls within the family of Mediterranean welfare states, whose GDP per capita levels are lower than in most advanced political economies and social protection is underdeveloped. A large proportion of the population is at risk of poverty and economic inequality is high.

The cluster shares common socio-economic and historical traits, such as late industrialization, labour market segmentation, large shadow economies as well as a recent memory of colonial rule or non-democratic regimes. Weak central states with ineffective public bureaucracies go hand-in-hand with patron-client relations (Gal, 2010). Religion and the traditional family play a prominent role.

There is, however, a major difference between Kosovo and the rest. Following the conflict with Serbia in 1998-99, under the aegis of the United Nations Interim Administration Mission in Kosovo (UNMIK) acting as an international civilian administration, several Kosovar social security institutions have been externally imposed.

Consultants funded by the United States Agency for International Development (USAID), with the involvement from representatives of UNMIK, the European Union (EU), the International Monetary Fund (IMF), the World Bank, the UK’s DFID (Department for International Development) and the International Labour Organization (ILO) designed its multi-pillar pension system.

The zero pillar is a universal non-means-tested basic pension for the whole resident population aged 65 and above, created to supplant the country’s adverse labour market conditions. It is administratively simple, and its universal character is rather unique within the Mediterranean cluster. Here, pension schemes are fragmented across occupational and other lines, the result of clientelistic party competition, according to which benefits are attributed to specific groups in exchange for political gain (Ferrera, 1996).

After Kosovo declared independence in 2008, benefits clientelism, i.e. the exchange of monetary rewards for political support (Taborda, 2017), started affecting all publicly-financed sectors. Following in the steps of several other ex-Yugoslav republics, special pension schemes mushroomed and benefits to narrow constituencies, such as the independence war veterans, ballooned (Bartlett, 2013; Guardiancich, 2013).

The IMF (2015; 2016) voiced harsh criticism and demanded cuts in compliance with the Stand-By Arrangement (SBA) agreed in 2015. Despite the admonishments, the Ministry for Labour and Social Welfare proposed to partly dismantle the universal basic pension in order to free up resources to finance these additional schemes. The draft legislation included the introduction of means-testing, which would emasculate the pension system’s universalism.

As welfare state retrenchment can be politically risky (Weaver, 1986; Pierson, 1994), this contribution explains that Kosovar basic pensions have been targeted due to their low political salience. Universal schemes can be used for benefits clientelism only at a high cost (rewards have to be disbursed to everyone) and with uncertain results (as targeting cannot be narrow). Hence, they represent a *path of least resistance* to free up readily available resources (Bonoli, 2012).

Dismantling the basic pension is potentially harmful to the poorest strata of the elderly population and out of touch with the state of Kosovo’s workforce. In response, this article recommends a number of different reform strategies.

# The Kosovar pension system

There are several reasons why Kosovo introduced a universal non-means-tested zero pillar. The historical legacies had a huge toll on Kosovar social protection (Gubbels et al., 2007). The Serbian offensive against Kosovar Albanians was particularly detrimental: not only 145 thousand persons were fired from civil administration posts, public services, and economic enterprises, but also the authorities stopped paying benefits to ethnic Albanians (and the Yugoslav’s pension system covered fewer than half of the circa 110 thousand persons over 65). A NATO cruise missile partly destroyed the contributory records of working age Kosovars. Finally, Kosovar leaders were not eager to re-implement the Yugoslav pension system, as it was associated with the Milošević period.

Unfavourable labour market indicators affected the pension system’s design. The main problem is that few citizens regularly contribute to the social security system, many suffer from contributory gaps and lack proper labour and fiscal records. In the late 2000s, social security schemes covered perhaps one third of workers.

The main reasons are low employment – circa 50 per cent of active men and less than 15 per cent of active women were employed in 2016, according to Eurostat – and unemployment rates close to 30 per cent, as well as the high share of own-account and family workers. Demography also plays a role. Kosovo has a very young population. According to the 2011 census almost half of the population was younger than 25 (KAS, 2013). The circa 35 thousand new job seekers each year cannot be absorbed by the labour market (Bertelsmann Stiftung, 2016).

Combined with low salaries in the formal economy, this generates large-scale outflows of working-age people and a huge informal economy, amounting to some 27-35 per cent of GDP in the mid 2000s (Schneider, Buehn and Montenegro, 2010). Widespread informality is a problem in itself: it does provide the means for self-subsistence to the population but limits their access to formal types of social insurance and reduces government revenues (Krasniqi and Topxhiu, 2012).

The international community designed a set of original social policies to cope with the adverse conditions. During implementation, the UN administration had very little trust in the newly established Kosovar institutions (Héthy, 2005). The IMF feared that the reforms would be debated, delayed and altered had Kosovo not been under international governance (Gubbels et al., 2007). Hence, legislation was passed before a Kosovar government was in place, thereby ensuring independence from local political involvement (Cocozzelli, 2009). Basic pensions were the first act of the Provisional Institutions of Self-Government (PISG) in the newly created Kosovo Assembly.

If the hasty adoption generated tensions between social welfare reforms that are still unresolved, the international community’s concerns were not unfounded. Only those parts of the administration insulated from political influence did not suffer from low competence or did not develop extensive patronage networks (Skendaj, 2014). As soon as the authority was definitively transferred to the PISG, pensions become preferred vehicles for benefits clientelism.

## The ‘evolution’ of the system’s design

At its introduction, the multi-pillar design of the Kosovar pension system was a textbook version of that advocated by the World Bank (1994) in the 1990s. It consisted of a universal basic old-age pension, a disability pension narrowly focused on total and permanent disability, a mandatory fully-funded defined-contribution contributory pillar, managed by the Kosovo Pension Savings Trust (KPST), and voluntary private schemes.

The current pension system is instead much more fragmented (see Table 1), thereby fulfilling the expectations of the literature dealing with the clientelistic political competition in the Mediterranean welfare regime (Ferrera, 1996; Gough, 1996). The 2017 budget covered 12 different state-financed pensions schemes. Only the work disability pension and the family pension were not yet active for budgetary reasons.

**Table 1 Selected Kosovar old-age and disability pension schemes**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Scheme | Target group | Age | Earnings tested | Pension tested | Benefit type and amount |
| Basic age pension | All | 65+ | No | Yes | Flat (€75/month) |
| Contributory pension | Beneficiaries based on law from before 1999 | 65+ | No | Yes | Education-linked (€158-230/month) |
| Disability pension | 100% disability | <65 | Yes (categorical) | Yes | Flat (€75/month) |
| Work disability pension | Work accident or professional disease | <65 | Yes (categorical) | Yes | Flat (€75/month) |
| Family pension | Beneficiaries based on law from before 1999 or family of work disabled | Spouse <65 | Yes (categorical) | Yes | Flat (€50/month + 20% per eligible child) |

 *Source*: Feher et al. (2016: 32).

Two old-age pension schemes constitute the Kosovar zero pillar. The basic age pension is (still) a tax-financed universal flat benefit, covering all citizens aged 65 and over, who do not qualify for other budget-financed schemes and who are residents of Kosovo.

Individuals have to report to an office designated by the Ministry at least every six months to qualify for continuous benefit receipt. The Ministry of Labour and Social Welfare administer the plan. The scheme has become more generous and encompassing between 2002 and 2017: benefits increased from €28 to €75 per month and beneficiaries climbed from 93 to 123 thousand.

The Ministry of Finance annually determined the pension benefit, based on the minimum consumption food basket. Indexation was unsystematic (neither linked to prices, wages or GDP) and conditional on the budget. Law no. 04/l-131 did not substantially alter that. The cost of the program in 2015 was a bit less than 2.1 per cent of Kosovar GDP, that is, circa 11 per cent of total Government’s expenditures and circa 40 per cent of all expenditures on social protection (Table 2).

**Table 2 Social protection spending**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| - as % of GDP | 3.9 | 3.7 | 3.9 | 4.3 | 5.1 | 5.3 |
| - as % of govt expenditure | 14.1 | 12.9 | 13.7 | 15.3 | 18.7 | 19.0 |

*Source:* KAS (2016).

The contributory pension was introduced in 2007 (Decision of the Government no. 13/277), also to compensate for a basic pension that does not take into account previous contributions (Loxha, 2012). It is budget-financed and targeted to citizens aged 65 and over with at least 15 years of contributions prior to 1999 into the social security scheme of Yugoslavia (part of the contribution records survived). It employs similar residence and administrative procedures as basic pensions.

In 2014, the contributory pension changed significantly (Law no. 04/l-131 on pension schemes financed by the state). Various non-contributory periods count towards eligibility, such as years of work in the parallel health, education and other sectors in Kosovo during 1989-99. From 2016, beneficiaries are granted an extra 25 years of notional earnings history, rewarded with a 0.5 per cent increase per service year. There is benefit differentiation according to education attainment, a proxy for the earnings-related scheme.

Similar to basic pensions, the scheme’s generosity and coverage increased. In 2017, the over 43 thousand eligible individuals were entitled to a flat benefit ranging from €158 for persons with no education to €230 for people with a university degree. In 2015, the total budgetary cost amounted to almost 1.2 per cent of GDP.

## Expert assessment

Kosovar reforms are part of a wider trend, where non-contributory schemes, such as the basic pension, are introduced to increase coverage in countries with large informal labour markets (ILO, 2017). Universal non-means-tested pensions are perceived to have many advantages over targeted ones. They are *“probably the best way to provide poverty relief to the elderly. Considering the difficulty of identifying who among the elderly is poor, the principal merit of the program is that its universality avoids the targeting issue”* (Holzmann and Hinz, 2005: 95).

Yet, unconditional schemes are rare (see Willmore, 2007). Kosovo is not only the sole transition post-socialist country that implemented one, but also it adopted current residency as the single requirement beyond the qualifying age. Elsewhere, the prospective beneficiary has to demonstrate to either have resided for a number of years, to be a citizen or both.

The Kosovar basic age pension pays benefits to a relatively high share of the population (circa 7.4 per cent in 2015). At times it has been criticised for the ‘generosity’ of the benefits paid out, which exceeded the recommended and non-distortionary 15-20 per cent of per capita GDP (Palacios and Sluchynsky, 2006). However, measurement issues, widespread complaints that benefits are insufficient to make a living and wide fluctuations in their value (due to ad hoc adjustments), indicate that the basic pensions do not significantly deviate from the recommended amount.

With regards to its administration, the Kosovar plan is one of the world’s simplest and cheapest zero pillars: i) it pays a flat benefit to an easily discernible group; ii) the civil register identification is the sole and sufficient proof of identity, age and residence; iii) disbursement of all payments happens in an automated centralized process through a combination of easy-to-read bank coverage maps, joint account options and complementary mobile bank services (Sluchynsky, 2009).

## Welfare fragmentation

The Kosovar political experience is replete with instances of clientelistic party competition in all its declinations (benefits, patronage, and corruption). With regards to benefits clientelism, the government of PM Hashim Thaçi (2008-14) of the Democratic Party of Kosovo (PDK) increased public sector wages and all non-contributory pensions by some 25 per cent prior to the 2014 elections, at the expense of public investment projects. The hike in old-age retirement benefits alone cost the budget more than 40 million Euros in 2015, and the annual bill was projected to increase to 66 million by 2017. It was a one-off move due to excessive costs and a highly heterogeneous targeted population.

Thaçi, now Kosovo’s President, was a member of the inner circle of the Kosovo Liberation Army (KLA). As the PDK constituted from its political wing, the subsidization of veterans was a priority. It was fulfilled through Law no. 03/L-100 on the pensions for Kosovo Protection Corps members, passed in 2008, Law no. 04-L-84 on pensions for members of the Kosovo Security Force in 2012 (the KPC, later KSF, were the civilian successors to the KLA) and Law no. 04-L-261 on Kosovo Liberation Army veterans in 2014.

The KPC and KSF are non-contributory, earnings-related final salary schemes, whose eligibility is relaxed and benefits generous (members can retire as early as 45/50 in KPC/KSF, and benefits are not lower than 50/60 per cent of the final salary). The war veterans’ pension (plus additional benefits paid to KLA war invalids, martyrs’ families and the families of civilian victims of the war) was set to become the most expensive special benefit program in Kosovo, due to its generosity, ease of access and extension, thereby exacerbating the safety net’s inequities (Feher et al., 2014: 18-23). No wonder that the IMF (2015) has been extremely critical of their ill-conceived design and unsound targeting.

Although the government led by PM Isa Mustafa of the Democratic League of Kosovo (LDK), in coalition with PDK, vowed to cap veteran benefits at 50 million Euros in the 2017 budget, these soared to almost double that. The main reason, again in line with theoretical expectations, is that over 46 thousand people were eligible, which more than doubled IMF’s initial estimate of 18 thousand. The number swelled partly because the paramilitary organization Armed Forces of the Republic of Kosovo (FARK) was LDK’s military wing, which elicited even more benefit clientelism, in fierce competition with the KLA. Senior members of the War Veterans Association often complained that the list includes people who never saw the front lines, thereby enabling associates of both ruling and opposition parties to claim welfare (Quirezi, 2016).

# The path of least resistance

Kosovar special pension schemes require additional resources, which could be carved out from schemes ill-suited for benefits clientelism, such as basic pensions.

As cutting welfare is politically costly (see the disastrous attempts to reform pensions by the Berlusconi or Juppé governments in the mid-1990s), a rich literature sprung up explaining that reforms nonetheless succeed when politicians successfully deploy blame-avoidance strategies. These include obfuscation (through the low visibility of cutbacks), division (creating a wedge between otherwise homogeneous groups), compensation (ranging from direct financial pay-outs to exclusion from reforms) and justification tactics (convincing the public of the reforms’ necessity) (Weaver, 1986; Pierson, 1994; Green-Pedersen, 2003).

When losers are veto players, however, a government may look for other viable options. By choosing the safer *path of least resistance*, costs are imposed on marginal interest groups (examples are widows, younger pensioners, temporary workers and so on). These groups are less likely to mobilize effectively, especially when complementary reforms are pursued through long phasing-in periods and liberalization at the margin.

Given the basic age pension’s universalistic objectives and particular demographic characteristics, the scheme offered a *path of least resistance* to retrenchment. Indeed, during the spring of 2016, the Kosovar Ministry of Labour and Social Welfare started a process that would have turned the universal into an income-targeted scheme.

It was an ill-conceived reform, whose few gains would be offset by the appearance of horizontal leakages and increased administrative costs. The policymaking process was equally flawed. Consultation with civil society and the social partners barely took place, and the reform’s aim was just to redirect the liberated funds towards politically more profitable schemes (KSI, 2016).

## The reform plan

A 2016 Concept Paper of the Labour Ministry envisaged three scenarios regarding the future of tax-financed pensions in Kosovo (Government RK, 2016).

The no-reform scenario was deemed to be unfair. The Ministry decried that the basic age pension continued to be paid out to Kosovar citizens permanently living abroad (10-15 thousand people), due to excessively lax residence requirements, and to pensioners having additional sources of income, as there is no means test.

An alternative scenario was to draft a new law regulating all pension and disability schemes financed by the state with a single bill. This would: i) introduce nuanced disability scales on which to calculate invalidity benefits; ii) create a separate administration for all non-contributory Kosovar schemes (including the special ones for veterans, for the blind etc.). The new administration would have a one-stop-shop in each Kosovar municipality. Although a new law was the preferred solution, the shortages in trained staff, time constraints, a dire labour market situation and the many currently uncovered citizens with disabilities (only one in ten receives a benefit) would make the solution exceed budgetary capabilities.

The favoured option became amending the Law no. 04/l-131. The basic age pension would be replaced by a social age pension that is means-tested and implicitly taxed at a rate of 100 per cent (so if one’s income is less than the social pension, one receives just the top-up). Eligibility would apply to both Kosovar and foreign citizens, provided that they have resided in Kosovo for the past 10 years (the last five as permanent residents). The benefit becomes non-exportable abroad in the absence of a bilateral agreement. The law would also regulate the main administrative procedures to monitor the residence and income requirements. The criteria for the application to a disability pension would be clarified.

## Design shortcomings

Two of the reform’s objectives were particularly problematic. The creation of an independent administrative body supplementing the Department for Pension Administration (DAP) within the Labour Ministry would duplicate capacity. The general trend is instead to centralize and automatize social security procedures and communication. For example, most Latin American countries manage non-contributory pensions through the institutions responsible for the contributory pension system or for social assistance. Only Paraguay has established an independent directory (Rofman, Apella and Vezza, 2015). Given the lack of trained staff and the unenviable record of patronage in Kosovo, the new administration would be both inefficient and abused to appoint cronies (Skendaj, 2014).

Income tests would emasculate the scheme’s core function of universal poverty alleviation. In the Labour Ministry’s reasoning, this would render the basic pension comparable to the social assistance scheme. Currently, they both fulfil the same function but apply eligibility criteria that are, according to the Ministry, soft and prone to abuse for pensions, hard and solid for social assistance (Government RK, 2016).

The pros of a targeted system are: potentially lower fiscal costs, horizontal equity (people who do not need a benefit do not get it) and higher political support than for universalism (Grosh and Leite, 2009; Korpi and Palme, 1998). Yet, the cons can be substantial: targeting is complex, expensive and, depending on the type – income, pension, by proxy etc. – has its own administrative, efficiency and equity problems.

Experience tells that these problems would be acute in Kosovo.

If social assistance in Kosovo is considered to be relatively efficient despite being based on a hybrid form of targeting, including categorical targeting, a proxy-means (asset) and means (income) test. Yet, there are substantial coverage gaps, e.g. poor children are excluded (Roelen and Gassmann, 2011). Consequently, the exclusion of a number of elderly citizens from a new targeted basic pension scheme would be foreseeable. Depriving these citizens of an income floor can have severe consequences on individual well-being and even increase the overall probability of premature death (see Jensen and Richter, 2004).

Strengthening the residence test and the coherence of the pension system is likely to improve financial sustainability. However, due to economic informality and large inflows of remittances, the required administrative capacity would be substantial, and the operating costs likely to partly offset the potential savings.

Finally, if testing against other pension income is sensible, general income and other means testing creates inactivity and poverty traps. The likely consequences would be fewer persons engaged in gainful employment or self-employment during retirement and disincentives for younger, lower-income workers to save or formalize their employment status.

## Procedural flaws

As amending Law no. 04/l-131 affects every Kosovar citizen, an encompassing consultation process with civil society actors should have aimed at reaching consensus. Instead, the procedure involved mainly the Labour Ministry staff and external consultants. Public consultations lasted one week only in January 2016 (Government RK, 2016).

In addition to possible legal shortcomings – amendments should not rewrite more than a certain amount of an existing act, failing that, a new law should be drafted (KSI, 2016) – the motives behind the proposed reform were to harmonize the basic age pension to social assistance and to generate fiscal savings.

The stated objectives do little justice to the raison d'être of the Kosovar zero pillar, which is to protect from poverty. According to the Finance Ministry’s recommendations, the liberated funds would finance the family and work disability schemes that were legislated in 2014 but not yet implemented. The group that would benefit the most, war veterans, was never explicitly mentioned.

Several reasons made Kosovar basic pensions a *path of least resistance* where to apply cuts (Bonoli, 2012).

Being Kosovo a traditional society, the gender imbalance is a fundamental trait of basic age pensions. In 2017, two thirds of recipients were women (66.2 per cent), due to short or inexistent contributory histories, compared to just 13.7 per cent of those entitled to a contributory one (KAS, 2018). A reform of the basic pillar would hence affect mainly former female family workers.

Next, politics and civil society were uninterested in the defence of such constituency. On the one hand, of the 6,000 registered NGOs in Kosovo, the few that are active deal with municipal policy, corruption and environmental issues (Bertelsmann Stiftung, 2016). Only rare exceptions, such as the Kosovar Stability Initiative, lobby for social policy solutions. On the other hand, among the social partners, neither the employers nor trade unions are particularly affected. Labour leaders often are themselves pensioners, who hold the belief that people with no contribution record should not be entitled to public pensions. Last but not least, basic pension recipients do not represent a major source of benefits clientelism for politicians, in stark contrast with the potential offered by special schemes.

# An alternative reform strategy

The Kosovar pension system is far from perfect. Yet, as the IMF notes, most complications are concentrated in special benefit schemes, family and disability pensions, whereas the zero pillar is comparatively less problematic.

A mixed strategy that tackles the problem on multiple fronts may improve the basic pension’s design efficiency (Robalino and Holzmann, 2009). Willmore (2007) shows that there are several ways of reducing the costs while preserving universality: taxing pensions as ordinary income, increasing the pensionable age, reducing the benefit ratio, and strengthening administrative capacity. Not all are appropriate for the case at hand, but they provide a good starting point for reflection.

## Taxation

A way of ensuring both vertical equity and fiscal sustainability is applying a progressive Personal Income Tax (PIT) on pensions, as is customary in the Nordic countries. Retirees ought to contribute to the costs, with wealthier pensioners paying proportionally more. All sources of income should be similarly treated, thereby sharing the burden of social security among generations, improving vertical and horizontal equity and creating fewer distortions on the labour market.

In Kosovo, all social transfers are exempted from PIT. Feher et al. (2016) suggest that, except for the neediest, beneficiaries should pay income tax and health contributions. Moreover, dependent employment or self-employment should not be discouraged during retirement. At the same time, pensioners should be subject to a partial clawback of pension benefits as income rises.

## Eligibility

An effective way to contain costs and simultaneously increase the adequacy of benefits is raising the statutory retirement age (Barr, 2012). Age targeting has the advantages of easy identification and administrative simplicity, important in countries with low implementation capacity. The disadvantages are vertical leakages (benefits flow to people who are not poor), the crowding out of funding to other groups at risk of poverty (e.g. children) and regressiveness, as the poor die younger than the rich.

Despite Kosovo’s population being the youngest in Europe, rapid ageing and sustained working-age population migration pose a challenge in the medium- and longer-term. Comparing the UN (2015) with KAS (2016) demographic predictions, if Kosovo is now comparable to other low-income countries, it will converge to higher-income countries in just three decades. The population aged 65 and over on the total will climb between 2015 and 2050 from 8.0 per cent (comparable to the 6.4 per cent in less developed countries during the same year) to 22.8 per cent (closer to the 26.5 per cent of more developed countries predicted for 2050).

One solution, favoured by an increasing number of European countries (European Commission, 2018), is to link the statutory retirement age to life expectancy, provided that the labour markets are ready to employ an ageing labour force.

## Benefits

As the Kosovar basic age pension’s benefits are only slightly higher than the recommended 15-20 per cent of per capita GDP, it is rather the other special pension schemes and inefficient disability assessment procedures that should be addressed first. Systematic indexation should substitute *ad hoc* increases for all budget-financed benefits.

In the future, the adequacy of basic pensions should be addressed, as the recipients’ general perception is that benefits are modest compared to the costs of living. Compatibly with budgetary capacity, the pension system shall play a prominent role in poverty alleviation (circa 29.7 per cent of the population lived under the national poverty threshold in 2011, according to World Bank data), once its major problems are resolved.

## Administration

Improving the efficiency of the Kosovar pension system may require stricter residency requirements (partly introduced in the amendment to Law no. 04/l-131) and a consolidated social security database (instead of duplicating capacity).

The IMF estimates that one fifth of persons aged 65 or above are unlawfully receiving the basic pension. There are four possible causes: individuals claiming both basic and contributory benefits; unreliable population estimates based on the 2011 census; non-declaration of deaths; flaws in the concept of residency, both for benefit eligibility and for the census (Feher et al., 2016).

Thus, residency requirements should be better enforced. One solution is that recipients turn up at the designated government agencies more often, lest they trigger a suspension of benefit disbursement, and that retroactive collection of benefits should be limited. Additionally, religious communities should report all burials, thereby enabling the immediate de-registration of the deceased from the lists of recipients (KSI, 2016).

Next, the gradual integration of all social security payments, checks and tests with the tax administration would reduce administrative costs of the pension system. There is no lack of examples where to find inspiration, as the consolidation trend in developing countries shows.

Again, the Nordics, provide excellent solutions. A consolidated database of budget-financed cash transfers for individuals and households as well as of recipients, through the introduction of, e.g. a Danish-inspired Personal Identification Number (*CPR-nummer*) could be complemented by automated data exchange between the benefit database, the tax authority and financial service providers licensed to execute money transfers benefitting natural persons (Feher et al., 2016). This would serve the double purpose of reducing overall administrative costs and limiting the fruition of mutually incompatible benefits.

# Conclusions

Kosovo is a textbook example of the clientelistic party competition found in the Mediterranean welfare regime. Its budget-financed pension system has undergone steady fragmentation since the international community relinquished authority to local politicians. Whereas the original design espoused universalism as its defining feature, since 2008, a host of special schemes has sprung up, especially favouring the war veterans.

As the inequitable plans are costly, the Labour Ministry planned to free up fiscal resources by partly overhauling the basic age pension. Due to its universalistic character, which reduces the potential for benefits clientelism, as well as low political and societal salience, the scheme represented a *path of least resistance* for retrenchment.

By end of 2018, the worst seems to have been avoided, as the Ministry’s proposals have not had a follow-up. A number of domestic and international factors probably helped. The governing coalition between PDK and LDK became increasingly antagonistic, and incapable of solving the distribution of rewards between FARK and KLA veterans. The IMF stepped up the pressure by imposing a cap on special schemes under the threat of discontinuing the Stand-By Arrangement. A visible campaign by some NGOs brought the basic age pension affair to the attention of the public.

Yet, the reform of the Kosovar pension system has only been temporarily postponed. As the consequences of limiting coverage might unnecessarily harm the poorest strata of the elderly population, this paper proposes a mixed reform strategy in line with the IMF’s proposals and the World Bank’s current orientation. It consists of simultaneously tackling issues of eligibility (gradually linking the statutory retirement age with life expectancy), taxation (treating pensions as all other income and allowing recipients to continue working), benefit structure (keeping benefit levels and introducing systematic indexation) and administration (enforcing residency tests and consolidating social security databases).

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