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Labor Market and Gender

Republic of Kosovo

Javier Kapsoli and Sabiha Mohona

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Prepared by Javier Kapsoli and Sabiha Mohona

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ABSTRACT: Kosovo's female labor force participation ranks among the lowest globally, resulting in a substantial gender participation gap. This paper examines the drivers of this phenomenon and estimates the potential economic gains from eliminating this disparity. Additionally, it introduces a framework using non-parametric methods to estimate the gender wage gap in Kosovo's labor market.

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REPUBLIC OF KOSOVO

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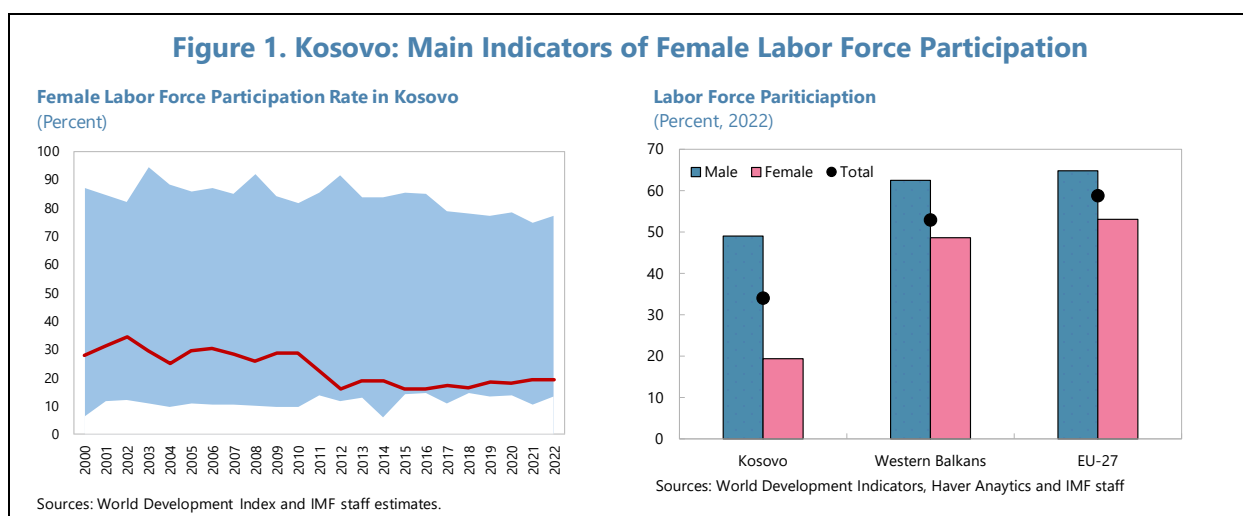
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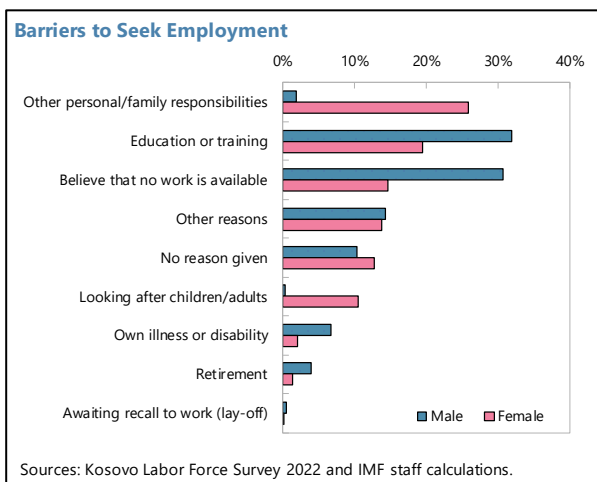
LABOR MARKET AND GENDER¹

A. Introduction

1. A striking characteristic of the labor market in Kosovo is the extremely low level of women’s participation. Using comparable data, Kosovo, with a female labor force participation (FLFP) rate below 20 percent, has the fifth lowest FLFP in the world, and lowest in Europe. Such a level of FLFP is an outlier compared to the Western Balkans region (45 percent) and the EU-27 average (55 percent), resulting in a gender gap of about 30 percentage points relative to the male participation rate in the labor force. Note that the FLFP has also declined since 2012 when it was about 30 percent.



2. Family responsibilities and the perception of lack of job opportunities contribute to the low FLFP.² According to the labor survey, the main reason for women’s inactivity is family responsibilities, particularly childcare. High and persistent female unemployment has led to a large incidence of discouraged female workers. While education and training are additional reasons for not participating in the workforce, this is less pronounced for women compared to men highlighting that women are disproportionately affected by family obligations. In the labor survey, another factor for women not to look for employment is because they “believe



¹ Prepared by Javier Kapsoli and Sabiha Mohona. The authors would like to thank the participants at a workshop in Pristina for useful comments and suggestions.

² Gashi, Rizvanolli, and Adnett (2019) explore in detail the reasons behind the low level of FLFP in Kosovo.

that no work is available.” Kosovo has one of the youngest populations in Europe with an average age of 30½ years. In general, younger populations tend to have lower activity rates. Social norms and stereotypical gender roles can also play a role.³ The presence of a gender wage gap could also discourage women from participating in the labor market (116).

3. Over time, aging and migration will take a toll on long-term growth and welfare.

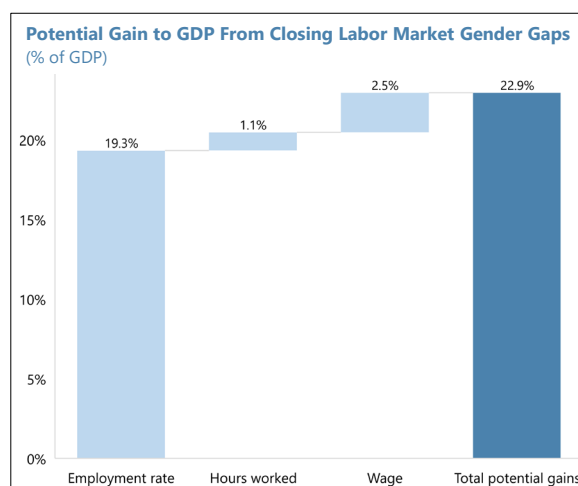
Currently, Kosovo still enjoys a demographic bonus because of its young population, but this will be eroded by large emigration and declining fertility rates.⁴ These trends will reduce the working-age population, thereby lowering long-term growth. The combination of informality and aging will cause increasing long-term pressures on the budget and private resources, weakening both wealth and welfare.

B. Growth Dividends from Integrating Women into the Labor Force

4. **Increasing the participation of women in the labor force can counteract the adverse demographic trends and deliver a substantial growth dividend.** If Kosovo reaches the average FLFP of the Western Balkans, an additional 180 thousand women could be incorporated to the labor force. To estimate the impact of reducing gender gaps in the GDP, we use the IMF’s Equity Gain model, where the following equation is computed:

$$y_L = \sum_{ij} (P_j a_j) m_{ij} h_{ij} \omega_{ij}$$

where i represents occupations (economic sectors) and j is (female, male). y_L is the contribution to GDP, $P_j a_j$ is the working age population by gender, m_{ij} is the gender share on each occupation, h_{ij} is hours worked by gender and occupation, and ω_{ij} is hourly earnings by gender and occupation.⁵ This equation produces a counterfactual scenario where each a_j , m_{ij} , h_{ij} , and ω_{ij} is sequentially substituted for its corresponding male benchmarks to compute the gain of eliminating each gap. The model estimates an overall gain of 22.9 percent in GDP that can be decomposed as follows: i) 19.3 percent from closing the employment gap, ii) 1.1 percent from eliminating the working hours gap, and iii) 2.5 percent from reducing the wage gap.



³ Democracy for Development Institute (2017) conducted an *ad hoc* survey to study the issue of low FLFP and found that one of the main reasons of discrimination against women in the labor market is a patriarchal mindset.

⁴ The fertility rate went down from 2¾ children per woman in 2000 to 1½ in 2022.

⁵ The Equity Gain model is an adaptation of the methodology proposed by Buckman and others (2021).

C. Gender Wage Gap

5. A gender wage gap is observed in the labor market. For Kosovo, previous attempts to quantify the gender wage gap used the Blinder-Oaxaca (BO) decomposition (Blinder 1973; Oaxaca 1973). The BO method consists of estimating two Mincerian equations: $\omega_{ij} = X'_{ij}\beta_j + u_{ij}$ where $j =$ male, female, ω_{ij} are wages and X_{ij} is a vector of endowments. After estimation, the averages can be expressed as:

$$\bar{\omega}_m - \bar{\omega}_f = [\bar{X}'_m - \bar{X}'_f]\hat{\beta}_m + \bar{X}'_f[\hat{\beta}_m - \hat{\beta}_f]$$

where the first term in the right-hand side (RHS) is called the characteristics effect, describing how much of the difference in wages is explained by the difference in levels in the components of the endowment vector (e.g., education, experience, age). The second term is called the coefficients effect, describing how much the difference in wages is due to differences in the magnitude of the coefficients. The latter is interpreted as discrimination against women. Note that the term $\bar{X}'_f\hat{\beta}_m$ represents the counterfactual wage for women if they were paid as men. Studies by the Kosovo Agency for Gender Equality (2020a) and Gashi and Adnett (2020) applied BO to the 2017 Labor Force and Time Survey.⁶ Both built models using monthly wages and specific human capital endowments and found a gender wage gap of about 14 percent. Gashi and Adnett additionally estimated the gap at 6 percent using hourly wages.⁷

6. The BO decomposition has limitations. There are two issues with the BO method. First, any parametric method requires a series of assumptions that are not always valid: distribution of the errors, functional form, etc. In contrast, non-parametric methods are flexible and do not require assuming a predetermined structure or assumption. Second, BO assumes that there is enough common support between the empirical distributions of individual characteristics for females and males. Often in gender studies, it is not possible to find comparable individuals with common characteristics. This problem of lack of common support will be more pronounced when job characteristics are included in the model. For example, we may not find a young male working in a nursing care home or in a childcare institution. As BO fails to account for this problem, they are implicitly assuming validity outside the sample with common support (out-of-support assumption).

7. The gender wage gap can also be estimated using matching, a nonparametric method. Nopo (2008) proposed using matching as a tool to decompose wage gaps. Matching is a nonparametric method (no need to estimate Mincerian equations) where the contrafactual mean wage is computed only for the common support (no out-of-support assumption is needed). The method applies the following decomposition:⁸

⁶ This is an *ad hoc* survey commissioned by the Millenium Challenge Corporation (MCC) which has more detailed information compared to the regular labor survey conducted by the Kosovo Agency of Statistics (KAS).

⁷ Wage per hour is the preferred variable, as women tend to work in activities marked by longer hours, often in the informal economy with no overtime payment (e.g., cleaning, nursing, childcare).

⁸ See Djurdjevic and Radyakin (2007) for a detailed derivation of this equation.

$$E(\omega|m) - E(\omega|f) = [E_S(\omega|m) - E_S(\omega|f)] + p_{\bar{S}|m}[E_{\bar{S}}(\omega|m) - E_{\bar{S}}(\omega|m)] + p_{\bar{S}|f}[E_{\bar{S}}(\omega|f) - E_{\bar{S}}(\omega|f)]$$

where S represents the common support, \bar{S} represents out of the common support, and $p_{\bar{S}|x}$ is the probability of the set \bar{S} under the distribution of x (male or female). The first term in the RHS is the difference in wages between males and females in the common support only. The second term is the difference in men wages in and out the support while the third term is the difference in women wages in and out the support. Similar to BO, it is assumed that the differences in wages between males and females in the common support can be divided in a part explained by endowments (Δ_x) and a residual (Δ_o) which measures discrimination. Therefore, a final presentation will be:

$$\Delta = \Delta_x + \Delta_o + \Delta_m + \Delta_f$$

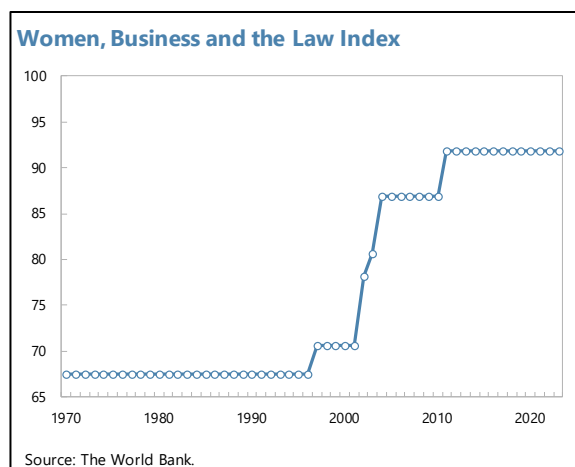
8. Using matching, we obtained a wage gender gap higher than previously estimated. We used the 2022 Labor Force Survey and a model where wage per hour (in logs) is explained by experience, education, and economic sector (NACE 2-digits). We found a wage gap of 10.7 percent, which means that after controlling for the endowments over the common sample and accounting for the impact of unmatched individual's wages, there still exists a relevant unexplained portion of the difference between men and women wages implying discrimination. This number compares to the 6 percent previously found by Gashi and Adnett (16) indicating that the gender wage gap could have been underestimated. Note that Δ_x is positive, which means that the part of wages explained by endowments is positive in favor of women. This could be related to the lower FLFP, indicating that only the best-qualified women are participating in the labor market.

Table 1. Kosovo: Results of the Economic Analysis					
Sample Matching Results				Matching Decomposition	
	Matched	Unmatched	Total	Average wage	
Male	608	98	706	€2.293	Δ -0.0226
Female	260	15	275	€2.243	Δ_x 0.0850
Total	868	113	981	€2.279	Δ_o -0.1079
Source: IMF staff estimations					Δ_m -0.0069
					Δ_f 0.0072
					Source: IMF staff estimations

D. Conclusions

9. The legal framework against discrimination is strong but implementation remains weak. Kosovo has various laws that formally protect and promote equal treatment of women and men. It scores 91.9 out of 100 in the 2023 World Bank's Women, Business, and the Law (WBL) index

showing an increasing trend over time.⁹ There is also a policy document of the Government of Kosovo, which sets forth the goals, measures, and main actors bearing the responsibility to integrate gender.¹⁰ However, there remains a significant gap between legislation and implementation. This has been further supported by the World Bank's 2024 report on women and the law, which highlights that "Kosovo has the largest difference between the expert opinions score and the legal frameworks score in the region."¹¹



10. Several policies to increase the FLFP can be implemented. Across different countries, some policies have proven effective in increasing FLFP and could be applied in Kosovo.

- *Increasing access to affordable and accessible childcare and parental leave.* World Bank (2015) found that women are discriminated in the labor market because of the cost of maternity leave which is one of the longest in the world (12 months of which 9 months are paid). A reform option could be combining maternity and paternity leaves with some financing from the budget as proposed by Dobranja (2022).
- *Expanding educational opportunities for women.* Developing targeted programs and training to support women re-enter job market after long-term unemployment and to support female entrepreneurs would be important policies. Employment training should be aligned with market demands by emphasizing skills that employers require or anticipate, ensuring that training and work experience correspond to current and future job opportunities (Democracy for Development Institute 2017).
- *Introducing gender budgeting practices*¹². Since 2015, gender budgeting has been mandatory in Kosovo (Law on Gender Equality). However, implementation has been weak as it is challenging to implement gender-responsive budgeting without performance-based budgeting (Public Expenditure and Financial Accountability Gender Responsive Public Financial Management Assessment Report 2022).
- *Providing better work-life balance policies.*¹³ Practices like teleworking could be more widely implemented.

⁹ The WBL index assesses how laws and regulations impact women's economic opportunities across various areas, including mobility, workplace, pay, marriage, parenthood, entrepreneurship, assets, and pension.

¹⁰ Kosovo Agency for Gender Equality (2020b).

¹¹ World Bank (2024).

¹² Gender budgeting, also called Gender Responsive Budget, is an approach to budgeting that uses fiscal policy (taxes and expenditures) to promote gender equality, and girls' and women's development (Stotsky 2016).

¹³ Mentioned by participants in a workshop in Pristina.

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