Kosovo's Challenges for Economic Viability

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Abstract

This paper addresses challenges, policies and opportunities for building a viable economy in Kosova, as one of the main issues for the post-status period. The objective of the paper is to analyse prospects for sustainable economic growth and viability of Kosova and to identify policies and actions to be adopted by the Kosovar Government and other stakeholders, with the support of the international community in Kosova.

Keywords: economic viability, economic growth, sustainability, macroeconomic imbalances, economic reforms.

Introduction

A country may be deemed economically viable when the available human, physical and financial resources are effectively used to provide economic growth and to increase the welfare of its inhabitants. While resources endowment matters, the effective use of resources to provide sustainable growth and increasing welfare is even more important. The process of growth is associated with a broad spectrum of policies, including: the financing of development and public infrastructure; a regulatory framework; governmental intervention and industrial policies. Strong market oriented reforms and economical and political stability, have proven to be very important factors, especially in transition economies.

Research and experience from many countries suggest that economic growth increases with improvements in education,

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financial depth management, trade openness and the availability of public infrastructure. On the other hand, it decreases with an extensive tax burden, with the absence of policies favourable to macroeconomic stability (including processes as, inflation, overvalued exchange rates and banking crises) and, also, by negative terms of trade. An appropriate mix of economic policies accompanied by an increased institutional capacity and quality will generate a beneficial pattern of self-sustaining growth.

The limited participation of Kosovars in governance in recent years has had negative effects on economic growth and viability of Kosovo. The absence of sovereignty increased political uncertainty and reduced the possibility of choice, which had negative effects on the economy, for instance, the uncertainty of ownership and the use of natural resources. Kosovo could take competitive advantage of its human and natural resources and demonstrate economic development. In terms of resources, Kosovo is not lacking resources compared to its neighbouring countries. However, in addition to the political status of Kosovo, improvements in governance, the rule of law, education and public infrastructure are all critical factors for creating a viable and sustainable economy. This will contribute to a better investment environment, which will mobilise local, and Diaspora resources and Foreign Direct Investments (FDI), and will channel them into investments. Moreover, achieving high GDP growth rates after 2009 (7-9%) is necessary, in order to absorb new entries in the labour market and to reduce high level of unemployment. Dynamic growth too, is a precondition in addressing imbalances in macroeconomic configuration such as: imbalances between GDP and consumption, a very high trade deficit, imbalances in the labour market and the size of the budget compared to the capital investment needed.

Despite the fact that Kosovo, as an emerging and developing country, is relatively well endowed with resources, it faces many challenges to achieve the needed dynamics in economic development. Structural problems such as: the lack of proper public infrastructure, high level of unemployment, deindustrialisation and trade deficit originating from the difficult heritage (especially during 1990s), require further support from the international community through effective technical and financial assistance and cooperation. Due to its structural problems and based on the experiences so far, one can expect that Kosovo will face difficulties in the mid-term, to ensure necessary capital public investments. Therefore, the international institutions' and donors' support is necessary in this segment. The main destinations for further support could be: support in capacity building, especially in the area of development management and governance; financial assistance when facing current budgetary difficulties for public investment (especially in the mid-term) and support for the establishment of proper and full capacity relations with international financial institutions.

Economic growth does not occur randomly, but it is a response, *inter alia*, to the quality of public policies, especially those affecting investment, productivity, technological innovation and externalities. While the growth of production contributes to human development, high quality growth requires fair access by all members of society to the increased opportunities for education, health and income generation. The process of growth is associated with a broad spectrum of policies including financing development, public infrastructure, regulatory framework, government intervention and industrial policies. In transition economies strong market oriented reforms and the achievement of economic and political stability are key factors.

Economic Viability: Theory and Experiences

In an increasingly global economy, developing countries face major challenges in achieving economic growth due, especially, to: inadequate savings and investment; a labour force with a low level of education and skills; deteriorating terms of trade and weak institutions.

Recently, in countries of East Asia, such as China and the "tiger" economies - South Korea, Singapore, Taiwan, and

Thailand[1] - and also member states of the Organisation for Economic Cooperation and Development (OECD) have experienced long-term growth. However, there are two opposing views as to the main driving forces. One view cites capital accumulation together with the increased quality (rather than productivity) of the labour force as the major factor; whilst the other cites the assimilation or acquisition and mastery of foreign technology. Total Factor Productivity (TFP), that is the share of physical capital in output, and channels through which human capital influences output, also play an important role. In the case of East Asia, many would agree that capital accumulation, rather than TFP, was the driving force of growth. However, the long run is of key importance and here TFP, rather than capital accumulation, is considered to be the major source of growth. Accordingly, the ideal combination to ensure growth would be capital accumulation in the mid-term and technological progress in the long run.

The main conclusions of a recent overview, named "The Sources of Economic Growth": An Overview[2], based upon a comprehensive econometric analysis of the experience of 78 countries, can be summarised under two headings: Structural policies and institutions and causes and characteristics of growth. According to this study, governments can influence long-term growth through structural policies, stabilisation policies and institutions.

The key policy areas are:

a) Education and human capital formation, which have impact on the effectiveness of other types of capital and facilitate technological absorption (measured through enrolment rates);
b) Financial depth, development of financial markets (measured by the ratio of private domestic credit to GDP);
c) International trade openness, which has an impact on the level of competitiveness, the market, the technological

[1] S. Iwata/M.S. Khan/H. Murao: Sources of Economic Growth in East Asia: A Nonparametric Assessment. In: IMF Staff Papers 50 (2003) 2.

[2] N. Loayza/R.Soto: The Sources of Economic Growth: An Overview. (2002).

innovation and, also, the level of the TFP (measured by the ratio of trade volume to GDP);

d) Government burden (measured by the ratio of budget to GDP);
e) Availability of public services and infrastructure;
f) Governance (institutional capacity and quality, absence of corruption, enforcement of contracts, law and order).

"Can Kosovo be economically viable?"

This question, which was frequently raised in the context of political status, is a very important one directly questioning the feasibility of an independent Kosovo as such and on the other hand the quality and dignity of life of Kosovars, specifically. The question is raised, usually, in terms of the size of Kosovo (population and area), its natural resources and the present and potential level of development. However, there is plenty of evidence that size per se (in terms of population and area) and the natural resource endowment, have bearing on economic viability (as cases like Hong Kong, Liechtenstein, Luxembourg, Monaco and Singapore show).

"Who will ensure economic viability for Kosovo if not Kosovars themselves?" – could be the virtual response of Kosavars. Historical evidence suggests that the well-being and economic growth of Kosovo has been proportionate to the opportunity afforded to Kosovars to govern their own affairs and, also, to the level of political stability. In the post-war situation – under UNMIK administration - the limited participation of Kosovars in governance and the government's lack of capacities have had negative effects on economic growth and viability. Governance and sovereignty are closely interrelated, since sovereignty is critical to having ownership of, and accepting, the institutions of governance and the rule of law, as well as managing and having ownership of resources. All of these are critical for long-term investment in growth, including institutional and human development. The absence of sovereignty heightens political uncertainty and reduces the possibility for choice. In terms of the economy, negative effects include: uncertainty regarding the ownership and use of natural resources (including land and minerals) for the assets of public and socially owned enterprises, which in fact was delaying, *inter alias*, their privatisation; difficulties in the enforcement of financial and economic legislation; limited scope for cooperation with regional and international institutions (such as the World Trade Organisation (WTO), the World Bank (WB), the International Monetary Fund (IMF) and the EU; constraints in the development of trade relations with other countries and barriers for the mobilisation of local and Diaspora savings and the attraction of Foreign Direct Investments.

After the successful initial phase of reconstruction and growth involving a construction boom, UNMIK and Provisional Institutions of Self-Government (PISG) have not been able to establish a policy environment and conditions for stable and lasting economic growth. The basic legal framework for business and commerce has been established, which for the most part meets the standards required for building a modern open market economy. However, enforcement mechanisms are still not in place and the progress in implementation and enforcement has not been sufficiently analyzed, for example concerning contractual obligations. In the northern part of Kosova and in minority enclaves there is no compliance with EULEX/Kosovar law and no action has been taken to secure compliance. These failures have straining effects on the market and have a negative influence on the business environment and the rule of law. Surveys on Small and Medium Enterprises (SME)[3] conducted between 2000 and 2009, indicate that SME owners and managers consider the main barriers for doing business to be: unfair competition, insufficient legislation, corruption, taxation and limited access to finance (from among 14 reasons listed). All these indicators are typical of a turbulent business environment with a lack of capacity and commitments to implement the rule of law. Increasing capacities, creating

[3] Riinvest: SME Development – Annual Report 2003, 2004, (2004). Riinvest Institute: "SME Financing and Development," Research Report, 2001, (2002). Riinvest: SME Development in Kosova-2000 (Annual Report 2000), (2001).

accountability and responsibility for the implementation of existing laws and ensuring the rule of law, appear to be very critical factors for further advances in building a business environment conducive to economic growth.

Euro based financial transactions have contributed positively to macroeconomic stability in Kosovo. However, medium to longer term macroeconomic stability is seriously threatened by critical imbalances including: Imbalances between GDP and consumption, a very high trade deficit, imbalances in the labour market and the size of the budget compared to the capital investment needed.

Total consumption, according to IMF estimates, is 8-9% higher than GDP and is covered by remittances from Kosovars working abroad. Secondly, the trade deficit is very high, with exports covering only a tiny part of imports - 2004: 5%, 2007 around 10%, while in 2008 around 11%. This situation is either a result of the complete collapse of the industrial structure in the 1990s, or of the de-industrialisation, which affected the export to a great extent. Between 1991 and 1998 exports dropped from USD 212 million (not counting the trade with other Yugoslav entities) to USD 38 million. In any case, tackling this huge deficit depends upon the successful implementation of integrated policies that lead to the development of businesses able to compete in the domestic market, and the development of exports involving both foreign investment and privatisation of socially owned enterprises.[4] Thirdly, the present levels of growth show no prospect for creating sufficient jobs for the net annual inflow of some 25,000 new job-seekers into the labour market. This is a long-term problem (83.1 % of the unemployed in Kosova have been unemployed for more than one year). Finally, the Kosova Consolidated Budget of approximately 1.1 billion euros accounts for approximately 32% of GDP. While current expenditures have been capped and revenue is increasing only slowly, there is an increasing need to finance essential capital investment. There is a high demand to improve

[4] Federal Statistical Office: Statistical Yearbook of Yugoslavia 2000, Federal Statistical Office, 2000.

transport infrastructure (especially in the rural areas), public infrastructure to support business development and employment, as well as investment for improving the quality of education. All these tasks represent a serious challenge. Despite the progress in building a sustainable budget, revenues cannot cope with the demand for capital investment. Kosova is an emerging economy with an inherited seriously deficient social and economic infrastructure. Needs must be prioritised and funding must be obtained from international and regional financing institutions, as well as through the EU pre-accession processes. Delays in addressing critical investment in public infrastructure, including education will have serious knock-on consequences for local private investment, as well as for Foreign Direct Investment and, consequently, for the process of economic development.

On the other side, paradoxally at the government accounts appeared to be present unspent cumulative cash (budget surplus) of about 500 million euros (for the year 2008). This figure shows huge deficiencies at the budget process and lack of capacities to manage projects in overall and capital projects especially. This gap needs to be urgently addressed by the government in a way that absorptive capacities are in place for facing the needs of fostering public infrastructure investments.

Existing public infrastructure provides, at best, only for the basic needs of the population and the economy. The supply of electricity is not reliable because of frequent blackouts and substantial imports, despite the fact that Kosova is, at least potentially, the lowest cost supplier in the region. The existing supply deficit coupled with the resumption of mining and smelting activities and the potential for exporting electricity has resulted in proposals to rehabilitate Kosova by building a thermal plant and construct a new 1000 MW plant and associated lignite mine. The public provider currently competes with a new private company in telecommunications sector, but is unable to provide a quality service while the mobile network is also a virtual monopoly with prices that are among the highest in the Balkans. Poor and costly telecommunications, including IT services, are a serious deterrent to business and poor publicity for promoting the development of high value services.

While the infrastructure of the main roads may meet basic needs, secondary and particularly rural roads are in a very poor condition. The condition and capacity of the main roads, taking into account the traffic volume on these roads, causes a 50-75% increase in time expenditure than might normally be expected on routes between the main cities and Prishtina, having serious implications on transportation costs. Kosovo is currently left out of trans-European traffic corridors. Improvements to the main corridors Durrës - Prishtina - Niš and Mitrovica - Skopje are necessary to reduce transport costs, to increase competitiveness and to facilitate regional and trans-regional integration. With 85% of Kosovo's population living within a radius of twenty kilometres from one of the seven main cities, the development of the interurban and suburban transport networks is necessary to support urban and rural development. Such enhancements of the transport facilities would assist in securing a more productive use of resources in rural areas and in reducing internal migration trends to the cities.

The need for economic growth

It is estimated by the Ministry of Economy and Finance (MEF) and the International Monetary Fund (IMF) that GDP[5] growth rate in 2007 was 3.5 per cent, (similar to 2006). Although this shows improvement compared to the period 2004–2005, this level of economic growth still lacks significantly behind other countries in the region[6]. Such a level is insufficient to overcome the high level of unemployment and poverty in Kosovo and other imbalances in the country's macroeconomic configuration. The economic growth that has been achieved is mainly the product of investments in the private sector, which has been supported by Foreign Direct Investments (FDI) and

[5] Mid-Term Expenditure Framework – Ministry of Economy and Finance

[6] Albania 5% real growth, Macedonia 3.5% real growth, Serbia 6% real growth, Croatia 4.6% real growth (source: IndexMundi)

banking sector loans. Thus, there is a need to strengthen the policy framework in order to attract more FDI and more national private investments, since this will be the main source of job creation. The MEF and IMF have projected for year 2008 a 5.4 percent growth in real GDP (double the level of the two previous years). This figure is based mainly on the growth of consumption, investments, governmental expenditures, foreign assistance and exports. Table 1 reports the major macroeconomic indicators, from which it can be seen there is a projection for growth in all these categories. However, given the current ongoing situation, this projection is seriously challenged.

Table 1. Some relevant macroeconomic indicators

Indicator	2006 (est.)	2007 (est.)	2008 (proj.)	2009 (proj.)
GDP (million €)	3,099	3,343	3,739	4,029
Real GDP growth (%)	3.1	3.5	6.0	5.2
GDP per capita (€)	1,476	1,573	1,729	1,832
Inflation (%)	2.0	10.4	2.5	2.4
Exports (million €)	284**	343*	405*	470*
Imports (million €)	1,305	1,576	2,051*	2,175*
Consumption		3,810*	4,161*	4,323*
Investments (% GDP)	23.0	27.2	30.9	28.9
Foreign assistance (% GDP)	10.3	8.9	9.2	9.4

Source: *, Macroeconomic Department, MEF; **, Central Bank of Kosovo

It is far from certain that there will be achievements in investments made at the level of 30 percent of GDP for the year 2008. According to a survey conducted by Riinvest Institute with 500 SMEs in 2008, although around 59 percent of businesses expect better business conditions this year, it is hard to expect that private investments will increase compared to the previous year. Foreign Direct Investments still remain modest, while credits are expensive and there is still an absence of other financial instruments, such as leasing, factoring and bilateral investments funds.

The expected increase in government expenditures is based mainly on about 400 million euros in cash accumulated from previous years (accumulated budget surplus). Of the expenditures projected for the year 2008, during the first six months of the year, the government has only been able to spend about 29 percent. Private consumption as an important component in creating economic growth has considerable participation in Kosovo's GDP, especially household consumption. With the impacts of inflation, unemployment and poverty, we cannot expect an increase in consumption in the near future. And if we have the same level of inflation in the next period of the current year, this will help decrease purchasing power and decrease private consumption.

Current trends and the structure of Kosovo's trade balance remain quite unfavourable, with very few possibilities for increasing exports, and as a result economic growth will be lower. It is evident also that economic pessimism (measured as percentage of respondents dissatisfied or very dissatisfied with current economic trends), having sharply decreased following the declaration of independence, has started to increase, by eight per cent, only in the last period of the year (May–September 2008)[7].

Unemployment rate in Kosovo is estimated to be about 40 percent, and remains a key concern of policy makers. There is a huge need to create a policy environment: it is essential first of all to strengthen dedication to behaviour towards the rule of law and to ensure a sustainable long-term growth rate of around seven per cent. Only under these conditions, can the necessary space for decreasing the high level of unemployment and poverty be created. According to several recent opinion polls in Kosovo, the unemployment problem is seen to be one of the biggest concerns.[8] Recent World Bank estimates show that around 45 percent of the population live in relative poverty (on less than 2 USD per day), and around 15 percent of the population live in extreme poverty (less than 1 USD per day).[9] The economic trends seen during the first six months of the year 2008 do not seem to show any turning point towards a boosted economic growth, despite optimistic projections and estimates.

[7] This indicator is measured from the data gathered by Riinvest Institute, in the frame of the Early Warning Report

[8] Early Warning Report 20 and 21, UNDP Kosovo

[9] World Bank report on Poverty in Kosovo, November 2007

It is clear from Table 1 that exports increased over the year 2007, and there are projections that this trend will continue, but on the other hand there is still an enormous trade deficit. Currently in Kosovo's economy, exports cover imports only by around eleven per cent, and give a figure for the trade deficit of more than 30 percent of GDP.

With the impact of the past political situation, part of Kosovo's population have migrated to Western countries. At present, it is estimated that around 17 percent of the total population live outside Kosovo. According to a Riinvest survey on the Diaspora and Remittances, most emigrants send remittances back to their families. These remittances comprise almost 14 percent of GDP. Following the 1999 War in Kosovo, economic development based on donations and remittances from Diaspora, figured prominently in the reconstruction of the country. But, we need to emphasize that both foreign assistance and overall remittances are now declining.

As discussed earlier, although post-war reconstruction was largely successful, Kosova has yet to establish a sustainable growth path. Many challenges remain – 40% of the rapidly growing workforce is unemployed, much of it long-term as job prospects are poor; the level of education of the workforce and the capacity of higher education are inadequate; there is a massively negative trade balance, exports are negligible; economic and social infrastructure is generally inadequate and often in poor condition; investment is low at 25-26% of GDP while consumption is high; the estimated share of the agriculture at GDP is 25%, of services 60% and industry about 15%. These structural challenges and imbalances can be resolved only with strong long-term economic growth.

Several Central European countries and some South-Eastern European countries have achieved high rates of growth during transition periods, which Kosovo must equal to be able to meet the challenges outlined above. These countries success has been due, mainly, to effective liberalisation processes, increasing their competitive advantage as well as creating a business friendly environment. The following three "What if?" growth scenarios (more detailed see below) are based upon current conditions and lessons learned from experience in other transition economies with high growth rates, including key factors which have impact on investment and increasing competitiveness. Scenarios are dependent on the political and institutional developments and other improvements in the political and economic environment and the following scenarios have therefore been constructed using these factors.

The so called "status quo scenario" whereby a stagnation in growth, or a low 1–3% growth rate is expected if there will be problems with political status of Kosova or if there are changes regarding reforms and economic governance. The consequences of this scenario would be reflected in an increased political and economic instability. In addition, the pressure to emigrate would increase, and the institutions would not be able to address unemployment and poverty. The 5% growth scenario would perhaps overcome many of the aspects outlined above, but it would not be sufficient to generate the immense amount of employment needed, nor would it increase the competitive position of Kosova. The last scenario shows a 7% growth rate that would set space for addressing chronicle problem of unemployment and other macroeconomic imbalances.[10]

It is clear that sustainable economic growth in Kosova is unlikely to be driven by any one sector or industry, but will come from exploiting opportunities in several sectors of which the following are considered to have the greatest potential. In the agricultural sector, farmers - given their small sized farms and plots - are moving from cereals and other low value field crops, to the production of high value products, such as fruits, vegetables, livestock and meat production, where more market opportunities exist. Some brand products could also be developed for export, especially if environmental and ecological healthy food programmes could be launched.

The SME-sector is currently the most vital, having potential for further development as the business environment improves. Within this sector, the agro-processing industry is already engaged in import substitution within the domestic market and

[10] Towards economic viability of Kosovo – challenges, policies and opportunities - Riinvest Institute

it has started to export to neighbouring countries (e.g., milk, meat and juices) with scope for expansion. Similarly, construction material suppliers, the construction industry with related services, have substantial scope for expansion in a growing economy. At a later stage, given expansion and improved quality of higher and tertiary education, there could be opportunities in high value added services. Possibilities for these services exist for example in IT and the financial sector. Also tourism, especially winter and ski tourism should be considered and explored.

In the energy sector proposals are currently being developed to meet the large and growing regional power shortage, by rehabilitating an existing thermal power plant and building one or more large new plants, which run on the abundant reserves of relatively high quality, and low cost, lignite in Kosova. Given the high level of investment required (some billions of Euros for the power plant, the mines, the transmission systems etc.) and the technical complexity, the first phase of such a development would extend over a period of at least seven to eight years with substantial long-term benefits thereafter in terms of employment and exports. It would also ensure Kosovar businesses of a low cost, reliable source of power. However, even in the shorter term, say within two to three years, construction activities and other services would bring significant benefits in terms of employment. The development would involve large scale FDI.

The mining of minerals and metals is also a potential sector for economic growth. The recent privatisation of the Ferronickel enterprise with FDI enabled the resumption of exports. There is potential for the redevelopment of other mines and smelters - lead, zinc, nickel and manganese - that have currently ceased production, including Trepca mines in Stantërg, Kizhnicë, Novobërdë, and Hajvali. However, the potential scale and commercial viability of the resumption of mining and smelting is not clear. Privatisation is a prerequisite for possible resumption, as is commercial viability, which would involve substantial capital investments from FDI. Metals used to be one of the main former export products of Kosova. The production of galvanised sheets and the resumed work at the Ferronickel was a good prognosis but the effects of the global crisis have negatively influenced these companies lately. There may be scope for the resumption, or partial resumption, of production for export (as was the case in the 1980s) of other metal products such as automobile parts, electro motors, radiators, galvanised zinc sheets, tubes and pipes, batteries and rubber conveyor belts. Kosova's industry's position has been lost on most of these markets, but through cooperation with foreign investors these markets would be regained. This depends mainly on the privatisation process, which would presumably increase exports and economic growth.

Becoming "Investment Friendly"

According to the growth scenarios presented above it is clear that the factors that will stimulate economic growth will be heavily dependent upon effective, democratic institutions and the rule of law. Meanwhile, a resolved status for Kosova will help create a better investment environment, with normal access to the International Financial Institutions (IFI) and through the mobilisation of all necessary private and public, domestic and international sources of investment. Although such investment is necessary it is not sufficient on its own to generate the growth desired. Other economic and institutional conditions must also be in place, such as necessary structural changes, institutional capacities, managerial competence and skilled labour, along with an ability to plan and implement projects.

As also after the resolved status of Kosova the technical and financial assistance of the international community will continue, too, the above mentioned two conditions could be achieved. Thus, the national economy will most likely depend upon the ability of institutions and human resources to both generate and absorb investments, transforming them into feasible projects and sustainable economic growth. This will be a constitutive part of Kosova's new image as a destination for FDI, which will need to be promoted aggressively.

The current policy environment (taxation, financing, etc.) is mostly technically and theoretically adequate. However, the policies should again be tested against their effects on economic growth in concrete Kosovar conditions. This has proven to be a problem so far. In that respect it is necessary that taxes are reconsidered and become friendly for investment (free custom duties for all capital goods for investment, and longer period VAT credit for equipment). Secondly, measures should be undertaken to increase competition in the credit market, so that interest rates become appropriate for long-term investment, especially in manufacturing activities where export products are concerned (cooperation with IFI and banks for credit lines). Finally, reform and restructuring should take place, whilst more competition in public utilities has to be created.

The preferred scenario (described above) indicates that by 2010 the Kosova budget should be more than 1.3 billion Euros. From an economist's point of view, a share of the budget consumption of 30 to 32% of GDP is not considered a problem for the economic growth of Kosova. Nevertheless, if expenditures exceed this level then, based on some international experiences, this might have a negative impact on economic growth.

The most evident problem for the budget is how to cope with needs for capital investments. Some of these needs have already been described above. Capital Investment Projections that were designed in absence of a development strategy were not based on well-defined priorities. Therefore, the PIP, which is drafted and approved by government, should be harmonised with the mid-term Kosova Development Plan and with the main goals of economic development, which are currently being prepared. Based on experiences so far, one can expect that, due to its structural problems, Kosova will face difficulties in the mid-term with acquiring capital public investments. Therefore, the support of IFIs and other donors is necessary in this area. A further increase in budget spending will be necessary in the future. For example, new jobs will be created for new ministries, where office space and other running costs will arise.

The process of restructuring public companies such as Kosovo Energy Company (KEK), Post and Telecom Kosova (PTK), Prishtina Airport, Railways, and regional heating, water supply and sewage companies, has not progressed according to budget projections. Dependency on budgetary funds is a reality for some of these companies, while the level of quality of services provided is very low, though at quite high cost. It is clear that budgetary funds compensate for inefficient management and for delays in restructuring and liberalisation of this market. Such a practice has created a paradox, where taxpayers pay for the shortcomings of the KTA and KEK management. Moreover, in the energy sector this has been accompanied by a low level of charging consumers. The solution should be sought in the liberalisation of the public services industry, by creating conditions for private investments and larger competition on the market. This would discharge the budget from unreasonable obligations and would increase the responsibility of the public companies. Government by the end of the year 2009 has decided to privatize public companies, but still has no clear strategies and legal framework and also is lacking necessary support originating from a basic consensus between key stakeholders in this process.

Technical Assistance and Cooperation

Despite the fact that it is relatively well endowed with resources, Kosova has an emerging developing economy and as such it will face many challenges before it can achieve the necessary dynamics for economic development. Its structural problems, such as lack of proper public infrastructure, unemployment, deindustrialisation and trade deficit originating from a difficult heritage, especially during the 1990s, require the continued support of the international community through effective provision of technical and financial assistance and cooperation.

Future international support might be provided through various channels. Kosova has a need for further technical assistance from the international community in order to continue the trend of capacity-building in the area of governance of the economy and finance. However, the character and volume must be modified. In this aspect, the transfer of competencies must also continue during the process of determining the country's status. After the status issue has been solved, all competencies of UNMIK in the field of the economy and finance must be transferred to the institutions of Kosova. Full competencies over fiscal policies, the Banking and Payment Authority, the Pension Trust, the Agency for Privatisation, the customs administration, public enterprises and foreign economic relations have been transferred to Kosovar institutions after the independence of Kosovo.

Following this, an assessment of the needs for international consultancy within these institutions must be prepared. Also the preparation of an intensive training programme for macroeconomic management and development finances is necessary. The monitoring role of the international community, along with cooperation with the World Bank and IMF in this field in a certain period of time, would have to do with law enforcement and enforcement of general international standards as well as human rights issues. Another channel of international support could be the absorbing capabilities, promised at the donor conference (2008), by means of which support for the strategic needs for economic development of Kosova, particularly those in public infrastructure, would be realised. The political status declaration is also a key factor for improving economic governance, setting up trade and economic relations with other countries, being a member of, and having cooperation with IFIs and other international organisations. Kosovo is now independent country recognised by 57 states all around the world, and it should take responsibility for its economic viability based on a sustainable development.

The international community have contributed towards overcoming the terrible consequences of the war and rebuilding Kosovar society, including the establishment of an institutional infrastructure based on free elections. However, further development of these institutions requires a new type of support, especially to increase the capacity of law enforcement, governance and management of development. Also, further support in improving the quality of education will pay its dividends in increasing Kosova's absorption capacities for investment and development. The next phase of this assistance should be directed entirely at increasing capacities rather than at doing the jobs that the Kosovars themselves should be doing.

Discontinuation of development and lack of investment in public infrastructure and utilities during the 1990s have had very negative consequences for Kosova, particularly on the current conditions for development. The Kosova Consolidated Budget will face difficulties, at least in the mid-term, in providing necessary investment until economic growth is fostered and an improved tax administration further improves tax collection which will strengthen the budget. Supporting the Kosova Consolidated Budget will require direct international financial assistance in this area.

Cooperation with the IMF and WB, which have been present throughout the post-conflict period, contributed significantly, with technical assistance and direct budget grants during the first years. With the advancement of status talks and their finalisation in sight, new capacities are expected to be established due to this cooperation. At the moment, both sides, particularly the Kosovar institutions, should work on preparing feasible bankable projects and having proper management systems for the implementation. Along this line, some initiatives already taken for creating cooperation with the European Bank for Reconstruction and Development and the European Investment Bank, need to be reinforced. Cooperation with IFIs need to be established and organised within the Ministry of Economic Finance and government because of its key importance for building conditions for sustainable development through lasting econ

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