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**AN ANALYSIS OF INDUSTRIAL POLICY IN KOSOVO**

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## INTRODUCTION

Kosovo is a lower-middle-income country, which declared its independence in February 2008 and has the youngest population in Europe. Despite some improvements in its overall functioning as a state, including the business environment and positive steps towards the development of a well-functioning market economy, Kosovo still faces substantial economic challenges such as high unemployment rate, informal economy, large waves of migration etc. (Overview, 2018). Evidence emphasizes the crucial role of industrial development in the development of structural change and promoting the country's long-run development objectives. The establishment of sound industrial policies is a means of promoting the reallocation of human, physical and financial resources to high value-added sectors of the economy (Mbate, 2016).

Industrialization is essential if Kosovo is to foster structural change and translate its recent high growth rates into significant social development. Promoting structural change hinges on sound industrial policies and selective government interventions that redirect an economy's production structure towards more productive sectors. To this end, manufacturing emerges as a key sector due to its ability to foster forward and backward linkages, dynamic economies of scale, innovation and technology diffusion, and positive spillover effects within and across sectors. Kosovo should shift the focus of industrial policy into practical implementation and put an emphasis on institutions and suitable policies that stimulate successful collaboration between the government and the private sector. Building a labor-intensive industrialization can result in increased growth and also in addressing some of the main challenges such as unemployment, poverty, and inequality. Further, the successful coordination between institutions and the private sector should be accompanied by suitable incentive schemes that target specific activities and in cases when these mechanisms are unsuccessful, corrective measures should be taken (Mbate, 2016).

The goal of this research is to ensure a greater understanding of the importance of the industrial policy for Kosovo. The focus will be to analyze different periods of Kosovo development especially industrialization and deindustrialization, and the influence of the country's economic development. This research will be focused on assessing the contribution of the industry in the economy, government activities and the reforms that were made to help the country revitalize from heavy war damages in order to increase social welfare and help the development of businesses. To better understand the need for industrial policy, I will try to explore and evaluate strengths and weaknesses of the economy and the problems that Kosovo is constantly facing such as: high trade deficit (try to reduce it with the government supporting export), labour market problems, including unemployment rate, providing incentives to attract more investments by improving business environment and so on.

Main research questions that this thesis will try to address are:

- What were the main development characteristics of Kosovo in the past?
- What are the main characteristics of Kosovo's economy today?
- What are the general problems that the country is currently facing?
- Is the country creating a proper business environment for entrepreneurship and investment?
- What is the role of foreign capital and is the country providing enough incentives to attract Foreign Direct Investments (hereinafter: FDI)?
- What is the government doing to accelerate economic growth? What is the role and what are the characteristics of industrial policy in the country?
- What elements of Industrial Policy (hereinafter: IP) exist and what has been used so far?
- What broadband measures are used?
- Which sectorial measures are used?
- Which future-oriented measures are used?
- What are the main policy objectives and development goals for the strategic sectors?
- What should the policy focus on in the future?

This research will follow a qualitative research, relying mainly on methods of description, analysis, and synthesis of secondary sources. It will rely mainly on domestic and foreign reports such as the World Bank, European Bank for Reconstruction and Development (hereinafter: EBRD), International Monetary Fund (hereinafter: IMF), RIINVEST Institute, journals, articles, websites etc.

During the preparation of this thesis, I have faced several limitations. The availability of reliable and consistent data on Kosovo is limited, considering that the Statistics Office of Kosovo (hereinafter: SOK) was established in 2001. Previously all statistics were collected by the Statistical Office of Serbia. SOK is gradually developing mechanisms for data collection and publication, but certainly developing effective and reliable systems requires time and efforts.

The thesis follows a five-chapter structure. In the first chapter, the role of industrial development and its impact on economic development are described. The second chapter elaborates the analyses of the period after the Yugoslav breakup. It covers both the political and economic developments. Chapter (three) examines a very difficult period for the country- the period after the war. This chapter includes an analysis of different aspects such as: trade, FDI, labour market and social conditions, policies, remittances etc. The fourth chapter is focused on the period during and after the crisis. This chapter focuses on the same aspects mentioned in the third chapter. The fifth chapter presents recommendations and future prospects for an effective and efficient development of the industrial policy.



# **1 THE ROLE OF INDUSTRIAL POLICY FOR ECONOMIC DEVELOPMENT. DIFFERENT VIEWS OF INDUSTRIAL POLICY**

Industrial policy has been considered as a catalyzer of the economic growth, especially during the last decade, where various developing countries have employed industrial policies as effective instruments for sustainable economic development (Maio, 2014).

According to Krugman and Obstfeld (1991), Industrial Policy can be defined as the government's effort on allocating resources toward certain sectors that are viewed as potential contributors for economic growth. Another definition by Warwick (2013) states that Industrial Policy is any intervention or government policy which tries to support the business environment improvement or to direct the economic activities towards sectors that are likely to improve the social welfare as well as have a positive impact in economic growth. Moreover, Stiglitz and Greenwald (2014), states that the industrial policies are an important part of the toolkit by which governments can help shape the economy for the better.

Apart from supporting the industry development, Industrial Policies also help in promoting promising sectors for the respective country, as well as have a positive impact in generating new jobs and improving the overall social welfare. The key industrial policy's objective is to enhance industrial production and by doing so boosting economic growth. This can be achieved by having a balanced and effective industrial development, effective utilization of resources, adequate coordination, and support between large as well as small and medium enterprises (Industrial Policy: Meaning, Need and Importance, 2015). Given the rapid development and constant changes in today's world, there is a need for a new approach in terms of industrial policy as well. There is not a one-fit-for-all recipe, and achieving effective industrial policy should involve a combination of best practices and specific measures, which would help in the improved design of development strategies (Maio, 2014).

One of the controversial subjects in the theory of economy is the government's role in the market economy. Especially, at the focus of the discussion is industrial policy promotion in developing countries. With the changes in the different globalization aspects, the context of industrial policy design has intensely changed as well (Haque, 2007).

Earlier, economists thought that market failures were present in the developing world, and easiness of poverty in deprived countries was done through interventions from the government, and some believe that the economic growth driving force is public investment and government planning. However, later they started to believe that failures were driven from these government interventions. The driving force would also be the market forces and private investments; however, the government would also play a strategic role as well as coordinating one (Rodrik, 2004). Rodrik (2004) argues that the appropriate industrial policy model is one of effective collaboration between government and the private sector, resulting in identifying issues and challenges and finding the adequate interventions in eliminating

them. Here we will present three industrial policy approaches: Stiglitz and Greenwald (2014) approach, the Spector, Chapsal and Eymard (2009) and Aghion, Boulanger, and Cohen (2011).

The approach of Stiglitz and Greenwald (2014) approach, assumes that the capital market is not efficient, and for successful industrial policy coordination between government and markets is required to improve the social welfare. Further, this approach believes that learning spillovers are the key drivers of economic development, and the government's role is to diminish the risk and let easy knowledge transfer. They believe that achievement of learning society is done by shaping the economic structure through industrial policy. The key measures of this approach are the so-called broadband measures. These measures include: 'low' exchange rate: where the 'winner' is chosen by companies, manufacturing stimulation due to spillovers to the rest of the economy, trade stimulation, if this adds to learning, promotion of FDI, and SME development programs

The approach of Spector et al. (2009) believes the opposite compared to the Stiglitz and Greenwald (2014) approach. This approach assumes that in general markets are efficient and the best industrial policy for economic growth is the competition policy and that industrial policy in most cases is not effective since it creates 'national champions'. Further, they argue that the drivers of economic growth are the competition and strong competitiveness since the interventions from government distort and influence the competition. The key measures of this approach, which would contribute to economic growth and market innovation, are the horizontal measures. This suggests that instead of providing support to 'national champions', it should support the 'newcomers'

Moreover, the approach of Aghion et al. (2011), states that the three key factors that lead to rethinking industrial policy are: 1) climate change, since government can lead to more 'clean, investments; 2) the danger of 'laissez-faire' policies, which resulted in 'wrong' investment in several sectors; 3) developing economies are big deploys sectoral policies that enhance growth. Similar to Stiglitz and Greenwald (2014), Aghion et al. (2011), argues that investments in R&D endogenously raise development through spillovers, however, an efficient resource reallocation strategy from the government is required, resulting in social welfare improvement. This approach considers the competition important as well, however, states that it should be harmonized with the appropriately ruled industrial policy (Prašnikar, 2014).

## **2 KOSOVO AFTER THE YUGOSLAV BREAKUP**

Kosovo, a newly independent country, is located in the heart of the Balkan Peninsula. Kosovo is a lower-middle-income country which declared its independence from Serbia in February 2008. Kosovo has a population of 1.8 million people, and in 2016 it had an estimated GDP of €5.8 billion and a Gross Domestic Product (hereinafter: GDP) per capita of €3277. It has been

recognized by the United States and 114 United Nations (hereinafter: UN) member states including here 23 European Union (hereinafter: EU) countries. Kosovo is a potential candidate for joining EU, where its integration process has been accelerated with the signing of the Stabilization Association Agreement (hereinafter: SAA) in October 2015, which became enforceable in April 2016 (World Bank, 2017b). The signature of this agreement is a new step toward European Union membership.

As a fragile and conflict-affected state, Kosovo gradually transformed from a centralized economy to a free-market economy (World Bank, 2017b). Macroeconomic stabilization and the establishment of an economic system were of primary importance for Kosovo amidst political tensions and unclear international status (Prašnikar, 2014). In the following sections, Kosovo's economic developments during the past 20 years will be analyzed.

## **2.1 Political developments after the Yugoslav breakup**

Kosovo enjoyed significant political autonomy and cultural rights until the 1980s when tensions between the Serbian minority and the Albanians in Kosovo started to become apparent (Kosovo Albanians resist Serbian rule, 1990-1998, 2018).

The evidence currently available indicates that 1981 marks the year when Kosovars began a journey that ended with the political division from Yugoslavia. In 1981 the Kosovar students started demanding advancement of the constitutional and legal position of Kosovo, namely autonomy from Serbia, which later would enable the Kosovo people to exercise their right to self-determination (Sherifi, 2013).

At the end of the 1980s, Milosevic took advantage of the conflicts and became president of Serbia and gained more power. The fall of communist dictatorships and the occurrence of a multi-party system and the breakup of Yugoslavia would allow Kosovo to demand not only autonomy but full independence as well. But, even this hybrid constitutional position of Kosovo was rejected by Serbia and was amended in 1990 (Bideleux, 1998).

In mid-1990, Serbs took control over Kosovo's television, radio stations and also key industrial enterprises. Furthermore, they closed all the libraries, local newspapers, theaters, museums, and all Albanian teachers were left with no jobs. They took over the University of Prishtina and other leading institutions, and they imposed a Serbian curriculum.

Despite all this, they managed to create a parallel system, by organizing lessons offered by sacked teachers and also created a health service offered by fired nurses and doctors (Bideleux, 1998).

In the process of the former Yugoslavia dissolution, Kosovo declared independence (1990-1991) and adopted the Declaration of Independence on July 2 which was challenged and did not get recognized internationally. No matter how fictive these acts were, these events

brought the spirit of mobilization and self-esteem to the majority of the population. The Declaration of Independence was issued by the Kosovo Assembly in September 1991 (Kosovo Albanians resist Serbian rule, 1990-1998, 2018). After the dissolution of the Federation and after the elections held in Kosovo (1992), the Serbian-Albanian conflict took new dimensions. By expanding the international presence in Kosovo and drafting resolutions, the American diplomacy, in particular, fostered the propaganda about the status of Kosovo in the former Yugoslav federation.

Serbian regime was violently trying to change the demographic composition of the population in Kosovo, which was to be achieved through massive killings of Albanians during 1998-1999 (Sherifi, 2013). In the eyes of many, these violent acts contained elements and components of genocide acts.

Provided that political negotiations to resolve Kosovo's status resulted to be futile, and the rights of the Kosovar Albanians were being severely violated, North Atlantic Treaty Organization (hereinafter: NATO) commenced a bombing campaign which started on 24<sup>th</sup> March 1999 and lasted for 72 days. This left the former Serbian President with no choice but to accept NATO's peace support operation. After these political developments, Kosovo was placed under the administration of the UN in order to build stability. The UN's administration was authorized to create a general framework for resolving Kosovo's political and legal status (Borgen, 2008).

## **2.2 Economic developments after the Yugoslav breakup**

Industrialization in Kosovo started in the early 1960s, and by 1988 the industry sector accounted for 47 percent of the country's GDP. In the 90s, Kosovo faced a decade of deindustrialization due to lack of investment and proper management; the share of the industry declined substantially to 12 – 15 percent (Prašnikar, 2014). In the early 80s, Kosovo's economic and political crisis became complex and exceeded the boundaries of the former Yugoslavia. The social product during the 1981-1985 grew at an average of 1.8 percent, while during 1986 – 1989, the social product increased only by 1.1 percent. This growth was slower than the growth of population.

In comparison with the Yugoslav average, the level of development fell to 27 percent (1989). The unemployment level reached 38.8 percent in the late 80s. At this time, Kosovo's population share of the former Yugoslavia had increased by 8.0 percent, the employment rate by 3.1 percent, the participation in productive fixed assets by 2.8 percent, while the national product by 2.0 percent.

After the removal by force of the Constitution and political territorial autonomy, Kosovo became a colony of apartheid by Serbian invaders. State-Owned Enterprises (hereinafter: SOEs) and Public-Owned Enterprises (hereinafter: POEs), including education and cultural institutions, were controlled by the violent regime installed by Belgrade. Local production

was reduced by 10-30 percent; more than 70 percent of Albanian workers were fired from their jobs, while the market underwent a transformation, where goods were imported from Serbia with higher prices and lower quality (RIINVEST Institute, 2005).

At the beginning of 1989, during Milosevic's rule, Kosovo's economy declined by 50 percent and then by another 20 percent between 1998 and 1999 (Lynch, 2012). During the 90s, the failure of production in all branches paralyzed all development processes and technological progress. Economic activity was disrupted and this decline was a consequence of companies' and industry collapsing, (which resulted in lower rate of exports) and delays in the privatization process and poor FDI inflow, which all play an important role for the economies of developing countries and especially for the export sector (Prašnikar, 2014).

This fall marked the sinking of the communist concept of economic development of Kosovo (Ministry of Environment and Spatial Planning, 2004). Among the sectors that remained operative, in the 90s the most important ones were nonferrous metals and metal processing, textile, leather, and rubber, which later lost their role and in 2008 the industry was dominated by construction materials and the food industry (Table 1).

Table 1. Industry structure comparison in % of GDP, 1988 – 2008

Sector	1988 (%)	2008 (%)
Nonferrous metals and metal processing	45	16.0
Textile, leather, and rubber	21	1.4
Food	13	21.4
Non-metals (Construction materials)	6	32.3
Wood and letter processing	5	8.1
Graphic industry	1	4.4
Chemistry	5	n/a
Other	4	16.0
Total	100	100.0

Source: M. Muhamet, Z. Alban & A. Lumir, *Challenges of Reindustrialization in Kosovo*, 2010, p. 5.

### 3 THE PERIOD AFTER THE END OF THE WAR

The war in Kosovo had devastating effects across a range of areas, many of which have lasting impacts. The economy of Kosovo was ruined during the conflict and all activities were ceased, including the linkage of international trade. Despite these circumstances, the economy of Kosovo has been steadily recuperated into a modern open economy. After the war, which ended after the intervention of NATO, based on 1244 UN Resolution our country came under the administration of United Nations Mission in Kosovo (hereinafter: UNMIK) and this represented a stage of a new democratic, social and economic development. In June 1999, with the establishment of the UN protectorate in Kosovo, activities were undertaken to solve the difficult economic and social situation. The task of the UNMIK mission was to promote

the autonomy in Kosovo, support infrastructure reconstruction and promote human rights, and develop a sense of safeness (Promoting security, stability and respect for human rights in Kosovo, 1999).

Kosovo's economy has been solid and the international community provided substantial support for postwar reconstruction and revitalization. During 1999-2004, the majority of economic assistance was provided from foreign donors. As a result, although with a low level of development, the restructuring program was implemented successfully during the emergency phase, which also marked progress in economic development, especially during the 1999 - 2002. During such period, economic activities, particularly in the service sector, trade and construction, were increasingly being revitalized and helped increase the GDP by about 10 - 15 percent (RIINVEST Institute, 2005).

The economy of public sector still expects to recover through the privatization process, which has moved at a considerably slow pace, while private businesses have experienced significant development (51 percent of GDP). Diaspora was and is still today an important economic factor, which is ready to invest, although it faces major hurdles, from privatization to other legal mechanisms (Ministry of Environment and Spatial Planning, 2004). Especially after the war, the destroyed factories, the underdeveloped infrastructure, the lack of electricity and the high level of unemployment rate were among the main factors that affected the migration of Kosovo's citizens.

### **3.1 Macroeconomic development**

The ultimate goal of macroeconomic governance is not limited to ensuring a nominal or real GDP growth. More important is the quality of economic and social changes in a society under the influence of economic growth. This is considered as economic development, which is expressed by the level of well-being occurring as a result of economic growth and social and economic transformations and structural changes of an economy. In terms of historical, political and social context, accompanied with certain systems of government, Kosovo has lacked an adequate economic development.

The Kosovo economy recovered from an economic stagnation, recording a GDP growth of 6 percent in 2005. This GDP growth was driven by investments in the private sector, which were mainly supported by foreign direct investments and banking sector loans. However, the high account deficit and high unemployment rate remain the main concerns for policymakers. The account deficit continued to be financed mainly by donors and remittances from Diaspora (Central Banking Authority of Kosovo, 2007).

Table 2. Main macroeconomic indicators, 2002 – 2006<sup>1</sup>

Description	2000	2001	2002	2003	2004	2005	2006
GDP (current € in bill.)	2,009	2,816	2,844	2,969	2,934	3,012	3,236
GDP (constant 2010 € bill.)	2,453	3,115	3,093	3,279	3,364	3,567	3,727
GDP growth (constant annual %)	n/a	27	-0.7	6.0	2.6	6.0	4.5
GDP per capita (current €)	1,182	1,655	1,671	1,743	1,721	1,766	1,882
GDP per capita (constant 2010 €)	1,442	1,831	1,817	1,924	1,973	2,090	2,167
GDP per capita growth (constant annual %)	n/a	26.9	-0.8	5.9	2.5	6.0	3.7

Source: *Indicators*, 2018.

The value of GDP (current €) as shown in Table 2, over the past 7 years experienced an increasing trend from €2,009 million in 2000 and reached €3,236 million in 2006. Similarly, the value of GDP per capita (current €) had an increasing trend, reaching a maximum value of €1,882 in 2006 and a minimum value of €1,182 in 2000. Moreover, in regards to the GDP growth, this indicator has fluctuated during these years, where in 2001 it experienced an immense increase, which was a result of international aid in construction in order to overcome the war damages. Later, in the following years, this indicator experienced an immediate decrease in GDP growth, and this was also due to the international assistance reduction. The immediate increase of GDP was affected by the enormous amount of international contribution.

It is a characteristic for post-war countries to receive international assistance. Kosovo received financial assistance from international donors for revitalization and reconstruction, and during the first years of transition, Kosovo's economy started to boom, especially road infrastructure and housing. In addition, the development of small business enterprises and the private sector started to create positive impact towards economic growth. However, the withdrawal of several international contributors and technical assistance staff had a negative impact on the economic development, and also in the national government and other institutions which were not ready to take matters on their hands (Konxheli & Sahiti, 2012).

One of the industries that suffered most during the war was manufacturing where its share decreased from 47 to 15 percent of GDP. The most important manufacturing sectors before the war were the food processing industry, metal production and chemical industry with 37

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<sup>1</sup> World Bank Indicators data reported in current means that it is nominal, whereas, data reported in constant means that it is real (adjusting for the effects of price inflation). Data from World Bank Indicators are converted based on the exchange rates for the specific years according to the data from European Central Bank (Euro (EUR) to U.S. dollar (USD) annual average exchange rate from 1999 to 2017, n.d.).

percent, 24 percent and 20 percent of GDP, respectively. In order to provide the basis for stable future growth, manufacturing had to be rebuilt, and this could be done through privatization and significant investments. The second biggest sector was agriculture, which accounted for a third of GDP and employed around two-thirds of the population. The third important sector is mostly based on trade, while significant developments are still to be expected in banking, insurance, telecommunications and other vital business services (Domadenik, Mulaj, & Redek, 2006).

### 3.2 Investments

The low economic growth can be due to the lack of capital investment and investment inefficiency. Moreover, due to the withdrawal of international donors, the gross fixed investment share dropped from 40 percent of GDP in 2001 to 31 percent in 2006. Higher levels of public investments are crucial in order to sustain a solid level of economic growth (Konxheli & Sahiti, 2012).

In the period from 1999 to 2004 international investments were focused mainly on public services representing 26 percent, followed by housing investments with 16 percent, industry with 13 percent, education and health with 9 percent, transport and infrastructure with 6 percent, police and justice services with 5 percent etc. (Pantina & Namani, 2008).

Around €5 billion were provided by UNMIK and European Agency for Reconstruction (hereinafter: EAR) in 7 years after the war for different development projects, technical assistance and aid, thus making Kosovo the most dependent aid country in the region (Konxheli & Sahiti, 2012). From 2001, when investments were at their peak amounting to €661 million, a gradual decrease of investments was noted until 2003, whereas from 2004 a slight increase in investments followed. Investments at the end of 2006 amounted to €618 million, which in % terms means a 3 percent increase when compared to 2005. Kosovo's investment sources are from the banking sector (loans) and FDI. The flow of loans on average from 2002, ranged from about €140 million in the local economy. The majority of these loans were provided to private companies (Pantina & Namani, 2008).

Table 3. Investments in Kosovo in million €, 2001-2006

	2001	2002	2003	2004	2005	2006
Investments	661	603	572	594	600	618
Donor sector	245	180	132	65	69	86
General government	6	15	36	169	153	153
Private investments	409	408	404	357	376	383
Housing	300	258	241	190	195	195
Others	109	150	163	167	181	188

Source: M. Pantina & M. Namani, *The Importance of FDI on Economic Development of Kosova*, 2008, p. 73.



### 3.3 Trade

Since the end of the war, Kosovo has faced a negative trade balance, which was influenced by the high dependence on imports and the low level of exports. Therefore, the negative trade balance is considered one of the key economic issues. The improvement of this trade deficit is achieved by increasing the level of production and investments, which results in the development of the export sector. Another challenge is the liberalization and trade agreements, which still are not sufficient to improve the negative trade balance; nonetheless, it can support the trade development improvement. The trade deficit is consistently increasing and it is not expected to improve in the short-term. The causes of poor export performance are mostly based on economic, social and political issues that Kosovo is facing (Jusufi, Mahmutaj, Jusufi, & Jusufi, 2015).

Improvements in negative trade balance would support the country in poverty reduction and economic development. In addition, trade has an influence in job creation by increasing the employment rate and in the enhancement of the supply of goods and services by involving wider consumers' choice with lower prices (Jusufi et al., 2015). Table 4 shows that the trade deficit was enormously high in the post-war period due to economic stagnation and lack of investment. It also shows Kosovo's exports during the period 2001-2006 that constitute €297.3 while the imports for the same period constitute €6,038.9. Initial figures for Kosovo's external trade of goods show an increasing trend of trade deficit from €673.4 million in 2001 to €1,195 million in 2006 (Kosovo Agency of Statistics, 2015).

Based on Table 4 for the period 2001-2006, it can be seen that there has been an increase in both imports and exports. In Table 5 the key exports and imports are presented. Additionally, as in regards to imports, a group of machinery and transportation equipment goods experienced a decrease of 0.9 percent from €234.2 million to €232.2 million (Statistical Office of Kosovo, 2007).

Table 4. The flow of goods on external trade, 2001-2006

Period	Exports (mil. €)	Imports (mil. €)	Trade balance (mil. €)
2001	10.5	684.5	-673.4
2002	27.6	854.7	-827.1
2003	35.6	973.2	-937.6
2004	56.5	1,063.3	-1,006.8
2005	56.3	1,157.4	-1,101.1
2006	110.8	1,305.8	-1,195.0
Total	297.3	6,038.9	-5,741.6

Source: Kosovo Agency of Statistics, *External Trade Statistics*, 2015, p. 9.

Table 5. Key exports and imports, 2005-2006

Description	Export			Import		
	2005 (mil. €)	2006 (mil. €)	% increase	2005 (mil. €)	2006 (mil. €)	% increase
Vegetable and animal fats	0.143	0.247	73.0	9.9	13.9	40.4
Processed goods	6.6	31.8	381	220.1	264.8	20.3
Chemical products	1.32	1.38	4.54	115.9	138.7	19.7
Mineral fuels	1.7	8.5	400	82.3	217.1	19.0
Other processed goods	2.8	5.5	96.4	99.4	112.6	13.3
Food and live animals	5.0	8.5	70.0	206.1	228.3	10.7
Beverages and tobaccos	2.75	2.78	1.09	65.6	73.4	11.8
Unprocessed materials	26.8	42.9	60.0	23.4	24.5	4.7

Source: Statistical Office of Kosovo, *External Trade Statistics*, 2007, p. 12.

### 3.4 Foreign Direct Investments (FDIs)

FDIs are commonly recognized for having positive impacts on economic growth and transformation. They are also considered as important channels for the development and accumulation of human capital and the diffusion of new ideas and business skills across national borders. It is of utmost importance to improve the investment climate in order to increase FDIs, meaning that government policies and practices should be focused on easing the way of doing business, by reducing investors' costs and offering various incentives for investors etc. (Group for Legal and Political Studies, 2017).

Since 1999, Kosovo has removed many obstacles by introducing new laws and transparent policies, which have been successful in attracting FDIs (Kida, 2014). Immediately after the war, during the emergency phase of the reconstruction of Kosovo, visits of businessmen and potential investors were quite large. The main motivation were the opportunities to develop their businesses, mainly supply of building materials and wide consumption goods and also engagement in the construction work. Unfortunately, the lack of well-functioning institutions, infrastructure and authorities for communication in public administration, the difficulties in public services, and the lack of financial system at that time have had a discouraging effect for FDIs (RIINVEST Institute, 2002).

Since 2005, Foreign Direct Investments in Kosovo continued to be an important source of capital flows and economic development. By observing the FDI inflow in Table 6, we can see an overall increasing trend throughout the period.

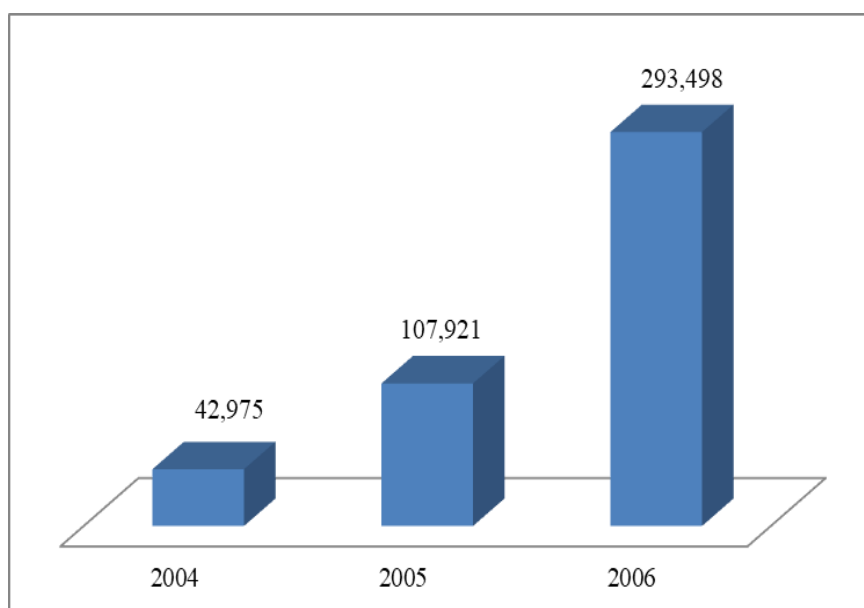
Table 6. FDI inflows in % of GDP, 2004 - 2006

Year	FDI inflows
2004	1.5
2005	3.6
2006	9.1

Source: *Indicators*, 2018.

According to data in Figure 1, from 2005 the FDIs show a growing trend after the negative trend in 2004. FDI in Kosovo has been fluctuating during this period. In 2006, the value of FDI reached €293.4 million, which is the highest value achieved during the period of analysis. The lowest value was recorded in 2004, where the amount of foreign direct investment was only €42.9 million. In addition, as in regards to the investors, the largest Foreign Direct Investments (FDIs) in Kosovo are presented in Table 7. In addition, Figure 2 presents three main investment countries: Great Britain with €116.2 million, followed by Slovenia with €56.2 million and Germany with €48.1 million. FDIs were focused mainly on these sectors: Transport & Telecommunication with 29.3 percent, followed by financial services with 23.1 percent and mining with only 9.4 percent.

Figure 1. Foreign direct investment, net inflows (BoP, current €), 2004 - 2006



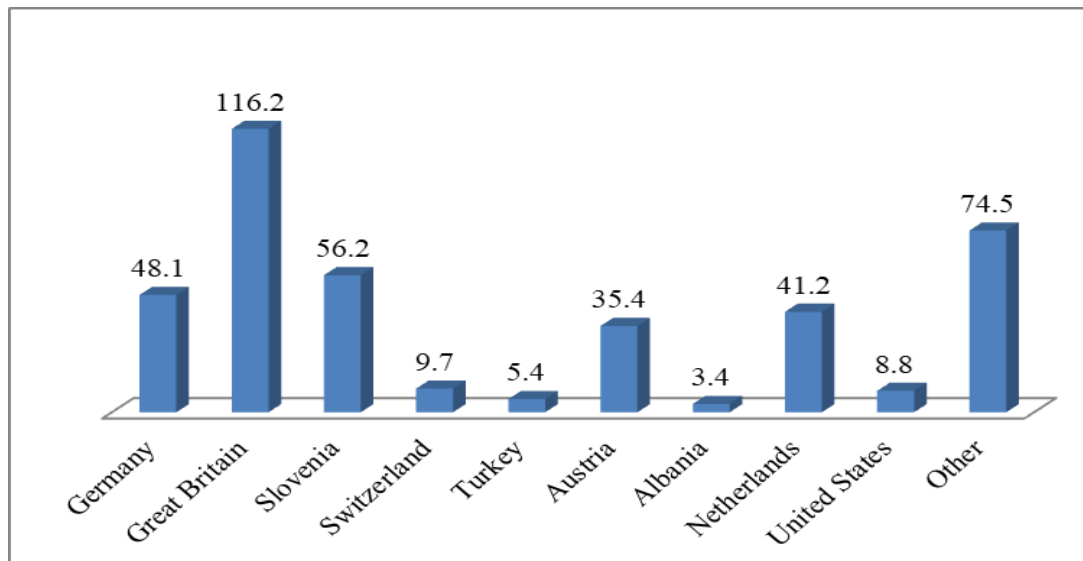
Source: *Indicators*, 2018.

Table 7. Main Foreign Direct Investments (FDIs)

Company	Year
Sharrcem	2004
NewCo Ferronikeli Complex	2005
Trofta	2005
Stone Castle	2005
Peja Brewery	2006
NLB Pristina	2008
Banka Ekonomike	2008
Raiffeisen Bank Kosovo J.S.C	2009
IPKO Telecommunications L.L.C	2009
Bechtel International Inc. (Kosovo Branch)	2010
M&Sillosi	2010

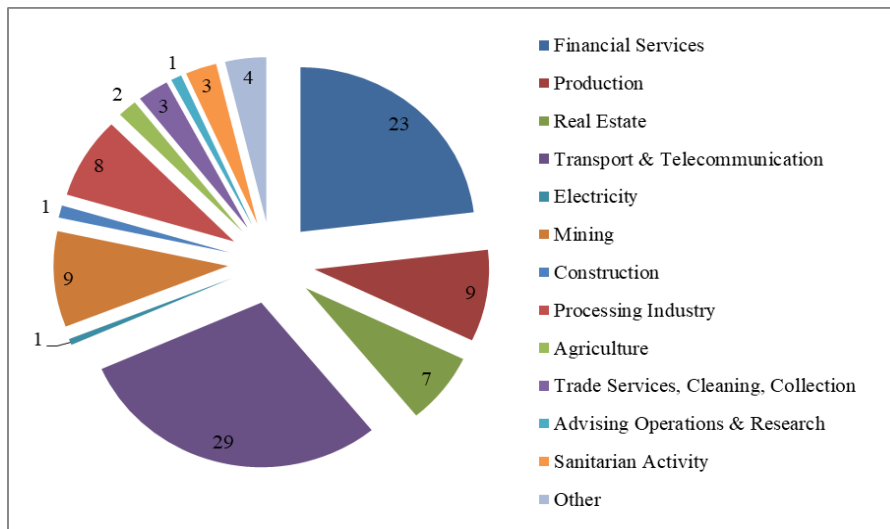
Source: F. Hasani, *Foreign Direct Investments (FDIs) Case: Ways of Attracting Foreign Investments in Republic of Kosovo*, 2017, p. 29.

Figure 2. FDI by Country of investment source (in € mil.), 2007



Source: *Kosovo economic profile*, 2018.

Figure 3. FDI by Sectors (as % of total FDI), 2007

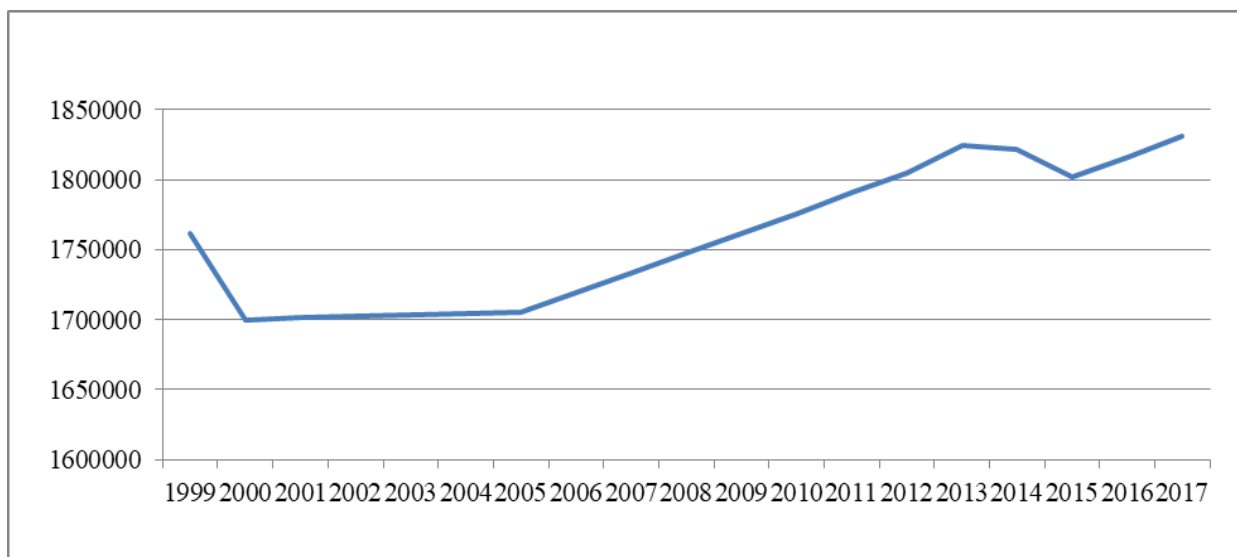


Source: Kosovo economic profile, 2018.

### 3.5 Labour market and social conditions

One of the major advantages of Kosovo is the young population with about one-third being under 15 years of age. By contrast, only about 6.1 percent of the population is 65 years and older. The working age population (between 15 and 64 years of age) is about 63.5 percent of the total population (Statistical Office of Kosovo, 2004).

Figure 4. Total population, 1999 - 2017



Source: Indicators, 2018.

A major problem that is severely harming the economic development of Kosovo is the substantial migration, which unfortunately is not a new phenomenon. Migration of skilled individuals from developing to developed countries has been present for years now. The war in Kosovo led to a new wave of migration - a forced migration mainly as asylum seekers, but also as clandestine migrants.

Many individuals decided to leave even during the post-conflict period, mainly due to the harsh economic conditions (Vathi & Black, 2007). Beine, Docquier, and Rapoport (2008) argues that even though this phenomenon can be seen as a serious issue, the home country can benefit from migration because of the remittances that these individuals send back home, and also from their investments in different sectors, which in some way help with the poverty reduction. Moreover, in Table 8 are presented the age and sex distribution of males and females.

Table 8. Age and Sex Distribution in %, 2002

	<b>Male</b>	<b>Female</b>	<b>Total</b>
0-14 years	31.3	29.5	30.4
15-64 years	63.2	63.8	63.5
65+years	5.5	6.7	6.1
Total	100.0	100.0	100.0

Source: Statistical Office of Kosovo, *Labour Force Survey 2002: Key employment indicators*, 2002, p. 3.

Regarding the population of working age by activity status and sex (Table 9), one can see that gender differences are very large. Only 8.4 percent of females are employed compared to a relatively higher percentage of employment among males, namely 35 percent (Statistical Office of Kosovo, 2004).

Table 9. Key indicators of the labour market (%), 2002

<b>Status</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Employed	35.0	8.4	21.8
Unemployed	28.9	24.3	26.6
Labour Force	63.9	32.7	48.4
Non-active	36.1	67.3	51.6
TOTAL	100.0	100.0	100.0

Source: Statistical Office of Kosovo, *Labour Force Survey 2002: Key employment indicators*, 2002, p. 5.

As it can be observed from Table 10, there are large differences in all employment rates between various educational levels, where higher unemployment rate is noticed among those with lower educational attainment (Statistical Office of Kosovo, 2004).

Table 10. Main labour market indicators by the level of education in %, 2002

	<b>Less than elementary</b>	<b>Elementary</b>	<b>Secondary</b>	<b>Tertiary</b>	<b>Total</b>
% in the working age population	12.3	42.9	38.5	6.3	100.0
Employment-population ratio	5.9	10.5	31.5	70.9	21.8
Unemployment-population ratio	14.9	24.3	35.1	13.6	26.6
Activity rate	20.9	34.9	66.5	84.5	48.4
Employment rate	28.5	30.2	47.3	83.9	45.0
Unemployment rate	71.5	69.8	52.7	16.1	55.0

Source: Statistical Office of Kosovo, *Labour Force Survey 2002: Key employment indicators*, 2002, p. 6.

The four main economic activities that generate the majority of job opportunities include: trade with 17 percent, education, and construction with 11.2 percent, followed by manufacturing industries with 10.7 percent. From Table 11, one can also note the gender pattern of employment, with a higher percentage of women working in Education and Health, and men working in Manufacturing, Construction, and Trade. The major challenge of the labor market in Kosovo is the high level of unemployment, being one of the highest in the region, where 45 percent of the population is unemployed. However, the statistics become even more concerning when assessing that the unemployment rate in 2006 among women is 61.6 percent, while among men is 34.6 percent (Statistical Office of Kosovo, 2006).

Table 11. Employed individual by economic activity in %, 2002

<b>Economic activities</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Agriculture	11.0	7.1	10.2
Extractive industries	2.0	0.0	1.6
Manufacturing industries	11.4	7.7	10.7
Production of electricity, gas, and water	5.5	2.6	4.9
Construction	13.5	1.0	11.2
Trade	17.9	13.3	17.0
Hotels and restaurants	4.0	3.3	3.9
Transport	4.6	1.8	4.1
Financial intermediation	0.7	1.2	0.8
Business Activities	0.5	1.3	0.7
Public administration	9.1	6.8	8.7
Education	9.5	18.5	11.2
Health	2.2	20.7	5.7
Other services	4.3	5.4	4.5
Households	0.2	0.1	0.1
International organizations	3.5	9.1	4.5
Total	100.0	100.0	100.0

Source: Statistical Office of Kosovo, *Labour Force Survey 2002: Key employment indicators*, 2002, p. 7.

Table 12. Unemployment rates, 2001-2006

	2001	2002	2003	2004	2005	2006
Unemployment, total (% of total labor force) (national estimate)	57.0	55.0	49.7	39.7	41.4	44.9
Unemployment, female (% of female labor force) (national estimate)	70.0	74.5	71.9	60.7	60.5	61.6
Unemployment, male (% of male labor force) (national estimate)	52.0	45.2	40.3	31.5	32.9	34.6

Source: *Indicators*, 2018.

As we can observe from Table 12, the unemployment rate among women over a 6 year period reached the highest value of 74.5 percent in 2002, whereas the lowest value was recorded in 2005 where the unemployment rate was reported to be 60.5 percent. Additionally, unemployment of male labor force for the same period reached the highest value of 52.0 in 2001, while its lowest value was 31.5 percent in 2004. In 2013 it was reported that 49 percent of Kosovo's population is under age 25, and 70 percent under the age 35. Among the persons aged 15-24, the unemployment rate is more than 55 percent (around 64 percent are women and 52 percent are men (Myha, 2013).

Individuals between ages 15 and 24 account for 30 percent of the working-age population and 20 percent of total population, a slightly higher percentage compared to the European average which is 14 percent. Based on this survey, even though the situation for females is gradually improving, employment opportunities are less favorable for females, especially among youth. Even in the cases that young workers find a job, they are employed in very low-quality jobs.

In addition, in 2004 around 21 percent of young workers stated that they have worked more than 50 hours/week. Furthermore, approximately 20 percent of the employed youth claimed to not have had an employment contract; 37 percent were not allowed to take paid leave; 55 percent were not able to take paid sick leave; and 73 percent were not registered in Social Security (World Bank, 2008). On average, Kosovars report earnings of around €200 net per month, with a difference of about €20 between women and men. 8.2 percent have net monthly earnings below €100, and about 1.9 percent earn more than €500 per month. It is also observed that a considerably higher number of individuals, namely 31.3 percent, do not have any monthly earnings (Statistical Office of Kosovo, 2004).



Table 13. Employed persons by net monthly earnings in %, 2002

€	Male	Female	Total
1-50	4.7	5.0	4.7
51-100	8.1	8.4	8.2
101-150	18.4	27.6	20.2
151-200	13.4	7.8	12.4
201-250	6.0	3.7	5.6
251-300	7.5	2.2	6.5
301-400	3.6	5.7	4.0
401-500	2.9	2.8	2.9
501-700	2.0	1.4	1.9
701+	2.4	1.3	2.2
No earnings	30.9	34.1	31.3
Do not want to report any earnings	0.1	0.0	0.1
Total	100.0	100.0	100.0

Source: Statistical Office of Kosovo, *Labour Force Survey 2002: Key employment indicators*, 2002, p. 9.

### 3.6 Remittances

Remittances have historically been means of solving economic deficiencies and helping alleviate the poverty. Remittances are an increasingly growing source of capital and are considered as very important in compensating the human capital loss for developing countries, such as Kosovo (UNDP, 2012).

However, the economy depends on remittances and direct investments from the diaspora, but this model of growth may be unsustainable. One of the most common ways of transferring money is through specialized agencies. These agencies are located almost in all areas of Kosovo, enabling their customers to easily receive money from abroad. These agencies offer fast delivery but the cost of sending money is relatively high. They have a large number of agents who are spread across urban areas as well as rural areas (Central Bank of the Republic of Kosovo, 2013). As we can see from Table 14, remittances had an increasing trend. In 2006 around 29 percent of remittances were transferred through banks, 39 percent were transferred through money transfer agencies, and around 32 percent through other channels.

Table 14. Amount of remittances sent to Kosovo (in million €), 2004 – 2006

Year	Through bank account	Through money transfer agencies	Other	Total
2004	N/A	N/A	N/A	357.0
2005	N/A	N/A	N/A	418.0
2006	135.1	184.7	147.3	467.1

Source: Central Bank of the Republic of Kosovo, *Remittances to Kosovo: An analysis of the methods of transfer*, 2013, p. 26.

It is important to note that efficiency and security remain the two main objectives that need to be fulfilled by institutions that provide remittance services. In order to increase the efficiency and security of migrant transfers, it is recommended to:

- Create migrant awareness campaigns encouraging them to use formal channels for transfers;
- Distribute the money transfer agencies and Automated Teller Machine (hereinafter: ATMs) in rural areas in order to be easily accessible;
- Lower the tariffs for incoming transfers from Western countries etc.

Diaspora plays an important role because it may constitute a large part of the foreign direct investment, and it may be willing to invest under conditions that others would refuse to. Another positive impact of remittances is that they reduce the high level of poverty. Also, they can help and accelerate the transfer of technology.

Nonetheless, the influence of diaspora and remittances can also be negative, such as loss of skills and lack of willingness to work (RIINVEST, 2007)

At the macroeconomic level, migration and remittances have certainly contributed to human development by helping increase (or stabilize) employment, thus reducing poverty. The Kosovar diaspora can be a valuable source of investment, mostly in sectors they are already involved in their host countries, such as construction, catering, restaurants, and production as well. However, the main obstacles to diaspora investments are corruption, inefficient administration, etc. Other obstacles include lack of information on investment opportunities and the perception that they are not being sufficiently appraised (Central Bank of the Republic of Kosovo, 2013).

### **3.7 Economic policies in the period after the war**

An important part of the transition process is the macroeconomic stabilization, with the objective of efficiency rise and growth promotion. The factors that seriously hindered the political and economic progress are especially due to the conflict, lack of strong institutions, the absence of political consensus etc. The slow economic performance is also reflected in the unsuccessful implementation of reforms and stabilization programs, which leads to high unemployment rate, and low citizen welfare (Papazoglou, 2005).

After post-conflict, a strategy for economic recovery and reconstruction called Transitional Support Strategy (hereinafter: TSS) was established. With the support of donors and citizen's initiatives Kosovo started first steps of reconstruction, where nearly 50,000 houses were rehabilitated or reconstructed, and provided homes to around 300,000 individuals. Reconstruction was also provided in terms of damaged infrastructure, as well as schools and hospitals benefited from this assistance as well (World Bank, 2002).

After the war, the country's policymakers started to focus their efforts and commitment towards reforms and stable macroeconomic stabilization. Part of this formulation and implementation were also the international community and EU, who provided their assistance to boost incorporation of our country in the world economy. Despite some positive signs, in regards to macroeconomic stabilization and institutional building, there is still room for improvement and there are many factors that undermine Kosovo's economic development.

One of the main challenges was to reduce the donor assistance. Along with this objective Kosovo's Government set other objectives such as improvement of welfare, the quality, and access to health and education, as well as the establishment of a transparent and efficient public administration. The World Bank played a crucial role in supporting the implementation of the Transitional Support Strategy, helping to allocate almost €2 billion.

Even though after the war the economy experienced a solid recovery, the economy is still fragile and vulnerable considering the significant dependence on the international community, as well as weak industrial sector, unreliable energy supply, high unemployment and poverty (World Bank, 2002). Moreover, in Table 15 the matrix of Objectives and Performance Benchmarks is presented.

Transitional Support Strategy outlined some of the below objectives for institution building and economic reforms:

- Support for the health and education systems through the employment of health workers and teachers;
- Prepare a budget which will be financed by taxes as well as the creation of liberal trade and customs regimes (World Bank, 2002);
- Introduce commercial regulations package which would help the development of the private sector.

Table 15. Transitional Support Strategy for Kosovo

Objective	Performance Benchmarks
Economic progress	Substantial improvement of business climate through the adoption of bankruptcy law, an effective function of the business registry, institutional and legal framework and enforcement of contracts. An effective process of privatization Establishment of a monitoring system for labour market Viability study for power transmission investments and improvement of Energetic Corporation (KEK) management
Poverty mitigation and development of human resources	Improvement of social services and infrastructure in deprived communities Increase of enrollment in both compulsory and secondary education Monitoring of established capacity as well as poverty Establishment of commission for living standards monitoring Improvement of social assistance
Good governance and fiscal sustainability	Introduction and effective functioning of a fiscally viable pension system Implementation of a framework for planning of public expenditure Effective integration of capital and budget Development of audit capacity Improvement of procurement law Development of a strategy for anti-corruption Robust and standardization of accounting norms

Source: World Bank, *Kosovo, Federal Republic of Yugoslavia Transitional Support Strategy*, 2002, Annex VI.

Table 16. Industrial policy measures in the period after the war

Stabilization		High unemployment rate and poverty accounting for 57 percent (2001)
Broadband industrial policy measures	Exchange rates	No independent monetary policy due to Euro adoption in 2002
	Tariffs	Zero percent on goods imported from Central European Free Trade Agreement (hereinafter: CEFTA). 10 percent on goods imported from other countries. Zero tariffs for specific products Zero-rated Value Added Tax (hereinafter: VAT) for agricultural inputs and zero duty on most capital goods for agriculture and agri-business.
	Subsidies	Subsidies mainly allocated in utilities in specifically for Kosovo Energetic Corporation (hereinafter: KEK)
Export and industry as factors of learning spillovers	Export	Low export-base with €10,559 million in 2001, compared to imports accounting for 684,500 million
	Industry	No significant progress as in regards to the industry. Investments were focused mainly in the construction of fuel stations, in energy, construction, maintenance and rehabilitation of the road network, construction of ruined buildings during the war and the smallest part in manufacturing enterprises.
Small and medium-sized enterprises (hereinafter: SMEs) development		SME Support Agency was established in 2006, in supporting the development of SMEs

Source: Kosovo Agency of Statistics, *External Trade Statistics*, 2015, p. 9; J. Prasnikar, *Industrial Policy in Retrospective*, 2014, p. 111.

The development process is linked to a variety of policies, including: financing the development and public infrastructure, regulatory framework, governmental intervention and industrial policies. The reforms oriented towards the market and economic-political stability have demonstrated to be essential factors, especially for transition economies. The question that constantly arises is how can Kosovo be a sustainable economy? This question is frequently raised considering the limited participation due to the international administration (Mustafa & Zogaj, 2009).

Fiscal policy plays the most important role in establishing functional state and institutions as well as in the economy as a whole. In the absence of monetary policy instruments, the main instrument of economic policy in Kosovo is fiscal policy. Thus, comprehensive and sound fiscal policies are vital for sustaining macroeconomic stability. Our relatively new fiscal system is based on indirect and direct taxes.

The process of building capacity has begun after the end of the war in 1999, firstly with Customs Regulation, and afterward with other tax applications, such as the VAT in 2001, the income tax in April 2002, the property tax in June 2003, the corporation tax in December 2004 etc. Moreover, later in January 2005, new application taxes such as Personal Income Tax and Corporate Income Tax were introduced. This continued until the end of 2008 or beginning of 2009 (Statovci & Asllani, 2017).

From 1999 until the independence declaration in 2008, Kosovo did not have its self-governing fiscal policies but the United Nations Mission UNMIK through the so-called UNMIK Pillar II – Regulation was responsible for the establishment and implementation of economic and fiscal policies (Hasani, 2015). The competitiveness of the economy and industrial structure is affected by the exchange rate policy. In Kosovo, in 1999 UNMIK introduced the Deutsche Mark (hereinafter: DM), and later in 2002 adopted the Euro as legal tender, thus eliminating exchange rate risk. At the same time, the country does not have monetary policy risk either (due to the absence of monetary instruments). The fiscal policy is used as the main instrument for macroeconomic stability. The currency is fully convertible.

Kosovo's use of the Euro has helped to keep core inflation low and stable (Barisitz, 2004). The inflation rate in Kosovo averaged 2.59 percent a year from 2003 until 2014 (Prašnikar, 2014). Despite the advantages, the currency board has its own limitations. One of the limitations is that due to lack of monetary policy, it is not possible to regulate interest or exchange rates which can arouse the economy; instead, the adjustment should be done with wage and price adjustments (Gulde, Kähkönen, & Keller, 2000).

Tariff policies have been used to support economic development. In Kosovo, customs tariffs for imports are: (1) zero percent on goods imported from CEFTA countries; (2) ten percent on goods imported from all other countries, with the exception of pharmaceuticals, agricultural fertilizers, and imported goods from international organizations. Kosovo uses tariff policies also to support capital imports, raw materials for agribusiness and other sectors as well as

intermediate goods for production with reduced tariff rates. The zero tariffs are applied to health products and humanitarian causes (surgical and pharmaceutical products, UN help, etc.). However, these tariffs do not provide protection for local industries (Prašnikar, 2014).

In 2004, subsidies were mostly distributed to specifically to Kosovo Energetic Corporation utilities (KEK). Subsidies to POEs accounted for €62 million or 2.5 percent of GDP and in 2005 they were estimated to increase to €77 million. These subsidies aimed at ensuring uninterrupted facilitation of basic utility services (European Commission, 2005).

## **4 THE PERIOD DURING AND AFTER THE CRISIS**

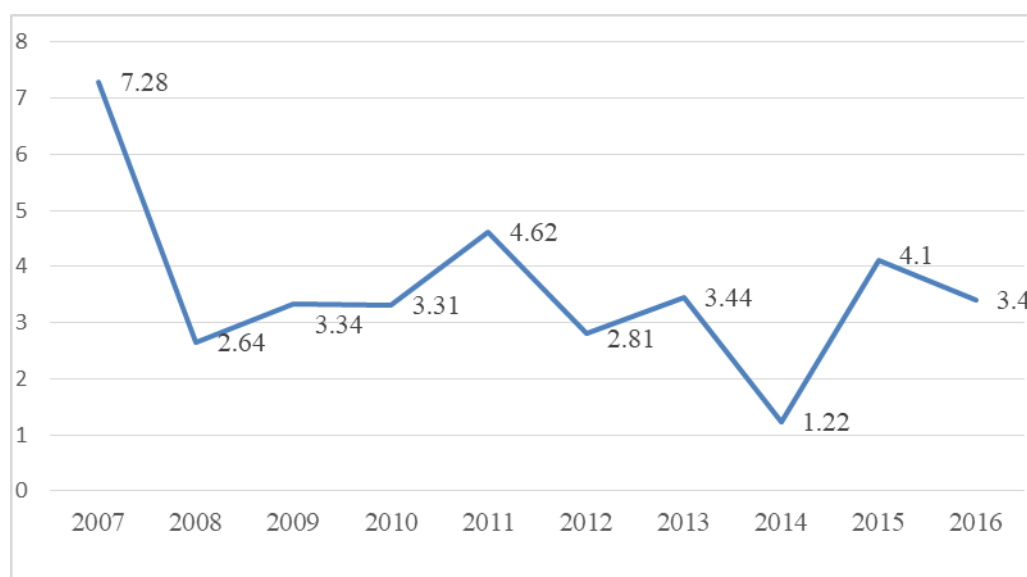
### **4.1 Macroeconomic development**

Since the end of the war, Kosovo has shown a solid economic growth performance, where its growth has remained positive throughout the global economic crisis. Kosovo's GDP growth peaked at 7.28 percent in 2007, before declining to 2.64 percent in 2008 in the wake of the crisis (Figure 5). The overall impact of the crisis was smaller in Kosovo, due to its limited integration into the global economy, but also due to the increased public spending on reconstruction and private sector investment. The country continues to depend on both remittances from the diaspora and on the international community for financial and technical assistance. However, the economy experienced growth over the past decade given the enhanced domestic demand largely financed by remittances and aid. Private consumption was driven by both remittances and large increases in public sector wages and transfers (especially pensions).

One of the sectors that contributed greatly to growth over the past decade was the service sector which is also the sector that employs 67.3 percent of the population and accounts for 69.4 percent of Kosovo's GDP (Cojocar, 2017). During the post-global financial crisis Kosovo's economic growth has experienced a higher growth compared to neighboring countries, however, this was not sufficient to diminish high unemployment rates, and decrease the trend of migration. Even though the private consumption was a positive driver of growth, it is severely dependent on remittances. In 2015, GDP growth was 4.1 percent, compared to 2014 where it was only 1.22 percent.

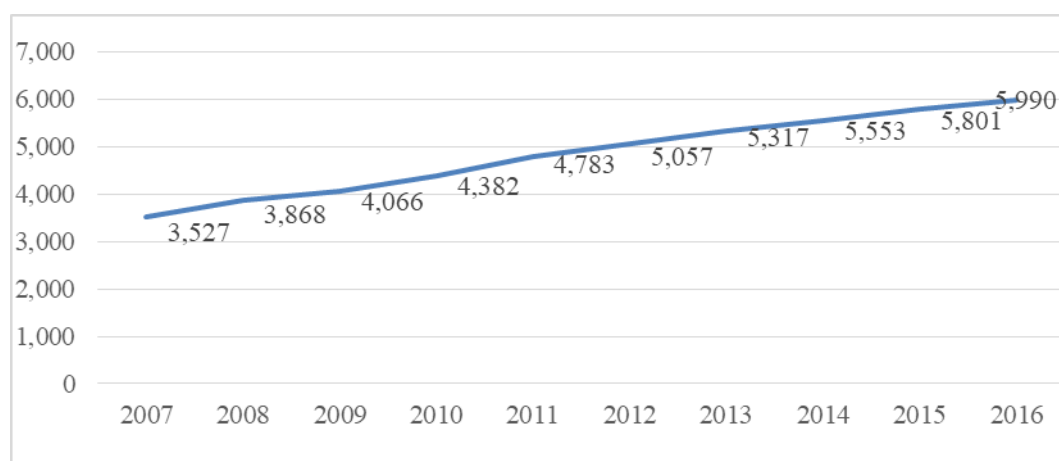
In 2015, the GDP growth was fostered by the economic activities presented in Table 17. Whereas, its decline was in the following activities: Agriculture, hunting, forestry, and fishing (-4.1 percent); Public administration, defense and compulsory social security (-13.7 percent) (Gross Domestic Product (GDP) according to economic activity and expenditure approach, 2015, 2016). In 2016, Kosovo registered a GDP of €5,990 million, meaning there was an increase compared to the previous year (2015), where Kosovo's GDP was €5,801 million.

Figure 5. GDP growth annual constant in %, 2007-2016



Source: *Indicators*, 2018.

Figure 6. GDP in € million, 2007-2016



Source: *Indicators*, 2018.

Moreover, GDP per capita in Kosovo still continues to be lower than in other regional countries (Albania, Serbia and Bosnia and Herzegovina). GDP per capita marked a slight increase in 2015 reaching €3,219 compared to €3,048 in 2014 (Gross Domestic Product (GDP) according to economic activity and expenditure approach, 2015, 2016). Furthermore, Table 18 illustrates the GDP growth by economic activities in 2016. Meanwhile, there was a decrease in the following economic activities: public administration (1.4 percent), processing industry (2.8 percent), and other services (15.6 percent) (Gross Domestic Product (GDP) according to economic activity and expenditure approach (at current and constant prices), Q4 2016, 2017).

Table 17. GDP according to economic activities in % of GDP growth, 2015

<b>Economic Activity</b>	<b>GDP growth in %</b>
Supply of water	18.02
Financial and insurance activities	17.43
Construction	15.76
Professional, scientific and technical activities	14.59
Supply of electricity and gas	10.41
Services	10.36
Transport and storage	7.22
Information and communication	6.57
Processing industry	4.84
Health and social work activities	4.01
Wholesale and retail trade, repair of motor vehicles and motorcycles	3.71
Hotels and restaurants	2.45
Arts, entertainment, and recreation	1.73
Education	1.51
Others	0.10

Source: *Gross Domestic Product (GDP) according to economic activity and expenditure approach, 2015, 2016.*

Table 18. GDP according to economic activities in % of GDP growth, 2016

<b>Economic Activity</b>	<b>GDP growth in %</b>
Financial and insurance activities	23.5
Supply of electricity, water, and waste treatment	10.7
Hotels and restaurants	10.5
Agriculture, hunting, and forestry	9.2
Extractive industry	8.5
Wholesale and retail trade	6.7
Transport and storage	3.8
Real estate operation	1.5
Construction	0.7

Source: *Gross Domestic Product (GDP) according to economic activity and expenditure approach (at current and constant prices), Q4 2016, 2017.*

The economic situation is related with damages from the war especially for public and private sector and for the social welfare of Kosovo's population. During the crisis period, 2008-2012 Kosovo was one of four countries in Europe who recorded a positive growth rate with an average 4.5 percent (World Bank Group in Kosovo, 2015). Despite this growth, there were limited efforts to improve labor market conditions.

The weak rule of law, widespread corruption, and organized crime are other issues that hinder Kosovo's possibilities to prosper. Furthermore, the lack of transparency in the privatization process and also barriers to foreign investment put at risk the possibility for further economic development (BTI, 2014).



Even though Kosovo's economic growth has outperformed its neighboring countries, it has not been sufficient to significantly reduce the high rates of unemployment and provide formal jobs, particularly for women and youth, or change the trend of large-scale outmigration. The growth continues to heavily rely on remittances to fuel domestic consumption, even though it has recently started to shift to more investment and export-driven growth.

In order for Kosovo to sustain its growth and reduce poverty, it should address the infrastructure bottlenecks especially in energy, create a favorable environment for private sector development, equip its young population with the required skills, build up governance and rule of law etc.

Despite the substantial progress that Kosovo has made in strengthening the financial sector, ensuring fiscal discipline and enhancing growth, it still has to make important structural changes (Cojocaru, 2017).

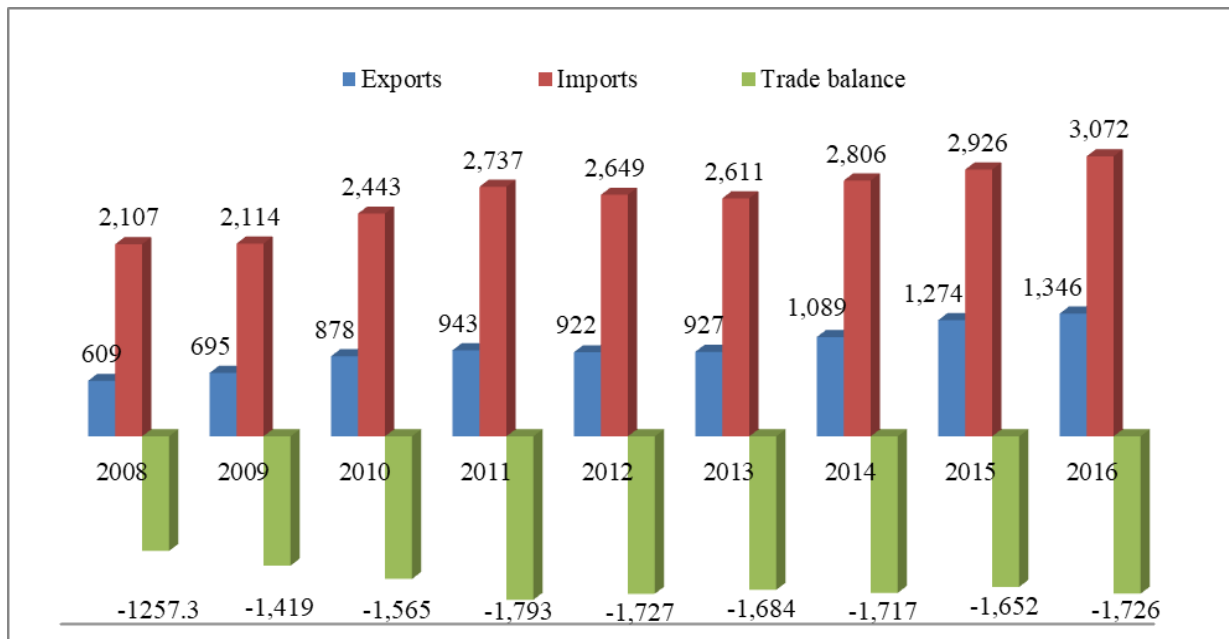
Kosovo's macroeconomic stability is based on full euroization, a fiscal policy that follows a fiscal rule, and in a healthy and sound financial sector dominated by a well-capitalized and profitable banking sector.

A crucial challenge will be the increase in production and export capacity of the economy. This will involve addressing the high level of the unemployment rate and related skills gaps, ensuring energy security and improving the business environment.

## **4.2 Trade**

Following the war, Kosovo started from scratch and the level and trends of external trade were at disfavor, meaning that country continued to have a negative trade balance, being one of the most serious economic problems since 1999. The negative impact of the global economic crisis was limited, and imports did not decline much compared to countries in the region. On the other hand, similarly as to other emerging economies Kosovo's exports were negatively impacted by the economic crisis. The trade deficit widened continuously over the last decade, reaching the highest level at over €1,793 billion in 2011. The total value of Kosovo's exports during this nine-year period reached almost €8.7 billion (Tosuni & Vokri, 2015).

Figure 7. Exports, imports, trade balance in mil. €, 2008 – 2016

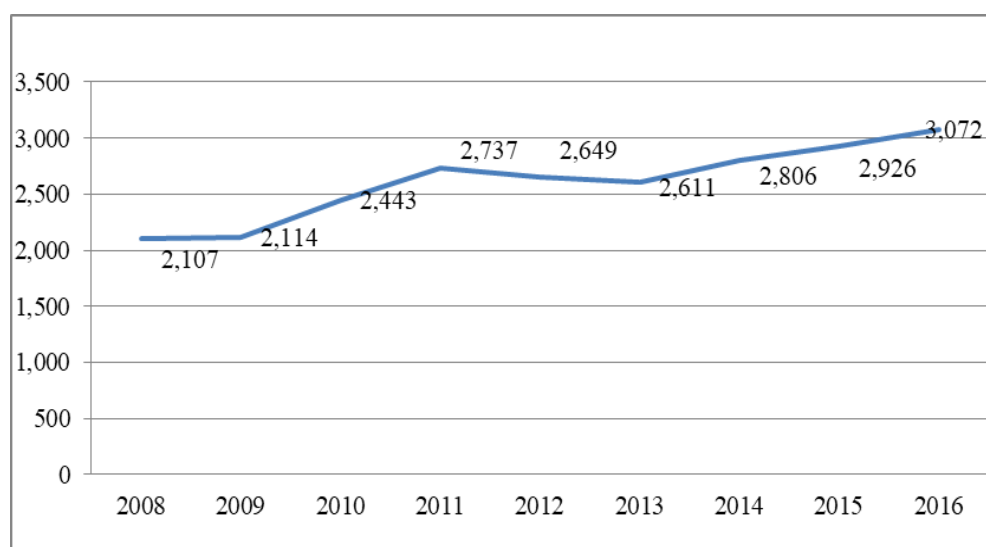


Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2013, 2014*, p. 7; Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2014, 2015*, p. 7; Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2016, 2017*, p. 11.

After the war, Kosovo imported almost all consumption goods and raw materials. Most imports were primarily required for the tremendous reconstruction efforts mainly financed by Diaspora and foreign assistance. However, with the expansion of economic activity in Kosovo more machinery and raw materials were imported. These investments have fueled domestic production and slowly substituted imports, and later this helped exports to emerge. Imports have increased steadily from 2008 to 2011 from €2,107 million to €2,737 or by 29.9 percent (Figure 8). However, in the two following years there was a slight decrease, but from 2014, it gradually increased where in 2016 imports accounted for €3,072 million.

Kosovo is facing a major problem with its negative trade balance, due to the excessive volume of imported goods in contrast with exported ones. According to the data based on the Ministry of Trade and industry presented in Figure 7, it results that both imports and exports were gradually increasing during this period. It can also be observed that the country has recorded a negative trade balance of €1,726 million in 2016. 2016 marked a rather positive trend of increases in both exports and imports by €72 million and €146 million respectively.

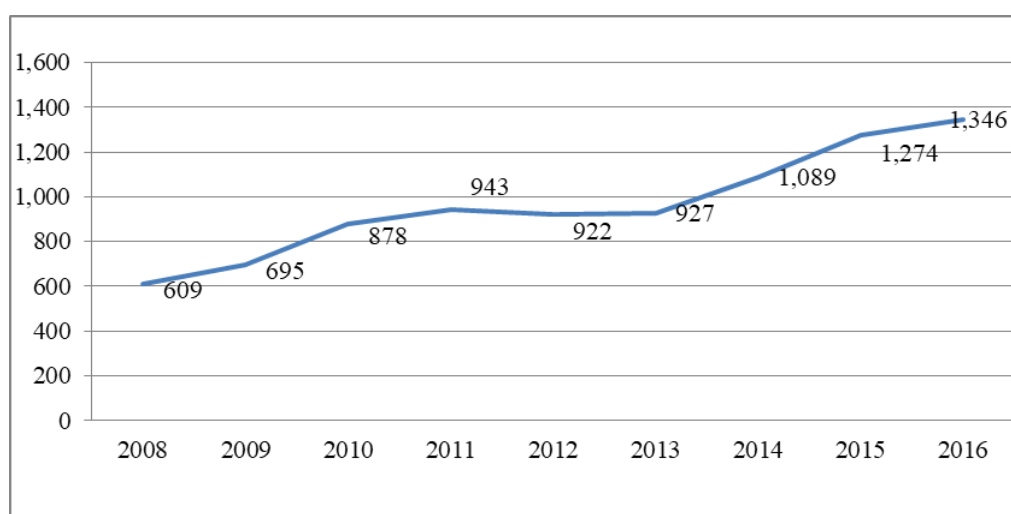
Figure 8. Total imports in € million, 2008 – 2016



Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2013, 2014*, p. 7; Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2014, 2015*, p. 7; Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2016, 2017*, p. 11.

On the other hand, exports were almost nonexistent immediately after the war. However, with the activation of production capacities, they eventually emerged, mostly after the privatization process of some of the main factories such as Ferronikeli. As illustrated in Figure 9, exports have increased steadily from 2008 to 2011 from €609 million to 943 or by 54.8 percent. However, in the two following years there was a slight decrease, but from 2013, they gradually increased where in 2016 exports accounted for €1,346 million.

Figure 9. Total exports in € million, 2008 – 2016

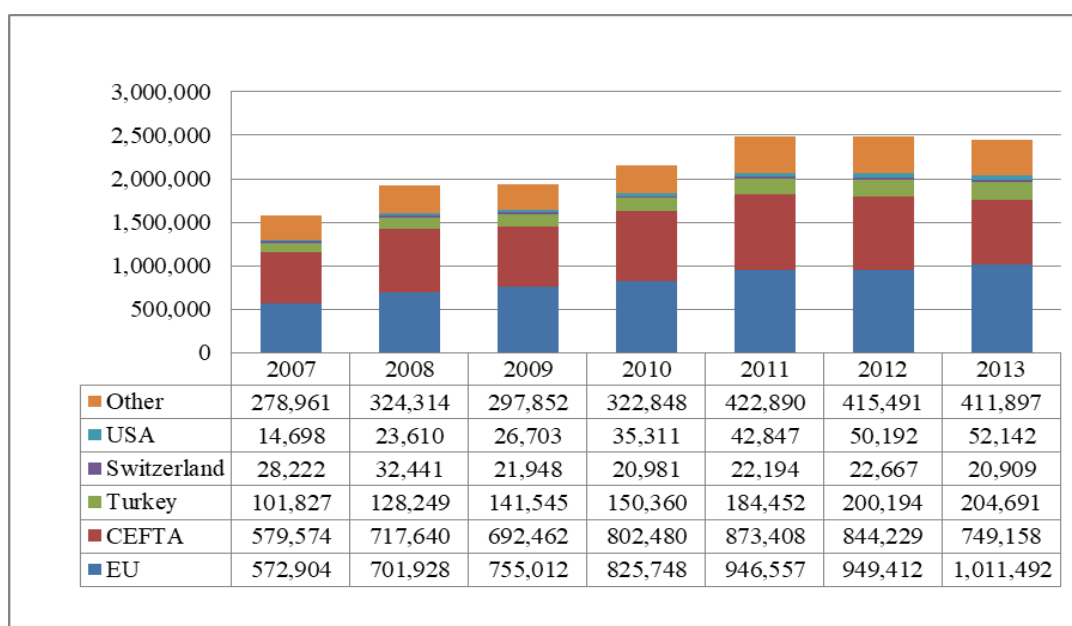


Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2013, 2014*, p. 7.

The negative trade balance is directly linked to the economic development and is mostly related to the poor economic policies, poor level of infrastructure, low exports prices, low wages, and low level of foreign investments. Moreover, it is related also to high prices of inputs, barriers, and tariffs in exchange with trade partners (Jusufović et al., 2015).

The country's main trading partners remain the EU countries (45 percent of all exports) and regional countries (CEFTA members, 24 percent of exports) (Kosovo's Economy, 2018). Kosovo's main export markets (2012) are Italy (17.7 percent), followed by Albania (16.5), India (14.1), Switzerland (12.3) and Macedonia (10.4 percent). Exports in 2012 consisted primarily of ferroalloys (mainly nickel), with 31.4 percent, followed by scraps iron and steel (8.7 percent), lead ores and concentrates (5.5 percent), copper waste and scrap (4.5 percent), electricity (4.1 percent) and raw skins (3.9 percent) (Ministry of Trade and Industry, 2014). Currently Kosovo imports from 130 different countries on five different continents. However, as Figure 10 shows, most of Kosovo imports are from CEFTA and EU member countries with a share of more than 70 percent of total imports. Another important trading partner is Turkey. On average 7 percent of total Kosovo's imports come from Turkey. Imports from Switzerland and the U.S. as two strategic partners are still low – during the last decade, on average 3 percent of total imports originated from these two countries.

Figure 10. Kosovo's import partners, 2007-2013



Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2013*, 2014, p. 32.

Similar to imports, exports are focused on the regional countries and EU countries, mainly due to the trade agreements that are in place. The sixth largest export market is Switzerland, representing on average 5 percent of total exports during the period 2005-2013. This may be attributed to the large concentration of Kosovar diaspora in this country.

Table 19. Exports and imports of goods and services in % of GDP, 2007 – 2016

Year	Exports of goods and services (% of GDP)	Imports of goods and services (% of GDP)
2007	15.48	50.66
2008	15.66	54.25
2009	17.06	51.93
2010	19.8	55.41
2011	23.76	58.28
2012	23.35	54.12
2013	21.9	49.6
2014	22.5	51.21
2015	21.9	51.15
2016	22.5	51.10

Source: *Indicators*, 2018.

In Table 20 the import and export structure of the main commodities (2008) are presented, whereas in Table 21 the exports and imports toward CEFTA, EU, and other countries are presented (2015–2016). In recent years, the import of productive materials and machinery has

significantly increased, indicating that new production capacities are being installed which could lead to more import substitution and eventually production of more export-oriented products (World Bank, 2009).

Table 20. Main commodities in Kosovo's export and import structure, 2008

Goods based on industry	Exports		Imports	
	(€ million)	% of total	(€ million)	% of total
Base metals	124.1	63.3	179	9.3
Mineral products	17.9	9.1	387	20.1
Prepared foodstuffs, beverages and tobacco	10.5	5.4	262	13.6
Vegetable products	8.9	4.5	104	5.4
Machinery, electrical appliances etc.	8.4	4.3	235	12.2
Plastic, rubber	6.4	3.3	n/a	n/a
Hides, skins leather	4.8	2.5	n/a	n/a
Products of chemistry or allied industries	n/a	n/a	138	7.2
Transport means	n/a	n/a	130	6.7

Source: World Bank, *Kosovo Quarterly Economic Briefing*, 2009, p. 2.

Table 21. Exports and Imports toward CEFTA, EU, and other countries, 2015 - 2016

Goods based on industry	Exports (€ million)		Imports (€ million)	
	2015	2016	2015	2016
Chemical	44.5	68.6	617.9	549
Plastic and Rubber	23.5	28.9	163.2	188.4
Leather	10.7	11.2	7.6	8.4
Wood	2.4	3.6	62.4	72.6
Paper	2.8	3.9	38.7	41.7
Textile	11.9	8.8	122.6	136.7
Shoes etc.	3.0	3.4	30.6	35.0
Metals	157.7	111.2	260.5	275.4
TOTAL	256.5	239.6	1,303.5	1,307.2

Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2016*, 2017, p. 19.

### 4.3 Foreign Direct Investments (FDIs)

FDIs are considered a powerful engine in accelerating the economic growth and transforming the economy, which will support local economies. They support capital-poor countries in building physical resources, generating employment opportunities, developing productive capacity, and developing local labour skills through know-how and transfer of technology. Moreover, they help in integrating the local economy with the global economy. Thus, in order to attract investments, several incentives should be undertaken and an attractive investment

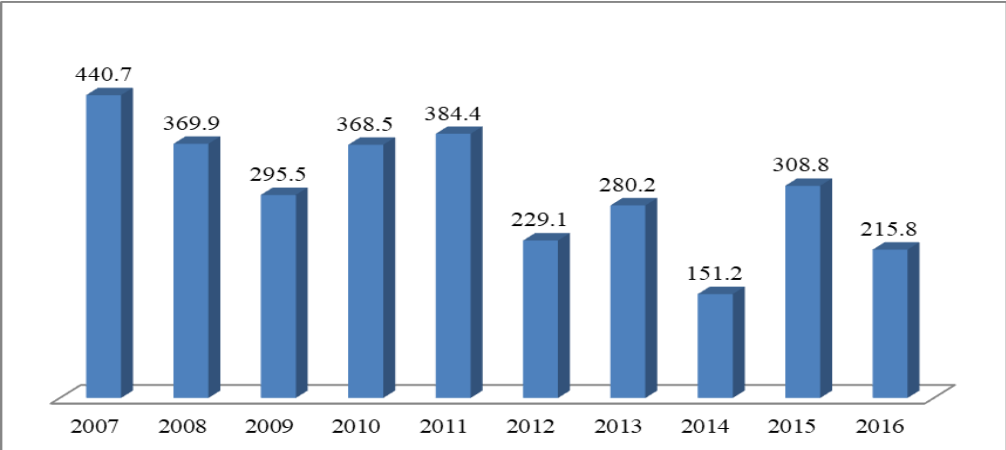
climate should be created. Additionally, being able to attract investors requires a deep understanding of the market and the needs of foreign investors.

FDI stimulates growth (Stiglitz & Greenwald, 2014), it increases the amount of available capital, helps open access to markets, and brings new technology and knowledge. In Kosovo, the privatization process of publicly owned enterprises is an attractive factor for investors. Moreover, as presented in Figure 11, from 2007-2016 FDIs experienced the highest value in 2007 with €440.7 million, but during the crisis, it started to decline by reaching the lowest value in 2014 with €151.2 million.

In addition, the FDI in relation to GDP witnessed a remarkable decrease of 9.4 percent in 2008 compared to the previous year where it used to be higher with 12.4 percent. However, in the following years 2009 (7.2 percent), 2010 (8.4 percent), 2011 (8.0 percent) it was more stable but started to decline in 2012 (4.5 percent), recording the lowest percentage in 2014 with 2.7 percent (Indicators, 2018). FDIs from 2011-2016 on average were concentrated in the following sectors: real estate 56.3 percent, construction 12.7 percent, financial sector 12.7, trade sector with 4.5 percent and others represent 13.8 percent of the total FDI (KPMG, 2017).

One of the success stories of Foreign Direct Investment is Ferronickel, a mining company which employs more than 1,000 employees (Ministry of Trade and Industry in Kosovo, 2011). Based on Stiglitz and Greenwald (2014), the FDIs of 2014 can be used as a lesson on how selective measures should be taken to attract the right kind of FDI.

Figure 11. Foreign direct investment (€ million), 2007 – 2016



Source: Ministry of Trade and Industry of Kosovo, *Annual report of industrial development in Kosovo for 2013*, 2014, p. 12.

In terms of the overall value of FDI in 2016, there was a substantial decrease compared to 2015 from €309 million to €235 million. This decline was encountered also by Switzerland, Turkey, Albania, and Germany, which invested relatively large values in 2015.

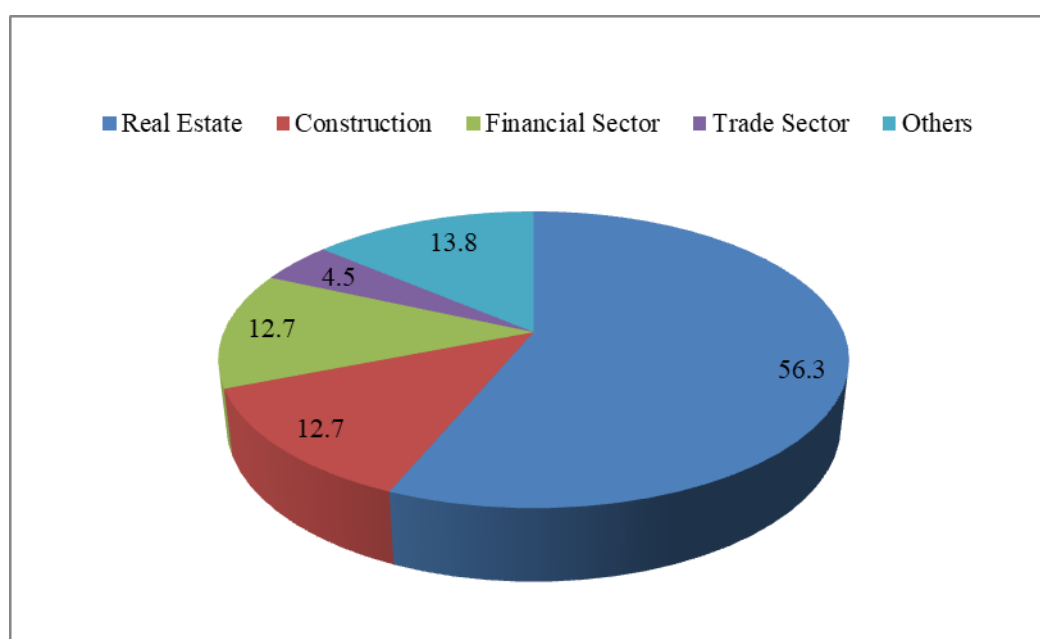
Table 22. Foreign Direct Investments by country, 2011 – 2016

Million €	2011	2012	2013	2014	2015	2016
<b>Top five countries</b>						
Switzerland	31	44	42	38	73	62
Turkey	35	66	89	20	55	35
United Kingdom	80	14	11	(40)	27	33
Germany	67	50	22	29	45	29
Albania	11	5	19	20	40	29
Total top five countries	224	178	182	69	240	187
Other countries	161	51	98	83	69	48
Total	384	229	280	151	309	235

Source: KPMG, *Investment in Kosovo*, 2017, p. 13.

In regards to the origin of FDI, the top five countries are presented in Table 22, where we can see that most FDI in 2016 came from Switzerland (€62 million), and the least FDI came from Albania (€29 million). Moreover, in Figure 12 are also presented the economic sectors in which FDI was mainly concentrated during the period 2011-2016 (KPMG, 2017).

Figure 12. Foreign Direct Investments by economic activity in %, 2011 – 2016



Source: KPMG, *Investment in Kosovo*, 2017, p. 13.

In order to be able to increase the value of FDI, Kosovo should focus on creating consistent macroeconomic policies, good governance, consistent market-friendly policies, healthy economic indicators, guarantees of property rights and the rule of law.



## 4.4 Labour market and social conditions

The transition period of Kosovo has been accompanied with development and changes in different areas such as political, economic, social etc. These changes had a substantial impact on the high unemployment rate which is associated with high poverty (Gollopini, Kamberi, & Podvorica, 2015).

Kosovo has the youngest population in Europe, which is characterized by young, skilled, multilingual and motivated labor force with a strong entrepreneurial spirit. Individuals under the age of 15, account for 25.7 percent of the population, whereas, individuals from age 15-64 account for 67.6 percent. Additionally, the elderly account for only 8 percent of the population, compared to EU-28, which account for 19 percent of the population. Despite all this working force willing to work, the economic growth has not been associated with creating new employment opportunities (Cojocar, 2017). About 70 percent of the population is under the age of 35. In Table 23 the labour market key indicators are presented. What we can observe is that there are significant gender differences in all labour market.

Table 23. Key indicators of the labour market in %, 2016

Key indicators of the labour market (%)	Male	Female	Total
Participation in labor force rate	58.3	18.6	38.7
Inactivity rate	41.7	81.4	61.3
Employment to population ratio (employment rate)	43.0	12.7	28.0
Unemployment rate	26.2	31.8	27.5
Unemployment rate among young people (15-24)	47.2	65.4	52.4
% of young people NEET <sup>2</sup> youth population (15-24)	26.5	34.2	30.1
Percentage of unstable employment to total employment	24.1	18.8	22.9

Source: Kosovo Agency of Statistics, *Labour Force Survey 2016, 2017a*, p. 12.

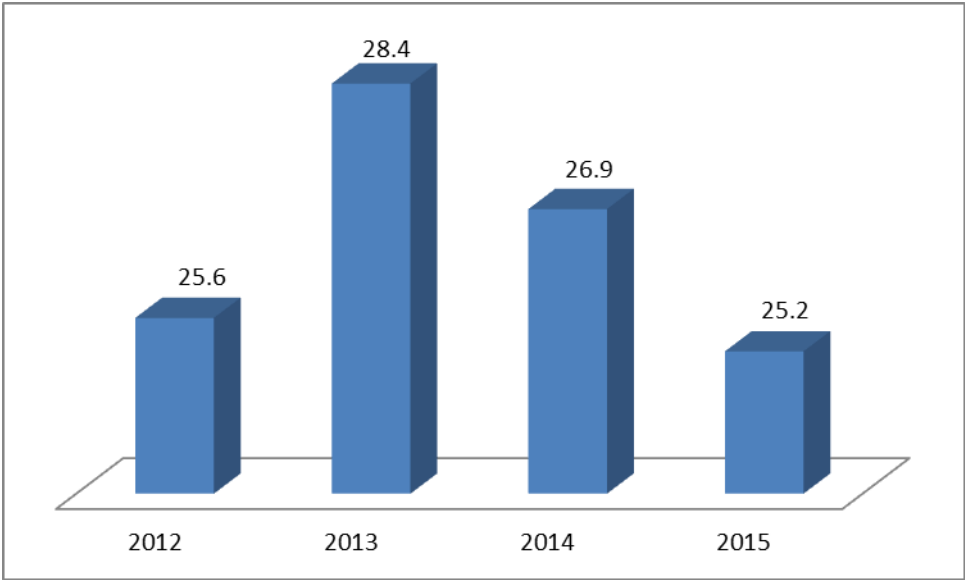
According to Kosovo's Labour Force Survey, the percentage of people employed part-time in 2016 was 6.0 percent, whereas the percentage of self-employed accounted for 22.1 percent. Sectors that employ almost half of employed persons are trade, manufacturing, construction, and education. Females are mainly employed in the sectors of education, trade, and health with 51.3 percent, whereas, males are mainly employed in the manufacturing, construction, and trade sector with 44.3 percent.

Only 28.0 percent of the population is employed out of the entire working age population. When compared to 2015, we have an increase of employment among men for 4.3 percent, while for females, the increase in employment has been smaller only 1.2 percent (Kosovo Agency of Statistics, 2017a). As presented in Figure 13, the employment rate in 2006 was quite stable compared to the proceeding years where no major improvements were noticed,

<sup>2</sup> NEET are the people who are not employed nor in education or training

apart from the year 2013 where the employment rate was a bit higher accounting for 28.4 percent. In Table 24, one can see the unemployment data in terms of age group, where the data presented indicate that only 9.5 percent of Kosovo’s youth are registered, whereas the majority of young individuals pursue bachelor or Master’s degrees, without being an active part of the labor market (Bellaqa, 2018).

Figure 13. The employment rate for ages 15-64, total in %, 2012-2015



Note. The Labor Force Survey was not realized for the year 2010 and 2011.

Source: Kosovo Agency of Statistics, *Results of the Kosovo 2015: Labour force survey*, 2016, p. 12.

Table 24. Registered of unemployment by age group, 2016

Age Group	Total	%	Male	Female
15-24	10,603	9.5	5,689	4,914
25-39	53,983	48.1	29,847	24,136
40-54	37,685	33.6	21,797	15,888
55+	9,908	8.8	5,886	4,022
Total	112,179	100.0	63,219	48,960

Source: Bellaqa, *Management of labour market policies and labour market dynamics – case study of Kosovo*, 2018, p. 587.

Additionally, from Table 25 we can observe that individuals with higher educational level have higher employment possibilities with 57.1 percent. Table 26 presents the total number of registered unemployment by qualifications (Kosovo Agency of Statistics, 2017a). More than half of the employed persons in 2016 were employed in trade followed by manufacturing, construction, and education (Table 27).

Table 25. Employment according to educational level, 2016

<b>Employment rate (%)</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
No official education	4.3	2.0	2.6
Primary	28.5	5.0	13.6
Secondary vocational education	46.9	17.3	36.2
Secondary education, gymnasium	43.1	10.4	29.1
Tertiary	64.9	46.5	57.1
Total	43.0	12.7	28.0

Source: Kosovo Agency of Statistics, *Labour Force Survey 2016*, 2017a, p. 14.

Table 26. Registered unemployment by qualifications, 2016

<b>Education</b>	<b>Total</b>	<b>%</b>	<b>Male</b>	<b>Female</b>
Not qualified	68,395	61.0	36,502	31,893
Primary School	17,500	15.6	9,937	7,563
High School	21,006	18.7	14,376	6,630
University	5,052	4.5	2,277	2,775
Master	226,000	0.2	127,000	99,000
Total	112,179	100.0	63,219	48,960

Source: Bellaqa, *Management of labour market policies and labour market dynamics – case study of Kosovo*, 2018, p. 591.

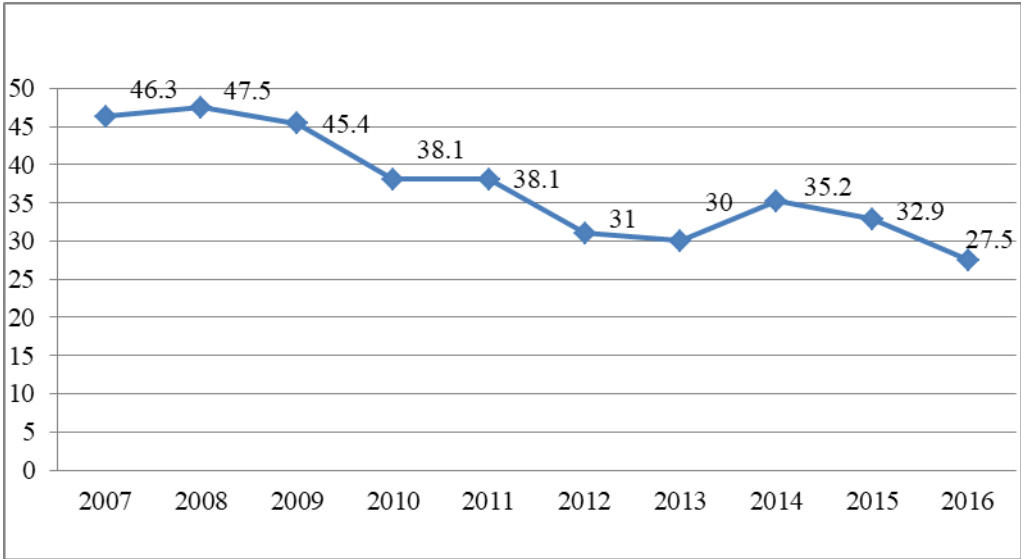
Table 27. Employment according to activity and gender in %, 2016

	<b>Male</b>	<b>Female</b>	<b>Total</b>
Agriculture, forestry, and fishing	4.8	2.3	4.2
Mines and ore	1.4	0.0	1.1
Manufacture	15.4	5.8	13.2
Supply of electricity, gas, steam and air conditioning	2.1	0.2	1.6
Water supply, sewerage, waste management	2.3	0.9	2.0
Construction	14.7	0.5	11.5
Wholesale and retail trade, car and motorcycle repairs	14.2	17.1	14.8
Transport and storage	3.8	1.1	3.2
Accommodation and food service activities	7.1	3.8	6.4
Information and communication	2.1	2.5	2.2
Financial and insurance activities	1.7	2.9	1.9
Properties activities	0.1	0.0	0.1
Professional, scientific and technical activities	1.9	2.2	2.0
Administrative and support service activities	3.5	2.4	3.3
Public administration and defense, compulsory social security	7.4	7.3	7.4
Education	7.7	20.5	10.6
Activities of human health and social work	3.3	13.8	5.6
Arts, entertainment and recreation	1.5	2.4	1.7

Source: Kosovo Agency of Statistics, *Labour Force Survey 2016*, 2017a, p. 18.

As in regards to the unemployment in Kosovo, there are differences in the unemployment rate between males and females where the unemployment rate for females is 31.8 percent compared with males which account for 26.2 percent. Another evident feature of the economy is the large informal sector activity, and due to this, the registered unemployment figures may not fully reflect the situation of employment in the private sector. The unemployment rate among young people is 52.4 percent. On the other hand, the percentage of young people who are not employed nor in education or training (aged 15-24) is 30.1 percent (Gross Domestic Product (GDP) according to economic activity and expenditure approach, 2015, 2016).

Figure 14. Unemployment, total (in % of total labor force), 2007-2016



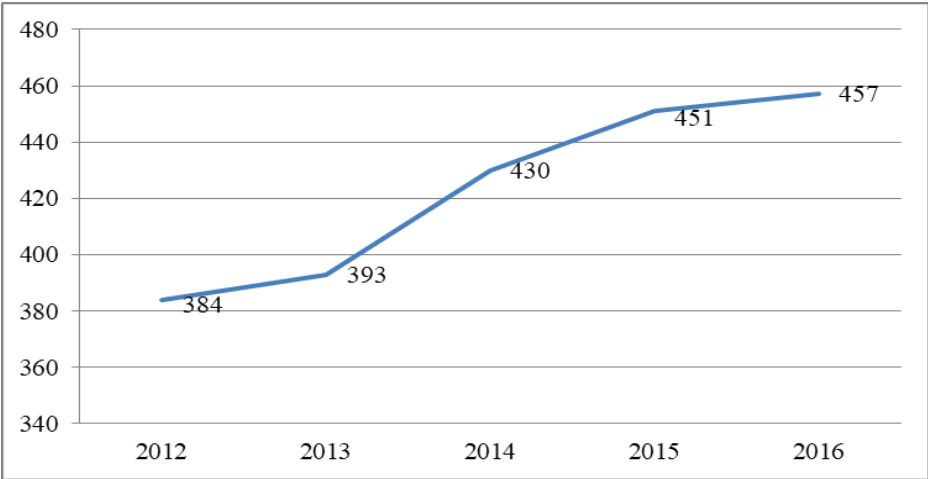
Source: Indicators, 2018.

Kosovo’s institutions have failed to provide the resources, infrastructure, and/or the climate desired to enable the job creation. Moreover, gender differences in youth unemployment are obvious and the female unemployment rates remain high; the unemployment of youth female (15-24 years old), in 2015 was 67.2 percent, whereas in 2016 there was a slight decrease to 65.4 percent. As in regards to the male youth (15-24 years old), the unemployment rate was lower compared to the female youth with 54.2 percent in 2015 and slightly decreased in 2016 accounting for 47.2 percent (Indicators, 2018).

The low-cost labor force is considered a key advantage. The average gross salary in 2012 was €431, while in 2016 increased to €519, an increase of 20.42 percent. While the data on net salary for the period 2012-2016 are presented in Figure 15, we can see that it has been gradually increasing. Very small gender wage differences were observed. In the public sector, the average gross wage in 2012 was €407, compared to 2016 when it was €525, an increase of almost 29 percent. In terms of net salary, it raised from €353 to €449 a rise of 27.09 percent. Moreover, the private sector had a gross average salary of €367 in 2012, while in 2016 it grew to €371 a 1.09 percent increase. The net salary of €333 grew to €337, a rise of only 1.20

percent. The average gross wage in the public enterprise's sector in 2012 was €518, while in 2016 it was €660, an increase of 27.41 percent. The net salary of €465 (2011) rose to €586, a rise of 26.02 percent. The public sector in Kosovo, as the largest enterprises has the highest wage level, while lower wages are in the private sector (Kosovo Agency of Statistics, 2017b).

Figure 15. Average net salary in €, 2012-2016



Source: Kosovo Agency of Statistics, *Level of wage in Kosovo, 2012-2016*, 2017b.

### 4.5 Remittances

In countries with high poverty such as Kosovo, the social wellbeing and economic development are highly dependent on remittances. Since 1989, a great exodus happened due to the worsening of the political situation and the increase of the unemployment rate, where many migrants moved to Switzerland and Germany. During the 1998/1999 conflict, many people looked for asylum in neighbouring and Western European countries. Many of these refugees returned to Kosovo after the stabilization of the situation.

However, since 2000, there has been a continued outflow of immigrants in response to high unemployment and lack of professional development opportunities in Kosovo. Given the number of Diaspora population, when compared to the resident population in Kosovo (about 700,000/1.8 million), the economic impact of these transactions is high in terms of Kosovo's domestic production. In 2012, only personal remittances accounted for 17 percent of GDP, thus listing Kosovo among the top 15 remittance- receiving countries in the world. Diaspora plays an important role in financing a large deficit in commodity trade, not only through remittances, but through employee compensation (i.e. the income of Kosovo residents' temporarily working abroad country), Diaspora tourism, and FDI realized or facilitated by members of the Diaspora. Therefore, migration-related revenues are an important factor for enabling local absorption of the state (consumption plus investments) to overcome domestic production.

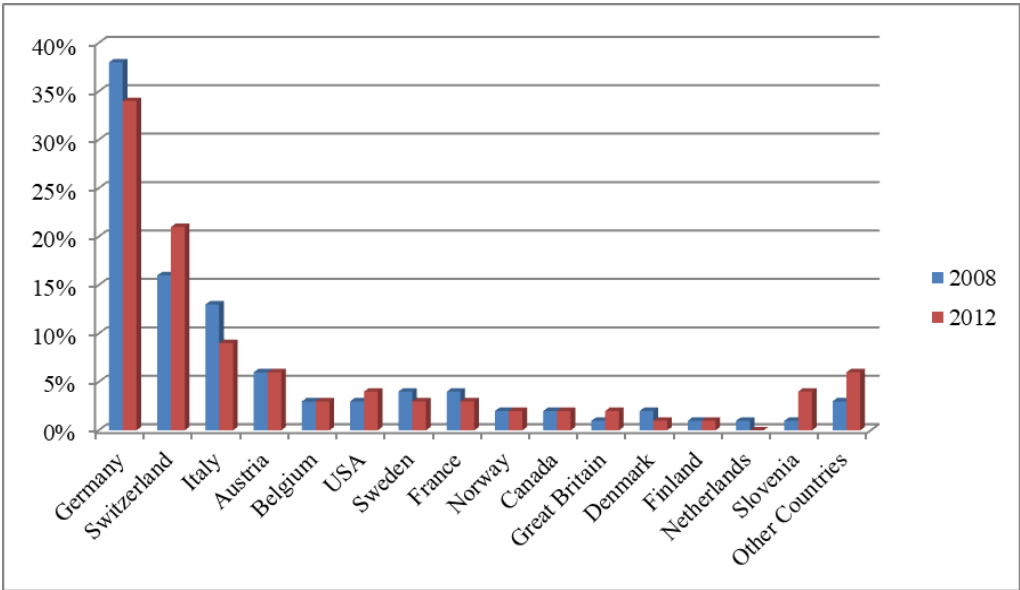
Despite the sustainability of remittances, the amount of remittances and diaspora investments may decrease in the medium to long-term period, if the relation of immigrants with their country weakens over time and if new migration flows are reduced (Swiss Cooperation Office Kosovo, 2014). As we can see from the Table 28, during 2007, around 27 percent of remittances were transferred through banks, 38 percent through money transfer agencies and around 35 percent through other channels. During 2012 the most preferred way for transferring money was through informal channels representing 43 percent, followed by money transfer agencies representing 36 percent and only 21 percent through banks (Central Bank of the Republic of Kosovo, 2013). As we can see from Figure 16, the three main countries from which the highest number of remittances comes is Germany, followed by Switzerland, and Italy.

Table 28. Amount of remittances sent to Kosovo (in million €), 2007 – 2012

Year	Through bank account	Through money transfer agencies	Other	Total
2007	137.1	198.7	179.8	515.6
2008	126.3	213.1	269.3	608.7
2009	148.8	213.1	223.8	585.7
2010	141.3	213.1	229.9	584.3
2011	139.7	225.3	219.8	584.8
2012	126.5	218.5	260.6	605.6

Source: Central Bank of the Republic of Kosovo, *Remittances to Kosovo: An analysis of the methods of transfer*, 2013, p. 28.

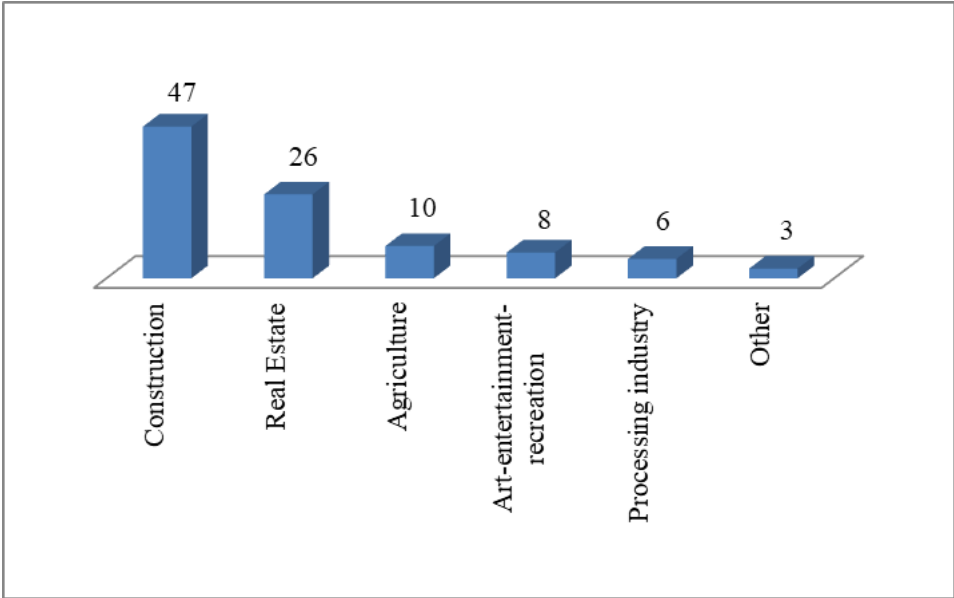
Figure 16. Remittance sending countries, 2008, 2012



Source: Central Bank of the Republic of Kosovo, *Remittances to Kosovo: An analysis of the methods of transfer*, 2013, p. 29.

In addition, as illustrated in Figure 17, the majority of immigrant investment is made in construction, whereas, smaller investments are in the processing industry.

Figure 17. Main areas of investments from immigrants in Kosovo



Source: Kosovo Agency of Statistics, *Study on remittance in Kosovo*, 2013, p. 25.

## 4.6 Sectoral structure of the economy

### 4.6.1 Agriculture

Kosovo’s agricultural sector has the potential to contribute to the economic development of the country. However, currently Kosovo imports agricultural goods to support most of its domestic consumption. Kosovo has plentiful, productive land that is not adequately used. Due to the lack of investment over the past two decades, there is a relative absence of value-added food processing but a great potential exists for increased domestic agricultural production and expanded food processing. In 2016, after the enactment of the Stabilization and Association Agreement with the EU, Kosovo benefited from duty-free exports of 2,560 different agricultural products to EU countries. The agricultural sector contributes up to 20 percent of GDP (Kosovo - Agricultural Sector, 2017).

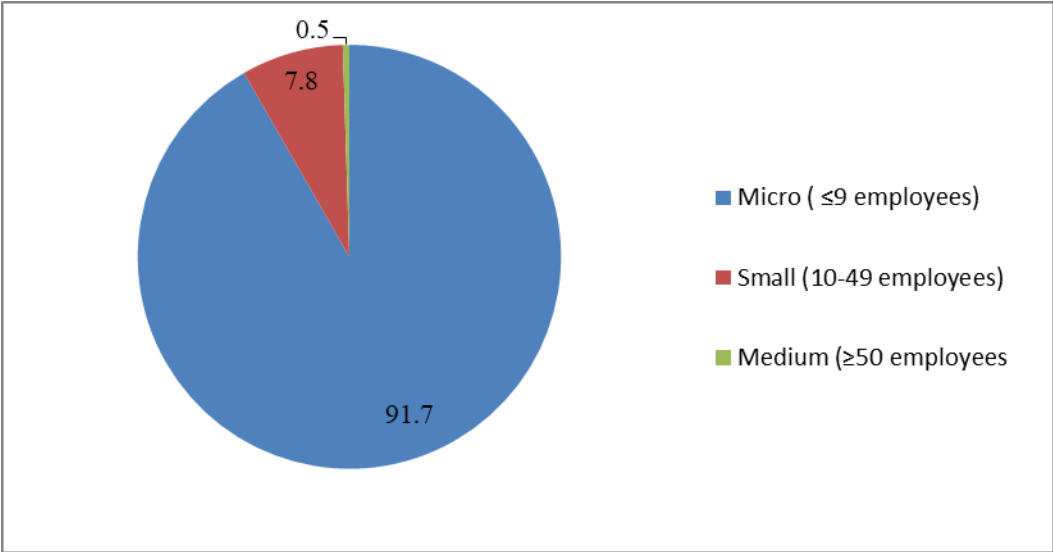
### 4.6.2 Wood processing

The wood sector is considered as one of the strategic sectors with great potential for development, considering that over 50 percent of Kosovo's land mass is covered by forest, representing an area of approximately 465,000 hectares. The wood processing sector largely bases its production on domestic raw materials. The industry comprises of around 1,480 companies, mainly microenterprises but also SMEs. The majority of companies are privately

owned. The main activity of wood sector businesses is the manufacturing of kitchens and furniture. One of the regions with the largest concentration of wood companies is Ferizaj. The annual value of wood products and other benefits arising from forests reaches €50 – 75 million; this sector, therefore, assures the livelihood for 10 percent of the population. Due to the sufficient availability of inputs, Kosovo offers great investment possibilities in every single wood processing cycle (Wood Processing, 2018). The average estimated turnover of micro businesses in 2012 was €41,000, followed by small businesses with €150,000, and the turnover of medium-sized businesses was €1.5 million on average. The average number of employees per company in this sector was 15, a significant increase compared to 2011, where the average number was only 7. In 2012, 91 percent of companies sold final products locally, and this accounted for 95 percent of total domestic sales (Gashi, 2014).

Binni Company, for example, located in the north of Kosovo is one of the largest wood manufacturing companies. A business that back in 1989 started with one employee and now operates with more than 80 employees. Even though, initially the capital was modest, the company grew rapidly and experienced a growth rate of 60 percent during 2011-2014. Qualified staff and up-to-date technology are the main factors that contributed to their success. Their quality raw material is imported mainly from Germany, Croatia, Italy and other European countries. Domestic market remains one the most important and promising one, even though the company also exports to Switzerland. At the end of 2012 according to Tax Administration of Kosovo (hereinafter: TAK), out of 21,615 registered businesses, 565 operated in the wood sector. The micro-enterprises account for the highest percentage, namely 91.7 percent, followed by small businesses accounting for 7.8 percent, and only 0.5 percent are medium enterprises (Figure 18) (Gashi, 2014).

Figure 18. Distribution of businesses by size



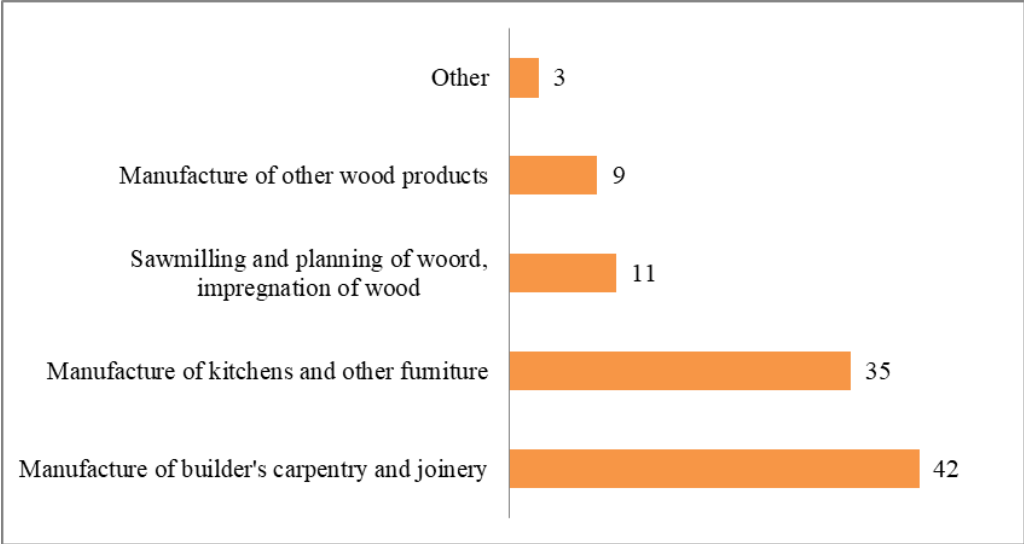
Source: A. Gashi, *Sector Profile of Wood Processing Industry*, 2014, p. 9.

According to the TAK database, 44 percent of businesses produce kitchens, furniture, and other wood products (35 percent produce kitchens and furniture and 9 percent produce other



wood products). More than 40 percent of companies from wood sector produce carpentry materials for construction and furniture, whereas sawmill and folding wood and wood impregnation are less present activities among the wood sector companies.

Figure 19. Businesses by main activities, 2012



Source: A. Gashi, *Sector Profile of Wood Processing Industry*, 2014, p. 10.

**4.6.3 Telecommunications and post**

Kosovo has allocated its own prefix code +383, which will be used by all mobile and fixed telephone operators. The Kosovo Telecom (hereinafter: KT), which is owned by the Government, provides a range of mobile and fixed telephone services, including internet and TV services. The Kosovo Telecom currently employs 2,400 people, thus being among the largest employers in country.

In 2008, Z-Mobile was licensed to carry out mobile telecommunication services, functioning as a virtual operator using the network of Post and Telecom of Kosovo (hereinafter: PTK). During 2014 and 2015, KT invested more than €100 million in upgrading the network to support 3G and 4G technologies.

Moreover, the other operator IPKO Telecommunications LLC (hereinafter: IPKO), a subsidiary of Telekom Slovenia, is one of the main companies in the information technology and communication sector. It offers different services such as mobile communications, fixed telephony, digital cable television, internet services, etc. IPKO is the first mobile operator which offered fast-speed mobile internet 3.75G network in Kosovo.

Another telecommunication provider is Kujtesa, which offers internet and cable TV services. Postal services are provided by the publicly owned enterprise Post of Kosovo and many other international companies such as DHL, UPS, FedEx, and TNT (KPMG, 2017).

#### **4.6.4 Construction**

In recent years, the construction sector has served as one of the main pillars of the Kosovo economy and despite the challenges, has continued to expand even during the economic crisis. This sector continues to hold the potential for Kosovo's economic development, considering the need for new settlements and road infrastructure. The construction industry mostly financed through foreign aid still represents a highly attractive sector for potential investors and is still one of the most important sectors behind the economic growth.

With a share of 9.5 percent, the construction sector in 2014 was the 4<sup>th</sup> largest employer in Kosovo employing about 39,000 people. Although the employees' participation in this sector has fallen from 11.4 percent to 9.5 percent in 2014, the total number of employees has increased for 10,000 (Helvetas Swiss Intercooperation, 2015).

An additional factor which is assisting in the progress of this sector is the demand for road and highway construction. The Government has determined a goal to connect the country in three key directions with the utmost key international road corridors in Albania, Macedonia, and Serbia. The construction of a highway, which will connect the northern and central parts of Kosovo with Skopje (Macedonia), is a mid-term goal. A greatly significant project is the building of a highway between Merdare-Kukes-Durres, which will connect our country with the Durres (Albania) seaport. This highway will become a part of the Trans European Corridor X that will connect the Adriatic Sea with Western Europe (Construction, 2018).

The construction work for this highway began in May 2010 and was financed by the governments of Albania and Kosovo. The total cost of the highway is estimated to be approximately €1 billion. The highway located on the border of Albania and Kosovo begins at the Durres port and ends at Morine. This highway route covers Durres, Rreshen, Repe, Thirra, Kalimash and Morine, and is 170 km long and comprises two lanes on each side (Albania-Kosovo Highway Project, 2018).

#### **4.6.5 Mining and energy**

Kosovo has an enviable endowment of natural resources. With 14.7 million tons, Kosovo possesses the world's fifth-largest proven reserves of lignite. This mineral is of outstanding importance for the country, representing in the long term one of the most important factors for the generation of power. Kosovo has an enviable endowment of natural resources.

Kosovo's current electricity system is outdated and inadequate, and thus poses a major challenge to its economic growth and development. Frequent power interruptions have a negative effect on investment and normal operation of businesses because both foreign and domestic businesses are not willing to invest in a country without sustainable electricity system. The recent political developments indicate that the Government of Kosovo has prioritized the modernization and improvement of the energy sector and also has requested

help from its partners and donors for support, including the World Bank, European Commission, United States Agency for International Development (hereinafter: USAID) etc.

The Government of Kosovo is committed to develop and modernize the energy sector by developing renewable energy potential, improving energy efficiency, closing a 50-year-old power plant, and rehabilitating another old power plant. In addition, given the high poverty and unemployment rates, the Government also wants to ensure that the affordability of electricity is maintained (Energy in Kosovo, 2018).

#### **4.6.6 Textiles**

After mining, the textile sector has been the second largest sector in Kosovo, where 15 socially-owned textile manufacturing companies have employed more than 1,000 people and have generated revenues of over €35 million. There is plenty of room for investors for Kosovo to produce clothes from textile produced in the region (Kosovo's Economy, 2018).

Region's latest developments have stopped the textile industry trading links, consequently lowering the rates of production and resulting in a lack of competitiveness with foreign products.

Currently, there are 182 private active companies in the leather and apparel market, where about 1500 individuals are employed out of which 90 percent are final product manufacturers, mainly apparel (Brief History of the Kosovo Apparel Industry, 2018). Even though the textile industry has undergone a substantial recovery during the past years, most of the businesses are still small and takes the form of microenterprises. Consequently, they cater only for the country's market and are primarily geared towards a niche market. With the current know-how, cost-effective labor force and other comparative advantages that the country offers, including the friendly business and investment environment, the textile industry in Kosovo has, therefore, the potential to become highly competitive in the international market (Kosovo's Economy, 2018).

#### **4.6.7 Tourism**

Kosovo's tourism potential is closely linked to its geographic position. Surrounded by mountains and situated in the center of the Balkans, Kosovo has the potential to make use of its natural beauties to drive the economic growth. Mountains in southern Kosovo and resorts like Brezovica and Sharr Mountains are some of Kosovo's attractions which are highly regarded by foreigners. Currently, the resort of Brezovica includes three hotels, two restaurants, and nine ski-lifts that are currently socially owned. Besides Brezovica, Bjeshkët e Nemuna is also used as an attraction for winter tourism, located in the west of Kosovo. It is believed that this location has the potential to accommodate up to 30,000 tourist visitors. The potential of this region has already begun to exploit small private companies that have built private complexes in Bogaj village (Kosovo's Economy, 2018).

## 4.7 Policies in the period during and after the crisis

Macroeconomic stabilization and the establishment of an economic system were of primary importance amidst political tensions and unclear international status. Even though Kosovo has shown significant progress, it continues to be highly dependent on the international community and Diaspora remittances (Dimireva, 2010).

Given that Kosovo adopted the Euro (2002), it does not have an independent monetary policy and therefore it has to rely on fiscal policy as an instrument to safeguard macroeconomic stability (de Groot et al., 2012). Fiscal policy measures were also used to support private sector development. The first such measure was the implementation of a simple tax system with very low rates. The corporate and income tax rates are both ten percent (ten percent is the highest marginal rate for personal income), while VAT is 16 percent and contributes 43 percent to budget revenues. Customs are also an important source of revenue (ten percent for non-CEFTA countries, product groups exceptions also apply) (Prašnikar, 2014).

Additionally, fiscal (tax) measures are used to support sectorial development. Considering the potential in the agriculture sector, the government can use fiscal policy to support the sector by cutting taxes for machinery, raw materials, followed by subsidies to farmers and also increase import tariffs in order to protect domestic products (Aliu, Guri, & Abazi, 2013). Low tax rates are as well important from the perspective of FDI and the business environment: by applying a competitive tax rate (compared to countries in the region) Kosovo tries to attract investors (Prašnikar, 2014).

Furthermore, government authorities are aware of the steps that should be undertaken to improve trade agreement and trade-related policies. Such policies are crucial for the country's trade environment and must be wisely appraised to achieve trade policy trend.

The industry has the highest potential for creating learning spillovers. Therefore, especially in lower-middle-income countries, such as Kosovo, continuous industrial development and production for export stimulates learning and innovation (Stiglitz & Greenwald, 2014).

Establishment of a stable political environment and a better business climate that enables investments is required. The near-term growth is predicted to continue, which will be driven by investment (in the energy sector to build new generation capacity) and consumption (World Bank, 2017a). Moreover, regarding the private investments, they were supported by an increase in FDI, whereas a major share of public investment was concentrated at the Pristina -Macedonian border. Despite all the growth, there are several issues, due to a range of internal problems, such as political instability, weak institutional capacity and high levels of informality and corruption (European Bank for Reconstruction and Development, 2016).

To support economic development, Kosovo has been using a range of industrial policy measures. Table 29 provides a summary of the main policies.

**Exchange rate policy** – the importance of exchange rates in the economy is significant considering the internationalization of businesses, the constant increase of world trade with the national one and the rapid change of money transfer technology (Dushi & Merovci, 2014). Moreover, due to the global financial crisis, the exchange rate's instruments became more important. As the Euro was introduced as the official currency of the Eurozone countries, and it was adopted unilaterally by the provisional United Nations Mission authorities as the official currency of Kosovo, it remained an official currency even after the Declaration of Independence on February 2008. Euroisation of the monetary system in Kosovo played a vital role in combating inflation, which according to Central Bank of Kosovo reached 40 percent at that time. Moreover, according to Michel Svetchine, the Managing Director at Central Banking Authority of Kosovo, Euroisation contributed to the reduction of cash in circulation, monetary stability, and transaction cost reduction and also secured a macroeconomic stability (Bunjaku, 2015).

**Tariff policies** – Kosovo's liberal trade regime is characterized by the simplicity with features considered to be important for private sector stimulation. However, considering that this trade liberalization was not followed by competitiveness improvement of the developing domestic production sectors, the country is experiencing a vast trade deficit.

Kosovo has a liberal trade regime as part of CEFTA that allows producers in Kosovo to export duty-free to CEFTA members. The EU regime of Autonomous Trade Preference also allows duty-free exports for the majority of Kosovo goods to the EU market. In addition, the Stabilization and Association Agreement (SAA) with the European Union implemented in April 2016 reinforced trade liberalization and removed many of the remaining trade and tariff barriers for the EU (Kosovo Overview, 2018). Moreover, Kosovo has also signed Free-Trade Agreements (FTA) with Albania, Macedonia, Croatia, Bosnia-Herzegovina, and Turkey.

Customs tariffs are relatively low and contribute to the development of domestic production. A flat customs rate of 10 percent is adopted for most goods. Moreover, In order to help domestic production, a number of raw materials and capital goods used in industrial and agricultural production have been exempted from customs duties (Tosuni & Vokri, 2015).

**Subsidies** were the main instrument of Kosovo's industrial policy. They were allocated to the energy, agriculture and infrastructure sectors. Kosovo Energy Corporation, as one of the biggest employers in country (7,800 employees), was subsidized by the government with around 146 million euro during 2009-2011. Furthermore, the agricultural sector benefited by the doubling of subsidies in 2013, where from 14 million euro received in 2012, the agricultural sector in Kosovo received 27 million euro in 2013 in the form of subsidies. In order to stimulate local production, the government introduced incentives such as a zero percent tariff rate for most agriculture inputs and capital goods together with VAT exemptions for a wide range of agricultural inputs (Prašnikar, 2014).

Moreover, the EU plays a vital role in reconstruction and development by providing assistance. From 1999 until 2016, it is estimated that EU provided to Kosovo more than €2.3 billion. Even though in the beginning such funding was focused on reconstruction, now the funding is being allocated in areas that have the potential to contribute towards achieving sustainable economic development and help the country in its path towards EU (Kosovo and the EU, 2016)

Additionally, The Western Balkans Investment Framework (hereinafter: WBIF) has supported Kosovo through provision of assistance for different investments such as infrastructure, energy private sector etc. So far the WBIF has supported Kosovo with €910 million across all appropriate sectors. Grant support from the EU and the (European Western Balkans) Joint Fund (JF) totals €105.9 million out of which €95.7 million from EU and the remaining €10.2 million from the Joint Fund. Moreover, the value of signed loans has reached €232 million (Kosovo, 2018).

Also, EBRD has financed important projects through the years. Until 2017 EBRD has invested more than €220 million through more than 50 projects, with majority of the investments being in the private sector. EBRD has lend €71 million for road expansion project a of 30km highway section , which will connect Kijeve, a village near the capital Pristina, and Zahaq, a village near the major city of Peje (Reiserer, 2017).

**SMEs development** - Kosovo is still in a post-war transitional period, aiming to develop a modern market-based economy in which entrepreneurship and small businesses have a crucial role. Since 2008, the business environment for SMEs has improved (tax reform and VAT collection with the introduction of electronic fiscal cashiers) (Republic of Kosovo, 2011). More than 100,000 enterprises have been established in Kosovo, and half of them are active (SME Support Agency of Kosovo). Approximately 95 percent of the newly established enterprises are part of the trade and services sectors and the rest are manufacturing companies (World Bank, 2013). But SME development faces rudimentary obstacles, such as an unreliable electricity supply and financing problems due to high-interest rates on loans (European Commission, 2013a).

Overall, although the country is providing some incentives to business, further assistance could be given by providing insurance or subsidies for loans, for example, tax breaks as a way of attracting new entrants. The government can contribute to knowledge spillovers by providing training for entrepreneurship and at the same time improving general education (which also needs reforms in order to be more efficient) (Prašnikar, Koman, & Qorraj, 2010).

The support to SMEs is very important, due to their contribution to job creation and income growth. The increase in their number also contributes to the creation of a more competitive business environment (Stiglitz & Greenwald, 2014).

**Industry** - In 2016, the industry accounted for 22.6 percent of GDP, whereas agriculture accounted for 12.9 percent (Kosovo GDP - composition by sector, 2018). There is substantial potential for investment in Mining industry, agriculture, tourism as well as Textile industry, where there are 182 private active companies in the leather and apparel market, where about 1500 individuals are employed. 90 percent of them are producers of final product, mainly apparel (Brief History of the Kosovo Apparel Industry, 2018).

- **Agriculture.** Traditionally the agriculture has been an important sector for Kosovo's economy. Considering that 53 percent of land is arable, there is substantial room for future investments and development of the agricultural. This would also provide investment opportunities in the horticulture sector, food processing etc. According to the recent data of the Kosovo Agency of Statistics (hereinafter: KAS) that there are more than 140,000 individuals employed in this sector.
  
- **Tourism.** Considering the natural resources such as lakes, rivers, and mountains, Kosovo offers investment opportunities also for tourism. It is important to mention the skiing and recreational centers such as in Rugova and Brezovica and also the highest peak in Kosovo known as Gjeravica. Moreover, in 2015 the Ministry of Trade and Industry signed an agreement with a French Consortium to invest in Brezovica and make it one of the biggest mountain resorts in the Balkans.
  
- **Mining.** Kosovo has considerable quantities of lignite, lead-zinc-silver, nickel, chrome, aluminum, magnesium etc. It is fifth in the world for lignite reserves. Trepca mining was destroyed during the Serbian-Kosovo conflict, but now it is discussed to put for privatization. The revitalization of Trepca offers great investment opportunities, but at the same time, it is also a general public interest because it would offer substantial employment opportunities (KPMG, 2017).

Table 29. Industrial policy measures

<b>Stabilization</b>		<ul style="list-style-type: none"> <li>– Macroeconomic stability, with solid growth rates in recent years.</li> <li>– High unemployment and poverty, which is constantly decreasing.</li> </ul>
<b>Broadband industrial policy measures</b>	Exchange rates	<ul style="list-style-type: none"> <li>– Adopted the Euro as its currency in 2002 and does not have an independent monetary policy</li> </ul>
	Tariffs	<ul style="list-style-type: none"> <li>– Export duty-free to CEFTA members.</li> <li>– EU Autonomous Trade Preference enables duty-free exports for the majority of goods to the EU market.</li> <li>– Stabilization and Association Agreement removed many of the remaining trade and tariff barriers for the EU</li> <li>– Free-Trade Agreements (FTA) with Albania, Macedonia, Croatia, Bosnia-Herzegovina, and Turkey. <ul style="list-style-type: none"> <li>– Most imports from CEFTA’s countries are for free <ul style="list-style-type: none"> <li>– Ten percent customs duty</li> </ul> </li> </ul> </li> <li>– 18 % VAT must be paid on all other imported goods and 8 % VAT essential goods <ul style="list-style-type: none"> <li>– Zero % on exported goods.</li> </ul> </li> <li>– Excise tax on certain products such as vehicles, alcohol etc.</li> <li>– Removal of customs duties for 487 fishery and more than 1044 agricultural imports from EU</li> </ul>
	Subsidies	<ul style="list-style-type: none"> <li>– Subsidies to agriculture and energy sector.</li> <li>– Subsidies for infrastructure projects (mainly highway).</li> </ul>
<b>Export and industry as factors of learning spillovers</b>	Export	<ul style="list-style-type: none"> <li>– Low export-base with €1,346 million in 2016, resulting in annual increase of 5.6 percent, and representing 23 percent of GDP 2016, according to World Bank Indicators</li> </ul>
	Industry	<ul style="list-style-type: none"> <li>– Substantial potential for investment in Mining industry, Textile industry and Agriculture</li> </ul>
<b>FDI</b>		<ul style="list-style-type: none"> <li>– FDI mainly focused in real estate representing 56 percent and construction with 13 percent (2011-2016)</li> </ul>
<b>SMEs development</b>		<ul style="list-style-type: none"> <li>– Different support programs such as strategy for energy, employment, informal economy prevention and so on</li> </ul>

Source: J. Prasnikar, *Industrial Policy in Retrospective*, 2014, p. 111.

## 5 FUTURE PROSPECTS AND RECOMMENDATIONS

In all countries, the government plays a key role in shaping the country’s economic performance. For this purpose, it uses a variety of instruments and policies. These policies start with the regulation of industry and trade, redistribution of income and wealth, usage of fiscal policies, and direct state ownership in key industries. With the development model, the state does not control the development but is an integrated part of the development process by coordinating and supporting various initiatives that catalyze the economic growth. Furthermore, the government is to set the needs of the poor and social issues such as



healthcare, housing, education and the social security network at the top of the development agenda. Kosovo as a developing country should be able to direct and support economic development. This is done by building a strong public service, creating a friendly environment for investors, supporting development and growth of small businesses, using public utilities effectively and channeling strategic investment initiatives. This industry brings development, modernization, and employment-based economy compared to an economy which is only based on services and finance (Kelmendi, 2013).

## **5.1 Small and medium enterprises and export promotion**

Ministry of Trade and Industry in cooperation with World Bank has drafted a project called “Competitiveness and Export Readiness”, which will cost €14.3 million. The main objective of this project, which is to be implemented by the Ministry of Trade and Industry, is to reinforce the export-oriented companies capability, support the certification of products which can be exported and diminish the business inspection costs. This project has two components, and each of these components has subcomponents (Kosovo: Competitiveness and Export Readiness Project, 2018):

- Support the efforts of government in improving the export readiness and business environment of companies by:
  - Helping SMEs that have potential for export through grants, capacity building and consulting services;
  - Develop the National Quality Infrastructure which will enable the building of capacities, finance of IT Systems and equipment;
  - Business inspection system improvement through minimization of administrative processes and increase of the effectiveness and efficiency of inspection services.
- Implementation of project and support in coordination which will make sure that all project’s components are implemented effectively by:
  - Financing training, services, goods, and operating costs;
  - Consultants in supporting project management.

The growth of domestic productivity and trade is one of the country’s objectives, by modifying its growth model, as to shift from heavy reliance on remittances and consumption, to investment and the tradable sector (The World Bank Group in Kosovo, 2015). Pondering Kosovo’s continuing unemployment problem, it is important to create a framework where the SMEs will contribute to the growth and will also lead to the creation of employment.

Furthermore, Kosovo should focus on creating a manufacturing-based economy, by focusing on developing own products and then on the export-led model of growth. Irrespective of the country’s level of economic growth, the governments pursue to create macroeconomic policies towards achieving better economic performance in order to advance level of business

activities and ultimately ensure better well-being. Achieving this requires different approaches and interventions.

These policies seek to promote industrialization and development by setting up high barriers to foreign goods in order to encourage domestic production. Kosovo as a developing country and less industrialized economy should consider a certain level of protectionism, which will increase the tariffs of import and focus on export promotion in the long run,

As in regards to the export-oriented growth model, despite some potential risks such as increased vulnerability and dependence on external factors, this can be a suitable path for achieving development and sustainable economic growth for small countries such as Kosovo. Some of the necessary steps that should be made in this direction are: improvement of the business environment by eliminating different barriers, improve the quality of the education, and in so doing lower the gap between what the market demands, and the skills that workers possess, invest in physical infrastructure, which makes the country more attractive for international investors, etc. (Inotai, 2013).

Considering that the private sector is one of the leading employers, it is clear that the government should play an active role in creating policies that encourage entrepreneurship, stimulate certain segments of the private sector which are important for the economy, but also rewards those who create job opportunities. This means that the importance and role of the private sector and small and medium-sized businesses is crucial for the development and sustainability of Kosovo's economy. Over 95 percent of businesses in Kosovo are small, with less than 4 workers and most of them are either individual or family-owned, micro-businesses. The aim is to increase the number of SMEs and actively help the growth of the private sector, which in turn will provide more decent jobs for Kosovo citizens. Additionally, the goal is to establish closer cooperation between state institutions and the private sector, because the state's role is fundamental in creating an environment that enables growth of SMEs and rule of law enforcement (Kelmendi, 2013).

Even though existing trade policies are in harmony with those of export promotion, such as 0 percent VAT on exported products, a stronger export promotion policy will require additional measures and instruments. Sectors, such as agriculture, mining, and electricity are sectors that can drive economic growth (Ministry of Trade and Industry, UNMIK European Union Pillar, 2004).

As already mentioned throughout the thesis, the negative trade balance is one of the most persistent problems in Kosovo and there is an urgent need for addressing this issue through a sustained drive to increase exports. Development of an effective trade and private sector policies will play a crucial role in facilitating export-led economic growth in promoting integration into the world economy (European Commission, 2013b). Therefore, in order to tackle these issues in Table 30 policies to support SMEs development and export promotion are presented.

Table 30. Policies to support SMEs development and export promotion

Measure	Expected impact
Establishment of an effective export promotion program	<ul style="list-style-type: none"> <li>– Increase in the number of exporting companies</li> <li>– Help companies manage their markets and allocate the resources effectively</li> </ul>
Provision of subsidies and distinct customs and tax regime VAT Refund (for inputs that will be used in the production of good and services which will be exported.)	<ul style="list-style-type: none"> <li>– Development of export activities</li> <li>– Creation of new jobs</li> <li>– Effective businesses and development of the capacities to access external markets</li> <li>– The decrease in the costs of products</li> </ul>
Enable access to finance for exporting companies	<ul style="list-style-type: none"> <li>– Provides accessibility of more working capital to producers, which will allow them to increase their output</li> </ul>
Membership in the international trade arrangements	<ul style="list-style-type: none"> <li>– Facilitate the export of competitive goods and services</li> <li>– Achieve greater competitive advantage</li> <li>– Increase in knowledge gaining and expertise</li> </ul>
Promotion Program Implementation	<ul style="list-style-type: none"> <li>– Improvement of the packaging design and advertising of the products, which will result in brand awareness, attracting customers so that it can enter new markets</li> </ul>
Implementation of the SME Support Program	<ul style="list-style-type: none"> <li>– Strengthen the economic performance <ul style="list-style-type: none"> <li>– Boost economic growth</li> <li>– Innovation promotion</li> </ul> </li> <li>– Effectiveness increase and user-friendliness</li> <li>– Maintain and attract skilled individuals</li> <li>– Improve customers relationships</li> </ul>
Investment Funds and subsidies for SMEs and favourable tax policies	<ul style="list-style-type: none"> <li>– The ability for business expansions</li> <li>– Improvement of project outcomes</li> <li>– Create work opportunities</li> </ul>
Unification of permits and municipal taxes	<ul style="list-style-type: none"> <li>– Faster process and reduction of delays in permitting process</li> </ul>
Improvement of SMEs' Access to Finance Better information in regards to financing Combining financial support with non-financial support such as counseling	<ul style="list-style-type: none"> <li>– Create work opportunities</li> <li>– Improvement of SME planning and financial skills</li> </ul>

Source: Ministry of Trade and Industry, *Private Sector Development Strategy 2013-2017*, 2013, p. 6.

## 5.2 Institutional development

- **Stabilization and Association Agreement (SAA).** The European Council authorized the Commission to start negotiations with Kosovo on this agreement in June 2013. The SAA between Kosovo and the European Union entered into force on 1 April 2016. This agreement is a milestone for Kosovo's EU approximation path. The political dialogue and cooperation between our country and the EU is based on this framework, thus formalizing

the country's access to EU markets in exchange for commitments in a number of areas such as the rule of law, combating organized crime and corruption, economic governance and public administration.

- **Improvement of the business environment.** Over the years, Kosovo has improved its position in terms of doing business by reducing regulatory requirements for starting a business, reducing the administrative requirements related to construction permits, and improving investor protection. Improved and strong business environment is a mechanism which would help in attracting foreign investors and at the same time support the growth of domestic businesses (Loxha & Rogova, 2012). Multiple initiatives are undertaken in this direction such as: attracting more foreign investors by establishing a new law on strategic investments, supporting the domestic companies to certify their products so that they can export to the EU; and the launched fund of a credit guarantee that supports loaning to companies by reducing the collateral demanded by commercial banks. Also, according to the World Bank's Doing Business 2017 report, Kosovo has made progress by moving four places - to 60<sup>th</sup> position out of 190 economies, mainly due to improvements in the payment of taxes, and starting a business and trading across borders. Apart from the progress made, Kosovo is still facing challenges in creating an effective business environment. However, despite this progress, there are still other indicators which should be improved such as: construction permits, access to electricity, contracts enforcement - considering that currently it takes around 330 days to enforce contracts, etc. (Republic of Kosovo, 2017).
- **Privatization Process.** In recent years the privatization process has demonstrated almost no progress. Many state-owned companies have still not been privatized, and many of the post-privatization investment obligations remain unfulfilled. However, the government is trying to create a strategy for reorganizing the Trepca mining complex, considering that the law which makes the government the major owner of Trepca was passed in October 2016. Similarly, 99-year land lease a tender for the Brezovica Ski Center project failed in June 2016, due to the inability to provide the necessary financing from the tender winner. The project is also being contested by the Serbian authorities, who claim ownership over that property.
- **Digitalization of procurement procedures.** The government is continuously striving to promote good governance and transparency. With that being said, the government has introduced electronic procurement ("e-procurement") enforced from September 2016 for all central government procurement agencies, and from January 2017 for municipalities (EBRD Transition Reports).

Therefore, in order to tackle these issues in Table 31 policies to support institutional development and business-friendly environment are presented.

Table 31. Policies to support institutional development and business-friendly environment

Measure	Expected impact
Legal barriers eliminations Simplification of Legislation and Regulatory system Address of Regulatory Barriers	Cost reduction of construction permits Improvement in the following activities: contract enforcement, construction permits, protection of minority investors, electricity interruptions.
Strengthen the property rights	Increase investors trust and confidence, attract new investors Reduction of costs, procedures and delays on registering a property
Creation of only one Revenue Collection Agency	A more simple and efficient way for revenue collection, which would lead to cost reduction
Privatization Re-tendering Option	Privatization of enterprises whose tenders failed to meet the requirements.
Revision of criteria for the re-tendering	Attraction of investors Buyer selection based on following requirements: provision of more job opportunities, better financial situation and environmental conditions etc.
Reallocation of remaining privatization funds	Investment in capital projects instead of being allocated for salaries
Effective corruption framework	Investigation of corruption cases (knowing that there were a lot of corruption involved in this process)

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 59.

### 5.3 Fiscal policy

The role of fiscal policy apart from generating sufficient budget revenues and allocating budget resources towards offering public service, it also has three other functions: supporting economic growth, economic stabilization, and reduction of social inequality. Kosovo should base its fiscal policies on the principles of justice and equity in regards to taxation and distribution, and fiscal policies should work towards production stimulation, investments, and job creation.

Most of Kosovo's budget is financed by poor and middle class and most of it is funded by customs revenues reflecting consumer tax, whereby all tax is transferred to the final consumer. Also, taking into account the current tax rates in income and knowing that the majority of employment in Kosovo has an average salary of about €300, we can conclude that most of the taxes are paid by the low middle-class population (Kelmendi, 2013).

Therefore, Kosovo should orient the fiscal policies towards supporting economic branches that are identified as drivers of economic growth, industrial output growth, employment growth and the general welfare. With an effective design and implementation of policies, Kosovo can enhance its growth potential by an increase in private investment, increase in profundity and also in the employment (Organisation for Economic Co-operation and Development, 2015). Therefore, in order to tackle these issues in Table 32 policies to support fiscal policies are presented.

Table 32. Policies to support fiscal policies

Measure	Expected impact
Advancement of the electronic system of reporting and control	<ul style="list-style-type: none"> <li>– Easier declaration as well as fairness and transparency</li> </ul>
VAT exemption for basic products such as bread, oil, salt, sugar, milk, flour etc.	<ul style="list-style-type: none"> <li>– Increase the welfare of the citizens</li> </ul>
0% VAT for key agriculture products	<ul style="list-style-type: none"> <li>– Production increase and trade balance improvement by replacing imported products with domestic ones</li> </ul>
Application of tax breaks for businesses with significant investments	<ul style="list-style-type: none"> <li>– Attraction of new investments</li> <li>– Increase in employment</li> <li>– Economic growth and improvement of social welfare</li> </ul>
Customs exemption for Information Technology equipment	<ul style="list-style-type: none"> <li>– The improvement of the Information Technology Sector</li> <li>– The potential decrease of the informal economy in this sector</li> </ul>
Tax incentives for physical capital investment	<ul style="list-style-type: none"> <li>– Cost of capital reduction</li> <li>– Stronger investment process and a boost of productivity</li> </ul>

Source: Republic of Kosovo, Kosovo Economic Reform Program (ERP) 2017, 2017, p. 34.

## 5.4 Innovation and technology policies

There is an increasing awareness of the crucial role that innovation plays in the economic development, especially for developing countries. Considering the long years of conflict, Kosovo lacked the human and technical capacity for Research and Development (hereinafter: R&D) and innovation. When the conflict ended, resources were clearly focused on immediate needs related to reconstruction, such as infrastructure and basic schooling. As a result of this, Kosovo was not capable of improving the capacity of research and technology. Therefore, it faces several challenges in this direction including: lack of human capital for technological innovations, which may be attributed to the emigration of skilled workers, small number of students in science and technology universities, and also the outdated infrastructure in universities and research centers (World Bank, 2013)

Kosovo should work in identifying the technology options, and then adopt and adapt foreign technology and knowledge, and benefit from spillover effects from foreign direct investments and from other sources of knowledge transfer. Development of research and technology are at the developing stage and the level of public investment is unsatisfactory, considering that in 2011 only 0.1 percent of GDP (only €4.7 million) were the public expenditures in R&D (World Bank, 2013). Therefore, in order to tackle these issues in Table 33 policies to support research and developed are presented.

Table 33. Policies to support R&D

Measure	Expected impact
Support and training for graduates, post-graduates, and researchers.	<ul style="list-style-type: none"> <li>– Increased awareness on the importance of this sector                             <ul style="list-style-type: none"> <li>– Expanded knowledge base</li> </ul> </li> <li>– Increased innovation in new products and strategies</li> </ul>
Improving the policy and strategic framework for R&D support	<ul style="list-style-type: none"> <li>– Attraction of new potential investors</li> <li>– Creation of spillovers which promote quality, innovation, productivity and skill acquisition</li> </ul>
Tax incentives and provision of public grants	<ul style="list-style-type: none"> <li>– Stimulation of R&amp;D investment</li> <li>– Knowledge spillovers</li> <li>– Creation of new job opportunities</li> </ul>

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 60.

## 5.5 Education and skill formation policies

Post-war Kosovo continues to experience many transitions and reforms in regards to the education system. These transitions and reforms were impacted by both international and domestic communities.

The application of these reforms has been difficult and complex considering that there was no appropriate implementation plan, as well as the reforms were not understood appropriately starting from Ministry of Education, Science, and Technology (hereinafter: MEST), to the teachers/professors and students. Before the war, the education structure was 4 +4 +4, however after the war the framework was revised and it was changed into a 5 +4 +3 arrangement (Beka, 2014).

Despite the draft of the strategic plan for the development of education sector prepared by the MEST, with some of the objectives being to offer a qualitative education which will help students acquire adequate knowledge and be prepared for the labour market, there is still a lot to be done. Additionally, this strategic plan places emphasis on the importance of supporting teachers' professional development by having them attend different trainings, as well as increased participation and equal access to education etc. (Ministry of Education, Science and Technology, 2016).

To deal with the challenges in the education sector, the Ministry of Education, Science and Technology has drafted a strategic plan for education which outlines the below objectives (Ministry of Education, Science and Technology, 2016):

- Provision of equal educational and training opportunities;
- Enhancement of efficiency and quality in the education, through increased transparency;

- Enhance teaching and learning programs as well as professional development of the teachers and professors through trainings and improved curriculum;
- Development and promotion of vocational training which would prepare the individuals meet the labour market requirements.

In addition, in order to tackle these issues in Table 34 policies to support education are presented.

Table 34. Policies to support education

Measure	Expected impact
Demand harmonization by creating occupational standards and reviewing curriculums (including books, syllabuses and so on).	<ul style="list-style-type: none"> <li>– Harmonization of educational programs and trainings in line with labour market needs.</li> <li>– Improvement of existing programmes and the creation of new ones that will bring practical knowledge, resulting in better preparation for future job opportunities.</li> </ul>
Quality Assurance System Development	<ul style="list-style-type: none"> <li>– Development of a functioning quality assurance system, which will assess and verify all the inputs, outputs and outcomes in order to maintain quality. This will include self-assessments as well as external review.</li> </ul>
Training Programs for Teachers	<ul style="list-style-type: none"> <li>– Improvement of the education programs and teaching methods turning them into a more cooperative learning, which will improve the learning outcomes.</li> <li>– Familiarization with the new curriculums and methods, and also one or two-day course of practical exercises for programs that require practical implementation.</li> </ul>
Offer teachers better compensation considering the value of the teachers in preparing the next generation, Therefore, a new budget should be dedicated to increasing the teachers' wages.	<ul style="list-style-type: none"> <li>– Improved performance of teachers</li> <li>– Attraction of more qualitative and experienced teachers.</li> </ul>
Reduction in class sizes, which is a key factor in student learning. This can be achieved by the distribution of students to other schools that have a smaller number	<ul style="list-style-type: none"> <li>– Increased student engagement</li> <li>– Enhancement of academic performance.</li> <li>– Enables teachers to develop new skills and approaches.</li> </ul>
Implement massive technology infrastructure for education	<ul style="list-style-type: none"> <li>– Customized learning through new and interactive methods</li> <li>– Enhanced engagement and collaboration</li> <li>– Gives the opportunity to have all the books and projects in one place.</li> </ul>

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 60.



## **5.6 Sectoral policies**

### **5.6.1 Agriculture, forestry and rural development**

The agriculture sector plays a significant role in providing employment creation as well as income generation. In 2015, the agricultural sector contributed to the gross value added with 13.5 percent, and total employment with around 27 percent and accounted for 12.8 percent of the total export value (Republic of Kosovo, 2017). More than 60-65 percent of the population lives in rural areas. The development of this sector, apart from having a significant impact on the economic growth and improvement of a country's well-being, it also creates the conditions for engaging human capacities in other occupations, thus magnifying opportunities for the urbanization of the population and the country.

Kosovo has drafted an agriculture development program called “Agriculture and Rural Development Program”, which presents the following overall objectives (Ministry of Agriculture, Forestry and Rural Development, 2016):

- Increase of agriculture sector competitiveness and substitution of import by introducing new technologies;
- Provide subsidies and grants for the development of agriculture;
- Generate new jobs and increase the employment in rural regions;
- Contemplate climate change challenges through renewable energy use;
- Support development of farms which could improve the social and economic growth.

During the last five years, the agriculture’s public expenditure has been immensely growing. This can be seen also from data in 2015, where the public spending in the agricultural sector was approximately €60.1 million (Gjokaj, Halimi, Gjonbalaj, & Leeds, 2017). Also, the lack of an appropriate climate results in lack of internal and external investors in this sector. Therefore, in order to tackle these issues in Table 35 policies to support agriculture and rural development are presented.

Table 35. Policies to support agriculture and rural development

Measure	Expected impact
Increase funding for agriculture and rural development and creation of a special agriculture fund	<ul style="list-style-type: none"> <li>– Access to capital for agricultural enterprises by offering loans suitable for investment in the intensification of agriculture.</li> </ul>
Agricultural infrastructure and agro-processing investment	<ul style="list-style-type: none"> <li>– Increasing processing capacities</li> <li>– Creating collection points and warehouses for product preservation               <ul style="list-style-type: none"> <li>– Expansion of greenhouses capacity</li> <li>– Increase in livestock fund</li> </ul> </li> <li>– Rational use of forests and afforestation of new surfaces</li> <li>– Stopping the destruction of the riverbank, and promoting the development of rural tourism (agro tourism)               <ul style="list-style-type: none"> <li>– Promoting the development of organic agriculture.</li> </ul> </li> <li>– Increased productivity through boosting competitiveness and technical progress</li> <li>– Ensuring the quality of agricultural products and increasing farm efficiency.</li> </ul>
Agricultural lands regulation and consolidation	<ul style="list-style-type: none"> <li>– Expansion of agricultural farms</li> <li>– Development of rural areas and an increase in agricultural production</li> </ul>
Tourism products development in touristic regions	<ul style="list-style-type: none"> <li>– Identification of local products which will increase the number of visitors, especially foreigners               <ul style="list-style-type: none"> <li>– Increase the generation of income</li> <li>– Increase in job opportunities.</li> </ul> </li> <li>– The combination of all these will increase the economic value of tourism</li> </ul>
Investment in physical assets of agriculture households	<ul style="list-style-type: none"> <li>– Farm sustainability and attractiveness improvement of all agricultural and agro-industrial products, which will also help the fulfillment of EU standards</li> </ul>
Training, awareness sessions, consulting services and technical assistance	<ul style="list-style-type: none"> <li>– Transfer of knowledge and experience in forestry, rural development and agriculture, and support the implementation of rural development programmes</li> </ul>

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 59.

## 5.6.2 Energy Sector

Kosovo will face energy challenges in the upcoming years, specifically in the electricity sector, due to the inability to meet the projected demands. This gap is due to the inefficiency, as well as large losses, both technical and commercial. Apart from efforts in creating a sustainable energy sector, Kosovo should also explore the renewable energy sector, which in addition to contributing to energy generation, it can also contribute to creating new job opportunities.

Even though Energy Strategies have been developed, such strategies have not been implemented, and due to the absence of economic development strategies, there is no

assessment in regards to the energy needs, the amount of new energy capacities, size and number of generating units. In October 2012, the Government of Kosovo sold the Kosovo Electricity Distribution and Supply (KEDS) for only €26.3 million.

However, the Ministry of Economic Development has drafted another energy strategy on how to support the development of the energy sector, while taking into consideration other factors such as: environment, economic growth, adequate use of energy, generation of new jobs and so on. This strategy lists the following main objectives (Ministry of Economic Development, 2017):

- Provision of safe and uninterrupted energy supply, which can be achieved through the construction of new and viable power generation capabilities;
- Incorporation in the Energy Market through the fulfillment of conditions of Energy Community Treaty and Stabilization and Association Agreement;
- Enhancement of environment conditions through the construction of a new thermal power plant;
- Adequate and greater use of energy sources that are available, especially renewable resources.

Another important aspect that should be seriously considered is the environment. Kosovo releases nearly 5.8 million tons of CO<sub>2</sub> into the atmosphere annually. Kosovo A and Kosovo B two lignite-fired power plants cause a massive pollution. One of the biggest polluters in Europe is Kosova A, due to the old and depreciated technology (Kosovo civil society consortium for sustainable development, 2014). Even though it was planned for the Kosovo A to be closed, this did not happen, and this thermal power plant will remain functional until the new power plant is built.

Kosovo should focus its efforts on investing in renewable energy, considering the solar potential, with 278 sunny days on average and 2000 hours of sun annually (Bellini, 2017). Therefore, in order to tackle these issues in Table 36 policies to support energy sector are presented.

Table 36. Policies to support energy sector

Measure	Expected impact
Creation of a comprehensive energy efficiency program	<ul style="list-style-type: none"> <li>– Affordable, sustainable, environmental-friendly, and secure energy supply</li> <li>– Reduction of high technical and non-technical losses</li> </ul>
Establishment of a maintenance and inventory control system	<ul style="list-style-type: none"> <li>– Optimized maintenance program based on the schedule, resulting in failure prevention and not only on their correction</li> <li>– Reduced plant thermal cycles that devalue the equipment. This, in turn, will result in cost savings (United States Agency for International Development, 2010)</li> </ul>
Close the Kosovo A power plant due to tremendous pollution issue and unreliability in terms of both energy generation and safety for its workers.	<ul style="list-style-type: none"> <li>– Improvement of environmental situation and workers safety, but also a demonstration of commitment to the EU and Energy Secretariat</li> </ul>
Invest in infrastructure and Revitalization of Kosovo B	<ul style="list-style-type: none"> <li>– Increase the efficiency rate and bring the power plant to acceptable EU Standards (Kosovo civil society consortium for sustainable development, 2014). <ul style="list-style-type: none"> <li>– Decrease of annual emissions</li> <li>– Reduce environmental pollution</li> </ul> </li> </ul>
The building of the new power plant named Kosova e Re (New Kosovo)	<ul style="list-style-type: none"> <li>– Cut the energy deficit and meet the projected demands</li> <li>– Elimination of imports dependence from neighbouring countries. <ul style="list-style-type: none"> <li>– New job opportunities</li> </ul> </li> </ul>
Development and use of renewable energy sources.	<ul style="list-style-type: none"> <li>– Avoid the reliance on electricity imports and coal <ul style="list-style-type: none"> <li>– Creation of new jobs</li> <li>– Reduction of carbon emissions</li> </ul> </li> </ul>

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 58.

### 5.6.3 Mining industry

Traditionally, the mining sector has been an important sector for Kosovo's economy. The industry started to weaken due to lack of investments in facilities and equipment. This sector has a substantial potential for investment, especially for foreign investors. Even though many mines are already privatized, there will be another chance for privatization for those mines that failed to fulfill obligations from previous investors (Kosovo - Import Tariffs, 2017). Therefore, in order to tackle these issues in Table 37 policies to support mining are presented.

In order to effectively support the development of this sector, the Ministry of Economic Development has drafted a program which outlines the implementation of mining strategy. This strategy aims in achieving some of the below objectives (Ministry of Economic Development, 2015):

- Creation of favorable investment conditions;
- Improvement of mining sector capacities, both human and institutional;
- Exploration of mining resources;
- Consideration of the environmental aspect;
- Establishment of the legal and regulatory framework, and creation of development policies;
- Fiscal policies development with the provision of different incentives which could result in new investors and creation of new jobs;
- Mining potential economic reassessment.

Table 37. Policies to support mining

Measure	Expected impact
Establish an effective program for Trepca Complex	<ul style="list-style-type: none"> <li>– Solve ownership issues</li> <li>– Explore potential investments</li> <li>– Social programs for employee compensation</li> </ul>
Assessment of the current state of the Trepça Mining Complex	<ul style="list-style-type: none"> <li>– Including the Trepça’s assets, the financial obligations, natural resources, and its effects on the environment</li> </ul>
Development of institutional and human capabilities	<ul style="list-style-type: none"> <li>– Mining sector development</li> <li>– Provision of new job opportunities</li> <li>– The attraction of new investors</li> </ul>
Environmental strategy	<ul style="list-style-type: none"> <li>– Environmental protection and minimization of negative effects such as uncontained waste, unsafe labor conditions, dust emissions etc.</li> <li>– Adoption of environmental standards according to EU requirements</li> <li>– Improvement of public health</li> </ul>
Invest in out-of-date technology	<ul style="list-style-type: none"> <li>– Improvement of efficiency</li> <li>– Increased employee performance</li> <li>– Increased workplace safety</li> <li>– Lower costs</li> </ul>

Source: Group for Legal and Political Studies, *Proposal of Key Policy Priorities for Kosovo Government's (Strategic) Plan 2014-2018*, 2014, p. 28.

## 5.7 Labour market and social conditions

A country’s economic development and competitiveness depends on its workforce skills. It is of utmost importance that all the education and training programs are designed so that the individuals are equipped with the skills necessary for the labour market. This will result in productivity enhancement which will consequently contribute to economic growth.

In addition, other important factors for the economic growth of the country include vocational education and training, wage subsidies, and unemployment benefits for jobseekers (Crichton & Maré, 2013). Therefore, in order to tackle these issues in Table 38 policies to support labour market and social conditions are presented.

Table 38. Policies to support labour market and social conditions

Measure	Expected impact
Functionalizing the Employment Agency which will improve the employment services	<ul style="list-style-type: none"> <li>– Time-efficient</li> <li>– Increase employment of job seekers, especially of the long-term unemployed, women, youth, minority groups and people with special needs.</li> </ul>
Vocational Trainings	<ul style="list-style-type: none"> <li>– Overcome high and continuous unemployment and adapt the labour force to shifting labour market needs</li> <li>– Labour productivity increase and consequently promote economic growth</li> </ul>
Wage subsidies	<ul style="list-style-type: none"> <li>– Encourage businesses to hire more workers, which consequently will contribute in easing the high unemployment rate. The coupon will be valid for 3 months, paying the hired person €150 per month.</li> <li>– Expand business and employ new and qualified staff</li> </ul>

Source: Republic of Kosovo, *Kosovo Economic Reform Program (ERP) 2017-2019*, 2016, p. 60.

**CONCLUSION**

Kosovo, as a country in transition - shifting from a centrally planned economy to a free market economy - is said to be one of the poorest countries in Europe, where almost 10 percent of its population lives below the poverty line (Energy in Kosovo, 2018). Despite its relative progress in the recent years, the widespread unemployment, the trade deficit, the large reliance on remittances, the mismatch between Kosovo’s demand for labour and supply of labour, all render it difficult for Kosovo’s economy to develop.

In addition, given that the second generation of migrants is expected to decrease their transfers to Kosovo, it is rather necessary for Kosovo’s government to employ industrial policies as means of accelerating economic growth. Indeed, more than half of Kosovo’s population, namely 53 percent, is under the age of 25, and theoretically, these young individuals should evolve to become future workers, and contribute to the country’s economy. However, the policy makers have failed to provide conditions for these young people to realize their full potential.

Kosovo’s government has drafted the National Development Strategy, which states that after the stabilization and state-building phase, the country needs a new development strategy

which will address all the challenges that are hindering the economic growth and advancement of living standards (Office of the Prime Minister, 2016).

It is historically and empirically evident that industrial policies are rather necessary for economic growth. As such, a closure look at the information generated by this research conducted on Kosovo's economic related matters indicates that there are certain measures that can be implemented to lead to the desired improvements in the way sectors with earning growth potential operate.

In order to tackle the main economic and social issues that Kosovo is facing for years now, policy makers need to, among others:

- provide subsidies and distinct customs and tax regime to support SMEs development and export promotion;
- eliminate legal barriers to support institutional development and business-friendly environments;
- apply tax breaks for businesses that employ a large number of people;
- provide training for graduates, post-graduates, and researchers to enhance their employability;
- develop a Quality Assurance System to support the education system;
- increase funding for agriculture and rural development to support the agriculture sector;
- close the Kosovo A power plant due to tremendous pollution issue;
- establish an effective program for Trepca Complex.

Even though these measures theoretically may sound simple, in practice require persistence and willingness of policy makers to truly change the lives of Kosovo citizens by engaging in activities that bring development and prosperity.

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## **APPENDIXES**

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## Appendix A: Summary in Slovene

Kosovo je država z nižjim srednjim dohodkom, ki je februarja 2008 razglasila svojo neodvisnost. Ima najmlajše prebivalstvo v Evropi. Kljub nekaterim izboljšavam splošnega delovanja kot države, vključno s poslovnim okoljem, in pozitivnimi koraki na poti k razvoju dobro delujočega tržnega gospodarstva, se Kosovo še vedno sooča s številnimi gospodarskimi izzivi, kot so visoka stopnja brezposelnosti, prisotnost sive ekonomije, veliki migracijski valovi itd. (Pregled, 2018). Razvoj industrijskega sektorja je ključen pri razvoju strukturnih sprememb in spodbujanju dolgoročnih razvojnih ciljev države. Vzpostavitev zdravih industrijskih politik je sredstvo za spodbujanje prerazporeditve človeških, fizičnih in finančnih virov v sektorje z visoko dodano vrednostjo v gospodarstvu (Mbate, 2016).

Industrijizacija je bistvena, če želi Kosovo spodbuditi strukturne spremembe in tudi prenesti dosežke svoje nedavne visoke stopnje rasti prenese v proces hitrejšega družbenega razvoja. Spodbujanje strukturnih sprememb je odvisno od zdravih industrijskih politik in selektivnih vladnih posegov, ki preusmerjajo gospodarsko strukturo proizvodnje v bolj produktivne sektorje. V ta namen se proizvodnja razvija kot ključni sektor zaradi njene sposobnosti spodbujanja oblikovanja poslovnih verig (tudi mednarodnih), doseganja ekonomije obsega, spodbujanja inovacij in difuzije tehnologije ter pozitivnih učinkov prelivanja znotraj in med sektorji. Kosovo bi moralo v pripravi ukrepov industrijske politike zajeti tudi institucije in ustrezne politike, ki spodbujajo uspešno sodelovanje med vlado in zasebnim sektorjem. Spodbujanje razvoja industrije in s tem posredno ostalih panog lahko spodbudi večjo rast in tudi pri reševanju nekaterih glavnih izzivov, kot so brezposelnost, revščina in neenakost. Poleg tega morajo uspešno usklajevanje med institucijami in zasebnim sektorjem spremljati ustrezni spodbujevalni programi, namenjeni specifičnim dejavnostim, in v primerih, ko ti mehanizmi ne uspejo, je treba sprejeti korektivne ukrepe (Mbate, 2016).

Kljub relativnemu napredku Kosova v zadnjih letih se vse večja brezposelnost, trgovinski primanjkljaj, velika zanašanja na nakazila zdomcev iz tujine, neusklajenost med povpraševanjem in ponudbo na trgu dela na Kosovu otežujejo razvoj Kosova. Kosovska vlada je pripravila državno razvojno strategijo, ki navaja, da je po stabilizaciji in fazi izgradnje države potrebna nova razvojna strategija, ki bo našla rešitve za vse izzive, ki ovirajo gospodarsko rast in izboljšanje življenjskega standarda (Office of the Prime Minister, 2016).

Izkušnje drugih držav jasno kažejo, da je industrijska politika nujna za gospodarsko rast. Kosovo ima v pripravi številne ukrepe, ki lahko pomagajo pri razvoju.

## **Appendix B: List of abbreviations**

ATM	Automated Teller Machine
CEFTA	Central European Free Trade Agreement
DM	Deutsche Mark
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IP	Industrial Policy
IPKO	IPKO Telecommunications LLC
KAS	Kosovo Agency of Statistics
KEK	Kosovo Energetic Corporation
MEST	Ministry of Education, Science, and Technology
NATO	North Atlantic Treaty Organization
POE	Public-Owned Enterprises
PTK	Post and Telecom of Kosovo
SAA	Stabilisation and Association Agreement
SME	Small and medium-sized enterprises
SOE	State-Owned Enterprises
SOK	Statistics Office of Kosovo
TAK	Tax Administration of Kosovo
TSS	Transitional Support Strategy
UN	United Nations
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
VAT	Value Added Tax
WBIF	Western Balkans Investment Framework