

Zentrum für Europäische Integrationsforschung  
Center for European Integration Studies  
Rheinische Friedrich-Wilhelms-Universität Bonn



Die Stiftung für liberale Politik

Friedrich Naumann  
Stiftung

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**A Sustained Economic  
Revival in Kosovo**  
Need for a Liberal Concept

Discussion Paper

C109  
2002

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ISSN 1435-3288

ISBN 3-936183-09-0

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*Emil Mintchev / Klaus Büniger*

## **A Sustained Economic Revival in Kosovo – Need for a Liberal Concept**

To try to elaborate a proposal for a liberal concept aimed at a sustained economic revival in a postcommunist society already making its first steps in the transformation and transition towards democracy and market economy is not an easy task. However, in 2002 some good examples and some lessons learned in other countries in transition may help a lot in the attempt to suggest the most appropriate model. Unfortunately there are also cases where the application of the learned lessons is almost impossible, due to the unique character of the situation.

One such case is Kosovo. The well-known German expert on South Eastern Europe Viktor Meier wrote in March 2001:

“... Kosovo is a place without a legal system, neither for civil nor for economic needs, without a regulated property status for its big enterprises, which are not functioning, without a regulated foreign trade, without a functioning monetary and credit system, without a political representation and even a normal identity documents for its citizens and with a security system inadequate to address any task beyond the very basic police duties, not to speak about fighting the mafia.“ (Internationale Politik, Nr. 3, 2001, p. 5.)

One year later a lot of these statements do not correspond with reality. The progress made was so immense that the experts have enough arguments for optimistic forecasts. The Kosovo Assembly and a provisional Self-Government are in place. The economic situation looks considerably better. Improvements in the everyday life are visible. Nevertheless a lot of obstacles making the transition towards a functioning market economy an

extremely hard endeavor remain in place, thus adding some uncertainties to any attempt to address the economic challenges of the future.

Taking into consideration the complexity of the situation the experts from the Center for European Integration Studies (ZEI) at the Bonn University, Germany and the liberal Friedrich-Naumann-Foundation, Germany decided to follow the old Chinese proverb „... instead of cursing the darkness, try to light a candle“ by offering some suggestions about a liberal concept for a sustained economic revival in Kosovo. These suggestions are results of a short fact finding mission in Kosovo (11. - 14.12.2001) including 13 interview sessions with almost 30 representatives from local administration and politics, from research institutes, think-tanks and NGOs, from the business community and from the United Nations Mission in Kosovo (UNMIK) and other international organizations.

The paper produced is far from pretending to be a recipe for the establishment of a functioning market economy in Kosovo. The limited number of interviews, the absence of a clear political, legal and status parameters, the lack of reliable statistical sources, the unique character of the situation, the short period of time surely have some negative impact on the paper. But the intention of the authors was not to pretend to be the last instance of truth. More challenging was to try to provoke a discussion among experts, politicians and businessmen and to look together for the best suitable approach for Kosovo. Because every success in the economic field is a joint effort and the benefits are for the whole society.

### ***1. The present day economic situation in Kosovo***

The war from 1999 was by far not the origin of the economic catastrophe which Kosovo was facing after the UNMIK took over the control. During the previous decade the province was suffering from the policy of the Belgrade regime, from the international isolation of the country, from the lack of any radical economic reform.

As the poorest province in the pre-Milosevic Yugoslavia in 1988 the Kosovo GDP per capita was only 27 % from the Yugoslav average. The

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unemployment figure was 49 % of the active population reaching 64.7 % in 1997 just before the Kosovo crisis has entered its most dangerous stage. In the months after KFOR established control over Kosovo the unemployment has reached its peak with 74 % of the active population.

In general the Yugoslav legacy and the war have left Kosovo with a poor and partially not functioning infrastructure, poor and partially destroyed housing sector, paralyzed economy and a population relying on international aid, foreign donations and help from the Albanian diaspora. This means that the situation in Kosovo is a unique one and not fully comparable with the transition period in some other postcommunist countries.

At the beginning of 2002, Kosovo is on the brink of a economic revival. This revival is the logical step after the initial phase of the economic post-war reconstruction and normalization after the war in 1999. The phase of reconstruction and normalization lasted for the following two and a half years after the adoption of the resolution 1244 of the Security Council of the UN according to which Kosovo was turned into a protectorate under the control of UNMIK. This first phase was completed with the partial transfer of power to the Self-Government after the elections for the Kosovo Assembly from 17.11.2001 and the start of the normal functioning of the Assembly and of the Self-Government.

The GDP reached the level of 5 bln. German mark and the growth rate in 2001 was almost 10 %. The inflation rate was approx. 13 % and the unemployment with approx. 50 % - 55 % of the working force is still high but substantially down from the level in 1999 (All the data here and elsewhere if not especially mentioned are taken from the publications of the EU Pillar of the UNMIK). Although the imports still make 85 % of the GDP and exports are negligible, there is a certain positive trend in the banking system and in the private business sector. The Central Fiscal Authority (CFA) established in late 1999 had until now the responsibility for the making-up of the Kosovo budget. The revenues were collected by the UNMIK tax administration and the UNMIK custom service. The progress towards a self-financed budget is substantial. The domestic

revenues in the budget increased from one third in 1999 to almost two thirds in 2001. The development of the financial sector is also positive. The Banking and Payment Authority (BPK) established also in the late 1999 has granted license to seven banks and has registered 13 non-bank credit institutions mainly for micro-credits.

All in all 40.942 private enterprises were registered until the end of 2001 making the Small and Medium sized Enterprises (SME) the most booming sector of the Kosovo economy. However 36.754 from this number are with up to four employees and they operate mainly in the trade and services sector. Nevertheless together with the 350 Socially Owned Enterprises (SOE) they employ almost 161.000 people thus bringing down the extremely high number of the unemployed. There is also a certain boom in the housing construction sector.

The social costs of this difficult period were put down due to the donor grants from the international community, which in 2000 made more than 50 % of the composition of the Kosovo consolidated budget. The money transfer from the Albanian diaspora was an additional factor for the overcoming of the hardships in the post-war period.

On almost every macroeconomic parameter at the beginning of 2002 Kosovo has reached or surpassed the pre-war level. The achievements during the last two and a half years have created a certain momentum, a certain dynamism, which combined with the high motivation within the population could be used as a driving force for the forthcoming economic revival.

With its present status, Kosovo is not eligible for membership in any international financial institution, thus not able to benefit from the IMF or World Bank support programmes. But it benefits from the provided technical assistance and policy advice and received some grants for reconstruction and rehabilitation (62 million US \$ until mid 2001).

In this situation the EU remains the biggest financial donor to Kosovo. From the approx. 5 billion EURO offered to the Western Balkans since 1991 more than one billion was offered to Kosovo. The bulk of this

assistance, almost 90 % was offered through the CARDS programme within the framework of the Stabilization and Associations process.

**Table: The EU financial assistance to Kosovo**

<b>Programmes</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Total</b>
OBNOVA/CARDS	13.16	127.00	439.90	320.00	900.06
Democracy and Human Rights			0.38		0.38
Specific Actions			6.00		6.00
Humanitarian Aid		111.70	28.84	13.92	154.46
Food and Security		20.90			20.90
Macroeconomic Assistance			35.00	15.00	50.00
Total	13.16	259.60	510.12	348.92	1131.80

Source: EU Commission Report on the Stabilization and Association Process.

## ***II. The legal, institutional and political framework for an economic revival in Kosovo***

In order to be successful, any concept for a quick economic recovery has to be put in a favorable political, legal and institutional surrounding. Until recently, there were few such elements able to create a stimulating environment. The negative factors prevailed, a fact mentioned almost by every interviewed expert. As the most influential negative factor the unsolved issue about the future status of Kosovo was always mentioned. Among the other negative factors quite often the almost absolute power of the UNMIK and the Special Representative of the Secretary General of the UN (SPSG) was listed as a generator of paralyzing impulses and also the existence of the so called Socially Owned Enterprises (SOE).

The establishment of the Constitutional Framework for Provisional Self-Government in Kosovo, the elections in November 2001 and the election by the Kosovo Assembly of the president, prime minister and government in March 2002 created a completely new environment favorable for a sustained economic revival.

### *1. The new legal framework*

The Constitutional Framework for Provisional Self-Government in Kosovo provides a clear competence sharing and describes how far the Kosovo Assembly and the Self-Government are able to go by passing the necessary laws and possessing a fair share of the executive powers for securing a successful economic policy. The competence and the powers provided are giving opportunity to the Kosovo institutions to assume the responsibilities for pursuing effective economic and financial policies.

So the provided responsibility for the Kosovo Assembly to adopt laws in the areas of responsibility of the Self-Government and the fact that these areas cover the economic, financial, fiscal, budgetary and trade policies is a clear signal that in the areas mentioned the Kosovo Assembly and the Self-Government are going to act with a high grade of competence. Although the control and veto powers of the Special Representative of the Secretary General (SRSG) in certain areas of the economic and financial policies limit to a certain extent these competences, we should evaluate this fact as a creation of a control mechanism enabling the smooth functioning in the above mentioned fields.

Through such a mechanism the laws passed could be improved, the economic policy and especially the forthcoming privatization should become more transparent, the corruption practices less common and the international community easier convinced that Kosovo is on the right track. The good services offered by the new SRSG, Mr. Steiner, for reaching a compromise among the main political parties, the Democratic League of Kosovo (LDK) and the Democratic Party of Kosovo (PDK) in the Kosovo Assembly for the election of the President and the Prime Minister of the Self-Government is an indication how vital the powers and the abilities of the SRSG could be in the search of the most successful policy for Kosovo.

What is necessary for Kosovo now after the stumbling blocks for a normal parliamentary life are removed and the Self-Government resumes its activities is the preparation of a package of economic and trade laws enabling the start of a large scale privatization and securing the success of a economic revival programme.

The start of the Assembly activity has indicated that there is still a lot of disagreement concerning the Constitutional Framework. For the Albanian majority the reserved powers of the SRSG are too big and some rift between the SRSG and the Assembly leading to some sort of a constitutional crisis could not be excluded totally.

## *2. The institutional framework*

The constitutional framework mentions also the key institutions responsible for the economic and financial policies like the Assembly, the President and the Government.

To the institutional framework belongs also the EU Pillar IV as part of UNMIK which is in charge for the economic reconstruction and the economic activity in Kosovo. EU Pillar IV will be responsible and will control the activity of the Ministry for Economy and Finance, the Ministry for Trade and Industry, the Kosovo Trust Agency and the Public Utilities Regulatory Commission. The role of EU Pillar IV is going to remain not only advisory, but also a decision making one, thus providing for more closer cooperation with the respective ministries of the Self-Government.

The political role of the EU Pillar IV is even more prominent indicating that UNMIK resume a lot of responsibility for the final success of the economic recovery programme and of the privatization. The engagement of the EU with these policies is another indication how deep the EU is involved in the economic reconstruction and the future economic recovery in Kosovo. Nevertheless, the parliamentary committees for economy and finance and respective ministries in the Self-Government acquire enough responsibilities and are able to take the economic future of Kosovo in their own hands.

A number of other institutions build the so-called second row of the institutional framework, like the Kosovo Chamber of Commerce, the Trade Unions, the NGOs dealing with economic issues, the still non-existing employers' associations etc. They should resume the role of partners of the governmental institutions and should be encouraged to fully participate in

all the political and professional activities concerning the economic future of Kosovo.

The institutional framework is vital for achieving stability of the democratic system of government. This stability on its part is a guarantee for the irreversibility of the democratic process, for the rule of law and the protection of human rights, for safeguarding the minority rights and securing the interethnic and interconfessional peaceful co-existence. Establishing an effective administration and an effective court system is another aspect of the institutional framework enabling the solution of a number of tasks including the fight against corruption and organized crime.

### *3. The political framework*

The political framework is creating the political stability and continuity so vital for any economic policy. With the November elections, with the start of the Kosovo Assembly and the appointment of the President and Prime minister of the Self-Government the preconditions for a system of government based on the principles of the parliamentary democracy were fulfilled. The main political parties of the Kosovo Albanians LDK and PDK were able to overcome the initial difficulties in communicating with each other and could reach the compromise for the appointment of the President, the Prime minister and the ministers.

The gradual integration of the Kosovo Serbs in the parliamentary activities and the reserved seat in the Self-Government is going to be a good signal that the interethnic cooperation has no alternative. The reconciliation among Serbs and Albanians in Kosovo will be vital not only for the success of the economic recovery in Kosovo, but will also be a favorable climate for the foreign investors.

In the political framework the role of UNMIK and of the SRSG again are extremely important. The SRSG with its powers is able to intervene and mediate successfully thus enabling some conflicting parties to overcome their divergences like in the case of the appointment of the President and the Self-Government.

But part of the Albanian parallel structures established during the war period and the immediate aftermath is still there and even quite influential under the surface of the political normality. The same is valid for the Serbian enclave of Mitrovica, where UNMIK is still not in a position to fully impose its authority. This is a situation in which the rule of law continues to suffer. The still existing divergence between UNMIK, the foreign consultants and the local authorities might have some negative impact on the establishment of an effective political framework in Kosovo. Some frictions between the UNMIK and the SRSG on the one hand and the Kosovo Assembly and political parties on the other hand could intensify in the future and a lot of diplomatic tact and skill together with readiness for compromise and good will be needed on both sides in order to secure the still fragile balance within the political framework.

### ***III. 2002 – The new start***

The first months of 2002 have brought not only the election of the first democratically elected president of Kosovo and the formation of the Self-Government, but also a number of vital measures were initiated preparing the ground for the economic revival:

- the tax system was partially restructured with the introduction of the VAT fixed at 15 %, the profit tax fixed at 20 % for businesses with annual turnover of 200.000 DM and more and the progressive rate wage tax thus allowing the composition of the Kosovo budget to rely mainly on tax collector money bringing down the donor grants portion from 50 % in 2000 to the expected 15 % in 2002;
- a special Kosovo Trust Agency (KTA) responsible for the large-scale privatization is under way. KTA will be the central agency for handling Kosovo's ownership of assets privatizing those assets that are eligible for privatization and managing all the rest. The KTA will manage the SOE and make them fit for privatization by a strategy allowing the transformation of the SOE into Joint Stock companies.

Starting from 2002 the foundation of a social market economy and of social state based on a rule of law should be developed step by step in line with a

desired concept for a sustained economic revival in Kosovo. The inputs for such a concept would certainly come from the already fast developing private business sector, from the early birds of the civil society - the numerous NGOs, from the still emerging political and intellectual elites. A public debate is a precondition for good results in the political debate that have to be eventually voted later in the Kosovo Assembly and later implemented by the Self-Government. One very good asset for the success of the concept is the fact that the international community, the UNMIK and its structures, especially the EU Pillar IV are going to be involved in the elaboration and the implementation process from the initial phases, thus sharing the responsibilities for the success, but also for an eventual failure.

The concept for a sustained economic revival has several elements, which should be pursued simultaneously in order to lay the foundation for a functioning market economy.

### *1. Laws*

The history of transition towards market economy in other post-communist societies in Central and Eastern Europe has indicated the pivotal role that the adoption of a certain number of laws and their implementation has in order to put the transition on the right track. The Kosovo Assembly and its Committees should therefore start without delay the debate for the adoption of the whole set of laws indispensable for the functioning of the market economy. While taking into consideration the specific situation in Kosovo, special attention should be given to the Privatization Law.

Up to now the UNMIK Regulations have played the role of a substitute for a normal legal framework. The challenges of transformation and the future of Kosovo make necessary that these regulations should be transformed into real laws, adopted at the only real place for such a legislative activity, i.e. the Kosovo Assembly. The legislative activity should be guided by the following principles:

- the rule of law is to be established as the only guarantee for the multiethnic co-existence and multiethnic co-operation and for the protection of the minorities rights in Kosovo;

- the rule of law is the only guarantee for the protection not only of the political, but also of the economic rights of every person living in Kosovo;
- to promote a sustained economic revival in Kosovo, the legal framework for the functioning of the market economy should be established without delay.

Guaranteeing and protecting the rights of every market participant, enabling the exchange of goods, services and capital, and securing the protection of the transactions between the market participants are the indispensable requirements for the legal framework. The number of laws belonging to this framework include the Commercial Law, the Law of Obligations, the Property Law, the Family Law and as part of this four law block: the Law on Corporations, the Law on foreign Investment, the Law on accountability, the Law on Privatization and Concessions. The aim to bring Kosovo into the Stabilization and Association Process of the EU for the Western Balkans makes necessary the adoption of such laws that could be compatible with the Law of the European Communities allowing the gradual adoption and implementation of the EU *acquis communautaire*.

### *1. Bank system*

A solid bank system is also valid for the effective functioning of the market. The seven licensed banks in Kosovo have laid the foundation for such a system. The oldest and the biggest one the Micro-Enterprise Bank, a joint venture of the European Bank for Reconstruction and Development, the German Commerzbank and Kreditanstalt fuer Wiederaufbau, the Dutch FMO, the International Finance Corporation (IFC) and International Micro Investitionen (IMI) has already more than 350 million DM in deposits and 17.5 million DM in loans. The New Bank of Kosovo, the Bank for Private Business and the Economic Bank have gained significance in 2001.

For sure there is interest on the part of some other foreign banks especially from Turkey and Greece to enter the Kosovo bank system. The more banks with solid record are established, the better the chances to get easier credits on better conditions.

### *3. Institutional environment*

Building a favorable institutional environment is indispensable for the functioning of the market economy. The establishment of the necessary institutions was already mentioned. Extremely important is also the establishment of a responsible, efficient and competent central administration, transparent enough with a minimum of regulative competences in order to limit the scope of the possible corruption practices. In the selection process the UNMIK structures could certainly play a significant role by encouraging the local staff already known to them to apply for the new administrative posts. UNMIK could be in a position to limit or ban entirely the selection according to political criteria with the aim to establish a depoliticized administration.

### *4. Pension, health and welfare framework*

The war has left Kosovo with a non-existing pension system and with deteriorated health and welfare structures. Therefore the development of a pension system, a health insurance system and welfare structures is to be included among the priorities of every economic revival concept. UNMIK together with the Central Fiscal Authority (CFA) of Kosovo and some international agencies like the World Bank and USAID are engaged in working out a Pension regulation, which is going to be the legal foundation for the future pension system in Kosovo. It seems appropriate to involve also the Assembly in the elaboration of a special law in which the experience from some other transition countries could be taken into consideration.

The social welfare assistance also needs special attention. In 2001 more than 50.000 families were dependent on a social welfare assistance. According to some sources (RIINVEST) half of the Kosovo population lives at or below the poverty level, while 12 % of the poor live in conditions of extreme poverty. This situation is a serious challenge for the social welfare assistance system, which still is in the very early stages of its existence. The same is valid for the Kosovo health services, where the

quality of the medical assistance differs strongly from the towns of the countryside and a health insurance system is still non-existing.

### *5. Fiscal policy*

The present day tax system in Kosovo is based on the UNMIK and CFA Regulations. But a long-term fiscal policy is still lacking and this certainly should be one of the immediate tasks for the future. A balanced fiscal system is necessary, where the taxes are oriented on progressive income tax.

A unified customs policy is also necessary because nowadays the trade with Serbia and Montenegro is still considered internal trade and the trade with Macedonia is ruled according to an agreement between Macedonia and FRY from 1996, which provided that only 1 % of the good's value should be collected as an administrative fee.

A better regulation and a harmonization of the financial activities between the central and the local authorities should be achieved. A new and effective tax administration has to be established with a reliable information system about the tax payments and even some sort of a fiscal policy to stop eventual tax evasion and tax crime.

### *6. SME – one of the pillars of the Kosovo economy*

According to some data in 2001 about 65 % of the Kosovo GDP was produced in the private business sector (RIINVEST). In this sector the SME is the most rapidly developing segment. So in 2000 the employment in the SME segment has increased by 15 %. In 2001 the increase was 12 %. The expectation that the SME segment will continue to be the most dynamic segment in the private business sector leads to the conclusion that some sort of a programme for encouraging and supporting the SMEs is due to be formulated by the authorities. This programme should be part of the overall concept for a sustained economic revival. A SME support on local and central level should be of this programme. A financial and credit stimuli and an easier access to capital and finance sources could create a better environment for the SME development. Some ideas for the

establishment of an agency and fund for SME development could also be put on the agenda.

UNMIK in close co-operation with the Self-Government should initiate the implementation of this programme. An assessment of the financial support needed and an identification of the local and international capital sources should also be included. According to some estimations in the next three years until 2005 the SME segment may additionally create between 120.000 and 150.000 new jobs thus doubling the present day numbers.

### *7. Credit policy*

The credit policy is undoubtedly one of the key factors for the building of a functioning market economy. The majority of the SMEs in Kosovo have stressed the lack of access to external sources of finance as the most serious obstacle for their activity in 2000 and 2001. The present interest rate margin between 15 % and 22 % is considered too high, though one explanation might be the still existing considerable risk. The increase of the competition between the credit institutions could be a positive trend.

A new credit policy formulated under the precondition of competition able to bring down the price of finance capital is considered a necessity. The highest demand for credit will continue to come from the trade (53.9 %) and production (39.5 %) sectors. Until the end of 2003 the banking and other financial institutions estimate that they will provide about 380 million EURO in credit lines with the half of this amount to be supplied in 2003.

### *8. Infrastructure*

The infrastructure also has to be high on the agenda of the concept for economic revival in Kosovo. During the post-war reconstruction period some improvement of the existing infrastructure was accomplished. For the years until 2005 taking into account the expected economic growth, the present day level is by far not adequate. The future infrastructure plans should also consider the needs for a new regional infrastructure within the framework of the Stability Pact for South Eastern Europe. The modernization of the telecommunication sector, the motor-way and road

net, the railway system and building a new modern airport are among the imminent necessities. For the realization of such a large-scale infrastructure modernization Kosovo should rely on strong international support. To get an easier access to international investment some of the infrastructure projects could be integrated into the Stability Pact quick-start project package.

### *9. SOEs and privatization*

Almost 350 so-called socially owned enterprises (SOE) exist in Kosovo. They comprise the largest and the most important part of the Kosovo economy. The SOEs operate in different sectors including manufacturing, construction, agriculture and tourism. They have employed before 1999 more than 60.000 people. In 2002 many SOEs do not operate at all and only approx. 30.000 workers are employed. The reason is a complex one including unresolved property issues, which is one of the key obstacles for a quick privatization. According to UN Security Council Resolution 1244 UNMIK is responsible for the administration of the SOEs, but until 2002 UNMIK was reluctant to initiate any privatization programme. A kind of a substitute, the so called Commercialization Programme was launched with the aim to enable them to function within the framework of a market economy. Through a Tender process the private sector was encouraged to manage the SOEs on a long-term contract basis. The Tender proposals have to address five areas with Investment plan, Employment plan, Environmental plan, Business and Regional Experience plan and Concession fees. The Commercialization Programme is still in force, it helped bringing private sector involvement and resources into SOEs, but the first results have shown that such lease contracts are not so attractive especially for foreign investors.

At last in 2001, UNMIK embarked the path of the real privatization, by drafting the proposal for privatization and taking the decision to establish the Kosovo Trust Agency (KTA). On 17 April SRSG Steiner handed over the draft regulation on the establishment of the KTA to the Self-Government.

According to the draft regulation the KTA will have the responsibility to administer publicly and socially owned enterprises. It means that KTA will be in the future responsible for managing the Kosovo's ownership of assets and empowered to privatize those assets. The KTA will establish a Board of Directors consisting of three Kosovars (one of them a Serb) and three UNMIK representatives.

The Privatization Programme combined with a Law on Privatization should be a key element of the concept for a sustained economic revival in Kosovo. The action scope of KTA will cover the administration of the SOEs on UNMIK behalf, the transformation of the SOEs into joint stock companies, the spin-off procedure for putting aside some shares or portions of capital until the ownership issues are clarified and the reorganization of insolvent SOEs.

Privatization is going to be pursued by the so-called spin-offs and through voluntary liquidations. The spin-off approach will be possible with an investor at hand. Then SOE assets will be transferred to a new subsidiary company to be sold later to the investor. The SOE remains as a shareholder of the new company, but will be no longer active being put under conservation of the KTA. The second option - voluntary liquidations are going to be implemented in case that there is no investor at hand. Then the SOE assets will be auctioned off to the private sector.

All the revenue from the privatization is going to be held under trusteeship by KTA. If there are conflicting property claims, the property held in trust will be there to satisfy the legally recognized claimants.

Before the privatization can be performed successfully the functioning SOEs should be brought into a profitable status. The SOEs have to be managed like private companies. This means quite a complex task for the KTA and fulfilling them will to a great extent depend on the competence and skills of KTA teams.

In order to be successful, the KTA should also try to avoid the shortcomings and failures of the privatization in the other post-communist countries especially on the Balkans. Some lessons learned could be

extremely helpful. A close co-operation with the Assembly and the Self-Government, a complete transparency and stopping of all possible corruption practices are vital for attracting foreign capital and for the final success of the Privatization Programme.

It certainly should be interesting for foreign investors to engage in privatizing SOEs with certain domestic market importance like in the construction and food processing sector and SOEs with export potentials like in metallurgy, metal processing, rubber, wood processing and textile. Having in mind the size of the Kosovo market the export potential is going to be a major factor in the SOEs' privatization. Ensuring transparency and introducing efficient procedures without excessive administrative involvement, offering guarantees for a fair competition and even insisting on some sort of a post-privatization control should be among the tasks of KTA. The international control by UNMIK and SRSG offers additional chances to keep corruption and involvement of the shadowy business out of the privatization process.

#### ***IV. The way ahead***

Kosovo is confronted with several challenges for the years to come, the successful dealing with what will be vital for the success of any economic concept. One of the most important challenges is to build an effective democratic state by making the Constitutional Framework working. The other challenges include the weakness in applying the rule of law, the weakness in administrative capacity, the weakness of the civil society and media. Introducing new European standards of political and interethnic behavior and successfully blocking the interethnic and interconfessional tension through reconciliation, offering common goals and perspectives for all ethnic groups and securing their democratic participation at local and provincial level will certainly help to deal with the other challenges - tackling poverty and social deprivation. The future of Kosovo, i.e. the status question belongs also to the challenges ahead, but is at the same time intertwined with the successful dealing with all the others challenges. To deal effectively with the status challenge Kosovo needs to be integrated

firmly in the Stabilization and Association process of the EU and to take active part in all initiatives and projects within the framework of the regional co-operation. By convincing all neighbors that Kosovo is a reliable partner a lot of mistrust and doubts could be waved away.

To deal successfully with all the challenges ahead Kosovo needs to meet certain political criteria which are going to be a kind of litmus test for its ability to be accepted within the family of the democratic nations and to qualify for a new status.

- First of all it is the necessity to continue to strengthen the functioning of the democratic system of government with the stability of institutions providing enough guarantees for the democracy, the rule of law, human rights and respect for and protection of minorities.
- To secure the multiethnic character of Kosovo and to achieve reconciliation with the Kosovo Serbs, to guarantee the return of the Serbian refugees and of their property would be a major signal to the neighboring countries and to the international community that a new modern nation characterized by European standards of behavior is emerging and is eligible to be admitted to the European family of democratic nations.

The new state needs to be not only democratic, but also effectively functioning.

- This means the establishment of a public administration, the creation of a system to educate and train civil servants and the adoption of a legal framework for the civil service.
- Kosovo is in the good position to benefit from the presence of the UNMIK and the future Kosovo civil servants are able to learn from the day-to-day contacts with their UNMIK colleagues, to share their experiences with them and get inspired by the administrative „know-how“ they possess.
- The rule of law is going to be enhanced by the strengthening of the judicial system and the improving of the police structures, a better coordination between the local police with the Kosovo Police Force and the UNMIK-Police. Especially the local police forces need to convince

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the public opinion and the international community that there are no double standards in applying the law, that there are no untouchables and illegal activities are going to be persecuted without respect to which group or to whose clan the criminal belongs.

- Kosovo has to get rid of the bad image of being a harbor or a transit place for illegal traders of weapons, drugs and people. To fight corruption belongs also to the good record in justice and home affairs.

To establish a functioning market economy a number of other criteria has to be met.

- First of all the free interplay of market forces has to be assured in order to preserve an equilibrium between demand and supply. The prices as well as trade have to be liberalized. Kosovo is already moving towards a meeting of these criteria.
- Another vital condition is the abolition of any significant barriers for the establishment of new firms, i.e. to enter the market or to leave it through a bankruptcy.
- The firm establishment of the legal system, including the regulation of property rights, regulations on bankruptcy, mortgage, protection of competition and intellectual property is a must. The adoption of all these regulations will put Kosovo on the right track.
- In the field of the internal market there is a need to establish horizontal administrative infrastructures related to standardization, accreditation, certification, market surveillance and to strengthen the enforcement of industrial and intellectual property rights.
- Macroeconomic stability, including adequate price stability and sustainable public finances also belong to the features of the functioning market economy. Kosovo is still far from it, especially in the field of the budget policy where the vulnerability to external factors still is very high.

If the GDP could continue to rise with the same proportions ( 10 % in 2001) for the next three years, Kosovo will fill the gap dividing it from the rest of the Western Balkans step by step.

The large-scale privatization of the SOE should have to continue after the start in 2002 combined with an appropriate post-privatization control.

The inflation rate should be kept at the 2001 level. A sharp decrease seems not quite possible because of the increase in oil prices. A special job-creating-program should have to be introduced due to the still high unemployment.

The broad consensus about the essentials of the economic policy is still absent in Kosovo, but a debate about reaching it should have to be initiated in the Kosovo Parliament. A well developed financial sector is also lacking in Kosovo, but the recent developments are promising and are aimed to ease the access to debt finance for capital investment. Here the appropriate legislation (regulations on pledges and mortgages) has to be adopted without delay.

To establish the appropriate infrastructure (energy supply, telecommunication, transport) and to link it with the existing regional and European infrastructure should also be part of the priorities of the Kosovo economy. The appropriate use of the human capital in which Kosovo is so rich makes also necessary the elaboration of a special strategy aimed at education and human potential development.

The status question should not be considered extremely important for the success of a concept for a sustained economic revival in Kosovo. Such a concept is more or less a short- and medium-term strategy covering the period of the next few years. During this period we are not sure that the status question is going to be solved. This means that at least until 2005 the political and institutional framework is not going to undergo a serious change.

The accord between Belgrade and Podgorica about the future of their relations will expire in 2005 and the renegotiation and eventual dissolution of the new entity may be a signal that also the status of Kosovo could be reconsidered by the international community. So there are enough indications that until 2005 we could not expect any significant change of the present day status quo and the right approach for the Kosovars could be to concentrate on the economic revival issue.

The economic transformation in and the building of a functioning market economy had a later start in Kosovo compared with the other post-communist societies in South Eastern Europe. This could also be an advantage, if in Kosovo the good examples and the lessons learned from the rest of the region (Bulgaria, Rumania) could be fully applied. A lot of failures that occurred everywhere, but especially in Bosnia could be avoided in Kosovo. This is a great chance that in 2005 the international community will be fully convinced that Kosovo is a place where the social market economy and the rule of law are functioning, the interethnic cooperation is gaining strength on the ground of the common interests, the civil society is emerging and the province is firmly integrated into the Stability Pact and the Stabilization and Association Process of the EU for the Western Balkans. Then the status issue could be raised without the present day emotions and could be solved according to the will of the majority of the Kosovo inhabitants.

## **Annex**

### **I. Questionnaire**

1. How do you estimate the present economic situation and the quality of life in Kosovo?
  - b. good
  - c. bad
  - d. improving
  - e. other ..... please specify
2. How do you estimate your personal situation and that of your family?
  - a. good
  - b. bad
  - c. improving
  - d. other ..... please specify
3. What are the most negative aspects of the present economic situation?
  - a. high unemployment especially among the young generation
  - b. organized crime
  - c. corruption and clan structures
  - d. lack of a local authority
  - e. other ..... please specify
4. What urgent steps are needed to improve the economic environment and the quality of life in Kosovo?
5. Do you give priority to the settlement of the international status of Kosovo before starting any programme for economic revival?
6. Do you think reconciliation with the Kosovo Serbs may play any role for the economic revival of Kosovo and should they be involved in it?
7. Should reconciliation with Serbia or FRY facilitate the economic revival of Kosovo?
8. What should be the role of the international community, the international financial institutions and of the EU?
  - a. to convene a special donor conference for Kosovo
  - b. to increase the quick start projects within the framework of the Stability Pact

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- c. to start negotiations for a Stabilization and Association Agreement with the EU
  - d. should Kosovo be subject of a special programme for economic revival designed for it by the international community, the IMF or the World bank?
  - e. other ..... please specify
9. What should be the priorities of the new Kosovo parliament and government?
- a. to establish political control over the province and consolidate its own authority
  - b. to create a local administration capable to deal with the situation
  - c. to take over the control from UNMIK
  - d. to elaborate a short-term programme for economic revival
  - e. to introduce a legal system and pass laws enabling the quick start of the economic revival programme.
  - f. other ..... please specify
10. What should be the pillars of the Kosovo economic recovery?
- a. stable economic and financial policy based on the principles of the social market economy
  - b. sustainable fiscal and monetary policy
  - c. following the advise of the IMF and the World bank
  - d. relying on donations from the Albanian diaspora
  - e. other ..... please specify
11. Where are the assets for a quick economic revival?
- a. skilled labor force
  - b. motivated young generation
  - c. free capital within the local population
  - d. the Albanian diaspora
  - e. foreign investment
  - f. other ..... please specify
12. What sphere should be given preference?
- a. mining
  - b. agriculture
  - c. information technologies
  - d. trade and services sector
  - e. infrastructure
  - f. other ..... please specify
13. How should the private initiative be stimulated and the local and foreign capital be attracted ?
- a. through a legislation creating a favorable economic environment

- b. through a patriotic appeal to the Albanian diaspora
  - c. through a political pressure on the foreign firms to invest in Kosovo
  - d. through introducing a tax system offering incentives to the local and foreign investors
  - e. other ..... please specify
14. What should be the first manageable steps to improve the economic situation?
- a. to abolish any bureaucracy and regulations hampering the economic initiative
  - b. to elaborate a programme supporting the small and medium businesses
  - c. to create a credit system with low interest rates for offering small loans, between 5.000 and 10.000 DM
  - d. to reform the tax system
  - e. other ..... please specify
15. What role do the Kosovo neighbors play?
- a. should Kosovo cooperate predominantly with the other Albanian entities in the region?
  - b. should it orient itself economically towards the West?
  - c. should Kosovo go into all regional cooperation initiatives?
  - d. other ..... please specify

## **2. Evaluation**

The fact-finding mission in Pristina received answers from 21 respondents: 3 foreigners, 6 NGO representatives and 12 representatives of the business sector. The survey is therefore not representative enough, but nevertheless indicative for the present day situation and the expectations for the near future.

Without exception all respondents have confirmed that the present economic situation and the quality of life in Kosovo are improving. All Albanian respondents evaluate their personal situation and that of their family as good or improving.

The opinions of the respondents start to differentiate with the answers on the question what are the most negative aspects of the present economic situation. The majority of the respondents - 14 mention the high unemployment especially among the young generation, 5 mention the lack of local authority, or lack of a appropriate legal system, 3 specify the corruption and clan structures. The three foreign respondents who have spent enough time in Kosovo to be acquainted with the local situation have also mentioned the high unemployment and the corruption.

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The answers to the question what urgent steps are needed to improve the economic environment and the quality of life in Kosovo were quite indicative. Here the respondents were free to give their own suggestions. Almost all NGO representatives have stressed the privatization and the establishment of the appropriate legal framework as the necessary steps. The same is valid for the business representatives. In some cases supporting the SME and lower interest rates were suggested. The foreign respondents have added political stability, reform of education, rebuilding of the industrial and agricultural sectors and the necessity to introduce a new legal framework.

With a few exceptions (2) none of the respondents has given priority to the settlement of the international status of Kosovo before starting any programme for economic revival. The same is valid for the foreign respondents.

The respondents in their majority (only three have answered no) are convinced that the reconciliation with Serbia or FRY will facilitate the economic revival of Kosovo. The same is valid for the foreign respondents.

Speaking about the role of the international community the respondents are almost divided. 10 of them suggest that a special programme for economic revival designed by the international community is needed. 8 think that the increase of the quick start projects dealing with Kosovo within the framework of the Stability Pact are necessary. 5 are suggesting to convene a special donor conference for Kosovo.

The question dealing with the priorities of the new Kosovo parliament and government was answered by the majority of the respondents stressing the necessity to introduce a legal framework and pass the appropriate laws for the quick start of a economic revival programme (14). Close to this answer is the necessity for the elaboration of a short-term programme for economic revival (7) and also the need to create a local administration capable to deal with the situation (7). The foreign respondents have given the same answers.

Asking about the pillars of the Kosovo economic recovery the majority of the respondents are convinced (14) that this should be the stable economic and financial policy based on the principles of the social market economy. Some (5) add the necessity for a sustainable fiscal and monetary policy in accord with some program of the IMF and the World Bank (5). The foreign respondents have the same line of thinking.

The assets for a quick economic revival are for the majority the skilled labor force (8) and the motivated young generation (9) combined with foreign investment (13). The foreign respondents have almost the same opinion.

About the sphere of preference the agriculture (10) and the information technologies (6) have priority. Mining (4) is also mentioned. Three respondents point out that all fields

are necessary, but priority should be given to the private sector in all of them. Two mentioned that education should be given priority status.

The stimulation of the private initiative was also among the issues raised. The majority (13) of the answers mention the favorable legislation and a tax system offering incentives to the local and foreign investors (9). The same is the line of thinking of the foreign respondents.

The first manageable steps to improve the economic situation should be a programme for supporting the small and medium businesses (15) together with the reform of the tax system (4) and abolition of the bureaucratic obstacles (4). The foreign respondents are giving the same answers.

The last question was connected with the role of the Kosovo neighbors and of the international community. The majority (12) of the answers were for a clear economic orientation towards the West and to enter all regional cooperation initiatives (6). The second was also stressed by the foreign respondents.

### **3. Conclusions**

1. There is no clear division of opinion between the representatives of the NGO sector and the business sector about the present day economic situation in Kosovo and the prospects for the future. For a better overview this questionnaire should be given to a certain number of members of the Kosovo Assembly, especially from the Economic Committee.
2. The economic situation and the quality of life in Kosovo are improving.
3. The high unemployment especially among the young generation is the most negative aspect of the present day economic situation.
4. An economic revival programme together with the introduction of an appropriate legal framework should be one of the priorities of the Kosovo Assembly and the provisional Self-Government.
5. Large-scale privatization and supporting the SME should be integral parts of this programme.
6. The settlement of the international status of Kosovo should not have priority over the economic revival programme.
7. Reconciliation with the FRY will facilitate the economic revival of Kosovo.
8. The economic revival programme should be designed in close cooperation with the international community, the EU, the IMF and the World Bank.
9. This programme should rely on a stable economic and financial policy based on the principles of the social market economy.

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10. The assets for a quick economic revival are the skilled labor force, the motivated young generation and the expected foreign investment.
11. In the programme the preference should be given to the agriculture and the information technologies.
12. A favorable legislation and a tax system offering incentives to the local and foreign investors and preferences for the SME should be part of this programme.
13. The economic revival programme should orient Kosovo clearly towards the West and enable it to go into all regional cooperation initiatives.

### **4. *List of the respondents***

1. Dr. Johannes Feist, German Office for Reconstruction and Development (GORED)
2. Dr. Ed Burke, Deputy Co-Head, Department of Education and Science
3. Jens Vang, Deputy International Administrator, University of Pristina
4. Rubik Spahiu, Bank for Private Business
5. Qazim Tmava, Bank for Private Business
6. Nazmi Mustafa, Chairman, Bank for Private Business
7. Gjergj Dedaj, President, Liberal Party of Kosovo (PLK)
8. Armend Mustafa
9. Mustafe Ibrahim, Vice President, Kosovo Chamber of Commerce
10. Migjen Citaku, Micro Enterprise Bank
11. Berim Ramosaj, Municipal Assembly of Pristina
12. Blerim Reka, Kosovo Law Center
13. Muhamet Mustafa, President, RIINVEST
14. Ilaz Ramajli, RIINVEST
15. Bekim Sejdiu, Kosovar Civil Society Foundation
16. Lulzim Peci, Director, Kosovar Civil Society Foundation
17. Muharrem Ahmeti, Trikom Private Firm
18. Agim Humolli, Baci Private Firm
19. Miha Bylykbashi, New Bank of Kosovo
20. Ismail Kastrati, President, Kosovo Chamber of Commerce
21. Migjen Zariqi, Kombiall Private Firm.

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