



WPS07/2 WILTON PARK CONFERENCE

## **KOSOVO'S ECONOMIC DEVELOPMENT ADDRESSING THE JOBS CRISIS**

Friday 26 January – Sunday 28 January 2007

### **Summary:**

*While international political attention is focussing on Kosovo's future status, the issues that will determine Kosovo's ultimate long-term stability – economic development and the jobs crisis - also require sustained international engagement. Will the immediate need to address the costs of status implementation crowd out consideration by the international community of Kosovo's long-term economic development needs? In the longer term, is EU-style development planning a realistic option?*

### **1. Government agreement on the current plans:**

Kosovo Government speakers spoke of their aim of building a Government consensus on taking forward the Kosovo Development Strategy Paper (KDSP). The importance of achieving this to the success of the KDSP process was the key message of donors. The KDSP is at the heart of the current discussion on Kosovo's economic development), together with the Medium Term Expenditure Framework (MTEF). A new Medium Term Expenditure Framework is to be developed in Spring 2007, as a 'bridge' to the 2008 budget process, and also to prepare for the planned donors' conference. Costing a realistic list of priorities is an urgent task to help convince international Finance Ministries and sceptics in the International Monetary Fund (IMF). The engagement of donors is critical given the expected "economic shock" after Status is resolved.

## **2. The risks after Status:**

The risk is that the Albanian community's 'exponential expectations' are likely to be dashed after Status settlement, given the bleak short/medium term economic prognosis. Donor withdrawal/reduced engagement, decreasing remittances, the impact on the budget of a share in the costs of servicing the Yugoslav debt, the cost of the transfer of powers, and the costs of decentralisation, and the immediate downsizing of the international presence mean that in the baseline KDSP scenario, GDP per capita growth is likely to be negative until 2009. Seven years of zero growth are predicted to 2013. However, every year, 30,000 job seekers are forecast to enter the labour market, and no more than half are likely to be able to get jobs.

## **3. Energy and Mining:**

The reform-driven scenario in the KDSP assumes a positive impact on economic growth of a major foreign private investment in a new Sibovc SW lignite mine to exploit the large lignite reserves (some 10bn tonnes) to supply a new Kosovo C coal-fired power station able to both generate export income, and also satisfy local power demand. It is seen as a catalyst for the development of infrastructure, enhanced skills, and of small and medium enterprises (SMEs). However, the mine and power plant are unlikely to create many long-term jobs directly given the fact that existing facilities are over-staffed. The consequences of lignite mining, given the compact local geography, and the environmental impact of a new lignite fired power station have to be debated. They include the high levels of particulates, and ash storage. More immediately, the cost-benefits of rehabilitating existing power stations to cover the period before Kosovo C could start producing power in 2012/3, also need further public airing. Poor billing and collection, and non-payment for electricity are perennial issues that have also to be addressed, as does the management of KEK and its eventual privatisation. In the mining sector there is also significant potential in developing the ferro-nickel, magnesia, lead-zinc exploitation.

#### **4. Rural Development:**

The current separate, but detailed rural development strategy needs to be brought more directly into the KDSP process, not least as 55% of the population live in rural areas. Rural areas get only 0.6% of Government's spending. Remittances are falling. Improvements in import substitution, and also a reduction in regional trade barriers, are two policy-options for developing a competitive farming sector.

#### **5. Economic situation of Kosovo's Serb Minority:**

For the Serb minority, whose economic situation is determined mainly by political pre-conditions, the key need, in addition to current Government efforts, is an overarching reconciliation process to reinstate the most crucial commodity in economic development – that of trust.

#### **6. Defining the Economic Problems:**

High reservation wages combined with low labour productivity were cited as a cause of low employment, but others said that the current rise in unemployment means that the reservation wage question is diminishing as an issue, and that low wage rates in Kosovo reduce labour mobility. The Business Environment and Enterprise Performance Survey is the latest to highlight the constraints for entrepreneurs, which have to be addressed: electricity, transport, telecommunications, access to land, and the leasing of land. Corruption was also cited. Continued access to international labour markets, especially for youth has to be part of a realistic approach to containing unemployment. Therefore, exploration of the politically sensitive issue of work- permits on a short-term basis has to be addressed by European policy-makers. This is all the more sensitive now that the EU and Switzerland have tightened border controls. As well as reversing declining job opportunities in EU, Kosovo's education system has to be reformed so that more Kosovars have exportable skills. Education remains a major weakness at all levels.

## **7. Looking to the neighbours?**

One potential solution on employment could be to attract jobs to Kosovo by adopting the strategies that have successfully produced textile jobs in Bulgaria and Romania, and most recently in Stip in Macedonia. 168,000 people in Bulgaria work in textile industry, which generates \$1.8bn in exports. Textile jobs would also benefit women; only 9.9% of women are currently in the employed Kosovo labour force. The competitive advantages compared to Asia, for European garment producing states include; producing the fashionable details on garments, rapid turn-around, and the immediate delivery of express collections within Europe.

## **8. Lack of vision?**

The most intense conference discussion came after opposition party representatives criticised the lack of vision in the medium and longer-term discourse of the KDSP describing it as a 'plan for stagnation', or with 'nothing in it for unemployed citizens.' They, and others, argued that eventual EU accession could be defined as the ultimate goal to which an economic strategy could be directed. Could it be a more viable option in the future after the EU has replaced UNMIK as the lead international organisation?

## **9. Towards a future EU Planning process?**

An alternative form of development planning, the EU-focussed national development planning NDP was also discussed. Under this approach<sup>1</sup>, a detailed description of the current economic situation is made to document the extent to which economic performance lags behind EU norms, as well as to identify any barriers to faster growth and convergence that need to be addressed by targeted policy initiatives. An important aspect of this review is to emphasise the trade-offs that exist between some of the competing objectives of the NDP, given the limited funding available. It also closely engages the major donor, the European Commission in the process, including in detailed evaluation. A EU-type NDP would not hand Kosovo answers to all of its economic challenges. But an EU-type strategy process, as now used in

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<sup>1</sup> Thanks to John Bradley for his post-conference comments on NDP quoted here.

*all* the new and candidate member states, provides probably the most robust and logical process through which the Kosovo economy, with the assistance of the international community, can eventually converge towards the standard of living of its EU neighbours. It is not the nature of Kosovo's development challenge that is unique. Rather it is its depth, in terms of a severely disadvantaged starting point, its difficult geo-political situation, and its lack of development resources. An NDP-type process will call for clear thinking and extraordinary levels of co-operation if Kosovo's development goals (including readiness for EU membership) are to be met.

Chris Langdon

[www.wiltonpark.org.uk](http://www.wiltonpark.org.uk)

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