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Kosovo Poverty Assessment

Promoting Opportunity, Security, and Participation for All

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WEIGHTS AND MEASURES

Metric System

ACRONYMS AND ABBREVIATIONS

DFID	Department for International Development (UK)
DHS	Demographic and Health Survey
ESPIG	Economic Strategy and Project Identification Group
EU	European Union
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
HBS	Household Budget Survey
HDIS	Human Development Indicator Survey
IDPs	Internally Displaced Persons
IMR	Infant Mortality Rate
LFS	Labor Force Survey
LSMS	Living Standards Measurement Survey
KFA	Kosovo Forest Agency
KFOR	Kosovo Force (NATO)
KEWR	Kosovo Early Warning Report
KMS	Kosovo Mosaic Survey
LE	Life Expectancy
MDGs	Millennium Development Goals
MoH	Ministry of Health
NGOs	Nongovernmental Organizations
PHC	Primary Health Care
PRS	Poverty Reduction Strategy
PISG	Provisional Institutions of Self Government
PSI-KAP	Population Services International Knowledge Attitudes and Practices survey
SDS	Socio Demographic and Reproductive Survey
SEE	South-East Europe
SIDA	Swedish International Development Cooperation Agency
SOK	Statistical Office of Kosovo
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commission for Refugees
UNMIK	United Nations Interim Administration Mission in Kosovo
WHO	World Health Organization

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EXECUTIVE SUMMARY

1. ***The population of Kosovo has suffered substantially over the past decade from deep economic, social and political turmoil.*** During the 1990s, Kosovars were subject to the shock of transition, the neglect and exclusion of the Albanian community during the Milosevic era, and the ensuing armed conflict in 1999. Existing studies indicate that by the end of the decade, output had more than halved, income had collapsed, less than half of the population was employed, and half was in poverty.
2. ***The reconstruction efforts since the end of the conflict have succeeded in putting the Kosovo economy on a growth path, but little progress was made with the clarification of Kosovo's political status.*** The province has benefited greatly from the restoration of peace and stability, and from massive inflows of donor assistance. There is still some uncertainty on economic data, but these suggest that progress with reconstruction, macroeconomic stability and the establishment of public institutions have led to a recovery of economic activity since 2000. GDP growth reached 21 percent in 2001 and has since averaged 4.3 percent. GDP per capita increased from about US\$400 in 1995 to US\$790 in 2003. Gross National Disposable Income (GNI) per capita was even higher at about US\$975 in 2002 and US\$1170 in 2003, reflecting the importance of remittances.
3. ***Despite considerable progress with reconstruction, the challenge of poverty reduction in the years to come remains enormous.*** The recent growth performance has been driven by a post-conflict boom financed by official development aid flows, but it has not led to a significant creation of jobs and it is unlikely to be sustainable without a clarification of Kosovo's political status and the maintenance of peace and security for all. While recent growth and moderate consumption inequality have most likely led to a reduction in poverty between 2000 and 2003, still about 37 percent of the population was estimated to live in poverty according to the 2002/03 Household Budget Survey (HBS) data. A fragile social cohesion, poor environmental conditions, and deficient industrial and basic infrastructures could further undermine the sustainability of economic growth and its impact on poverty reduction. There are additional concerns that the pro-poor potential of public social service delivery could be jeopardized by weak governance, a low level of administrative capacity and inadequate resources. Last, but not least, the lack of a comprehensive and integrated social statistics system in Kosovo could limit the ability of Government to formulate pro-poor policies and plan future investments.
4. ***The aim of this report is to contribute to the on-going policy dialogue on poverty reduction in Kosovo and to support the formulation and prioritization of well-informed public policies.*** Specifically, the report has been prepared as an input toward the gradual building of a donor-supported, home-grown, comprehensive poverty reduction strategy. It is articulated around the following key questions: (i) To what extent does the social statistic system in Kosovo allow policy makers to form an accurate picture of the poverty situation and hence to formulate well-informed pro-poor policies? (ii) What is the true extent and nature of poverty? (iii) Who are the poorest groups? (iv) How cohesive is the Kosovo society? (iv) Is public social service delivery sufficient, effective and equitable? This report has been produced as a result of working collaboratively with SOK and UNDP. In addition, nine

background papers on various aspects of poverty were commissioned and their findings have been incorporated selectively in the main report¹.

The Challenge of Poverty Monitoring

5. ***Substantial progress has been made by SOK in the collection of household level data on consumption and income, but the lack of a recent population census remains a major impediment.*** SOK is conducting an increasing number of surveys that are meant to be representative at national level and for urban/rural and the Serb/non-Serbs sub populations. The current fielding of the HBS represents a substantial progress with the collection of household level data on consumption and income necessary for monitoring income poverty. However, Kosovo lacks a recent population census to assess the accuracy of existing data and improve the quality of sampling designs. Without a population census that provides up-to-date population estimates, not only is it almost impossible to assess whether the estimates generated from various surveys are representative at national level and for sub groups, but it is also very difficult to improve the quality of sampling designs.

6. ***The current household survey system does not allow the comparison of critical income and non-income poverty estimates across surveys and over time for the period 2000-2003.*** The investigation conducted in this report shows that there are some methodological differences between the Living Standards Measurement Survey (LSMS) and the HBS in the collection of data on consumption and income which make the comparison of income poverty estimates problematic. Previous World Bank poverty estimates were based on the 2000 LSMS. The new estimates reported in this report are based on the 2002/03 HBS. The 2000 LSMS and the 2002/03 HBS are not entirely comparable, mainly due to differences in consumption modules and the use of survey-specific poverty lines. Only after future rounds of the HBS have been undertaken and analyzed, can one make more definite statements about the trends in poverty and extreme poverty. There are other inconsistencies in the household survey system that make the comparison of non-income indicators of poverty such as educational achievements and health outcomes across surveys and over time most difficult.

7. ***The data necessary to measure non-income dimensions of poverty is still insufficient.*** Critical gaps in data collection further undermine Kosovo's capacity to measure the multidimensional aspects of poverty, including several indicators necessary to monitor the Millennium Development Goals (MDGs), and to analyze the poverty linkages and the causes of poverty.

8. ***Access to SOK data remains a problem.*** The Statistics Office maintains a comprehensive and up-to-date website of the office's most recent publications and statistics generated from its survey system. Unfortunately, only published data is available for public use. The statistics office enforces a strict policy on data access. No data is ostensibly allowed to leave the premises of the office. As a result, much of the data is under-utilized and the monitoring and analysis of poverty is made more difficult. Data access policies vary across the region. In eastern Europe and central Asia, countries with an open access to survey data include Albania, Bosnia and Herzegovina, Estonia, Georgia, Hungary, the Kyrgyz Republic, and Moldova. Consistent with international standards, the sharing of household level data can improve poverty monitoring program capacity and lead to efficiency gains in poverty analysis.

¹ The list of the background papers is provided in the reference section.

The Many Dimensions of Poverty

9. ***Income poverty appears widespread but is relatively shallow.*** Four years after the end of the conflict, income poverty remains widespread. Calculations based on the HBS shows that in 2002 about 37 percent of the population in Kosovo was living below the poverty line of Euro 1.42 per adult equivalent per day and 15.2 percent were below the extreme (food) poverty line of Euro 0.93 per day. However, the size of the poverty gap (11.4 percent) and the severity of poverty index (4.9 percent) indicate that poverty was not extremely deep. For all income groups, income from work was the main source of income (59.9 percent) followed by private remittances from abroad (15.2 percent). For the extreme poor, state transfers constituted the third largest source of income (18.4 percent). Income diversification and own-produced food were important coping mechanisms.

10. ***Income poverty is found to affect disproportionately children, the elderly, female-headed households, the disabled, non-Serb ethnic minorities, the unemployed, and precarious job holders.*** The poverty profile has remained practically unchanged since 2000 and is consistent with other recent quantitative poverty profiles. Poorer living conditions among the elderly, female headed households, families with children, the disabled, and the unemployed is also supported by qualitative evidence. There is no accurate information on internally displaced persons (IDPs), but available evidence from small scale surveys points to their extremely difficult living conditions.

11. ***Joblessness is an important cause of income poverty that reflects the difficulty of the Kosovo economy to generate sufficient viable jobs for its large youth population.*** So far, the growth performance in Kosovo has not been driven by a revival of the formal private sector leading to more sustainable formal job creation. There is still a lack of consistency in labor market data, but data from the LFS show persistently high ILO unemployment rates in the post-war period: 41.2 percent in 2001, 47.2 percent in 2002, and 44.4 percent in 2003. An overall low labor demand, relative to the large youth labor force, is a major problem in Kosovo, one that is strongly associated with income poverty. While many existing formal jobs are found in the service sector, and are closely reliant on the presence of a large expatriate community, informal employment is very high - with half of workers with no written contracts. Informal jobholding seems to be widespread in construction and in agriculture, and job opportunities in the industrial sector and in agro-processing have been so far very limited. Prospects for future reduction in poverty will crucially depend on the removal of barriers to a more labor intensive growth, specifically: (i) the difficulty to attract FDI necessary to revitalize the industrial sector in the absence of solutions to address political risks and to overcome delays with the privatization process; and (ii) the intense competition to domestic producers in the agricultural sector induced by subsidized agricultural imports.

12. ***Educational and health outcomes are still low, but there are signs of improvement.*** Besides the lack of income, education and health capabilities are among the primary dimensions of individual well-being. The report finds that the overall level of completed education is relatively low in Kosovo and that illiteracy is still significant. In 2002, half of the adult population had only achieved primary education or less and 6 percent were illiterate, largely reflecting the legacy of the past and its adverse impact on older cohorts. Yet, since the end of the conflict, considerable progress was made. Progress toward the achievement of universal primary school enrolment has been substantial, with gross primary enrolment rates up to 95.4 percent in 2003. The illiteracy rate was also reduced to less than 0.5 percent among children and youth. Yet, more needs to be done, especially on pre-school and secondary school. Few children in Kosovo attend pre-school institutions and enrolment drops substantially at secondary level, with a gross enrolment rate of only 75.2 percent in 2003. As regards the health status of the population, there is still considerable uncertainty on estimates, but available evidence points to very poor health outcomes which are also among the worst in south-east Europe. Health around birth and over the first year of life is a major problem, as

indicated by current infant mortality rates ranging from 18 to 49 per 1,000 (4 to 10 times higher than the EU average). Inadequate nutrition is a particular problem that affects a fairly large number of children. The factors behind the high maternal and infant mortality rates are fairly well identified and largely preventable. There are also signs of improvements in these indicators. Quantitative information on the health status later on in the life stages is very scarce. Yet, available data suggest that tuberculosis and disability are major problems. The incidence of tuberculosis has declined substantially in recent years but remained 5 times higher than in western European countries. And between 5 to 7.5 percent of the overall population have some kind of disability. Qualitative data further indicate that mental health problems are widespread, especially for young people.

13. ***Exposure to health risks is widespread, largely resulting from environmental pollution.*** Environmental pollution and contamination is widespread and represents a serious hazard to health in Kosovo. The major causes of environmental health risks are due to: (i) outdated mining practices and industrial infrastructure that ignored environmental impacts; (ii) poor housing conditions and quality of basic infrastructure services, and (iii) weak environment management systems. Contamination of soil and foodstuff by heavy metal and lead is probably one of the most serious problems in areas where the mines and industrial facilities are located. In environmental hot spots, the lead intake of people eating crops has been calculated to be more than three times higher than the WHO and FAO recommended maximum weekly intake and about 15 times greater than the standards for EU countries. The first studies conducted in the early 1990s also found some evidence of lead poisoning in children from northern Kosovo, with blood lead concentration at birth in Mitrovica two times above the internationally accepted level. The on-going planned large scale testing program will probably confirm the earlier results. Water contamination is also a major environmental risk. Outdoor air pollution is most problematic around outdated industrial infrastructure and in Pristina due to polluting and unregulated traffic. Despite the decline of industrial activity and the shut down of the most polluting industrial facilities, Kosovo remains one of the highest air polluters in South-East Europe, with 5.5 tones of CO₂ emissions compared, for instance, with 4.06 tones in Croatia and 3.8 tones in Romania. Indoor air pollution could affect a vast majority of households. Other important health risks are the threat of a rapid HIV/AIDS epidemic and the prevalence of risky behaviors among youth.

14. ***A large share of the population could fall into income poverty as the result of a still unstable political situation and the related risk of economic slow down.*** Besides the political instability and the related risks of economic slow down that can affect the entire population, the report finds that a combination of other and often inter-related factors explain a fairly large level of income insecurity and vulnerability to income poverty in Kosovo. These include: (i) environmental degradation which can jeopardize the livelihoods of those who rely on natural resources, especially in rural areas; (ii) a high risk of unemployment and precarious employment; (iii) constraints to internal mobility that can limit the capacity to mitigate income shocks; (iv) unexpected private health-care expenses that appear catastrophic for some households; and (v) low coverage of the formal social safety net. Yet, households' capacity to self-insure against temporary income shocks is improved by access to family-based networks and private transfers, the reliance on multiple sources of income, and the ownership of durables that could serve as collateral to access credits or be sold to compensate for temporary loss of income or to cover unexpected expenses such as health care.

15. ***The lack of personal safety is an important dimension of poverty that is not solely related to inter-ethnic tensions.*** The Standards for Kosovo stipulate that "all people in Kosovo are able to travel, work, and live in safety and without threat of fear of attack, harassment or intimidation ...". Physical safety remains problematic in Kosovo, both at a national and household level. In the first place, there are elevated environmental risks that constitute a national security issue. Kosovo belongs to a major seismic area but its housing stock does not seem to comply with the security codes, putting a large share of the population

at risk. Risks of landslides are high as the result of the high deforestation rate and are an important issue in the Bardh and Mirash mining areas. Flooding can be a potential threat for households located near environmental hot spots. Unexploded mines used during the war remain an important safety issue. Inter-ethnic tensions are also an important potential source of conflict, and of particular concern to internally displaced people. While the growing feeling of insecurity observed between 2002 and 2003 is not supported by crime statistics and only a few reported crimes in 2002 and 2003 were ethnically motivated, the March 2004 riots indicate that inter-ethnic violence remains a major issue. Finally the trafficking in women and girls and domestic violence against women emerge as other important sources of physical insecurity.

16. *The empowerment of people in Kosovo is weak.* Empowerment refers to the capability of all people, regardless of their income status, ethnicity, race, religion, or gender, to participate in, negotiate with, influence, and hold accountable institutions that affect their lives. Empowerment is an important dimension of well-being, one that is also well reflected in the “Standards for Kosovo” under headings I (the functioning of democratic institutions) and II (the rule of law). The findings of this report show that there have been positive developments but several challenges remain. On the one hand, UNMIK has established a legal framework that promotes a democratic society and the rule of law in Kosovo, gender equity is promoted in formal state institutions and has enabled a greater representation of women in public life, and participation and representation of ethnic minorities is guaranteed by the Constitutional Framework. On the other hand, achievements in political and civil freedom is mixed, the unresolved legal status of Kosovo generates a general sense of powerlessness and voicelessness, youths’ ability to influence the institutions that affect their lives seems also very limited, many Internally Displaced Persons (IDPs) feel voiceless, women’s influence in decision making remains at stake, and the participation for all in the political life is challenged by the risk of non-participation of Serbs in local elections. Moreover, the move toward more transparency in public management remains hindered by the lack of good administrative data. Corruption is considered a problem of medium to high importance depending on the sector, and it tends to affect disproportionately the poor. Access to internet remains also limited. The level of knowledge of youth on reproductive health, HIV/AIDS, other sexually transmitted infections (STIs) and safe sex practices is still very low as is the level of environmental awareness, and indicate that access to information on these issues remain problematic.

17. *The experience of poverty is more devastating at early ages. Around birth and during early childhood income poverty and environmental risks are major causal factors for severe and sometimes irreversible health consequences.* During adolescence, when schooling is no longer compulsory, income poverty has also a strong negative influence on school enrolment. Later on in the life cycle, low health outcomes contribute to income poverty through their adverse impact on employment. During adulthood, low education achievements become a major cause of income poverty, mainly through lower wages and higher unemployment. Often, the different aspects of poverty reinforce each other. In Kosovo, the vast majority of the extreme income poor are also poor in the dimension of education. The overlap between the income and health dimensions of poverty is more difficult to capture with existing data. A non negligible share of the extreme poor also live in poor housing conditions. A large majority of the extreme poor are infrastructure poor – but infrastructure poverty is widespread and affects all income groups almost equally.

A Fragile Social Cohesion

18. *Social cohesion is fragile and this may undermine the sustainability of economic growth and reduce the impact of growth on poverty reduction.* While overall consumption

inequality is moderate, disparities in economic and social well-being by location, ethnicity, gender and age are important and may be important sources of discontent and political unrest.

19. ***Consumption inequality is moderate and shall thus facilitate the transformation of average income growth into poverty reduction.*** Measures of income or consumption inequality provide information on the extent of disparities in material well-being prevailing across households or individuals, and are thus key indicators of social cohesion. Inequality measures are also important to forecast the impact of economic growth on poverty reduction. Income inequality is high in Kosovo relative to other neighboring countries, with a Gini coefficient of 0.49, but consumption inequality is moderate relative to neighboring countries, as reflected by a Gini coefficient of 0.30. The simulations conducted in this report also show that moderate consumption inequality is a positive development for Kosovo, as an increase in inequality can reduce and even compromise the pro-poor potential of economic growth.

20. ***Spatial socio-economic disparities are important and justify a geographical focus in the poverty reduction strategy.*** Kosovo has pockets of poverty in regions where local unemployment is often high. Income poverty is lower in rural areas than in secondary cities, but this is mostly due to the consumption of own produced food and does not reflect better economic opportunities in rural areas. Employment opportunities in rural areas are indeed as bad as in secondary cities and worse than in Prishtina. Minorities are also in disadvantage due to restrictions in freedom of movement, giving them limited access to markets where they could sell their products. The regional distribution of infrastructure services is relatively flat. Housing conditions seem to vary quite substantially from one region to another and are substantially worse in secondary cities, compared to Prishtina, but not as bad as in rural areas. In rural areas, distance to secondary schools is a major barrier to education, and physical access to medical centers is also more difficult. This may be one reason why secondary school completion rates are substantially worse in rural areas. In 2002, the secondary school completion rate was only 46 percent in rural areas, as opposed to 64 percent in secondary cities and 77 percent in Prishtina.

21. ***Socio-economic disparities between Albanians and Serbs are modest, but non-Serbs ethnic minorities face a substantial disadvantage.*** Consumption inequality is largely explained by disparities within communities and not by inequality between Albanians, Serbs and other minority groups predominantly composed of Slav Muslims and Roma. Moreover, socio-economic disparities between Albanians and Serbs are modest, but the maintenance of a parallel system for the provision of social services to Serbian minorities may undermine the development of a unified social protection system and the perception of social cohesion. Regardless of actual circumstances, there also are areas of agreement and divergence in the perceptions of Albanians, Serbs and other minority about the main problems in Kosovo. For all ethnic groups, there is a broad consensus that unemployment and uncertainty about the final status of Kosovo are among the biggest problems in Kosovo. However, a sense of insecurity is one of the top problems reported by the Serbs, and also a non-negligible concern among other minority groups while it is not seen as a major problem by the Albanians. Further investigations shows that non-Serbs ethnic minority groups face a serious disadvantage not only in the dimension of income but also with respect to education.

22. ***Gender inequity remains widespread and interacts closely with ethnicity, indicating that the status of women in Kosovo is still at stake.*** The report shows that during childhood and adolescence, girls' education becomes at risk at secondary level among Albanians and non-Serbs ethnic minority. During adulthood, women face a substantial and growing employment disadvantage, but women disadvantage in terms of lower wages is less pronounced. The combination of limited schooling, early marriage, and entrenched attitudes among family and community about the fulfillment of traditional roles help explain women labor market disadvantage. The analysis also shows that the higher incidence of poverty among female-headed households is mostly due to gender differences in educational

attainment and sources of income, with female-heads being less educated and more reliant on pension.

23. ***Large pools of unemployed and idle youth is a worrisome fact in Kosovo and a major potential cause of social instability.*** Income opportunities are substantially worse among youth, with a youth unemployment rate of nearly 75 percent according to the LFS, which is more than two times higher than the adult unemployment rate. A major issue for youth is the difficulty to find decent work and to be occupied, which adds to their lack of participation and voice in Kosovo society and may contribute to increase the overall level of ethnic and social tensions. There are also fewer income opportunities for the elderly, whose main concern is the substantial loss of income incurred when leaving employment and joining the pension system. The fact that pensioners are among the poorest, yet not entirely destitute, relates to the existence of close family ties which guarantee a minimum support. The set-up of a new pension system has also been instrumental in ensuring a minimum income for the elderly. The 2002/03 HBS data can serve as a benchmark to monitor the impact of the pension system on household welfare. There is also a large literacy gap between youth and older people which fuels the disparities in life styles and aspirations across generations: in 2002, while illiteracy affected less than 0.5 percent of individuals of ages 24 or less, it affected more than 48 percent of individuals of ages 65 and above.

The Pro-poor Potential of Public Service Delivery

24. ***Insufficient public spending and low coverage are issues of medium to high importance depending on the sector.*** Compared to regional average, overall public spending on education is reasonable (6.1 percent of GDP) but public spending on health (4.5 percent) and social protection (5.8 percent) is low. Within education, a relatively high proportion of public spending goes to primary education and very little on preschool. The downward trend in donors' financial assistance to education and health sectors also raises concerns about the sustainability of pro-poor public spending in the social sector. In terms of coverage of social services, the overall provision of public health care services seem to be reasonable, but the provision of schools at pre-primary and secondary level appears to be inadequate, especially given the very young age of the Kosovo population. Finally, while pension coverage seems to be high according to recent administrative data, social assistance delivery is very limited in terms of both overall public spending, amount of benefits, and coverage of the extreme poor. While developing a more comprehensive social assistance scheme is unlikely to be fiscally sustainable in the current context, there are ways of making the system work better for the poor.

25. ***Besides sufficiency, the pro-poor potential of public social services may be compromised by a low effectiveness of service delivery.*** The ongoing health reform process in Kosovo has achieved important results but the low quality of services remains a major impediment for an effective delivery of health care. The lack of quality of health care affects several crucial areas, especially antenatal care, and reflects, among other factors, the inadequacy and inefficiency in staffing allocation. In the education sector, concerns about the quality of schooling result from the presence of teachers with inadequate qualification. Finally, the social assistance scheme appears moderately effective, with little errors of inclusion but large errors of exclusion that reflect the cash limit. Overall, the delivery of public social transfers has a large impact on poverty reduction, but the main incidence is provided by the basic pension while the impact of social assistance is more modest.

26. ***Although there have been some successes, challenges remain with ensuring an equitable delivery of public social services in Kosovo.*** In the health sector, equity in service delivery may be compromised by management inefficiency and corruption that cause undue out-of-pocket expenditures and disproportionately hit the poorest. In the education sector,

while a priori public funds allocated to basic education seems to equally benefit poor and non-poor children, there seems to be large disparities between the poor and non-poor in the quality of teaching. With respect to access to social assistance, Serb households and households with more than four children appear disadvantaged for reasons that remain to be explained.

Directions for Public Policy

27. *To reduce poverty, national policymakers would need to think of developing a multi-pronged strategy reflecting the various dimensions of poverty and the need for more robust evidence on the nature and the changes of poverty over time.* This strategy could be articulated around the following five main goals: (i) promoting income opportunities; (ii) raising education and health capabilities; (iii) reducing vulnerability to income and non-income poverty; (iv) empowering disadvantaged groups; and (v) promoting an evidence-based dialogue on poverty.

28. *To be realistic, this multi-pronged strategy would need to take into account the context of tight fiscal constraints in which public programs need to be developed.* A summary diagnosis of the poverty situation along with policy options is provided in Table 1 as a first input into the on-going building of a broader Kosovo Development Strategy. As such a strategy is developed, it would be necessary to ensure that it is properly costed and affordable. This would require proper prioritization and an appropriate sequencing of the proposed reforms and interventions.

29. *Growth-enhancing and efficiency reforms should be at the center of this poverty reduction strategy.* This would make the State more effective and provide additional fiscal spaces for public interventions.

30. *The prospects for growth and poverty reduction will crucially depend not just on domestic policies but also on decisions made by the international community.* Sound domestic policies are crucial for sustaining growth and attacking poverty, but it is equally important to acknowledge that in the short-term the prospects for growth and poverty reduction in Kosovo will still be heavily influenced by the level of donor assistance and the clarification by the international community of Kosovo's political status. An important concern is that delays in the settlement of Kosovo's status combined with a rapid decline in donor assistance is likely to have severe adverse social and economic repercussions on the population of Kosovo.

31. *Kosovo still needs the support of the international community to address the numerous poverty challenges ahead. This support is likely to become more effective if embedded within the framework of a Kosovo Development Plan.* Given the level of uncertainty regarding donor assistance, is it important for national policy makers to undertake the costing of pro-poor public interventions, establish priorities, and identify which interventions will be financed from own resources and can be fiscally sustainable, and which ones would need donor assistance. This costing and prioritization exercise could be developed within the framework of a Kosovo Development Plan as initially developed by ESPIG.

(i) Promoting income opportunities

32. *Kosovo faces an important poverty challenge in the coming years, requiring a strong commitment by national policymakers to implement a policy program that sustains and accelerates broad-based growth.* A major conclusion of this report is that growth with equity is essential for poverty reduction. Prospects for sustained and broad-based growth within the scope of national policymakers will largely depend upon: (i) strengthening the policy environment conducive to private sector led-growth driven by increasing exports and

inward investment; and (ii) enhancing social cohesion and ensuring peace and stability in the Province.

33. ***Future poverty reduction will depend crucially not just on the level of growth but on the extent to which growth will be labor intensive.*** To maximize the impact on poverty reduction, the links between growth and job creation need to be enhanced. This would require: (i) improving the overall investment climate to attract the much needed investments to revitalize the industry; and (ii) working out fairer trade arrangements and developing advisory services to help small farmers face the intense competition due to largely subsidized agriculture imports.

34. ***Specific measures need to be undertaken to reduce the relatively large labor market disadvantage faced by youth.*** To start with, pilot school-to-work and youth entrepreneurship programs could be developed, their implementation evaluated, and scaled-up, if successful.

35. ***But the prospects for growth and poverty reduction will crucially depend not just on domestic policies but also on the decisions made by the international community.*** Sound domestic policies are crucial for sustaining growth and attacking poverty, but it is equally important to acknowledge that in the short-term the prospects for growth and poverty reduction in Kosovo will still be heavily influenced by the level of donor assistance and the clarification by the international community of Kosovo's political status. An important concern is that delays in the settlement of Kosovo's status combined with a rapid decline in donor assistance is likely to have severe adverse social and economic repercussions on the population of Kosovo.

36. ***Kosovo still needs the support of the international community to address the numerous poverty challenges ahead. This support is likely to become more effective if embedded within the framework of a Kosovo Development Plan.*** Given the level of uncertainty regarding donor assistance, is it important for national policy makers to undertake the costing of key pro-poor public interventions, establish priorities, and identify which interventions will be financed from own resources and can be fiscally sustainable, and which ones would need donor assistance. This costing and prioritization exercise could be developed within the framework of a Kosovo Development Plan as initiated by ESPIG.

(ii) Raising education and health capabilities

37. ***Reconciling a prudent macroeconomic and fiscal management with the protection of essential investments in basic services and human capital is an important challenge that needs to be addressed.*** The scope to raise health and education abilities depends very much on the protection of essential productive investments in human capital as well as in basic infrastructure. Kosovo still has important unmet basic needs in the areas of education, health, and social infrastructure services that will have to be properly estimated and balanced against fiscal consideration.

38. ***Inefficiency and inequity in the provision of education and health services deserve specific public interventions.*** Efficiency gains can be achieved in a number of areas, leading to savings that can be reinvested to improve the overall functioning and effectiveness of the education and health sectors. At the same time, the low quality of primary care and the presence of a large number of teachers with inappropriate qualification deserve particular attention. Further efforts are required to reduce undue out-of-pocket health expenditures that are resulting from corruption and inefficiency in drug prescription.

39. ***To break the vicious cycle of poverty, policy makers need to address the most pressing inequality in education by location, gender, and ethnicity. Improving health outcomes around birth and during the first years of life is also essential.*** The most urgent objectives are to: (i) raise school enrolment at secondary level in rural areas; (ii) improve health outcomes around birth; and (iii) reduce the large inequities in secondary school enrollment rates across gender and ethnicity.

(iii) Reducing vulnerability

40. ***High environmental health and safety risks need to be reduced through the promotion of a more responsible growth and better environmental management.*** Prospects for sustainable development and a more environmentally responsible growth would require: (i) reforms in the power sector; (ii) continuous investments to rehabilitate basic infrastructure services; (iv) implementing sustainable principles in forestry and agriculture activities; and (iii) enforcing environmental safeguards.

41. ***The eradication of extreme poverty should become the major objective of the social safety net.*** The findings of this report shows that the elimination of extreme poverty at no additional costs is possible through improvement in the targeting efficiency and equity of the nascent social assistance system. Policymakers should rethink the objective of the public social assistance system, aiming it at the extremely poor, while leaving the situation of the “non-extreme” poor to be tackled through family-based safety nets and the overall growth strategy.

42. ***Continuous efforts are needed to support conflict prevention.*** Policies supporting conflict prevention are usually more effective if targeted on children and youth. Key measures include: (i) promoting tolerance in school curricula; and (ii) involving unemployed and idle youth from different ethnic background in local development projects.

(iv) Empowering disadvantaged groups

43. ***Promoting women and youth influence in both economic, social and political life is essential.*** Immediate attention should be devoted on a better representation of women in leadership government positions. Youth and women servicing NGOs should be supported by policymakers – especially in the areas of political rights, health counseling and business skills development. Youth organizations should be heavily involved in the building of youth policies.

44. ***There is an urgent need to improve the level of knowledge of youth on HIV prevention and to raise awareness on environmental issues.*** Influencing the public debate to reverse the social stigma associated with HIV/AIDS is also essential.

(v) Supporting an evidence-based dialogue on poverty

45. ***Improving the statistical infrastructure is essential to establishing a poverty dialogue based on robust evidence.*** In the first place, this require conducting a population census. Important knowledge gaps on key socio-economic outcomes and their distribution across different population groups need to be filled-in within SOK’s current survey program. Further attention needs to be paid on ensuring the comparability of income and non-income poverty estimates over time.

46. ***The monitoring of critical socio-economic outcomes requires unfettered access to household data among government ministries and the policy community.*** Affording access

to non-identifiable household-level data is essential to promoting transparency in poverty analysis, facilitating data analysis, and improving the production of statistical data.

Conclusion

47. ***Substantial progress has been made with the reconstruction efforts, yet poverty in Kosovo is still widespread and has many dimensions.*** This report has shown that the lack of opportunities, security and participation in decision-making are major aspects of poverty in Kosovo. Income poverty is large and is driven primarily by the difficulty of the Kosovo economy to generate sufficient viable jobs for its large youth population. Health and education outcomes are still low, and mirror the legacy of the past as well as the flaws that remain in the sufficiency, effectiveness and equity of social service delivery. There is also a large sense of insecurity – both in the dimension of income, health, and personal safety – that reflects a combination of factors, including the unresolved political status of Kosovo, environmental depletion, and violence. Finally, there are large disparities in economic and social well being by location, gender, age, and ethnicity which contribute to a fragile social cohesion and may ultimately undermine the sustainability of economic growth and the impact of growth on poverty reduction.

48. ***Looking forward, the building of a home-grown and donor-supported comprehensive poverty reduction strategy embedded in the Kosovo Development Plan is particularly important.*** This would help address the numerous challenges ahead in a more coordinated way, and also underpin the implementation of key development agendas in Kosovo, including the “Standards for Kosovo”, the MDGs, and the development priorities outlined by the Kosovar government.

Table 1: Summary of Poverty Diagnosis and Policy Directions

Overall Goals	Main poverty-related issues	Policy directions
<i>Promote income opportunities</i>	<ul style="list-style-type: none"> • In 2002, about 37% of the population was living below the poverty line of Euro 1.42/ adult equivalent per day. • The population living below the extreme (food) poverty line of Euro 0.93 per equivalent adult per day was estimated at 15%. • Joblessness is widespread and could affect nearly half of the labor force. • Women and youth face substantially worse labor market outcomes. • In some areas, unemployment tends to be higher among ethnic minority groups. • Income poverty is disproportionately high among non-Serbs ethnic minority groups. 	Implement a policy program that sustains and accelerates broad-based growth, and increases the contribution of the private sector to overall growth.
		Work toward the clarification of Kosovo's political status.
		Make growth more labor-friendly by improving the investment climate and supporting agriculture competitiveness.
		Enhance social cohesion by strengthening the unification of the social protection system and reducing the most pressing inequality issues by gender, ethnicity and age. Facilitate access to credit.
<i>Raise health and education abilities</i>	<ul style="list-style-type: none"> • Only about 4% of children of ages 3-5 attend primary school. • Only about 73% of children of ages 7-15 complete primary education and primary enrolment. • School enrolment drops substantially at secondary level, with a gross enrollment rate around 75 percent, and is worse among girls and in rural areas. • Health estimates are imprecise, but the overall health status of the population is poor and among the worse in the region. Infant mortality rate could be between 18-44/1,000 in 2003. • Health around birth and over the first year of life is a major problem. 	Reconcile prudent macroeconomic and fiscal management with the protection of essential investments in human capital.
		Improve the efficiency and equity of public health expenditures by rationalizing the use of drugs, addressing staffing issues, private sector regulation, and fighting corruption.
<i>Reduce vulnerability</i>	<ul style="list-style-type: none"> • A large share of the population could fall into poverty as the result of the risk of economic slow down related with the unstable political situation. • The risk of becoming unemployed for mid-age workers is high with the prospects of further restructuring and privatisation. • Private health expenses can be catastrophic for some households. • The coverage of the extreme poor by the formal safety net is too low. • Environmental pollution and contamination are widespread and represents a serious health hazard. • The lack or the poor state of basic infrastructure services further expose a fairly large number of households to health risks. • Despite a low incidence, the threat of a rapid HIV/AIDS epidemic is high. • Kosovo belongs to a major seismic area but its housing stock does not seem to comply with the security codes. • Inter-ethnic tensions are high. • The trafficking in women and girls is on the rise. • Domestic violence against women is a serious safety issue. 	Reduce environmental risks through continuous efforts on the rehabilitation of basic infrastructure services and the enforcement of environmental safeguards, and ensure that economic growth is environmentally responsible.
		Adjust the social assistance system as to improve the coverage of the extreme poor.
		Design preventive measures to protect individuals with the highest risk of becoming unemployed.
		Consider the introduction of mitigation mechanism for individuals that are likely to lose their jobs as the result of enterprise restructuring.
<i>Promote empowerment</i>	<ul style="list-style-type: none"> • The unresolved legal status of Kosovo generates a general sense of powerlessness and voicelessness. • Youth's ability to influence the institutions that affect their lives seems very limited. • Women's influence in decision making remains at stake. • Participation of ethnic minorities in political life is challenged by the risk of non-participation of Serbs in local elections. • Corruption is considered a problem of medium to high importance depending on the sector. • The level of knowledge of youth on HIV/AIDS and safe sex practices is very low. • Environmental awareness tends to be very limited. 	Improve the level of youth knowledge on reproductive health, HIV/AIDS, other STIs, and safe sex practice, and facilitate access to supportive services.
		Increase awareness on environmental issues.
		Support the participation of women and youth in decision making.
<i>Support an evidenced-based dialogue on poverty</i>	<ul style="list-style-type: none"> • The lack of a recent population census precludes an assessment of the representative nature of poverty estimates. • The household survey system does not allow the comparison of critical income and non-income poverty estimates for the period 2000-2003. • The data necessary to measure non-income dimensions of poverty is insufficient. • Access to SOK data remains a problem. 	Maintain an active dialogue on poverty within government.
		Contribute to the mainstreaming of poverty issues into government policy.
		Improve the social statistical infrastructure and conduct a population census.
		Provide access to SOK data and create a data user group.

1. INTRODUCTION

1.1 Kosovo is presently under a United Nations' (UN) interim administration (UNMIK), pursuant to UN Security Council Resolution 1244 (1999) of June 10, 1999², supported by a NATO-led Kosovo Force (KFOR), and with increasingly autonomous Provisional Institutions of Self-Government (PISG). Its population of about 2 million inhabitants is among the youngest in Europe, with half the population under 25. The population is predominantly Albanian. Other ethnic groups represent less than 12 percent of the population and are composed predominantly of Serbs, Slav Muslims, and Roma. Kosovo is also the poorest economy in the Balkans, with a GDP per capita of approximately US\$790 in 2003.

1.2 The population of Kosovo has suffered substantially over the past decade from deep economic, social and political turmoil related with the transition shock in the early 1990s, the neglect and exclusion of the Albanian community under the Milosevic era in the 1990s, and the ensuing armed conflict in 1999. Existing studies indicate that by the end of the decade, output had more than halved, income had collapsed, less than half of the population was employed, and half was in poverty (World Bank, 2001).

1.3 Since the end of the conflict in 1999, the province has benefited greatly from the restoration of peace and stability, and from massive inflows of donor assistance. The lack of good and comparable statistics precludes an accurate assessment of the economic and social changes that took place in Kosovo since 2000, but recent studies indicate that progress with reconstruction, macroeconomic stability and the establishment of public institutions have led to a recovery of economic activity and a revival in the labor market (World Bank, 2003; World Bank, 2004a). There is also some indication that Kosovo's economic progress may have contributed to an overall reduction in income poverty compared to the immediate post-conflict period.

1.4 The challenge of poverty reduction in the years to come remains enormous, however. The recent growth performance has been driven by a post-conflict boom financed by official development aid flows, but it has not led to a significant creation of jobs and is unlikely to be sustainable without a clarification of Kosovo's political status and the maintenance of peace and security for all. A fragile social cohesion, poor environmental conditions, and deficient industrial and basic infrastructures could further undermine altogether the sustainability of economic growth and its impact on poverty reduction. There are additional concerns that the large pro-poor potential of public social delivery could be jeopardized by weak governance, low level of administrative capacity and inadequate resources. Last, but not least, the lack of a comprehensive and integrated social statistics system in Kosovo could limit the ability of Government to formulate pro-poor policies and plan future investments.

1.5 Today in Kosovo, the building of a donor-supported and home-grown poverty reduction strategy (PRS) embedded within the establishment of a Kosovo Development Plan (KDP) appears particularly important. Not only it could help address the numerous challenges ahead in a more coordinated way, but it could facilitate the harmonization of donors' assistance necessary for the implementation of key development agendas in Kosovo. First, the Government of Kosovo has agreed to an action plan for implementing the "Standards for

² Hereafter referred to as Kosovo.

Kosovo” – a set of short-term requirements endorsed by the UN Security Council that must be met for a final settlement of Kosovo’s political status – and which include the right for all to participate fully and safely in economic, political and social life. The need to meet this condition requires a close monitoring of key socio-economic indicators disaggregated by gender, ethnicity and other relevant dimensions and calls for a holistic approach. Second, the formulation of a PRS would resonate closely with the four broad development priorities outlined by the Kosovar government, all of which are closely related with the goal of poverty alleviation³. Finally, the lay-out of a strategy to reduce poverty in existing development plans could contribute to advance regional and international development agendas set-out by the European Union (EU) Stability and Association process and the Millennium declaration and to speed-up the progress toward the achievement of the EU standards and the Millennium Development Goals (MDGs).

1.6 The main objective of this report is to contribute to the on-going policy dialogue on poverty reduction in Kosovo and to support the formulation and prioritization of well-informed public interventions. It does not attempt to provide a comprehensive strategy for poverty reduction. Rather it tries to be selective by addressing the following questions: (i) To what extent does the social statistic system in Kosovo allows policy makers to get an accurate picture of the poverty situation and to formulate well-informed pro-poor policies? (ii) What is the extent and aspect of poverty? (iii) Who are the poorest groups? (iv) How cohesive is the Kosovo society? (iv) Is public social delivery sufficient, effective and equitable?

1.7 The report draws on nine background papers commissioned for this poverty study, based on the analysis of quantitative and qualitative data. The major sources of quantitative data include data collected by the Statistical Office of Kosovo (SOK), namely the Household Budget Survey (HBS), the Labor Force Survey (LFS), the Living Standards Measurement Survey (LSMS), and the Demographic and Health Survey (DHS). The report has also benefited from access to the UNDP Human Development Indicators Survey (HDIS), the UNDP and Riinvest Kosovo Early Warning Reports (KEWR), the UNDP Kosovo Mosaic Survey (KMS), the UNICEF Population Services International Knowledge Attitudes and Practices (PSI-KAP) survey, and the UNFPA/IOM Socio Demographic and Reproductive Survey (SDS). The quantitative analysis was further complemented with qualitative data collected for the study through focus groups and personal interviews.

1.8 The key findings of the background papers have been summarized in this report and articulated around cross-sectoral issues under the following structure: Section 2 begins with an assessment of SOK’s social statistics system. Section 3 brings together recent evidence on the multi-dimensional nature of poverty, encompassing opportunities, security, and empowerment, and provides a profile of the income poor. An investigation of the level of social cohesion is then discussed in Section 4. The sufficiency, effectiveness and equity of public social delivery are discussed in Section 5. The last section concludes by presenting some directions for public policy that could be integrated in a holistic strategy for poverty reduction in Kosovo as part of the establishment of a Kosovo Development Plan.

³ The four broad development priorities endorsed by the Government of Kosovo are: (i) fostering economic development and growth, and increasing employment, through creating the conditions for a market-based economy; (ii) improving the living standard of vulnerable groups, and enhancing the quality of and access to education and health; (iii) ensuring an efficient and transparent public administration; and (iv) providing equal opportunities for all citizens.

2. THE CHALLENGE OF POVERTY MONITORING

2.1 Attacking poverty requires in the first place the set-up of a public social statistics program that can help take stock of the poverty situation and monitor the impact of growth and public policies on poverty reduction. Both income and non-income dimensions of poverty need to be monitored. Non-income indicators, including data collected to measure trends in health and education outcomes across key population groups may follow those of income related dimensions of welfare, but they may be less responsive to changes in overall economic growth or to reductions in income poverty. Social statistics should address identified needs by users within Kosovo, but at a minimum should cover the indicators necessary to monitor the Standards for Kosovo, EU standards, and those used to measure progress towards the Millennium Development Goals (MDGs). Additionally, social statistics that are derived from household surveys may provide a validity check of data collected from various administrative registries and databases.

2.2 This chapter documents the efforts made by SOK with the support of the international community toward the establishment of a poverty monitoring system in Kosovo. It also discusses some of the remaining challenges, with a view of providing an opportunity to improve comparability of data across various surveys, increase data collection in areas where critical indicators are missing, and improve the overall efficiency in data collection and poverty analysis. The results show that substantial progress has been made with the collection of household level data on consumption and income. Yet, the collection of data necessary to measure non-income dimensions of poverty, in particular health, educational and environmental outcomes, remains particularly weak. The comparison of critical estimates across surveys and over time is also problematic. Another area of concern is the absence of a recent census. As a result, sampling remains a difficult exercise in Kosovo and makes an assessment of the representativeness of the various surveys almost impossible. The findings of the report also point to the difficulty of sustaining a knowledgeable cadre of personnel for poverty monitoring within SOK and the importance of continuous technical assistance to produce key statistics on economic and social welfare. Finally, data sharing and interactions between data producers and users are found to be extremely limited and further complicate the monitoring of poverty in Kosovo.

A. THE SOCIAL STATISTICAL INFRASTRUCTURE

2.3 *Summary.* An increasing number of household surveys is being collected in Kosovo with the objective of monitoring key social and economic indicators. This section provides a review of Kosovo's social statistical infrastructure, focusing on the household surveys collected by SOK. The review does not cover administrative data sources. The Kosovo household survey program, the representativeness of the surveys and the comparability of the data are first discussed. An assessment of the adequacy of data collection to measure key poverty outcomes and their distribution across the population, in particular those necessary to measure the progress towards the achievement of the MDGs and the Standards for Kosovo, is then provided. The findings show that substantial progress has been made by SOK in the collection of household level data on consumption and income, but the lack of a recent population census remains a major impediment to assess the accuracy of existing data and improve the quality of sampling designs. Moreover, the current household survey system does

not allow the comparison of critical income and non-income poverty estimates across surveys and over time, and the collection of data necessary to measure non-income dimensions of poverty is still insufficient.

The Kosovo Household Survey Program

2.4 *SOK has been collecting an increasing number of household surveys that are meant to be representative at national level and for urban/rural and the serbs/non-serbs sub population.* SOK is currently fielding a Household Budget Survey (HBS), a Demographic and Health Survey (DHS), a Labor Force Surveys (LFS), and an Agriculture surveys (AS). SOK had also participated in 2000, along with the World Bank, UNDP, FAO, and IOM, in the implementation of a Living Standards and Measurement Survey (LSMS) which was used for the 2001 World Bank poverty assessment for Kosovo. The present poverty study relies extensively – but not exclusively – on three SOK household surveys, namely the HBS, the LFS and the DHS.

2.5 The HBS is an on-going survey and contains extensive and detailed information on household income and expenditures over a one year period. The first round was conducted between June 2002 and May 2003 and was used for this report to construct a welfare aggregate based on the standard World Bank consumption approach to welfare measurement. The household budget survey contains other useful information on educational attainment, labor market status of household heads, and housing conditions. The LFS provide further information on economic opportunities and allows the construction and the monitoring of basic labor market indicators such as labor force participation, unemployment and wages since 2001. The 2001 and 2002 LFS have been extensively analyzed in the 2003 World Bank Labor Market Study and also used for this report. The latest DHS was collected in July 2003 and contains mostly information on school attendance, educational attainment, and reproductive health.

2.6 *The sampling design for the household surveys is identical across the HBS, LFS, and the DHS but slightly different from the LSMS.* The sampling design is based on the two-stage design used for generating the LSMS sample. The first stage involves the random selection of enumeration areas and the second stage involves the random selection of households. The selection of primary sampling units is conducted once for all three samples (HBS, LFS, DHS). The enumeration areas are selected within rural/urban and Serb/non-Serb strata for each of the regions. In the rural strata, enumeration areas are delineated villages. In the urban strata, enumeration areas are urban settlements represented by well-delimited parcels of land. These enumeration areas have been further enumerated and refined since sampling was conducted for the LSMS.

2.7 The second-stage sampling ensures that different households are covered for each of the three surveys. Both stages use sampling without replacement: the first stage to increase the efficiency (reduce the variance) of the sample; the second stage to reduce the response burden of the twelve households selected from each primary sampling unit and for each survey. Given that greater variability in the Kosovo population is assumed to exist across communities, rather than within communities, the sample for each of the various household surveys should, in theory, be comparable.

Representativeness and Comparability

2.8 In order to develop a comprehensive and representative profile of poverty, it is important that estimates generated from the various household surveys be representative of the Kosovo population and considered comparable across surveys and over time. This implies exploring the following dimensions: (i) the overall representativeness of the surveys; (ii) the

comparability of the population coverage across surveys; and (iii) the comparability of the indicators across surveys.

2.9 ***The lack of a recent population census makes sampling particularly difficult in Kosovo and raises the issue of representativeness.*** The sampling design of the SOK household surveys follows the basic premise of the LSMS design but the methodology and enumeration of the primary sampling units has subsequently been refined with consultations from Statistics Sweden. These consultations reviewed and concurred with the basic elements of the LSMS sample design, but concluded that physical enumeration of the primary sampling units was required to update the sampling frame.

2.10 While these revisions may have improved the potential representativeness of household-level data collected within the household survey program, they may no longer reflect more recent changes in Kosovo's population. Without up-to-date population estimates, it is unlikely that any further changes in either the design or size of the sample will affect the efficiency of household survey estimates. Further enhancements or modifications to the household survey program cannot serve as a reliable substitute for a population census.

2.11 ***The population coverage seems to be consistent across surveys in the dimensions of age and gender, but there are some disparities with respect to ethnicity and rural/urban.*** Data collected from the various SOK surveys are intended to estimate outcomes from the general population. Since these surveys share the same sampling frame, they should be comparable in principle. However, given the migration dynamics of Kosovo's population, it is important to understand whether population coverage is similar across the various survey samples. It is estimated that approximately 800,000 persons have returned to Kosovo since the end of the conflict. These migration flows could ultimately affect the characteristics and profile of the population. Thus, without comparing population aggregates across surveys, it is unclear whether poverty estimates generated from these surveys can represent any real trend.

2.12 The data in Table 2 represent the distribution of the sample populations with respect to key demographic variables of the LSMS, LFS, and HBS at the individual level of detail. The sample design of each of the household surveys incorporates urban and rural location and Serb and non-Serb ethnicity in the selection of the primary sampling units and the respective samples should thus be representative of these elements. Non-Serb minority groups refer mostly to the Slav Muslims and the Roma⁴. As mentioned above, the sample design of the household surveys are similar, but the methodology of the LSMS was reviewed after its implementation and revised slightly before implementation of the HBS and LFS surveys. Table 2 indicates that the sample distributions across age and gender remain relatively constant across the three survey populations, but ethnicity and location vary more significantly across the surveys.

2.13 ***To allow strict comparison of critical estimates across surveys, SOK would need to take into account the differences in variance arising from stratified design effects.*** The three surveys are based on a similar sampling design in which a primary sampling unit of a village or cluster is drawn from a stratified population of rural and urban localities, and Serb and non-Serb ethnicities across the five regions in the first stage and 12 households are selected from each Primary Sampling Unit (PSU) in the second stage. The stratified design affects the variance of survey estimates and should thus be incorporated into the variance estimation. Without accounting for differences in variance arising from stratified design effects, it is difficult to compare critical estimates across the population. In particular, although ethnicity and location vary more significantly across the surveys (Table 2) it can not be confirmed whether there is a statistical significance without standard errors that are

⁴ In the HBS questionnaire, other non-Serb ethnicity refers to the Turkish, Bosnian, Montenegro, Ashkalian and Roma.

corrected for the sample design effect. Differences in the distribution of these variables between the LSMS implementation and that of the other household surveys may be explained by the revised enumeration in the primary sampling units. It is also plausible that the definitions of urban and rural locations could have been modified after the revised enumeration.

2.14 Various computer software packages used to process and manipulate survey data have been devised to account for these design effects. STATA is one such package that incorporates information on strata, primary sampling units and survey weights – all of which are necessary for capturing the effect of the stratified design. STATA is used widely across the World Bank to generate statistics from household survey data and estimate both income and non-income elements of poverty. Poverty estimates from the LSMS survey data were calculated using STATA software.

2.15 On the other hand, SPSS, a widely used statistical software package outside of the Bank, accounts only for sample weights and therefore does not accurately adjust for the design effect when calculating sample variances. This means that estimates should not be compared without adjusting for standard errors when stratified design effects are in place.⁵ Given that poverty is estimated currently by SOK from the HBS with SPSS software – and that the HBS data are not accessible for processing outside SOK - the adjusted standard errors are not available for the HBS estimates and thus the LSMS estimates and HBS estimates cannot be strictly compared.

2.16 Population aggregates cannot be strictly compared across the DHS, LFS, and HBS for the same reason, but it is more likely that these survey estimates are comparable because the first stage of sampling is the same for each of these survey populations. Data collection for each of the surveys occurred more recently and the elapsed time between data collection is relatively short. Changes in the population occurring from changes in migration are less likely to have affected differences in the sample populations between these household surveys.

Table 2: Comparison of Sample Distributions from LSMS, LFS, and HBS

% of Population by Groups	LSMS (2000)	LFS (2002)	HBS (2002)
Age			
0-15	33.91	32.26	32.35
16-30	28.04	29.09	28.84
31-45	17.1	18.67	18.04
46-60	12.12	11.95	12.07
61-75	7.18	6.46	7.21
76-90	1.59	1.46	1.46
90+	0.08	0.11	0.04
Gender			
Male	49.23	50.69	50.9
Female	50.77	49.31	49.1
Ethnicity			
Albanian	85.27	88.1	86.73
Serbian	10.35	6.85	7.89
Others	4.4	5.05	5.38
Location			
Urban	34.82	37.46	54.83
Rural	64.8	62.54	45.17

⁵ A true statistical comparison is based on a t-test that uses standard errors corrected for the strata design effect.

2.17 *Differences between the LSMS and the HBS in the measurement of the welfare indicator used to estimate income poverty makes poverty comparison even more problematic.* In both the LSMS and the HBS a consumption measure of welfare is used to estimate income poverty⁶. A per adult equivalent measure of total consumption is constructed for each household and used to compare households according to minimum caloric and daily expenditure requirements. These basic requirements constitute the Kosovo food and non-food poverty lines. However, differences between the LSMS and the HBS in the level of details for the number of food items and the time period for recording the expenditures make the poverty figures hardly comparable.

2.18 The LSMS-derived incidence of poverty estimate is indeed based on a consumption aggregate that contains components of consumption that were excluded in the HBS. The LSMS collects information on consumption for 46 various food items obtained through purchases, gifts, and home-based production over a 30-day period. The non-food items include the rental value of housing, services such as basic utilities, health and education, and the imputed rental value of durable goods. This last category is omitted in the HBS. Similar to the LSMS format, the HBS prompts respondents with a long list of durable goods, but it does not ask for a purchase date (age of the good) or the estimated purchase price at acquisition. Thus, imputing the rental value of durable goods is impossible with the HBS.

2.19 In addition, contrary to the LSMS, the HBS uses a diary format to collect recurrent food and service expenditures over a one-day period. The use of different formats and recall periods between the two surveys is likely to cause differences in omitted and included expenditures as well as potential categories. Additionally, the LSMS was administered in a few calendar months while the HBS is administered over the entire calendar year.

2.20 *The household survey program does not provide consistent information on key socio-economic indicators such as educational achievement, health related expenditures, and informal employment.* The measurement of key indicators, including educational achievement, health related expenditures, and informal employment varies across surveys. As for education, the LSMS includes a detailed education module which encompasses 33 questions on current enrollment, past enrollment, absences, expenditures, distance and mode of transportation to school. In contrast, the education component in the HBS, LFS, and the DHS surveys has been reduced to between one to four questions only. The parsimonious modules do not reveal much about educational achievement or potential constraints for staying in school. Moreover, differences in the wording of the education questions across surveys would lead to different estimates on enrollment status.

2.21 With respect to health, the LSMS asks detailed questions about health expenditures for public and private in-patient and out-patient services. Within these services, costs are further disaggregated by prescription, transportation, fee, and gifts or voluntary payments. Frequency of visits is also recorded for each type of service. Health expenditures reported by HBS respondents are captured in the one-day recall diary and they are not captured at all in the DHS survey because respondents are not asked about health visits. The DHS survey focuses on contraceptive knowledge, practices, preferences for number and gender of children, and live birth histories. Differences in the formats used to elicit information on health expenditures between the LSMS and the HBS will cause different estimates. The HBS format is likely to result in an under-reporting of expenditures, especially voluntary payments and related transportation costs.

⁶ Household consumption is preferred to household income as a measure of welfare because households are likely to smooth consumption over time while income sources may vary seasonally.

2.22 There are also large differences in the measurement of informal employment. Definitions applied in the HBS and LFS to estimate informal sector activity appear to be inconsistent with ILO definitions. In particular, ILO size restrictions for delineating formal and informal sector business activity are not used in Kosovo. In addition, detailed questions on transport ownership and construction activity could presumably pick up activity in areas where self employment is frequent but they are not included in the LFS survey. The LSMS takes a more meticulous approach to eliciting information on any and all income generation activities than either the LFS or the HBS. Additionally, the timing of the LFS survey may have led to under-reporting of self-employed agricultural work. Differences in timing between the LSMS and the LFS could be partially responsible for large differences in the unemployment estimate between the two survey periods.

Gaps in Data Requirements

2.23 *Critical gaps in data collection undermine Kosovo's capacity to measure the multidimensional aspects of poverty, the poverty linkages and the causes of poverty.* The limited coverage of education, health, employment and environmental indicators in the surveys is especially problematic because critical socio-economic issues are present in each of the related sectors, and because it undermines the calculation of key indicators to monitor the MDGs and other desirable indicators. While Table 3 below provides an assessment of the gap in data requirement to measure the MDGS, a more comprehensive list of desirable and measured indicators is presented in the appendix in Tables 38-42.

2.24 *Available questions on education included in the household surveys make it most difficult to monitor primary completion rates and secondary school enrollment.* School enrollment data compiled by administrative records indicate that school attendance varies by ethnicity and gender. Yet, administrative data can not be used to calculate enrollment rates of girls and boys as the denominator is not collected in such data. Additionally, administrative education data provides no information on the source of constraints to access and participation. While education enrollment and school attendance rates are usually obtained from household surveys, the current household survey system in Kosovo does not allow monitoring secondary school enrollment.

2.25 The educational attainment questions in the HBS and the LFS use indeed only general categories of highest level completed, currently attending primary school, did not complete primary school, no school, and literacy, and make it impossible to construct estimates on primary completion rate and current secondary school enrollment. These gross categories do not enable tracking of school attendance by grade neither, while this could be helpful in understanding the critical years or periods when parents determine whether to extend educational investments in their children. From a policy perspective, its important to understand how education investment behavior within the household may be influenced by either government education policy, including prices established for tuition or learning materials, or more specifically by characteristics of local schools.

2.26 The lack of community level data in current household surveys covering aspects of the curriculum, teacher-student ratios, teacher absenteeism, and distance to the communities serviced further prevent obtaining important insights into the determinants of school enrollment and attendance decisions made by households.

2.27 *Collection of data that are necessary for monitoring trends in health facility access, usage, and outcomes are missing within SOK household survey system.* Although some small-scale surveys have been conducted to estimate underlying health trends, the scope and sample size of these surveys have produced unreliable estimates in critical health indicators and the absence of such estimates from SOK household survey data has led to a large range in

published estimates. Additionally, it is assumed that births and deaths occurring outside of hospitals have been historically under-reported and administrative registries are unreliable sources for the generation of such estimates. Given the unreliability of public registries, survey data is essential for estimating important trends and for checking reliability of these registries.

2.28 Imprecise estimates from small scale surveys further show that Kosovo exhibits high infant and maternal mortality rates - some of the highest rates reported in Europe. This suggests that critical gaps exist in the coverage, access, and quality of prenatal health care. Yet, detailed analysis within the health sector on access, use, satisfaction and quality of health care that could explain the observed outcomes cannot be undertaken within the current household statistics system.

2.29 Currently the HBS contains some cursory questions on health expenditures, but no information on health status. Moreover, DHS surveys are conducted infrequently in Kosovo and do not provide all the necessary information. A typical DHS is implemented with a large sample size and covers a range of health topics. Data collection on a large sample size yields the possibility to estimate trends on rare events such as infant and maternal mortality. Unfortunately, the latest Kosovo DHS conducted in 2003 incorporated neither of these aspects. Key information on health status, health service quality, and direct and indirect costs associated with obtaining health care and that usually contributes to low utilization or lack of affordability, are missing. The sample size was apparently too small for producing reliable estimates on infant mortality and the range of topics were restricted to contraception prevalence and family composition preferences. While contraception use is important from a gender perspective, as it may help to explain the sex birth ratio (the male-female gap is larger than the global average), and to understand risky behaviors, such as unsafe sex practices, it is not sufficient for keeping abreast of important health indicators.

2.30 The lack of community level data on health services in SOK surveys further prevent the understanding of health outcomes, access to health services, and consumer satisfaction with the quality and coverage of health service delivery.

2.31 *The present available information on employment, unemployment, and labor force participation across surveys does not allow generating reliable trends.* The dynamics underlying unemployment and employment trends across gender, ethnicity, and locality are critical for understanding the critical linkages between labor market activity and equitable economic growth prospects. In particular, labor market participation in rural areas and in general among women is critically low. Yet it is difficult with the present available information on employment, unemployment, and labor force participation across the LSMS, the HBS and the LFS to generate reliable trends. Further information on labor market activity and the standardization of the timing when surveys are administered is necessary to understand these dynamics. Informal sector employment activity may thrive in Kosovo as it is assumed across the Balkans but it is universally under measured.

2.32 *There are limited data to monitor the environmental MDG indicators and track the health-environmental linkages.* Some of the environmental MDG indicators can only be measured through community level data and are currently unavailable through SOK survey system. Land use issues and carbon dioxide emissions are included as MDG indicators which must be measured at the community level by those possessing technical knowledge on measurement. Moreover, relevant environmental issues may be dependent on the location. Land usage is more likely to be a pressing rural issue, whereas carbon dioxide emissions are more likely to be an urban problem. Additionally, the linkages between health outcomes and environmental conditions such as inadequate and untreated sewage, the burning of wood for cooking fuel inside homes, waste disposal, sanitation practices, and the sources of water used by the household cannot be monitored due to the absence of a health module in the HBS.

Table 3: Opportunities and Challenges to Measure the MDGs in Kosovo

<p>Goal 1: Eradicate extreme poverty and hunger</p> <p>Indicators: National Poverty headcount ratio; Poverty gap ratio Share of poorest quintile in national consumption Prevalence of underweight children Proportion of population below minimum level of dietary energy consumption</p> <p>Source and current availability: The poverty headcount and ratio are currently estimated from the 2000 LSMS and the 2002 HBS. Due to comparability issues a trend cannot be estimated, but with 2003 HBS poverty trends can be estimated between 2002 and 2003. The prevalence of underweight children can be estimated from the UNICEF MIC Survey.</p>
<p>Goal 2: Achieve universal primary education</p> <p>Indicators: Net enrollment in primary school Proportion of pupils starting grade 1 who reach grade 5 Primary completion rate Literacy rate of 15 –24 year olds</p> <p>Source and current availability: Data on enrollment is collected within the Ministry of Education monitoring system, but it is not reported by age which is required to estimate net enrollment. Because of the absence of current census data, it's difficult to estimate total population of school-age children and thus calculate enrollment rates. The current household surveys collect information on education activity for members of respondent households but needed detail is lacking.</p>
<p>Goal 3: Promote gender equality and empower women</p> <p>Indicators: Ratio of girls to boys in primary, secondary, and tertiary education Ratio of literate women to men 15 – 24 years old Share of women in wage employment in the non-agricultural sector Proportion of seats held by women in national parliament</p> <p>Source and current availability: Enrollment ratios can be calculated using the Ministry of Education data. The education questions in the HBS don't capture information on current secondary or tertiary school enrollment. Literacy ratios have been computed from the DHS data, but the age range is too broad for this indicator. Female employment rates are calculated from the Labor Force Survey. However, some discrepancy exists over the estimated rates from the survey data because informal sector activity is underestimated from the 2002 survey.</p>
<p>Goal 4: Reduce child mortality</p> <p>Indicators: Under-five mortality rate Infant mortality rate Proportion of 1 year-old children immunized against measles</p> <p>Source and current availability: The sample size of the 2003 DHS is too small to estimate reliable mortality rates for either infants or children. Immunization data are currently not collected in the DHS survey. Provided accurate and up-to-date birth registry, measles immunization rates of 1 year-old children could be estimated with public health data.</p>
<p>Goal 5: Improve maternal health</p> <p>Indicators: Maternal mortality ratio Proportion of births attended by skilled health personnel</p> <p>Source and current availability: Maternal mortality rates can be estimated with up-to-date birth and death registries, however, deaths resulting from maternal causes are often misclassified. Birth registries may over-estimate the number of births attended by skilled personnel if births that are not attended by skilled personnel are less likely to be reported. Household surveys are sometimes used to estimate maternal mortality but often don't produce reliable, current results. The 2003 DHS sample is too small to estimate such indicators.</p>
<p>Goal 6: Combat HIV/AIDS, malaria and other diseases</p> <p>Indicators: HIV prevalence among 15 –24 year old pregnant women Condom use rate of the contraceptive prevalence rate Condom use rate at last high-risk sex Percentage of 15-24 year old population with comprehensive knowledge of HIV/AIDS Contraceptive prevalence rate Number of children orphaned by HIV/AIDS Prevalence and death rates associated with tuberculosis Proportion of tuberculosis cases detected and cured under directly observed treatment short course</p> <p>Source and current availability: Contraceptive prevalence rate can be monitored from the 2003 DHS. Prevalence of HIV and TB should be monitored through the public health information system because clinical diagnosis is required.</p>
<p>Goal 7: Ensure environmental sustainability</p> <p>Indicators: Proportion of land area covered by forest Land area protected to maintain biological diversity GDP per unit of energy use Carbon dioxide emissions (per capita) Proportion of population using solid fuels Proportion of population with sustainable access to an improved water source Proportion of people with access to improved sanitation Proportion of people with access to secure tenure</p> <p>Source and current availability: Access to improved water source, sanitation, and secure tenure can be monitored through the HBS. Other indicators must be monitored at the community level through the Ministry of the Environment and Social Planning and the Ministry of Agriculture and Forestry.</p>
<p>Goal 8: Develop a global partnership for development</p> <p>Indicators: Unemployment rate of 15 –24 year olds</p> <p>Source and current availability: The unemployment rate of 15-24 year olds can be estimated from the available Labor Force Survey data.</p>

B. INSTITUTIONAL ARRANGEMENTS AND CAPACITY FOR POVERTY ANALYSIS

2.33 *Summary.* The previous section has shown that substantial progress has been achieved by SOK toward the implementation of surveys that are meant to be nationally representative. Yet, some important challenges remained in terms of designing representative samples, undertaking poverty comparison, and measuring non-income dimensions of poverty. In this section, the discussion on poverty monitoring is extended beyond the social statistical infrastructure and includes an assessment of the level of SOK's capacity for poverty analysis and the extent to which institutional arrangements are conducive to an efficient use of existing poverty data. The discussion shows that sustaining a knowledgeable cadre of personnel for poverty monitoring is a challenge. Limited data sharing and interactions between data producers and users are also important impediments for analyzing poverty.

2.34 *SOK has embraced the standard World Bank approach to income poverty measurement.* The World Bank has been providing technical assistance to SOK to produce income poverty estimates based on SOK households surveys on consumption and income. Past poverty analysis undertaken jointly by SOK and the Bank had relied on the 2000 LSMS and were published in the 2001 World Bank Kosovo Poverty Assessment. New estimates of income poverty have been constructed using the 2002/03 HBS and are presented in the following chapter.

2.35 While measuring income poverty is not exempt from problems, SOK with the assistance from the World Bank has followed the standard World Bank methodology used for computing estimates of consumption poverty. These estimates are based on consumption data collected from the HBS and adjusted as needed to account for differences across households in family composition and for differences in consumer prices between urban and rural areas. Two absolute poverty lines referring to extreme poverty (the food poverty line) and poverty (the complete poverty line) have been constructed using the structure of expenditures of the HBS⁷. Three commonly used indicators of poverty are subsequently reported in this report: the poverty headcount index, the poverty gap and the severity of poverty (Box 1).

Box 1: The Three Standard Foster-Greer-Thorbecke (1984) Aggregate Poverty Measures

The headcount index (P0) is a measure of the prevalence of poverty. It denotes the percentage of households who are poor—as defined by the poverty line—as a proportion of total population. This measure is insensitive to the distribution of the poor below the poverty line.

The poverty gap index (P1) is a measure of the depth of poverty, and it denotes the gap between the observed consumption levels of poor households and the poverty line. Assuming perfect targeting of resources (transfers), this poverty gap index indicates the total amount needed to bring all households in poverty up to the poverty line.

The poverty severity index (P2) measures the degree of inequality in distribution below the poverty line, giving greater weight to households at the bottom of the consumption distribution.

$$\text{The poverty measures are defined: } P0 = \frac{q}{n}; P1 = \frac{1}{n} \sum_{i \in Q} \frac{(z - y_i)}{z}; P2 = \frac{1}{n} \sum_{i \in Q} \frac{(z - y_i)^2}{z^2};$$

where n = total population, q = number of those with consumption y_i less than the poverty line z.

2.36 *Sustaining a knowledgeable cadre of personnel for poverty monitoring is a challenge.* Officials from SOK have emphasized that capacity for data analysis among staff is limited if non-existent. The most recent poverty profile was intended to be produced as a collaborative effort between SOK staff and an international consultant financed by the World

⁷ For more details about the construction of the poverty estimates, see Tsurunyan, 2004.

Bank. The consultant allocated many hours to training staff on the basics of data cleaning, preparation, and analysis. Unfortunately, many of the staff who benefited from the time of the consultant either left the department or SOK altogether. Thus, although individuals have benefited from technical support, SOK has not been able to develop and sustain a knowledgeable cadre of personnel for poverty monitoring and analysis. Low salaries for local staff in the statistical office are indeed a major barrier for attracting and retaining qualified staff. While ongoing training is critical in the short-term to maintain SOK's capacity, systemic incentives for qualified staff retention can only be addressed in the context of a longer-term program for civil service reforms.

2.37 *SOK remains in great needs of technical assistance in the short-term.* Despite obvious difficulties to raise SOK's capacity in poverty analysis through technical assistance only and without a more holistic approach, the continuation of Bank technical assistance remains critical in the short-term. SOK has been requesting additional support for the next round of consumption data analysis. This will allow cleaning and analyzing the new rounds of the Household Budget Survey (HBS) that is being collected and that will permit the comparison of poverty over time. Additional support to SOK may also be needed so as to support the improvement of the HBS for poverty analysis (Box 2).

Box 2: Improving the HBS for Poverty Analysis

One option to improve the HBS for poverty monitoring would be to introduce a core HBS survey with rotating modules. This may offer a holistic approach to monitoring multi-dimensional aspects of poverty that is inherently more sustainable and preferable to an LSMS-type option.

The incorporation of rotating modules in the HBS with core survey questions to estimate the various non-income dimensions of poverty may require various sample sizes. Therefore, the sample size should be adjusted to reflect the indicators being measured within the rotating modules. In particular, the measurement of non-frequent events, such as child and maternal mortality, indicates that the sample size must be increased for more precise measurement.

Particular emphasis within rotating modules in the HBS should include the coverage of critical socio-economic issues and areas where knowledge is lacking. Specifically, SOK may wish to develop rotating modules to: (i) improve the existing education module (enrollment, school attendance, related expenditures, school quality); (ii) introduce a health module (health outcomes, access to, and use of health services); (iii) improve the questionnaire on the possession of durables to enable the imputation of the rental value of durable goods (age or purchase date of the durable good, the purchase price at the time of acquisition); and (iii) monitor the incidence and prevalence of gender-based violence.

The particular rotating modules in the HBS would also need to be complemented with community-level questionnaires to measure the quality and coverage of community service delivery (school and health facilities) and some of the environmental MDG indicators (land use, carbon dioxide).

2.38 *Limited data sharing and interactions between data producers and users complicate the underlying analysis necessary for poverty monitoring.* The Statistics Office maintains a comprehensive and up-to-date website of the office's most recent publications and statistics generated primarily from the HBS, LFS, and DHS (www.sok-kosovo.org). In fact the office posts statistics and publications on the website without delay. Draft chapters based on the analysis of the DHS data were posted on an 'as ready' basis.

2.39 Unfortunately, data sharing does not go beyond the SOK website. The statistics office enforces a strict policy on data access. No data is ostensibly allowed to leave the premises of the office. SOK enforces the rule so that it can obtain training on data manipulation and analysis for its SOK staff from the interested data user. As discussed earlier, however, this practice has not been very effective to sustain SOK's capacity for poverty monitoring. The parsimonious attitude toward sharing of household survey data has also complicated the underlying analysis necessary for this poverty report. Unfortunately the lack of data sharing is endemic across the various ministries. These entities also do not share data and often do not

release it to SOK. Such attitudes among the government imply that most data is not used. The various ministries produce data solely for their own needs. Much of the data, therefore, is under-utilized.

2.40 Data access policies vary across the region. In Eastern Europe and Central Asia, countries with an open access to survey data include Albania, Bosnia and Herzegovina, Estonia, Georgia, Hungary, the Kyrgyz Republic, and Moldova. The World Bank fully supports access to individual records of household surveys that have been stripped of identification numbers and information. The sharing of such data can improve the capacity for poverty monitoring, lead to efficiency gains in poverty analysis, and contribute to greater policy coherence within the Government.

3. THE MANY DIMENSIONS OF POVERTY

3.1 Attacking poverty further requires a thorough understanding of the multidimensional nature and causes of poverty that will help establish a comprehensive poverty reduction strategy in Kosovo. It is now widely recognized that poverty encompasses the lack of opportunities, security and empowerment. The importance of assessing the various dimensions of poverty early on in the life cycle is also gaining increasing recognition with the better understanding that risks are not homogeneously distributed along the life cycle and are typically higher in the early stages of life, with important, long-term and sometimes irreversible consequences on later stages of life.

3.2 This chapter starts by bringing together recent evidence on income and non-income dimensions of poverty and documents how different aspects of poverty interact and reinforce each other. It also takes a detailed look at relevant dimensions of child and youth poverty with the objective of informing policy makers on age-specific risks and opportunities, and on the “right” timing and nature of interventions. The findings point to the lack of opportunities, security and participation in decision making as the major aspects of poverty in Kosovo. Income poverty appears widespread but relatively shallow. There are no accurate estimates of the evolution of poverty over time, but tentative interpretations suggest that income poverty has most likely declined in the immediate post-war period. Non-income poverty is also widespread and takes the form of low achievements in education and health and a large vulnerability to poverty – including high income and physical insecurity and widespread environmental health risks. Voicelessness and powerlessness are also important dimensions of poverty resulting from deficits in the functioning and accountability of state institutions, and the patriarchal structure of private institutions. Often – but not always - these many dimensions of poverty seem to interact and reinforce each-other.

A. LIMITED INCOME OPPORTUNITIES

3.3 *Summary.* Identifying poverty with a lack of economic opportunities, as measured by low levels of consumption or income, has a long tradition. The previous chapter has shown that while it is not exempt from problems, there is a standard World Bank methodology used for computing estimates of income or consumption poverty. This sections focuses on the income dimension of poverty in Kosovo, based on consumption data collected through household surveys and on the definition of two national poverty lines for poverty and extreme poverty. This sections starts by presenting the macroeconomic background. It then provides several indicators of aggregate welfare and income poverty and examines in more details the profile of the income poor and the sources of income. Finally, it presents a tentative assessment of the impact of recent economic performance on poverty. This sections finds that the reconstruction efforts have succeeded to put Kosovo on a growth path since 2000. Income growth with moderate inequality most likely led to a reduction in poverty, but the lack of accurate data preclude an accurate assessment of the evolution of poverty between 2000 and 2003. Four year after the end of the conflict, income poverty remained widespread but relatively shallow. Income poverty was found to affect disproportionately children, the elderly, female-headed households, the disabled, non-Serbs ethnic minorities, the unemployed and precarious jobholders.

The Macroeconomic Background

3.4 *The 1990s have been characterized by a deterioration of all economic indicators.* The macroeconomic situation inherited in 1999 had been damaged by poor economic policies, broken external trade and financial links, international sanctions, a lack of investment, and ethnic conflict. Data for the 1990s are limited but it is estimated that during this period all economic indicators deteriorated. Output fell by more than 50 percent in the early 1990s and by another 20 percent following the conflict at the end of the decade. Inflation was very high throughout the 1990s as a result of monetary financing of fiscal and quasi-fiscal deficits.

3.5 *Since the end of the conflict in 1999, the reconstruction efforts have succeeded in putting the Kosovo economy on a growth path.* Estimates of macroeconomic data for the post-conflict period need to be treated with great care. Due to the weak statistical infrastructure in Kosovo, economic data are subject to frequent revisions. The latest estimates compiled by the IMF and the Kosovar authorities in 2003, and reported in the 2004 Kosovo Economic Memorandum (World Bank, 2004), indicate that there has been a recovery of economic activity and positive growth since 2000 (Table 4). GDP growth reached 21 percent in 2001 and has since averaged 4.3 percent. GDP per capita increased from about US\$400 in 1995 to US\$790 in 2003. The recent growth performance was largely driven by high levels of public and private investments reflecting massive inflows of donor assistance after the cessation of hostilities in 1999 and the shift toward liberal market policies. Gross National Disposable Income (GNI) per capita was even higher at about US\$975 in 2002 and US\$1170 in 2003, reflecting the importance of remittances. The Euro became the de facto local currency and price stability was achieved, with zero inflation in 2003 compared to double digits inflation rates in 2000. Current account deficits were reduced thanks to improved budgetary performance and rising private savings. Government revenues increased remarkably, from about 17 percent of GDP in 2000 to 45 percent in 2003, and led to a budget surplus averaging 3.5 percent of GDP during 2001-2003.

Table 4: Key Macroeconomic Indicators

Year ^a	2000	2001	2002	2003	2004
National accounts					
Real GDP growth	-	21.2	3.9	4.7	6.5
Investment(% GDP) ^b	35.6	40.0	40.7	38.0	45.3
Gross domestic savings (% GDP)	-198.6	-114.7	-99.4	-85.2	-71.3
Government balance (% GDP)					
Revenue	17.2	28.0	38.9	44.7	45.4
Expenditure	31.5	24.4	33.5	42.5	50.8
Balance (excl. grants)	-14.3	3.6	5.4	2.2	-5.5
Donor grants	21.5	7.3	3.0	2.2	0.0
External accounts (% GDP)					
Exports of goods	0.5	3.0	7.4	8.2	21.7
Imports of goods ^c	156.4	113.7	108.3	99.2	117.4
Workers' remittances	73.7	52.0	42.9	43.2	42.5
Current account before grants	-174.6	-110.2	-96.5	-76.9	-69.8
Savings and investment (% GDP)					
National savings	44.9	38.5	14.8	7.6	7.1
Investment	66.9	57.7	48.3	40.5	45.3
Monetary aggregates (% GDP)					
Broad money	99.6	78.5	70.9	75.4	74.5
Bank credit to private sector	0.4	2.2	6.8	16.1	19.8
Prices					
CPI inflation	-	11.7	3.6	0.0	0.0

Source: World Bank Kosovo Economic Memorandum (2004). Note: ^a 2000 to 2003 data are estimates and 2004 data are projections; ^b excluding donor-financed spending; ^c excluding donor-related imports.

3.6 ***The business environment and the investment climate have improved considerably, but remain adversely affected by political risks, delays in reforms, and asymmetry in trade agreements.*** With the shift toward liberal market policies since the establishment of the United Nations Interim Administration Mission in Kosovo (UNMIK) in 1999, and the Provisional Institutions of Self Government (PISG) in 2001, the climate for trade and investment has also improved quite substantially. The former trade regime was replaced by a simple regime with no quantitative barriers and a single 10 percent tariff rate. Findings from the 2003 Investment Climate Assessment concluded that a sound legal framework for a free market economy has largely been put in place, and that the business environment in Kosovo was generally seen by domestic small and medium firms as more favorable than in many countries in the region. However, major constraints in the business environment and investment climate included: (i) the unreliability of power supply which is seen as a major barrier for doing business and a consequence of the lack of reform in the power sector; (ii) an unfair and informal competition, in particular the absence of reciprocal treatment under trade agreements within the region which gave competitors an unfair advantage; (iii) high political uncertainty; and (iv) delays with the privatization process.

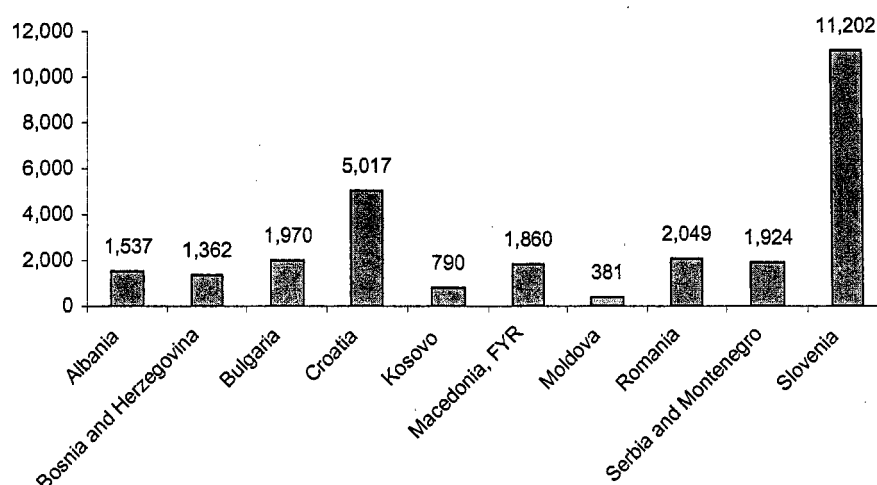
3.7 ***The recent growth performance has not been labor intensive growth.*** Despite an increase in private sector activity since 1999, the recent growth performance in Kosovo has not translated into a significant creation of decent jobs. This, combined with a large youthful labor force, has translated into high unemployment, especially among youth. While most of existing formal jobs are found in the service sector, and are closely reliant on the presence of a large expatriate community, job opportunities in the industrial and agricultural sectors have been very limited (World Bank, 2003d). The lack of a strong link between economic growth and job creation has been attributed to: (i) the difficulty to attract FDI necessary to revitalize the industrial and mining sector; and (ii) the intense competition to domestic producers in the agricultural sector induced by agricultural - and largely subsidized - imports.

3.8 ***Sustaining the recent growth performance remains a serious challenge.*** Despite substantial progress, Kosovo faces the challenge of sustaining robust growth in the coming years. The recent growth performance was driven by a post-conflict boom financed by official aid and is unlikely to be sustainable. Growth rates have already declined from 21.2 percent in 2001 to a yearly average of 5 percent during 2002-2004, reflecting the overall reduction in donor assistance, as well as Kosovo's difficulty to establish a sound business environment and attractive investment climate in the absence of a more predictable political and legal environment. Since 2000, donor grants have fallen by 70 percent and will most likely continue to decline. Prospects for income growth, as identified in the KEM, will largely depend on a number of related factors: (i) the maintenance of peace and security; (ii) the speed of resolving Kosovo's legal status; and (iii) the implementation of a set of reforms that promote private sector led growth. The latter includes reforms in the power and mining sectors, and the support of agro-processing and commercial farming.

The Extent of Income Poverty

3.9 ***Kosovo is the poorest economy in the Balkans.*** With a GDP per capita of US\$790 in 2003, Kosovo is also one of the poorest areas in south-east Europe and the poorest economy in the Balkans. In 2002, GDP per capita was indeed US\$ 1,537 in Albania, US\$1,924 in Serbia and Montenegro, US\$1,860 in Macedonia, and US\$1,362 in Bosnia and Herzegovina (Figure 1).

Figure 1: GDP Per Capita in Selected Economies of South-east Europe in 2002 (in current US\$)



Source: World Development Indicators.

Note: GDP data for Kosovo are based on preliminary estimates and refer to 2003.

3.10 Absolute income poverty in 2002 appears widespread but is relatively shallow.

World Bank estimates of poverty are presented in Table 5 according to different poverty indicators. The construction of the absolute poverty lines is summarized in Box 3⁸. The 2002 HBS data suggest that, four years after the end of the conflict, poverty remains widespread in Kosovo. In 2002, about 37 percent of the population of Kosovo was living below the poverty line of Euro 1.42 per adult equivalent per day. However, the size of the poverty gap (the average distance of the poor from the poverty line) and the severity of poverty (the weighted sum of poverty gaps) indicate that poverty was not extremely deep. It was estimated that among the poor, the average incremental consumption amount necessary to escape from poverty was only 11 percent of the poverty line (Table 5). The conclusion of large but not deep poverty is reinforced by a relatively flat distribution of consumption, with an estimated Gini coefficient of 30 percent. Extreme poverty remains nonetheless an important problem in Kosovo, with still about 15 percent of the population living below the extreme (food) poverty line of Euro 0.93 per equivalent adult per day.

Table 5 Poverty Estimates Derived from the 2000 LSMS and 2002 HBS

Data source	Year	Overall poverty line	Food poverty line	Poverty Headcount (%)	Poverty Gap (%)	Severity of poverty (%)	Extreme (food) poverty headcount (%)
HBS	2002	€1.42 /day	€0.93/day	37.0	11.4	4.9	15.2

Source: 2002 HBS

The Profile of the Extreme Poor

3.11 *Designing an effective poverty reduction strategy requires a good understanding of which socio-economic groups in society suffer the most from income poverty and how large they are.* Table 6 presents the extreme poverty indices (extreme poverty headcount index)

⁸ At the time of writing this report, no international poverty lines were constructed because of the lack of PPP indices for Kosovo, and hence the comparison of poverty in Kosovo with other countries difficult was not attempted.

across socio-economic groups and their share in total extreme poverty (the extreme poverty share), using per-adult equivalent measures⁹. While the results presented in Table 6 are based on univariate correlates and use a per adult equivalent scale, most of them tend to be relatively robust to the choice of different equivalent scales and the use of multivariate analysis¹⁰.

3.12 ***Extreme poverty is disproportionately high among children and the elderly.*** In Kosovo, the incidence of extreme poverty is the highest among children (17.3 percent among pre-school children and 16.9 percent among children of age 6-14) and the elderly (17.1 percent), and the lowest among working age adults (13.3 percent). Given the young age of the Kosovo population, children of ages 0-14 also constitute a large share of the extreme poor (34.5 percent).

3.13 The presence of children in the households is also a strong correlate of poverty. What is interesting is that the positive association between children and poverty is true whatever equivalent scales are used, but the incidence of children on poverty is stronger when per capita rather than per adult equivalent measures are used. With a per adult equivalent scale, the extreme poverty headcount rises from 10.7 percent among families with no children to almost 17 percent for families with three or more children.

Box 3: Construction of the Absolute Poverty Lines

Two absolute poverty lines were constructed, jointly with SOK, using the 2002/03 HBS data: a **food or extreme poverty line**, estimated at €0.93 /day; and (ii) a **complete poverty line**, taking into account the need for non-food consumption, and estimated at €1.41/day.

The estimation of the poverty line followed the same method utilized earlier by the World Bank and SOK for calculating the poverty lines using the 2000 LSMS. These absolute poverty lines are based on the cost of basic needs approach.

A minimal daily calorie intake of 2100 calories/person/day is adopted. The cost of the food basket providing this nutritional level is then estimated, using consumption habits of the third-to-fifth deciles of the population and the price information contained in the HBS. This leads to the “food poverty line”, and is treated as a threshold for identifying extreme poverty.

Clearly, non-food basic needs should be accounted for as well. The cost of non-food basic needs is estimated on the basis of calculating the food share for households with per capita food consumption in the neighborhood of the “food poverty line” (between the food poverty line and 1.2 times the food poverty line). The calculated food share is 65.9 percent. The complete poverty line is then calculated as the sum of the food component (the food poverty line) and non-food component, where the food poverty line corresponds to 65.9 percent of the complete poverty line.

3.14 ***Households with disabled members have a higher incidence of extreme poverty.*** Like in many other regions in the world, in Kosovo the presence of disabled members is associated with higher poverty rates. The extreme poverty headcount increases from 14.3 percent among households with no disabled members to 17.9 percent among households with one or more disabled members.

3.15 ***Female-headed households are much poorer than male-headed households.*** While female-headed household accounts for only 4.7 percent of all households in Kosovo, their risk of extreme poverty (28.2 percent) is much higher than for male-headed households (14.6 percent). Female-headed households also represent a small, but non-negligible share of the

⁹ Per-adult equivalent measures are used to account for differences across households in family composition and the economies of scale. See Tsirunyan (2004) for more details.

¹⁰ Multivariate analysis provides more precise estimates as to the role of selected socio-economic characteristics on poverty, taking into account the impact of other factors that are also associated with poverty (see Verme, 2004).

extreme poor (8.7 percent). The reasons for a higher incidence of extreme poverty among female-headed households are discussed in Chapter 4 and explained by gender differences in households composition, education and labor market status.

3.16 *Ethnic groups other than Albanians and Serbs face a strong disadvantage.* In terms of ethnic groups, extreme poverty is significantly higher among groups other than Albanian and Serbs with a combined extreme poverty incidence for these groups of 31 percent. While the HBS does not allow for a more detailed classification by ethnicity, other ethnic groups refer altogether to the Roma, Slav Muslims and other minority groups. Given the population structure, Albanians constitute the majority of the extreme poor (86.1 percent) but the risk of being poor among 'other' ethnic groups is more than two times higher than among the Albanians or the Serbs. Serbs show extreme poverty indexes slightly below that of Albanians.

3.17 Multivariate analysis confirms a significant disadvantage among other ethnic groups, whose probability of being extreme poor is higher by 14.6 percent. Chapter 4 provides further insight as to the reasons for higher incidence of extreme income poverty among non-Serbs ethnic minorities by looking at the disparities in educational and employment outcomes by ethnicity.

Table 6: Extreme Poverty Rates by Selected Socio-economic Groups

	Extreme Poverty Index	% of the extreme poor	Risk
All	15.2	100.0	100.0
Age of individuals			
0-5	17.3	13.0	113.8
6-14	16.9	21.5	111.1
15-24	15.8	22.4	108.3
25-64	13.3	36.2	87.9
65+	17.1	6.9	106.1
Gender of head			
Female-headed	28.2	8.7	185.5
Male headed	14.6	91.2	96.0
Presence of children (<15 y.o)			
0	10.7	16.6	70.4
1	13.6	16.1	89.5
2	16.4	17.0	107.8
3 or more	16.9	50.3	111.1
Presence of disabled members			
0	14.3	74.5	94.1
1 or more	17.9	25.5	117.8
Education of household head			
None: can't read write	20.4	8.1	137.4
None but can read write	17.9	3	120.4
Attending primary school	15.6	21.9	107.6
Uncompleted primary school and not attending	19.5	5.3	131.8
Primary	17.6	41.4	119
Secondary	9.6	18	65
Vocational	6.9	1	46.9
University or higher	7.2	1.2	48.6
Labor status of household head			
Employers	9.6	1.2	63.3
Employees	9.6	19.0	63.2
Subsistence farmers	16.2	12.6	106.2
Per diem workers	21.4	11.0	140.9
Other self-employed	10.0	1.8	65.7
Retired/disabled	16.2	34.1	106.8
Unemployed	22.8	15.6	150.2
Housekeepers	28.1	3.5	184.8
Others	12.1	0.8	79.6
Ethnic group of household head			
Albanian	14.6	86.1	96
Serbian	13.9	5.8	91.3
Other	31	8	203.1
Location			
Prishtina	7.7	3.1	50.2
Other Urban	19.1	26.6	125.4
Rural	14.8	70.2	96.9
Region			
Gjakova	13.8	8.4	90.6
Gjilani	10	5.5	65.9
Mitrovica	24.2	24.2	158.9
Peja	22.6	15	148.2
Prizreni	15	13.9	98.7
Pristina	7.3	16.3	47.8
Ferizaji	28.9	16.6	189.6

Source: HBS, 2002. Note: The risk index is computed as the ratio of the poverty rate among a particular group to the average poverty rate in the population.

3.18 *Extreme poverty affects disproportionately lower educated headed households.* The education level of the household head is a strong correlate of extreme poverty, with secondary education being the main threshold. While the incidence of extreme poverty is above average for all households whose heads have completed only primary school or less (ranging from

15.6 percent to 20.4 percent), it falls substantially for those with secondary education and more (from 7.2 percent to 9.6 percent). The vast majority of the extreme poor is made of households whose heads have only completed primary education of less (79.8 percent), reflecting the overall low educational standards of the population.

3.19 *Joblessness is a strong correlate of extreme poverty, and so are precarious jobs.* Using the labor market classification reported in the HBS, one can see that housekeepers and unemployed heads are the groups with the highest extreme poverty indices (28.2 percent and 22.9 percent respectively). Everywhere in the region unemployment is a strong correlate of poverty, and it is particularly pronounced in countries with weak unemployment benefit schemes. In Kosovo, the fact that there is no targeted unemployed assistance does not exist contributes to accentuate the adverse impact of unemployment on poverty. The incidence of extreme poverty is also very high among per diem workers (21.5 percent) who do not enjoy the same working conditions as regular employees.

3.20 *Extreme poverty is the highest in secondary cities and exceeds rural poverty.* The extreme poverty headcount is the highest in urban areas outside the capital Prishtina (19.1 percent). Extreme poverty rates are somewhat smaller in rural areas (14.8 percent) but still two times higher than in the capital city (7.7 percent). While the incidence of extreme poverty is higher in secondary cities, the vast majority of the extreme poor live in rural areas (70.2 percent) as do most of the population in Kosovo. The finding that the poorest are found in other urban areas remains unchanged even when other correlates of poverty are controlled for, and is robust to the use of national *versus* urban/rural price deflators.

3.21 *The region of Ferizaji has the highest extreme poverty rate, followed by Mitrovica and Peja.* Regions with the highest poverty indexes are Ferizaji (28.9 percent), followed by Mitrovica (24.2 percent) and Peja (22.6 percent), and about half of all the extreme poor are located in these regions. These findings are robust to the use of conditional probabilities and point to a strong regional dimension of poverty in Kosovo despite the relative small size of the province.

3.22 *The poverty profile has remained practically unchanged since 2000.* Comparing the findings of the 2002 HBS with the previous World Bank analysis of income poverty based on the 2000 LSMS suggests that the profile of poverty has remained relatively stable over time. In 2000, the incidence of extreme poverty was already higher in urban areas, among non-Serbs ethnic minorities, among families with numerous children, and among the unemployed. However, the situation of female-headed households seems to have deteriorated in relative terms: in 2000 the ratio of the female-headed to male-headed extreme poverty rate was only 1.1, as opposed to 1.9 two years later.

3.23 *The 2002 profile of income poverty that emerges from the HBS is also consistent with other recent quantitative poverty profile.* A World Bank labor market study (2003) investigates the determinants of income poverty, using the 2002 LFS, a relative concept of poverty and income rather than consumption as a measure of welfare. This study finds that income poverty for the unemployed is much higher than for the average population, and that being underemployed or employed in precarious work and unemployment duration increases the probability of being poor. Among the employed, the poverty risk is lower for employment in the public sector and higher for precarious workers where salaries are likely to be lower.

3.24 *Worse living conditions among the elderly, female headed households, families with children, the disabled, and the unemployed is also supported by qualitative evidence.* The qualitative poverty study has identified the elderly, female headed households, the disabled, and the unemployed as the most vulnerable groups in society and thus echoes the quantitative findings (see Box 4).

3.25 Many older respondents in the qualitative study mentioned the low level of pension as a source of poverty (in 2002 the average pension was about 6 times lower than the average wage) and some even report that they do not receive a pension at all. As for single mothers, they usually talk about their difficulties to combine work and domestic duties, and complain about the adverse consequences of traditional views that value women only as mothers and housewives. For the disabled and the unemployed, the problem is often their incapacity to work and/or to find jobs, and the fact that they have to rely mostly on social aid but that it is not enough to make ends meet. The situation described by many families with a large number of children is somewhat different but not better, as many report the most difficulties to meet the increased income and non-income needs associated with their parent responsibilities.

3.26 What is also interesting is that respondents have mixed views about the extent of poverty in rural and urban areas. Often, it is argued that life is easier in the cities and that the urban population has more opportunities. On the other hand, it is also recognised that villagers can more easily fulfil their basic needs as they can rely on home produced food.

Box 4: Voices of Vulnerable Groups in Kosovo

Society should do more to help the elderly. (A.D., 67 year old male, Albanian, Ferizaj)

I have always been more fragile than other women were since I had no husband and I was afraid someone would say something bad about me. (H.B., 70 year old female, Albanian, Mitrovica)

The state should care more about single mothers. I cannot go to forest to get some fire wood; I must pay someone to bring it to me and to cut it. (Leposavic)

I have never worked but now I even can't because I underwent a surgery for two times. (N.N., 47 year old female, Bosnian, Peja)

First thing we do when we get our Social Benefit is to secure the flour and salt, and also the cleaning products for the children and clothing; the rest is neglected. I can never manage to buy some new clothes for my children. (P.P., 40 year old female, Bosnian, Peja)

I think that life in the village is better because you can have a cow and to get milk, sour milk and it is easier to provide food. However, it is easier to find a job in town than it is in villages. (R.M., 46 year old female, Albanian, Gjilan)

Life is easier in village, if you have a land and are able to plow it. But if you have children and want to educate them it is easier to do this in towns, because there are no travel expenses. It is easier to find job in towns. (M.H., 43 year old female, Albanian, Gjilan)

When the war started in Kosova, the Serbs displaced us from the village and destroyed all of our wealth that we owned in it. Our house was burned down to the base and so was our store with all its equipment inside. My husband's family found shelter at a nearby village while I and my family came to live with my own parents in Gjakova. (H.M., 26 year old female, Albanian, Gjakova)

Nowadays, my family has worse living conditions than previously. It is harder for us to live in the city since we don't have any choice of work, while when we used to live in the village, we could at least plow the land and grow cattle. (Z.R., 57 year old male, Albanian, Gjilan).

Source: Kapo and Behlul, 2004

3.27 *Qualitative evidence further points to a high incidence of poverty among internally displaced persons – an issue that is not well captured in recent quantitative surveys.* The qualitative study, and other small scale surveys, finds that internally displaced persons (IDPs) remain among the most disadvantaged households in Kosovo. One group of IDPs is composed of ethnic Albanians who lived in rural areas before the war and had been forced to look for shelter in cities after the conflict started. While agriculture and cattle breeding used to provide them with decent income before the war, most of them are uneducated and under-qualified and can not easily find a job in the cities (Box 4). They usually have to turn for assistance to the state social services and humanitarian organizations. Another specific problem of this group is that they have lost their pre-war homes and are still facing difficulties

in finding housing accommodations in cities. They often have to rent rooms in other's houses. Another group of IDPs include ethnic minorities displaced after the war, and waiting for their re-integration in Kosovo. According to a 2004 survey conducted by the IDP information Center on IDPs in the North of Kosovo, the biggest problem faced by respondents was accommodation, followed by the return of property, lack of employment and legal issues. And the vast majority of these IDPs were willing to return to their place of origin if security and freedom of movements were guaranteed.

Sources of Income

3.28 *For all income groups, income from work is the main source of income followed by private remittances from abroad.* In poor countries, income from work usually represents a very large share of total income. Labor is usually and understandably the only valuable asset that poor people have. In Kosovo, because of very high unemployment and low employment, income from work is less important, although it remains the first source of income estimated at almost 60 percent for all households and 42 percent among the extreme poor (Table 7). A disproportionately high level of income derive from cash remittances from relatives and friends, mostly from those living abroad (15.2 percent), and this is true for both the extreme poor (15.5 percent), the poor (14.5 percent) and the non-poor (15.4 percent).

Table 7: Income Structure by Poverty Status and Location (percent)

	All Households	Very-poor	Poor	Non-poor	Urban	Rural	Prishtina
Cash wages and salaries net of tax	59.9	41.7	55.9	61.2	66.5	54	87.2
Wages in kind	3.1	3.5	3.4	2.9	0.8	4.2	0
Rent, dividends, interest	0.8	0.2	0.5	0.9	1.9	0	3.9
Social welfare benefits	1.7	9	4.5	0.7	2.1	1.6	1.1
Pensions	6.2	9.4	7.1	5.8	4.5	7.3	2
Cash remittances from Kosovo	2	3.7	2	2	3.1	1.6	2.6
Cash remittances from abroad	15.2	15.5	14.5	15.4	11.4	18.2	2.4
Game of chance/lottery	0.1	1.1	0.3	0	0	0.1	0
Other income or transfer	11.2	15.9	11.8	11	9.7	13	0.9
Total	100	100	100	100	100	100	100

Source: HBS 2002. Note: Labor status categories refer to the head of the household only of ages 16-65.

3.29 *For the extreme poor, state transfers constitute the third largest source of income.* For the extreme poor, a very high proportion of income is constituted by transfers from the state through pensions and social assistance (18.4 percent). The combination of these two types of transfers comes close to the share of income from private transfers from relatives and friends living abroad or in Kosovo. This finding is consistent with the 2003 World Bank Kosovo labour market study, which finds that about 25 percent of households reported to receive cash or non-cash assistance from friends and relatives living abroad, about 10 percent reported receiving cash or in-kind assistance from friends and relatives living in Kosovo and 26 percent declared to have borrowed money from friends and relatives (which is evidently not perceived as assistance by all respondents).

3.30 *Income diversification and own produced food are important coping mechanisms.* Available evidence from the HBS data also indicate that most households in Kosovo, regardless of the labor market status of the household head, rely on several sources of income (Table 8)¹¹. The only households which basically rely only on one source of income are those headed by an employee, but these are also the least poor and probably those in the lowest-risk activity (see Table 4). Consumption data from the HBS further indicate that own produced food constitute an important source of subsistence. The imputed value of home food production is estimated at about 14.3 percent of total household consumption on average, and

¹¹ Labour status is defined as the main activity performed over the previous 12 months which evidently captures what respondents regard as the main activity. The question on sources of income instead may actually include income that was generated by the different types of activities performed in the course of the year.

16.3 percent among the first consumption quintile. It is thus evident that for the poor, relying on multiple sources of income and home production of food are important coping mechanisms.

Table 8: Labour Status and Sources of Income

Labour Status	Sources of Income								Tot.
	Pub. Wages	Priv. wages	Farming	Per diem	HH bus.	Pensions	Remit.	Other	
Employers	14.5	51.0	0.0	1.5	29.5	0.0	1.9	1.7	100
Employees	72.7	21.7	1.9	0.1	1.4	0.1	1.4	0.7	100
Subsistence farmers	6.9	8.5	73.2	2.0	1.1	1.0	6.3	1.1	100
Per diem workers	2.9	8.9	2.7	75.1	1.3	0.5	4.4	4.3	100
Other self-employed	2.6	35.0	0.0	0.0	55.1	0.0	0.0	7.4	100
Retired/disabled	30.9	15.3	8.6	10.4	3.5	16.2	9.9	5.4	100
Unemployed	22.2	14.7	3.7	6.8	4.5	4.4	17.6	26.2	100
Housekeepers	30.4	13.0	5.3	15.7	3.1	1.5	11.8	19.3	100
Others	15.4	28.4	3.6	3.6	2.4	3.6	2.4	40.8	100
Total	35.9	18.0	10.5	10.9	5.5	5.5	6.9	6.9	100

Source: HBS 2002

Economic Growth and Poverty Trends

3.31 *Has the growth performance of 2000-2003 been pro-poor?* Since the end of the 1999 ethnic conflict, the province has benefited greatly from the restoration of peace and stability, and from massive inflows of donor assistance. In this context there are good reasons to believe that income poverty may have declined. However, while the growth-poverty linkages can be simulated from survey data, which helps illustrate the importance of both growth and equity for poverty reduction (see Section C in Chapter 3 and Section A in Chapter 4), the actual links cannot be empirically tracked during the period 2000-2003 for the reasons discussed below.

3.32 *The lack of comparable poverty data precludes an accurate assessment of the changes in poverty that took place between 2000 and 2003.* A number of surveys have been undertaken in Kosovo by different institutions to derive poverty figures, but so far none of these estimates are strictly comparable. The previous poverty estimates were based on the 2000 LSMS and reported in the 2001 World Bank Poverty Assessment (World Bank, 2001). Available World Bank estimates point to an overall poverty rate of 50 percent in 2000 based on the LSMS and 37 percent in 2002 based on the HBS. Correspondingly, the poverty gap, severity of poverty and extreme poverty were estimated respectively at 15.7 percent, 6.8 percent and 12 percent in the LSMS, and 11.4 percent, 4.9 percent, and 15.2 percent in the HBS. As discussed in Chapter 2, however, the 2000 LSMS and the 2002 HBS are not entirely comparable due to differences in consumption modules and the use of survey-specific poverty lines. Only after future rounds of the HBS have been undertaken and analyzed, can one make more definite statements about the trends in poverty and extreme poverty.

3.33 *At best one can infer that overall poverty has probably declined.* The steep decline shown by the overall poverty estimates would suggest that poverty has probably declined between 2000 and 2002. The difference is indeed sufficiently large to assume that even accounting for the statistical errors associated with the poverty estimates, one would still be able to conclude that overall poverty has declined.

3.34 *But no inference can be made about the evolution of extreme poverty.* The poverty gap, the severity of the poverty index and the extreme poverty headcount are rather close between the two years and do not show a consistent trend across the three measures. It is

possible that changes in these measures reflect the sensitivity of these estimates to the use of different welfare aggregate and slightly different poverty lines, rather than real changes. Given the comparability problems listed above, there are not sufficient elements to argue for a positive or negative trend in extreme poverty.

B. LOW EDUCATION AND HEALTH CAPABILITIES

3.35 *Summary.* Besides the lack of income, education and health capabilities are among the primary dimensions of individual well-being, and ones that are well reflected in the Millennium Development Goals (Table 9). This section complements the previous discussion by providing an assessment of poverty that goes beyond low levels of consumption to encompass low achievements in education, health, and environment. The findings show that important progress were made in education achievements since 2000, but the level of completed education was still relatively low in Kosovo, compared to the region. As regard health, there is still considerable uncertainty on estimates, but available evidence points to very poor health outcomes which also the worst in the Balkans.

Table 9: Kosovo and the Millennium Development Goals

MDGs	Current Situation in Kosovo	Projections by 2015
1. Halve between 1990 and 2015 the proportion of people in extreme poverty and who suffer from hunger	In 2002, about 37% of the population was living below the poverty line of Euro 1.42/ adult equivalent per day. The population living below the extreme (food) poverty line of Euro 0.93 per equivalent adult per day was estimated at 15%.	With an annual average growth rate of 2% and no change in inequality, per capita is estimated that extreme poverty may be reduced to less than 8 percent
2. Achieve universal completion of primary education by 2015 for both boys and girls	Only about 73% of children of ages 7-15 completed primary school in 2001. In 2001 and 2002, the ratio of girls to boys in primary was 0.92.	Data from the 2003 HDIS indicate that while overall rates are high, rates for ethnic groups other than Albanian or Serb are much lower. There is a possibility that the target will be met.
3. Eliminate gender disparities in primary and secondary education by 2005 and for all levels by 2015	School enrolment drops substantially at secondary level, especially among girls and in rural areas. The ratio of girls to boys in secondary was estimated at 0.72 in 2001 and 0.79 in 2002.	Gender disparities are greater after primary school, especially in rural areas where 29% of girls compared to 61% of boys finish secondary school. The target is unlikely to be met.
4. Reduce under five mortality rates by two-thirds between 1990 and 2015	Under-five mortality rates are not available. WHO/UNICEF estimated IMR at 35/1000 for both 2000 and 2001.	Although no data on U5MR is available, Kosovo suffers from one of the highest IMRs in ECA and is therefore unlikely to meet the MDG target.
5. Reduce maternal mortality rate by three-quarters between 1990 and 2015	Data on MM is conflicting. According to UNFPA MMR was 153 per 100,000 while MOH data indicates 12.	With the limited data available, it is hard to tell if the MDG will be met.
6. Halt and reverse by 2015 the spread of HIV/AIDS, malaria, and other diseases	HIV infection rate appears low. Since 1986, only 60 HIV/AIDS cases have been reported. TB notification rate was 78 per 100,000 in 2001.	Based on available data, Kosovo appears to be on track to meet AIDS target.
7. Ensure environmental sustainability and access to and improved water source	In 2001, the proportion of population with access to improved water source was estimated at 68 percent of the population (not taking into account water from wells).	Much of the water supply in Kosovo is contaminated and there are not waste water treatment systems with only 28 percent of homes connected to the sewage system.

Educational Outcomes

3.36 *The overall level of completed education is relatively low.* The education system in Kosovo has undergone substantial shocks during the 1990s. Discriminatory practices against the Albanians encouraged this group to pull out of formal education and to create a parallel educational system. Later, the war disrupted formal education. As a result, the overall level of completed education appears today low in Kosovo, compared to the general achievements of other neighbouring economies. According to the 2002 HBS, over half of the population in age 26-65 has primary education or less and only 5.2 percent have a higher education degree.

3.37 *Illiteracy is still significant in Kosovo although declining.* The level of illiteracy increases very rapidly with age. According to the HBS, while the level of illiteracy is about 0.5 percent among the population younger than 26, it increases to almost 49 percent among the population of ages 65 and older. Yet, although estimates are not entirely comparable across surveys, it seems that illiteracy is declining, with a rate of 6.5 percent in 2000 (based on the Demographic and Socio-Economic and Reproductive survey (SDS) conducted by UNFPA and IOM), 5.9 percent in 2002 (based on the HBS), and 5.8 percent in 2003 (based on the HDIS).

3.38 *Few children in Kosovo attend pre-school institutions.* While pre-school education is usually not compulsory and is designed to prepare children for school, recent evidence shows that preschool programs improve the prospects for physical and cognitive development thereafter. In Kosovo, the pre-school educational system is quasi inexistent and leaves early child care in terms of health and educational provision almost entirely on parents. Before the war, pre-school education used to be divided into kindergartens (age 3-5) and pre-primary education (age 5-7). Yet, only a minority of children had access to pre-school institutions and these were located close to the factories to serve workers' children.

3.39 The war and the transition process dismantled the system. With the recent reform of the educational system, pre-primary education has been abolished and absorbed into a formal pre-school cycle that covers children from the age of 3 to 6. The most recent data on pre-school enrolment rates are for 2001 and shows that at that time, there were only 7,343 children in Kosovo (about 4 percent of children in age 0-5) in pre-school education spread over 34 institutions (Table 10). Most of these institutions were in the Prishtina region and virtually all in urban areas.

Table 10: Selected Key Educational Indicators in Kosovo

	2000	2001	2002	2003
Adult illiteracy rate (age15+)	6.5 ^c		5.9 ^a	5.8 ^d
% of adults (age 26-64) with primary education or less			53.3 ^a	43.7 ^d
Pre-school enrollment rates (age 3-6)		4.0 ^c		
Primary enrolment rate (age 7-15)	91.7 ^c		90.5 ^a	95.4 ^d
Rate of children completing primary education		73 ^e		
Ratio of girls to boys in primary		0.92 ^f	0.92 ^f	
General secondary enrolment rate (age 15-19)	59.5 ^c			75.2 ^d
Ratio of girls to boys in secondary		0.72 ^f	0.79 ^f	
Girls reaching grade 9		58.1 ^f		
Higher education enrolments	17.3 ^c			
Ratio of girls to boys in tertiary		0.79 ^f	0.82 ^f	

Source: ^aHBS; ^bLFS; ILO unemployment rate for adulthood refers to age 15-64; ^cDemographic and Socio-economic reproductive survey; ^dHuman Development Indicators Survey; ^eSOK/MEST/UNICEF Gender review; ^fSOK; ^gper thousand live births, early neonatal mortality rate (first week) from UNICEF Survey on prenatal care; ^hDHS; ⁱWorld Bank estimates; ^jRIINVEST; ^kUNICEF estimates; ^lKosovo Obstetrician and Gynaecology

Association; ^mwomen 15 to 49 years attended by skilled health personnel at delivery, based on UNICEF-MNSS; ⁿat 1 year, based on NIPHK estimates; ^oLSMS.

Note: HBS-based illiteracy rate for 2002 refers to individuals of age 7 and above.

3.40 **School enrolment is high at primary level but enrolment drops substantially at secondary level.** Kosovo enjoys high enrolment rates in basic education. According to the HDIS, 95.4 percent of children of ages 7-15 were currently enrolled in primary education in 2003. Although surveys are not strictly comparable, this seems to be an improvement over the recent years. In 2002, according to the HBS, the enrolment rate in primary education was 90.5 percent, and about 91.7 percent in 2000 according to the SDS (Table 10). From an international perspective, these enrollment rates are high: the average primary school enrollment rate (net) is 79.5 percent in low income countries, about 91 percent in middle income countries, and 93 percent in upper middle income countries.

3.41 However, the share of children enrolled in secondary education drops significantly. In 2003, according to the HDIS, the proportion of children of ages 16-19 currently enrolled in secondary education was only 75.2 percent. This is much better than in 2000, where the secondary enrolment rate was estimated at 59.5 percent by the SDS, and reflects the reconstruction efforts, but it nonetheless indicates that improving access to secondary education remains an important challenge in Kosovo. Problems in service delivery include insufficient space and classrooms, with schools working on a 2 to 4 shifts per day.

Health Outcomes

3.42 **Although there is still considerable uncertainty on estimates, the overall health status of the population in Kosovo is poor and probably among the worst in south-east Europe.** Traditionally, infant mortality rate (IMR) and life expectancy (LE) for males and females are the indicators that best describe the overall health status of a population. In Kosovo, there are major differences in the currently available estimates for both these indicators. For LE, SOK, based on the 2003 DHS provides an estimate of 67-71 years for females and 63 to 67 for males, which is significantly lower than available estimates for neighbour countries. Current IMR estimates vary from 18 to 49 per 1,000, which would be the highest in SEE and from 4 to 10 times (depending on the estimate) higher than the EU average (Table 11). The comparison of these health indicators across countries is not exempt of problem, however. These are based on different data sources and the differences may reflect the disparities in data collection and surveys, rather than true differences.

Table 11: Infant Mortality Rate (IMR) and Life Expectancy (LE) in Kosovo as Compared to Regional and EU Data

Countries	IMR	LE at birth	
		Males	females
Kosovo (2003)	18-49	63-67	67-71
Serbia & Montenegro (2001)	13.3	69.7	74.8
FYROM (2001)	11.8	68.9	74.9
Bosnia & Herzegovina (2001)	7.6	69.3	76.4
Albania (2001)	11.6	66.3	73.2
EU (2000)	4.5	75	81

Source: WHO, Atlas of Health in Europe, 2003 and SOK.

3.43 **Health around birth and over the first year of life is a major problem.** There are only rough estimates of perinatal mortality, infant mortality, under-five mortality, maternal mortality, and of the incidence of vaccine preventable disease, but available figures indicate that the health situation around birth and over the first year of life is particularly bad in Kosovo, and among the worst in Europe (Table 12).

3.44 *Inadequate nutrition is a particular problem that affects a fairly large number of children.* According to the micronutrient survey carried out by UNICEF in 2002, low height for age is present in 10 percent of children 6-59 months, low weight for height in 4 percent of children, and a high weight for height in 8 percent. Sixteen percent of children have mild and moderate anemia and 36 percent Vitamin A deficiency. Low urinary iodine is present in 50 percent of school age children and iodine deficiency is severe in 14 percent of them. Breastfeeding (BF) is common practice in Kosovo, but for a short duration and with a low proportion of infants being exclusively breastfed. This is an important issue since formula feeding is expensive, cow's milk is nutritionally inadequate, while exclusive breastfeeding for the first six months provides the greatest health benefits at the lowest cost.

3.45 *The factors behind the high maternal and infant mortality rates are fairly well identified.* Weak prenatal care, along with illegal abortions, are important contributors to maternal mortality and morbidity including permanent reproductive health problems. Abortion is still a common fertility control method in Kosovo and there is anecdotal evidence that the private sector performs illegal late abortions after ten weeks. Causes of death within the neonatal period include prematurity (59 percent of all child deaths), infections (9 percent), asphyxia and birth injuries (32 percent). Beyond the prenatal period, infections and particularly respiratory infections are the first cause of hospital admission and death.

Table 12: Selected Maternal and Child Health Outcomes in Europe and Central Asia

Region/Country	Infant mortality rate	Under-five mortality rate	Maternal mortality ratio	Child birth care (4)	TBC immunisation rate (5)	DPT immunisation rate (6)	Polio immunisation rate (7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1999	2001	2001	2001	2001	2001	2001
Kosovo	35	35-40	21*	95	98.5*	97**	97**
Czech Republic	4.6	5	3.3	99.9	98.5	99.2	97.2
Hungary	8.4	9.4	5.2	99.6	100	99.9	99.9
Poland	8.9	9	3.5	99.8	94.9	98.2	97.7
Slovakia	8.3	8.2	15.6	99.4	88.7	-	-
Slovenia	4.5	4.7	-	-	-	-	-
Estonia	9.5	10.9	7.9	99.7	99.3	75.5	65.5
Latvia	11.3	13.7	25.4	99	96.5	93.9	94
Lithuania	8.6	10.8	12.7	100	99.3	94.7	97.5
Bulgaria	14.6	15.1	19.1	98.9	97.8	93.6	94.3
Romania	18.6	21.9	34	96.5	99.6	96.5	96.7
Albania	12.3	16.9	-	-	-	-	-
Bosnia-Herzegovina	7.6	8.7	9.5	99.9	99	91	91
Croatia	7.7	9.2	2.4	-	97	94	94
FYR Macedonia	14.9	12.9	14.8	97.6	96.8	90.6	91.5
Serbia and Montenegro	13.6	15.3	6.9	-	-	-	-
Belarus	11.5	11.6	14.2	99.9	99.3	99.2	99.2
Moldova	18.2	20.3	43.9	99	99.6	97.1	98.1
Russia	16.9	18.3	36.5	99.3	96.6	95.8	96.7
Ukraine	12.8	14.4	18.1	99.9	98.1	99.1	99
Armenia	15.4	18.8	21.8	-	96.4	94.5	96.8
Azerbaijan	16.5	24.8	25.4	99.6	98.5	98.2	95.8
Georgia	17.5	13.3	66.8	96.7	96.4	89.3	82.8
Kazakhstan	20.7	25.1	50	98.5	-	-	-
Kyrgyzstan	22.7	29.5	43.8	98.7	98.8	98.9	98.8
Turkmenistán	25.4	36.9	9	-	98.2	98.7	99.3
Uzbekistán	20.2	-	33.5	-	97.9	98.5	99.4

Source: WHO, Unicef Kosovo and Unicef TransMONEE database. (*) 2002 (**) 2003. (1) Probability of dying between birth and one year of age per 1,000 live births. (2) Probability of dying between birth and five year of age per 1,000 live births. (3) Annual number of deaths from pregnancy related causes per 100,000 live births. (4) Proportion of births attended by skilled personnel. (5) Percentage of one year old children immunised against tuberculosis. (6) Percentage of one year old children immunised against diphtheria, pertussis and tetanus. (7) Percentage of one year old children immunised against polio.

3.46 ***The causes of death within the neonatal period are largely preventable and there are signs of improvements.*** A substantial proportion of death within the neonatal period can be avoided with appropriate interventions in the prenatal and immediately postnatal period. Data from the 2000-2002 WHO/UNICEF Survey on perinatal care show indeed a decrease in the early neonatal mortality rate (ENMR) from 14.8 per 1,000 live births in 2000 to 12.6 per 1,000 live births in 2002. This is largely due to interventions that have taken place since the end of the conflict to improve quality of care through training and better facilities and equipment.

3.47 ***Quantitative information on the health status later on in the life stages is very scarce. Yet, available data suggest that tuberculosis and disability are major problems.*** There are no available quantitative data that could inform on the health status of older children, youth, adults and elderly people in Kosovo, nor systematic data on chronic and infectious diseases and risk factors. Available data on the incidence of HIV/AIDS indicate that while Kosovo remain a low level epidemic region, tuberculosis and disability remain major public health problems in Kosovo.

3.48 Although the incidence of tuberculosis (TB) has decreased in the aftermath of the conflict (from 128/100,000 in 2000 to 53/100,000 in 2003), it is still far above the average of western European countries (10/100,000), and similar to the high levels in the former Soviet Union. Moreover, the majority of new cases occur at a relatively young age.

3.49 The recording of HIV/AIDS in Kosovo started in 1986. Since then, 60 HIV/AIDS patients have been recorded, but the real number of individuals infected by the virus is likely to be higher. The majority of the patients have been males between 30 and 39 years of age. By the end of 2002, twenty-two patients had died. In the absence of a systematic STI-HIV surveillance system, the number of HIV infected persons is not known. Government statistics report 1095 registered STIs cases during the period 1990-2000.

3.50 Disability, as a consequence of injury and chronic illness, is also a major problem, due to the consequences of the conflict and of past neglect of prevention, care and rehabilitation. Available estimates show that between 5 percent to 7.5 percent of the overall population have some kind of disability, and up to 50 percent of the population over 65 suffers from limiting illness and disability. Many disabled children are still institutionalized.

3.51 ***Qualitative data further indicate that mental health problems are widespread, especially for young people.*** There is no official data on the prevalence of mental health problems. Immediately after the conflict, the focus was on those traumatized during the conflict. It was estimated that 62 percent of those surveyed had been close to death, 49 percent had been victims of torture or abuse, 42 percent had been separated from family members, 26 percent had experienced the murder of a family member or friend, 10 percent had been imprisoned, and 4 percent had been sexually abused. It is safe to assume that the consequences of conflict are still largely present in Kosovo, not only in terms of post-traumatic stress disorder (PTSD), but also because of the impact of the loss of parents, sons, relatives for many of which a mourning /healing process could not take place because of the many who disappeared and for whom there still is no information.

3.52 Qualitative data also indicate that mental health is a serious problem for young people in Kosovo, due to a combination of factors: (i) the psychological sequel of the conflict; (ii) the fall of traditional ways of containing and/or masking psychiatric problems; (ii) the high risk for social exclusion (see Section D); (iii) and the general frustration about non-resolution of status quo. But there are no official data on the prevalence of mental health problems among young people in Kosovo.

C. POVERTY AS A LACK OF SECURITY

3.53 *Summary.* As articulated by the people themselves in Kosovo, the experience of poverty is also a sense of vulnerability to a reduction in different dimensions of their well-being. This section provides an assessment of major risks occurring at national, community or household level in Kosovo and that could adversely affect individuals in three dimensions of well-being: income, health and personal safety. The analysis shows that a large share of the population could fall into income poverty or remain into poverty as the result of a still unstable political situation and the related risk of economic slow-down. Exposure to health risks is widespread, largely resulting from environmental pollution. Finally, the lack of personal safety appears as an important dimension of poverty that is not solely related with inter-ethnic tension.

Income Insecurity

3.54 A fairly large level of income insecurity and vulnerability to income poverty in Kosovo is the results of a combination of inter-related factors, including the risks of economic slow down and political instability that can affect the entire population, the environment degradation that can jeopardize the means of livelihood of the many households who rely on natural resources, an overall high risk of unemployment and precarious employment, the existence of constraints to internal mobility that can reduce the capacity to mitigate income shocks, the occurrence of unexpected private health expenses that can be catastrophic for some households, and the low coverage of the current formal safety net. Households' capacity to self-insure against temporary income shocks is however quite important, mostly thanks to a large access to family-based networks and private transfers, the reliance on multiple sources of income, and the ownership of durables that could serve as collateral to access credits or be sold to compensate for temporary loss of income or to cover unexpected expenses such as health care.

3.55 *Sustaining growth is expected to be much harder over the coming few years. This contributes to a high risk of remaining or falling into income poverty.* As discussed earlier, the recent growth performance in Kosovo has been driven by a post-conflict boom financed by official aid and is unlikely to be sustainable. Prospects for income growth, as identified in the Kosovo Economic Memorandum, will largely depend on the maintenance of peace and security – an issue that remains a challenge as illustrated by the March 2004 riots – as well as on the speed of resolving Kosovo's legal status and implementing a set of reforms that promote private sector led growth. Simulations have been conducted to examine the impact of policy reforms and status resolution on growth. The results show that compared to a "base-case" scenario which assumes rapid reform and status resolution by 2005, the delay of both reforms and status resolution may reduce growth rates from an average of 7.2 percent to 2.3 percent for the period 2005-2007, and from 5 percent to 2.2 percent in 2008 to 2010.

3.56 Additional simulations conducted for this report show that holding income inequality constant, lower growth rates would contribute to a less rapid decline in poverty (Table 13). In the "low-case" scenario with an average real per capita consumption growth of only 2 percent per year during the next 5 years, the extreme poverty rate would decline only from 15.2 percent to 11.5 percent. In other words, without sustained growth rates, the risk of remaining or entering into income poverty would remain high.

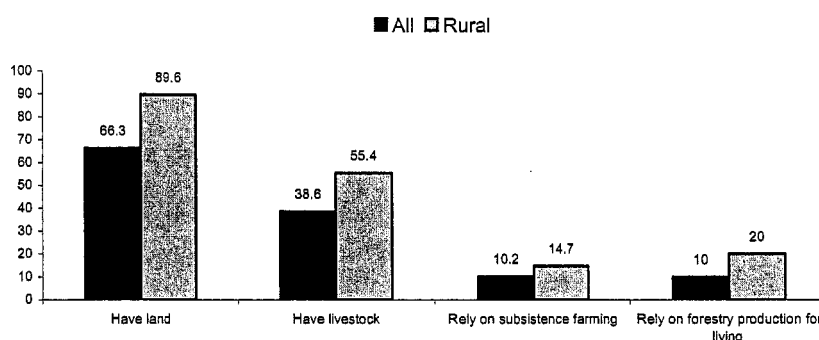
Table 13: Simple Income Poverty Projections

Annual Consumption growth	Poverty Rate	
	5 years	10 years
-3%	22.2	30.6
-2%	19.6	25.5
-1%	17.6	19.6
0%	15.3	15.3
1%	13.3	11.5
2%	11.5	8.1
3%	10.2	6.2

Source: HBS, 2002.

3.57 Environmental depletion is a serious problem that could jeopardize the livelihood and income of many households that rely on natural resources, particularly in rural areas. In Kosovo, the biodiversity and the natural environment is an important source of sustainable economic opportunities for a large part of the population and it needs to be preserved. As shown in Figure 2, a fairly large number of households live of natural resources and are vulnerable to environmental risks. This is especially true in rural areas, where according to the HBS 90 percent of households have land, 55 percent have livestock, and 15 percent live of their own food products. Other estimates from the Kosovo Forest Agency show that about 10 percent of the overall population, and 20 percent of the rural population, relies on forestry production for its living. Of major concern is the very poor state of the environmental conditions in Kosovo (Box 5), which constitutes, among other risks, a considerable threat for the income and livelihood of the large share of the population which depends on natural resources for their living (e.g. farm and grazing land, fish, forest production, wild food).

Figure 2: Dependency of Households on Natural Resources (percent of households)



Source: HBS, 2003. Data on forestry are from the Kosovo Forest Agency.

3.58 Widespread unemployment and deficit of decent job opportunities contribute to large income insecurity. The evidence discussed earlier shows that unemployment and precarious job holding are strong correlates of poverty. In Kosovo, formal employment is very scarce and unemployment is very high. As a result, the risk that households or individuals will fall into poverty is very high. Available data show that, as in other former Yugoslav republics, unemployment in Kosovo was already high during the pre-transition period with an estimated rate of 36 percent in 1990. This rate climbed throughout the 1990s to an estimated 68 percent in 1999 before the war. Since the end of the conflict, and despite the recent growth performance and an increase in private sector activity, the situation in the labor market has not significantly improved and remains worrisome (Table 14).

3.59 In 2002 Kosovo had the lowest labour force participation rate, the highest unemployment rate (registered and non registered) and the lowest educational level of all former Yugoslav republics (World Bank 2003). There are also some concerns about the large share of the informal economy. Data from the 2002 LFS shows that although 90 percent of workers were permanent workers, less than half had actually signed a regular contract and about a quarter were estimated to be in precarious working positions. For those who work and have a regular job, wages are satisfactory if compared with other countries in transition with an average monthly wage estimated from the 2002 HBS at 249 Euro.

3.60 However, many of existing formal jobs are still reliant on international aid and public provision and are mostly found in services related in some form to the international community. In 2002, according to the LFS, general government employed 6 percent of the workforce, education 8 percent, and health 4 percent. The share of Kosovo's employment in manufacturing was very small relative to neighboring countries (8 percent of total employment), and a large share of Kosovo's employment was still engaged in agriculture (39 percent), mostly in some kind of subsistence farming. Apart from agriculture, trade and construction constituted the most important sectors of employment (12 and 8 percent respectively), largely in the informal sector.

3.61 While Kosovo has probably one of the most flexible labor market in the world, a combination of factors is often mentioned that explain the lack of a substantial reduction in unemployment: (i) a pattern of growth that has not been labor intensive; (ii) the return of a quite large number of Kosovar asylum seekers from western European countries, whose status in these countries is no longer sustainable; (iii) the negative income effect on the local individual and/or household labor supply related with the large level of workers remittances from abroad; and (iv) a growing population of working age.

Table 14: Main Labor Market Indicators

	1989	2000	2001	2002
Employment rate (%)	22.2	40.9	19.6	21.8
Unemployment rate (%)	36.3	12.1	41.2	47.2
Labor force participation rate (%)	34.9	46.5	33.4	41.3

Source: World Bank (2003), Kosovo Labor Market Study

3.62 ***Barriers to internal mobility are important and may reduce households' capacity to cope with income shocks.*** Internal mobility and access to transportation is an essential element that allows households to cope with income shocks through better access to employment, to markets, to family networks, to health services or to social assistance centres. In Kosovo, however, the evidence points to the existence of barriers to mobility that is not only related with the fragile security situation, but also with the deficiencies of transport services.

3.63 Poor transport infrastructure services is a not a novel phenomenon in Kosovo. In former Yugoslavia, the province was the least serviced in terms of transport. Chronic underfunding of the transport systems during the 1990s and the war have further deteriorated the transport network. The 2003 World Bank transport review estimated that the road network consists of 3,800 kilometres including 623 km of main paved roads and 1300 km of secondary roads of which 920 km are paved. Intercity public transport is mainly provided by Kosovo Trans a cooperative owned by the government (51 percent) and the employees (49 percent). About 80 percent of the fleet and almost all service equipment were destroyed during the conflict but thanks to the post-war effort the fleet was back to about 200 buses operating in 2003. Local urban transport is provided by a mix of municipality and private companies while the railway network is constituted by a single non electrified track of about 330 km which is in need of upgrade and does not currently contribute significantly to the local

economy. Over 60 percent of freight traffic is represented by KFOR activities and only 40 percent by commercial activities. Passenger traffic is limited to a twice a day service that covers the length of the network.

3.64 ***Private health expenses among households who incur such costs are high in Kosovo. For some of these households, they could be catastrophic and lead to income poverty.*** According to estimates drawn from the HBS, in 2002, private spending on health, in the form of out-of-pocket expenses for private services and pharmaceuticals, official co-payments and informal payments to professional staff in the public system, amounted to 7.5 Euro/month and represented about 1.75 percent of GDP. This is lower than the previous estimate based on the LSMS and which gives a figure of 3.58 percent of GDP in 2000¹². The average household health expenditure in 2002 (7.05 Euros /month) appears relatively low if compared with, for example, the average expenses for coffee or tea (7.8 Euros) and footwear (10 Euros).

Box 5: Environmental Degradation in Kosovo

The majorities of rivers in Kosovo are polluted. Recent samplings show that freshwater from rivers is contaminated with bacteriological pollutants, and in some industrial regions, even with heavy metals, such as lead and zinc, and may not be used even for industrial needs, before prior water treatment. The main sources of contamination are the industrial effluents discharged in the main river system. Another serious damage on rivers comes from human-generated waste and untreated wastewater. As Kosovo is located in the upper watersheds of four rivers, polluted rivers in Kosovo are also responsible for a typical transboundary environmental issue that involves the entire region since these rivers provide water also to downstream neighboring countries.

Less than one third of forested area can be considered healthy and productive. Kosovo benefits from a significant forest area that covers 42.1 percent of total land. Out of the forested area, private forest ownership cover 33.7 percent. Available studies show that out of the total forest area, approximately 17 percent is in a degraded status, and almost 1/3 is subject to uncontrolled harvesting.

Land degradation at the power plants and lignite mines is common. Tailing dumps and old mines that are no longer in operation deteriorate a large area of land that can no longer be used for agriculture activities. Non-reclaimed outside dumps and old mines that are no longer in operation further represent a potential source of contamination of the territory in the event of a natural disaster (flood, earthquake).

Biodiversity conservation is at risk. Kosovo is exceptionally rich in plant and tree species considering its relatively small area. Kosovo is also very diverse from a geological perspective with volcanic, metamorphic, and sedimentary rocks of varying ages and origins present. However, the ecosystem in Kosovo has been under stress due to a long period of mismanagement and neglect. National protected areas, as a share of total land area, are rather small in Kosovo (4.3 percent) compared with regional and world average (7 percent for ECA and 11.7 percent worldwide) and slightly below the European required threshold (5 percent). This leaves a large proportion of the natural environment at risk of degradation. Concerns about the biodiversity conservation relate to illegal construction, over-harvesting of fuel wood and some rare medicinal plants, fire, and the deposit of sand and gravel in rivers from mining and illegal building activity.

3.65 However, these are averages and include a majority of households that do not incur any health expenditures in the period considered, either because they did not seek or did not need health services, or because they did not pay for the services they received. Considering only households that incurred health expenses provide a different story, as illustrated in Table

¹² The reasons for this major difference in the estimates of the private health expenditure may be due to: i) different survey tools, methods and interpretation; ii) a change in private expenditure patterns with respect to the immediate post-conflict period (private procurement of drugs was more prevalent, the public system was less able to provide free drugs, prices were higher and consumption too may have been higher due to consequences of the conflict); iii) the GDP per capita has increased at an estimated rate of approximately 5 percent over the last 3 years; or to various combination of the above factors.

15. What emerges from this table is that: (i) the average health expenditures among those who incur such expenses is much higher than among the total population; (ii) the average health expenditures, and the proportion of households that incur health expenses, is, not surprisingly, a direct function of the total consumption; (iii) these expenditures, as proportion of the average total consumption, are also higher in the lowest quintile; and (iv) a small but significant proportion of households (8 percent in the poorest quintile and 4 percent in the richest), incur substantial expenses – i.e. greater than 10 percent of the total monthly consumption - that may, particularly for the poorest, be catastrophic.

3.66 Participation in the formal safety net in Kosovo does not provide an adequate cushion against adverse income shocks. The social protection system in Kosovo is still modest. The main social cash transfers are pensions and social assistance. There is neither unemployment insurance schemes nor child benefits. An analysis of the effectiveness of the formal safety net in Kosovo is discussed in Chapter 5. It shows that although social transfers have an important poverty alleviating effect among households who receive benefits, these are not sufficient to lift them out of poverty. Moreover, the coverage of the poor and the extremely poor is very low. According to the HBS data, in 2002, only 21 percent of the extremely poor (pre-social transfers) were receiving social assistance benefits. This indicate that the vast majority of households in Kosovo cannot rely on the formal safety net as a sufficient protection scheme against income poverty.

Table 15: Households Expenditures on Health, 2000

	1 st decile	1 st quintile	5 th quintile	10 th decile
Average household health expenditures among all households (Euro)	2.38	3.41	11.74	14.13
% of households that incurred costs	27.8	28.4	48.0	49.2
Average health expenditures among households that incurred costs (Euro)	8.5	13.3	20.7	38
Average expenditure in proportion to average total household consumption for those who incurred costs (%)	-	8.4	3.0	-
% of households whose monthly health expenditure was more than 10% of their total expenditure	8.0	8.0	4.0	2.6

Source: HBS.

3.67 Households' capacity to self-insure against temporary income shocks is not negligible, however, due to the ownership of physical assets, income diversification, and reliance on family-based safety-nets, including remittances from abroad. In Kosovo, possession of physical assets is relatively important, and so is land ownership in rural areas. According to the HBS, in 2002, 94 percent of the population had a television, 47 percent had a video player, and 52 percent owned a car. In rural areas, nearly 92 percent owned land and 55.5 percent had some livestock. An investigation of the sources of incomes further points to the existence of a large private and family-based safety net, including remittances from abroad, and the reliance on multiple sources of income, including among the poor. This indicates that households' capacity to hedge against temporary income shocks either by selling their assets and/or by relying on other sources of income, including private transfers from relatives and friends, is not negligible.

Exposure to Health Risks

3.68 Besides a fairly large level of income insecurity, the population in Kosovo tends also to have a high exposure to health risks. The major health risks are the environmental degrade

and pollution resulting from: (i) outdated mining practices and industrial infrastructure that ignored environmental impacts; (ii) poor housing conditions and quality of basic infrastructure services, and (iii) weak environment management systems. Other important health risks are the threat of a rapid HIV/AIDS epidemic and the prevalence of risky behaviors.

3.69 Environmental pollution and contamination is widespread and represents a serious hazard to health. Environmental studies indicate a rather bleak environmental situation in Kosovo. While the extent of environmental problem and its incidence on health is still not well monitored in Kosovo, the few available studies show that environmental contamination is a serious health issue.

3.70 Contamination of soil and foodstuff is probably one of the most serious problems. Contamination of soil and foodstuff by heavy-metal and lead is a serious problem in some areas of Kosovo where the mines sites and industrial facilities are located. In environmental hot spots areas, lead concentration in soil exceeds the tolerable level. In particular, environmental samplings realized in these areas show that spinach contained 20-30 times more lead than accepted levels and potatoes 30 times more. The lead intake of people eating crops in these areas has been calculated to be more than three times higher than the WHO and FAO recommended maximum weekly intake and about 15 times greater than the standard for EU countries.

3.71 There are quite alarming data on lead poisoning in children from northern Kosovo. Unacceptably high levels of calcium, nickel, arsenic and mercury have been found in soil and foodstuffs in northern Kosovo and have contaminated the population. Although smelting and mining activities have ceased since July 2004 human exposure from the historical, industrial environmental contamination in the area continues. The first studies, conducted in the early 1990s (Table 16) showed that in Mitrovica, blood lead concentrations at birth were 20.8 µg/dl - well above the internationally accepted (but now questioned as too high) level of 10 µg/dl and much higher than the level in Pristina - and capable of serious damage to the developing Central Nervous System (CNS). In fact, a government study conducted in the late 1980s found that 4 year old children in Mitrovica had significantly lower values for intelligence, verbal expression and perception, compared with children in Pristina. A planned large-scale testing program is on going and will probably confirm the earlier findings. Preliminary results from a health risk assessment of aged 2-3 years, currently being completed by WHO in Mitrovica show Blood Lead levels appear to be associated with level of soil contamination where they reside. These preliminary results analyzed by WHO, show that children from the Roma community in North Mitrovica are the most exposed groups. In general, Roma, Ashkali and Egyptians tend to be disproportionately exposed to insecure living conditions, including lead contamination.

Table 16: Blood Lead Level (BBL in µg/L) in Pregnant Women and Children, 1992

	Mitrovica N= 208	Pristina N=184
Mean BBL at mid pregnancy	19.9	5.6
Mean BBL umbilical Cord	22.2	5.5
Mean BBL child at birth	20.8	4.9
Mean BBL child at 2 years	35.4	8.5

Source: MoH, 2003

3.72 Water contamination is also a major environmental risk. In Kosovo, the majorities of rivers appear polluted by chemicals and bacteriological pollutants. River pollution further contribute to the pollution of land through the irrigation system. There are fewer and more imprecise estimates on the level of contamination of drinking water, but major concerns are with the quality of water from wells in rural areas. A report from 1989 by the Institute for

Public Health shows that 74 percent of wells in rural areas had unacceptable levels of bacterial contamination. More recent and limited rural water assessments by sanitary and water inspectors confirm these findings. There is also evidence that an important proportion of infant deaths caused by diarrhea is related to water contamination.

3.73 Outdoor air pollution is most problematic around outdated industrial infrastructure, while indoor air pollution could affect a vast majority of households. Despite the fact that outdoor air pollution seems to have declined in the last 15 years due to the decline of industrial activity and direct emissions to the air during the 1990s and the decision of UNMIK to shut down some of the more polluting industrial facilities soon after the war, Kosovo remains one of the highest air polluter in South East Europe. Available estimates point to 5.5 tones of CO₂ emissions in Kosovo, compared with the 4.14 tones in FYR of Macedonia, 4.06 tones in Croatia, 4.06 tones in Serbia and Montenegro, 3.86 in Bosnia-Herzegovina and 3.85 in Romania¹³. Air quality also seems to be a serious problem around mining and industrial sites, which are distributed quite evenly over the territory (Table 17). An environment sampling conducted by the French KFOR in Mitrovica and surrounding villages in November 1999 and June 2000 shows that lead concentration in the atmosphere exceeded the EU standard.

Table 17: Geographical Distribution of Main Environmental Hot Spots in Kosovo

Regions	Main industries	Polluting factors	Environmental damages
Gjakova	'Metaliku': metal factory; chrome mine (Gjakove); Construction material (Decan); Plastic Factory (Rahovec);	Wastewater from Metaliku Reported contamination from war mines	Contamination of Krena river; Sand and gravel extraction from Drini I Bardhe river (Rahovec.)
Gjilan	Magnesium and nickel mine; 'Celiku-Metal' company (construction materials in metal); IBG factory producing nickel-cadmium batteries; Radiator Factory;; Building material factories; VINEX metal factory (Viti).	Solid particles and heavy metals in industrial wastewater.	
Mitrovica	Trepca complex; Cobalt mine in Vushtrri; Factory of Plastic in Skanderaj; 'Chrystal': crystal glassware production; Large zinc deposit in Zvecan.	Lead and general mine contamination, Chemical wastewater	Contamination of Ibar river.
Peja	Beer factory; Leather factory; Seed factory; Textile factories; Electro-motors facilities; Construction Industry; Mine-bauxite quarries (Kline).	Industrial wastewater; Chemical contamination from seed factory;; Unexploded mines from war.	Contamination of Drin river.
Prizren	'Dratex' textile manufacturing industry; Heavy industrial truck and metal industry in Suhareka; Mining and Fertilizers used in the vineyards (Suhareke);	Industrial wastewater, Fertilizers	Contamination of Bistrica and White Drin rivers.
Prishtina	Obilic industrial complex; Trepca complex: Badovac, Kishnica and Ajvalija mines and Concentrator (Granica); Floatation of Lead and Zinc (Kishnica), Smelter of 'Feronickel' (Gllocovc), not functioning, Lead and other minerals' mines (Novoberde)	Dust pollution, Toxic gas emissions: NO _x , SO ₂ , CH ₄ , CO ₂ , CO, phenol, Heavy metal in wastewater	Pollution of Sitnica River; Contamination of drinking water supply for Prishtina.
Ferizaj	Construction Industry Pipe factory Lignite deposit	Possible chemical contamination	

¹³ IEA statistics, OECD 'Emissions from fuel combustion 2002'

Source: adapted from UNMIK, Health and Environment, 2003 and Premiere Urgence's report.
Note: most of the industrial facilities listed in the table are not working at the moment.

3.74 Indoor air pollution is also believed to be a serious problem given the widespread use of dirty fuels, and could be responsible for the high proportion of infant deaths caused by respiratory diseases.

3.75 *A major cause of environmental contamination in Kosovo is due to outdated mining practices and poor industrial infrastructure.* In the past, a very old and environmental unfriendly industrial system used to discharge waste and wastewater into the rivers and soil, without any treatment, contaminating surface and groundwater. Soon after the conflict, partly due to environmental concern, a large part of the industrial activities, including some of the high-polluted facilities in the Trepca complex in Mitrovica in 2000, was shut down, but some continue to operate, like the thermal Power Plants in Obiliq. While in many cases pollution is the result of accumulated industrial waste originated from the past activity, it is also resulting from outdated industries that continue to operate. Even if not all the industrial facilities are working at the moment, most of them, mines in particular, are responsible for wastewater and leakage from past pollution which represents a serious threat for groundwater, soil and river contamination (see Box 6).

3.76 *Traffic is a growing source of air pollution in Kosovo.* In fact, the number of cars is rapidly increasing and most of them are not in line with the new European standards. Most cars are old or imported as second-hand cars from Germany and Switzerland. They are fuelled predominantly with benzene without catalytic converter. In addition, road infrastructure is a problem, causing regular traffic jams that increase the amount of gas emissions in the form of CO₂, CO, NO_x and dust.

3.77 *A source of indoor air pollution and unhygienic lifestyles is attributed to the unreliable power supply and the lack of adequate heating and water supply systems.* Available data from the LSMS, HBS and HDIS reported in Table 18 all point to rather low connections rates to and poor quality of basic infrastructure services in Kosovo, compared to other transition economies (World Bank, 2004b)

3.78 Although electricity coverage is high in Kosovo, with 99 percent of households covered by electricity, power supply remains very unreliable and is a major source of dissatisfaction among households and businesses. Regular power cuts have produced the need for wood burning stoves for cooking, and is a source of huge wood cutting and indoor air pollution.

Box 6: Reconciling Economic Activity with Environmental Protection: The Trepca Complex

One of the main sources of soil contamination in Kosovo comes from the mine sites that are spread all over the territory. One main complex is the Trepca industrial park located in Mitrovica, but with mines also in other regions. The Trepca Mining and Metallurgical complex is one of the biggest of its kind in Europe. After the World War II, Trepca developed as a significant engine of growth for the former Yugoslavia. Trepca' units were located all throughout Kosovo, Serbia and Monte Negro and they are currently split up between the Serbian North part of Mitrovica and the Southern units in South of Prishtina and Novoborde, under the Albanians control.

As all the other Socially Owned Enterprises, Trepca is waiting for its ownership status to be defined. KTA has been given a mandate to privatize socially owned enterprises. However, technical, environmental, and social legacy is delaying the process. Operations were interrupted by in 2000 when KFOR closed the operation partly for environmental reasons. Between 2000 and 2003 there has been strong donor support to rehabilitate the mines with the intention to resume the mining operations later this year, and export lead/zinc concentrate.

Trepca management has plans to re-start a limited mine production at the end of this year conditionally to the respect of UNMIK rules and European/International standards. This plan is considered critical to the potential future business activities and the privatization process.

3.79 Access to the district heating is also very low. Overall, 1.9 percent of households report district heating connection and a large majority of households have to rely on unsafe and fuels like wood (95 percent) for heating, which further contributes to indoor air pollution.

3.80 The same Table 18 shows that while the proportion of households with running water has increased since 2000, in 2002, still only 54 percent of households reported to be connected to the central water system, and 31 percent were relying on wells as the main source of water. Discontinuity of water supply is also a common problem in Kosovo, resulting from the frequent leakage due to the poor condition and illegal connections, and from often-long power cuts and the fluctuating voltage that affect the water supply pumping. Household's misuse of water, for irrigation for instance, and lack of awareness and incentives to repair leakages, are also reasons of shortage in water supply. Irregular water supply is also a serious health issue, given its importance for hygienic lifestyles, and an important source of dissatisfaction among households (see Box 7).

Table 18: Access to Basic Infrastructure Services (percent of households)

	LSMS (2000)	HBS (2002)	HDIS (2003)
Dwelling electrified	99.2	99.3	98.7
Main source of water is central pipeline	-	54.1	72.6
Main source of water is own pipeline	-	9.4	-
Running water inside the dwelling	51.4	63.5	-
Main source of water is wells	-	31.0	-
Access to drinking water	-	-	72.6
Use of district heating	-	1.9	-
Use of wood stow for heating	-	94.8	-
Own in-house flush toilet	49.0	61.4	-
Own latrine outside the house	-	38.3	-
Garbage collected by truck	-	10.0	-
Disposal of street container	-	27.5	-
Lacking waste disposal (%of households dumping, burning, burying and other)	62.8	62.5	-

3.81 *Poor sanitation facilities and the lack of municipal waste management systems are other factors that contribute to water contamination and increase health risks.* Sanitation facilities are particularly poor in Kosovo. According to the HBS, only 61.4 percent of households report having their own in-house flush toilet and 38.3 percent rely on outside house latrine (Table 18).

Box 7: People Talk about the Poor State of Infrastructure Services

The major problem we have now is drinking water because we do not have water supply, whereas the water that we have in wells is not drinkable, it is very salty. (I.B., 34 year old female, Albanian, Ferizaj)

The lack of drinking water makes our life difficult, as we have to travel far to get it. (J.D., 20 year old male, Albanian, Ferizaj)

We also have a lot of problems with the water. It happens that there is water for two or three hours during the night and then it gets cut off and we don't have any water for the whole day. (T.M., 46 year old male, Albanian, Podujeva)

I don't know who is to blame for restriction in electricity. This is causing a lot of damage. TV sets, stoves, washing machines and radios keep burning in peoples' houses. Citizens go to complain to Electrokosova every day. (A.J., 60 year old male, Albanian, Gjakova)

We need to fix the sewage system because it is not connected to the main canal. I have a duct nearby which smells. A disease may spread from it. (A.H., 38 year old male, Albanian, Podujeva)

There is no sewage and nobody comes to remove garbage. Therefore the lack of sewage system and having no removal service of the garbage it shows a great risk for any epidemics, especially it is very risky for children and there can be many insects. (M.R., 30 year old male, Roma, Gjakova).

3.82 There is no wastewater treatment in Kosovo. Sewage system is practically not existent in rural area and covers only a low percentage of urban area. Only 28 percent of homes are connected to a sewage system and only 7 percent in rural area. Wastewater is usually disposed of in open channels, which contaminate surface and groundwater. Most of towns and many villages have piped sewer systems that usually empty untreated water into streams or rivers. Septic systems are still uncommon. Sewerage system without treatment is normally found in cities and larger towns, less commonly in few villages. In the lack of a proper sewage system, most villages report open channels.

3.83 The lack of waste collection is also a major issue in Kosovo and an additional source of water contamination. Although a lot has been done with the help of donor agencies and international organizations, equipment and transport are still insufficient for a proper collection and disposal of all the municipal waste. Only 10 percent of families report having their waste collected by truck and only 27.5 percent declare to have a street container. Another 55 percent report dumping their garbage. Recycling infrastructure and services are still not available, apart from few initiatives. Industrial and medical waste remain also a major environmental issue, although the situation for medical waste has improved quite substantially in recent years.

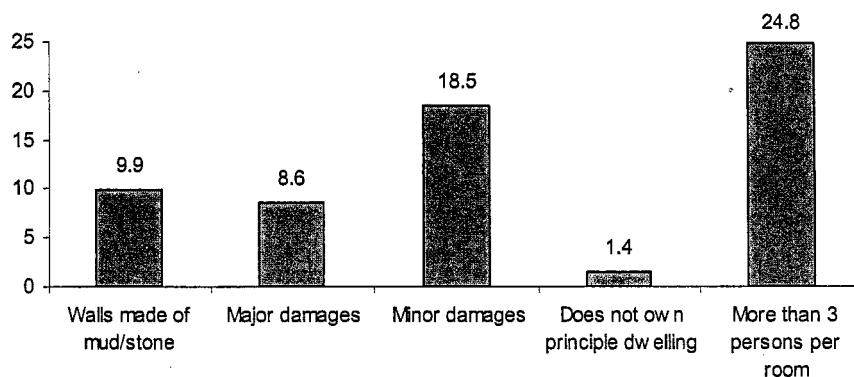
3.84 *Poor housing conditions further expose a fairly large number of households to unsafe and insecure living conditions.* While most houses in Kosovo appear to be well-built, with no major damages, and provide sufficient space per capita, there is still a fairly large number of households with inadequate housing conditions and exposed to unsafe and insecure living conditions. Available indicators of housing conditions based on the HBS are reported in Figure 3. In 2003, about 10 percent of households had houses made of mud/stones, and 25 percent lived in overcrowded houses. In crowded houses, when ventilation facilities are not available, the use of dirty fuels for cooking and heating represent a dangerous source of indoor pollution.

3.85 The adverse impact of the war on houses remains also visible. While UNDP estimates that 130,000 houses were damaged during the war and that approximately 60,000 had been reconstructed by 2002, there was still a fairly large share of households reporting either major

damaged houses (9 percent) or minor damages (18 percent) mostly because of the conflict. These figures may have also significantly worsened in some areas due to the March 2004 clashes.

3.86 Finally, while more than 98 percent of households owned their dwelling, qualitative evidence indicates that tenure security is actually a problem for many families, as the legal status of ownership was often not clearly defined. Today in Kosovo, many houses are built without regular authorization and with illegal connections to most public services, such as electricity and water. This was also true during the boom in construction activity that took place after the war. The high building activity conducted without the respect of building codes, and the related risk of sewerage flooding due to the poor status of wastewater canalization and treatment system, also increases the risk of flooding.

Figure 3: Selected Indicators of Housing Conditions (percentage of households)



Source: HBS, 2002.

3.87 ***Kosovo meets all the conditions for a rapid spread of the HIV/AIDS epidemic.*** According to the UNAIDS classification, Kosovo is a low level epidemic region, but there are all the ingredients for a rapid spread of HIV/AIDS. An increase, even of alarming proportions, might occur for several reasons: persistent stigmatization of AIDS, large young population, high unemployment rate together with a growing IV drug use, a growing sex market, high external mobility of Kosovars and a large international community.

3.88 ***Youth risky behaviors are important risk factors affecting youth health status.*** Health-related lifestyles and behaviours among youth are rapidly changing but changes not always occurs in the right direction. Youth may be better connected to the globalized world but the disappearance of traditional values, the lack of opportunities for higher education and employment, idleness, and the lack of information on health issues are conducive to risky behaviours such as the practice of unsafe sex, substance abuse, prostitution, and violence.

3.89 ***Child exploitation and worst forms of labor can be an important health risk for a small number of children.*** Little is known on the incidence of child labor in Kosovo and on the situation of child workers. According to data from the LSMS, the percentage of children in the age group 10-14 engaged in some kind of work was about 4.4 percent in 2000. There is also some concern that some children may be working in hazardous conditions. In a survey on child workers conducted by UNICEF in 2003, 8 percent of children declared that they suffered from bad health as a consequence of their working conditions.

Physical Insecurity

3.90 The Standards for Kosovo stipulate that “all people in Kosovo are able to travel, work, and live in safety and without threat of fear of attack, harassment or intimidation (...)”. Physical safety remains nonetheless problematic in Kosovo, both a national level, as a result of elevated environmental risks, at community level, due to inter-ethnic tensions, and at household level, with a large prevalence of domestic violence and the rise in human trafficking.

3.91 *Kosovo belongs to a major seismic area but its housing stock does not seem to comply with the security codes and puts a large share of the population at risk.* A major public safety issue in Kosovo is that while Kosovo belongs to a major seismic area and is rated relatively high in terms of risky seismological factors, security codes of construction are hardly respected. At the moment, enforcement of these security codes by municipal authorities does not seem to be a priority – overlooking the fact that in Skopje, only a few miles from the border, an earthquake in 1963 completely destroyed the city and killed many people.

3.92 *Risks of landslides and flooding are also high and are potential threats for several households located near environmental hot spots.* Landslides can be a serious security problem, particularly for households living close to the mines, where tectonic disturbances in the form of fractures affect the coal seam, and where the risk of landslides increases tremendously in the case of heavy rainfalls. The high deforestation rate, especially in the last years with the extensive use of wood fuel, further contributes to the instability of slopes. Flooding is also a problem that has been aggravated by the boom in illegal construction.

3.93 *Unexploded mines used during the war remains a potential important safety issue.* The presence of unexploded mines from war is reported in certain areas and is a serious source of land degradation and security-concern for rural people.

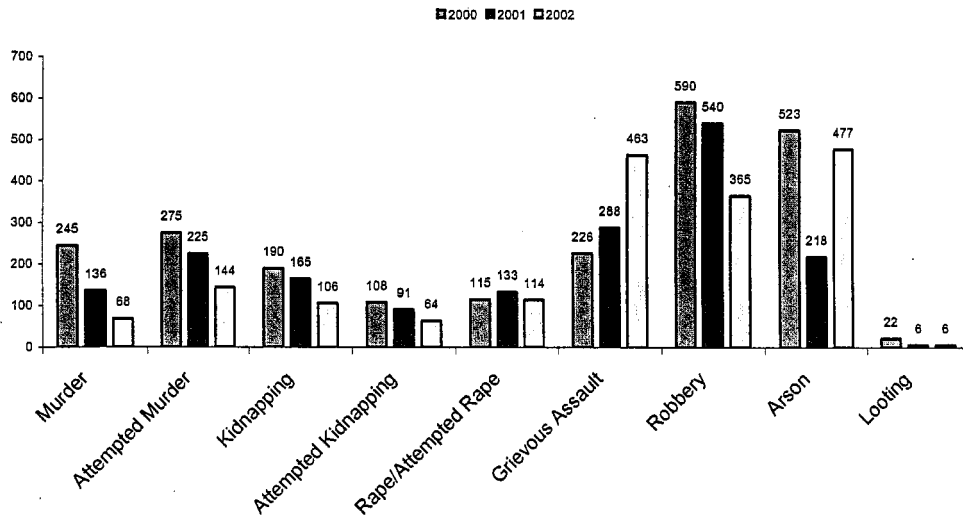
3.94 *Inter-ethnic tensions are a potential source of conflict and create an overall feeling of insecurity among communities.* This has direct implications for the freedom of movement and equal access to services and income opportunities, particularly for IDPs. The March 2004 riots in Kosovo have drawn again the attention of the international community to the still fragile security situation in Kosovo. The next chapter explores the potential sources of social instability and shows that the tensions between the Kosovo Albanians and Serbs cannot be explained by major economic and social disparities, and thus appear mostly politically and historically driven.

3.95 Yet, inter-ethnic tensions remain visible in Kosovo and generate an overall feeling of insecurity, especially among the Serbs. According to the KEWRs, the percentage of respondents who declared to feel safe or very safe on the streets declined between November 2002 and November 2003 from 56.1 percent to 53.5 percent for the Albanians and from 39.9 percent to 12.4 percent for the Serbs. The same data also show a decline in the number of respondents who declared to feel safe or very safe at home: from 68.8 percent to 66.5 percent among the Albanians and from 73.9 percent to 23.2 percent for the Serbs. Other data from the 2003 KMS would point to an even more negative perception of security. Lack of general and personal security is ranked among the top five problems by all ethnic groups in this survey and particularly by the Serbs which ranked this problem second after freedom of movement.

3.96 *Yet, the growing feeling of insecurity observed between 2002 and 2003 is not supported by crime statistics.* What is remarkable, however, is that perceptions of insecurity as measured in public opinion polls do not seem to be closely related to crime statistics. Available crime data indicate that the number of reported crimes has generally declined between 2000 and 2002. As shown in Figure 4, all major crime statistics consistently declined

over the period with the exceptions of grievous assaults and arson. However, a press release from UNMIK police in January 2003 reported that *"The increase in reported Grievous Assaults is believed to represent a greater willingness on the part of the victims to report such crimes instead of indulging in personal revenge. The number of Arsons increased but the severity of the crimes decreased."*

Figure 4: Number of Reported Crimes



3.97 *Moreover, only few reported crimes in 2002 and 2003 were ethnically motivated.* The January 2003 UNMIK police report argued that "Most Arsons were motivated by personal disputes between individuals (rarely resulting from ethnic conflict) and typically involved damage to non-residential property such as wood piles and hay stacks." The 2002 UN Civilian Police Report states that "Of the 68 murders recorded in 2002, 60 involved Albanian victims, six of the deceased were Serbian and two were of other ethnicity. In most murder cases the ethnicity of the suspect was the same as that of the victim (...) Crime generally occurs within ethnic groups and is motivated by personal reasons not involving ethnicity."

3.98 The OSCE-UNHCR Tenth Assessment of the Situation of Ethnic Minorities in Kosovo covering the period May-December 2002 would confirm that the crime situation was improving during the year. The report found an improved situation in relation to crimes committed against ethnic minorities and UNHCR found that where aggressions occurred these were often related to properties and therefore economically motivated crimes¹⁴. Such improvements encouraged KFOR to reduce the level of protection and security measures and this factor, rather than growing inter-ethnic confrontations, may help to explain the increased insecurity felt by the Serbs between 2002 and 2003.

3.99 *The trafficking of human beings is another source of physical insecurity for women and girls in Kosovo.* Recent studies by UNICEF and the International Organisation for Migration (IOM) identify Kosovo as a place of origin, destination, and internal trafficking in women and girls, mostly for sexual exploitation, and induced by a large male expatriate population. The routes into Kosovo are through Macedonia and Serbia. Points of destination beyond Kosovo are through Montenegro into Albania, and then to Italy and Western Europe.

¹⁴ <http://www.unmikonline.org/press/reports/MinorityAssessmentReport10ENG.pdf>

3.100 The multi-national police force working in Kosovo estimates that at least 90 percent of foreign women working as prostitutes are victims of trafficking. Other estimates from IOM, based upon interviews conducted between February 2000 and August 2001, show that women and girls are trafficked from the Republic of Moldova (60 percent), Romania (19.5 percent), Ukraine (10 percent) and Bulgaria (7 percent) followed by infrequent cases from Albania and Russia. The majority of the victims were recruited with promises of jobs and about 9 percent were kidnapped. About half of the recruiters were women and half were unknown to the victim prior to recruitment. The conditions of the Kosovo sex industry are poor and compared to slavery. Less than 15 percent of the interviewed women reported being paid and a little over half were sexually abused.

3.101 Recent investigations also show that Kosovo residents have become targets. Some of the risk factors of being trafficked include age, educational attainment of the victim, poverty of the victim's household, and the prevalence of household violence. It has been estimated that about 85 percent of the Kosovar victims have achieved at best a primary education. Absent job skills and running from desperate circumstances, many victims are lured into trafficking with the promise of employment that can help them improve their lives.

3.102 *Domestic violence against women is a serious safety issue.* Violence against women by known men is expressed both physically and psychologically. The occurrence of violence within the family may include battering, the sexual abuse of female children, dowry related violence, and marital rape by either a spouse or non-spouse. It is perceived that the incidence of violence may have increased since the conflict and the breakdown of traditional family structures.

3.103 According to a study done by UNIFEM in 2000 on violence against women in Kosovo, and which intends to be a representative sample, 23 percent out of the 213 respondents had experienced either psychological or physical violence by a known man during 1999 or 2000. The respondents also indicated that follow up services for victims of violence were needed but largely absent. Of all women who disclosed experiencing violence, about 54 percent of urban women and 7 percent of rural women had not talked with anyone about the violence. Social marginalization, lack of employment opportunities, lack of willingness among victims to seek redress through the courts were cited by the study as possible reasons for the persistence of violence.

3.104 The reservation by victims to report occurrences of domestic violence may result because the family in Kosovo is considered a private sphere and closed to public criticism. Victims may also perceive limited access and ability to seek redress within the judicial system in Kosovo. In theory property law entitles female spouses to an equal share of the family assets in the event of a divorce. In reality, women often relinquish their claims to the family of the spouse and their children become the property of her spouse's family as well.

3.105 Other data from the 2003 annual report by the Center for Protection of Women and Children (CPWC) indicate that the incidence of domestic violence is a serious issue, but the credibility of such data remains at stake (Table 19). The information is based on information collected from women who have sought assistance against violence from the Center but it is not always clear whether calls asking for information about domestic violence are not registered as cases. The forms of violence reported by victims are often multiple. In about 90 percent of the cases, psychological violence is experienced. Physical violence occurred in approximately 60 percent of the cases and sexual violence occurred in about one-third of all cases. These cases include domestic violence, trafficking, forced prostitution and incest. Out of the total victims who report an incident, a little over half are victims of domestic violence. The vast majority of female adult victims are victimized by their husbands. Another 45 percent of women are subjected to violence by family members other than a spouse.

Approximately 82 percent of the victims reside in rural areas and about 40 percent of the women are between the ages of 30 and 40 years.

Table 19: Number of Reported Cases and Forms of Domestic Violence

Year	Incest	Partner	Parent	Other	Homicide/Suicide
2000	13	1378	151	344	-
2001	20	434	49	1922	-
2002	10	771	564	135	5
2003	15	754	246	1228	25

Source: CPWC, 2003.

D. POVERTY AS A DEFICIT IN EMPOWERMENT

3.106 *Summary.* Empowerment refers to the capability of all people, regardless of their income status, ethnicity, race, religion, or gender, to participate in, negotiate with, influence, and hold accountable institutions that affect their lives. Empowerment is an important dimension of well-being, one that is also well reflected in the “Standards for Kosovo” under headings I (the functioning of democratic institutions) and II (the rule of law). This section provides a tentative assessment of the level of empowerment in Kosovo with a focus on three dimensions: (i) the scope for participation in, and influence over, the decision making process; (ii) the extent to which state and civil institutions are responsive to the citizens; and (iii) the scope for accessing reliable sources of information. The findings show that there has been positive development but several challenges remain ahead. On the one hand, UNMIK has established a legal framework that promotes a democratic society and the rule of law, gender equity is promoted in formal state institutions, and participation and representation of ethnic minorities is guaranteed by the Constitutional Framework. On the other hand, achievement in political and civil freedom is mixed, the unresolved legal status of Kosovo generates a general sense of powerlessness, youth’s and women’s participation in society remains at stake, and participation for all in political life is challenged by the risk on non-participation of Serbs in local election. Corruption and low level of information are also problems in some areas.

Participation in Public Life and Decision Making

3.107 *UNMIK has established a legal framework that promotes a democratic society and the rule of law in Kosovo.* Following the end of the conflict in June 1999, the United Nations Security Council Resolution 1244 (UNSCR 1244) placed Kosovo under temporary UN administration (UNMIK), and with the objective of providing “substantial autonomy and self-government” to the people of Kosovo while reaffirming the sovereignty of the FRY over the territory of Kosovo. Since the end of the conflict, a lot has been done by the international community to put in place democratic and effective institutions.

3.108 A Joint Interim Administrative Structure was set up in February 2000 in order to share the administrative responsibility with the people of Kosovo and the administration of municipalities was handed over to locally elected representatives after the municipal elections of October 2000. The adoption of a new Constitutional Framework in May 2001 that guarantees political rights and civil liberties to the citizens, the first election for a Kosovo-wide assembly in November 2001 and the first Presidential election in March 2002 were further major steps toward self-government and greater human freedom.

3.109 *Achievements in political and civil freedom are mixed. Kosovo is rated as “partly free” in 2004 by Freedom House.* Despite incredible efforts by the international community to put quickly in place democratic and effective institutions and bring peace and political stability, the results so far have been mixed. Independent evaluation by Freedom House, an

international non-governmental organization which monitors the state of political rights and civil liberties all over the world, has rated Kosovo as “Partly Free” in 2004. This rating places Kosovo as a mixed performer in terms of civil and political freedom, relative to other countries in the region (Table 20).

Table 20: Indicators of Political Rights and Civil Liberties in South-East Europe, 2004

	Score			Rating
	Political rights	Civil liberties	Average score	
Albania	3	3	3	Partly Free
Bosnia-Herzegovina	4	4	4	Partly Free
Bulgaria	1	2	1.5	Free
Croatia	2	2	2	Free
Kosovo	5	5	5	Partly Free
Moldova	3	4	3.5	Partly Free
Romania	2	2	2	Free
Serbia and Montenegro	3	2	2.5	Free
Slovenia	1	1	1	Free

Source: Freedom House. Note: Free refers to an average score of 1 to 2.5; Partly Free, from 3 to 5.5; and Not Free, from 5.5 to 7.

3.110 The unresolved legal status of Kosovo generates a general sense of powerlessness and voicelessness. Little progress has been made toward the resolution of Kosovo final political status. Discussions about the final status are forecasted for 2005 at the earliest. But as of today, the citizens in Kosovo have been living under temporary UN administration for already five years, and important decisions affecting their lives have remained out of their control. The lack of clarity about Kosovo’s legal status has been identified as a major source of economic insecurity. It is also responsible for a growing feeling of frustration and exclusion among the population. According to public opinion polls, the uncertainty about the final status of Kosovo became the first preoccupation of the population in 2003, before unemployment and poverty (Table 21). In the qualitative poverty study, youths provide a candid assessment of the status-quo and express their resentment with the impossibility for the Kosovar sport teams to be represented in international competitions.

Table 21: Opinions on the Biggest Problems Faced by Kosovo (percent of respondents)

	November 2002	November 2003
Infrastructure (roads)	3.6	0.5
Power supply	15.6	6.8
Urban problems	0.9	0.5
Environment	1.0	0.1
Poverty	11.2	16.2
Prices	2.7	1.4
Healthcare services	0.7	0.3
Public and personal security	2.6	3.3
Education	1.0	0.4
Interethnic relations	1.9	1.7
Unemployment	21.6	28.4
Uncertainty about the final status of Kosovo	19.6	31.7
Social problems	2.3	1.2
The fate of the missing	7.9	4.6
Organized crime and corruption	6.2	2.1
Unsocial phenomena (prostitution, drugs)	1.2	0.3
Something else	0.2	0.4
Total	100.0	100.0

Source: Bank staff calculations based on the KEWR.

3.111 Youths’ ability to influence the institutions that affect their lives seems very limited. The qualitative poverty study points to a very limited influence of youth on the institutions that affect their lives, whether in the family, at school, or in the community (Box 8). In the family, important decisions affecting youths are often taken without any consultations with

them. The blame is usually on the persistence of traditions, especially in rural areas, that put old males at the center of decision making processes. There is also a general feeling among youth that many local institutions that deal with youth issues are not responsive to their needs. Often, these are led by old people, and youth have no representations. Participation in social life and cultural activities is also very much influenced by nepotism – what matters is who’s daughter or son’s you are, rather than who you are.

3.112 *Many IDPs feel voiceless.* Although there are municipal community services for displaced persons in Kosovo, a recent survey conducted by the IDP Information Center on 200 IDPs from Northern Kosovo shows that many displaced persons from Northern Kosovo, about 83 percent of respondents, have not heard about existing local supporting services. And an equally large percentage of survey respondents, 73 percent, shared the feeling that no one was representing their interests.

Box 8: Youth Voices About Their Lack of Influence in Decision Making

Youth have very little impact on the family life. One reason for that is our mentality. (Peja)

I think that for a male young person it is easier to take part on the family decision making process than for a female young person. (Peja)

The fact that the youth are not part of the decision making process is illustrated best by the other fact that youth do not have the right to decide entirely by themselves where to spend their vacation time. (Peja)

I think that 80 percent of the decisions are taken by parents rather than by young persons in decisions that regard mostly the young person himself/herself. (Peja)

Generally, the decisions are made by family, and not by youth. (Rahovec)

Youth do not go very often in concerts because even when concerts are organized they do not satisfy the needs of the young people, as they are organized by people who do not know what the youth needs are. (Peja)

Youth associations are much needed as they organize different activities for youth, such as computer training, acting courses, etc. (Peja)

The initiative for new youth associations should come from the young people themselves, but these associations should be supported by adults. (Rahovec).

3.113 *Gender equity is promoted in formal state institutions and has enabled a greater representation of women in public life.* An infrastructure also exists at levels of both elected and non-elected government that promote gender equity into the national and local arena. Women have achieved increased representation in the Parliament and municipal assembly through the promotion of a quota system that reserves 30 percent of the seats for female candidates in closed party lists. In the last Kosovo Assembly, 33 of the 120 seats (27.5 percent) were occupied by women. Within government, various committees exist to mainstream gender into government policy. Such committees include: (i) an Inter-ministerial committee that exists at the Prime Ministerial level to meet on gender issues; (ii) a Gender-equality Commission of the Kosovo Assembly that supports the mainstreaming of gender issues in the legislature; (iii) a Gender affair office within the UN provisional Government that facilitates the deployment of municipal gender affairs officers to each municipality; (iv) a Gender Section in the Ombudsperson Office; and (v) a Gender task force within the Statistics Office to address gender statistics.

3.114 *Despite increased representation in public life, women’s influence in decision making remains at stake.* While there has been some progress in terms of women’s representation in public society, their ability to influence decision making remains limited. At the moment, women in Kosovo do not hold leadership positions within the 14 parties

represented in parliament, nor do they hold any leadership positions in parliamentary groups. Of the 18 committees in the last Parliament, women chaired only 7 of them. Women occupy 28 percent of all municipal assembly seats. There is one female minister out of 10 ministers, one female permanent secretary out of 9 permanent secretaries, and only 2 females out of 30 chief executive officers in municipalities. Women account for 25 percent of judges, 17 percent of prosecutors and 15 percent of the Kosovo Police Service (KPS).

3.115 *Participation and representation of ethnic minorities is guaranteed by the Constitutional Framework – yet it is challenged by the risk of non-participation of Serbs in local elections.* A system of quotas is in place to make sure that all communities and ethnic groups can be represented in elections. According to Constitutional Framework, 10 out of 20 seats reserved for minorities belong to the Serbs. The self-government is further held accountable to ensure an equal access to justice and to make basic public services, such as health care, utilities and education, available to all communities. Yet, the risk of boycotting by Serbs of local elections comes out regularly and contributes to the overall political uncertainty.

Accountability

3.116 *The move toward more transparency in public management remains hindered by the lack of good administrative data.* Assessing the extent to which state institutions in Kosovo are responsive to the citizens is a difficult task. At the first place, the lack of good administrative statistics, with the exception of public finances and monetary statistics, contribute to a lack of transparency and information about the quality of the services provided by the public administration.

3.117 *Public opinion polls show a net decline in satisfaction with state institutions, but this is not necessarily related with the level of government effectiveness.* Public opinion polls data in Kosovo provide interesting insight as to the level of satisfaction of the population with various public institutions. According to the Kosovo Early Warning Reports (KEWRs), the percentage of people unsatisfied or very unsatisfied with the political situation increased from 31.8 percent in November 2002 to 47.9 percent in November 2003 (Table 22). While all major institutions in Kosovo lost trust during this period, the decline was more dramatic for the UN institutions indicating a growing resentment toward the foreign community. These satisfaction data need to be treated with great care, however. Kosovo has a rather complex governance structure, with the responsibility for different public services shared between PISG, UNMIK and KFOR. In this context, it is evident that the population may have difficulty in having a correct perception of who is responsible for what and who is to blame when problems arise. Thus, the level of satisfaction with public institutions is not necessarily a good indicator of government effectiveness. Rather, it is a good indicator of people's perceptions, which can help understand and forecast people's attitude toward the state.

Table 22: Level of Satisfaction with Public Institutions (percentage of respondents)

	Nov-02	Nov-03	Percentage change
UNMIK	63.8	28.4	-35.4
SRSB	73.1	43.1	-30
Government	74.1	68.5	-5.6
Parliament	76.7	65.3	-11.4
Local government	52.0	48.3	-3.7

Source: KEWRs No. 1-5

3.118 *Corruption is considered a problem of medium to high importance depending on the sector, and it tends to affect disproportionately the poor.* A major indicator of the extent to which public institutions are responsive to the citizens is the existence of corruption. In Kosovo, according to survey data from the KEWR, a large majority of the population reports

the presence of corruption among professionals in customs, in health and in the local administration (Table 23). Corruption is seen as particularly widespread in customs and in the health sectors. The perception of widespread corruption among health workers is further confirmed by the qualitative poverty study and quantitative data on private health expenses, which indicate that an important reason for incurring significant health expenses when health care is supposed to be provided for free is because of informal “grey” payments (see Chapter 4). Corruption is a regressive tax which hurts the poor the most. It is income forgone by the public sector and it discourages the most vulnerable groups in society to benefit from using public services.

Table 23: Opinions about the Presence of Corruption in Various Public Services (percent of respondents)

	Health	Education	Customs	Local administration
Quite present	28.5	23.3	41.5	36.2
Very much present	27.4	16.9	38.4	19.6
Quite or very much present	55.9	40.2	79.9	55.8

Source: Bank staff estimates based on the KEWR #2, September-December 2002.

Access to Information

3.119 *Access to internet remains limited.* ICTs are an important tool for empowering people because they provide access to information that can create earnings opportunities and improve access to basic services. ICTs also give citizens a voice to demand government support and reform. While in Kosovo, nearly everyone has a television (94 percent), a vast majority has a radio (74 percent), and half the population has a mobile phone (51 percent), few seem to have access to a fixed phone: in 2003, a total of 101,059 telephones were connected, compared with over 315,000 mobile telephones in service. Access to the internet at home remains also extremely low, with only 6 percent of households having access to a computer with a telephone line (Table 24). The availability and use of internet remains also quite limited among young people. According to the 2003 PSI-KAP survey of youth between the ages of 15 and 25, only 45 percent of youth are accessing internet, mostly through internet cafés.

Table 24: Access to Information and Communication Technologies in Kosovo around 2002

List of items	Percent of households
Television	94
Video Player	47
Radio	71
Satellite dish	65
Have access to a computer	10
Have access to a computer with a telephone line	6
Mobile phone	51

Source: HBS (2002), HDIS (2003) for access to computers.

3.120 *The level of knowledge of youth on reproductive health, HIV/AIDS, other STIs and safe sex practices is still very low.* The Government and many NGOs have put many efforts in trying to increase the knowledge about reproductive health, HIV/AIDS and other sexually transmitted infections (STIs) among youth. Precise estimates about youth knowledge on reproductive health and HIV/AIDS prevention are still lacking, but early pregnancy and other available evidence suggests that the level of knowledge of youth remains very low and that youth still experience difficulties to access quality information about safe sex practices. According to the 2003 PSI-KAP survey, although a majority of youth in Kosovo have heard

about HIV/AIDS (as many as 85 percent of respondents in the 18-24 age group), 23 percent did not know if there was HIV/AIDS in Kosovo, and 16 percent did not know that HIV risk could be reduced by using condoms. The same survey also showed that only 31 percent knew where to be tested for HIV, only 2 percent had been tested for HIV, and only about half of sexually active youth were using condoms always or most of the time. A low level of awareness on reproductive health and STIs in general, and HIV prevention in particular, also emerged from the 2003 SOK-UNFPA DHS. According to this survey, the Contraceptive Prevalence Rate (CPR) among women of age 15-19 and 20-24 was only 1.7 and 12.3 percent respectively, and 0.8 and 3.2 percent for the modern CPR. And only 64.1 percent and 68.1 percent of young women of age 15-19 and 20-24 who have heard of AIDS cited the use of condom as a way of avoiding HIV infection.

3.121 Additional evidence from the qualitative poverty study also shows that access to information about safe sex practices seems to be limited. Many respondents in this study did not know much about the details of preventive measures and unsafe sex was common practice. The main sources of information on reproductive health were obtained from the media and older friends, and more rarely from school. In most cases, the issue was taboo among parents.

3.122 *Environmental awareness tends to be very limited.* According to data from the KEWR, people in Kosovo show a very low concern for the environment (Table 21). This contrasts with the importance of the environmental risks discussed earlier and indicates that environmental education and awareness is still very limited. The lack of awareness and information on environmental issues is a matter of concern as it may limit the scope to reverse the environmental degrade and prevent people to deal with contamination of basic goods and undertake preventive measures.

E. MULTIPLE DEPRIVATIONS AND POVERTY LINKAGES IN THE LIFE CYCLE

3.123 *Summary.* The previous sections have shown that poverty in Kosovo goes well-beyond income poverty to encompass low achievements in health and education, a large vulnerability to poverty, and a sense of powerlessness and voicelessness. Yet, assessing poverty in its many dimensions does not necessarily mean that the extent of poverty would be higher than if measured in one dimension only. Often, the different aspects of poverty tend to interact and reinforce each other in ways that can exacerbate the deprivation that poor people face. This section does not intend to explore all the different poverty inter-linkages. Instead, it focuses on the multiple deprivations experienced by the income poor and tries to identify how various dimensions of poverty interact differently depending on the life stages. The analysis shows that the vast majority of the extreme poor are also poor in the dimension of education and infrastructure. There are no data on health and income status. Around birth and during early childhood, income poverty and environmental risks are major causal factors for severe health consequences. During adolescence, when school is no longer compulsory, income poverty has a strong negative influence on school enrollment. Later on, low health outcomes contribute to income poverty through their adverse impact on employment. During adulthood, low education achievements become a major cause of income poverty, mainly through lower wages and higher unemployment.

The Multiple Deprivations of the Extreme Income Poor

3.124 *In Kosovo, the vast majority of the extreme income poor are also poor in the dimension of education.* As shown in the previous section, low education achievements and poor health status are strong correlates of poverty. Additional data from the HBS reported in Table 25 shows a large overlap between extreme income poverty and education poverty. In 2002, while about 53 percent of household heads were poor in the dimension of education

(i.e. with primary education or less), the proportion of extremely poor household heads who were also poor in the dimension of education stood at 80 percent.

3.125 *The overlap between the income and health dimensions of poverty is more difficult to capture with existing data.* The only tangible health outcome that can be disaggregated by income poverty status is disability. Only few of the extreme income poor are disabled, indicating a small overlap, but the risk of income poverty associated with disability is high.

3.126 *A non negligible share of the extreme poor also live in poor housing conditions.* Poor housing conditions are usually captured through several indicators discussed earlier, each representing one aspect of the problem. The same Table 25 shows that among the extreme poor, the overlap with housing poverty would be in the range from 12 percent (houses with major damages) to 35 percent (overcrowded house). This is also higher than the overall incidence of poor housing conditions in the whole population.

3.127 *A large majority of the extreme poor are infrastructure poor – but infrastructure poverty is widespread and affects all income groups almost equally.* Almost half of the extreme poor do not have access to a central pipeline and one third has to rely on wells. Nearly all extreme poor have to use wood stow for heating, and about 3 out of 5 extreme poor households lack waste disposal and in-house flush toilet. However, what is remarkable is that apart from sanitation, infrastructure poverty is widespread and affects also the non-income poor.

Table 25: The Multiple Deprivation of the Extreme Income Poor

Non-income dimensions of poverty	% of non-income poor households in the below dimensions among:		Ratio of extreme poor to all (b/a)
	All population (a)	Extreme Poor (b)	
Low education capabilities (of household head)			
Less than primary	22.1	38.3	1.7
Primary	30.9	41.4	1.3
Poor health status (of household head)			
Disabled	15.8	16.3	1.03
Exposure to poor housing and living conditions			
House has major damages	8.6	12.0	1.4
House has minor damages	18.5	26.7	1.4
Walls made of mud/stones	9.9	15.2	1.5
More than 3 persons per room	24.8	35.3	1.4
Dwelling is not electrified	0.7	1.4	2.0
No central pipeline as main source of water	45.9	50.8	1.1
Main source of water is wells	31.0	35.9	1.2
Household does not use district heating	98.1	100.0	1.0
Use of wood stow for heating	94.8	97.3	1.0
Does not own in-house flush toilet	38.6	57.1	1.5
Own latrine outside the house	38.3	55.8	1.5
Lacking waste disposal	62.5	61.4	1.0

Source: HBS, 2002

The Changing Poverty Linkages in the Life Cycle

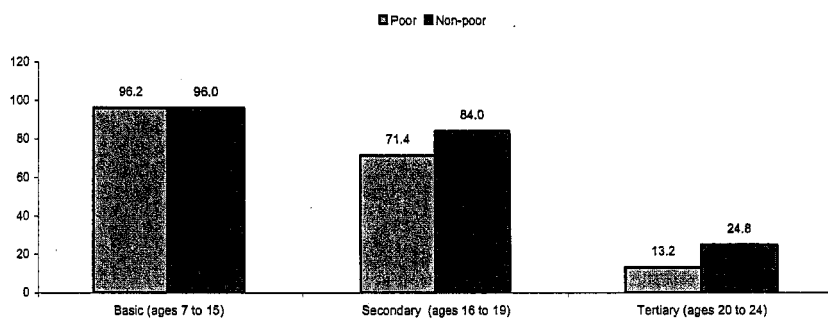
3.128 *Around birth and during early childhood income poverty and environmental risks are major causal factors for severe and sometimes irreversible health consequences.* There is a major information gap on health outcomes across income groups in Kosovo, but a vast literature shows that the great majority of the adverse health outcomes (mortality, morbidity and disability) are more frequent in the poorest population. The 1st to 5th quintile infant mortality rate typically ranges from 1.2 to over 2, usually increasing with the level of inequality. In Kosovo, tentative extrapolations would give a risk of death in the first year of life 1.5 times higher among households in the poorest income quintile, compared to the richest quintile.

3.129 Income poverty is an important cause of poor child health outcomes mostly through its negative effects on nutrition, exposure to poor water and sanitation and to indoor air pollution, and access to health care services. In Kosovo, the impact of income poverty on nutrition is not well established, but there is a good match between the proportion of children living below the extreme (food) poverty line (about 17 percent) and the proportion of children showing low height for age (10 percent) and having iron deficiency anemia (16 percent) - two of the best indicators of child chronic under nutrition. Moreover, the HBS data show that the composition of food intake in the lowest consumption quintile is skewed towards bread, cereals and potatoes. Exposure to poor water and sanitation and to indoor air pollution has been described previously as greater in the poorest households. Finally, the impact of poverty on access to health care is documented in the LSMS, which shows that the cost of the service was the most common problem, and one that hurt the poor the most. This issue further came out as a major problem in the recent qualitative poverty study.

3.130 Available evidence also shows that environmental contamination in Kosovo is responsible for lead poisoning among children and pregnant women, with well known negative repercussions on child's health (see Section C).

3.131 *During adolescence, when schooling is no longer compulsory, income poverty has also a strong negative influence on school enrolment.* Available data from the HDIS show that in 2003, while there was almost no significant difference in the enrolment rate between poor and non-poor children at basic level, the disparities increased substantially at secondary level and became enormous at tertiary level (Figure 5). Econometric results of the determinants of primary and secondary school enrolment further indicate that household poverty status starts to affect significantly schooling outcomes during adolescence, when school is no longer compulsory (after the age 15).

Figure 5: School Enrolment by Level and Poverty Status in 2003 (percentage of children)



Source: HDIS. Note: enrolment rates refer to children currently enrolled or who have completed.

3.132 *Later on in the life cycle, low health outcomes contribute to income poverty through their adverse impact on employment.* There is very little analysis on the linkages between health outcomes and labor market outcomes in Kosovo, but available data point to a strong association between poor health or disability status and joblessness that may explain the higher incidence of extreme poverty observed in the HBS among households with disabled members. In the LSMS, indeed, while the youth unemployment rate was 25.2 percent on average, it was 30.2 percent for the disabled. Moreover, while the share of youth not in education and not in employment was 46 percent on average, it was 57.8 percent among the disabled.

3.133 *During adulthood, low education achievements become a major cause of income poverty, mainly through lower wages and higher unemployment.* As discussed earlier, extreme poverty rates are much higher among low educated adults. The large overlap observed between the income and the education dimensions of poverty during adulthood reflects the adverse impact that low education achievements have on wages and employment. An insight into the return of education on wages is provided by the 2003 World Bank labor market study. Based on multivariate analysis, the report finds that returns to education on wages are significant in both the private and public sectors although less important than is usually found in other economies. The same report shows substantially lower employment rates and higher unemployment rates among individuals with elementary education or less, as compared with those with more education. The impact of education on employment and unemployment is also statistically significant.

4. A FRAGILE SOCIAL COHESION

4.1 Social cohesion may be defined as the capacity of a society to manage potential causes of social instability, such as excessive disparities in economic and social welfare, or misperceptions about these inequities resulting from imperfect information or the manipulation of information by various interest groups. Enhancing social cohesion is important in itself, but also for sustaining economic growth, which can be threatened by discontent and political unrest if actual or perceived disparities within society are too wide, and for making economic growth more conducive to poverty reduction. In Kosovo, such an agenda further underpins the challenge of implementing the “Standards for Kosovo” endorsed by the UN Security Council, which reaffirm the needs to build an inclusive society as one of the requirements for a final political settlement. An analysis of social cohesion is thus of central interest in contemporary Kosovo, and it complements well the macroeconomic risks assessment performed in the World Bank Kosovo Economic Memorandum.

4.2 This chapter does not explore all sources of social instability in Kosovo. Rather, it focuses on the most pressing actual and perceived socio-economic inequalities, and tries to understand how location, ethnicity, gender and age may shape these inequalities and become a source of social instability. While the previous chapter has raised some concerns about the ability for all in Kosovo to participate in decision making and access reliable information, the results in this chapter further point to the difficulty for some groups to participate effectively in economic and social life. Location and gender are important factors, as shown by the large socio-economic disparities across regions and between Pristina, other cities and rural areas, and by the strong disadvantage of Albanian women in terms of health, education and labor market outcomes. There are also large disparities across the life cycle, with youth and the elderly facing a worse economic position, although for different reasons. A major issue for youth is the difficulty to find a decent work, which adds to their lack of participation and voice in Kosovo society. For the elderly, the main concern is related with the substantial loss of income incurred when leaving employment and joining the pension system. Finally, a potential source of social instability and inter-ethnic tension is found in the continuous existence of parallel structures for the provision of social services in Serb enclaves, while socio-economic disparities between the Albanians and the Serbs tend to be modest. This confirms that tensions between the two communities are not socially nor economically driven. These tensions are nonetheless an important factor of social instability, one that contributes to a sense of insecurity and a lack of freedom of movement among the Serb minority. At the same time, the evidence points to a strong disadvantage of non-Serbs minority groups in terms of income opportunities and education outcomes.

A. INCOME INEQUALITY

4.3 *Summary.* Inequality is a broader concept than poverty in that it is defined over the entire population, not only for the population below a certain poverty line. Measures of income or consumption inequality provide information on the extent of disparities in material well-being prevailing across households or individuals, and are thus key indicators of social cohesion. Inequality measures are also important to forecast the impact of economic growth

on poverty reduction. This section starts by on overview of the extent of inequality in Kosovo. It then provides some simulations to quantify the impact of average consumption growth on poverty reduction under different inequality scenarios. The findings show that consumption inequality is moderate and shall thus facilitate the transformation of average income growth into poverty reduction.

4.4 Income inequality is high in Kosovo but consumption inequality is moderate. Inequality is measured on total household consumption and income, using three commonly used indicators: the Gini coefficient, the Mean log deviation measure (GE(0)), and the so-called Theil's T index (GE(1)). The values are reported in Table 26 and show that income inequality is high in Kosovo, with a Gini coefficient at 0.49. Consumption inequality is instead much lower, with a Gini coefficient of 0.30. The difference between income and consumption inequality is not surprising. Consumption inequality is usually a better proxy for the distribution of material well-being than income because households usually smooth their consumption over time while income is subject to underreporting and usually shows a higher variability.

Table 26: Inequality Indices

	Total consumption	Total income
Coefficient of variation	0.63	1.43
Gini coefficient	0.30	0.49
Theil mean log deviation measure	0.15	-

Sources: HBS 2002. Note: All figures are calculated for households' income and consumption and based on a per adult equivalent.

4.5 An increase in inequality may reduce and even compromise the pro-poor potential of economic growth. To better understand the combined role of growth and inequality on poverty reduction, a number of simulations were conducted that provides possible extreme poverty rates under different consumption inequality and growth scenarios. The results are presented in Table 27. In the case of moderate annual consumption growth of about 2 percent in the next 5 years, which corresponds to the low-case growth scenario spelled out in the 2004 World Bank Kosovo Economic Memorandum, extreme poverty may increase or decrease depending on the evolution of inequality: with a 1 percent annual inequality increase, the extreme poverty rate would decline only slightly from its 2002 level of 15.3 percent to 13.5 percent; with a 2 percent inequality increase, the poverty reduction potential of growth would be already offset with a extreme poverty rate as high as 16 percent; and with a 3 percent annual inequality increase, extreme poverty would actually increase to almost 18 percent¹⁵.

Table 27: Projected Extreme Poverty Rates with different Growth/Inequality Paths (percent)

		Extreme Poverty Rate in 5 Years with different growth and inequality paths						
		Annual change in inequality						
		-3%	-2%	-1%	0%	+1%	+2%	+3%
Annual growth rate	-3%	16.5	18.7	20.0	22.2	24.7	26.2	27.4
	-2%	13.4	15.9	17.9	19.6	21.3	23.7	26.0
	-1%	11.2	13.1	15.6	17.6	19.4	21.0	23.2
	0%	8.6	11.2	13.1	15.3	17.6	19.2	21.0
	+1%	7.1	8.8	11.3	13.3	15.6	17.6	19.4
	+2%	5.8	7.2	9.1	11.5	13.5	16.0	17.9
	+3%	4.8	6.1	7.5	10.2	12.1	13.9	16.5

Source: HBS, 2002, weighted data.

¹⁵ For details on the calculations, see Tsurunyan, (2004).

B. SPATIAL DISPARITIES

4.6 *Summary.* Besides the overall distribution of income, the monitoring of spatial disparities in income and non-income dimensions of well-being is essential to inform policy makers on the extent of territorial imbalances and to support the formulation of a more balanced development strategy, making both sectoral policies which have a spatial impact and regional policy more coherent. This section explores the extent of spatial disparities in economic opportunities and other dimensions of well-being in Kosovo. The results show that spatial socio-economic disparities are important and justify a geographical focus in the poverty reduction strategy.

4.7 *Kosovo has pockets of poverty in areas where local unemployment is often high.* Table 28 presents selected socio-economic indicators by regions based on the 2002 HBS data. It shows that there are large regional disparities in both income poverty and unemployment in Kosovo. In 2002, the regional extreme poverty rates ranged between 7.3 percent in Prishtina and 28.9 percent in Ferizaj. As for unemployment among household heads, the range was between 6.4 percent in Peja and 23.7 percent in Ferizaj. The same Table 25 also shows that the regions with the highest prevalence of poverty (Ferizaj and Mitrovica) were also the regions with the highest unemployment rates. What is probably more surprising is that high poverty in Peja (22.6 percent) does not seem to be supported by a disproportionately high level of unemployment (only 6.4). But in Peja, the level of income inequality was the highest, and may well explain a high incidence of poverty despite a relatively lower incidence of unemployment.

Table 28: Selected Socio-economic Indicators by Regions

	Giakova	Gjilani	Mitrovica	Peja	Prizreni	Prishtina	Ferizaj
Poverty and inequality							
Average daily household consumption per equivalent adult (Euros)	1.87	1.96	1.71	1.98	1.81	2.06	1.50
Extreme poverty rates (%)	13.8	10.0	24.2	22.6	15.0	7.3	28.9
Gini coef.	0.15	0.16	0.19	0.23	0.13	0.11	0.16
Contribution of between group inequality to overall inequality (mean log deviation)				2.8			
Labor market status of household heads (%)							
Unemployment rate	17.5	16.1	23.7	6.4	7.9	15.9	23.7
Employment rate	54.7	55.7	50.9	67.9	58.9	56.3	45.7
LFP rate	66.3	66.4	66.7	72.6	64.0	66.9	59.9
Housing and living conditions (%)							
House has major damages	8.6	18.6	13.5	10.2	6.2	4.1	10.6
House has minor damages	31.4	29.7	29.3	21.0	9.2	9.2	25.4
Walls made of mud/stones	8.3	26.1	6.0	7.3	15.2	4.4	20.2
More than 3 persons per room	18.4	21.1	28.3	40.9	19.3	22.4	29.3
Dwelling is not electrified	1.6	0.2	0.7	0.5	1.5	0.0	2.9
No central pipeline as main source of water	42.8	70.3	36.2	54.2	34.1	42.8	64
Main source of water is wells	17.9	40.5	24.4	39.2	24.0	30.2	52.9
Household does not use district heating	98.3	99.3	96.7	97.3	96.4	98.2	99
Use of wood stow for heating	96.1	96.9	95.1	97.0	95.7	92.1	98.5
Does not own in-house flush toilet	35.1	49	39	32.4	44.6	32.6	55.1
Own latrine outside the house	35.1	49.0	38.9	29.5	44.1	32.6	55.1
Lacking waste disposal	71.5	64	51.8	72	59.8	65.7	50.3

Source: HBS, 2002. Weighted data. Note: Labor market status based on household heads of ages 16-65. The HBS does not allow estimating labor market indicators according to strict ILO definitions and may not be strictly comparable with indicators from the LFS.

4.8 *The regional distribution of infrastructure services is relatively flat, but housing conditions seem to vary quite substantially from one region to another.* In fact, the

percentage of households with seriously damaged houses in 2002 (before the March 2004 riots), was as low as 4 percent in the Prishtina area, and as high as 18.6 percent in Gjilani. The quality of housing materials varies also quite a lot across regions, with 26.1 percent of households' houses built in mud and stones in Gjilani, compared to only 6 percent in Prishtina.

4.9 *Income poverty is lower in rural areas than in secondary cities, mostly due to the consumption of own produced food.* The distribution of income poverty (as measured by consumption) by types of settlements is shown in Table 29, along with other key socio-economic indicators. In the dimension of income, the incidence of extreme poverty is the lowest in the main city Prishtina (7.7 percent), but is higher in secondary cities (19.2 percent) than in rural areas (14.8 percent). However, this reflects the importance of subsistence farming for family consumption in rural areas, compared to secondary cities, rather than better economic opportunities. In fact, the contribution of own produced food to household consumption – which is included in the welfare aggregate used to derive the poverty figures – was much higher in rural areas (19 percent) than in urban areas (less than 2 percent).

4.10 *Consumption inequality across regions and types of settlements is not very large.* The decomposition of inequality into within and between groups inequality shows indeed that most of inequality is explained by within groups, indicating that consumption inequality does not vary substantially between regions and type of settlements (Tables 28 and 29).

4.11 *Employment opportunities in rural areas are as bad as in secondary cities.* Unemployment rates in rural areas are lower than in secondary cities, but this is because of a large hidden unemployment in the form of subsistence farming and it does not reflect better employment opportunities in rural areas than in secondary cities. The employment rates are indeed identical in rural and secondary cities, and attachment to the labor market is even lower in rural areas than in secondary cities (Table 29). In Prishtina, unemployment is as high as in other cities, but there are more job opportunities, as indicated by a higher local employment rate.

4.12 *Housing and living conditions are substantially worse in secondary cities, compared to Prishtina, but not as bad as in rural areas.* All indicators of housing and living conditions reported in Table 29 point to a significant disadvantage in secondary cities, relative to Prishtina. This is especially true for water and waste services, sanitation, and quality of housing. The housing and living conditions in rural areas remain nonetheless the worst. While the differences in the quality of housing between rural areas and secondary cities are not so marked, there are large disparities in terms of access to water and waste services, and sanitation.

4.13 *Distance to secondary schools is a major barrier to education in rural areas. Physical access to primary schools and medical centers is also more difficult in rural areas.* Overall, Kosovo exhibits a fairly good distribution of community services; few households need transport to reach the closest health or primary education facility. However, this is not always the case for rural households. According to the 2003 HDIS, basic services coverage in terms of medical facilities and primary and secondary schools is better in urban areas than in rural areas. In rural areas, over 33 percent of households have to cover over 3 km to reach the closest medical centre, compared with 4 percent in urban areas. As for the availability of schools, the rural/urban difference is not so high for primary schools but becomes substantial for secondary schools. Indeed, while only 7.1 percent of rural households have to cover more than 3 km to reach a primary school, compared to 0.6 percent in Prishtina and 2.4 percent in other urban areas, more than 71.4 percent of households have to cover more than 5 km to reach a secondary school in rural areas, compared to 16.6 percent in Prishtina and 10.3 percent in other urban areas.

4.14 *Illiteracy and secondary school completion rates are worse in rural areas.* The evidence shows indeed that compared to urban areas, in rural areas adult illiteracy is higher and children exhibit much lower secondary completion rates. However, primary enrollment rates are not significantly different in rural and urban areas. Later on, the rural disadvantage in secondary education is reflected in a large gap between rural and urban in the proportion of adults with secondary or more education.

Table 29: Selected Socio-economic Indicators by Type of Settlements (percent)

	Urban		
	Rural	Secondary cities	Prishtina
Poverty and inequality			
Average daily household consumption per equivalent adult (Euros)	1.94	1.74	1.84
Extreme poverty rates	14.8	19.2	7.7
Gini coef.	0.15	0.17	0.10
Contribution of between group inequality to overall inequality (mean log deviation measure)		0.6	
Labor market status of household heads (%)			
Unemployment rate	13.4	21.4	21.0
Employment rate	55.2	55.2	64.5
LFP rate	63.8	70.2	81.6
Educational outcomes			
% of individuals 26+ with primary or less	63.7	46.6	43.2
% of adults 26+ with secondary	29.5	40.4	43.5
% of adults 26+ with vocational	3.0	6.9	4.4
% of adults 26+ with university or higher	3.8	6.1	8.9
Illiteracy (cannot read nor write among 15+)	11.7	8.2	8.7
Primary school enrolment rate (7-15 yrs)	90.2	90.6	93.7
Secondary school completion rate (19-25)	45.9	64.0	76.8
Distance to primary schools (% of households)			
< 1km	54.3	67.4	63.3
1-3 km	38.6	30.2	36.1
3-5 km	5.9	2.1	0.6
>5km	1.2	0.3	0.0
Distance to secondary schools (% of households)			
< 1km	11.0	42.4	27.3
1-3 km	17.6	47.3	56.1
3-5 km	21.4	8.9	16.6
>5km	50.0	1.4	0.0
Distance to medical centre (% of households)			
< 1km	33	58	
1-3 km	34	38	
>3 km	33	4	
Housing and living conditions (% of households)			
House has major damages	10.0	7.2	1.1
House has minor damages	20.4	18.5	2.0
Walls made of mud/stones	11.2	8.8	2.1
More than 3 persons per room	27.5	21.0	14.0
Dwelling is not electrified	0.8	0.7	0.0
No central pipeline as main source of water	64.5	8.4	0.8
Main source of water is wells	43.5	6.2	0.0
Household does not use district heating	100.0	99.0	79.2
Use of wood stow for heating	98.9	91.3	71.0
Does not own in-house flush toilet	51.9	14.1	0.0
Own latrine outside the house	51.4	13.9	0.0
Lacking waste disposal	88.1	11.0	0.8

Source: HBS (2002), weighted data. Data on the distance to medical centre and primary school are based on the HDIS (2003). Note: the HBS does not allow estimating labor market indicators according to strict ILO definitions and may not be strictly comparable with indicators from the LFS.

C. THE ETHNIC DIMENSION

4.15 *Summary.* Social stability can be achieved with population coming from very different backgrounds in terms of ethnicity, religion or race. The European integration process is one example, with the assimilation in one supra national territory of populations that less than fifty years ago were still fighting against each other. What matters is to set-up institutions and policies that prevent ethnicity to become a factor of division, such as excessive socio-economic disparities along ethnic lines, or misperceptions about these disparities, that may result from imperfect information and/or the manipulation of information by various interest groups to promote specific political and economic interests. This section provides an assessment of the extent to which disparities in actual and perceived social and economic well-being across ethnic groups are a potential source of social instability in Kosovo. The analysis finds that socio-economic disparities between Albanians and Serbs are modest and hence does not appear as a factor that can fuel the tensions between the two communities. At the same time, non-Serbs ethnic minorities face a substantial disadvantage.

4.16 *Most of overall consumption inequality is explained by disparities within communities and not by inequality between Albanians, Serbs and other minority groups.* Table 30 presents selected socio-economic indicators broken down by ethnicity. What emerges from this table is that there is very little difference in consumption inequality between Albanians, Serbs, and other minority groups in Kosovo. The decomposition of inequality into within and between groups inequality shows that the vast majority of overall consumption inequality is explained by intra-ethnic inequality (99.5 percent) and very little by inter-ethnic inequality (0.5 percent).

4.17 *Socio-economic disparities between Albanians and Serbs are modest.* Indeed, average consumption and the incidence of consumption poverty are almost identical for the Albanians and the Serbs (Table 28). In the dimensions of literacy and education, Serbs tend to exhibit much better outcomes, with the highest secondary enrolment rates and the lowest illiteracy rate. In terms of housing and living conditions, Serbs report a higher incidence of damaged houses and houses made of mud, worse sanitation, and a lower access to waste disposal, while Albanians have a lower access to water services and live in much crowded houses. As regards labor market status and wages, the econometric analysis performed in the 2003 World Bank Labor Market study points to a higher probability of being unemployed among the Serbs in rural areas (8 percent higher than for the Albanians) but not in urban areas, and a wage disadvantage among the Serbs but in the private sector only, where Serbs earned, other things equal, 36 percent less than Albanians. In contrast, in relation to employment probabilities, there were not statistically significant. At the same time, Serbian females tend to enjoy much better employment prospects than Albanians females (Section D).

4.18 *Yet, the maintenance of parallel and discriminatory structures for the provision of social services to Serbian minorities is a source of social instability and plays against the inclusion of Serbs into Kosovo society.* The collection of quantitative information on parallel structures is extremely difficult, but qualitative evidence, including from interviews with officials from the OSCE, indicates that the maintenance of parallel structures for the provision of services to Serbian communities, in particular pension, remains an important barrier for the unification of the social protection system. The Kosovo social protection system is not exempt of problems (Chapter 5), but tremendous efforts have been made to provide pensions to all individuals of age 65 and above, regardless of their ethnic background. The fact that several Serbian pensioners may receive two pensions has probably been instrumental in keeping their poverty rates fairly low, but it may undermine the level of perceived social cohesion.

Table 30: Selected Key socio-economic Indicators by Ethnicity (percent)

	Type of settlement		
	Albanians	Serbs	Other
Poverty and inequality			
Average daily household consumption per equ. adult	1.9	2.0	1.6
Extreme poverty rates	14.6	13.9	31.0
Average net monthly earnings	198.7	183.5	202.4
Gini coefficient	0.30	0.29	0.31
Contribution of between group inequality to overall inequality (Theil mean log deviation measure)		0.5	
Composition of population and labor force status			
Share in population	88.1	6.8	5.0
Share in employment	87.8	8.8	3.5
Share in unemployment	86.0	10.1	3.9
Education outcomes			
Illiteracy (cannot read or write among 15+)	7.8	1.8	6.3
Primary enrolment rates (7-15)	96.6	95.2	86.6
Secondary enrolment rates (16-19)	78.3	96.3	41.7
Housing and living conditions			
House has major damages	6.6	26.5	7.2
House has minor damages	?	?	?
Walls made of mud/stones	7.9	22.7	19.2
More than 3 persons per room	27.0	11.1	13.4
Dwelling is not electrified	0.8	0.0	2.5
No central pipeline as main source of water	48.7	36.8	12.7
Main source of water is wells	32.6	26.0	11.0
Use of wood stow for heating	94.5	96.6	96.1
Does not own in-house flush toilet	37.4	47.2	43.3
Own latrine outside the house	37.0	46.8	42.8
Lacking waste disposal	33.4	56.3	29.5

Source: HBS, 2002, weighted data, except employment and wage data based on the 2002 LFS, and primary and secondary enrolment rates based on the 2003 HDIS. Note: the HBS does not allow estimating labor market indicators according to strict ILO definitions and may not be strictly comparable with indicators from the LFS.

4.19 *Other non-Serbs ethnic minority groups face a serious disadvantage in the dimensions of income and education.* While there are no major socio-economic inequities between the Albanians and the Serbs, the same Table 30 shows a clear disadvantage among non-Serbs ethnic minority groups in the dimensions of income and education. In 2002, among other non-Serbs ethnic groups, the risk of extreme poverty was more than two times higher than that of the Albanians and the Serbs. Moreover, in 2003, according to the HDIS, secondary enrolment rates among non-Serb minority groups were two times below the rates of Albanians and Serbs. Multivariate analysis based on the HBS further shows that Serbian heads are 30 percent more likely to have dependents who have completed secondary school than Albanian household heads, while other ethnic minority groups are 19 percent less likely to have dependents with secondary school completion than Albanian households. The World Bank Labor Market study also indicates that the probability of unemployment was higher by 6 percentage points for non-Serbian minorities, compared to the Albanians, in urban areas, but that there were no significant differences with respect to unemployment.

4.20 *Regardless of actual circumstances, there are areas of agreement and divergence in the perceptions of Albanians, Serbs and other minority about the main problems in Kosovo.* Besides the true level of socio-economic disparities in a society, another indicator of social cohesion is the extent to which subjective well-being differ across groups. People's perceptions on well-being may differ from actual facts, and this is because human perceptions are based on information that is often imperfect and that is easily manipulated by interest

groups. To what extent people's perceptions in Kosovo match the overall distribution of economic and social welfare discussed above? How far people belonging to different communities share common opinions about the main problems in Kosovo? Table 31 sheds some light on these issues by presenting the opinions of Albanians, Serbs, and other minority groups on a range of issues, as captured by the EWR in 2002 and 2003.

4.21 *For all ethnic groups, there is a broad consensus that unemployment and uncertainty about the final status of Kosovo are among the biggest problems in Kosovo.* In 2002, out of the 5 biggest problems perceived by Albanians, 3 were also among the 5 biggest problems cited by the Serbs and 4 were among the 5 main problems reported by other non-Serbs minority groups. For all groups, unemployment and uncertainty about the final status of Kosovo were among the five biggest problems, and these both in the 2002 and 2003 survey.

4.22 *A sense of insecurity is one of the top problems reported by the Serbs, and also a non-negligible concern among other minority groups, but it is not seen as a major problem by the Albanians.* Albanians and Serbs were instead very different in relation to the weight attributed to public and personal security and inter-ethnic relations. While Albanians ranked these issues as very low, for the Serbs, insecurity was the third major problem in 2002 and became the first problem in 2003. Inter-ethnic relations were also ranked as the second major problem by Serbs in 2003. What is remarkable is that this strong feeling of insecurity was not matched with crime data (see Chapter 3), but they obviously reflected a high risk of inter-ethnic clashes, as well as the incidents experienced by Serbs in transports, which have contributed to limit their freedom of movement and their internal mobility. Among other minority groups, the sense of insecurity was not as large as among the Serbs, but it was on the rise (from the eighth biggest problem in 2002 to the sixth in 2003).

Table 31: Ranking of Opinions on the Biggest Problems in Kosovo, by Ethnicity

	November 2002			November 2003		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Unemployment	1	4	1	2	5	1
Uncertainty about the final status of Kosovo	2	2	4	1	4	3
Power supply	3	9	2	4	-	4
Poverty	4	6	3	3	7	2
The fate of the missing	5	5	8	5	3	7
Organized crime and corruption	6	7	7	6	7	6
Infrastructure (roads)	7	13	6	9	-	-
Prices	8	8	8	7	-	5
Social problems	9	13	6	8	8	7
Public and personal security	10	3	8	11	1	6
Unsocial phenomena (prostitution, drugs)	11	10	9	13	9	9
Environment	12	12	-	14	-	-
Education	12	-	11	10	-	-
Urban problems	13	11	11	10	10	-
Healthcare services	14	13	10	12	-	8
Interethnic relations	15	1	5	14	2	7
Something else	16	14	12	14	6	-

Source: KEWR. Note: "-" means no answer.

D. GENDER EQUALITY

4.23 *Summary.* The UN Millennium Task Force and the World Bank have been developing comprehensive frameworks for monitoring progress towards gender equality in society to demonstrate where further emphasis is needed in data collection. The Task Force

and the Bank have proposed that gender equality be conceptualized along three dimensions: capability (including education, health, and nutrition outcomes), opportunity (access to productive assets, income, and employment), and agency (the ability to make choices that alter outcomes). Human abilities raised through the capabilities dimension may be a prerequisite to achieving increased access to economic opportunities and the ability to utilize them and engage effectively in society. While the previous chapter has raised concerns about women's ability to participate effectively in decision making in Kosovo, this section takes a further look at the extent of gender disparities in income and employment opportunities and in health and education capabilities. To the extent possible, it also tries to identify some of the underlying causes. The findings show that gender inequity remains widespread, especially in education and employment outcomes, and interacts closely with ethnicity.

4.24 ***The higher incidence of poverty among female-headed households is mostly due to gender differences in sources of income and educational attainment.*** The previous chapter has shown that gender of headship has a differential impact on poverty and that female households face an elevated risk of being poor. According to the HBS, about 28 percent of female-headed households are extreme poor, compared to 15 percent among male-headed households. Why are female-headed households more likely to be poorer than male-headed households?

4.25 Available data from the HBS shows that on average, female-headed households support a larger ratio of elderly individuals to income earners compared with male-headed households. Female-heads are also older than male-heads. Thus, female-headed households are more likely to rely upon pension income as the main source of household income (22 percent) and less likely to rely upon labor income (40 percent) than male-headed households (among which only 14 percent rely on pension as the main source of household income and 58 percent rely on labor income). Given the low level of pension, compared to wages, the combined characteristics of higher dependency on pension income from other members and old age help explain the higher incidence of poverty among female headed households.

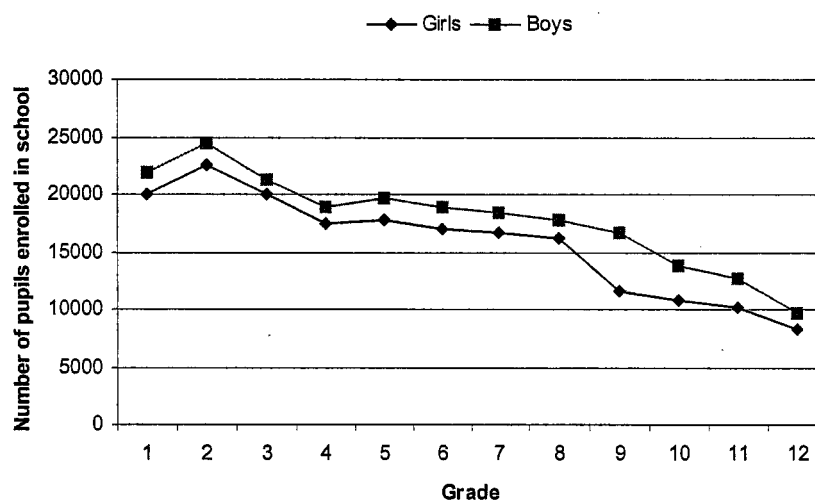
4.26 Another reason is the fact that while education of the household head is negatively associated with poverty, the educational attainment of female heads is concentrated within the lowest levels. According to the HBS, over 80 percent of female heads have obtained at most primary education, compared with 42 percent for male heads.

4.27 ***Girls' education becomes at risk at secondary level among Albanians and non-Serbs ethnic minority.*** Compulsory schooling in Kosovo covers both primary education, grades 1-5, and lower secondary education, grades 6-9. During grade 9, students are provided with academic counseling and take a comprehensive exam before continuing with non-compulsory upper secondary education, grades 10 –12. Secondary education offers the choice of a vocational track or a general education track which prepares students for post-secondary education. Despite these enrollment requirements, 2001 school enrollment data compiled by the management team of the World Bank funded education participation project indicate that school attendance varies by ethnicity and gender.

4.28 Overall, the share of girls' enrollment lags behind boys, especially at secondary level (Table 32). This is equally true for Albanians girls, who constitute the large majority of girls, and for girls from non-Serbs minority groups - but not for Serbian girls. In addition, Albanian girls are likely to drop out of school earlier than boys. Female enrollment suffers the largest decline between the 8th and 9th grades when it decreases precipitously by 28 percent (Figure 6). However, when females survive this critical year, they are no less likely than males to complete secondary school. Although welcome by the education community, the recent education reform that expanded compulsory education to grade 9 has not led to significant changes in schooling outcomes – especially among girls.

4.29 To further explore the determinants behind education outcomes within the household, a multivariate analysis was conducted to identify the net contributions of individual, household, and community characteristics on primary school enrollment and secondary school completion. Location, ethnicity and income appear to interact with gender and become significant causes of disparities at secondary level. The probit results of the determinants of primary school enrollment for household dependents between the ages of 6 and 15 years of age indicate indeed that the gender and relationship of the dependent to the household head weakly affects primary school enrollment and that ethnicity plays no role on primary. However, for secondary school enrollment, the probit estimates show that both biological daughters of the household and other female dependents are 12 percent and 23 percent less likely to have completed secondary school compared to the household head's son. In addition, ethnicity becomes an important factor. Serbian heads are 30 percent more likely to have dependents who have completed secondary school than Albanian household heads, while other ethnic minority groups are 19 percent less likely to have dependents with secondary school completion than Albanian households.

Figure 6: Primary and Secondary School Enrollment by Gender and Grades, 2002



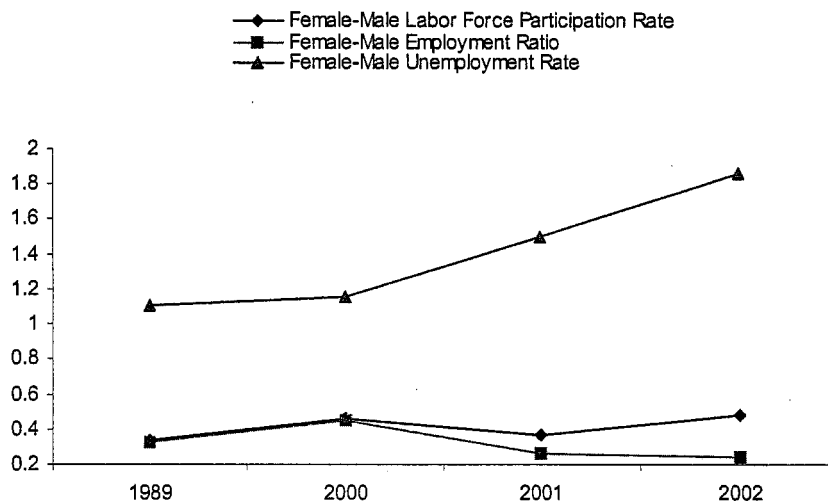
Source: Ministry of Education, Science and Technology, World Bank EMIS project.

4.30 *Women face a substantial and growing employment disadvantage.* Access to employment is an important indicator of economic opportunity and gender equality both within families and the larger community. The contribution of women's labor income to family budgets may equip women with opportunities to influence expenditures in ways that are more beneficial to children compared to spending patterns influenced exclusively by male-controlled income. Female employment opportunities outside of the home may change the relative return to investments in girls and at least influence household allocation in a more gender-neutral way. Investments in girls and economic opportunities for women may also improve the efficiency allocation of resources within the economy as well.

4.31 Figure 7 shows the evolution of gender disparities in basic labor market indicators between 1989 and 2002, using data from administrative sources for 1989, the LSMS for 2000 and the LFS for 2001 and 2002. The level and the trends in the female-male employment and unemployment ratios highlight that conditions for females have been historically worse than for men and that the women disadvantage in the labor market has increased over time.

4.32 Besides a relative and growing disadvantage of women compared to men, the LFS also show that for both men and women, the situation in the labor market has deteriorated in absolute terms. Some of the variation in the absolute employment trends may have resulted from differences in survey methodologies implemented across the period. However, estimates covered by the last two years are based on similar methodologies and reinforce the direction of the negative trends in women employment and unemployment relative to men. The gender assessment conducted for this study further shows that the share of female employment in Kosovo is relatively low compared to neighboring post-transition countries¹⁶.

Figure 7: Female-Male Ratios in Labor Market Indicators, 1989-2002



Source: Adapted from Owens (2003)

4.33 The overall trends in female employment are influenced heavily by the Kosovo Albanian and urban patterns as Albanian women workers and urban female employment accounted respectively for approximately 82 percent and 62 percent of national female employment. Yet, the gender employment gap varies quite substantially across ethnic groups and between rural and urban areas. In general, urban residence and Serbian ethnicity are positively associated with female employment and tend to reduce the male-female employment gap.

4.34 *Women disadvantage in terms of lower wages is less pronounced.* According to the LFS, on average, female workers earn approximately 89 percent of the earnings of male workers (Table 32). However, compared with other countries the female-male wage gap seems relatively small. Evidence of women's limited pay gap is further highlighted in the World Bank Kosovo Labor Market Study (2003). The authors noted that the male-female wage gap was substantial in the private, but small in the public sector. The earnings function results showed that once other observable differences are accounted for, the male-female gap in the private sector amounted to 8 percent, and was insignificant in the public sector. The lack of a gender wage gap in the public sector most likely reflected the presence of a public sector wage scale.

4.35 *The combination of limited schooling, early marriage, and entrenched attitudes among family and community about the fulfillment of traditional roles help explain women labor market disadvantage.* Considering the persistence of the trend suggesting that female

¹⁶ See Owens (2004).

employment opportunities have decreased, it is important to distinguish the underlying determinants associated with the downward spiral of both men's and women's labor market activity from those associated with the accelerated decline in women's employment.

4.36 One reason for the female labor market disadvantage is the difficulty of women to keep pace with men on earning academic credentials that translate to valuable workplace skills. While education is a strong predictor of labor force attachment among females, among the Albanian and the non-Serbs ethnic minority groups, fewer females than males complete secondary schools. Serbian women, in contrast, are no more likely to leave school earlier than men and exhibit a less unfavorable employment situation. Other factors that negatively influence women's labor force attachment are marriage, non-Serbian minority, young age, the number of children under the age of 7 years, and rural area residence. On the other hand, besides education, Serbian ethnicity increases the probability of female labor force participation. Early withdrawal from school and early marriage among females are also more likely to occur in rural areas, where the influence of traditional norms are more strongly embedded in household decisions, and contribute to the greater labor market disadvantage of women in rural areas.

Table 32: Selected Socio-economic Indicators by Gender

	Men	Women
Poverty		
Extreme poverty rates by sex of headship (%)	14.6	28.2
Monthly average wages (Euros)	202.9	180.2
Employment opportunities (%)		
Unemployment rate	36.9	68.9
Employment ratio	35.1	8.4
LFP rate	55.5	26.9
Individual education outcomes (%)		
Illiteracy (cannot read or write among 7+)	2.8	9.1
Primary enrolment rates (7-15)	95.7	96.6
Secondary enrolment rates (16-19)	84.4	71.8
Highest level of education of HH head (%)		
Less than primary	14.5	47.2
Primary	27.6	32.5
Secondary/vocational	49.1	18.4
University	8.7	1.2
Health outcomes		
Life expectancy (years)	63-67	67-71

Source: HBS, 2002, weighted data, LFS 2002 for employment and wage data, and 2003 HDIS for primary and secondary enrolment rates.

4.37 *Kosovo has a remarkably small female-male gap in life expectancy largely that may reflect the poor quality of antenatal care and the prevalence of abortion.* Life expectancy is an important indicator in the quality of life and the relative size of the male-female gap is evidence of a gender differential in life quality. Under equality of social and economic conditions, women are expected to outlive men. When the gap between female and male life expectancies is small, women may be vulnerable to maternal mortality, gender-based violence, sex-selected infanticides or other social risks. In contrast, large mortality gaps suggest that men may be susceptible to behaviors or events that elevate male mortality, including binge drinking, violence, and accidents.

4.38 Compared with neighboring countries, Kosovo's female-male gap of 4 years is small. Life expectancy for men and women is estimated between 63-67 years and 67-71 years, respectively (Table 32), and suggests that factors are in place that undermines women's potential quality of health. A high maternal mortality, which is the highest among Europe, may contribute to the small size of the gap, and could reflect the poor quality of antenatal care and the prevalence of at risk abortion.

E. DISPARITIES ACROSS GENERATIONS

4.39 *Summary.* The previous chapter has shown that consumption poverty was disproportionately concentrated among children and the elderly. This section extends the discussion on age-related inequities in three areas: (i) literacy, by looking at the prevalence of illiteracy by age groups; (ii) employment, by bringing updated evidence on youth relative labor market disadvantage; and (iii) income, by documenting the relative loss in income incurred by pensioners once they leave the labor force. The findings show that a large literacy gap between youth and the elderly fuels the disparities in life style and aspirations across generations and may be a source of misunderstanding. Income opportunities are substantially worse among youth and the elderly. Of major concern, and a major potential cause of social instability, are the large pools of unemployed and idle youth.

4.40 *There is a large literacy gap between youth and older people which fuels the disparities in life styles and aspirations across generations.* Illiteracy is a major dimension of poverty that prevents individuals to access essential information and to understand and adapt to a rapidly changing world. In Kosovo, the evidence shows that while illiteracy is a marginal problem among youth, it increases rapidly with age and becomes a major issue among the elderly (Table 33). This is evidently related with the disruption of formal education experienced by older cohorts of Albanians during the Milosevic era and the war. Such a strong divide in literacy between the youth and the elderly in Kosovo society is a potential source of inter-generational tension as it reduces the ability of older people to understand the life-styles and aspirations of youth. The qualitative study points indeed to a large sense of misunderstanding between youth and older family members.

Table 33: Selected Socio-economic Indicators by Age Categories (percent)

	0-14	15-24	25-64	65+
Income well-being				
Extreme poverty rates	17.0	15.8	13.3	17.1
Employment opportunities				
Unemployment rate	-	74.3	33.1	-
Employment rate	-	9.3	27.6	-
Education outcomes				
Illiteracy (cannot read or write among 15+)	0.4	0.5	4.6	48.9

Source: HBS 2002, weighted data, and LFS 2002 for the employment data.

4.41 *Youth access to decent work remains a major challenge.* Access to employment is evidently a cardinal point in understanding income but also non-income dimensions of well-being. In most cases, the lack of decent work determines whether people are able to enjoy a decent standard of living. It is also a factor usually correlated with psychological instability, depression, marriage instability, crime, social exclusion and eventually social instability when this extends to large portion of the population. Having a decent job thus provides a sense of social inclusion that justifies existence itself to some extent.

4.42 While unemployment is a serious problem in Kosovo, the evidence also indicates a strong disadvantage of youth relative to adults (Table 31). In 2002, according to LFS data, the incidence of unemployment was more than 2 times higher for youth (of ages 15-24) than for adults (of ages 25-64).

4.43 *Pensioners incur a substantial income loss when leaving the labor force as the result of smaller pensions relative to wages.* In Kosovo, reaching the pension age and leaving the labor force is clearly associated with a strong decline in income. In 2003, the basic pension was set at 35 Euros, which is less than one fifth of the average wage.

4.44 *The fact that pensioners are among the poorest, yet not entirely destitute, relates to the existence of close family ties which guarantee a minimum support.* A still imperfect pension system in Kosovo creates a large financial dependency of pensioners on other family members. In fact, only 2.8 percent of the elderly live alone and their well-being is, to some extent, guaranteed by a household structure and values among society which are rather inclusive of the elderly.

5. THE PRO-POOR POTENTIAL OF PUBLIC SERVICE DELIVERY

5.1 The delivery of public services in health, education and social protection has a large potential on poverty alleviation. Yet, the realization of the expected positive poverty impact depends altogether on the sufficiency of public provision, the effectiveness of public interventions, and the extent to which delivery is equitable. In Kosovo, given the decline in international donor assistance, the fact that the vast bulk of public social spending depends on general budget resources, and that there is still a rather weak administrative capacity and fragile social cohesion, a critical challenge for poverty reduction is to protect the financing of essential services in health, education and social protection, while enhancing the effectiveness and equity of public social delivery.

5.2 The aim of this chapter is to assess the pro-poor potential of public social service delivery by looking at the sufficiency, effectiveness, and equity of public provision in health, education and social protection. The findings shows that while public spending on education compares well with other regions, it is relatively low on health and social protection, and there are important gaps, in view of the population needs, in the availability of secondary schools and the provision of social assistance. Moreover, in the health and education sectors, the potential welfare gain associated with the current provision of services appears constrained by the poor quality of services as evidenced by poor health outcomes around birth and the presence of a large number of teachers with inappropriate level of qualification. In the area of social protection, the delivery of public social transfers is found to have a fairly large impact on poverty reduction, but the main incidence is provided by the basic pension while the poverty impact of social assistance is more modest, probably as the result of large errors of exclusion and small amounts of benefits. Finally, the delivery of public social services in Kosovo is not exempt from equity concerns. In health, phenomena of both inefficiency and corruption create undue out-of pocket payment which disproportionately hit the poorest. In education, there is some evidence that the poorest children may be disproportionately affected by the poor quality of teaching. With respect to social assistance, Serb households and households with more than four children appear disadvantaged for reasons that remain to be explained.

A. SUFFICIENCY

5.3 *Summary.* While the forthcoming World Bank Public Expenditure Review will take a close look at the issue of public spending from the point of view of fiscal sustainability and spending efficiency, this section focuses on the sufficiency of public social services from a welfare perspective. Assessing the sufficiency of public social delivery is a rather complex task. It requires looking at both supply-side factors - including the overall amounts allocated to public social services, the administrative capacity to spend these amounts, and the efficient use of the spending - and demand-side factors - such as population's needs. This section starts by reviewing the amounts of public spending in health, education and social protection, as compared to other countries. It then turns to a tentative assessment of the extent to which the aggregate demand for public social services is satisfied. It shows that compared to regional average, overall public spending on education is reasonable but public spending on health and

social protection is low. Within education, a relatively high proportion of public spending goes to primary education and very little on pre-school. The decline in donors' financial assistance on education and health raises concerns about the sustainability of public spending in the social sector. In terms of coverage, the overall provision of public health care services seems reasonable, but the provision of schools at pre-primary and secondary level appears inadequate. Finally, while pension coverage seems to be high, yet not universal among the eligible population, social assistance delivery is very limited.

Public Social Spending

5.4 Compared to regional average, overall public spending on education is reasonable but public spending on health and social protection is low. Table 34 provides the amount of public spending on health, education and social protection in 2003 as a percentage of GDP and as a percentage of total public expenditures in Kosovo and selected countries. In 2003, Kosovo's public spending on education was 6.1 percent of GDP and 15.6 percent of total public spending, and compared favorably to other countries in the region. However, both the relative and absolute amount of public resources allocated to health and social protection appeared to be low compared to regional average. These amounted to respectively only 4.5 percent of GDP and 11.5 percent of all public spending for health, and 5.8 percent of GDP and 16.8 percent of all public expenditures for social protection. Within social protection, public spending was allocated mostly to pension payments (3.3 percent of GDP) and little to social assistance (2.5 percent of GDP).

5.5 Within education, a relatively high proportion of public spending goes to primary education and very little on preschool. Looking at the 2002 distribution of public funds across primary, secondary and tertiary levels shows that primary education — where the social rates of returns are the highest — receives the highest allocation (60.8 percent of all public spending), while secondary education and university/higher-education received a much smaller share (18.1 percent and 13.3 percent respectively). Spending on preschool education was even smaller (only 4.4 percent of total public educational spending).

Table 34: Public Social Spending in Kosovo and Selected Countries in 2003

	Kosovo	Bosnia & Herzegovina	Croatia	Serbia & Montenegro	Slovenia
As a percent of GDP					
Social security & welfare	5.8	16.1	18.3	13.1	17.0
Health	4.5	6.2	6.8	5.9	5.5
Education	6.1	5.6	4.4	5.9	5.5
As a percentage of total public expenditures					
Social security & welfare	16.8	31.3	36.8	34.2	40.7
Health	11.5	12.1	13.7	15.4	13.2
Education	15.6	10.9	8.9	15.4	13.2

Note: The values for Kosovo are budgeted amounts, but for all others the amounts are actual spending.

Source: Kosovo authorities and forthcoming South Eastern Europe Regional Study on Public Expenditure Policies (World Bank)

5.6 The downward trend in donors' financial assistance on education and health raises concerns about the sustainability of pro-poor public spending in the social sector. Data on donor assistance on education and health from the PISG are only jointly available and indicate a steady decline, from 59.9 million euros in 2000 to 20.4 million euros by 2003. In 2003, about 13 percent of total donor assistance focused on health and education sectors. While

public spending on education and health play a key role in poverty alleviation, the reduction in donors' financial assistance in these sectors raises concerns about the sustainability of pro-poor public spending. Sustainability depends on the overall capacity of the public finance to raise taxes, the capacity - so far limited - to enforce co-payments for health, on donor support, but also on the capacity to improve the efficiency of current spending. A forthcoming public expenditure review by the World Bank will investigate these issues in more details.

Coverage of Public Social Services

5.7 *The overall provision of public health care services seems to be reasonable.* At the aggregate, the present situation of the Kosovo health system is characterized by a quantitatively reasonable provision. This largely reflects the efforts with the restoring of infrastructure (most health facilities have been refurbished and re-equipped) and staffing of facilities. At the end of 2003, the public health system in Kosovo comprised 6 main hospitals, 365 primary health care facilities, 10 tuberculosis dispensaries, 5 health institutions and 7 community mental health centers. The hospital network consisted of approximately 5000 inpatients beds or 2.6 beds per 1000 population, which is well below the EU average of 4, but sufficient to meet the needs taking into account that the age structure of the population is a major determinant of the needs of hospital beds and that the population of Kosovo is very young.

5.8 *The provision of schools at pre-primary and secondary level appears inadequate.* Availability of primary schools is not an issue for a majority of the Kosovo population. According to the HDI, about 60 percent of households have a primary school less than 1 km away, and more than 95 percent have a primary school less than 3 km away. Availability of preschool and secondary schools, on the other hand, emerges as an important issue. As regards pre-school education, according to data from SOK, in August 2001 there were only 34 pre-school institutions staffed with only 402 teachers. Most of these institutions were in the Prishtina region and virtually all in urban areas. As for secondary schools, data from the HDIS show that in 2003 only about 24 percent of households have a secondary school within 1km and 28 percent have a secondary school located at 5km or more. As discussed earlier, there are also some important disparities in the availability of education facilities between rural and urban areas.

5.9 *Pension coverage seems to be high, yet not universal among the eligible population.* The basic pension is a Government-sponsored non-contributory universal scheme. It is conceived as a flat rate monthly benefit available to all residents of Kosovo, as well as Kosovar refugees living outside the territory, age 65 and over, irrespective of prior contributions or work history. In that sense, it is an old-age assistance program. It is pay-as-you-go and financed from the Kosovo Central Budget (KCB). The scheme took effect in mid-2002. The basic pension is set to equal the extreme poverty line (the food basket) and adjusted annually to reflect increases in the cost of living. For 2003, this level was 35 euros; for 2004 it is 40 euros. Because the basic pension is tied to the cost of the food basket and indexed to the CPI, the cost of the basic pension system is likely to increase at a rate lower than the overall growth rate of the economy, thus maintaining fiscal sustainability in the long run.

5.10 Using administrative data on recipients, some 103,000 pensioners, or 94 percent of the estimated 65-and-over population, are receiving pensions. A coverage of less than 100 percent is surprising in a situation where a pension is available to anyone age 65 or over. It may reflect that some elderly cannot provide proof of age, and some do not know how, or both, to apply for the benefit. What is a priori also surprising is the large discrepancy on pension coverage between administrative and survey data. In the 2002 HBS, only less than half of eligible individuals (individuals of age 65 and over) were receiving a pension. But this

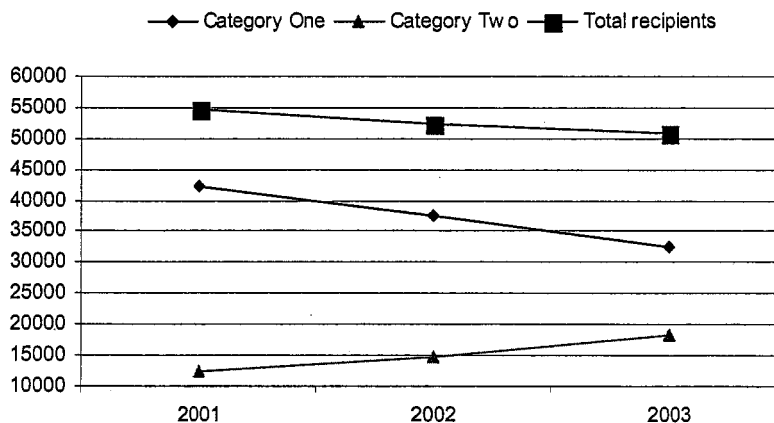
is probably because some delays took place in the distribution of pensions after the scheme became effective in 2002 which are picked up in the 2002 survey data.

5.11 **Social assistance delivery is very limited.** The primary objective of a social assistance program should be to provide a safety net for the poorest in society. The benefit can be provided in cash or in kind, or it can involve public works schemes and other income-generating programs that produce assets. It can be means-tested or targeted at specific categories of poor people. The choice of social assistance program is determined by local conditions – cultural and socio-economic factors, domestic income and resources available for social assistance; and the role of civil society, i.e. the strength of informal safety nets (family, kinship, and community support structures). An important consideration in designing a social assistance program is that it does not unnecessarily encroach on already existing and well-functioning informal social safety net mechanisms in society.

5.12 The Kosovo social assistance scheme was introduced in the year 2000 and revised in December 2003. It was, and remains, a cash limited categorical scheme that targets poor households, while aiming at fiscal sustainability and administrative simplicity with easily identifiable categories. The scheme as it was during the 2002 HBS targeted two categories of beneficiaries: (i) Category One, composed of families without resources where no one is capable of work, or expected to make themselves available for work (single mothers, children); and (ii) Category Two, embracing families with at least one child under 5, or caring for an orphan under 15; other members capable of working should be registered as unemployed; no member can own a motorized vehicle or more than half a hectare of land; no resources are being provided by relatives outside the family. Category Two has subsequently been revised with the introduction of a new Social Assistance Law in October 2003, involving the introduction of means and asset testing for eligibility and calibration of the benefit¹⁷.

5.13 In 2003, a monthly average of only 51,000 families received social assistance that totaled 32.3 million euros, or 7 percent of state budgetary expenditures, and 2.5 percent of GDP. This is low in comparison to the estimated 277,000 families living in extreme poverty in 2002, and driven mostly by fiscal limitation. Administrative data further indicate that the number of beneficiaries has been decreasing, driven by a fall in the number of Category One-eligible households (Table 8).

Figure 8: Social Assistance Recipients, 2001-2003



Source: Ministry of Labor and Social Welfare

¹⁷ For further details on the social protection system in Kosovo, see Sederlof, 2004.

5.14 The decline in Category One beneficiaries reflects improvements in the administration of the program, as more stringent procedures for the verification of eligibility has reduced errors of inclusion in the system and identified mis-classification of families on to Category One when in reality they are eligible for Category Two. The increase in Category Two is in part explained by this reclassification, as well as a deteriorating economic situation in Kosovo that has resulted in rising unemployment and the resultant increase in applicants. The Ministry of Labor and Social Welfare believes that the rate of increase, especially of Category Two beneficiaries, would have been higher – possibly resulting in an overall increase in beneficiaries – without a more stringent verification process.

B. EFFECTIVENESS

5.15 *Summary.* Besides sufficiency, the pro-poor potential of public social services depends on the effectiveness of service delivery, as indicated by the level of gain in well-being or reduction in poverty produced by these services. This section does not provide a rigorous quantitative impact assessment of public social delivery in Kosovo, which anyway would be impossible given data limitation. Instead, it reviews some of the most important impediments to an effective delivery of public social services, focusing on the quality of health care and education, and the targeting efficiency and poverty impact of social transfers. The analysis shows that in the health sector, the on-going health reform process in Kosovo has achieved important results. Yet, the low quality of services remains a major impediment for an effective delivery of health care. In the education sector, concerns about the quality of schooling result from the presence of teachers with inappropriate level of qualification. Finally, the social assistance scheme appears moderately effective, with little errors of inclusion but large errors of exclusion. Overall, the delivery of public social transfers has a large impact on poverty reduction, but the main incidence is provided by the basic pension while the impact of social assistance is more modest, as the result of large errors of exclusion and small amount of benefits.

Quality of Health Care and Education

5.16 *The ongoing health reform process in Kosovo has achieved important results but the low quality of services remains a major impediment for an effective delivery of health care.* Little information is available on the extent to which the public health system in Kosovo is able to deliver effective health interventions that produce significant health gains. Yet, there are some concerns, driven by quantitative and qualitative evidence, that despite substantial progress in recent years with the reform process, the effectiveness of the health care system remains undermined by the low quality of health care services¹⁸.

5.17 Successes and difficulties toward greater effectiveness of the health care system have both characterized the reform process. Successes have included: i) policy development and re-organization of services, with emphasis given on primary health care and gradual integration of vertical structures in the health care system; ii) infrastructure, with most health facilities refurbished and re-equipped; iii) training, through the development and implementation of new curricula for family doctors, nurses and health care managers; and iv) the establishment of a Health Information System (HIS), which is now in place, although yet in a development stage.

5.18 The main difficulties have regarded: (i) the lack of adequate managerial capacity and tools, particularly at peripheral level; (ii) the lack of regulation and control of the private sector, including the private use of public health facilities; (iii) the lack of quality assurance strategies and systems; and (iv) the lack of capacity to address emerging health issues, such as

¹⁸ See Tamburlini, 2004.

adolescent and youth health. MoH is aware of the problems and of the need of urgent policies to address them, starting with the rapid growth of a largely unregulated private sector.

5.19 *The lack of quality of health care affects several crucial areas, especially antenatal care.* In Kosovo, the lack of quality, i.e. the failure of delivering the effective interventions, appears as an important problem, especially in areas where health interventions can make a major difference with respect to important health outcomes. A relevant example is given by perinatal care and more generally by reproductive health. For instance, an antenatal care survey conducted by UNICEF in 2003, involving 382 respondents, 66 percent rural and 34 percent urban, 69 percent client of private services and 31 percent of public services, showed that access/use was satisfactory but that quality - as measured by the proportion of visits that included the procedures considered essential for good quality - was poor both in clients of private and public services.

5.20 As far as delivery care and neonatal care is concerned, the situation seems to have improved with respect to the recent past. There is widespread concern, however, that in the absence of a rapid establishment and enforcement of regulatory policies, there will be an increased shift to unregulated private practice with consequent possible deterioration of the standards of perinatal care.

5.21 The quality of child and youth health services deserves also further attention. A recent study in 30 primary health facilities showed that despite the great number of health workers trained in the use of effective diagnostic and treatment protocols for the common childhood illnesses, the quality of care is still far from acceptable. There is no information on the quality of youth health services whose provision, anyway, has not gone beyond pilot experiences.

5.22 *One reason for the low the quality of health services is the inadequacy and inefficiency in staffing allocation.* Government employment in health amounts to 0.6 percent of the population, below the EU average of 0.8 percent and the OECD average of 0.7 percent. While the number of the administrative staff may be excessive, with a ratio of support staff to professional staff (doctors and nurses) of 0.37 in 2003, the average ratio of staff (professional and support) per hospital bed was only 1.15, which is low compared to the UK, the Scandinavian countries and the Netherlands, where the ratio may be as high as 2.7 to 5.0. The ratio of doctors (139/100,000) and nurses (361/100,000) to the population is very low relative to Western Europe (respectively 346/100,000 and 777/100,000) and similar only to that of Albania (139/100,000 and 391/100,000). The concentration of doctors (40 percent) and nurses (40 percent) in hospitals is below most European countries. It is clear, however, that there are too many doctors in relation to nurses. The relation of nurses to doctors averages 2.6 compare with 2.2 in Western Europe. But the figures are not an indication of overabundance of doctors but rather of a shortage of nurses, which may contribute to alter the overall quality of the health services provided to the population.

5.23 *In the education sector, concerns about the quality of schooling result predominantly from the presence of teachers with inadequate level of qualification.* The major issue with the quality of schooling in Kosovo, and thus with the effective delivery of educational services to the population, is the quality of teachers, probably more so than the quantity of teachers. The pupil-teacher ratio, which indicates the average number of pupils served by a teacher, and is one indicator for the quality of schooling, compares favorably with other regions: 20 in primary school, and 19 in secondary school. For comparison, the average pupil-teacher ratio in 2000 was 40 in low income countries; 22 in middle income countries and 21 in upper middle income countries.

5.24 In contrast, another proxy for the quality of schooling which raises concern is the large presence of teachers with inadequate level of qualification, a byproduct of the long-

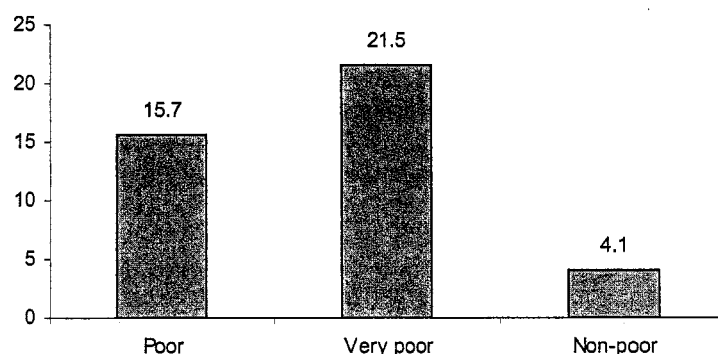
lasting unofficial “parallel” system of education. According to the HDIS, in 2003, 22.2 percent of all teachers had inadequate level of qualification in primary schools, and 28.1 percent in secondary schools. The presence of teachers with inappropriate qualification help explain the relatively low pupil-teacher ratio in Kosovo, since many teachers experience difficulties to teach multiple subjects in early levels of schooling. But there are also other reasons related with local circumstances, such as the existence of small rural primary schools that are instrumental to keep high enrollment rates in primary education and the needs of ethnic communities.

Targeting Efficiency and Poverty Impact of Public Social Assistance

5.25 *The social assistance scheme appears moderately effective, with little errors of inclusion but large errors of exclusion that reflect the cash limit.* Using data from the 2002 HBS, Figure 9 looks at the effectiveness of social assistance (i.e. excluding pensions) as measured by the coverage of pre-social transfer poor, extremely poor and non-poor populations. The higher the coverage of the poor and very poor and the lower the coverage of the non-poor, the more effective are the social assistance benefits in reaching the needy population. In examining the findings, it should be noted that social assistance programs are supposed to provide benefits only to the “pre-social transfers” poor.

5.26 The data in Figure 9 suggests that social assistance benefits are at best only moderately effective in reaching the pre-transfer poor and extremely poor population, i.e. the coverage of the poor and very poor is low: only some 22 percent of the extremely poor declare to have received social assistance, and some 16 percent of the poor. At the same time, coverage of the non-poor is even lower – only 4 percent of the non-poor received social assistance over the period under examination. This would tend to indicate that targeting errors of inclusion are modest, while low coverage (high errors of exclusion) point to the categorical constraints that are imposed on the scheme as a function of cost constraints.

Figure 9: Targeting Effectiveness; Share of Pre-transfer Poor, Very Poor and Non-poor Receiving Social Assistance Benefits (percent of households)



Source: HBS 2002/2003

5.27 *Errors of exclusion* reflect the effects of the *cash limit*. Proxy indicators for poor families were in part chosen in order to limit the number of eligible families to the available envelope, thus explicitly generating errors of exclusion. Moreover, at the time the program was designed, statistically representative information on vulnerable groups was not available. Therefore, the scheme did not make a distinction between the poor and the extremely poor, nor did it attempt to raise well-being to some pre-defined level, i.e. no notional poverty line was set. Now the situation is different, and ongoing household surveys do provide a basis for

identifying the poor and the extremely poor, and allow more informed decisions to be made about poverty targeting. The recently introduced revisions to eligibility do reflect the increased understanding of the profile of the poor and needy in Kosovo, that is discussed in Chapter 3 (Table 4).

5.28 To a large extent, *errors of inclusion* may reflect the fact that eligibility is determined mainly on the basis of documentation presented by the applicant. It may also reflect the environment – it is particularly difficult for a benefit officer to establish need in an environment where there is a large informal sector and extensive family- and kinship-based safety nets.

5.29 *Overall, the delivery of public social transfers has a large impact on poverty reduction, but the main incidence is provided by the basic pension while the impact of social assistance is more modest, as the result of large errors of exclusion and small amount of benefits.* How significant are public transfers (social assistance and pensions) in alleviating poverty? To answer this question, a poverty impact analysis is conducted using the HBS. The poverty situation of households is compared with and without transfers: A sensitivity analysis is included, based on a household’s ability to compensate for the loss, or absence, of social transfers at the 25, 50 and 75 percent level of the value of the transfer (Table 35).

5.30 The empirical evidence from the 2002 HBS suggests that social transfers are an important policy instrument for poverty reduction in Kosovo. If social transfers were eliminated, incidence of poverty and extreme poverty would increase by 5.7 and 6.1 percentage points, respectively. Interestingly, the main influence on poverty incidence is provided by the basic pension: withdrawing the pension raises poverty and extreme poverty by 4.4 and 4.6 percentage points respectively. The impact of social assistance is more modest – an increase of 1.4 and 1.7 percentage points, respectively, for poverty and extreme poverty. This may mainly be a reflection of the relatively large size of the pension as compared to the social assistance benefit – an elderly, pension-eligible couple would have been drawing 70 euros per month in 2003, which is five euros more than a five-person household would have received in social assistance.

5.31 The elimination of social transfers would not only push non-poor into poverty, but it would also increase depth and severity of poverty. At the zero and 25 percent compensation levels, the poverty gap and severity of poverty are significantly higher as a result of the elimination of social transfers. This indicate that social transfers may have an important poverty alleviating effect on households, even if they may not be sufficient to lift them out of poverty. Again, the impact of the basic pension is more marked than that of the social assistance benefit.

Table 35: Poverty Reduction Impact of Social Transfers

	Percentage point changes in pre-transfer poverty indices ^a											
	Social transfers ^b				Pensions				Social Assistance			
	Poverty	Extreme poverty	Poverty Gap	Severity	Poverty	Extreme poverty	Poverty Gap	Severity	Poverty	Extreme poverty	Poverty Gap	Severity
75 percent	2.7	1.4	1.2	0.8	2.0	1.0	0.8	0.6	0.7	0.4	0.4	0.3
50 percent	3.9	3.5	2.7	2.5	2.9	2.6	2.0	1.9	1.0	0.8	0.7	0.6
25 percent	5.0	5.1	4.4	5.2	3.8	3.8	3.3	4.3	1.3	1.3	1.1	0.9
0 percent	5.7	6.1	6.2	9.2	4.4	4.6	4.7	7.9	1.4	1.7	1.5	1.3

Source: Kosovo HBS 2002/2003. *Note:* ^a “Pre-transfer rates” show the poverty incidence assuming different levels of compensation by households if a social transfer is withdrawn. ^b “Social transfers” show the combined effect of pensions and social assistance on poverty incidence.

C. EQUITY

5.32 *Summary.* While the effectiveness of public social delivery refers to the actual welfare gain associated with the intervention, an equitable delivery of public services is generally defined as the capacity for all eligible beneficiaries to be provided with the same quantity and quality of public services, regardless of their characteristics. Equity matters in its own right from the view point of public ethics, and also because together with sufficiency and effectiveness, it is instrumental in making social services pro-poor. This section reviews some of the successes and challenges with ensuring of an equitable delivery of public social services in Kosovo. In the health sector, the major issue is the existence of undue out-of-pocket payment that disproportionately hit the poorest. In the education sector, public funds seem to equally benefit the poor and the non-poor, but there could be large disparities in the quality of schooling by income level. With respect to social assistance, extreme poor Serb households and extreme poor households with more than four children appear disadvantaged for reasons that remain to be explained.

5.33 *In the health sector, equity in service delivery may be compromised by management inefficiency and corruption that cause undue out-of-pocket expenditures and disproportionately hit the poorest.* The health system in Kosovo is publicly financed and is meant to provide a universal coverage with a generous exemption policy to the co-payment principle. As a result, there should not be a significant proportion of the population reporting excessive costs as a main barrier to access. However, the benefits of the system, especially for the poorest, are compromised by phenomena of mismanagement and corruption that cause undue out-of-pocket payments even when health care is supposed to be provided for free.

5.34 A major concern is the unnecessary prescription of drugs that are not included in the list of drugs that are provided for free, and the fact that essential drugs supposed to be for free are often not available in the Health Centre or Hospital pharmacy and have to be bought. According to the HBS, the cost of drugs account for 65 percent of the private expenditure, but a high proportion of these out-of-pocket payments are for drugs that are supposed to be provided for free, or that are not essential and therefore should not be prescribed.

5.35 Informal payments are also widespread and hit the poorest patients worst. In 2000, according to the LSMS, patients reported paying more for the use of public health facilities than would be expected if the only charges by the facilities were the officially sanctioned co-payments. The difference was due to unofficial under-the-table payments to the providers. This situation does not seem to have changed much over the last few years. In the 2003 EWR, 53 percent of the Albanian respondents said that they had had to make unofficial payments for health services. The comparatively high level of finance passing through the unregulated private and 'informal' sectors does not support the implementation of a rational health strategy and undermines efforts to achieve sustainability and improve service delivery. Private sector regulation is thus a priority to avoid further leaking of resources from the public sector and to protect consumers from poor quality and double standards.

5.36 *In the education sector, while a priori public funds allocated to basic education seems to equally benefit poor and non-poor children, there seems to be large disparities between the poor and non-poor in the quality of teaching.* Table 36 presents the incidence of public spending on basic education in 2002 based on the HBS. For comparison, it also presents incidence of public spending based on the 2000 LSMS and reported in the 2001 Kosovo Poverty Assessment. As already mentioned, it is not possible to deduce enrollment rates for secondary and higher education with the 2002 HBS, and thus the incidence of spending figures can be conducted only for basic education. The results show that a fairly equal distribution of public funds allocated to basic education across poor and non-poor

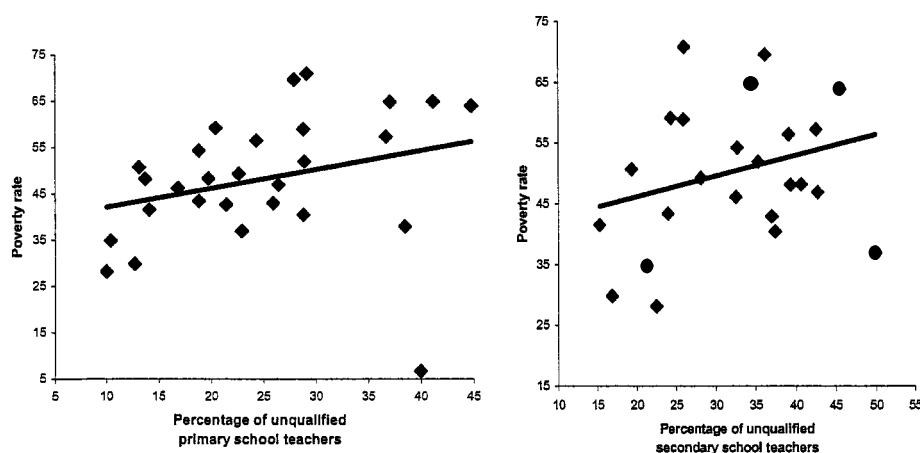
households which is largely due to relatively high enrollment rates in basic education even for children coming from poor households. Yet, it is impossible to know from these aggregate data whether schools attended by poor and non-poor children receive similar amount of public funds per child.

Table 36: Poverty Incidence of Public Spending on Basic Education, 2002 (percent of households)

	Household Consumption Quintiles				
	1 (poorest)	2	3	4	5 (richest)
2002 (HBS)					
Basic education (9 years)	18.0	17.4	20.9	22.3	21.3
2000 (LSMS)					
Basic education (9 years)	19.7	21.8	21.2	18.8	18.4
Secondary	13.5	18.1	22.4	18.5	27.6
Higher	16.8	19.7	20.9	19.5	23.0

5.37 Equity concerns with the quality of education emerge from the HDIS data that show that not only there are a large numbers of teachers whose level of qualification is inadequate in Kosovo, but that there are a disproportionately large percentage of under-qualified teachers in municipalities where the incidence of poverty is larger (Figure 10). Thus, these disparities between poorer and richer municipalities would mean that *de facto* a higher share of poor children is at risk of being trained by less-qualified teachers and may receive lower-quality education services.

Figure 10: Percentage of Teachers in Primary and Secondary Schools with Inadequate Qualification by Poverty at the Municipality Level



Source: 2003 HDIS and the Education in Kosovo 2000/01, Kosovo Education Center.

5.38 *With respect to access to social assistance, Serb households and households with more than four children appear disadvantaged for reasons that remain to be explained.* Targeting effectiveness can also be examined from an equity perspective. Table 37 looks at the distribution of social assistance among poor and very poor households by ethnicity, gender of household head, and number of children in a household - characteristics that usually show strong correlation with poverty.

5.39 From the point of view of ethnicity, non-Albanian and non-Serb “other” ethnic groups display higher poverty incidence, and the share of such poor and extremely poor families receiving a social assistance benefit exceeds the national average. Likewise, the share of poor and extremely poor Albanian families receiving social assistance benefits is above average. The Serbs, on the other hand, appear to be particularly disadvantaged, with only 5 percent of poor Serbs and 4 percent of extremely poor Serbs receiving a social assistance benefit. It would be important to examine more closely the reasons for this remarkable difference in targeting of social assistance.

Table 37: Social Assistance and Individuals Characteristics of Recipients Among the Poor and Extreme Poor (percent of households)

	Share of Poor Receiving SA	Share of Extremely Poor Rec. SA
All	15.7	21.5
Albanian	16.3	22.4
Serb	5.0	3.9
Other	16.4	25.4
Female-headed households	20.2	24.1
Households with no children	10.9	18.9
1-2 children	16.7	24.6
3-4 children	20.5	26.2
5 and more children	10.2	11.9

Source: HBS 2002/2003

5.40 The social assistance benefit appears to be relatively well targeted at poor and extremely poor female-headed households. The share of poor and extremely poor female-headed households receiving social assistance is 4.5 and 2.6 percentage points higher than the national average, respectively.

5.41 A higher than average share of poor and extremely poor households with up to four children receive social assistance benefits, and targeting improves as the number of children in the household increases. However, when the number of children exceeds four, the share of poor and extremely poor families receiving social assistance benefits drops significantly below the national average. Again, it would be useful to examine why targeting declines with regard to families with over four children.

6. POLICY DIRECTIONS

6.1 The previous chapters have sought to contribute to the on-going poverty dialogue in Kosovo. The statistical and institutional capacity for poverty monitoring and analysis was reviewed in Chapter 2. An assessment of the multidimensional nature of poverty, the profile of the income poor, and the poverty linkages were conducted in Chapter 3. An analysis of social cohesion was provided in Chapter 4. The pro-poor potential of public service delivery was reviewed in Chapter 5. The findings show that the lack of opportunities, security and participation in decision-making are major aspects of poverty in Kosovo. Income poverty is found to disproportionately affect children, the elderly, female-headed households, the disabled, non-Serb ethnic minorities, the unemployed, and precarious jobholders. Besides income poverty, there are also large disparities in economic and social well being by location, gender, age, and ethnicity. Finally, flaws in the provision of public social services are identified in the area of sufficiency, effectiveness and equity, and may contribute to the reduction of the pro-poor potential of public service delivery.

6.2 The aim of this final chapter is to turn some of the previous findings into options for public actions. This chapter does not attempt to provide a comprehensive strategy for poverty reduction. Rather, it tries to be selective by supporting the formulation and prioritization of selected policy options with the understanding that these would still have to be decided by the Kosovars themselves, and consistently articulated with a broader Kosovo Development Plan, behind which donor assistance will be aligned. A major conclusion of this chapter is that policy makers would need to think of developing a multi-pronged strategy reflecting the various dimensions of poverty and the need for more robust evidence on the nature and the changes of poverty over time. To be realistic, this multi-pronged strategy would need to take into account the context of tight fiscal constraints in which public programs need to be developed. As such a strategy is developed, it would be necessary to ensure that it is properly costed and affordable. This would require proper prioritization and an appropriate sequencing of the proposed reforms and interventions. Growth-enhancing and efficiency reforms should be at the center of this poverty reduction strategy. This would make the State more effective and provide additional fiscal space for public interventions. Finally, it is important to recognize that in Kosovo, the prospects for growth and poverty reduction will crucially depend not just on domestic policies but also on decisions made by the international community. Kosovo still needs the support of the international community to address the numerous poverty challenges ahead. This support is likely to become more effective if embedded within the framework of a Kosovo Development Plan.

A. PROMOTING INCOME OPPORTUNITIES

6.3 *Kosovo faces an important poverty challenge in the coming years, requiring a strong commitment by national policymakers to implement a policy program that sustains and accelerates broad-based growth.* International evidence indicates that domestic policies are crucial for sustaining growth and generating income opportunities. These include prudent macroeconomic and fiscal management, policies that allow a stable and predictable environment for private sector activity, and measures that contribute to social stability.

6.4 *Working toward the clarification of Kosovo's political status is crucial for sustaining growth and generating income opportunities.* The 2004 World Bank Kosovo

Economic Memorandum indicates that the recent growth performance has been driven by a post-conflict boom financed by official development aids flows and it is unlikely to be sustainable without a clarification of Kosovo's political status and the maintenance of peace and security. Considering that the resolution of Kosovo's political status is pending upon the respect of a set of "Standards for Kosovo", the priority for policymakers should be to implement measures that will speed up the progress toward the achievement of these standards. Measures should include implementing a policy program that supports the establishment of political and institutional stability and the rule of law, and that promotes a favorable environment for private sector led growth, as spelled out in the 2004 KEM.

6.5 ***Making growth more labor friendly is equally important.*** The quality of growth matters. The links between economic growth and the creation of decent jobs need to be significantly enhanced. So far, Kosovo has experienced what is often called a "jobless" recovery – growth with little job creation - despite a very unregulated labor market and low payroll taxes. International evidence suggests that facilitating competition in product and financial markets, supporting the development of small and medium size enterprises, and supporting exports may altogether play an important role in generating employment. In Kosovo, a sound legal framework for free-market has already been put in place, the business environment for domestic firms is favorable, and the Kosovo Micro Credit Bank plays an important role in capitalizing small businesses. Yet, prospects for future reduction in poverty will crucially depend on the implementation of reforms and policies that will make Kosovo more attractive to FDI and will promote agricultural competitiveness.

6.6 ***Enhancing social cohesion is essential to sustain economic growth and make growth pro-poor.*** This report further illustrates through micro-simulations that growth with equity matters for poverty reduction. Large socio-economic inequality across location, gender, ethnicity, and age, along with the existence of parallel systems for the provision of social services to Serb enclaves need to be addressed by policy makers as they can contribute to discontent and political unrest and ultimately threaten the sustainability of growth. Excessive socio-economic disparities may also reduce and even compromise the impact of growth on poverty reduction. A more equitable growth could have a multiplier effect on poverty reduction. To enhance social cohesion, policymakers would need to address these inequities and work toward a unified social protection system.

6.7 ***The prospects for growth and poverty reduction will crucially depend not just on domestic policies but also on decisions made by the international community.*** Sound domestic policies are crucial for sustaining growth and attacking poverty, but it is equally important to acknowledge that, in the short-term, the prospects for growth and poverty reduction in Kosovo will still be heavily influenced by the level of donor assistance, the clarification by the international community of Kosovo's political status as well as trade and regional stability. An important concern is that delays in the settlement of Kosovo's status combined with a rapid decline in donor assistance are likely to have severe adverse social and economic repercussions on the population of Kosovo.

B. RAISING HEALTH AND EDUCATION ABILITIES

6.8 ***Reconciling a prudent macroeconomic and fiscal management framework with the protection of essential investments in human capital is a challenge that needs to be addressed.*** The prospects of an increase in health and education abilities over the next years will depend upon promoting essential productive investments in human capital. The financial support of the international community is essential, as Kosovo remains in great need of investments in health and education as well as in basic infrastructure services such as water supply, sanitation and waste management which have important implications for social outcomes. Given the level of uncertainty regarding donor assistance, it is important for

national policy makers to undertake the costing of key pro-poor public policies in health and education, establish priorities, and identify which interventions will be financed from own resources and can be fiscally sustainable, and which ones would need donor assistance. This costing and prioritization exercise could be developed within the framework of a Kosovo Development Plan developed by ESPIG.

6.9 ***Improving the efficiency and equity of public health expenditures.*** While overall public expenditures on health are low in relation to neighboring countries and domestic needs, fiscal constraints may limit the scope for immediate increase. This makes it even more important for the Government to focus on improving the efficiency of public expenditure so as to generate savings that can be reinvested to improve the overall effectiveness and equity of the system. While the forthcoming World Bank Public Expenditure Review will carefully examine issues of efficiency and fiscal sustainability of public spending, this report argues that efficiency and equity gains can be realized essentially through a more rational use of drugs, the reduction of informal payments, private sector regulation, and a better balance between medical and nonmedical personnel.

6.10 ***Improving the quality and access by the poor to education.*** To break down the vicious cycle of poverty, and avoid reinforcing the disadvantages that poor children already face, policymakers should aim at reducing the disparities between municipalities in the number of teachers with inappropriate qualification. Additionally, it would be important to expand the coverage of pre-school education by transferring some teachers to pre-school level and to rationalize the proportion of qualified and less qualified teachers at different levels of education consistent with desirable and affordable pupil/teacher ratios. Finally, while access to primary schools is almost universal, distance to secondary schools emerges as a major barrier to education in rural areas, especially for girls, and it would require particular attention.

C. REDUCING VULNERABILITY

6.11 ***Reducing environmental risks through continuous efforts on the rehabilitation of basic infrastructure services and the enforcement of environmental safeguards.*** The focus of policymakers should be on: (i) improving access to safe drinking water, through maintenance, protection and disinfection of sources of water systems and wells, and knowledge of other hygienic and preventive behaviors; (ii) improving sanitation conditions, by improving the handling of wastewater and encouraging hygienic behavior; (iii) improving waste management, particularly hazardous waste; and (iv) strengthening institutional capacity for environmental management, especially to reduce illegal logging and building, and for ensuring stronger compliance with housing security codes that are intended to mitigate the impact of seismological shocks in a region where the risk of earthquakes is rated as relatively high. At the same time, policies and incentives should be developed to ensure that economic growth is environmentally responsible.

6.12 ***Supporting conflict prevention.*** An important conclusion of this report is that inter-ethnic tensions between Albanians and Serbs cannot be explained by socio-economic disparities. Yet, ethnic tensions remain high and need to be addressed by policymakers in a comprehensive manner. While it is crucial to continue with the reconstruction efforts undertaken since the 1999 conflict, and repair the damaged of the March 2004 riots, it is equally urgent to take measures to prevent further conflicts. Kosovo has already put in place pluralist institutions that support minority rights and provide the institutional basis for peaceful conflict resolution. Yet, additional measures may need to be considered, in particular efforts to get different ethnic groups – especially among children and youth - to interact with each other, and supporting the role that women often play in many peace keeping and reconstruction efforts.

6.13 *Adjusting the nascent social assistance system so as to improve the coverage of the extreme poor.* Given the cash limit in Kosovo, policymakers may wish to rethink the objective of the public social assistance program, aiming it at the extremely poor, with the purpose of raising their living standards at least to the food poverty line, while leaving the situation of the “non-extreme poor” to be tackled through family-based safety nets and the overall growth strategy. With gains in targeting efficiency and improved equity, extreme poverty could be eliminated at no additional costs. An extremely poor individual would need an average of 84 euros per year to reach the food poverty line. Assuming perfect targeting, the cost of a social assistance program designed to eliminate extreme poverty would be around 25 million euros, or 1.9 percent of GDP (2003). With a more realistic assumption of a 25 percent leakage, the cost of social assistance would rise to 31 million euros, or 2.3 percent of GDP. In 2003, Kosovo allocated some 32 million euros for the social assistance program, or 2.5 percent of GDP in that year. Today, the possibilities of identifying very poor households are much improved since the social assistance benefit was originally introduced. Recent household budget surveys should allow strong poverty correlates to be established, and improvements underway in the administration of the benefit should gradually allow continuous field-level adjustment of criteria to improve targeting.

6.14 *Designing preventive measures to protect individuals with the highest risk of becoming unemployed.* The evidence shows that joblessness is disproportionately concentrated among the unskilled and first-job seekers, and thus indicates the importance of designing preventive measures to reduce the risk of becoming unemployed among these groups. An aggressive program needs to be implemented that will raise the skills and education of the population and establish mechanisms to facilitate the transition from school to work.

6.15 *Considering the introduction of mitigation mechanisms for individuals that are likely to lose their jobs as the result of enterprise restructuring.* A realistic social protection strategy for Kosovo will need to acknowledge that current budget resources may be too limited for strengthening substantially the labor market aspects of the safety net (e. g. unemployment benefits, active labor market programs). Reducing vulnerability to income poverty among the unemployed would need to be addressed primarily through a better-targeted social assistance benefit. Yet, the employment impact of enterprise restructuring and privatization may soon increase the demand for active labor market measures, increase political pressure, and require a stronger engagement of policymakers. International experience shows that while several active labor market programs have failed to improve significantly the employment prospects of the unemployed, some integrated and well targeted programs have been successful. One option that policymakers could consider is to introduce training programs targeted to workers affected by enterprise restructuring. To be cost-effective, these programs would need to be connected with well-identified labor market needs and targeted to individuals that are neither too young nor too old.

D. PROMOTING EMPOWERMENT

6.16 *There is an urgent need to improve the level of knowledge of youth reproductive health, HIV/AIDS, other STIs, and safe sex practices.* The Government and many NGOs have made many efforts in trying to increase the knowledge about HIV/AIDS and other sexually transmitted infections among youth. Yet, the evidence brought in this report suggests that the level of knowledge of youth remains very low and that youth still experience difficulties to access quality information about safe sex practices. This should be a major concern for policymakers given that Kosovo faces a high risk for a rapid spread of HIV/AIDS. Policymakers can do a lot by supporting awareness campaigns on HIV prevention targeted to the youth and led by the youth, and influencing public debate to reverse the social

stigma associated with HIV/AIDS. Other issues to be addressed include: (i) supporting voluntary counseling and testing services; (ii) easing access of the HIV/STI services among high risk groups; and (iii) increasing capacities for provision of the HAART and CD4 count and viral load monitoring for the PLWHA.

6.17 ***Increasing awareness on environmental issues is equally urgent, especially in environmental hot spots.*** Despite the importance of the problem, public opinion polls reveal that people in Kosovo still show a very low concern about environmental depletion and the need to preserve public spaces from environmental degradation. Educational programs and awareness campaigns are critical to provide people in general, and the poor in particular, with effective means to cope with, or mitigate environmental risks and increase their income, health and personal security. Policymakers should thus consider implementing a program of environmental awareness all over the territory, with a specific focus on Mitrovica and Prishtina regions, where major industrial polluters are concentrated.

6.18 ***Promoting women's influence in the economic, social and political life is essential to enhancing the status of women in Kosovo and reducing gender inequity.*** This report has shown that not only women in Kosovo are disadvantaged in terms of lower education achievements, high maternal mortality, worse labor market outcomes, and a greater exposure to domestic violence and human trafficking, but also that despite increased representation in formal state institutions, their effective involvement in decision making remains at stake. A legal framework already exists at both elected and non-elected government that promote gender equity, but other direct public measures may need to be considered to raise women's empowerment, including: (i) using public resources to subsidize girl's education and/or tightening links between social assistance and school attendance; (ii) supporting microfinance schemes for women; and (iii) working toward a better representation of women in government leadership positions.

6.19 ***Supporting youth voices.*** Policymakers would need to: (i) encourage the development of youth policies in collaboration with national and local youth organizations; (ii) establish consultative groups with youth organizations on issues that affect youth; and (iii) support youth servicing NGOs, especially in the area of political right, health counseling, and business skills development.

E. SUPPORTING AN EVIDENCE-BASED DIALOGUE ON POVERTY

6.20 ***What is needed is to ensure that the poverty dialogue becomes more constructive and contributes to the mainstreaming of poverty issues into government policy?*** The PISG and UNMIK established in May 2003 the Economic Strategy and Project Identification Group (ESPIG) with the objective of developing the PISG's capacity to formulate a comprehensive economic strategy and plan future investments. Despite its inter-ministerial setting, ESPIG does not have, at the moment, a representation of the social sector ministries and does not have a specific focus on poverty reduction. As Kosovo gradually embarks on the process of building a Kosovo Development Plan, ways of strengthening the poverty focus within such a plan will need to be explored. Policymakers could support: (i) the inclusion of social ministries in ESPIG; and (ii) the set-up of consultative groups to give civil society groups a great voice in the development of the NDP.

6.21 ***Improving the statistical infrastructure is further essential in establishing a poverty dialogue based on robust evidence. In the first place, this requires conducting a population census.*** To maintain and improve upon the quality of the sampling frame methodology utilized in the household survey program, it is crucial to conduct a population census. This would allow: (i) obtaining a current population estimate of individuals and households; and (ii) refining the sampling frame of both primary sampling units (PSUs) and household units in

any new surveys. In addition, it is recommended that when publishing its poverty estimates, SOK starts reporting standard errors that account for the stratified sampling design effect (the most recent version of SPSS incorporates new features that facilitate the computation of corrected standard errors)

6.22 *Important knowledge gaps on key socio-economic outcomes and their distribution across different population groups need to be filled-in within SOK's current survey program.* To improve the capacity for poverty monitoring, SOK may consider: (i) improving in the LFS the coverage of the informal sector and adjust timing to reflect agricultural employment activities; (ii) monitoring more precisely in the HBS key non-income dimensions of poverty; and (iii) disaggregating in published statistics all relevant indicators by gender, ethnicity, age categories, rural/urban location, and income groups.

6.23 *A decision needs to be taken as to the overall approach for monitoring poverty with the household statistics system.* There are different approaches that can be taken to improve the capacity of poverty monitoring with SOK household statistics system: (i) an LSMS-type survey, which would offer in-depth coverage of important socioeconomic indicators, but may not be sustainable in the long run given the financial and human resources necessary to operate such a survey; and (ii) an HBS format that incorporates rotating modules to explore critical indicators in-depth while maintaining core questions that are repeated in each survey round.

6.24 *Introducing a core HBS survey with rotating modules may offer a holistic approach to monitoring multi-dimensional aspects of poverty that is inherently more sustainable.* An improved HBS format as discussed in Box 2 with rotating modules may be preferable to the LSMS-type option for sustainability reasons.

6.25 *The monitoring of critical socio-economic outcomes requires unfettered access to household survey data among government ministries and the policy community.* Affording access to non-identifiable household-level data among government ministries and other policy makers is essential to promote transparency in poverty analysis, ease data analysis and improve the production of statistical data. To ensure access, SOK may need to establish a data program.

6.26 *Creating a data user group can also stimulate the production of relevant and timely socio-economic data.* A data user group may be created, in the spirit of the Data Users Groups implemented by DfID in Bosnia Herzegovina, which could include line ministries, policy makers, the international donor community, and academia. Such a group would create real demand for statistical data and eventually financial and technical support for SOK in developing and analyzing the data. Without communication and attachment to data users, SOK could risk producing irrelevant or inadequate data about its population. Data users can articulate needs and provide continual feedback about the type, amount, and quality of the prevailing data. The involvement of the international donor community in data user groups may also invite the possibility of financial support for the development of key modules within a rotating module survey. However, the singular interest of a particular donor or policy maker should not completely determine the type of data collected and analyzed within a particular module. Rather, it should serve as an input into the decision-making process.

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ANNEX: DESIRABLE AND MEASURABLE LIST OF POVERTY INDICATORS

Table 38: Multidimensional Objective Poverty Indicators Within the Life cycle Approach

Dimensions of poverty	Indicators						Pension age
	Non-age specific	Pre-natal/Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood		
<u>Opportunities</u> <u>Income poverty</u>	<ul style="list-style-type: none"> • Household poverty headcount • Poverty gap • Severity of poverty • Gini Index 	<ul style="list-style-type: none"> • Individual poverty headcount 	<ul style="list-style-type: none"> • Individual poverty headcount 	<ul style="list-style-type: none"> • Individual poverty headcount • Average wage 	<ul style="list-style-type: none"> • Individual poverty headcount • Average wage 		<ul style="list-style-type: none"> • Individual poverty headcount • Average pension level
<u>Employment</u>	<ul style="list-style-type: none"> • Unemployment rate • Employment rate • Share of women in wage employment 			<ul style="list-style-type: none"> • Youth strict unemployment rate (all, gender, ethnicity) • Youth ILO relaxed unemployment rate (all, gender, location, ethnicity) • % of inactive youth not in education nor training (all, gender, location, ethnicity) 	<ul style="list-style-type: none"> • ILO strict unemployment rate (all, gender, location, ethnicity) • ILO relaxed unemployment rate (all, gender, location, ethnicity) • Long term unemployment share 		
<u>Access to productive assets and credits</u>	<ul style="list-style-type: none"> • % of rural HH without land • % of rural HH without machinery • % of rural HH without livestock • % of HH without basic durables (refrigerators, television,...) • % of commercial bank loans obtained by females 						

Table 38: Continued

Dimensions of poverty	Indicators					Pension age
	Non-age specific	Pre-natal/Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood	
Education, literacy and life-long learning	<ul style="list-style-type: none"> % of HH head with primary education or less 	<ul style="list-style-type: none"> <i>Pre-school enrollment rates (3-6)</i> 	<ul style="list-style-type: none"> Primary enrollment rate (6-14) (all, gender, location, ethnicity) Ratio of girls to boys in primary Irregular school attendance (missed 1 or more month last academic year -all, gender, location, ethnicity) 	<ul style="list-style-type: none"> General secondary enrolments (all, gender, location, ethnicity) Ratio of girls to boys in secondary Ratio of girls to boys in tertiary Vocational /technical secondary enrolments (all, gender, location, ethnicity) Irregular school attendance (all, gender, location, ethnicity) Higher education enrolments % of students enrolled in mathematics and computer science courses (all, gender) 	<ul style="list-style-type: none"> Adult literacy rates % of adults with primary education or less <i>[% of adults undertaking training activities]</i> 	

Table 38: Continued

Dimensions of poverty		Indicators				
	Non-age specific	Pre-natal/Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood	Pension age
Health						
Early pregnancy						
Maternal health						
Mortality	<ul style="list-style-type: none"> Female life expectancy at birth Male life expectancy at birth 	<ul style="list-style-type: none"> Maternal mortality % of birth attended by skilled personnel Neonatal mortality rate Infant mortality rate Under-5 mortality rate Maternal mortality rate 		<ul style="list-style-type: none"> Share of non-marital birth to mothers under age 20 Adolescent birth rate 		
Morbidity	<ul style="list-style-type: none"> Tuberculosis incidence Individuals registered with HIV Incidence of STDs Self-perceived health status Contraceptive prevalence rate HIV prevalence among the high risk groups (IDU, CSW, MSM) 	<ul style="list-style-type: none"> Low weight birth Low height Immunization rate (DTP+Polio) Children HIV infections through mother-to-child transmission 	<ul style="list-style-type: none"> Incidence of work-related diseases and injuries among child workers age under 15 	<ul style="list-style-type: none"> Incidence of work-related diseases and injuries among the employed Incidence of STDs Incidence of HIV/AIDS Incidence of HIV/AIDS among 15-24 year of pregnant women 	<ul style="list-style-type: none"> Incidence of work-related diseases and injuries among the employed Incidence of STDs Incidence of HIV/AIDS 	

Table 38: Continued

Dimensions of poverty	Indicators				
	Non-age specific	Pre-natal/Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood
<p><u>Security</u></p> <p><u>Environmental vulnerability</u></p> <ul style="list-style-type: none"> • % of HH with secured (owned) tenure • % of HH with major damaged houses • % of HH with access to improved sanitation: <ul style="list-style-type: none"> i. Connection to the sewage system or availability of a septic can ii. Available in-house flush toilet iii. Protected outside pit latrine • % of HH with access to improved source of water: <ul style="list-style-type: none"> i. <i>Available regular connection to the Central Pipeline Pipe Water</i> ii. <i>Public standpipe</i> iii. <i>Protected well</i> iv. Protected spring • % of HH with access to solid waste collection • % of HH with garbage dumped/buried/burned • % of HH who depend directly on natural resources for their livelihood • % of HH using solid fuels (wood, coal) • Proportion of Land area covered by forests • National protected area (percent of total land area) • Number of endangered species • Uncontrolled logging • GDP per unit of energy use (US\$/Kgoe) • CO2 t per capita • Level of lead and other heavy metals (in air, soil and foodstuff) • Ambient concentration of pollutants in urban areas • Level of other toxic gasses in the air • Rate of illegal building growing 					

Table 38: Continued
Indicators

Dimensions of poverty	Non-age specific	Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood	Pension age
<u>Income insecurity</u>	<ul style="list-style-type: none"> • % of HH with only one employed working age member • % of extreme poor HH not receiving public social assistance (location, ethnicity) • % of extreme poor HH not receiving private transfers 		<ul style="list-style-type: none"> • % of children living in workless households among working age age headed HH 	<ul style="list-style-type: none"> • % of youth living in workless households among working age headed HH 	<ul style="list-style-type: none"> • % of adults living in workless HH among working age headed HH • % of adults with no health insurance 	<ul style="list-style-type: none"> • % of age > 65 not receiving a public pension (gender, location, ethnicity)
<u>Isolation</u>	<ul style="list-style-type: none"> • Single headed households 	<ul style="list-style-type: none"> • <i>Rate of young children 0-5 in residential care</i> 	<ul style="list-style-type: none"> • <i>Rate of children 6-14 in residential care</i> 	<ul style="list-style-type: none"> • <i>Rate of youth 15-17 in residential care</i> 		<ul style="list-style-type: none"> • % of age > 65 living alone
<u>Risk of exploitation or worst forms of labor</u>			<ul style="list-style-type: none"> • Incidence of child labor (age 10-15) 	<ul style="list-style-type: none"> • % of wage employed with no written contract 	<ul style="list-style-type: none"> • % of wage employed with no contract 	<ul style="list-style-type: none"> • % of age > 65 working
<u>Exposure to risky behaviors and physical violence</u>	<ul style="list-style-type: none"> • Domestic violence against women • Registered total crime rate 		<ul style="list-style-type: none"> • Reported cases of child abuse 			
<u>Political uncertainty</u>	<ul style="list-style-type: none"> • Number of years passed without any final decision as regards Kosovo political status 			<ul style="list-style-type: none"> • <i>Practice of unsafe sex</i> • <i>Substance abuse</i> • <i>Prostitution</i> • <i>Human trafficking (gender)</i> • Registered juvenile crime rate 		

Table 38: Continued

Dimensions of poverty	Indicators					
	Non-age specific	Early childhood (0-5)	School years (6-14)	Adolescence and youth 15-24	Adulthood	Pension age
Empowerment						
Workers' representation				<ul style="list-style-type: none"> • % of youth employees enrolled in trade union or other professional association 	<ul style="list-style-type: none"> • % of employees enrolled in trade union or other professional association 	
Access to information				<ul style="list-style-type: none"> • % of youth with comprehensive correct knowledge of HIV/AIDS • % of youth with comprehensive correct knowledge of other SDTs 	<ul style="list-style-type: none"> • % of adults with comprehensive correct knowledge of HIV/AIDS • % of adults with comprehensive correct knowledge of other SDTs 	
Accountability	<ul style="list-style-type: none"> • Public expenditures on education • Public expenditures on health • <i>Public expenditures on youth policies</i> • Out-of-pocket/informal expenditures in health care among those who incur health expenses • Out-of-pocket/informal expenditures in education • Trust in the institutions and local governments • Satisfaction with basic public services 			<ul style="list-style-type: none"> • Trust in the institutions and local governments • Satisfaction with basic public services 	<ul style="list-style-type: none"> • Trust in the institutions and local governments • Satisfaction with basic services 	<ul style="list-style-type: none"> • Trust in the institutions and local governments • Satisfaction with basic services

Table 39: Non-age Specific Quantitative Multidimensional Poverty Indicators

	2000	2001	2002	2003
Opportunities				
<u>Income poverty</u>				
Household poverty headcount			36.3 ^b	na
Individual poverty headcount	50.3 ^a		37.0 ^b	47.7 ^h
Ind Poverty gap	15.7 ^a		11.3 ^b	16.5 ^h
Ind Severity of poverty	6.8 ^a		4.8 ^b	8.1 ^h
Ind Consumption Gini index	0.284 ^a		.301 ^b	.359 ^h
<u>Access to productive assets and credits</u>				
% of rural HH without land			10.4 ^b	Na
% of rural HH without a car			48.8 ^b	Na
% of rural HH without livestock			44.6 ^b	Na
% of rural HH without machinery			Na	Na
% of HH without basic durables (refrigerators, television,...)			Na	Na
% of commercial bank loans obtained by females by the Micro-Enterprise, Private Business Bank and KSB		5.9 ^p	Na	Na
<u>Employment</u>				
Unemployment rate	12.1 ^a	41.2 ¹	47.2 ¹	44.4 ¹
Employment rate	40.9 ^a	19.6 ¹	21.8 ¹	Na
Share of women in wage employment	25.6 ^a	8.1 ^j	8.4 ^j	Na
Labour Force Participation Rate (LFPR)	46.5 ^a	33.4 ¹	41.3 ¹	52.5 ¹
<u>Education</u>				
% of HH head with primary education or less			53 ⁱ	
<u>Health</u>				
Incidence of work-related injuries				
Female life expectancy at birth				67-71 ^j
Male life expectancy at birth				63-67 ^j
Tuberculosis incidence (100.000)			128 ^k	
Individuals registered with HIV			47 ^l	
Incidence of STDs (100.000)			36 ^k	
Contraceptive Prevalence Rate (Modern CPR)				35% (14.5%) ^j

Table 39: Continued

	2000	2001	2002	2003
Security				
<u>Environmental vulnerability</u>				
% of HH with secured (owned) tenure	1.6 ^a		98.6 ^b	
% of HH with more than 3 persons per room (crowding indicator)			24.8 ^b	
% of HH with major damaged houses				
% of HH with access to improved sanitation:				
iv. Connection to the sewage system or availability of a septic can				
v. Available in-house flush toilet	49 ^a		61.4 ^b	
vi. Protected outside pit latrine				
% of HH with access to improved source of water:	1.4		67.9 ^b	
iv. Available regular connection to the Central Pipeline Pipe Water			i. 54.1 ii. 10.9	
v. Public standpipe			iv. 3	
vi. Protected well				
% of HH with access to solid waste collection			10 ^b	
% of HH with garbage dumped/buried/burned	62.8 ^a		62.5 ^b	
% of HH who depend directly on natural resources for their livelihood				
% of HH using solid fuels (wood, coal)			94.9 ^b	
Proportion of Land area covered by forests				42.1 ^d
National protected area (percent of total land area)			4.27 ^e	
Number of endangered species				
Uncontrolled logging				28.6 ^d
GDP per unit of energy use (US\$/Kgoe)				
CO2 t per capita			5.5 ^g	
Level of lead and other heavy metals (in air, soil and foodstuff)				
Ambient concentration of pollutants in urban areas				
Level of other toxic gasses in the air				
Rate of illegal building growing				
Income insecurity				
% of HH with only one employed working age member				
% of extreme poor HH not receiving public social assistance				
% of extreme poor HH not receiving private transfers			82.2	
<u>Isolation</u>				
% of female headed households			4.7 ^b	

Table 39: Continued

	2000	2001	2002	2003
<u>Exposure to physical violence</u>				
Incidence of domestic violence against women	1886 ^P	2425 ^P	1485 ^P	2268 ^P
Registered total number of crimes ^o	2194	1695	1807	
of which:				
Murder ^o	245	136	68	
Attempted murder ^o	275	225	144	
Attempted kidnapping ^o	108	91	64	
Rape and attempted rape ^o	115	133	114	
Greivous assaults ^o	226	288	463	
Robbery ^o	490	440	365	
Arson ^o	523	218	477	
Looting ^o	22	6	6	
Political uncertainty				
Number of years passed without final decision on political status	1	2	3	4

Source: ^a Living Standard Measurement Survey (LSMS); ^b Household Budget Survey (HBS); ^d FAO, 2003; ^e UNECE, 2002; ^f World Conservation Union (IUCN) Red List of Threatened Plant, UNECE 2002 ^g Estimates from EIA conducted in 2002 (EAR, 2003); ^h Human Development Indicators Survey (HDIS); ⁱ Labor Force Survey (LFS), ^j Demographic and Health Survey (DHS); ^k NIPHK, ^l Ministry of Health (MoH); ^m Statistical Office of Kosovo (SOK); ⁿ Kosovo Early Warning Report (KEWR); ^o UNMIK police reports; ^p cases reported to Centre for Protection of Women and Children, 2000-2003

Table 40: Poverty Indicators Within the Life Cycle: Opportunities

	Pre-natal/Early childhood (0-5)				School years (6-14)				Adolescence and youth (15-24)				Adulthood (25-64)				Pension age (>65)			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Income poverty																				
Individual poverty headcount ^a			41.4				39.3				35.8			34.7					41.5	
Individual extreme poverty headcount ^a			17.3				16.9				15.8			13.3					17.1	
Average wage (Euros) ^a														249						
Average pension (Euros) ^a																			40	
Employment																				
Strict ILO unemployment rate ^b									24.8	72.3	74.2		12.1	41.2	47.2	44.4				
Relaxed ILO unemployment rate									33.3 ^o											
Not in employment and not in education/training									46.0 ^o											
Education																				
Pre-school enrollment rates (3-6)																				
Primary enrolment rate (6-14)					91.7 ^e		90.5 ^{aa}	95.4 ^d												
Rate of children completing compulsory education						73 ^e														
Ratio of girls to boys in primary						0.92 ⁱ	0.92 ⁱ													
General secondary enrolments					59.5 ^e			75.2 ^d												
Ratio of girls to boys in secondary						0.72 ⁱ	0.79 ⁱ													
Girls reaching grade 9						58.1 ⁱ														
Higher education enrolments									17.3 ^c				19.8 ^d							
Ratio of girls to boys in tertiary										0.79 ⁱ	0.82 ⁱ									
% of adults with primary education or less																		43.7 ^d		
Adult illiteracy rate (age15+)																		5.8 ^d		
Health																				
Neonatal mortality rate ^a	14.8	14.5	12.6																	
Infant mortality rate	35 ⁱ		49 ^h	25-35 ⁱ																
Under-5 mortality rate		35-40.5 ^j	69 ^h																	
Maternal mortality rate														23 ^k	21 ^l					
Antenatal care (%) ^m															95					
Birth care (%) ^m															95					
Low birth weight																				
Low height for age (%)			10 ^k																	
Immunization rate ^a (measles)			67	99																

Source: ^aHBS; ^bLFS; ILO unemployment rate for adulthood refers to age 15-64; ^cDemographic and Socio-economic reproductive survey; ^dHuman Development Indicators Survey; ^eSOK/MEST/UNICEF Gender review; ^fSOK; ^gper thousand live births, early neonatal mortality rate (first week) from UNICEF Survey on prenatal care; ^hDHS; ⁱWorld Bank estimates; ^jRIINVEST; ^kUNICEF estimates; ^lKosovo Obstetrician and Gynaecology Association; ^mwomen 15 to 49 years attended by skilled health personnel at delivery, based on UNICEF-MNSS; ⁿat 1 year, based on NIPHK estimates; ^oLSMS.

Table 41: Poverty Indicators Within the Life Cycle: Security

	Pre-natal/Early childhood (0-5)				School years (6-14)				Adolescence and youth (15-24)				Adulthood (25-64)				Pension age (>65)			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Income insecurity																				
% of people living in HH with head with less than primary education ^a			25.8				20.4				17.4				21.0					43.8
% of people living in HH with head with primary education only ^a			31.1				26.1				36.1				31.3					22.9
% of people living in HH with unemployed head ^a			10.8				11.5				10.6				10.5					5.0
% of employed with temporary contracts															8.7 ^b					
% of age>65 not receiving a public pension																				6.0 ^a
Isolation																				
% of age>65 living alone																				2.8 ^a
Risk of exploitation or worst forms of labor																				
Incidence of child labor (age 10-14)							4.5 ^c													
% of wage employed with no written contract																				30.2 ^b

Source: ^aHBS; ^bLFS; ^cLSMS.

Table 42: Poverty Indicators Within the Life Cycle: Empowerment

	Pre-natal/Early childhood (0-5)				School years (6-14)				Adolescence and youth (15-24)				Adulthood (25-64)				Pension age (>65)			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Access to information																				
% of young people who know where to be tested for HIV												31.4 ^a								
Accountability																				
% of population satisfied with Govt. performance ^b															74.1	68.5				

Source: ^aPSI/KAP Survey, as reported in the UNICEF "Youth in Kosovo" report; ^bKosovo Early Warning Reports.

