

KOSOVO/A CIVIL SOCIETY PROJECT
KOSOVO/A STANDING TECHNICAL
WORKING GROUP
Eleventh Meeting
Economic Development and Labour

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Grand Hotel, Pristina, 6 December 2002

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Director: Marc Weller

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I. Introduction

The Standing Technical Working Group (STWG) was established in March 2001 to address important issues of public policy in Kosovo/a at a technical level. It is composed of experts from Kosovo/a NGOs, the political parties and other civil society representatives. Its membership is fully interethnic and it prides itself on being able to conduct debate in Kosovo/a in an interethnic way. The Group reviews technical aspects of current policy and formulates proposals and critical questions in relation to them. It then seeks to engage the relevant appointed local and international representatives on these issues. In response to the changed political environment in Kosovo/a following the Assembly elections in November 2001, the Group sought to enhance its role in public policy analysis and development through the establishment of four expert working groups. These Expert Committees (ECs) have devoted their activities in 2002 to monitoring policy developments in four areas considered most relevant to the needs of all communities in Kosovo/a. One of these is the Expert Committee on Economic Development and Labour.

II. The ECMI Expert Committee on Economic Development and Labour

The ECMI Expert Committee on Economic Development and Labour commenced its activities in April 2002. From the outset, the Expert Committee set itself the aim of developing policy options that would help generate equitable means for improving the economic prospects of Kosovo/a and enhance job creation across all communities. After establishing a work plan for the year, members of the Expert Committee identified a number of issue areas that they considered in need of further examination. The members of the Committee also undertook to establish channels of dialogue with the ministerial authorities and Assembly Committees of the provisional institutions of government in Kosovo/a, and arranged consultative meetings with local and international experts with specialist knowledge on relevant topics of micro-economic and fiscal policy.

To assist the Expert Committee in its monthly meetings, a smaller steering committee was established whose members were tasked with preparing background analyses of various issue areas, and with exploring opportunities for increasing their knowledge and level of expertise through training and study visits. These background analyses were then used to focus the deliberations of the Expert Committee. A study visit was also undertaken to Tirana, where the members of the Expert Committee met with ministers and policymakers to discuss the pros and cons of the privatization process there and to witness successfully privatized enterprises in operation.

On 6 December 2002, the Expert Committee on Economic Development and Labour hosted a workshop to address the issues they had considered throughout the year and to outline their specific policy recommendations. The ongoing forum of the STWG was convened, and representatives of the local and international decision-making bodies and ministries were invited. A summary of the workshop aims and proceedings is set out below.

III. The Eleventh Meeting of the Standing Technical Working Group: Stimulating Economic Development and Job Creation

The eleventh session of the STWG took place at the Grand Hotel, Pristina, Kosovo/a. In preparation for the session, the Expert Committee for Economic Development and Labour prepared over 80 policy recommendations, which were consequently debated and bracketed according to their degree of urgency and relevance. These recommendations were then further refined and a number of objectives were identified for the plenary session. These were:

- To critically examine the process of privatisation that had been initiated in Kosovo/a, paying particular attention to the status of socially owned enterprises and the need to attract foreign investment.
- To heighten awareness of concerns regarding reform of public enterprises, particularly in the energy, telecommunications and transport sectors.
- To focus attention on the need to stimulate the credit market and agriculture sector as a means of generating equitable job opportunities across all

communities as well as the need to generate the required indigenous skills and capacity to effect reform.

- To facilitate debate and formulate joint policy recommendations on these issues, with a view to effecting implementation.

The workshop was divided into two main sessions. Each of these sessions was broken down into three parts, corresponding to the objectives outlined above, and chaired by a member of the Expert Committee, Ilir Salihu and Myrvete Pantina, respectively. In addition to the members of the STWG and policy-making establishment of Kosovo/a, the workshop was also attended by the former Economics Minister of Albania, who gave a brief overview of the successes and failures of the privatization process in Albania, and two representatives from the Lessons Learned and Analysis Unit of UNMIK Pillar IV.

IV. Summary of the Proceedings

Starting from an overview of the private sector of the Kosovo/a economy, the participants discussed the reforms they considered necessary to support a dynamic private sector, focusing primarily on the need to establish clear property rights, to reform the tariff structure, and to create a clear legal framework for increased transparency in the emerging private sector. The STWG then set out to address the needs of specific sectors of the economy in turn: utilities and infrastructure, agriculture, finance and banking, and human resources and training.

A. Stimulating the Private Sector

It was agreed that the private sector has been and will remain the main mechanism for stimulating the economic development of Kosovo/a. The Expert Committee presented data demonstrating the dynamic growth of the private sector in recent years with the number of private firms growing by 25 per cent in the past year alone. However, the Group agreed that the privatization of socially owned enterprises (SOEs) needed to be expedited. Conceding the limited physical and uncompleted legal infrastructure in Kosovo/a, the Group agreed that the Kosovo/a Trust Agency (KTA) should not

overburden potential investors, domestic as well as foreign, by setting stringent conditions for investment. It was further highlighted that the KTA should aim to create mechanisms that would ensure a high level of transparency throughout the privatization process. Some members of the Group argued that the KTA should oversee and direct potential investors to key economic sectors, while others posited that investors should make investment decisions free from such guidance.

The Group noted that the ambiguity of current property rights arrangements was a severe restraint on the privatization of SOEs. Some members of the Group argued that for some SOEs, it was not clear who owned the property that was associated with the enterprise, as claims of ownership could also be made from the Federal Republic of Yugoslavia. Others rebutted the argumentation that all SOEs in Kosovo/a were owned by the people of Kosovo/a, and that consequently property rights for SOEs could be easily clarified and SOEs privatized. The Group did, however, agree that for a programme of privatization to attract investors at all, there had to be guarantees that changes in the political status of Kosovo/a would not invalidate investments currently being made or change current business regulations radically.

B. Reforming the Tariff Structure

The existing tariff structure was also considered a possible deterrent to investment in Kosovo/a. In this respect, it was pointed out that present arrangements allowed for tariffs to be placed on the import of capital goods while regional trade agreements set no tariff on the import of consumer goods from Kosovo/a's neighbours. As one member of the Group pointed out anecdotally, under the existing tariff structure, a pharmaceutical company in Kosovo/a would be better off building an aspirin factory in Macedonia and exporting the pills to Kosovo/a than paying customs duty to import the industrial equipment for a plant into Kosovo/a. Though the relative merits of the regional trade pact were debated, the Group agreed that customs duties on capital goods needed to be reduced.

The Group identified a variety of potential private investors in the Kosovo/a economy, including local investors, international investors and the Kosovar diaspora. In order to reach these investors, the Group agreed that the KTA should implement a

campaign to promote the privatization process and open investment offices in the USA and countries of Western Europe. It was also noted that support from international financial institutions, such as the World Bank, could play an instrumental role in the privatization of the largest SOEs in Kosovo/a.

Finally, it was noted that the same reforms needed to encourage the privatization process – increased transparency, clear property rights, a legal infrastructure for business and customs reform – were indispensable for the expansion and successful operation of existing private firms.

C. The Energy, Transport and Telecommunications Sectors

In the strategic sectors of energy, transport and telecommunications, the Group agreed that specific legislation was needed to regulate their operation as they constituted natural monopolies and were at the same time key to the economic development of Kosovo/a. A legal infrastructure was therefore needed to protect consumer interests while also ensuring open and transparent management of the enterprises in such strategic sectors.

The Group noted that the Kosovo/a Electric Authority (KEK) had been plagued by corruption and inefficiency in recent years. There was some discussion as to whether this had resulted out of a lack of adequate oversight on UNMIK's part, or whether this was endemic to the internal workings of KEK. Irrespective of this, the Group agreed that a lack of clear regulation and transparency was clearly the root cause of KEK's current difficulties.

Some members of the STWG recommended that energy production and distribution be disaggregated, creating an opening for new sources of power generation to enter the market. The Group also discussed whether KEK and the energy sector should be privatized at all, or simply restructured. In this respect, the Group underlined that a new management focus should be initiated which placed emphasis on consumer relations, including the establishment of a customer/public relations division at KEK. In addition, there was consensus that KEK needed to improve the training and

competency of its staff, in both the generation and distribution of services, as well as to rationalize existing management structures and operate more transparently.

The telecommunications sector has encountered many of the same difficulties as the energy sector. The Group concluded that the Post and Telecommunications Company of Kosovo/a (PTK), like KEK, needed to increase the transparency of its operations to avoid the possibility of corruption. There was also agreement that the mobile phone market should be liberalized and new mobile network providers allowed access to the Kosovo/a market. As a consequence, it was expected that the liberalization of the market would improve telecommunication services while reducing prices.

The Group noted that the transport sector was of central importance to the development of the Kosovo/a economy. The STWG agreed that Kosovo/a's neighbours needed to formally recognize Kosovar licence plates and that a regional standard should be agreed on vehicle insurance. Currently, this lack of regional cooperation had limited regional trade.

The physical infrastructure was also seen in need of improvement. It was agreed that a long-term strategy should be developed to improve Kosovo/a's rail links. There was some discussion concerning whether the focus of future road construction should be laid on improving major thoroughfares, such as the Pristina-Skopje and Pristina-Dures routes, or on improving the network of smaller roads connecting Kosovo/a's rural villages. It was agreed that a clear plan for the improvement of the road network needed to be drafted by the relevant ministries, and that international funding be sought for the project's realization.

D. Stimulating the Agricultural Sector

The assembled Group also agreed that encouragement of a dynamic agricultural sector was crucial to Kosovo/a's future economic growth. Some members of the Group argued that agriculture should be encouraged to provide food security. Others argued that the focus should rather be laid less on developing agricultural exports in products where Kosovo/a had a historic advantage, such as wine and potato production.

The merits of the Yugoslavia-Macedonia Customs System were discussed in terms of investment in agriculture. It was agreed that if the Kosovo/a market was to remain open to low tariff imports on agricultural goods from the region then customs duties on agricultural inputs needed to be reduced. The Group also discussed the relative merits of raising tariffs on food imports that protect farmers yet lead to higher food prices for consumers.

As with the privatization of SOEs, the Group agreed that agricultural lands should be placed in private ownership and that property rights needed to be clarified. Further, the need for a legal infrastructure for agriculture, incorporating food standards, land policy, fertilizer policy and other relevant legislation was stressed. In this context, it was also noted that this legal framework should be extended to safeguard the forestry and woodland of Kosovo/a.

Lack of credit and facilities for transport were also seen as limiting factors on agricultural development, and needed to be addressed. It was suggested that a lending scheme be created to actively support agricultural efforts.

E. The Need for Viable Credit Policies and Development of Personnel

The discussion then turned to the issue of ensuring adequate and viable credit. It was observed that although the financial and banking sector in Kosovo/a had improved in recent years further improvement was needed in these sectors if the Kosovo/a economy was to be sustainable. The members of the Expert Committee highlighted the high interest rates and short repayment periods of most loans made in Kosovo/a. Because of these loan conditions, it was observed that credit was being used primarily for trading concerns and not for investment in industrial or agricultural enterprises.

It was, however, conceded that credit with longer loan terms and lower payable interest rates were likely to become available as the financial sector developed. The Expert Committee pointed to the fact that many Kosovars were currently reluctant to put their savings in local banks, as they still remembered how they had lost their savings under the old savings system. As confidence in the system is regained,

deposits should increase and that consequently interest rates for loans would decrease. Some participants argued that the creation of a national or central bank for Kosovo/a could increase savers' confidence in the financial system. It was also noted that as property rights were clarified, mortgageable property would be available to secure longer-term loans.

Nevertheless, the Group observed that as the economy of Kosovo/a developed and firms were increasingly privatized or reformed an increase in unemployment was unavoidable in the short-term. The Group agreed that lay-offs from restructured enterprises were to be expected and that the KTA should not disapprove these lay-offs. Rather, the KTA should use some of the funds from privatization towards retraining programmes for those workers who had become newly unemployed. Though the need for retraining was recognized by all participants, there was some discussion on how best to design programmes that would meet this need. Some felt that an apprenticeship programme would best meet the human resource needs of small and medium-sized organizations. There was agreement that a comprehensive study of skills requirements in industry be conducted, in order to ensure that those who were being trained would gain the appropriate skills. Further, the possibility of tying such a retraining programme to the Ministry of Education should be investigated. In addition to retraining, it was also suggested that the KTA create a database of unemployed workers to be used by firms offering employment.

V. Conclusions with Recommendations

At the conclusion of the session, the Chair put the recommendations of the Expert Committee on Economic Development and Labour before the entire STWG. These recommendations had been generated over the year through an ongoing process of consultation and discussion among members of the Expert Committee on Economics and Labour. The Committee had also sought audiences with local and international experts, and other members of the STWG. The plenary of the STWG examined these recommendations in turn and offered criticism and suggestions that had emerged in the preceding debate. These have been incorporated in the final text. The recommendations below were approved unanimously by the STWG. The Expert

Committee on Economics and Labour was also tasked to engage the relevant policymakers of the decision-making bodies to take account of these recommendations in their future work.

Recommendations on the Privatization of SOEs and Attracting Foreign Investment

1. Potential investors should be assured that changes in the political status of Kosovo will not endanger their investments or substantially change the regulatory environment. Thus, UNMIK should provide guarantees to this effect to potential investors and greater involvement of the Provisional Institutions of Self-Government in Kosovo is necessary.
2. Fixed assets of SOEs should be privatized and rights for their use granted, as clear property rights are essential for attracting foreign and domestic investment.
3. During the process of drafting operational policies for privatization, the Kosovo Trust Agency (KTA) should limit the number of conditions set on investors, as the current investment environment is already dampened by an uncompleted legal infrastructure and a limited physical infrastructure.
4. The KTA should establish a special public relations department to promote the privatization process and increase the number of potential investors. In addition, Kosovo/a Investment Offices should be opened in the USA and Western Europe and delegations from the KTA sent to attend fairs and international conferences to meet with potential investors.
5. The privatization process should be transparent to build investor, and especially foreign investor, confidence.
6. Customs policy should be reformed to reduce tariffs on industrial equipment.

*Recommendations on the Reform of Public Enterprises: Energy,
Telecommunications and Transport.*

1. A sound and modern anti-trust law should be promulgated that protects consumer interests and creates a transparent legal framework for the operation of public enterprises with monopoly power, such as KEK and PTK. This

legislation will also help to define the long-term strategic development of these public enterprises.

2. Improve the management of KEK in the production, transfer and distribution of electricity. This includes the training of production staff in order to reduce technical problems in production and the need for costly repair outlays. Employees in local distribution systems should be trained in customer relations and the management of low-voltage networks and transformer substations.
3. KEK should institute a public relations department. This will serve to improve customer relations, improve the image of the company with regard to attracting investment, increase business transparency, and create a higher level of professionalism.
4. Greater transparency at the Ministry of Telecommunications and PTK should be developed. This can be facilitated in part by organizing consultations between the Assembly, the Ministry and PTK.
5. The mobile telephone sector should be expanded and liberalized by enabling an open tender for this sector as soon as possible. This liberalization should increase coverage, improve services and lower consumer prices.
6. To improve planning and technical expertise, PTK should cooperate with the Electronic Engineering Faculty of the University of Pristina.
7. Find international financial support for the construction of modern highways on the Pristina-Skopje and Pristina-Dures routes, with the backing of government to offer long-term concessions to potential investors in these projects.
8. Insist on the recognition of Kosovar licence plates by neighbouring countries and make regional agreements related to the standards of insurance for the movement of goods and people in the region. Clearly identify and publicize any obstacles in reaching the aforementioned agreements.
9. Develop a plan for the long-term development of a railway network in Kosovo/a. Launch a public information campaign to explain to the Kosovar public the benefits of rail transport. Join European railway transport organizations that may garner financial support for railway construction.

Recommendations on Stimulating the Agricultural Sector

1. The import of agricultural machinery and other agricultural inputs, such as seeds, cows, fertilizers, pesticides and herbicides should be exempted from duties and VAT to stimulate investment in agricultural production.
2. A Kosovar institute for product quality and licensing should be founded and internationally recognized. This institute will ensure that Kosovar agricultural products meet or exceed international standards, ensuring high quality agricultural products for the Kosovar population and generating opportunities for the export of these products.
3. A system for long-term, low interest loans for agriculture should be developed. This loan fund could be drawn from the Kosovo/a Consolidated Budget or developed in cooperation with international financial institutions.
4. To improve the position of Kosovo/a's farmers in the agricultural market, the Yugoslavia-Macedonia Customs Agreement should be reviewed and removing its application to Kosovo/a be considered.
5. Comprehensive privatization in the field of agriculture, encompassing the denationalization of land, the return of land to lawful owners, as well as the juridical resolution of land disputes should be initiated.
6. In compliance with the international charter for the protection of agricultural land, the maintenance and improvement of agricultural land should be ensured and an efficient cadastral service and land registration process put in place.
7. Legal protections should be promulgated that create a far-sighted plan for the protection of forests and set aside forestland for protection.

Recommendations on Stimulating the Credit Market

1. Steps should be taken to increase consumer confidence in placing their savings in banks, enlarging the working capital in the local credit markets.
2. Steps should be taken by government authorities and international financial institutions which encourage longer loan periods and lower payable interest rates which will serve the credit needs of agricultural and industrial borrowers.

Recommendations on Human Resource Development

1. Privatized and restructured SOEs should be granted the right to lay-off redundant workers. The KTA should retrain these laid-off workers, using funds derived from privatizations.
2. The KTA should complete a study of the Kosovo/a economy focusing on the skills needed in developing industries. This information will be incorporated into the re-training program.
3. The KTA should create an employee database connecting recently unemployed individuals with potential employers.

VI. Annex

A. Programme of Workshop

TIME	ACTIVITY
8.45-9.15	Participant Registration
9.15-9.30	Introductory Remarks Robert Curis, ECMI Kosovo – Country Director
9.30-11.30	First Session: Chair: Ilir Salihu <ul style="list-style-type: none">• Identifying and Attracting Investment: Myrvete Pantina and Blerim Burjani• Reform in the Public Enterprises: Fedzat Sagdati• Vocational Training: Ruzhdi Hamza• Discussion & Debate
11.30-12.00	<i>Coffee Break</i>
12.00-13:45	Second Session Chair: Myrvete Pantina <ul style="list-style-type: none">• Stimulating Agricultural Producers: Ymer Shatri• Liberalizing the Credit Market: Besnik Osmani• Discussion & Debate
13.45-14.00	Conclusions and Recommendations
14.00	<i>Lunch and Informal Discussion</i>

B. List of Participants

	Name	Organization
1	Hysni Bajrami	Democratic Party of Kosovo (PDK)
2	Ruzhdi Hamza	Democratic Party of Kosovo (PDK)
3	Alberta Troni	Democratic League of Kosovo (LDK)
4	Illir Salihu	Democratic League of Kosovo (LDK)
5	Besnik Osmani	Democratic League of Kosovo (LDK)
6	Valon Murati	Alliance for the Future of Kosovo (AAK)
7	Gafurr Podvorica	Liberal Party of Kosovo (PLK)
8	Nazmi Halimi	Social Democratic Party of Kosovo (PSDK)
9	Sebahate Grajqevci	Alliance for the Future of Kosovo (AAK)
10	Sabrije Rama	Alliance for the Future of Kosovo (AAK)
11	Mejreme Berisha	Alliance for the Future of Kosovo (AAK)
12	Şerafetin Ömer	Turk Democratic Party (TDB)
13	Nexhmedin Sejdiu	Kosovo Protection Corps (KPC)
14	Luan Jaha	Roma Doctor
15	Ali Bajgora	NGO Centre for Human Rights and Juridical Initiative
16	Gjylieta Mushkolaj	NGO Legal Reform
17	Avdullah Qafani	Egyptian Party
18	Ymer Shatri	NGO 'Handikos'
19	Gani Toska	Roma Party
20	Senad Adrovic	Unaffiliated
21	Fahri Beqa	Democratic Party of Kosovo (PDK)
22	Diamant Kastrati	Organization for Security and Co-operation in Europe (OSCE)
23	Fedzat Sagdati	Organization for Security and Co-operation in Europe (OSCE)
24	Halit Ferizi	NGO 'Handikos'
25	Arbnor Pula	NGO 'Forum for Democratic Initiative' (FID)
26	Bersant Disha	NGO 'Kosovo Initiative for Democratic Society' (KIDS)
27	Ibrahim Makolli	NGO 'Council for Human Rights' (KMDLNJ)
28	Suzana Arni	NGO 'Kosovo Civil Society Foundation' (KCSF)
29	Artan Venhari	NGO 'Kosovo Initiative for Democratic Society' (KIDS)
30	Fahredin Tahiri	Unaffiliated
31	Mujo Dacic	NGO 'Bosniac Citizen Initiative' (GIB)
32	Adem Limani	Alliance for the Future of Kosovo (AAK)
33	Boban Nicic	Community Officer, Lipjan
34	Blerim Burjani	Alliance for the Future of Kosovo (AAK)
35	Xhangyle Ilijazi	Organization for Security and Co-operation in Europe (OSCE)

36	Misket Sinani	Organization for Security and Co-operation in Europe (OSCE)
37	Naim Korca	NGO 'Handikos'
38	Enesa Kadic	Unaffiliated
39	Lendita Ajazaj	Unaffiliated
40	Laura Kryeziu	NGO
41	Haxhi Thaci	Organization for Security and Co-operation in Europe (OSCE)
42	Veton Berisha	Unaffiliated
43	Myrvete Pantina	Unaffiliated

External Experts

1	Naser Prapashtica	Central Fiscal Authority (CFA)
2	Verena Knaus	Lessons Learned Unit (LLA), EU Pillar IV
3	Eggert Hardten	Lessons Learned Unit (LLA), EU Pillar IV
4	Gensi Çelo	Former Minister of Economics and Finance, Head of Privatization Programme, Albania

ECMI Staff

1	Robert Curis	ECMI Kosovo – Country Director
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3	Donika Krasniqi	ECMI Kosovo – Office Manager