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Independence no quick fix for weak Kosovo economy

Shaban Buza Gulf Times

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PRISTINA: Kosovo's leaders must tackle endemic corruption and get serious about economic planning because independence alone won't be enough to bring the province out of crushing poverty, experts say.

"The economic situation is getting worse as we speak," said Verena Knaus of the European Stability Initiative, a Berlin-based think-tank. To think it will be easy after a decision on status is "really dangerous", she said.

Legally part of Serbia, Kosovo became a UN protectorate when Nato bombers drove out Serb forces in 1999. The UN was set to launch talks on Monday on its final status, with the 90% Albanian majority demanding independence.

Many in Kosovo blame UN stewardship for the grim state of the economy, already hit in the 1990s by sanctions and chronic mismanagement. But analysts warn that independence would not be the panacea politicians promise.

Kujtim Dobruna, head of the Vienna-based Kosovo Economic Initiative said the big problems were "lack of economic expertise, lack of foreign investment, and huge corruption".

"There are no foreign investments and the Kosovo government has no idea how to attract them – most of the government's experts are chosen by non-professional criteria, some are just relatives of ministers," Dobruna said, adding that corruption is rife but there is no strategy to fight it.

Kosovo mostly functions like a state already, but cannot get loans from international institutions unless it is sovereign.

Assistance from the World Bank and International Monetary Fund is seen as essential. Post-war growth has been driven by the reconstruction effort, but development aid has dropped 70% since the UN first arrived in 1999.

Unemployment is the highest in Europe at around 60% and most of Kosovo's 2mn people rely on remittances from relatives working abroad. The lively grey economy includes contraband and pirated goods, but 40% live in poverty.

Half are under 25, the youngest population on the continent, but their disrupted education means they lack employable skills. High interest rates discourage local businesses and the commercial law framework is lacking.

Privatisations have started, but are haunted by legal tangles from the "social ownership" economy of ex-Yugoslavia and Serbia's claims on the province's businesses and land. Road and energy networks are damaged, power cuts a regular occurrence.

"Privatisation is a big issue, it's still a problem to determine who actually owns what," said Anne Marie Jepsen, programme manager for the European Agency for Reconstruction, the largest donor in the province with over 1bn euros in investment since 1999.

"We have had 15 years of underinvestment in energy and infrastructure, and then the conflict. We have a complete lack of foreign investment. There's insignificant exports, mainly scrap metal, and huge imports."

The IMF forecasts 2.3% GDP growth for next year. Betting on a post-independence boom, the government's ambitious development plan for 2007-13 targets 6% a year, focusing on services and mining as the main engines of recovery.

"The key strength of Kosovo is its very young population," said Thierry Bernard-Guele, head of EAR's Kosovo division.

"There are reserves of coal, lignite and minerals, great assets for Kosovo, and also a large agricultural sector, which the government can build on. Those are the sectors that can make the difference." Kosovo's government is keeping that potential at the forefront of its upbeat forecasts. – Reuters