

EURASIAN JOURNAL OF ECONOMICS AND FINANCE

www.eurasianpublications.com

PUBLIC-PRIVATE WAGE GAP: THE EFFORT OF THE PRIVATE SECTOR TO ATTRACT, MOTIVATE AND RETAIN QUALIFIED STAFF IN KOSOVO

Ajtene Avdullahi

University of Mitrovica, Kosovo
Email: ajtene.avdullahi@umib.net

Qazim Tmava

Corresponding author: University of Mitrovica, Kosovo
Email: qazim.tmava@umib.net

Abstract

This paper contributes to the understanding of the wages gap from a transition economy. The paper aims to provide an extensive overview of the recent research on the public-private wage gap in Kosovo for the period 2012-2016 and to explore its effect on labor market efficiency and some macroeconomic indicators. As other countries that went through the transition phase, the public-sector wages at the beginning of transition phase were lower compared to the private sector in Kosovo, later this gap shifts in the advantage of the public sector at the maturity stages of transition in Kosovo thus making the public sector the desirable employer. Therefore, recruitment, retention and motivation of highly qualified human resources nowadays represent the toughest challenge for the private sector. Hence, this paper provides the employer's efforts in the private sector to attract and retain highly professional staff in Kosovo.

Keywords: Wage Gap, Public Sector, Private Sector, Unemployment, Employment

JEL Classifications: J31, J45, E24, E26

1. Introduction

The gap between the public and private wages presents a significant concern in different economies worldwide. Numerous studies and research have explored in this area in developed countries, developing countries as well as those in transition. We found sufficient earlier literature concerning the public-private sector wage comparisons. The U.S. literature is vibrant, for instance, Smith (1976, 1981), Quinn (1979), Bellante and Long (1981) have studied public sector wage premia using various public sector and compensation definitions. By estimating the size of the public-sector wage premium in Canada, Mueller (1998) found that public sector rent payments tend to be highest for federal government employees, females, and individuals at the lower tail of the wage distribution in Canada. We found that some of the literature focused on estimating the rate of return of education as an investment in human capital and the benefits of that investment, (Krueger, 1968; Haveman and Wolfe, 1984; Jacob, 1974, Psacharopoulos, 1985; Boissiere *et al.* 1985). We found evidence in the literature from the developing countries (Nielsen and Rosholm, 2001) and from the transition economies (Adamchik and Bedi, 2000; Falaris, 2004) that tried to

explore whether the efficiency of public sector labor markets considering that the public sector mainly comprises a significant part of the wage employment in developing countries (Tansel, 2005). The wage difference between the sectors was for a long time an ongoing debate in many economies worldwide. In the Western Balkan countries, the wage gap between the public and private sector are relatively under-investigated (Vladisavljevic *et al.* 2017). Although this gap was evident in Kosovo labor market, it has not been addressed sufficiently and is not raised as a concerning issue. It might be the consequence of the absence of the useful reporting data, but mainly it is due to the collapsed employment and wage system that can be traced back to the declining economic performance, military actions in 1999 since war hit Kosovo. According to Hethy (2000), the absence of official data on Kosovo is consequence of several interacting factors, including discriminatory legislation and hiring practices of the Federal Republic of Yugoslavia during the 1990s whereas the adoption of the FYR's Labor Act for Extraordinary Circumstances resulted in the dismissal of 145,000 Kosovo Albanians from civil administration, public services, and economic enterprises.

The studies on public-private sector wages gap for the Western Balkans countries are scarce. A study by Shehaj *et al.* (2015) based on the data extracted from the Kosovan Household Budget Survey Database (HBS), 2011 and the Albanian Living Standard Measurement Survey (LSMS), 2012 investigates the public-private wage differences and compares them for at least two countries in the Western Balkans. Another paper by Vladisavljevic *et al.* (2017) investigates wage differences between the public and private sectors in six Western Balkan countries based on the available macro-level data and results from micro-level research. This paper found that the average wages in the public sector in all Western Balkan countries are higher than the wages in the private sector, but also that the high-skilled workers work more frequently in the public sector, therefore partially or fully "justifying" the wage differences. According to EC (2014), the wage setting in the public sector often includes political decisions. Nikolic *et al.* (2014) analyze how public and private sectors in two emerging market economies, Croatia and Serbia between 2008 and 2011, responded to the crisis and how this altered the wage gap in those countries.

Prior studies have explored the private-public wages gap in developed and developing countries, as well as those in transition, but in our knowledge, the combination of the private-public wage gap and the efforts of the private sector employers to retain and motivate highly skilled and qualified staff in transition economies remained a gap in existing literature. Therefore, this paper aims to bridge this gap by providing an extensive overview of the current research on the public-private wage differences in Kosovo for the period 2012-2016, its effect on labor market efficiency and some macroeconomic indicators. Besides, this paper investigates the employer's efforts in the private sector to attract and retain highly professional staff.

For our research purpose, we will use the data from Kosovo Agency of Statistics (KAS) concerning the level of the average wage for the Public Sector, the Private Sector and the Public-Enterprises Sector in Kosovo.

2. Public–Private Wages Gap in Kosovo

Employees in public sector have higher average wages than workers in private sector in many European countries (EC, 2014). According to Lausev (2014), the wages in public sector were significantly lower than in the private sector at the beginning of the transition. Given that Kosovo, as well as other Western Balkan countries, has gone through a similar path, public sector wages at the beginning of transition phase were lower compared to the private sector. In particular, foreign-owned private companies have been a desirable employer for the labor market, such as commercial banks, insurance companies, pension funds, telecommunications companies and microfinance institutions. This sector provided not only wage benefits but also non-wage benefits such as health insurance, life insurance, training, numerous opportunities to advance in career, professional travelling, experience exchange, capacity building as well as networking.

Later on, the maturity stages of economic transition, the public-private wages gap disappears (Lausev, 2014), and some countries at the end of the transition premium public sector become positive, indicating a convergence between trends in developed countries and countries in transition (Vladisavljevic and Jovancevic, (2016). Similar to other countries that went through

the transition phase, the public-private wage gap shifts in the advantage of the public sector at the maturity stages of transition in Kosovo.

3. Wages in Kosovo Labor Market

Wages are one of the most important indicators to assess purchasing power, while other factors (different payment costs as well as market prices) affect the living standard of the population of that country/region.

3.1. The Average Gross and Net Wages in Kosovo

Table 1 presents the KAS data for the gross and net average wage according to sectors, for the period 2012-2016. As can be seen from the table below in 2012, the average gross salary in Kosovo was 431 Euros, while in 2016, it was 519 Euro, an increase of 88 Euros or 20.42% was recorded. While the net salary of € 384, as it was in 2012, increased to € 457 in 2016, with € 74 more or 19.17%.

Table 1. The gross and net average salary, 2012-2016

Year	Average salary		Public sector (CKB ¹)		Private sector		Public enterprises	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2012	431	384	407	353	367	333	518	456
2013	444	393	415	356	367	333	549	491
2014	482	430	465	408	358	326	624	556
2015	510	451	511	441	367	333	651	578
2016	519	457	525	449	371	337	660	586

Note: ¹Consolidated Kosovo Budget.

Source: Kosovo Agency of Statistics (KAS, 2017)

According to Table 1, the highest wages in Kosovo were in the sector of public enterprises, whereas the lowest wages were the private sector (KAS, 2017). According to Depalo *et al.* (2015), the public-sector wage setting can have a significant effect on labor market efficiency and macroeconomic outcomes. The fact that the public sector offers higher wages, longer-term contracts than the private sector induces the jobseekers to prefer working in the public sector rather than in the private sector. Hence, the government may absorb the highly skilled workers by offering higher remuneration to its employees compared to the private sector; thus, the private sector employment would be crowded out unless wages increase (Shehaj *et al.* 2015).

3.2. The Average Euro Salary in the Region

Kosovo is facing similar challenges as many other countries in the region on their path of transforming from a centrally planned economy to a market economy. Therefore, we are presenting the sample that was taken from KAS for the year 2016, aiming to estimate the level of Kosovo's average wage, with the wages of nine (9) countries in the region: Albania, Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Bulgaria, Romania and Moldova. The sources of data are the National Agencies / National Institutes of Statistics of the respective countries.

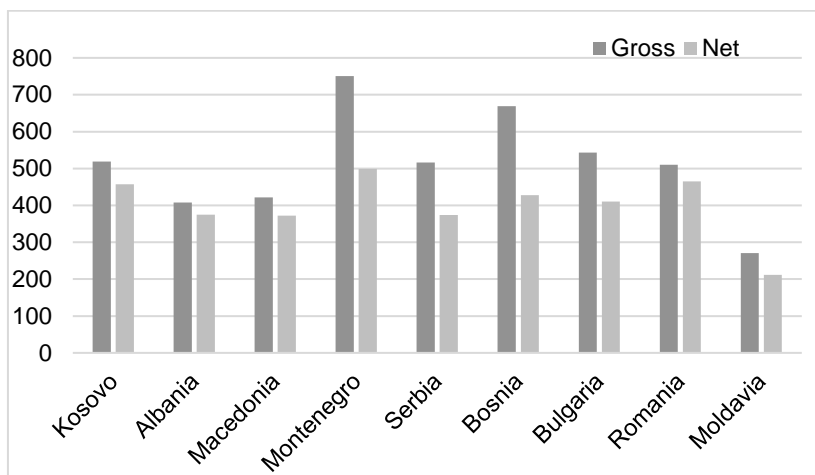


Figure 1. The average euro salary in Kosovo and the countries of the region 2016
 Source: Kosovo Agency of Statistics (KAS, 2017)

As seen in Figure 1, countries from the sample have different levels of the average wage. The average gross salary varies from country to country, whereas the net is roughly the same.

We can assume that the differences in the rankings of gross and net wage sites might be the amount/level that these countries pay for different taxes as well as for health insurance. The fact that Kosovo does not pay the taxes on health insurance yet enabled the country to be ranked the third in the net wage, behind Montenegro and Romania. Whereas comparing to the gross wage, out of nine countries, of the sample, Kosovo is standing in the fourth place behind Montenegro, Bulgaria and Romania (KAS, 2017).

3.3. The Average Gross Salary in Kosovo

According to Kosovo Agency of Statistics (KAS, 2017) report on wages, the public enterprises are offering the highest wages in Kosovo. As seen in Figure 2, in 2012, in public enterprises, the average gross salary was 518 Euros, while in 2016 increased to 660 Euros. An increase was recorded in the public sector, whereas in 2012, the average of the gross salary was 407 Euros and in 2016, the average salary reached 525 Euros. In the private sector, the situation differs. This sector had the lowest average gross salary in 2012 of 367 Euros, and during this period, an insufficient increase was recorded.

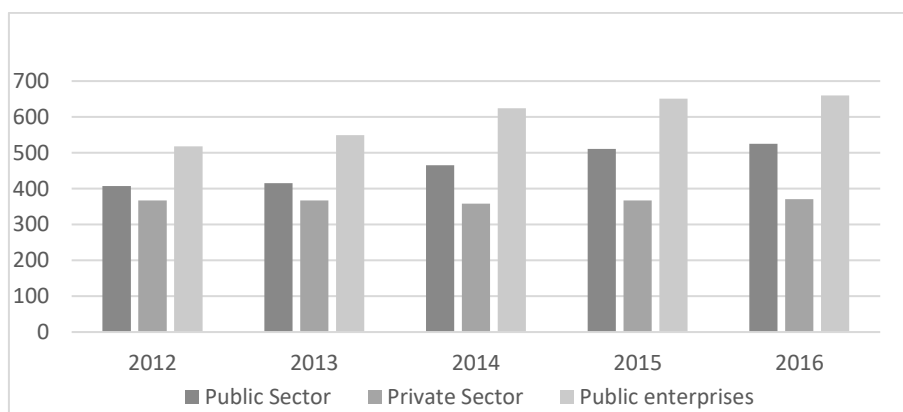


Figure 2. The average gross salary per sector, 2012-2016
 Source: Kosovo Agency of Statistics (KAS, 2017)

3.4. The Average Net Salary in Kosovo

Also, Figure 3 provides information on average net salary in Kosovo according to the KAS data on years. In public enterprises, the average net wage in 2012 reached 465 Euros, while in 2016, it reached 586 Euros. The public sector, in 2012, had an average net salary of 353 Euros and in 2016, the net average wage reached 449 Euros. The private sector, in 2012, had an average net salary of 333 Euro, while in 2016 it had an average salary of 337 Euros. Based on these data, it can be concluded that not all sectors had a significant increase in salaries over the years. In the public sector, the gross salary for the period 2012-2016 increased by 118 euros. In the private sector, there was only an increase of 4 Euros, within the period from 367 to 371 Euros. The highest growth of salaries in Kosovo was in public enterprises; in 2016, there was an increase of 142 Euro more than in 2012. Growth also occurred on the net salaries of this sector.

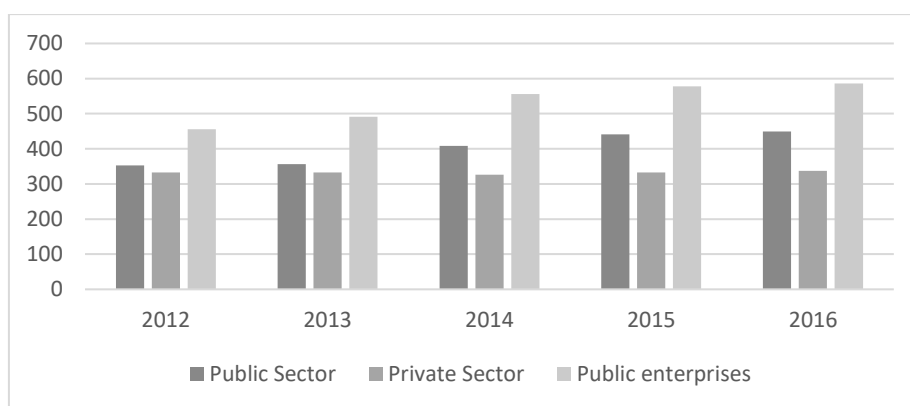


Figure 3. The average net salary per sector, 2012-2016

Source: Kosovo Agency of Statistics (KAS, 2017)

3.5. Minimum Wages in Kosovo

According to ILO (1999), minimum wage defines the minimum amount of compensation that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract. This broad definition of “wages” is spelled out in Article 1 of the ILO Protection of Wages Convention, 1949 (No. 95): “...the term wages means remuneration or earnings, however designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement or by national laws or regulations, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person for work done or to be done or for services rendered or to be rendered”.

Following this definition, in more than 90 percent of the International Labour Organization’s (ILO) Member State exist minimum wages. The lack of minimum wage assignment jeopardized the well-being of all nations around the world, as well as weakened them economically and reduced their purchasing power. Therefore, the idea to set a limit of payment as the minimum wage was appreciated among workers worldwide, since ‘the purpose of minimum wages is to protect workers against unduly low pay’ (ILO, 1999). According to ILO (1999), minimum wages help ensure a just and equitable share of the fruits of progress to all, and a minimum living wage to all who are employed and in need of such protection. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women.

The minimum wage must be sufficient so that the employee can secure the well-being of his worker and his family. It defines the lowest legal wage, usually regulated by state laws. It varies depending on the country to the country, and many countries range between 20-50% of

the average salary. In Kosovo, currently, the minimum wage is categorized at 130 Euros for employees up to the age of 35 and 170 Euros for employees over the age of 35. (KAS, 2017).

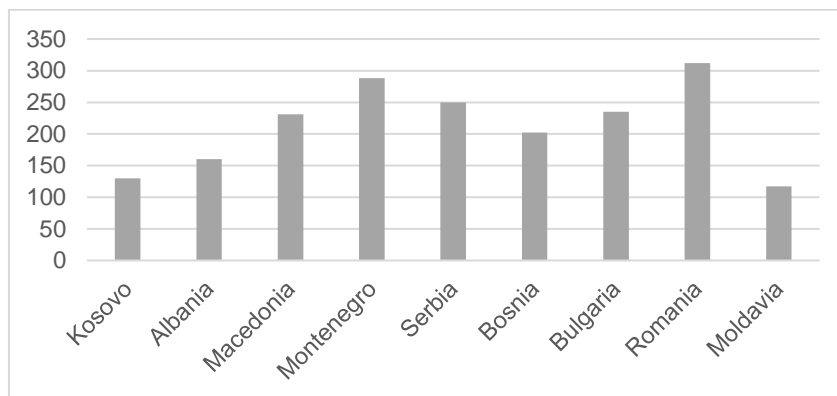


Figure 4. The minimum wages in Kosovo and the countries of the region, 2016

Source: Kosovo Agency of Statistics (KAS, 2017)

As seen in Figure 4, compared to the minimum wages, out of nine countries, of the sample, only Moldavia has the lower minimum wages than Kosovo. The rest of the countries in the region have higher minimum wages than Kosovo, while Romania has the highest minimum wage compared to other countries (KAS, 2017).

3.6. The Effectiveness of Minimum Wages

The minimum wages in most of the countries are not adjusted and usually are too low that cannot ensure the well-being of workers since it cannot cover the necessary living expenses of the workers and their families. Minimum wages should be efficiently set to cover all costs. Figure 5 illustrates that the effectiveness of minimum wages relies on various factors. These factors mainly consist of the extent to which they provide equal protection to all workers including women, youth and migrant workers, an employment relationship, regardless of their contractual arrangements, as well as all industries and occupations in the economy (coverage); whether they are set and adjusted at an adequate level that covers the everyday needs of workers and their families, while taking into account economic factors (level); and whether employers comply with minimum wage regulations (compliance) (ILO, 1999).

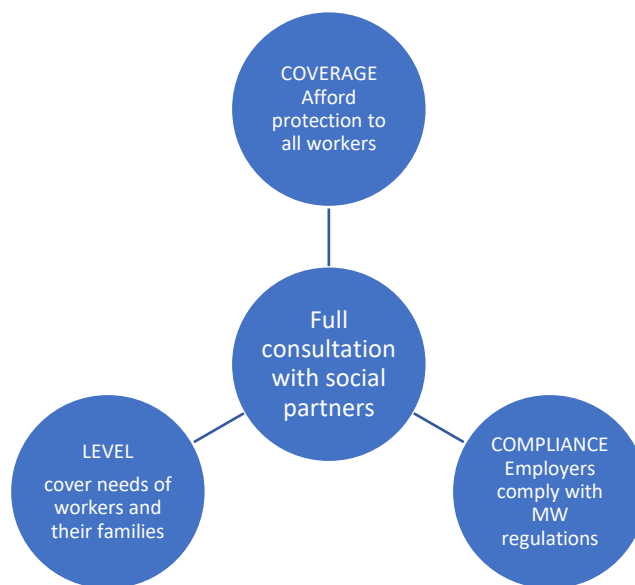


Figure 5. Main dimensions of effective minimum wages
Source: ILO (2016)

4. Some Macroeconomic Indicators of Kosovo’s Economy

Kosovo is among the poorest countries in Europe, even though it has a young population, the average age of the population is 30.2 years (KAS, 2017). The paper aims to investigate the pay gap in public and private sectors and compare whether key macroeconomic indicators in Kosovo might have an impact on wages gap. In this regard, we will investigate the key macroeconomic indicators as well as the wage interrelation with the following indicators: GDP annual real rate growth, inflation rate, and some key labor market indicators in Kosovo such as employment rate. In particular, this paper investigates the unemployment rate that presents one of the main problems of Kosovo's economy.

4.1. GDP Annual Rate Growth in Kosovo

While Kosovo’s GDP growth has remained positive over the last number of years, it continues to be driven primarily by remittances, public investments and donor assistance (UNDP, 2016). Also, Kosovo had the lowest GDP per capita in the region (WB, 1999)

Based on the data presented in Figure 6, GDP growth over the years 2012-2015 has always been positive with an average of 2.98 percent, with the lowest growth rate of 1.2 percent in 2014 and the highest growth rate of 4.1 percent in 2015.

Compared with salary growth, we can conclude that public sector wages have experienced a faster growth trend compared to the GDP growth average. According to Shehaj *et al.* (2015) and IMF (2016), wages in the public sector have almost tripled in nominal terms and grown three times faster than nominal GDP. Therefore, the public sector is overcrowded with staff, affecting the performance of the public sector and particularly its efficiency.

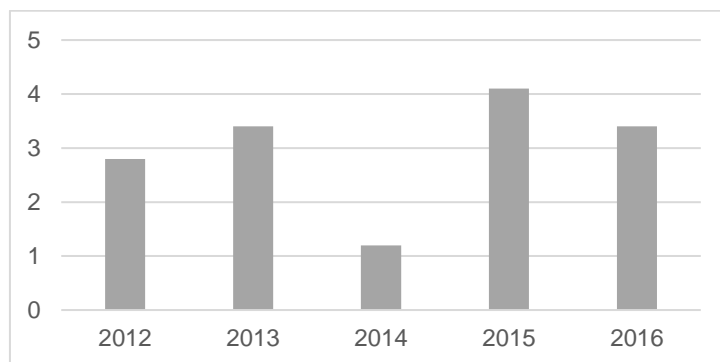


Figure 6. GDP annual real growth rate in Kosovo, 2012-2016
 Source: Kosovo Agency of Statistics (KAS, 2017)

4.2. Inflation in Kosovo

The increase of wages in public sector has influenced and contributed toward the increase of the overall average wage in Kosovo, affecting both by increasing the prices and the inflation trend in Kosovo for the period 2012-2016 slightly. As seen in Figure 7, in this period, the average inflation rate was 0.888 percent with a variation between 2.492 percent in 2012 and -0.539 in 2015. In 2015, Kosovo's economy was characterized by a price decline in the first nine months of 2015. According to CBRK (2016), the leading contribution to the general level of price decline in Kosovo during this period was marked by the price decline of transport services, which is primarily attributed to the decline of oil prices. Although the average inflation rate was 0.888 percent for the period 2012-2016, the public sector experienced the wage growth that increased by 28.95 percent in gross salaries, respectively 27.09 percent on net salaries. Public enterprises wage growth for this period was 27.41 percent in gross wages and 26.02 percent in net wages. Private sector wages increased very slightly, whereas it was recorded an increase from 1.09 percent in gross wages and 1.20 percent in net wages, in absolute terms wages in private sector grew by only 4 euros.

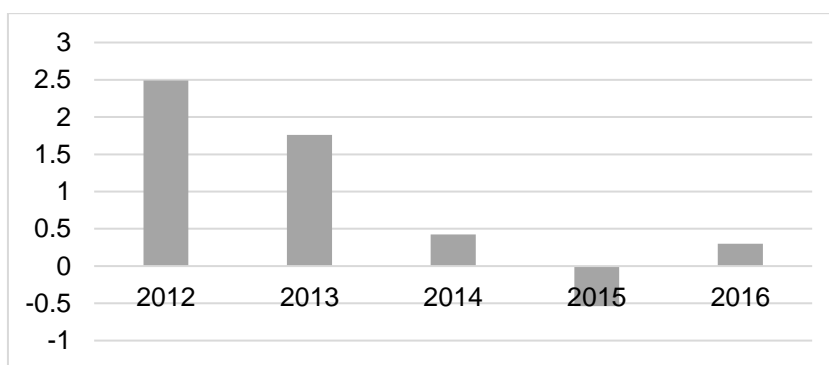


Figure 7. Inflation rate, consumer price by years, 2012-2016
 Source: Kosovo Agency of Statistics (KAS, 2017)

4.3. Key Labor Market Indicators in Kosovo

The population of Kosovo is the youngest in Europe, and around 20,000 young women and man enter the labor market every year in Kosovo (UNDP, 2016). Looking for a job and the employment approach in Kosovo is similar to the countries in the region but differs when compared to developed countries. According to UNDP (2016), around 81 percent of Kosovans believe that family connections, bribery, party alliance and other non-merit factors are the best way to get a job in public sector – the primary source that young people seek employment. As seen in Table 2, the employment rate in Kosovo varies from 25.2 to 28.4 over the period 2012-2016.

Employment in the public sector in Kosovo accounts for around 30 percent of total employment; however, the figure represented might be lower due to the existence of private sector in education and health (KAS, 2017). Although the public sector remains preferred sector, nepotism and mobbing are significant challenges of employment in public sector in Kosovo (IC & CJ, 2014).

Table 2. Key labor market indicators in Kosovo, 2012-2016

Indicator	Years				
	2012	2013	2014	2015	2016
Employment to population ratio (employment rate)	25.5	28.4	26.9	25.2	28
Inactivity rate	63.1	59.5	58.4	62.4	61.3
Labor Force participation rate	36.9	40.5	41.6	37.6	38.7
Unemployment rate	30.9	30	35.3	32.9	27.5
Youth unemployment rate (15-24 years)	55.3	55.9	61	57.7	52.4

Source: Kosovo Agency of Statistics (KAS, 2017)

According to KAS data in Table 2, the inactivity rate in Kosovo remains the highest among Western Balkans countries and varies from 58.4 percent in 2014 up to 63.1 percent in 2012. Figure 8 presents the unemployment rate in Kosovo over 2012-2016. Unemployment presents the major problem in Kosovo, whereas it remains the highest rate in the region. According to KAS (2017), the unemployment rate in Kosovo averaged 41.49 percent from 2001 until 2016, reaching an all-time high of 57 percent in 2001 and the record low of 27.5 percent in 2016.

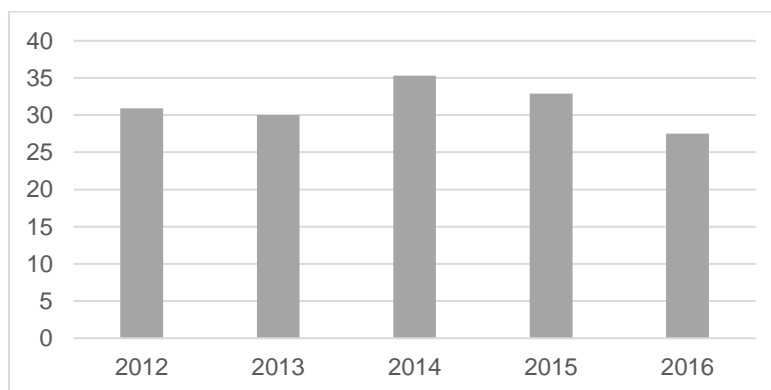


Figure 8. Unemployment rate in Kosovo, 2012-2016

Source: Kosovo Agency of Statistics (KAS, 2017)

The highest unemployment rate among youth population (15-24 years) is the most distressful problem of Kosovo’s government, considering that this rate was permanently higher than 50 percent all over 2012-2016 (Table 2), and its consequences are both economic and social, whereas the social consequences are even higher. Kosovo has a young population, and the opportunities for employment and career development in Kosovo are scarce. Therefore, in search of a better life and better living conditions, as well as adequate working opportunities, waves of immigrants, mainly young population, fled Kosovo and headed to the EU’s developed countries. Mainly, it was evident in early 2015 when the exodus with around 50,000 people left Kosovo and headed to Serbia, then walked into Hungary and continued to other EU countries.

5. Highly Qualified Human Resources - A Challenge for the Private Sector in Kosovo

Wage difference between the sectors represent one of the components of the country's overall wage inequality; efficiency implications can be found on both micro and macro level (Vladisavljevic *et al.* 2017). On the macro level, high public-sector wages have implications on

GDP growth and the overall economic efficiency (EC, 2014), as well as on the external competitive position of the country, especially in the case of small open economies (Djukic, 2009; Vladislavljevic *et al.* 2017). From the micro perspective, unequal wages of workers in public and private sectors can cause distortions on the labor market, especially if one takes into account that the public-sector job often carries a higher degree of job security and work benefits (EC, 2014). Moreover, vice versa, significantly higher wages in the private sector may lead to low favorability of the public-sector employment and cause the low quality of the public-sector services (Giordano *et al.* 2011). Therefore, recruitment, retention and motivation of highly qualified human resources nowadays represent the toughest challenge for the private sector in particular.

5.1. Wages with Additional Components – A Kind of Common Solution

Given the unfavorable business environment in Kosovo, the general increase in salaries from the private sector aiming to attract qualified staff remains difficult to achieve. Therefore, the private sector and especially those companies with foreign capital such as banks, telecommunications companies, insurance companies tend to increase salaries based on meritocracy and especially on the performance. In this way, they tend to improve the performance of their staff as well as the performance of their enterprise by setting targets and measuring the achieved performance and simultaneously increasing enterprises efficiency and profitability. This increase of salaries is usually made by adding some components to the total wages such as basic pay, annual bonuses, tips, in-kind benefits, productivity and performance pay, allowances and premiums for non-standard work hours or dangerous work (ILO, 2016). Many private companies are adopting this practice successfully for many years. The adaption of these payments is more evident in the private sector with foreign capital, whereas only a few private companies with local capital are practicing to pay other components rather than basic payment, and mainly by including just some of those benefits.

5.2. Payment-in-Kind

Payment-in-kind is non-cash remuneration received by an employee for work performed, that can include: food, drink, fuel, clothing, footwear, free or subsidized housing or transport, electricity, car parking, nurseries or creches, low or zero-interest loans or subsidized mortgages (ILO, 1952). Other forms of benefits are practiced mainly from the private sector with foreign capital in kinds of health and life insurance, clothing according to firm's dress code, additional leave days as personal leave and based on the years of experience with the company as loyalty compensation, holiday gifts and other kinds of remuneration.

Raiffeisen Bank in Kosovo with great dedication tries to motivate its staff in various forms of additional benefits such as certificates and acknowledgements for the achievement of results, organizing dinners and excursions for the best performing team, unit and branch. Raiffeisen bank Kosovo also has provided a unique benefit for its workers since 2008. This bank contracted a private care center to care for its employees' children. According to this agreement, all workers can send their children to this center, and the bank pays 60 percent of the total monthly fee while the parent pays the remaining 40 percent. By doing so, this bank has achieved to solve the employee's childcare problem and contributing towards their regular attendance at work, better performance and productivity. Raiffeisen representatives do not consider support to childcare a cost, but rather an investment in keeping and maintaining staff, as well as enhancing their productivity (KWN, 2016). Besides, this bank offers to its staff long-term loans and mortgages with preferential rates, which are much lower when compared to the lending interest rate in Kosovo. In this way, this bank achieves to solve the employee's housing issue or to finance their future investment as well as motivating and retaining staff and simultaneously enhancing their productivity at once. In addition to the paid annual leave, as per contract, aiming to achieve the work-life balance, this bank provides additional paid annual leave days to their staff based on years of service as well as it allows for a paid extra day leave (personal leave). Paid Personal leave is any time off that is granted for reasons including (but not limited to) specific experiences, family issues, extenuating personal need or staying home to rest and recharge. By offering paid

leave to their workers, employers can show them that they are a valuable part of the company. In this way, companies can have innumerable benefits as a response to these treatments; the employee's morale, motivation and loyalty will increase. In return, employees, will treat the company as their home, and do the best to improve the company's performance and image.

6. Conclusions

By using the data from Kosovo Agency of Statistics (KAS), this paper aims to provide an extensive overview concerning the level of the average wage for the Public Sector (Administration), the Private Sector and the Public-Enterprises Sector in Kosovo as well as on the public-private wage differences in Kosovo for the period 2012-2016. Besides, this paper aims to bridge the gap in the literature by providing the recent research on the public-private wage differences in Kosovo, their effect on labor market efficiency and some macroeconomic indicators, as well as the employer's efforts in the private sector to attract and retain highly professional staff.

The findings demonstrate that the public-sector wages at the beginning of transition phase were lower compared to the private sector in Kosovo, similar to other Western Balkan countries. The foreign-owned private companies such as commercial banks, insurance companies, pension funds, telecommunications companies and microfinance institutions have been a very attractive and desirable employer for the labor market. It is mainly due to the higher wages and other non-wage benefits such as health insurance, life insurance, training, numerous opportunities to advance in career, professional travelling, experience exchange, capacity building as well as networking. As Kosovo continues its path on the maturity stages of transition, the wages gap shifts in favor of the public sector. This shift presents a challenge for the private sector to recruit, maintain and motivate the highly qualified human resources.

Based to the KAS data for 2016i Kosovo is standing in fourth place behind Montenegro, Bulgaria and Romania (KAS, 2017) in terms of net wages, whereas in terms of gross wages, it is ranked in the third place compared to other countries of the region.

When compared to the minimum wages, out of nine countries, of the sample, only Moldavia has the lower minimum wages than Kosovo. The rest of the countries in the region have higher minimum wages than Kosovo, while Romania has the highest minimum wage compared to other countries.

Although with a young population, the average age of the population is 30.2 years, Kosovo remains among the poorest countries in Europe. GDP growth has remained positive over the last years it continues to be driven primarily by remittances, public investments and donor assistance, whereas GDP per capita remains the lowest in the region. The average inflation rate was 0.888 percent for the period 2012-2016, the public sector experienced the wage growth that increased by 28.95 percent in gross salaries, respectively 27.09 percent on net salaries. Public enterprises wage growth for this period was 27.41 percent in gross wages and 26.02 percent in net wages. Private sector wages increased very slightly, in absolute terms wages in private sector grew by only 4 euros. Therefore, the public sector is overcrowded with staff, affecting the performance of the public sector and particularly its efficiency. The inactivity rate in Kosovo labor market remains the highest among Western Balkans countries and varies from 58.4 percent in 2014 up to 63.1 percent in 2012.

The opportunities for employment and career development in Kosovo are scarce. Unemployment presents the major problem in Kosovo, whereas it remains the highest rate in the region. The highest unemployment rate is among youth population (15-24 years) that is the most distressful problem of Kosovo's government. Considering that this rate was permanently higher than 50 percent all over 2012-2016, and its consequences are both economic and social.

Given the unfavorable business environment in Kosovo, the general increase in salaries from the private sector aiming to attract qualified staff remains difficult to achieve. Therefore, the private sector and especially those firms with foreign capital, such as banks, telecommunications companies, insurance companies tend to increase salaries on merit-based, and that derives mainly from performance, by increasing the performance of their companies as well. These private companies are setting targets, measuring the achieved performance, and simultaneously growing enterprises efficiency and profitability. Usually, this is accomplished by including some

components to the total wages such as basic pay, annual bonuses, tips, in-kind benefits, productivity and performance pay, allowances and premiums for non-standard work hours or dangerous work. These benefits can have incredibly positive effects on employee's motivation as well as on the firm's performance. The adaption of these payments is more evident in foreign-owned firms in the private sector, whereas only a few private companies with local capital are practicing to pay other components rather than basic payment, or mainly by including just a few of those benefits.

References

- Adamchik, V., and Bedi, A., 2000. Wage differentials between the public and the private sectors: Evidence from an economy in transition. *Labour Economics*, 7, pp. 200-228 [https://doi.org/10.1016/S0927-5371\(99\)00030-5](https://doi.org/10.1016/S0927-5371(99)00030-5)
- Bellante D, and Long, J., 1981. The political economy of the rent seeking society: the case of public employees and their unions. *Journal of Labor Research*, 2(1), pp. 1-14 <https://doi.org/10.1007/BF02685118>
- Boissiere M, Knight, J., and Sabot, R., 1985. Earning, schooling, ability and cognitive skills. *American Economic Review*, 75(5), pp. 1016-1043.
- CBRK, 2016. *Macroeconomic developments report*. Prishtina: bqk-kos.org. Retrieved December 9, 2017
- Depalo D, Giordani, R., and Papapetrou, E., 2015. Public-private wage differentials in euro-area countries: Evidence from quantile decomposition analysis. *Empirical Economics*, 49(3), pp. 985-1015 doi.org/10.1007/s0018
- Djukic, O., 2009. *Wages in the B&H public sector: Hurting the economy?*. Sarajevo: GEA.
- EC, 2014. *Government wages and labour market outcomes*. Brussels: European Economy.
- Falaris, E., 2004. Private and public sector wages in Bulgaria. *Journal of Comparative Economics*, 32(1), pp. 1-196. <https://doi.org/10.1016/j.jce.2003.09.010>
- Giordano, R., Depalo, D., Pereira, M., Eugene, B., Papapetrou, E., Perez Garcia, J., and Roter, M., 2011. *The public sector pay gap in a selection of Euro area countries*. ECB Working Paper Series No. 1406.
- Haveman, R., and Wolfe, B., 1984. Schooling and economic well-being: The role of non-market effects. *Journal of Human Resources*, 19, pp. 377-407. <https://doi.org/10.2307/145879>
- Hethy, L., 2000. Employment and workers' protection in Kosovo. *SEER Journal for Labor and Social Affairs in Eastern Europe*, 3(2), pp. 9-24.
- IC and CJ, 2014. *Mobbing and nepotism in the Republic of Kosovo*. Prishtina: Institute for Criminology and Criminal Justice.
- ILO, 1952. *CO 95 - Protection of wages Convention 1949*. Geneva: International Labour Organization.
- ILO, 1999. *Kosovo's labour market in a "collapsed" state ILO Calls for labour intensive reconstruction effort*. Geneva: International Labour Organization.
- ILO, 2016. *Minimum wage policy guide*. Geneva: International Labour Organization.
- IMF, 2016. *Republic of Kosovo*. Washington DC: International Monetary Fund 16/22.
- Jacob, M., 1974. *Schooling, experience and earnings*. National Bureau of Economic Research.
- KAS, 2017. *Level of wage in Kosovo 2012-2016*. Prishtina: Kosovo Agency of Statistics.
- Krueger, A. O., 1968. Factor endowments and per capita income differences among countries. *Economic Journal*, 78(311), pp. 641-659. <https://doi.org/10.2307/2229388>
- KWN, 2016. *Who cares? Demand, supply, and options for expanding childcare Availability in Kosovo*. Prishtina: Kosovo Women's Network.
- Lausev, J., 2014. What has 20 years of public-private pay gap literature told us? Eastern European transitioning vs. developed economies. *Journal of Economic Surveys*, 28, pp. 516-550. <https://doi.org/10.1111/joes.12039>
- Meuller, R., 1998. Public-private sector wage differentials in Canada: Evidence from quantile regressions. *Economics Letters*, 60, pp. 229-235. [https://doi.org/10.1016/S0165-1765\(98\)00110-4](https://doi.org/10.1016/S0165-1765(98)00110-4)

- Nielsen, H., and Rosholm, M., 2001. The public-private sector wage gap in Zambia in the 1990s: A quantile regression approach. *Empirical Economics*, 26, pp. 169-182. doi.org/10.1007/s001810000.
- Nikolic, J., Rubil, I., and Tomic, I., 2014. *Changes in public and private sector pay structures in two emerging market economies during the crisis*. EIZ- Working Paper, 1403.
- Psacharopoulos, G., 1985. Return to education: A further international update and implication. *Journal of Human Resources*, 20(4), pp. 583-597. <https://doi.org/10.2307/145686>
- Quinn, J., 1979. Wage differentials among older workers in the public and private sectors. *Journal of Human Resources*, 14, pp. 41-62. <https://doi.org/10.2307/145537>
- Shehaj, E., Loxha, A., and Pula, E., 2015. *The public-private sector wage gap in Kosovo and Albania: an empirical perspective*. GDN RRC 2015.
- Smith, S. P., 1976. Pay differentials between federal government and private sector workers. *Industrial and Labor Relations Review*, 29, pp. 179-197. <https://doi.org/10.1177/001979397602900201>
- Smith, S.P., 1981. Public/private wage differentials in metropolitan areas. In: P., Mieszkowski, G., Peterson, eds. 1981. *Public sector labor markets*. Washington, DC: Urban Institute Press. pp. 81-102.
- Tansel, A., 2005. Public-private employment choice, wage differentials and gender in Turkey. *Economic Development and Cultural Change*, 53(1), pp. 453-477. <https://doi.org/10.1086/425374>
- UNDP, 2016. *Kosovo human development*. New York: United Nations Development Programme.
- Vladislavljevic, M., and Jovancevic, D., 2016. Public sector wage premium in Serbia: Evidence from SILC data. In: M., Beslać, D. Cogoljevic, and I. Piljan, eds. 2016. *Serbian road to the EU: Finance, insurance and monetary policy*. Washington DC: Chicago (BEE). pp. 192-210.
- Vladislavljevic M, Narazani E., and Golubovic V., 2017. *Public-private wage differentials in the Western Balkans*. MPRA Paper No. 80739.
- WB, 1999. *SEE European Commission/Program for Reconstruction and Recovery in Kosovo*. Prishtina: INTKOSOVO.