MASTER’S THESIS

PRIVATIZATION IN KOSOVO AND ITS IMPACT ON EMPLOYMENT

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INTRODUCTION

Analysis of privatization process in Kosovo can be understood in the context of political situation of Kosovo and also economic situation. As the fact that Kosovo after one decade of classic occupation (1989-1999) was temporarily administered by United Nations (1999-2008), privatization in Kosovo at the beginning was also administered under UN mandate and that make difference with other countries which have undergone transformation process from a socialist into a free-market economy. United Nations Mission in Kosovo (hereinafter: UNMIK) was deployed in June 1999 through a United Nations (hereinafter: UN) Resolution1 which granted to the Special Representative of the Secretary General (hereinafter: SRSG) extensive legal and executive competences2, including administration of justice, economy as the highest authority in Kosovo. Within these competences entire moveable and immovable property in Kosovo was under administration of UNMIK.

The primary emphasis of Kosovo’s economic transition has been focused on the restructuring of ownership relations. The dissolution of Former Republic of Yugoslavia (hereinafter: FRY) left Kosovo, like many of its federal units at a standstill. The demise of FRY lead the demise of Eastern Europe markets in this regard it became very important for Kosovo to establish ties with the Western economies. The first step in achieving this goal was to privatize all Socially Owned Enterprises (hereinafter: SOE’s) and most of the services provided by Public Owned Enterprises (hereinafter: POE’s), Privatization is a process aiming at economic growth, increasing free competition and market economy. This is one of the main reasons why Socially Owned Property (hereinafter: SOP) is considered to be less effective mainly because of low quality of management, lack of investments, political interfering’s and other factors. Good privatization contributes in creating of competitive market, enhances investment, increases competition and aims at improvement of management practice of privatized SOE’s.

FRY borders were opened as early as the 60s, central planning economy was abolished in the 50s, SOE’s were more or less independent and many of these companies were specialized in exports to Western Europe. In the beginning of the dissolution of FRY all newly independent states aiming to develop market economy launched reforms aiming at dismantling the socialist economy. The collapse of FRY besides having many political consequences brought with a range of social, end economic problems, and followed with the collapse of public finances and industrial sector. The wave of political and economic

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1 Resolution 1244 passed by the UN Security Council in its 4011th session on 10 June 1999.
2 SRSG did have competences to develop legal acts in the form of ‘regulations’ and ‘administrative instructions’, and applicable laws in Kosovo included also laws that were applicable before 22 March 1989, one day before the Kosovo’s autonomy was revoked by Serbia, as well as laws after this date, but those could be applied only to the extent the content of the case of the given situation which was not covered by laws before 22 March 1989 and when such legislation was discriminatory or in contradiction with internationally recognized human rights.
changes across the Central and Eastern European countries since 1989 found Kosovo under occupation for a full decade. Besides, other federal units of FRY had a much better starting position at the beginning of privatization compared to other Eastern European countries, considering that FRY it did not have a hardcore communism (Badivuku-Pantina & Marinov, 2010).

Privatization as a goal is used to enhance the enterprises’ efficiency and is used as part of a state’s economic reforms. This process for transition from socialist to market economy has started in former communist countries as an illusion that market mechanism would immediately transform former communist countries instantly into welfare states (Mencinger, 1996). Privatization in Kosovo is considered the backbone of the Kosovo economic transformation it is expected to have significant impact on country overall economic development, creation of a competitive business environment, developing principles of market economy, attracting investments, increase of employment and incomes and to develop country economy in general. The process of privatization in Kosovo was proven to be the major challenge in the eastern and South-Eastern Europe because of delays in defining political status of Kosovo for a long period, and because of emergency measures imposed by Serbia during ‘90s including attempts to change property rights of this SOP’s.

In the beginning of ‘90s a form of privatization process started in Kosovo SOE’s under the law applicable at the time in Kosovo. This form of privatization was through transformation which meant transactions, through which method some persons acquired private ownership rights in some SOE’s. In Kosovo between the years 1989 and 1999 the FRY and later the Republic of Serbia introduced so called “Emergency Measures”. This measures were directed to change local management, workers councils and the workforce of Kosovo SOP’s and it was noted that unemployment rate in 1996 went up to over 85% (Badivuku-Pantina & Marinov, 2010). These measures resulted in the dismissal of the Albanian employees at large, the ‘de facto’ occupation of Kosovar SOE’s, and finalized with forced merger of Kosovo SOPs with Serbian companies. For nearly a full decade, SOP’s in Kosovo became subject to many illegal ownership transactions, devastating management and transformation of property rights with serious implications for the post-war legal privatization (Badivuku-Pantina & Marinov, 2010).

Kosovo by being one of eight federal units, on ’89 thought on very limited scale compared to other FRY federal units has started with privatization process based on “Federal Legal Act on Social Capital 1989” (Known as Markovic Laws). This form of privatization was based on method of the internal privatization model and out of 20 SOE’s who started privatization that time in Kosovo and due to political problems in Kosovo only one succeeded to successfully complete fully transformation of capital (Sylqa, 2011).
Besides this, other political happenings led Kosovo to a situation where Serbia applied “Emergency Measures” and which turned to be discriminatory to Albanian workers when around 90% were expelled massively from their jobs. A new law on privatization was imposed during this period of emergency Measures. Based on this law shares were offered at a very low price to current employees. From this process were completely excluded recently expelled employees proving that this process was discriminatory for majority of workers and Kosovo population as well. During the period of emergency measures many SOE’s in Kosovo were bonded with enterprises in Serbia and for a decade were systematically devastated due to bad management and physical assets being taken and unfairly used (Badivuku-Pantina & Marinov, 2010).

All this ruining activities in Kosovo economy and suspicious transactions with Kosovo SOP during 1990’s will prove to have very negative consequences for the Kosovo economy in future stages and for privatization process after liberation in June 1999. The transition period in Kosovo as in other FRY units was determined by two transition factors: by economic transition on one side, and by the fight for independence / separation from FRY on the other side. Both this two factors account for the transition depression especially for Kosovo because they lasted much longer than in other federal units and when gained freedom its economy was in worst situation than in in other federal units. The war in Kosovo 1998/1999 with systematic destructions and raiding’s was very severe to Kosovo economy in general. The privatization in Kosovo as a process it has started with UNMIK regulation 2002/12 coming in power in June 2002 with the establishing of Kosovo Trust Agency (hereinafter: KTA) and has continued after the declaration of independence of Kosovo.

KTA trusteeship duties are carried out according to relevant UNMIK Regulations and within the context of Chapter 8 of the Constitutional Framework for Provisional Self-Government in Kosovo, therefore as a “reserved power” of the SRSG. The KTA is mandated to administer SOE’s as trustee for their Owners, carry out other activities to preserve or enhance their value or viability, and take such other steps or measures as it deems appropriate (taking into account any guidance from the SRSG) which encourage the economic reconstruction and development of Kosovo and the welfare of its inhabitants. In order to meet these objectives and the trustee duties, KTA has commenced privatization as envisioned by relevant UNMIK Regulations.

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3 The head of United Nations Mission in Kosovo (UNMIK) was Special Representative of the Secretary-General who was the highest international civilian executive in Kosovo during UN administration of Kosovo. As the highest civilian executive delegated in Kosovo by the Security Council of United Nations with the resolution 1244 during international administration of Kosovo (1999-2008).
Privatization in Kosovo is considered as support to reduce the financial burden of the governments in order to increase employment, enhance the citizens’ economic welfare and in aiming to minimize the state impact on the management of enterprises in general.

The necessity of privatization in Kosovo was never analyzed thoroughly by all relevant actors including political parties and other society groups supporting this approach as the main sphere of economic reforms. The only disputes related to privatizations were methods of privatization, e.g. whether to implement a distributional or commercial privatization model. This paper will analyze privatization process of SOE’s in Kosovo, privatization methods at country level. This analyze will allow the government policy makers to have an analyze and approach to identify main areas of the process and elaborate, thereby opening possibilities for debate about objectives, programs and policies.

1 DESCRIPTION OF THE ISSUE STUDIED

1.1 Problem Background

Kosovo aims to reach a sustainable economic development and develop a stable economic environment through fostering market economy system employment and competitiveness. The country also wants to reach stable macroeconomic environment and to improve public infrastructure. That’s why with the aim of reaching these goals it has developed a new strategy for its economic and social goals in which framework it comes abandoning planned economy and starting privatization of SOP’s. There has been some analysis about the process of privatization in terms of impact on employment and in terms of economic development in general. This analysis didn’t provide much information’s about costs and benefits of privatization as a process. In most of these studies developed arguments have shown that privatization promotes redistribution of incomes and its power in the interest of small groups of elites of society like investors, banks, senior management. Privatization also takes a very important place in the structural change including social structure, extends property rights of individuals, promotes dominance of the market and shifts the role of the state from the situation where state is producing to the role where state is making able to produce.

The concept of SOP’s in Kosovo is a concept of the FRY socialist system which concept it differs from the classical west European concept of property ownership. The classical Western European system on immoveable property applies the concept of private state / public ownership and private ownership as two mayor categories of property (KIPRED, 2005). Social Owned Property is a specific category of ownership of its own and it cannot be regarded in the terms and concepts of understanding of private and state/public property. In FRY the process of converting private property into state property began with the first days of communist system at the end of World War II. First it was the process of
nationalization, i.e. transformation into state property and later with the introduction of new changes in FRY these properties basically were transformed into Socially Owned Property as unique FRY concept. Starting 1945 private property of so called ‘state enemies’ and ‘enemy collaborators’ was confiscated and nationalized (KIPRED, 2005). These properties were belonging mainly to anti-communists and liberals (KIPRED, 2005). Enterprises were operating under the state administration in the period after 1945 known as the period of planned economy. This state administration was exercised through setting out of economic goals for enterprises through operational plans. Ideologically, the goal of this type of socialism was to develop country economy ruled by workers as the transition phase toward disappearance of the state as such (KIPRED, 2005).

The phase of controlled economy ended in the late 50’s when enterprises were released from the direct state control in order to be managed by workers’ councils in the new system of ‘workers self-administration’. Federal Constitution of 1974 was the legal act reaching the highest level of Self-administration which provided that all means of production and the incomes earned were meant for satisfying of public needs, and all natural resources and other assets were SOP designated for public use.

SOP sector in Kosovo until late ‘80s has been the biggest employer in Kosovo. However, following political turbulences in early ‘90s thousands of Albanian employees were fired and replaced by employees of other ethnic groups and war refugees from other FYR units while unemployment rate in Kosovo in 1996 went up to over 85% (Badivuku-Pantina & Marinov, 2010). As a consequence of war and long years of negligence and lack of investment, SOE’s’ property was badly damaged, most of the traditional markets were lost and consequently SOE’s could only re-employ a small number of employees. SOE’s in Kosovo worked in a few different sectors, including plastic sector and paper processing, mines, agriculture, forestry, construction material, textile, wines and wineries, beer production, tobacco, etc.\(^4\)

The political situation in Kosovo was confusing when UNMIK took over the administrative authority of Kosovo in June 1999, but gradually was dealing with civil and commercial issues and in this regard also with the property issues (KIPRED, 2005). Thought the Serb authorities had withdrawn Kosovo and new local Provisional Government structures were elected, some matters like privatization process were run by UNMIK authorities until declaration of independence on 2008 and new constitution came into force. In beginning of its administration UNMIK launched commercialization by concessioning selected SOE’s on ten years contracts. The process of commercialization was aiming to bring private sector involvement and resources into State and SOE’s as an provisional measure in order to attract investments to Kosovo SOE’s (KIPRED, 2005). The

Privatization Agency of Kosovo (hereinafter: PAK) is established as an independent public entity that should carry out its duties and responsibilities with full competence (Law on Privatization Agency, 2008. 06/2008). PAK in accordance with the law has the full authority to administer SOP in Kosovo including the authority to sell, transfer and liquidate Assets and Enterprises which have the status as Socially Owned.

Privatization in Kosovo is considered as a mechanism to accelerate political and economic reforms, which effect was expected in social and economic development of the country. Privatization as the main restructuring process has one of primary intentions to stimulate creating of new jobs with a focus on promoting the private sector employment generation. Low efficiency and poor management over the years have made the former SOE’s and POE’s in Kosovo inefficient. The legacy of the past favoring social enterprise structures so and public have hindered the adaptation of privatized enterprises with the market economy laws, the way of doing business in competitive economy and market economy in general. Privatization process in Europe, but also and in other continents, in essence was used as the major part of economic reforms of one country, as a form of transforming social / state ownership into a private ownership. Results of privatization should be expressed in the expanding of markets, new working places and bringing of new management style and new partnerships in country economy.

Employees of this SOE’s, as well as respective municipalities where these enterprises were located, state/government and in some cases and other claimants (former creditors and former shareholders who have privatized this properties during ‘90s) were considered as potential owners of SOE’s in Kosovo. A survey in February 2002 has estimated that one of the main obstacles to SOE’s as perceived by their management is lack of working capital, outdated machineries, ownership, limited market due to the fact that the market was lost during ‘90s and inappropriate institutional environment (Riinvest, 2002).

The privatization process of SOE’s in Kosovo has been an on-going process since 2002, induced, formatted and run by UNMIK. The format and the process of privatization in Kosovo were developed in high levels of UNMIK, UN in New York, European Union and Administrative Department of Trade and Industry of local government5. Only some 30% of SOE’s were operative in beginning of 21st century, right before privatization (Riinvest, 2008). After declaring independence in 2008, the KTA activities are ended, and the privatization process is continued to be carried out by PAK. From the privatization of these assets and attraction of foreign investors and those from the diaspora and the region, Kosovo is expecting to have a positive impact on creation of new jobs and on the country’s economic development in general.

5 Department of Trade and Industry (DTI) established by UNMIK regulation 2000/63
Privatization is the transfer of ownership of the company, completely or partially, from Socially Ownership/State ownership to private ownership, thus enabling the change of owners of capital. The main goal of privatization is to increase the efficiency of enterprises (Forum 2015, 2009). Privatization is used as part of a state's economic reforms as a means of transfer of state property into private property. States support the privatization program in order to reduce the financial burden of their governments, in order to enhance economic welfare of citizens and in generally to minimize state’s impact on the running of companies. Therefore, privatization is considered as a political instrument that adds value to enterprises.

1.2 Problem Definition

Privatization of SOE’s had a number of objectives mainly related to economic development and employment. The problems facing Kosovo economic and the international state building had its ruts in the time when Kosovo was a province of the FRY. Consecutive waves of property transformation starting with expropriations and other property transformations which occurred during the FRY period after 1945 significantly complicate the privatization process in Kosovo. It is the fact that Kosovo was the least economically developed part of FRY. This low development was manifested with the highest unemployment rate, less developed infrastructure, highest birth rate and lowest educational level (Knudsen, 2013). In 1975, a World Bank report has warned about the huge regional differences in development levels FRY, and pointed out that average per capita GNP in Kosovo’s was only around 45% of the other underdeveloped FRY units (Knudsen, 2010). Moreover, funds set aside for Kosovo in ex-Yugoslavia were channeled to investment-intensive and heavy industry rather than to labour-intensive sectors or agriculture. This situation lasted throughout the existence of FRY including the period of general federal growth in the 1960s and 1970s. Considering these facts it looks like Yugoslav investments in Kosovo, to developing energy production capacities especially in mining were intended to fulfill needs for this minerals for other parts of federation. Around 70% of energy produced in Kosovo was ‘exported’ with low prices decided by federal authorities, and most of the mineral produced was exported unprocessed (Knudsen, 2010).

Privatization of SOE’s had a number of objectives mainly related to economic development and associated impacts. I was estimated that the number and size of Kosovo’s SOE’s offer the potential for a big impact on the economic development. It is estimated that, over the years 2002/2003, SOE’s represented 90% of Kosovo’s industry and mines, 50% of retail market, and about 20% of agricultural land (Dervishi, 2014).

These objectives of privatization were meant to be achieved by attracting new investments and which investments would bring new capital in the market, new management style and new technology and equipment’s.
Promoting of market economy and rising role of private capital in all Eastern Europe seem to offer opportunity of economic and social development of Eastern and South Eastern European countries, in this case Kosovo. This aimed development is a process that involves many steps and privatization of SOP’s is definitely a first step.

1.3 Research Purpose and Aim

The purpose of this study is to assess whether privatization process has fulfilled expectations from the privatization of SOE’s and to draw lessons for future privatizations. The main goal of this study is to analyze and describe the impact of privatization on employment rate in Kosovo. The research was narrowed down to employment derived from new enterprises derived as result of privatization of SOE’s. Literature review will be linked to economic development and employment opportunities, brought as result of privatization. The advantages and disadvantages of the privatization process and its impact on employment rate would be shown and the appropriate changes would be suggested in order to make them more appropriate in this continuing process. Kosovo is distinguished from other federal units and other transition countries also by being the last country to start privatization. The main objective of this study is to analyze and have a better understanding of privatization process in Kosovo and its impact on employment:

- Description and analysis of privatization processes;
- Whether the privatization process did have a positive/negative impact on employment rate;
- Whether the privatization process did have an impact on improvement of economic and social development of the country;
- Whether the internal control system is designed properly and is sufficient to ensure a transparent and correct process; and
- Whether the privatization process did have an impact on improvement of efficiency through adequate investments.

Economic development and employment are two of the main actual goals of Kosovo as new country which has just came out of a devastative war (National Development Strategy 2016 – 2021). Considering the situation of Kosovo economy and one lost decade not going through transition from controlled economy to market economy it had its effect in reaching this goals to. Socially Owned Property was not efficient to fulfill the social requirements and that’s why privatization of this property is considered as a necessity from the failure of the socialist system.

There was lack of empirical analysis and measurement of results achieved after the privatization in Kosovo with the special focus on economic development and employment. Based on many researchers, due to its specificities privatization in Kosovo is one of most complicated privatizations in post-communist countries (GAP, 2011). This difficulties in
the process of privatization in Kosovo include a number of difficulties in the process which can be summarized in three main reasons (Gashi, 2011):

- Privatization process has been led by a duality of institutions, UNMIK⁶ as international organization and Kosovo local institutions;
- Unclear legal base; and
- Property rights disputes.

Besides above mentioned problems, Kosovo shares also other problems common with other transition countries that have went through privatization process although different in their economic structures. Most important common problems with other transition countries are: 1) Lack of national capital; 2) Unclear legal base in relation to property rights; and 3) Lack of capital markets (Dervishi, 2013). Kosovo did have and specific problems due to the fact that during ’90s SOP in Kosovo became subject to illegal ownership transactions, forced merger with Serbian companies, devastating management and transformation which lead to serious consequences for the legal privatization.

Economic and social development of the Republic of Kosovo as a young country as main priorities, considering low economic base, low economic development in general and high rate of unemployment, Kosovo needs additional funds, market economy, better utilization of resources which would be used for increased social and economic development.

Expectations from this process in Kosovo were to increase employment, but despite this expectations Kosovo experienced a substantial loss of jobs since the beginning of privatization (KIPRED, 2005). It is difficult to identify the real impact of privatization on employment in Kosovo, because of the timing when privatization took place and because of the long gap (a full decade) of damages and of keeping existing SOE’s out of production, but also lack of statistics. Existing literature and research studies vary in its approach about outcomes of privatization process and effect on employment from very optimistic to pessimistic. Statistical data and national data for the employment and unemployment from before and after privatization do not allow us to analyze roughly a pre-privatization and post privatization period 1990 to 2015.

A Survey conducted in Kosovo on 2008 have found that one third of privatized companies were not operational at all while the other two third of this survey sample companies had a much smaller turnover than similar private sector companies (Forum 2015, 2008). However, the goal of this research is to analyze unemployment rate in Kosovo before the

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⁶ UNMIK was established to provide an interim administration for Kosovo. Its task was unprecedented in complexity and scope; the Council vested UNMIK with authority over the territory and people of Kosovo, including all legislative and executive powers and administration of the judiciary until the declaration of independence by the Kosovo authorities and the entry into force of a new constitution on 15 June 2008.
start of privatization and after the privatization of privatized companies and to try making a comparison of employment before and after privatization.

Very high unemployment rate has become one of the most troubling aspect of the labour market in Kosovo, even though majority of companies were privatized. However, many changes did happen in Kosovo after 1999 and it is not possible to attribute all the employment in Kosovo to privatization or to relate all unemployment, because to have a clearer picture on this issue, we would need sufficient data from before and after privatization.

1.4 Research Questions

With this research will be identified the main aspects of impact that privatization did have on employment and the extent privatization has improved employment prospects in Kosovo. Drawing on this, the main hypothesis of the research study would be that there are elements that could affect the improvement of employment rate with the privatization of SOE’s in Kosovo. However, some changes in privatization process would be necessary to achieve significant outcomes. The main questions of this study will be:

- How has the privatization in Kosovo impact the employment rate?
- What has been the success and failures of privatization regarding employment outcomes?
- What has been changed until now in the employment rate as the effect of privatization?
- Which actions should be reconsidered in the course of privatization?

1.5 Main Areas of Research Focus

This study intends to show what effect privatization in Kosovo have had on employment. This research will examine the privatization in Kosovo and its relation to employment, through a mixed method with quantitative administrative data and statistical evidence on general employment rate in the country. The statistical overview will show if job opportunities were created in Kosovo as a result of privatization.

In former planned economies privatization was used to establish property rights, to form a private sector, to restore ownership of assets and the basis of a market economy. Privatization was applied with the aim to increase efficiency, performance and productivity, in order to achieve macroeconomic goals like increasing of employment and to enable efficient management. Privatization in transition economies has experienced a number of contradictions, particularly in relationship between privatization, social welfare and employment. Social considerations as an essential component of privatization should have been the integral part of the design and implementation of privatization policies within the balance between different objectives of privatization. Market economy itself
should open opportunities of expansion through entrepreneurial activity, which in turn can generate employment. However the ending of central planning economy causes reduction in employment because this means also the ending of continue subsidizing of economy. To have a full employment protection it can be difficult in particular privatization, but this there should be other structural regulation of transition process in order to reach this objective like active labour market policies and especially development of local and regional economic strategies.

1.6 Research Methodology

Based on main focus of this study which is privatization in Kosovo within transition to market economy and its impact on employment, results will be based on different research methods. Main sources of information’s will be from administrative data, other primary and secondary data, as well as analyses of existing literature, reports and documents. Evidence will be considered from available statistical reports, administrative data from privatization agency reports, and other study reports. The scope of this study covers privatization of the period 2002 - 2015, which includes the privatized enterprises since the beginning of this process.

Research method used, but not limited in this research study are:
- Method of theoretical analysis;
- Statistical method (quantitative) analysis, and
- Analysis of collected data.

By analyzing of statistical data and comparing this data in different periods especially focusing on employment before the period when there was a massive expelling of employees in 1990, employment of privatized enterprises at the period before privatization and comparing with the employment at newly created companies.

For conducting of this study quantitative and qualitative data were collected from different sources. Study methods were mainly based on analyzing and reviewing available documents, secondary data from other scientific sources like scientific literature, analytical reports, annual reports of different specialized agencies and other scientific researches. In this study are used available public data in order to fulfill main research objectives of this master thesis research which is to prove in the research base, statistical and financial analysis that it is possible to improve privatization process and as result to have positive impact on employment rate. Statistical analysis are used in order to compare data of employment in different periods and the impact that privatization did have on employment.

For our empirical analysis have been compared existing statistics and surveys on employment conducted before the start of privatization process with actual employment statistics, replacement of retirees and young population annual net inflows in the labour
force, monitoring and other administrative data by KPA. Further process of analysis for conducting this project will be completed through studying through existing reports and also by crosschecking them with other relevant sources and publications and academic journal articles related to privatization. Also examination will be conducted of enterprises under administration of agency and liquidation process of bided enterprises and proposing possibilities of improvements in existing process.

In order to have a better understanding of privatization process in Kosovo and for purpose of this study it is analyzed also the privatization in other transition countries with focus to its effect in employment to assess whether the privatization method in Kosovo was efficient enough achieve its goals, create employment and attract investments, which is the factor believed to bring the biggest benefits to newly privatized companies and to the economy in general. Although this paper deals with the privatization process, it focuses mainly on employment rate and problems that usually affect it from the perspective of privatization process. However, reforms in economy, especially concerning SOE’s supplement this research. Moreover, by means of this methodology it will be able to answer the thesis research questions and measure the effects of the privatization process on employment rate in particular and economic development of Kosovo in general.

2 MACROECONOMIC SITUATION IN KOSOVO AND THE REGION

2.1 Overall Macroeconomic Situation in Western Balkan Countries

The main objective of the countries in transition is to carry out changes in economic and social system which will enable a better life for their citizens. In this direction and Balkan countries are working in direction of carrying out transition in direction of enabling a better life for citizens while most of the Western Balkan countries are characterized by unfavorable economic trends. Most of Western Balkans countries are highly indebted, have high inflationary trends and large rate of unemployment. Besides, the standard of living and purchasing power of citizens is low and average wage is among the lowest in Europe. Characteristic of this economies is that they are generally small economies which don’t have sufficient harmonization with international and European standards what makes their products not enough competitive. All this makes Western Balkan economies characterized with extreme low export of goods and services and direct investments have been avoided in last few years but also very high very high level of grey economy.

There are differences in the amounts of trade deficit and the level of their participation in GDP. The economic structure of Western Balkans region it is dominated by mining industry, agriculture and forestry, while service sector is not so developed. The export is dominated by food and agricultural products, industrial raw material and semi-fished products while is importing machinery, equipment’s and other industrial products.
Table 1: Gross Domestic Product (GDP), 2004–2014, Kosovo and Countries in the Region

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montenegro(^3)</td>
<td>2.1</td>
<td>2.7</td>
<td>3.1</td>
<td>3</td>
<td>3.1</td>
<td>3.2</td>
<td>3.1</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>FYR of Macedonia(^2)</td>
<td>5.5</td>
<td>6.1</td>
<td>6.8</td>
<td>6.8</td>
<td>7.1</td>
<td>7.5</td>
<td>7.6</td>
<td>8.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Albania(^4)</td>
<td>7.2</td>
<td>7.8</td>
<td>8.8</td>
<td>8.7</td>
<td>9</td>
<td>9.3</td>
<td>9.6</td>
<td>9.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Serbia(^5)</td>
<td>24.4</td>
<td>29.5</td>
<td>33.7</td>
<td>30.7</td>
<td>29.8</td>
<td>33.4</td>
<td>31.7</td>
<td>34.3</td>
<td>33.1</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>10</td>
<td>11.3</td>
<td>12.8</td>
<td>12.4</td>
<td>12.7</td>
<td>13.2</td>
<td>13.2</td>
<td>13.7</td>
<td>13.9</td>
</tr>
<tr>
<td>Kosovo(^5)</td>
<td>3.1</td>
<td>3.5</td>
<td>3.9</td>
<td>4.0</td>
<td>4.3</td>
<td>4.8</td>
<td>5.0</td>
<td>5.3</td>
<td>5.5</td>
</tr>
</tbody>
</table>


In general terms, there is constant increase of GDP in all Western Balkan countries (see table 1). According to World Bank this region benefited from gradual recovery of economy in euro area and lower oil prices, but at the same time lately has also been affected by the slowdown of Russian economy. However, high unemployment, inflation and high interest rate are some of main indicators of low GDP and which continue to characterize this part of world. Albanian economy is small and linked with developments of most economies linked to Albanian economy, while in Macedonia situation is the same thought statistical figures show growth. Unfavorable business environment in Bosnia and Herzegovina is reflecting in slow growth of GDP. The decline in purchasing power in the region is reflected in Montenegro also, while Serbia was expected to have big problems with liquidity but in the current year has recuperated.

The highest unemployment rate among Western Balkan countries is recorded in Kosovo with unemployment rate of 30%, followed by Macedonia with 29%, Bosnia and Herzegovina 27%, Serbia 22%, Montenegro 20% and Albania 16%. Unemployment rate in EU countries in 2016 is around 10%, which rate compared to one year ago fell in 24 of the member states with largest registered decrease in Croatia from 16.6% to 12.9%.

Countries of Western Balkans should fully aspire and commit to the European integration in terms of acceptance of certain rules and systems that are deeply embedded in the culture of EU countries and the same should be embedded in this region to. By doing this macroeconomic performance indicators should improve and followed with improvement of standard of living, making binding laws in direction of improving reputation in the world.

2.2 Overall Macroeconomic Situation in Kosovo

Kosovo's economy in general with access to stable funding from the Diaspora, and sustainable access to support from donors has shown strength considering its limited access to global economy. Therefore, economic growth in Kosovo, even though it was stable and
generally in higher rates than in neighboring countries, is unsustainable in longer terms, in particular given the high unemployment rates, and low GDP.

Kosovo with a population of 1.824 million (2013) with the poorest economy in Europe is categorized among lower and middle income countries according to World Bank categorization. Although statistical data are still fragmented, and need to be adjusted frequently, the GDP in 2000 and 2001 had a strong increase as a result of post-war foreign assistance and reconstruction while in 2002 GDP was negative. From the year 2003 GDP is projected to reach about €2.16 billion, or about €1,000 per capita and it resumed its upward trajectory averaging 5% yearly despite declining foreign assistance.

Table 2: Kosovo’s Public Debt 2009 – 2015 (’000 €)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>External</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central</td>
<td>249.00</td>
<td>260.42</td>
<td>253.60</td>
<td>336.50</td>
<td>321.80</td>
<td>326.35</td>
<td>377.80</td>
</tr>
<tr>
<td>level</td>
<td>249.00</td>
<td>260.40</td>
<td>253.55</td>
<td>336.46</td>
<td>321.73</td>
<td>316.54</td>
<td>371.20</td>
</tr>
<tr>
<td>Municipalities</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>73.31</td>
<td>152.51</td>
<td>256.52</td>
<td>371.20</td>
</tr>
<tr>
<td>Central</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>73.31</td>
<td>152.51</td>
<td>256.52</td>
<td>371.20</td>
</tr>
<tr>
<td>Municipalities</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Debt</td>
<td>249.00</td>
<td>260.42</td>
<td>253.60</td>
<td>409.81</td>
<td>474.31</td>
<td>582.87</td>
<td>749.00</td>
</tr>
<tr>
<td>State</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>guarantees</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total Debt (as (% of GDP)) | 6.21% | 6.07% | 5.31% | 8.34% | 8.91% | 10.63% | 12.98% |

Source: Central Bank of Kosovo 2015 and Ibrahimi and Zeqiri, Kosovo's public debt, 2015, Table 3. p. 8.

GDP statistics show that the growth rate has had ascending changes over the past years having a positive trend over the years (KAS, 2014b). However, Kosovo remains the country with the lowest GDP per capita in Europe (Gashi, 2011). Kosovo has suffered much from the destructive war at the end of twentieth century and which is affecting the present economic situation to. Macroeconomic indicators in Kosovo are not showing promising signals, while GDP has shown a moderate growth. This growth was not sufficient considering vast needs and low economic base whereas one of key drivers of this past decade economic growth were remittances and the high level of public investment, up to 20% of the overall budget (Gashi, 2011; FES, 2016), while budget is at largest part created from custom incomes from import.

Within the period 2009 – 2014 public debt on GDP did have an average trend of increasing around 10%, resulting in an increase of total debt to 582.87 mil or 10.63% in 2014 from the level of 6.37% in 2009. International debt it is 326.35mil EUR, showing that 56% of the total debt portfolio. The big change of increasing public debt on 2013 compared to 2012 came as result of €80 million treasury bills issued marking the commencement of the
Government Securities Market in 2011. The ratio of public debt / GDP in Kosovo maintained a relatively at low level in both government and private sector foreign debt compared to SEE countries averaging above 45% (CBK, 2014).

2.3 Gross Domestic Product (GDP) in Kosovo

GDP is measured when calculating market value of all final goods produced within national border of a country and services provided in a given period of time (Schiller, 2010, p.87). GDP in Kosovo in period 2006 – 2012 increased in high rate averaging 4 - 5% growth. This GDP growth was largely driven by private sector demand (IMF, 2013). However, thought that economic crisis was expected to decline economic situation in Kosovo didn’t reflect much the global crisis (Gashi, 2010).

GDP in Kosovo showed an increasing growth and other major macroeconomic indicators didn’t show encouraging signs. One of key drivers of this GDP constant growth in Kosovo is driven by remittances from large diaspora as main factor of economic growth and also public expenses which were constantly high at about 28% of total GDP (KAS, 2015). The GDP growth rate in 2012 thought lower than projected with its growth of 2.6% it was higher than the average growth rate of 1.6% in Central and Eastern Europe (CBK, 2013). However, despite this positive trend of growth Kosovo remains the country with lowest GDP per capita in Europe (Gashi, 2010).

Incomes from remittances averaging 13% of GDP constitute largest financial external source for Kosovo households. According to World Bank this external financial source
portion is one of the highest portions of remittances in the world (Gashi, 2013). Besides the impact on micro level, remittances in Kosovo have great impact on the macro level as well through reduction of poverty as most of them are spent for consumption purposes (Nushi and Alishani, 2012).

Table 3: GDP of Kosovo, Public Expenditures and Remittances over Analyzed Period

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3,003</td>
<td>3,120</td>
<td>3,460</td>
<td>3,940</td>
<td>4,008</td>
<td>4,291</td>
<td>4,776</td>
<td>4,916</td>
<td>5,326</td>
<td>5,485</td>
</tr>
<tr>
<td>Pub. expen</td>
<td>698</td>
<td>617</td>
<td>661</td>
<td>942</td>
<td>1,136</td>
<td>1,262</td>
<td>1,376</td>
<td>1,441</td>
<td>1,511</td>
<td>1,510</td>
</tr>
<tr>
<td>Remitt</td>
<td>418</td>
<td>467.1</td>
<td>515.6</td>
<td>608.7</td>
<td>585.7</td>
<td>584.3</td>
<td>605.6</td>
<td>676</td>
<td>619</td>
<td></td>
</tr>
</tbody>
</table>

Source: KAS GDP of Kosovo 2014 and Ibrahim and Zeqiri, Kosovo’s public debt, 2015, Table 2. p 7.

The growth rate of Kosovo over the past years is shown in the Table 3 below (KAS, 2014) showing an increase over the years but not in constant trend. Its highest growth was reached in the year 2007, what according to Topxhiu and Krasniqi (2011) came as result of expansive fiscal policy. The Table 3 also specifies that in period from 2008 to 2010 growth rate of GDP was steady for three consecutive years remaining positive by having a lower increase in 2012.

Figure 2: Received Remittances in Millions of EUR

Large public expenses and private consumption basically have generated Kosovo’s recent economic growth (Borza & Badivuku-Pantina, 2012). However, it was noted that economic growth in 2010 came as contribution of private sector if compared to the year 2009 that was attributed mostly to public expenses.
Based on above data, it is noted that public expenditures in Kosovo have a significant share in the total GDP. This trend of constant increase started since 2007 when participation of public expenditures in GDP was 20% to around 29% in 2014 what constitutes one of main driving forces in terms of investments. Public expenditures increased 145% in the period 2006 – 2014 and comparing with GDP growth of 76% in the same period of time it shows that public expenses did not grow proportionally. This gap is as a result of negative trade balance and it shows high dependence of GDP growth in Kosovo on public expenditures.

The biggest effect of GDP increase from economic activities in 2014 came from wholesale trade, which was of 8.2%, financial activities by 4.4%, the extractive industry by 4%, education by 3.2% electricity supply by 1.2 % and agriculture of 0.8%. Low participation from agriculture is because around 80% of private farms in Kosovo are between 0.5 hectares and 2 hectares which are very small farms. Consumption levels have increased over the period of time because more than 33% of remittances were oriented in consumption what is a large portion (KAS, 2013). Public expenditures have direct impact on economic growth depending on the volume and the structure of these expenditures. If this expenses are more directed toward Capital Investments they might have impact on material productivity which could have direct impact on GDP and balance of payments and consequently impact on economic growth.

2.4 Foreign Direct Investments in Kosovo (FDI)

FDI can be considered the cross-border investment by a resident individual or entity in one economy with the goal of obtaining a lasting -10 % or more interest in an enterprise which is resident in an economy out of national borders as defined by (OECD, 2013). FDI is one of main priorities in today’s world with globalized environment which is a priority for
many countries, especially developing countries attracting foreign capital because they constitute one of most important parts of the country's economic activity, due to the effects they bring. Besides financial effects also Human Resources can be developed by a country that has received FDI from another country. This can be achieved by hiring new people in the activities of FDI receiver while they play a significant role also in the context of improving productivity of the host country, increasing their economic performance and in this direction improving balance of payments and increase of GDP.

For Kosovo attracting FDI it should be main strategic goals of a successful economic development and in this direction also of employment that leads to sustainable economic transformation. However, in this regard, privatization process should be used as an opportunity for Kosovo to improve the promotion of incoming foreign investments which is very important also for technology transfer and knowledge. As the fact that infrastructure plays an important role, especially in services but also in manufacturing, FDI affects improvement of the host country infrastructure to.

Table 4: FDIs 2007-2014 as a % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (bn €)</td>
<td>3.46</td>
<td>3.94</td>
<td>4.1</td>
<td>4.3</td>
<td>4.8</td>
<td>4.92</td>
<td>5.33</td>
<td>5.49</td>
</tr>
<tr>
<td>FDI (mil €)</td>
<td>440.7</td>
<td>366.4</td>
<td>369.9</td>
<td>295.5</td>
<td>368.5</td>
<td>384.4</td>
<td>229.1</td>
<td>280</td>
</tr>
<tr>
<td>FDI as % of GDP</td>
<td>12.74%</td>
<td>9.30%</td>
<td>9%</td>
<td>6.87%</td>
<td>8%</td>
<td>7.81%</td>
<td>4.30%</td>
<td>5.10%</td>
</tr>
</tbody>
</table>

Source: CBK & KAS 2014 and Ibrahimi and Zeqiri, Kosovo’s FDI, 2015, Table 2, p. 7.

Table 4 is showing that the highest level of FDI input to GDP was recorded in 2007 with around 12% contribution. FDI have decreased after beginning of world economic crisis until the year 2012 when in 2013 started showing again a positive trend (Ibrahimi & Zeqiri, 2015). This table also shows that recent global financial crisis especially the crisis in Eurozone countries has affected very much the FDI flows in Kosovo.

2.5 Exports-Imports and Trade Balance of Kosovo

Kosovo’s strategic goals are aiming at closer integrating into the regional market and wider to world and especially to Europe markets and in this direction also Kosovo’s trade policy is aiming to get orientated toward these markets. Those in direction of having access to this markets as well as providing additional incentives to investors and exporters. Currently, the most important trade partners of Kosovo are its close neighbors: Serbia, Montenegro, Macedonia, and Albania. Free trade has been established with all three of these countries aiming such agreement and with others. Export with the EU is developing very slowly, in
particular because of the high institutional requirements and standards to be met while for imports there are no barriers. Although the negative trade balance was one of economic challenges also during the FRY system, Kosovo during seventies did have a balanced trade balance. Current low export performance of Kosovo as low income country is associated with the small producing and manufacturing sector and not high level developed tradable services. Also it should be noted that following transition, the period before the latest world economic crisis was characterized by growth led with fast consumption and expanding trade balances deficit (Badivuku-Pantina & Marinov, 2010).

Table 5: Trade Balance for Period 2006–2013, Exports-Imports and Trade Balance Deficit

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>111</td>
<td>165</td>
<td>198</td>
<td>165</td>
<td>294</td>
<td>316</td>
<td>268</td>
<td>293</td>
</tr>
<tr>
<td>Imports</td>
<td>1,306</td>
<td>1,576</td>
<td>1,928</td>
<td>1,935</td>
<td>2,144</td>
<td>2,487</td>
<td>2,488</td>
<td>2,401</td>
</tr>
<tr>
<td>% of misbalance</td>
<td>8.5%</td>
<td>10.5%</td>
<td>10.3%</td>
<td>8.5%</td>
<td>13.7%</td>
<td>12.7%</td>
<td>10.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Trade balance Deficit</td>
<td>(1,195)</td>
<td>(1,411)</td>
<td>(1,730)</td>
<td>(1,770)</td>
<td>(1,850)</td>
<td>(2,171)</td>
<td>(2,220)</td>
<td>(2,108)</td>
</tr>
</tbody>
</table>

Source: KAS and CBK 2014 and Ibrahimi & Zeqiri, Kosovo’s balance of trade, 2015, Table 1. P. 7.

Table 5 shows that Kosovo exports are very low and the country highly relies in imports. Its trade misbalance remains persistently around or higher than 90% and this trade misbalance is financed in large part through remittances from abroad. Therefore, Kosovo’s economy it continues to run a huge trade deficit and as consequence highly dependent from remittances. A huge contributor to the high level of imports is the Kosovo’s accession into Central European Free Trade Agreement (CEFTA) since 2007. Kosovo was unable to use the benefits from this agreement thought it is part of this agreement, although CEFTA’s intention provides a good foundation for economic growth. Kosovo couldn’t have benefits from this regional trade agreement because Bosnia and Herzegovina and Serbia didn’t recognized independence of Kosovo in this direction much difficulties related to visa obtaining and other bureaucracies and partly because of geographical position transport channels of Kosovo’s export to CEFTA’s and European countries were blocked. Other countries of the region cosigners of CEFTA agreement have benefited from this agreement.

2.6 Unemployment in Kosovo

It was already noted that Kosovo unemployment rate is one of highest rates among countries in the region and in Europe. One 2014 Labour Force Surveys has shown that the rate of unemployment in Kosovo has increase over the years and also inactivity rate has increased. The situation is same for both genders and the increase of unemployment rate has been noticed for both (FES, 2015). This survey shows that women in general are more affected by unemployment the men and especially young women. Also participation in
labour force among women is much then among men (FES, 2013). Based on statistical methodology applied, in Kosovo it is estimated that active labour force is around half a million persons while around 750,000 persons are inactive (KAS, 2015). Based on statistics in this year around 62% of labour force is inactive or 4% higher than in 2015 when this rate was around 58% (KAS, 2015). This low percentage of the country's workforce in Kosovo can be attributed to some extent to relatively very young population, which it classified as inactive category.

Table 6: Labour Force Participation, Inactivity and Unemployment (in %)

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation rate in labour force</td>
<td>60</td>
<td>21</td>
<td>41</td>
</tr>
<tr>
<td>Inactivity rate of population</td>
<td>39</td>
<td>79</td>
<td>59</td>
</tr>
<tr>
<td>Employment ratio to employment rate</td>
<td>44</td>
<td>13</td>
<td>29</td>
</tr>
<tr>
<td>Share of vulnerable in total employment</td>
<td>25</td>
<td>19</td>
<td>24</td>
</tr>
<tr>
<td>Share of youth employed (15-24 years)</td>
<td>30</td>
<td>41</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Results of KAS Labour Force Survey, Key labour trend indicators, 2014, Figure 1, p 10

This surveys shows that around 80% of women are inactive economically which is very high rate when compared to inactivity rate among men of 38%. Official data in Kosovo show that registered unemployment in Kosovo is about 150,000 persons (KAS, 2015) while in July 2003 it was 276,000 (Riinvest, 2003).

Table 7: Kosovo Unemployment Rate 2006-2014 (in %)

<table>
<thead>
<tr>
<th>Unemployment rate among men and women</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unemploy. rate</td>
<td>45</td>
<td>44</td>
<td>48</td>
<td>45</td>
<td>nd</td>
<td>45</td>
<td>31</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Unemployment rate of persons &gt; 25y</td>
<td>62</td>
<td>55</td>
<td>60</td>
<td>56</td>
<td>nd</td>
<td>36</td>
<td>40</td>
<td>39</td>
<td>nd</td>
</tr>
<tr>
<td>Male unemploy. rate</td>
<td>35</td>
<td>39</td>
<td>43</td>
<td>41</td>
<td>nd</td>
<td>nd</td>
<td>28</td>
<td>26</td>
<td>nd</td>
</tr>
<tr>
<td>Female unemploy. rate</td>
<td>76</td>
<td>70</td>
<td>73</td>
<td>73</td>
<td>nd</td>
<td>nd</td>
<td>55</td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>


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Labour force participation rate represents the proportion of working-age population of a country that participates in the labour market, by working or either by looking for work (employed plus unemployed / working age population). Here are not taken into account those excluded from the active population against their will, which should be included in the active population and be counted as effectively unemployed.
Official data show that unemployment rate is about 30% without taking into account informal employment in the grey economy. Based on data from Table 7 (MLSW, 2015) it can be estimated that the rate of unemployment during this period was above 40% for both genders. Kosovo’s unemployment rate among men and women remains the highest among all countries in the region (Mic & DRAGUSHA, 2013), even though there was a significant decrease of on unemployment rate statistics of around 10% compared to the year 2010 to 2011 (Shala, Livoreka, Berisha, & Merovci, 2013). The main reason for such a sharp decline was not increase of employment but administrative improvements better facility databases.

The possibility that the category of population able to work will have a constant increase remains high in Kosovo. Every year about 36 thousand young people are added to the population of working age, while only about 10 thousand are leaving working age population (KAS, 2015). The applied statistical methodology by KAS is based on survey of Manpower in Kosovo by interviewing households, spread in territorial districts - enough sample to conclude with the overall results. According to the 2014 Labour Force Survey employment rate raised at 27% (KAS, 2014). Based on 2014 KAS survey employment was concentrated mainly in the service sector and manufacturing, where these sectors together employ highest percentage of all employees in the market. Trade sector employs about 14% of total employment, followed by the education sector by about 12% and the construction which employs about 11% of total employees in the market. According to the KAS data of the last three years, employment in the construction sector has increased, while the recession did have negative impact on agriculture and mining. Category of jobseekers classified as "discouraged" is in very high rates and constitutes around 11% of the working age population in the country, while the level of "discouraged" among men is 8% while among women has a higher rate with 13%. In 2014 out of 700,000 people counted as inactive population, around 130,000 haven’t been looking for a job as a result of low expectations that they will not find one.

Table 8. Kosovo Population Structure by Age and Gender in % of Total Population

<table>
<thead>
<tr>
<th>Age group</th>
<th>Total registered</th>
<th>% of age group in total population</th>
<th>% of men in total of age group</th>
<th>Women as % of all employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-9</td>
<td>310,651</td>
<td>16.30</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>9-18</td>
<td>351,858</td>
<td>18.50</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>19-64</td>
<td>1,031,137</td>
<td>54.20</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>65+</td>
<td>207,691</td>
<td>10.90</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>1,901,337</td>
<td>100</td>
<td>51</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: KAS Labour Market & KAS Statistical Yearbook, 2014, Kosovo population by age, Table 2.2, p 35
The percentage of newly registered unemployed people has remained consistently high over the years 2013 – 2015. This consistence was the same in prior years for both genders women (29%-33%) and men (67%-71%) registered with employment offices in Kosovo. Based on the level of education among employed person’s employees who have completed vocational secondary education was 40%, while 26% had completed higher education and training of various professional degrees (KAS, 2014b / 2015).

If comparing with the countries in the region with which Kosovo shares the most cultural characteristics, religious and geographic have inactivity rate of around 47%. Montenegro inactivity rate is around 50%; Serbia 47%, Albania and Macedonia of around 45%. With the same logic, if the employment rate is about 300 to 350 thousand; then unemployment rate in Kosovo appears to be about 50%. Population of Kosovo aged between 45-54 has the highest rate of employment constituting 38% share of the total number of employees, while the population aged 15-24 constituting 9% share has the lowest employment (KAS, 2014a). Unemployment rate compared to previous years appears to have increased among young population of 16-24. Unemployed young people of the age group 16-24 in 2014 were representing 28% of the unemployed persons among total unemployed persons. Twice more it was likely in 2015 four young people to be unemployed constituting 61% of unemployed compared to adults (KAS, 2015b).

Statistical methodology applied for measuring unemployed rate in Kosovo can be in conformity with accepted international standards, but conformity might not make this data useable in some countries because of country specifics including Kosovo.

2.7 Employment – Labour Market Trends in Kosovo

The concept of employment refers to labour force of a country what it includes all adult persons of the country aged over 16 who are either working for compensation for their work or the ones who are actively seeking for employment. Though the definitions of the labour force diverges between countries, in principle represents all adults who are at the aged for employment. There are many definitions about unemployment, but in principle it means the proportion of the labour force who are actively looking for a job but that is unemployed (Schiller, 2010). In Kosovo the unemployment rate measures the number of people who are willing to work and actively looking for a job as a percentage of the total labour force. Kosovo categorized as a country with young population has high percentage of fresh job seekers - young person’s net inflows in the labour force. Historically the net inflows in Kosovo labour force is above 20,000 (UNDP, 2014), but based on 2014 statistics it was estimated that around 15,000 young persons was the net inflow in labour market in this year while this number in 2012 was around 25. The big change between these two periods was not related to high employment or low inflow in 2014 but this was due to
some administrative changes, while it is estimated that in order to have unemployment rate falling it is required to have growing employment by more than 6% per annum.

Existing statistical data for the employment and unemployment does not allow making an exact analyze of pre-privatization and post privatization for the period from 1990 to 2015. However, it is obvious that unemployment rate remains very high even after a decade of transition, yet economic progress is the only long-term solution to the unemployment problem. Unemployment remains one of the biggest challenges that Kosovo is facing today (Gould, 2007; Hoti, 2003; KIPRED, 2005). According to Labour Ministry registers currently there are 274,487 registered job-seekers in Kosovo (MSWK, 2015).

Based on Riinvest institute analysis, the unemployment rate in Kosovo before start of privatization was 49%, what represents the highest rate compared to other transition countries (Riinvest, 2003). There was a reduction by 52% of existing jobs from year 1988 in the public sector (SOE’s, POE’s and public servants) from 245,400 employees to 126,000 in the year 2002 (Riinvest, 2003). Number of employees in private sector was 124,000, excluding workers employed in agriculture AKB (2010). According to World Bank data around 200,000 workers were employed in agriculture in 2002, which represents a huge difference by 100,000 persons based on Riinvest estimations of 2003.

Considering lack of statistics is very difficult to clearly distinguish between the impact of particular privatization measures including impact on employment, structural adjustment of programs or other transition programs as a total. Very high unemployment rate in Kosovo estimated in the year 2002 could be described partially because of previous repressive situation in the country during the 90’s and the recent war, and all this as extreme factors to limited economic growth as the main determinants of unemployment. This high unemployment could be explained also as partly inherited because Kosovo unemployment rate in FRY was always the highest among other federal units with a rate of 40% in 1979 to nearly 60% in 1988, while the average unemployment rate in FRY was around 14% in 1979 to around 17% in 1988 (Perritt Jr, 2004).

Almost one million people from Kosovo were displaced during the war of 1999 to Macedonia, Albania and other neighboring countries and many of them also to Western Europe. Organizing of after war reconstruction of the country became the responsibility the UN Mission in Kosovo and also stabilization and transformation policies based on the UN Resolution 1244. In terms of establishing new institutions UNMIK has achieved big progress reorganizing all public administration what has been achieved. Implying the end of war, and also implying the end of a political and economic system that had repressed 2 million people for nearly one decade. Considering the fact that the ownership of companies and the means of production as the socialist economy were owned socially and not owned privately it was necessary to start restructuring economy by privatizing SOE’s and start reforming them. Delay of starting privatization for three years after 1999 characterized
with establishing new legal grounds for Kosovo based on UN resolution and a full decade loss of privatization during ’90s and also long lasting privatization process since 2003 has had a huge negative impact on establishing new economic relations and employment.

Table 9: Kosovo Unemployment Rate 2006-2013

<table>
<thead>
<tr>
<th>Employment rate</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment rate</td>
<td>28.7</td>
<td>26.1</td>
<td>24.1</td>
<td>26.1</td>
<td>n/a</td>
<td>22.4</td>
<td>25.5</td>
<td>28.4</td>
</tr>
<tr>
<td>Female employ/rate (15-64)</td>
<td>11.8</td>
<td>12.7</td>
<td>10.5</td>
<td>5.2</td>
<td>n/a</td>
<td>5.2</td>
<td>10.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Male employment rate (15-64)</td>
<td>46.1</td>
<td>40.1</td>
<td>37.7</td>
<td>39.7</td>
<td>n/a</td>
<td>n/a</td>
<td>39.9</td>
<td>44.0</td>
</tr>
</tbody>
</table>

Source: KAS Statistical Yearbook, 2014, Kosovo employment rate by gender, Table 9.8, p 97

Based on Kosovo legal infrastructure every employed person should declare his incomes to tax administration and every person who earns monthly over €80 is eligible to pay taxes and pension contributions. Based on the Kosovo Pension Fund annual report (KPF, 2015) contributors to pension fund are 297,466 contributors or 11,552 contributors more than in 2014 when there were 285,914 contributors out of which around 30,000 persons are self-employed. All above is showing that there is no clear statistics that we could fully rely on employment / unemployment.

Kosovo is implementing ILO/EUROSTAT methodology in order to define the employment/unemployment statistics. Unemployment rate is considered the proportion of the labour force who are actively looking for job but that is unemployed (Schiller, 2010). Unemployed rate in Kosovo it is considered the number of people who are actively looking for job and registered in employment offices as labour force and actively looking for a job. Privatization as a process in Kosovo has been ongoing since the year 2003. Around 400 SOE’s have been privatized partly or in full through creation of some 620 NewCo’s as of August 2015 (PAK, 2015). In addition around 175 different assets of SOE’s have been successfully sold through method of sales through liquidation (PAK, 2015). Although majority of SOE’s have been privatized until now, some 200 SOE’s are expected to go through privatization process and around 300 SOE’s are expected to go into liquidation process (KIPRED, 2005; OAG, 2013; OAG, 2014).

---

8 ILO/EUROSTAT definition: One person is considered as employed if he/she is working for a salary or earning. Self-employed are also considered that are employed if the person works in business, professional services or farming with the purpose of creating profit, who spends working time in running the business. One unpaid employee it is said to be considered as employed if his work contributes directly in the business, farm or professional services.

9 With the establishing of KTA on 2002 formally it has started internationally managed privatization in Kosovo for privatization of SOP’s. KTA operations were ended on 2008 following Kosovo’s declaration of independence creation of Privatization Agency of Kosovo (PAK) based on Kosovo Constitution.
One of main privatization goals was to increase employment, but because of the model of privatization, there are no data to show what the effect of privatization was. The investors who have privatized SOE’s with regular spin-off and which is the model of privatization for the largest number of privatized SOE’s till now were not obliged to employ specific number and neither to report to privatization authorities. Surveys in February 2002 were showing than some fifty percent of SOE’s in Kosovo was employing about 22,000 employees out of 41,000 registered as regular employees (Riinvest, 2002). Around €99 mil are distributed to more than 44,000 ex-employees, beneficiaries of 20% after the privatization of SOE’s which can be considered as not working for the new privatized company (Brovina, 2015).

The investors who have privatized SOE’s with special spin-off and which is the model of privatization for 26 of SOE’s privatized were committed to employ specific number for a period of two years after the contract, but they were not obliged to report to privatization authorities after this period expires. Based on administrative data the committed number for employment within this contracted period for this 26 SOE’s privatized with the model of special spin-off it was 7,913 employees which number was achieved in the contracted time in the level of 86%, but in extended period of fulfilling contracted commitments was 95% or in numbers 7600 employees. Considering the above results from privatization, it will not be possible to estimate employment from the public data because existing public data don’t show clearly the number of people employed as a result of privatization. Besides public data it will be difficult to have clear picture of employment as result of privatization based on administrative data to because there are no administrative data for privatized SOE’s.

Low rate of employment in Kosovo is not just as consequence happenings during ‘90s but also the latest crisis did have its effect on Western Balkans including Kosovo with a certain lag of years behind but following European trends. Besides in employment the effect of latest crisis was felt in all macroeconomic aspects to, because of huge dependence that business community has on revenues from diaspora in Europe, loans, drastic decrease of FDI and imports (Ibrahimi & Zeqiri, 2015). Also it is estimated that financial capacity of the commercial banks in Kosovo have larger deposits capacity than utilizing of this funds in financing the economy, thought always it is considered that scarce funds in the country are always one of privatization problems (Ibrahimi & Zeqiri, 2016).

2.8 Evaluation of Labour Force Trend During Privatization

Based on labour force trend estimates in Kosovo, projected market changes are closely related to the demographic structure of Kosovo. During the next five years more than 150,000 young people will cross the borderline of labour force of age 16 years old. The
number of people reaching their retirement age (65 years) will be around 50,000 persons or compared to newcomers it is three times lower (KAS, 2015).

Table 10: Statistics Over Newly Jobseekers Registered in Employment Offices

<table>
<thead>
<tr>
<th>Year</th>
<th>Total registered</th>
<th>Total Registered Women</th>
<th>Total Registered</th>
<th>Total newly registered</th>
<th>Newly registered men</th>
<th>Newly registered women</th>
<th>% of newly regist. women</th>
<th>% of newly regist. men</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>268,104</td>
<td>124,369 (46.4%)</td>
<td>143,735</td>
<td>13,128</td>
<td>8,792</td>
<td>33</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>274,490</td>
<td>127,921 (46.6%)</td>
<td>146,566</td>
<td>32,927</td>
<td>22,843</td>
<td>31</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td>17,390</td>
<td>5,084</td>
<td>12,306</td>
<td>29</td>
<td>71</td>
</tr>
<tr>
<td>2016</td>
<td>33,180</td>
<td>10,102</td>
<td></td>
<td>23,078</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017(^{10})</td>
<td>33,180</td>
<td>10,102</td>
<td></td>
<td>23,078</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>33,180</td>
<td>10,102</td>
<td></td>
<td>23,078</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


A total of 6,685 jobseekers registered in employment offices got employed during 2014, which number is 20% of the number of people registered with employment offices in 2014 or 2.4% of total registered jobseekers. Three fourth of men registered with employment offices have been employed consistently then one fourth of women. Nevertheless, the pace of overall employment in Kosovo has accelerated in recent years. Though higher education level went up across the country opportunities for employment didn’t increase in the same level especially this was not the case in the formal private sector which didn’t keep the step with increasing number of university graduates. This leads to a conclusion that education system is not so well linked with the labour market trends in Kosovo.

The differences between the two age groups in the level of education, female labour participation, family size and other socio-economic issues it becomes clear that Kosovo lacks the capacity to absorb such a large number of new entrants in the labour market. In order to face this challenge Kosovo would have to increase employment by growing the number of new jobs during the next five years considering the huge difference between the ones entering in the labour force and the number of the ones leaving. The current level of economic growth will not be in position to provide jobs to new entrants in labour market, so youth employment-related issues will remain the number one problem for Kosovo and for some time.

\(^{10}\) Data for the coming years are projections of Labour Ministry based on KAS statistics of the number of people that will reach the age of employment.
During 2013 a number of 13,128 people were registered in employment offices as jobseekers. In 2014 this number went to 32,927 which compared to previous year is nearly three times more than previous year. Only around 20% of these registered jobseekers in employment offices during the year 2014 got employed during 2014 and this figure shows rural and urban people employed.

3 LITERATURE REVIEW

3.1 Literature Review of Privatization Process

Privatization is transformation of property of enterprises partly or completely from state property to private property. Privatization in eastern European countries was used as an economic reform for transforming of state owned property to private owned property. This reform was undertaken in order to reduce financial burden of the governments, improve socioeconomic welfare of their citizens and in general to minimize state interfering in the governance of enterprises. Main objective of privatization is considered to be increase of economic efficiency in the economic and social development (Lopez-Calva, 1998).

Privatization as concept it is a process with the aim of economic development, limiting of government interfering in economy, creating of free competition in a market economy and promoting of private initiatives (Lopez-Calva, 1998). SOE’s are considered less effective because of political interfering’s, low quality of management, low investments etc. Based on privatization literature, after privatization, enterprises achieve better efficiency, increase production and profits by better allocating of funds and resources. Advantages of private enterprises in private sector comparing to state owned enterprises are quicker responses to changes in the market through quick decision-making of sufficiently motivated

Table 11. Registered Jobseekers and Employed in 2014

<table>
<thead>
<tr>
<th>By age group</th>
<th>Total registered</th>
<th>% of registered men</th>
<th>% of registered women</th>
<th>Total employed</th>
<th>% of employed out of registered men</th>
<th>% of employed out of registered women</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-24</td>
<td>11,371</td>
<td>24</td>
<td>11</td>
<td>1,983</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>25-39</td>
<td>13,351</td>
<td>28</td>
<td>12</td>
<td>3,406</td>
<td>26</td>
<td>40</td>
</tr>
<tr>
<td>40-54</td>
<td>6,377</td>
<td>14</td>
<td>6</td>
<td>1,080</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>55+</td>
<td>1,828</td>
<td>4</td>
<td>2</td>
<td>216</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>32,927</td>
<td>69</td>
<td>31</td>
<td>6,685</td>
<td>20</td>
<td>79</td>
</tr>
</tbody>
</table>

management. In UK the aim of privatization during ‘80s was mitigating the problems related to wages policy in public sector and decreasing of inflation.

3.2 History of Privatization in World and Main Methods of Privatization

The first privatizations have happened in different forms in the antiquity like in antique Greece, antique Rome, China or privatization of land in Great Britain. In XX century, the first privatization happened in Germany with the sales of the most of shares of the Volkswagen car making company in 1961, but the real privatization in new era has started in Great Britain in the ‘80th by Margaret Thatcher. Japan, Great Britain, France, Italy and Germany are the top five countries which have sold most of common shares of the POE in the world history. With the sale of shares these countries have collected around $285 bn with privatizations of public enterprises and if combined sale of around 400 other POE in other 56 countries then it is estimated that privatization through sale of shares has collected around $400 bn for different national governments. These privatizations did have huge effect in the national economies and have transformed international capital market.

On the other side governments of some former soviet-bloc countries were pushed to privatize state owned enterprises through the voucher privatization method or direct sales because of lack of capital in the local markets and fear that privatized enterprises will be bought by foreign capital.

In this transition all ‘post socialist’ countries did went through, and most of them still is going through difficulties, economic and political recession and uncertainty. There is no country in which reforms and transition achieved expected goals and about which we can estimate that it is a very successful model. The countries which decided to go into privatization of SOP had to go through an extensive process of deciding on which model of privatizations will be used. This is happening because countries differ one from another and one applied model of privatization in one country might not be suitable for another country. Privatization it did happen in developed countries, in transition countries and other Asian countries and the model of privatization were not similar. There were special difficulties for the east European countries and South East European Countries because of the fact that these countries at the same time with the process of privatization they had to develop market economy also.

There are four main methods of privatization in general:
- Privatization of shares, means selling of a certain number of shares in the stock market;
- Privatization of assets, which means selling of entire enterprise or parts of enterprise usually through open bids;
- Voucher privatization, which means that shares are distributed to all citizens of certain age, usually for free or for a very low price;
• Privatization from bottom, which means creating of a new enterprise from old enterprises. And Intern privatization, which means buying of enterprises from employees or management.

The methods of privatization differ from one country to another by different combinations of direct sales, voucher privatizations and managerial buyouts. The distinction at privatization methods is whether firms are sold on cash and non-cash sales or given away. Another distinction is whether assets are transferred to insiders (usually managers or workers), or to outsiders, namely outside domestic and foreign investors. And the other distinction is between privatization when government takes initiative for privatization which is called top-down and the other method is when the initiative comes from outside investor which is called bottom-up privatization.

One of most successful privatization stories in transition countries of Eastern Europe it is considered privatization in Czech Republic and which country resulted with transformation in 1995 of about 75% of production capacities from state to private ownership. Privatization in Czech Republic was done in two major waves which were mainly done by vouchers (Honousek & Croch, 1995). The privatization of large industries as the backbone of the economy in Czech Republic it was done through ‘coupon (voucher)’ privatization as the main method, which characterized the Czechoslovak privatization process as well a mixture of other privatization methods was applied like direct sales, through public tenders and auctions.

At the beginning of the process of privatization in Czechoslovakia it was decided that in the strategic and natural monopoly sectors the state will maintain 100% of shares like in energy, mining, telecommunications, and which were privatized by coupons (vouchers). All citizens of Czechoslovakia provided with possibility to buy a coupon book for 1000 CZK. These coupons were containing investment points which could be used in auctions to bid for buying of shares during the undergoing privatization of shares in state owned enterprises. This method of privatization was applied because the savings of population were very scares and the value of assets in state hands was very large, so in contrary it would have made it a very long-term process to arrange the privatization in their real value of these assets. It was estimated that there would be a strong opposition by the majority of population if this assets would be sold to foreign investors. In beginning of privatization it was decided to create Investment Privatization Funds as it was estimated that participation of large number individual coupon holders could result with a high number of small shareholders who wouldn't have the possibility to guarantee an effective and efficient administration and exercise their ownership rights. This Investment Funds would guarantee acquiring majority or control stakes in the privatized companies empowering individual coupon holders to trust coupons to these investment funds (Honousek & Croch, 1995).
Property restitution – through which method assets were returned to former owners that were confiscated by the communist regime (Honousek & Croch, 1995). There were around 200,000 requests for restitution of agricultural land and about 70,000 houses were returned to former owners. Meanwhile, the owners of industry assets were able to get back they’re shares and they were able to buys shares of the same enterprises with convenient conditions and in no competition with other buyers.

Table 12: Privatization in Czech Republic and Methods of Privatization Applied

<table>
<thead>
<tr>
<th>Method of privatization</th>
<th>Number of privatized companies</th>
<th>Participation (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voucher Privatization</td>
<td>1,849</td>
<td>3.60</td>
</tr>
<tr>
<td>Auction</td>
<td>6,309</td>
<td>12.40</td>
</tr>
<tr>
<td>Direct sale</td>
<td>31,407</td>
<td>61.60</td>
</tr>
<tr>
<td>Tender</td>
<td>4,412</td>
<td>8.70</td>
</tr>
<tr>
<td>Joint Stock Companies</td>
<td>7,013</td>
<td>13.80</td>
</tr>
<tr>
<td>Totals</td>
<td>50,990</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: J. Hanousek & E. Kocenda, Privatization Method in Czech Republic, 2003, Table 3 p 4 & Table 4 p 5

Privatization in low level (of small units of economy) - was the method dealing with privatization of small economic units and that only for Czech citizens. Privatization in high level (massive privatization) – In Czech Republic has started in 1991 and was divided in three parts: a) Enterprises for privatization in first wave with five rounds of biddings, around 1,000 enterprises were privatized and second wave around 700 enterprises were privatized. b) Enterprises to be privatized after five years, and c) Enterprises to be liquidated. Privatization in Czech Republic was considered as successful and dynamic in privatizing most of state owned Assets during ‘90s. The fast privatization process in enabled the acquiring of management skills.

Privatization in Slovenia was done through intern privatization, through which method most of shares were sold to institutional investors (like pension fund, etc.), while other shares were sold to SOE’s employees (workers and managers) who retained majority of shares in most of privatized companies by their certificates to their ‘own’ company (Mencinger, 1996). This method of privatization creates acceleration, but not as much as privatization to strategic investors because new buyers don’t have resources to invest and restructure enterprises. Slovenian economy in the moment when privatization started provided Slovenia with many advantages transforming its economy from a planned economy to a market economy system.

Slovenian population was socially stable even before start of privatization, with a diversified manufacturing economy, agriculture sector and service sector in the country was largely in privately owned, well established trade links with Western European
markets, and country geographic position was an additional advantage (Mencinger, 2001). After starting of privatization GDP in Slovenia increased by 2.8% in 1993 and 5.3% in 1994, and as other macroeconomic indicator the trade surplus decreasing in domestic demand and increasing exports (Mencinger, 2001). Privatization in Slovenia was considered as successful and dynamic in privatizing most of Socially Owned Assets by the end of 1997.

Lithuania during the communist era economy was centralized and had mainly large enterprises like in other regions of the former Soviet Union. This large enterprises were specialized what made them highly dependent. In the first privatization stage which was a very dynamic process compared with other Central and Eastern European countries (Maldeikis, 1996). In this stage the objective was swift voucher-based privatization of state-owned property that had to enable all Lithuanians to take part in the privatization process. In this direction, were opened in the banks around $2.6 mil investment accounts where it was accumulated vouchers of the value over $3 mil. During this stage of privatization were privatized more than 5000 entities including large and medium companies through public subscription of shares, small entities through auctions, companies through tenders for the best business plan, and few companies were sold in cash. Some highly reputable international companies invested in Lithuania during the first stage of privatization in this country (Maldeikis, 1996).

Best practices from Lithuanian privatization are considered:
- Clear legislation on privatization regulated with several related laws;
- Centralization of the process of privatization;
- Prior creation of institutional and legal base for the rise of private sector including company/enterprise legislation, bankruptcy law, etc.

Lithuania was successful and dynamic in privatizing state owned assets in the first stage by privatizing 81% of state-owned assets in the period 1991-1995. Some of industries achieved a high level of privatization, like construction sector which was privatized 98% and household service sectors 97%. As a result of this dynamic stage of privatization the participation of GDP in 1996 was accounted of around 68% from private sector.

4 THE PROCESS OF PRIVATIZATIONS IN KOSOVO

4.1 The Process of Privatization in Kosovo

As Kosovo is aiming to implement necessary reforms aiming to fulfill EU standards, in its path toward free market economy and EU integrations it is paramount the privatization and restructuring of socially/publicly owned enterprises.
In the beginning of international state building in Kosovo the most common business activity of SOE’s was renting of assets of these enterprises (Riinvest, 2002). The only enterprises which had regular operations in this period in the new system of market economy and these regular operations did happen thanks to management and the work of employees, but at the same time most of them were operating with loses (Riinvest, 2002). Relying only in its own resources of SOE’s it was not possible to invest in increased capacities and to keep up with market economy considering very limited possibilities of these enterprises.

In what we shall call the privatization process, rational bundles of the assets of an SOE are transferred to one or more New Companies (hereinafter: NewCos). Each NewCo is then put up for sale through an open tender bidding process. The Privatization Agency in fact sells the shares of the NewCo on behalf of the SOE from which they originate.

From the sale of the NewCo 20% of the proceeds are payable to eligible employees of the original SOE. Remaining proceeds are held by the CBK in a trust fund of the Privatization Agency on behalf of the original SOE concerned (Law on Privatization Agency, 2008. 06/2008). Each privatized SOE has, in a way, its own trust fund, it is therefore preferable to say that privatization proceeds (except the 20% paid out to workers) go into individual trust funds for each SOE, rather than into a global KPA privatization trust fund (Law on Privatization Agency, 2008. 06/2008).

Following privatization what we can call the liquidation process begins. Any remaining assets of the SOE are sold through auctions in a liquidation sale and are transformed into cash. Proceeds from this sale also go to the SOE’s trust fund (except 20% that is paid to eligible employees). At this point the money collected from the sale of all the assets of an enterprise through the privatization sale of the NewCos deriving from the original SOE, and the subsequent liquidation sale (net of 20% for the workers) is utilized by a liquidation committee set up by the KPA to pay off legitimate creditors through an evaluation of each claim submitted in due time. Any proceeds that remain after the creditor claims are settled would be available in the trust fund of the SOE to settle legitimate ownership claims for the enterprise (Law on Privatization Agency, 2008. 06/2008).

It is important to note that not all SOE’s will go through both processes described above. Some SOE’s have very limited assets and are not worth putting through what we have called the privatization process, but will go straight to what we have called the liquidation process. Concerned parties can file complaints to the Supreme Court of Kosovo more precisely to the Special Chamber of court exclusively dealing with privatization issues against any decisions made at any stage of the process described above.
4.2 An Overview of Privatization in Kosovo

UNMIK started privatization in Kosovo in 2002, when it established the KTA through UNMIK Regulation 2002/12. KTA was given the mandate to oversee the management of Publicly Owned Enterprises (POE’s) and privatize SOE’s, a process that began in 2003. KTA had identified over 600 SOE there were believed to be an SOE according to status determination process run by the KTA (PAK work paper, 2008; PAK, 2009).

Table 13: Privatization and Liquidation by KTA and PAK
(May 2003 to September 2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>Privatization / Sale of NewCos</th>
<th>Liquidation / Sale of assets</th>
<th>Total revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>7,535,657</td>
<td>-</td>
<td>7,535,657</td>
</tr>
<tr>
<td>2005</td>
<td>77,555,231</td>
<td>-</td>
<td>77,555,231</td>
</tr>
<tr>
<td>2006</td>
<td>156,043,172</td>
<td>1,912,440</td>
<td>157,955,613</td>
</tr>
<tr>
<td>2007</td>
<td>88,343,991</td>
<td>6,065,108</td>
<td>94,409,099</td>
</tr>
<tr>
<td>2008</td>
<td>17,800,220</td>
<td>2,652,096</td>
<td>94,409,099</td>
</tr>
<tr>
<td>2009</td>
<td>41,187,382</td>
<td>7,399,977</td>
<td>48,587,358</td>
</tr>
<tr>
<td>2010</td>
<td>70,817,683</td>
<td>10,547,667</td>
<td>81,365,350</td>
</tr>
<tr>
<td>2011</td>
<td>53,071,601</td>
<td>22,788,676</td>
<td>75,860,277</td>
</tr>
<tr>
<td>2012</td>
<td>16,710,740</td>
<td>11,326,556</td>
<td>28,037,297</td>
</tr>
<tr>
<td>2013</td>
<td>18,382,128</td>
<td>9,215,364</td>
<td>27,597,492</td>
</tr>
<tr>
<td>Total</td>
<td>571,169,863</td>
<td>71,907,885</td>
<td>643,077,748</td>
</tr>
</tbody>
</table>


Table 13 shows privatization and liquidation sales between May 2003 and September 2013, totalling €643 million. The overall administrative and operational costs of KTA and PAK, until the end of 2013, were over €90 million (around 14% of revenues). Most of Kosovo’s assets of the industry sector, farm land and forests and other commercial properties are owned by SOE’s. Privatization of SOP’s was expected to have a profound and progressive impact on the country’s economy and in creating jobs by attracting investment of capital and knowledge from diaspora and attracting of foreign investors. The privatization process it was designed in the way to separate this 600 SOE into smaller more

\[11\] Some of the large SOE’s sold in 2006 were: Ferronikeli Mine, Beer Factory in Peja, Grand Hotel Prishtina and Ramiz Sadiku Construction Company.
liquid and more effective enterprises. PAK was established in August 2008 as a direct successor of KTA, following promulgation of the Law of Privatization Agency of Kosovo 03/L-067 approved by the Assembly of Kosovo.

Privatization process resumed in the last quarter of 2008, after a temporary break following termination of the KTA mandate by the EU, in June 2008 (PAK work paper, 2008; PAK, 2009). However, such interruption caused not only loss in momentum, but also of the key staff that employed in other institutions (PAK work paper, 2008; PAK, 2009). Hence, privatization commenced very slowly and in modest volumes without a clear impact on overall countries economic activity. The tempo of privatization did have a small acceleration of the privatization process after the transfer of competences from KPA to PAK and especially in spring 2009 when PAK continued operational duties, but with a large number of SOE’s still to be privatized (PAK work paper, 2008; PAK, 2009).

When overviewing of the privatization program we can see that until 30th of June 2008 KTA has launched 30 waves of privatization. KTA tendered for sale around 500 NewCo’s (around 250 SOE’s affected) and signed around 400 sales contracts, totaling privatization proceeds (deposited in privatization trust fund) an amount of €392 million (PAK, 2009). During its mandate KTA managed to sell only 36 SOE’s assets through liquidation, thus collecting a modest amount of €11 million. PAK launched 29 waves between August 2008 and December 2013, selling around 300 NewCo’s (around 150 SOE’s affected), generating over € 230 million (PAK, 2014). It is estimated that some 1900 assets are remaining to be sold out of which 180 are located outside borders of Kosovo (PAK, 2015).

As mentioned above funds generated by both privatization and liquidation have reached a total of around €650 million, which represents around 40% of Kosovo’s national budget of 2015. An amount of 20% of these funds should be reserved until distribution to eligible SOE workers, 5% are used to cover administrative costs of PAK and the remaining 75% are being used to compensate creditors’ claims. Funds transferred to the Government of Kosovo as “residual funds” have reached €29 million. Following disbursement of these funds, payment of 20% to eligible SOE workers, 5% administrative fee, liquidation costs, investment, etc the remaining balance of PAK accounts as of 31 December 2015 is around €487 million. Funds are being held in trust accounts in the Central Bank of Kosovo

12 Kosovo Budget for 2015 was €1.6 billion.
13 PAK Law no.04/L-034, Article 19.3.1”PAK shall conduct a systematic review of all privatization incomes concerned liquidation with result of determining the portion of such incomes that constitute Outstanding Funds” and Article 19.3.3 “PAK shall disclose as “Outstanding Funds” up to 75% of proceeds that exceed the total amount estimated of creditor’s claims, and transfer this collected funds to the government. These transferred funds should become “public money” and handled to the Kosovo budget based on approval by the Assembly of Kosovo and must be used for the economic development.
14 Official PAK data, obtained on 29 July 2016.
Majority of privatization and liquidation revenues (around €250 million or 39% of total proceeds) have been generated in Pristina region, obviously because some of the largest SOE’s have been located in this region (PAK, 2015); while the least in Mitrovica region (around €40 million or 6% of total revenues). Proceeds in the other regions are as follows: Gjilan - €152 million (24%), Peja - €105 million (16%) and Prizren - €96 million (15%).

In period 2013 - 2014 and especially in 2015, the PAK is faced with a dysfunctional BoD and due to this reason the privatization process in past two years is realized with a slower pace of work. PAK as an independent public body is governed by a Board of Directors of the agency as the highest decision making body in the Agency, while overall ordinary business is conducted by a managing director and two deputies (one in charge of Sales and the other Liquidation department) (Law on Privatization Agency, 2008).

With promulgation of the Law 04/L-034 in August 2011, PAK only applies ordinary spin-off, ordinary spin-off with certain conditions as special privatization method and sale of assets through method of liquidation. The method of sale through liquidation is a process whereby Privatization Agency will organize sale of viable parts of one SOE and outstanding liabilities remaining which means some of main assets will be sold with no further obligations by investor. The SOE will be deleted from the Business register of Kosovo after the privatization of the same when assets and liabilities have been dealt with.
and from that moment that SOE will be considered as liquefied. The funds collected from sale of SOE assets through liquidation method are used for partial or full compensation of respective SOE creditors’ liabilities. As one of methods of privatization used only in specific cases, sale through liquidation which is less bureaucratic than privatization through regular spin-off or other methods of privatization. With this method PAK can sell clustered assets such as small pieces of land, assets as scrap metal, individual warehouses or individual shop or even miscellaneous stock of any SOE without having to go through all procedures for establishing a NewCo as is the case with regular privatization.

With the method of privatization with special spin-off KPA so far has privatized 26 enterprises, out of which 21 did have commitments investments and employment, and 5 other did have as commitments only employment. 21 out of 26 SOE’s privatized with special spin-off have completed privatization during the international management of privatization respectively by KTA and 5 other by local management of privatization what means by PAK. This 26 SOE’s privatized with special spin-off have employed around 7,000 employees versus 8,340 committed with the special conditions set by special spin-off contract (PAK, 2014). However, in some of these privatizations, new owners failed to meet commitments, thus causing PAK’s intervention to retake control over these enterprises.

Table 14: SOE’s Situation and Number of Employees before the Beginning of Privatization

<table>
<thead>
<tr>
<th>The level of economic activity of SOE’s</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active SOE’s</td>
<td>55-60%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>Usage of capacities</td>
<td>28%</td>
<td>35%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Turnover</td>
<td>-</td>
<td>34.3%</td>
<td>66%</td>
</tr>
<tr>
<td>Number of employees working</td>
<td>18,180</td>
<td>24,660</td>
<td>21,690</td>
</tr>
<tr>
<td>Number of employees registered</td>
<td>36,020</td>
<td>44,200</td>
<td>41,210</td>
</tr>
<tr>
<td>Average salary in this SOE’s</td>
<td>-</td>
<td>215 DM</td>
<td>280 DM</td>
</tr>
</tbody>
</table>


The process of setting up the legal base for transformation of Kosovo SOE’s into private property was initiated and designed by international institutions in Kosovo.
4.3 Privatization-driven FDI Inflows

In the process of privatization in Kosovo around 85% of properties sold were purchased by individuals and legal persons from Kosovo, while 15% by foreigners. Overall investment by foreign companies in NewCo-s was around €85 million, which represents 15% of the overall privatization proceeds. Largest transactions were ‘Ferronikeli’ mine and ‘SharrCem’ cement factory. If divided by the total percentage, diaspora in this process has bought around €57 million, or about 9% of the overall privatization proceeds. However, neither privatization nor liquidation has managed to attract world-known reputable brands. This deficiency should seriously be reviewed and addressed by Kosovo’s authorities, especially before privatizing big publicly owned enterprises.

Table 15: SOE’s Privatized by Foreign Investors (Source PAK Annual Report 2009 - 2015)

<table>
<thead>
<tr>
<th>New Companies</th>
<th>Transaction price (€)</th>
<th>Country of residence of investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGK Ballkan</td>
<td>1,400,000</td>
<td>Turkey</td>
</tr>
<tr>
<td>Hotel Metohija</td>
<td>1,505,000</td>
<td>Albania</td>
</tr>
<tr>
<td>Ferronikeli Complex</td>
<td>30,554,371</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Mishi</td>
<td>320,155</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Kosova Trans Ferizaj</td>
<td>1,221,000</td>
<td>Republic of San Marino</td>
</tr>
<tr>
<td>IDGJ Tabacco</td>
<td>1,400,000</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>Berkov-Agricultural Production Malishgani</td>
<td>168,000</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Renovc-Agricultural Production Malishgani</td>
<td>172,000</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Ferma Miradë e Epërme</td>
<td>1,010,000</td>
<td>Slovenia</td>
</tr>
<tr>
<td>RamizSadikuÇikatova Quarry</td>
<td>2,520,000</td>
<td>Austria</td>
</tr>
<tr>
<td>Dobraje e Madhe Agricultural Land</td>
<td>162,000</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Modeli</td>
<td>630,000</td>
<td>France</td>
</tr>
<tr>
<td>Mulliri Fushë Kosovë - Podujevë &amp; Lipjan</td>
<td>2,505,555</td>
<td>Albania</td>
</tr>
<tr>
<td>NBI Suhareka</td>
<td>4,175,999</td>
<td>Italy</td>
</tr>
<tr>
<td>Bujqesia Drenov</td>
<td>151,700</td>
<td>Albania</td>
</tr>
<tr>
<td>Farm Kacandoll AC 23 Nentori</td>
<td>291,000</td>
<td>Japan</td>
</tr>
<tr>
<td>SharrCem</td>
<td>30,100,000</td>
<td>Germany</td>
</tr>
<tr>
<td>Llamkos Steel</td>
<td>6,500,000</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>KB Dobrusha</td>
<td>15,250</td>
<td>Holland</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,802,030</strong></td>
<td></td>
</tr>
</tbody>
</table>

4.4 Current State of Privatization

PAK is rather limited by law in its options for investing privatization funds, though these funds while kept in trust by agency can be administered based on regulations issued by PAK BOD. PAK law determines that “Possessions of Enterprises held in trust and administered by PAK shall be held separately from other properties of the Agency. These funds collected from sale of SOE must be held in trust accounts administered by PAK and shall be invested in accord with highly cautious investment criteria due to sensitivity of these funds. These investments might be in financial securities or other financial instruments considered as very safe investments rated as investment with very high rating by credible rating agencies. This conservative approach taken by the drafters of the PAK law has impacted PAK management’s investment decisions, with funds being invested in short-term investments (time deposits), thus resulting in modest returns.

Opposite from other countries which went through transition process such as Hungary, Czech Republic, Poland, Slovenia, Croatia, which had created Development Funds and in which regard the Privatization Funds have been used as Development Fund, in Kosovo this Fund *prima facie* serves for the resolution of property conflicts. These funds still remain as isolated funds and they are not being used for financing of Kosovo economy in direction of economic development, though Kosovo economy during all this period was manifested with scares funds (Gashi, 2011). The paradoxical situation is that Kosovo takes loans from financial institutions such as IMF, WB, EBRD and issues treasury bonds to raise funds for its capital investments, while privatization funds remain frozen in CBK. Kosovo has many priorities and privatization funds could be used to finance capital projects in energy, mining, education, health, agriculture, environment, technology or infrastructure.

Justification for keeping these privatization funds indolent is fulfilling the requirement by international community who is asking from Kosovo to keep financial safety. In line with property right disputes, the model of keeping these type of funds in trust settles to provide these funds as security for compensating real owners or claims of creditor’s as required with Article 1 of the European Convention on Human Rights and to carry on the

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15 The term ‘prima facie’ describes the nature of something which is apparent upon preliminary observation. This term generally is used in legal practice to describe the presentation of adequate proof by a pretender to support his legal pretending or a section of evidence itself.

16 In accordance with Article 1, of the European Convention on the Human Rights, it is mandatory to create the needed funds for compensation of the creditors or owners if their properties are taken by some state action for the public purposes. Privatization it is considered as one of public purpose and specific form of expropriation when there are property disputes on the privatized property. Therefore, such an approach in Kosovo concerning Privatization Funds fully is in compliance with the requirements arising from European Convention on the Human Rights. These funds cannot be consumed until all property disputes to be resolved.

17 According to law, PAK is obliged to compensate eligible creditors of SOE’s in liquidation in accordance to the decisions taken by the Liquidation Authority. In case the available funds of a SOE are insufficient, then creditors are paid proportionally. PAK is not allowed by law to use funds of one SOE to compensate creditors of another SOE.
process of privatization as an essential process for developing countries’ economy. The process of privatization in Kosovo is characterized as well by the phenomenon of property disputes for the privatized properties or those properties currently in the process of privatization. SOE’s in Kosovo have been subject of privatization or a forced transformation process during the 90-s by Serbia. That’s why many property claims related to this privatization or a forced transformation process were submitted to the Special Chambers of the Supreme Court of Kosovo as the sole legal authority for solving this property disputes. Besides this claims, second category of similar property claims is from former owners, whose property was taken during nationalization, expropriation or directly confiscated during the communism era. The other category of potential claims are those of investors or supposed investors who have lend to these SOE’s during the period of 90-s which period is being referred by former employees and also by majority of local inhabitants as the period of classical occupation and who also consider that these loans are inexistnet because investments in these SOE’s are inexistnet to. As per UNMIK Regulation on KTA and Law on PAK, no property claim can stop the process of privatization of one SOE, and that returns of property will not be considered, but money collected from sale of these SOE’s will be deposited in these trust funds. However, these property claims may be issue for reviewing during the liquidation process which will be managed by PAK. This liquidation process will be reviewed and at the end of liquidation also by the Special Chamber of the Supreme Court of Kosovo (Gashi, H. 2011). Considering the fact that claims review process is a rather lengthy and time-consuming process, the residual funds to be transferred gradually (2014 to 2016 or even beyond) to the Government of Kosovo will not provide for any significant investment. According to a rough estimate PAK will need around € 250 million to finance its operations in the next two years. Hence, funds that could immediately be used, without jeopardizing PAK’s operations, are circa € 300 million.18

4.5 Privatization Methods in Kosovo

The privatization process in Kosovo is regulated to carry out privatization through the method of sales and through the method of sales through liquidation of SOE’s. Two are the methods of privatization of SOE’s in Kosovo:

• Sale of New Enterprises that were created from the SOE’s; The following methods were applied when selling the New Enterprises:
  - Spinoff Method
    o Regular Spinoff;
    o Special Spinoff; and
    o Spinoff with conditions.
• Sale of assets during liquidation process of SOE’s.

18 It is forecasted that a significant portion of these funds will be transferred to the Government of Kosovo by the end of liquidation process as “residual funds”.

39
Through the Spin-Off model, KTA as an agency dealing with this process of privatization applied 2 steps in the privatization of SOE’s.

- In the first step, KTA as the party managing all SOE’s, enabled the creation of new companies (NewCo’s) with structures of share holding companies or LLC’s. NewCo’s created have the right over the assets of former SOE’s, but are not responsible for their debts or law suits. Responsibilities will remain with former SOE’s which would continue to exist legally but not functioning operationally.

- In the second step, KTA sells to private investors NewCo shares that holds in trust, to both domestic or foreign investors, who invested or engaged their capital in the privatization process. Incomes from the privatization of SOE will be held in trust fund while waiting the resolution of claims by creditors.

Sales of SOE’s with special Spin-Off – implies the sale of SOE’s to investors upon some conditions. Buyers of enterprises privatized through this method were obliged to keep companies in operation in the activity these companies were designated, make investments based on the signed contracts and to maintain a certain number of employees. Sales through this method were selected through a bidding process where the best bid was selected based on the price offered and on the scores obtained based on commitments to make investments during a set period of time and number of people to employ within the contracted time. Sales of SOE’s with regular Spin-Off 19, – implies the sale of SOE’s without conditions. The formula to evaluate bids was calculated in percentages:

- 50% of scores were awarded for the price offered;
- 25% of scores for commitments related the investments to be made;
- 25% of scores for number of people to employ.

Ordinary spin-off is used to privatize SOE’s and their respective assets based solely on the highest price offered, with no conditions attached. While conditional and special spin-offs besides the highest price included certain commitments such as employment and investment commitment. The process for this type of privatization was conducted in two rounds with only three highest price bidders attending the second round.

The difference between privatization of SOE with special spin-off and regular spin-off are that when one SOE is privatized with regular spin-off, the company was awarded to bidder with highest price and in case when one SOE is privatized with special spin-off the contract is awarded not only to highest price but also it is considered the investment project of the bidder and business plan including employment. In case when investors would fail to fulfill their commitments then would face financial penalties and also the contract could be withdrawn and shares confiscated, which would result in a re-sale process through liquidation.

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19 Assets are transferred to NewCo established as joint stock companies from SOE to be privatized and a limited number of liabilities of the SOE-s before tendered for privatization by private investors.
Sales of assets through Liquidation is based on the features and specifications of this model, voluntary liquidation of privatization allows a quick exit from the market of those enterprises which have no clear prospect for survival. PAK basic activity is administration as well as keeping SOE’s in trust, restructuring and liquidation of SOE’s. As a trusted administrator, PAK is also responsible to "preserve and increase" the value of SOE’s.

Table 16: Level of Fulfillment of Investments and Employment within the Contracted Period as per Official Monitoring Data of PAK

<table>
<thead>
<tr>
<th></th>
<th>Buyer’s commitments</th>
<th>At the end of commitment period</th>
<th>In %</th>
<th>Achieved results</th>
<th>In %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committed Investments</td>
<td>197,453,564€</td>
<td>90,788,804€</td>
<td>46</td>
<td>133,568,501€</td>
<td>68</td>
</tr>
<tr>
<td>Committed employment</td>
<td>7,913</td>
<td>6,885</td>
<td>87</td>
<td>7,595</td>
<td>96</td>
</tr>
</tbody>
</table>


The above table shows the level of fulfillment of investment and employment within the contracted period and results achieved of SOE’s privatized with the special spin-off at the time of concluding the contract. This table shows that investment rate was fulfilled at level of 46%, while commitments related to employment were fulfilled at level of 87% (OAG Performance Audit Report, 2015).

Figure 5: Results Achieved for Employment

Figure 5 shows a thorough analysis of the level of implementation of commitments by buyers of SOE’s privatized with the method of special spin-off based on the data derived from the contracted commitments and the results achieved at the moment of finishing monitoring period (OAG Performance Audit Report, 2015). Employment was the commitment to be fulfilled for the privatization of 25 SOE’s. According to the above graphic, 21 enterprises have fulfilled the commitment of employment by 100%.

Figure 6: Level of Fulfillment of Investments within the Contracted Period

![Bar chart showing the level of fulfillment of investments for SOE privatization](chart.png)


According to the above graphic Capital Investment commitments for the privatization of 21 enterprises have been fulfilled while for six of them have been fulfilled by 100%. The privatization process in Kosovo is based on the characteristics and specifics of the model of sale of assets during the SOE’s liquidation process. The voluntary liquidation of privatization allows a rapid exit from the market of those enterprises having no clear perspective to survive in the market economy. The SOE’s privatization process was carried in two general steps. The first step was that the Privatization Agency has managed all SOE’s and enabled the creation of a new company “New Enterprise” as a Joint Stock Companies or Limited Liability Companies and the transfer of these entities, a part of or all assets of the old enterprise, to new company. The newly established companies enjoyed the rights on the assets of the old SOE’s but bare no responsibility on debts or lawsuits or any other obligation.

Thought this are administrative data taken from official reports of privatization agency and are not very accurate because in many circumstance represent not real situation. In situations it was noted that buyer of one SOE fulfilled the investment commitments by
only 0.67% within the committed period but later one in additional time to fulfill this conditions the same buyer has fulfilled commitments, thought a number of employees in the working list were not working but just receiving minimal salary in order to fulfill the employment commitment (OAG Performance Audit Report, 2015). All old responsibilities remained to the old SOE’s, which legally will continue existing, but this SOE’s will not be operational anymore in order to be liquidated in future stages.

Figure 7: SOE’s and NewCo in the Process of Privatization

In the second step it sale of the shares of newly established companies to both local and international private investors. Incomes from the sales of companies are being held in trust fund until creditors’ claims to be resolved after the liquidation process.

Table 17: Funds Collected from the Sale of SOE’s

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of cash credited from sales of SOE’s 2002 - 2014</td>
<td>571,169,863</td>
<td>71,907,672</td>
<td>643,077,535</td>
</tr>
<tr>
<td>Number of privatized SOE’s and sales of assets through liquidation 2002 - 2014</td>
<td>703</td>
<td>356</td>
<td>1059</td>
</tr>
</tbody>
</table>

4.6 Steps towards the Finish Line of Privatization Process

By the end of 2006 around 60% of SOE’s were privatized because PAK strategy was to firstly privatize those assets which represent the biggest share due to the fact that those enterprises could decrease significantly the social problems. Despite the long period of continual efforts to privatize and liquidate SOE’s, there is still a considerable work ahead to complete the process. There have been 604 SOE’s in KTA’s portfolio, however a number of them have been released by PAK and have been transferred to various Kosovo institutions. From the list of pending enterprises as part of ‘Trepça’ corporate, promulgation of the Law on ‘Trepça’ are excluded 19 units that convert it into a POE and takes them out of PAK’s mandate. Out of PAK’s portfolio, 461 assets have been put in liquidation, while 57 remain to be liquidated (PAK Annual Report 2015). In addition PAK still has a considerable number of assets that could qualify for privatization, while some others could be transferred to relevant institutions.

Based on the latest forecasts of the Kosovo government it is calculated that the process of privatization as well as liquidation of privatized SOE’s will end in 2016 (IMF - Republic of Kosovo: July 2012, p.13). However, this target might sound unrealistic considering challenges PAK is facing in completing a tender dossier, due to deficient cooperation from some municipal authorities regarding issuance of cadastral records and ownership certificates, the time consumed to resolve discrepancies between the cadastral documents and factual situation, unauthorized changes in cadastral records (converting SOE property to private, etc).

4.7 Problems of Privatization Process

Privatization process in Kosovo has faced many problems since its beginning. Some of major problems are considered:

- Estimating the value of assets - Entire privatization process since its beginning has had problems with estimating the real value of the privatized assets. SOE’s were privatized without making some comprehensive analysis of estimating the real value of the assets to be privatized and maybe set some minimum price for these assets, though always it was within BOD discrete competences that could reject any sale which was estimated not in the market value. Itself Yugoslav accounting system did not have the possibility of appreciating assets, therefore the value of enterprises was highly inflated.

- The lack of investors and lack of finances in the country - One of main problem was lack of investors due to little possibilities of financing purchases of SOE’s and due to lack of any other form of joining capital in direction of financing purchase and the raise
of a new company. The main reason for the low participation of foreign investors is considered unstable environment.

- Possibility of involvement of Serbian government in privatization - Participating of the Serbian government is not prohibited to privatize SOP and transfer it to Serbian government. Based on existing laws and regulations, newly established enterprises in Kosovo legally can be bought by the government of Serbia in direct way or via intermediaries not excluding private companies.

- Problems arisen in privatization with the special spin-offs - Special spin-off privatizations require investments and employment of a number of employees according to agreed commitments within contracted period. The problem came as result of high amount of money in the bidding process and then lack of investment capital to fulfill agreed commitments.

- The ambiguous role of the Supreme Court of Kosovo, respectively Special Chamber of this court (SCSC) - This Court was established by UNMIK in 2003 as an international court to deal with issues related with privatization in Kosovo in order to provide a strong, independent and impartial mechanism in privatization process in Kosovo (UNMIK Regulation no. 2002/13). Following declaration of Kosovo's independence, EULEX replaced UNMIK in appointing international judges in the SCSC panels. Paradoxically, until March 2011 when the Constitutional Court of Kosovo (CCK) issued its decision ref. AGJ 109/2011, concluding that ‘by not applying Law 03/L-067 on PAK, accordingly approved by the Parliament of Kosovo. The SCSC has acted in contradiction with Article 102 of the Constitution of the Republic of Kosovo’, the SCSC20 by not recognizing the Law on PAK approved by the Parliament of Kosovo as the law in power but by considering the UNMIK Regulation Nr. 2002/12 on KTA as the law in power. This approach applied by the Special Chamber had a negative effect in the overall performance of PAK as it delayed resolution of a number of claims and undermined PAK’s mandate to defend the interests of SOE’s.

The Parliament of the Republic of Kosovo in August 2011 approved the new Law on PAK No. 04/L-034, as well as Law on SCSC No. 04/L-033 with exclusive jurisdiction on charges against PAK. According to the Law no. 04/L-033, the SCSC will be constituted of five specialized panels while each specialized panel will be composed of one international judge and two local judges and one appellate panel. The compilation of the appellate panel

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20 Pursuant to Law on the SCSC of Kosovo on KPA and related matters of privatization in Kosovo No. 04/L-033, dated 31 August 2011, was established the SCSC on KPA and related matters of privatization in Kosovo, which is part of the Supreme Court of Kosovo as regulated by Law on Courts no. 03/L-199 Article 21.2 of this Law. This institution of justice is a successor to carry out the work of the SCSC on KTA related matters of privatization in Kosovo which was established pursuant to UNMIK Regulation no. 2002/13 and amended by UNMIK Regulation no. 2008/4.
shall be also of five judges, in which panel three of the judges must be international, while two of the judges must be local. The exclusive final appellate jurisdiction on all matters within the competence of the SCSC shall stand within this appellate panel. These laws provided environment for the liquidation of the privatized SOE’s, further acceleration of the privatization by shortening procedures for reviewing workers’ and other creditors’ claims. Further these laws provided legal environment for speeding-up assets transfer to new private owners and delivery of trust funds to rightful claimants. However, considering the pace with which the Special Chamber has been reviewing creditors’ and workers’ claims, as well as the current (and future) workload, SCSC seem to be a bottleneck, which if not addressed will further delay finalization of the privatization and liquidation process.

4.8 Evaluation of Labour Force During Privatization

In relation to employment, privatization in Kosovo gives dual emphasis to employment creation and emphasis to using labour resources for economic growth of the country as one of the most important resources. Employment considered as the main problem in all Western Balkans and especially in Kosovo it remains one of main challenges together with the imbalance of trade balance. In all Western Balkans there was a huge decrease of the ratio of employment to population to 38% in 2013 from around 45% in 1991 (KAS, 2015).

Same as privatization managed by local authorities after 2008, privatization of SOE’s in Kosovo internationally managed of before 2008 cannot be said to have been a big success, if evaluated according to UNMIK own stated objectives that were economic reconstruction and development (UNMIK Regulation 2002/12, 2002; Gould, 2007). Even though there has not been undertaken any wide-range assessment of the economic impact of privatization, evidence indicates that the process has contributed to limiting to some extend Kosovo’s socio-economic potential. Limitations have been noticed by restricting the operational potentials of companies and transforming them into cash at a time of low value and at the same time by blocking employees from work while awaiting privatization. The entire process, though was aiming development and socio-economic progress was not offering any single assistance with any social protection or post-privatization employment (Knudsen, 2010).

Based on achieved results, it appears that internationally led privatization in Kosovo has led to a loss of jobs, though there were no analyses in this direction so far and in this regard no accurate statistics produced. Kosovo’s trade union has estimated that due to privatization around 75,000 workers are left jobless so far, without pensions or social assistance while in beginning of privatization it was predicted that around 60,000 jobs will be negatively affected (Héthy, 2000).
There are about 1.1 million persons in the labour force in Kosovo, 25% of which are officially employed, considering that there are more than 300,000 persons who are regular income tax payers (KAS, 2016). Approximately about one third of these employees are employed in the public sector, NGO’s, and in public enterprises, while the other part is employed in private sector. Two fifths of total employed in Kosovo are considered as employed in agriculture sector but not registered as tax payers. However, the number of labour force people who are seeking for job or the ones who remain out of the labour market is rapidly growing.

A survey carried by Riinvest Institute in February 2002 of about half of SOE’s in Kosovo showed that 55% of these SOE’s did have employed more than 100 persons, 21% did have 51-100 employed persons and 24% did have less than 50 employed persons (Riinvest, 2002).

Reports show that economic profile of Kosovo is not very healthy and in this regard Kosovo is facing a very high rate of unemployment (KAS, 2014b; Riinvest & FES, 2013). The results of last remuneration in Kosovo related to employment (2013) show that about 1.2 million, or two third of population are in the range of working population (15-64 years old). Out of the total group only 34% are active workforce 438,544 persons (Riinvest & FES, 2013). Out of total number of the active workforce 69% are employed and 31% are unemployed (Riinvest & FES, 2013).

There are no clear information’s available related with results of privatization process because of poor reporting related with this process and not giving a clear picture of what has been achieved against the goals of privatization and what was the effect of privatizing. No evaluation has been undertaken so far evaluating a comprehensive economic impact of privatization in Kosovo neither on the impact on employment, thought there was established a monitoring process by privatization agency (Law on Privatization Agency, 2008. 06/2008). The main tasks of this monitoring process was to collect and dispose of financial reports SOE administered by the KPA and systematize this reports, collection and comparison of financial reports in order to preserve the value of SOE’s, increase the value of SOE’s and to take timely measures in cases where the property can be mismanaged. This monitoring process was supposed to prepare and execute the transfer of liabilities from SOE’s to buyers of these enterprises in accordance with the Operational Policies of the KPA (Law on Privatization Agency, 2008. 06/2008).

Summarized results and measurements of the impact of privatization in most of privatized enterprises in Kosovo show that their development was most of the time facing difficulties. Privatization process in Kosovo didn’t have a designed monitoring and reporting system of continuous privatization results (OAG Performance Audit Report, 2015). However, privatization process has specific strategic objectives, there were not set specific goals and there are no specific plans on the monitoring of effects in economic development and
employment. Public interest and frequent critical writings regarding the privatized SOE’s related to investments and employment have given greater importance to our intention to clarify the reasons behind the deficiencies from the privatization process.

The biggest opposition to privatizing companies came from company employees fearing for wage cuts and negative impact on employment level. The results achieved on the employment in privatized SOE through the special spin-off method are satisfactory and within commitment period have so far reached under 50%, while the results achieved so far following the extension of the commitments fulfillment period were approximately 70% until final result in the moment of releasing these enterprises from their commitments employment was 96% (OAG Performance Audit Report, 2015). The privatization with the method of special spin-off is carried out according to the contracts, which stipulates that the buyer of the privatized enterprise should employ committed number of employees and make contracted investments. Failure to fulfill the conditions of the signed contract implies less investments and employment, and this two have an effect on non-economic development of the country (OAG Performance Audit Report, 2015).

As the process of privatization of SOE is close to ending, the general public is focused more on the results after the change of ownership in the new companies especially considering that the country is in beginning privatization of public enterprises and all this to consider in order not to repeat the same problems. In order to improve the performance of privatization in direction of reaching the goals of privatization and to use the lessons learned from the privatization process in the future, the following shortcomings have been identified:

- Developed of specific plans in order to monitor the fulfillment of specific objectives of privatization;
- The fulfillment of commitments is complemented with robust use of actions in case employment is not fulfilled as set forth in the “Commitment Agreement” and
- To increase the pressure on the buyers of enterprises in order to secure fulfillment of commitments related to employment and business activity.

4.9 Impact of Privatization in the Structure of Employment

There are several ways to estimate the impact of privatization on employment in Kosovo, thought there are many difficulties as lack of accurate data due to the long conflict in Kosovo. The three measures we use here are data related with the number or employees in sampled SOE before the beginning of long conflict: year 1989, period of pre privatization: year 2002 and the number of employees in the same companies after privatization: year 2015. This analysis was further analyzed and compared based on industry of the SOE privatized and compared in these three different periods. It was not compared only the impact between the pre privatization and the number of employees after privatization.
because it was a long period of very low activity in this companies after 1991. The biggest move when there was a massive dismissal from work due to political reasons. Low activity after this period, lack of maintenance and repair and unprofessional work with the SOE assets did have negative effect also on these assets which has caused higher rate of depreciation of these assets. After that there was some recovery, to the point that the period after 1999 employment was at a higher rate but not at the level of the period before 1991.

For the purpose of this analysis have been selected a number of newly created enterprises from different sector privatized in period 2002-2015, which comprise all Kosovo regions and all existing industries representing a large percentage of SOE which were privatized. This number of new companies has derived as a result of privatizing a smaller number of SOE which at privatization were split into more rentable parts for more practical reasons on new enterprise which was privatized later. For example one agricultural SOE has comprised many parcels of land, it has comprised offices, storage and other parts which in the privatization have been sold to new owners in smaller parts based on preliminary analysis. In this analysis are not included biggest companies in Kosovo as it is ‘Trepça’ mine, Kosovo telecom and Kosovo Energy Company ‘KEK’ and ‘Brezovica’ Ski Center, thought this companies have biggest employment potential they have different status from SOE and still functioning as public companies.

Table 18: Number of Employees in Privatized Enterprises Based on Industry Sector

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>285</td>
<td>17,916</td>
<td>8,313</td>
<td>3,233</td>
</tr>
<tr>
<td>Mining</td>
<td>19</td>
<td>8,466</td>
<td>4,188</td>
<td>2,188</td>
</tr>
<tr>
<td>Construction</td>
<td>81</td>
<td>19,093</td>
<td>7,868</td>
<td>3,416</td>
</tr>
<tr>
<td>Tourism</td>
<td>41</td>
<td>1,163</td>
<td>1,707</td>
<td>1,082</td>
</tr>
<tr>
<td>Trade and other</td>
<td>272</td>
<td>51,007</td>
<td>18,883</td>
<td>5,787</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>698</strong></td>
<td><strong>97,645</strong></td>
<td><strong>40,959</strong></td>
<td><strong>15,706</strong></td>
</tr>
</tbody>
</table>

Based on the table above it can be concluded that Kosovo economy was diversified as the fact that SOE were presenting the economy of the country. As the diversification was quiet large in my selected sample also the largest numbers of employees were employed in the sectors which were not representing a large portion in the total of economy. Dynamics on how the process of privatization is carried out has also affected on the employment rate part because this enterprises are inactive for long time and besides depreciation also the reason is loss of markets and loss of skilled working force due to retirement and long breaks.
This data presented here are administrative data taken from regional offices and other data from central offices of Privatization Agency based on their reports and monitoring. This data are summarized and split based on sector these enterprises belong. Further in this analysis three different stages by comparing number of employees employed have been taken in consideration. Number of employees before 1989 has been analyzed because that period is considered as vital for this SOE and after which year it started a period of degrading the SOE’s. The other period it was selected for analysis is the year when privatization started which represents number that was considered as employed at that time. The current period (2015) represents the number of people employed by new private owner in new companies after privatization. When looking at a total of around 400 companies which were privatized show the following information on the number of their employees before and after privatization.

Kosovo has shown that was standing well in diversified economy sectors, thought the sample analyzed shows not a large number of employees in mining sector before and after privatization, this number in fact it was much bigger because only ‘Trepça’ mine and its affiliate companies were employing a number of about 24,000 employees which are jobless at present time due to not functioning of this corporate.

Based on this analysis, the number of employees who lost their working place as result of privatization is very large. In all our sample in the year 1989 were employed 97,645 employees out of which 15,706 are now working in the same enterprises which is 84% less in late 1989 when these enterprises were active. The difference is also huge when it comes to the year when privatization process started at 58%, but this comparison is not related with the real economic factors knowing that in this period very few of SOE’s were operating and former employees in most of cases were working only in maintenance and in very few cases in real business activity due to the conditions of this enterprises after the year 1999.
The sharpest declining in the total number of employees it is in trade and other industries by 11% percent in 2015 compared to the number of employees working in this sector in 1989. There is also a huge difference when compared with the year 2002 with a 63% of decline. Tourism sector has remained at the same level in our samples analyzed, thought this sector is employing a large number in the total employees in private sector. Agriculture, mining and construction sector also did have a huge declining by 82% in agriculture, 74% in mining and 82% in construction sector.

Table 19: Difference of Nr. of Employees’ Percentage Compared to Two Analyzed Periods

<table>
<thead>
<tr>
<th>Main industries of SOP privatized in Kosovo</th>
<th>Diff. on Nr. of employees in 2015/1989</th>
<th>Diff. on Nr. of employees in 2015/2002</th>
<th>Diff. in perc. of employees in 2015/1989 (in %)</th>
<th>Diff. in perc. of employees in 2015/2002 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>14,683</td>
<td>5,080</td>
<td>82</td>
<td>61</td>
</tr>
<tr>
<td>Mining</td>
<td>6,278</td>
<td>2,000</td>
<td>74</td>
<td>48</td>
</tr>
<tr>
<td>Construction</td>
<td>15,677</td>
<td>4,452</td>
<td>82</td>
<td>57</td>
</tr>
<tr>
<td>Tourism</td>
<td>81</td>
<td>625</td>
<td>7</td>
<td>37</td>
</tr>
<tr>
<td>Trade and other</td>
<td>45,220</td>
<td>13,096</td>
<td>89</td>
<td>69</td>
</tr>
</tbody>
</table>

This comparison can be described as measuring the shift from socialist era, pre-privatization moment and the number of employees and also after privatization era. This changes in the percentage of employees in this sample of privatized SOE’s has come from many factors mentioned earlier in this study but one of main reasons it is meant to be quality of the assets in period two compared to period one, but also important factor are
technological changes, change of ownership structure, change in mentality and motivation of employees, etc.

Mining industry as one of most important sectors before the first period of this analysis did have a big change also compared with the year 2002/1989 which is considered as part of restructuring and damage in processing part of this sector during ’90. The services sector is the sector employing largest number of employees after privatization as we notice in this analysis employing around 52% which was the case also before privatization employing around 55% of total employees working in these privatized enterprises.

Sectorial contribution to total employment has been visible, with trade and other small sectors including more than half of the total employment in all this three stages, where new sectors like the sector of informatics are showing promising signs for employment.

Figure 10: Chart of Nr. of Employees’ Percentage Compared 1989 – 2015

The sectorial number of employment in a company has changed much and in sectors like in the agriculture in this sample has declined significantly from 82% in period 2015/2002 to 61% in period 2015/1989, declined by 21%. A huge declining for the same periods is noticed also in mining industry from 74% to 48%, construction industry from 82% to 57% and trade and other sectors from 89% to 69%. The only increase of contribution to employment in privatized enterprises it is visible in the sector of tourism in what case it is noticed an increase from 7% to 37%, thought contribution to total employment is not so significant. In general, the services sector including trade and construction together with agriculture generated the most number of jobs in the past and also in present time.
Table 20: Average Nr. of Employees per Privatized Enterprise Compared to SOE’s

<table>
<thead>
<tr>
<th>SOE privatized in Kosovo</th>
<th>Average Nr. of employees per SOE before 1989</th>
<th>Average Nr. of employees per SOE on 2002</th>
<th>Aver Nr. of employees per privatized enterprise on 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>63</td>
<td>29</td>
<td>11</td>
</tr>
<tr>
<td>Mining</td>
<td>446</td>
<td>220</td>
<td>115</td>
</tr>
<tr>
<td>Construction</td>
<td>236</td>
<td>97</td>
<td>42</td>
</tr>
<tr>
<td>Tourism</td>
<td>28</td>
<td>42</td>
<td>26</td>
</tr>
<tr>
<td>Trade and other</td>
<td>188</td>
<td>69</td>
<td>21</td>
</tr>
<tr>
<td>Total:</td>
<td>140</td>
<td>59</td>
<td>23</td>
</tr>
</tbody>
</table>

Also it is noted that the average number of employees in the socialist era 63 employees per SOE in agriculture industry can be considered as very high. Besides, due to economy constellation in former socialist system the average number of employees in all industries also can be considered as high.

**5 THE FUTURE OF EMPLOYMENT IN KOSOVO**

Analyzing sectors of homogenous activities it is noticed that the structure of economy has changed continuously during the last two decades. The structure of economic activities of Western Balkans and in this context Kosovo included while the shares of industry and agriculture in value added has decreased the service sector did have a considerable expansion. The share of industry in the structure of economic activities is particularly low in Kosovo and this low manufacturing production shares are linked low employment rate and also to all macroeconomic imbalances. The following five key economic sectors are considered to have Greatest potential for employment in Kosovo and to boost economic development are considered this five economic sectors as key sectors (National Development Strategy 2016-2021):

- Agriculture and rural development;
- Construction industry;
- Tourism;
- Mining and energy; and
- Information Technology.

**Agriculture** is the main sector which can significantly contribute to the general economic development of Kosovo. This sector is spread in all regions in Kosovo and its recovery would spur recovery of overall economy considering potential of fertile agricultural land in the country. This industry can carry a big portion of the sustainable economic growth within Kosovo, and so should be, because much investment are moving agricultural industry and new social trends also the demand for increasing number of new agricultural products. Agriculture and rural diversification are two sectors in Kosovo which provide
real opportunities for alleviating poverty, generating new jobs and creating income for rural residents. Development of the agricultural sector plays a significant role in improving the trade balance, reducing unemployment, ensuring the safety of food products and improving peoples’ lives in general.

Besides decrease of agriculture in the value added of agricultural shares, this sector remains highly important in Kosovo with 17.5% of the gross value added but also in the region with 11.8% compared to EU or other economic regions in EU. This high share in creating value added should be considered as opportunity for the development of the country but in direction of developing this industry to be competitive in the regional and EU markets. The agricultural sector share in Kosovo GDP is about 14% and agricultural products comprise about 16% of total Kosovo exports (KAS, 2016). This sector provides about 25% of total employment (mostly non-formal). When comparing employment structure by economic activity it is noticed that agriculture is not so productive sector considering that this sector provides 17.5% of the gross value added while accounts for 25% of total employment. Around 62% of Kosovo's population lives in rural areas, while agricultural land is highly fragmented in small plots which problem does not allow applying of agricultural mechanism in sufficient scale. Average of one plot in Kosovo is about 1.5 hectares, compared with the average EU farm which is 15 ha. The average of 1.5 - 2 ha farm is fragmented in 6 other plots. Fragmented plots (spread) of land problems for the development and modernization of agriculture. This represents an obstacle to establishing of a good irrigation system, infrastructure, clear land ownership, access in loans, leasing contracts etc.

As in many developing countries, also in Kosovo construction sector is one of the most significant sectors in terms of employment, private sector housing, and public infrastructure. Construction industry besides big impact on overall Kosovo's economic development also is one of industries in which Kosovo has a comparative advantage in the region and EU considering skilled and not expensive working force. Furthermore it is an indicator for economic activities, thought this sector is facing many problems in Kosovo due to effects of global economic crisis, but also due to many internal reasons. During the war of 1998/99, particularly in rural areas in Kosovo many houses were burned to the ground or damaged to a level that these houses were not in living conditions. According to some NGO data, around 120,000 houses (one third of total number of houses in Kosovo) of that time were destroyed heavily, but almost all of them have been build/renovated so far. All existing economy and infrastructure was destroyed or fully destroyed and caused serious damage to infrastructure, thought the investments in this two there were no investments at all since the late ‘80s. Due to all above mentioned facts and need for reconstruction of living houses, creating public infrastructure and new economy, the construction sector became very important for the Kosovo. Also due to above mentioned facts, the construction industry in the recent years has become one of the most significant sectors in the economy of Kosovo. There are expected many effects from developing of
this sector and besides social contribution it helps also creating a sustainable economic development, increase productivity and improve labor market conditions.

This segment of economy continues to provide a great economic potential for the country, considering the need for the construction of new habitation and also construction of road infrastructure, but also because is employing a large number of employs directly and indirectly. Construction industry in Kosovo is related to all other economic branches, and its recovery would spur recovery the overall economy of Kosovo. This industry can carry a big portion of the economic growth within Kosovo, and so should be, because much investments are moving through construction administration and there is huge demand for this industry services as the country habitats are not fully recovered since the war ended in 1999 and as there is growing number of new families and new social trends also the demand for construction services is increasing. However, it is clear that the construction industry is certainly among those who were the first and strongest felt the effects of global instability. Due to the global economic crisis in Europe in the last two years according to the Kosovo Chamber of Commerce, Kosovo has lost in the construction industry around 20,000 jobs, while sales of construction material dropped by 50%. Majority of companies in Kosovo is facing with a series of problems. For an extended list of particular stand out: lack of liquidity, insufficient investment, unfavorable conditions to obtain credit, slow adaptation to European standards and technical regulations, work on the "black" and "grey" economy and, finally, unregulated market.

Tourism has gained greater importance in Kosovo in recent years, not only as an opportunity for employment, but also the way to building the image of the newest state in Europe. Tourism has a positive impact on the trade balance of Kosovo, with a net income of about €370 million in 2014 and is about 18% of the country's trade deficit.

The development of the tourism sector and the hospitality is recognized as an important sector that can provide sustainable employment and there is a sub-strategy of aiming to develop sustainable tourism through partnerships of public sector, private sector and civil society, increasing employment, entrepreneurship, social and industrial benefits, and state revenues.

Considering natural and cultural resources of Kosovo, the main pillars of the tourism industry could be: skiing; cultural tourism; mountain and alpine tourism; rural tourism, ecological and alternative; cross-border travel; meetings and conferences. Given this, especially key sectors such as agriculture and food sector must be addressed and supported when it comes to the development of tourism and rural development projects.

Kosovo is rich with mineral resources and with a rational and well management of these resources could provide support for rapid and sustainable economic development of the country. For this purpose, Kosovo should aim to create a clear legal environment,
regulatory, fiscal and attractive to investors, which gives to the country same income level commensurate with countries with more positive experience in optimizing and exploitation of mineral resources. This should include increasing the capacity of relevant educational institutions - education and enable the development of the mining industry according to market requirements and international standards.

The current situation of the mining sector does not allow achieving of these goals, and achieving of these goals requires reform and restructuring of the mining sector based on sustainable development principles and maximum benefit to society and the country from the exploitation of mineral resources. Sustainable economic development of Kosovo will significantly depend from the implementation of appropriate policies and economic reforms that allow more rational use of natural and human resources.

6 WHAT SHOULD KOSOVO DO IN ORDER TO HAVE A SUSTAINABLE ECONOMY AND EMPLOYMENT

Kosovo has a favorable geographical location for Western European markets, with particular regard to traditional good relations and diaspora with the countries like Italy, Germany, Switzerland and many other European countries. Kosovo is a member of CEFTA and enjoys duty-free access to the EU under the framework of the program for Autonomous Trade Preferences, and in the US under the Generalized System of Preferences (GSP). Kosovo has free trade agreements with Turkey, which will enter into force when ratified by the Turkish Parliament. As low cost of labour force in Kosovo is a frequently cited advantage, an industrial strategy is needed being greater explicit support toward areas of production in Kosovo economy including IT, manufacturing, construction, infrastructure and other elements.

These aspirations should begin with a clear vision of where Kosovo economy will be in a specific stage in future. This vision should provide the basis for the economy to exploit its strengths in Kosovo, but also in the regional and European market due to the fact that there are few sectors the country can export in the future due to comparative advantages like low cost and skilled labour force, good geographical position, fertile land, etc. Structural changes are not a guaranteed economic development, but most efficient way for a country and especially for developing countries to reach economic sustainable growth is to use the advantage and follow comparative advantages in its development. Kosovo should follow examples of successful Eastern countries which went through transition of their economy and to develop new export sectors, strong global products, develop strong service sector and agricultural modernization as part of the growth. This vision can be successfully implemented if the Kosovo and its institutions deliver and implement a clear strategy of where Kosovo should be and what should do to achieve these goals. The government priority should be oriented primarily in the field of finance - banking and fiscal policy,
which follow the entire Kosovo economy. There is a lack of purchasing power of Kosovo consumers while banks and the government are not doing much in supporting investments and especially not supporting consumption. If the government will not be in a position to regulate this field then many fields of economy will be in bad situation, which will lead to new layoffs and mounting tensions and dissatisfaction.

Construction Businesses Industry and Kosovo Government should be ready to secure an environment which is going to meet all quality standards. Construction Industry in Kosovo should be ready to acquire latest technological progress in order to be in the same step with the competition in the globalized market and the demands of rapidly changing world. Meeting all quality standards will be the goal and essential to bringing the highest quality and sustainable environment for future generations.

Mining and Energy Industry in Kosovo it did have in the past one of greatest impacts on economic development and the business activities of our country. This impact still is important for the country considering natural resources, though this actual impact is much lower than it used to be. The use of lignite reserves in Kosovo in addition to having an impact on the economy also has an impact on the import of electricity. Rational use of minerals has an impact on the overall profitability of mining activities. The current state of the mining sector does not allow achieving the development goals, and requires reform and restructuring of the mining sector based on sustainable development principles and benefit from the exploitation of mineral resources.

Enhancing creation of SME are believed to further develop private sector of post-socialist economies because these enterprises usually intend to be much more easily approaching to the market and consumer demands. They are a strong competitor to existing SOE’s, even though the assets of these SME’s are limited if compared to SOE’s. SME can also provide employment in other areas other than public sector which in turn empowers the government to restructure its economy. Privatization as a process should articulate the importance of SMEs enhancing new job creation and bring equitable development. This objective could be achieved by adopting a SME development strategy which would include credit services, entrepreneurship trainings, management trainings, market support, provide trainings and access to appropriate technologies, and appropriate consulting services. The future of sustainable economic growth, to a large extent, becomes a function of:

- Further legislative and institutional efforts, improving the investment climate;
- Domestic macroeconomic policies, including prudent fiscal/ budget policies, possibly with a stronger incentive element favoring investment;
- Improve further the basic infrastructure, in particular electricity;
- Develop further the financial sector;
- The success of current privatization campaign;
- External (donor support) policies.
There is a better chance that the economy will make significant steps in reaching countries aspirations for its path to joining EU. Kosovo should design and apply kind of trade policy which would provide incentives and would attract so much needed FDI. Designing of a system of trade policy that does not hurt consumers and encourages development of a healthy private sector is vital for the economy.

7 LIMITATIONS

This study has limitations because of poor quality and limited availability of data. Very little data publicly available on the number of employees in the business entities which were privatized. Based on the methodology of privatization applied in Kosovo, new owners of privatized NewCo are not obliged to report to privatization authorities about their activity including employment. Much grey economy in the country which leads to limited amounts of official documents and not-official data related to employment in privatized SOE. Monitoring it is applied for a certain period of time only to SOE’s privatized with the method of special spin-off which represents a very small number of SOE’s privatized.

This research will be conducted based on administrative data taken from regional offices of privatization agency and also from the central office of PAK and results presented in this thesis have derived from this data. Privatization Agency is keeping this data only on volunteer bases of new owners of some of NewCo’s and this data is not possible to crosscheck with other relevant sources. The research sample analyzed in this study represents about one third of SOE’s privatized until the year 2015. However, the limitations regarding this research area can be strength since it has allowed this study to fill a gap in the research area, while until this study this data were not summarized in any public document before. But having no cross-checked sources might make it difficult to reach exact results, therefore, the limitations and strengths interfere in this research.

8 RECOMMENDATIONS

Kosovo prior to starting privatization process should have created a strategy on where does it want to go and what wants to achieve with this process, besides having established clear property ownership of SOE. This strategy should have been rather realistic considering very bad conditions of countries economy at the moment of starting the process of privatization. In this direction to create ‘Investment Privatization Funds’ which would organize clustered investors who in the lack of well-developed commercial rules, wouldn’t be able to exercise their ownership rights in a way that would ensure an effective administration of the privatized companies. The regulation of these investment funds shouldn’t have allowed anybody to establish an Investment Fund. This Investment Funds would be created by the groups that would be supported by reputable financial institutions,
such as banks’ and other relevant financial institutions. In this situation small individual investors would have the capacity to aspire and afford majority or control stakes in the newly privatized companies and consequently sufficient power to make managers of this new companies to respect the interest of the owners. The further control of the newly created companies eventually transferred to a limited number of Investment Funds, should have found a way for individual shareholders having a real possibility to influence or control the decisions making accordingly with the investments. Besides, this distribution of funds could become a better tool to attract FDI which in this situation by limited investments would have chance to buy this funds or only shares of a specific company and have greater possibility by invest in the company itself.

Establishing of active labour market policies which should be intended to facilitate the reintegration of former SOE employees including direct employment creation programs, job-search assistance, training and retraining programs, lending schemes for promoting of self-employment and other creation program schemes such as public work programs. This programs besides above mentioned could act as a place for screening of qualified and skilled workers, and could help organizing them in groups to form business enterprises.

Establishing a restructuring fund from a part of privatization proceeds which would service SOE’s with much needed financial support for restructuring to ensure competitiveness of products and services. This fund would serve as a source for financing which should undergo a transformation from planned to market-driven enterprises which in other hand would mean greater capacity to adapt to the market economy.

A bankruptcy law in line with the new reality of market economy should be put in place in order to make able liquidation of hopeless SOE’s which is difficult to find an interested investor and are not worth privatizing. This law would make available this SOE’s to private investors who might be interested in their assets through public tenders and after of settling down claims of creditors.

Considering current situation privatization fund should “defreeze” and be used for significant projects which could stimulate economic growth and employment. The projects to be financed should be selected purely based on cost-benefit analysis. Precious national assets such as ‘Trepça’ mine, ‘Brezovica’ ski center and large lignite reserves should unlock in order to unleash their potential and generate employment and much needed revenue for Kosovo’s development. There should be a clear social responsibility when privatizing SOE-s. Funds from privatization process might create a special development fund with a special destination for employees who are losing their jobs because the change of ownership and change of business activity of the property where they used to work.
The following actions could accelerate privatization and liquidation processes and bring PAK’s mandate to a completion sooner\(^{21}\) rather than later:

- Kosovo Assembly should set a clear deadline for completion of privatization and liquidation process, following a due diligence by a competent body that proposes an exit strategy.
- Resolving of all property rights before the privatization process starts which resolving should be labelled to SOE’s.
- The work of the SCSC should be facilitated by providing additional necessary resources (e.g. technical staff/assistants to judges).

**CONCLUSIONS**

Overall, Kosovo economy has continued to experience economic growth and with this also employment, thought the country is behind considering poor economic base inherited. Privatization is far behind expected results, but the SOP is getting one owner and the process is moving forward. The challenge of the country in this long lasting transition is not only to create, but to maintain sustained economic development and stable employment based on solid economy that creates jobs. Hence, considering the little utilization of SOP in direction of economic development and employment the primary objective should be triggering of investments and especially FDI that besides capital would bring new management style and technology and accordingly generate employment opportunities. Thought the economy is depending on revenues from large diaspora which migrated during ‘90s especially in the direction of consumer spending. Employment is experiencing also growth but this growth is not in balance with the number of new entrants in the labour market. Kosovo population is largely young population and the creation of more new jobs is a crucial element for the country but also of a broad based development strategy. Large young population in urban and rural areas indicates expected difficulties in the future for the country related to employment. As the privatization process is close to its ending, it is very difficult to obtain a meaningful estimation of the relevant impact of privatization on employment. As numerous empirical studies show, this impact it is very difficult to measure because there is lack of adequate data, but considering the obtained data, impact is negative. Kosovo is facing many challenges as a young country in the area of completion of economic and institutional transition through structural reforms, adoption of the EU acquis, catching up process to higher per capita income levels, reduction of unemployment, poverty and inequalities, infrastructure modernization and future successful integration into the EU.

Kosovo is suffering deeply from the long lasting transition after a decade of classical occupation which was accompanied with devastation of its not so developed economy and the pace of recovery of the country is slow. Together with the current account imbalance,\(^{21}\) PAK’s annual budget is projected to be around €7 million annually. Hence, every further delay in the process has very high administrative costs.
unemployment remains the main problem. Low incomes and very high unemployment rate provide an incentive for migration of Kosovo young population towards developed European countries. Besides, gaps between Kosovo and EU countries infrastructure is large which suffered from low investments and poor maintenance during the transition period and investment is necessary for its rehabilitation. All above are going to be a real test for the country given current circumstances and global instabilities, including migration. Thus, there is no doubt that employment remains the ultimate issue for the development of the country. In order to consider this crucial aspect it was measured the impact of privatization and its effect on employment levels.

Privatization has its waste significance for property transformation as one of key component for a country aiming market economy while this process didn’t achieve yet desired effects in Kosovo economy. The performance of PAK was continuously hindered by political interference and deficient cooperation by some national and international institutions in Kosovo (Shatri, 2013). The method of privatization was not the best suitable method chosen considering general economic and financial environment in Kosovo at the time when privatization started. Methods of privatization applied in Kosovo create acceleration, but not as much as privatization to strategic investors because new buyers don’t have resources to invest and restructure enterprises. It is a fact that there was a huge difference between the estimated value of the assets to be privatized and the population’s financial potential. This factor was one of main factors that have made privatization to become a very long - term process to accomplish privatization of these assets for their real value. In later stages of privatization with the economic transformation also financial system in Kosovo with the functioning of few commercial national and international bank’s which have larger deposits than utilizing them due to lack of economic activity and very high profit margin of the bank’s (Ibrahimi & Zeqiri, 2016). Both the SOE employees and the country population wanted the process of restructuring economy to be implemented as quickly as possible in order to establish market economy system in Kosovo, thought there was opposition due to the fear of losing jobs. In order this to be done within shortest way possible it is very important to have a transparent process in which all citizens could participate in it and have an opportunity to become shareholder. As a consequence of this entire situation, there is also a long delay in liquidation of privatized SOE and fulfilling of reasonable creditors’ claims. This long delay and lack of funds to be invested in economy is one of main factors of low economic development and very high rate of unemployment. This long lasting process has caused huge depreciation of already depreciated and highly damaged assets, loosing of markets and also loosing of labour skills. Majority of the population and employees in this SOE have opposed this type of privatization because this type of privatization didn’t guarantee employment and neither sustainable economic development. Existing form of privatization has resulted in absorbing of existing scarce funds in the hands of local investors and had the consequence lack of after privatization investments.
Although most of SOE’s have been privatized so far, employment is lagging behind. It is highly important for Kosovo not to lose momentum now, at a time when there is hope that the EU economy is starting to recover from the latest economic crisis, to avoid the vicious circle of low investments, low growth, widening trade deficit and high inequality and unemployment rates which would inevitably have social effects and positive effects in economic growth of the country. The main message of the study presented in this thesis is that taking this way is impossible without substantial investment effort in all the spheres of the economy with public investment being the engine of this movement. Investment needs in infrastructure are huge in light of existing infrastructure gaps and lack of appropriate maintenance during past three decades, thought there is some improvement in the last decade. A particular attention should also be given to promote the investments by the SMEs as they are the backbone of economic activity and employment in Kosovo. Besides other facts, privatization is needed for a comprehensive restructuring and attracting of FDI which besides foreign capital also bring new management style, new technologies. Privatization to some extent has enhanced the private sector and is the first key step in development of the private sector in Kosovo economy which in fact does not enhance market competition directly but increases competitiveness of companies, products and services. The overall effect of privatization economic development it is estimated not to show positive signs, the unemployment remains very high and private investment, though showing some positive signs, is still low and fragile. In addition, informal sector of economy is remaining very important source of income generator, in both urban and rural areas. Informal sector jobs usually are manifested with lack of protection by the state as informal workers are less likely to have formalized their work arrangement ensuring social protection.

- **How to Use Privatization Revenues for Development**

Privatization fund should unlock and be used to finance important capital projects that generate revenues and jobs. Kosovo should create necessary legal instruments to make these funds available for economic development providing that it can offer necessary legal assurances and guarantees to PAK that it will make available sufficient funds to cover privatization and liquidation costs and enable PAK to make timely payments to creditors according to the liquidation schedule. Hence, a prudent fiscal and budgetary management is a paramount in order to avoid any liabilities in the future. Using the fund for development projects will have positive effects in sustainable economic growth. Kosovo will have a significant source to finance capital investments and thus reduce the need to borrow money from third parties, at least provisionally. Adequate legislation changes would allow the country to utilize a large amount of funds now (circa € 300 million),

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22 According to PAK law, Article 19.3.4. “The amount remaining in a trust fund out of which Residual Funds have been transferred to the Government would be insufficient to satisfy all claimants that have been determined to be valid, in such a case PAK shall ask from the Government to return the respective funds to the trust fund from which they were transferred”.
instead of marginal sums that will be transferred gradually by PAK over the next two to three years, as residual funds. The following measures should be undertaken in order to utilize the privatization funds (OAG, 2013; National Development Strategy 2016-2021):

- Unlocking privatization funds require amendments and supplements to existing legislation. While a proper legal due diligence will identify legal infrastructure that is needed to defreeze the funds, there are basically two main laws that sanction PAK’s financial operations, the PAK Law no. 04/L-034 and the Law on Public Finance Management No.03/L-048.

- Kosovo should select key priority projects to be financed by the funds based on cost-benefit analysis. These funds should have a special destination and should not be used for operational expenditures, neither to cover budget deficit or repayment of debt.23

- Utilizing privatization funds to facilitate some high level priority infrastructure projects, such as building new electricity generation capacities (New Kosovo Power Plant Project) or revitalization of Trepça, based on the principle of exchanging assets for assets, would be highly advisable. In addition, a certain portion of funds (say 5 to 10%) can also be used to finance human capital development projects that aim up-skilling and upgrading the workforce, including vocational education trainings to address the needs of certain industries and retrain former SOE’s’ workers.

- Another important decision has to be made with regards to channeling the funds. There are at least two options to explore: (a) channeling privatizations proceeds through the national budget and (b) off-budget placement of privatization proceeds, e.g. establishment of a Special Purpose Vehicle24. While transferring funds directly to the national budget is a simpler way as the Government uses existing infrastructure to manage the funds a serious risk is that destination of these funds might simply deviate to cover ad hoc spending or budget deficit, thus failing to achieve the ultimate goal of aiding economic development of the country. Although investments out of budget of incomes from privatization can raise concerns over “lack of control and transparency over their use”, this can offset by “regulating the funds, with audited accounts publicly reported. Furthermore, if majority of funds are to be used for one specific destination

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23 IMF studies suggest that ‘privatization incomes are temporary, therefore it is not advisable to rely on them for current expenditure. Targeted use to help mitigate the short-term social impact of privatization can be appropriate. The use of the incomes from privatization to finance additional spending should not reduce government net worth.

24 A Special Purpose Vehicle (SPV), is created to carry out a specific business activity which are frequently used in structured finance transactions. SPV are used in securitization of assets, joint ventures, or in specific cases to isolate certain company assets or operations. SPVs can be created by different entities, such as trusts, corporations, limited partnerships, and limited liability corporations.
(e.g. establishing a public-private partnership for implementation of large infrastructure projects), it would make it easier for the oversight bodies to monitor utilization of funds.

- In addition, any decision concerning unlocking privatization funds should be taken in close coordination with key stakeholders to ensure a broad consensus on this sensitive matter.
REFERENCES


APPENDIX
List of Abbreviations

- BOD – Board of Directors
- CBK – Central Bank of Kosovo
- CEE – Central Eastern Europe
- COU – Control and Oversight Unit
- EBRD – European Bank for Reconstruction and Development
- EU – European Union
- FDI – Foreign Direct Investments
- GDP – Gross Domestic Product
- IMF – International Monetary Fund
- KAS – Kosovo Agency of Statistics
- KTA – Kosovo Trust Agency
- NDS – National Development Strategy of Kosovo
- NewCo – New Company
- OAG – Office of the Auditor General
- PAK – Privatization Agency of Kosovo
- POE – Publicly Owned Enterprises
- SEE – South Eastern Europe
- SOE – Socially Owned Enterprises
- SOP – Socially Owned Property
- SRSG – Special Representative of Secretary General
- UN – United Nations
- UNMIK – United Nations Mission in Kosovo