

Priorities for Rural Development in Kosovo

The purpose of this paper is to provide a framework for support to the rural development sector in Kosovo over the medium term (2004-2006). The paper has been prepared by the Project Coordination Unit of MAFRD as a future guide to donor organizations, government and the private sector, interested to support rural development in Kosovo.

1. Objectives

The aim of rural development in Kosovo is to improve the standard of living of the rural population, irrespective of gender or ethnicity. This will be achieved through increased employment opportunities and income of the rural population as well as improved access to services (education, health, water, electricity, roads, social services etc.). This should lead to reduced rural – urban migration which should itself support development in the sector.

Agriculture is the main economic activity in rural areas and is therefore critical to achieving these objectives. An accelerated transition from predominantly subsistence / semi-subsistence agriculture to commercial farming must be realized as well as the development of non-farm income generating activities. Increased productivity and competitiveness in both primary production and agro-processing are the key elements necessary to achieve this.

2. Priorities

A. Establishment of an enabling environment for private sector development in rural areas

The creation of an enabling environment for private sector development in rural areas involves consideration of the following key aspects: fiscal regime; rural infrastructure; legal and regulatory framework.

Rural development in Kosovo depends critically on whether farmers and agro-processors can compete in the domestic (and export) market. The current trade regime in agriculture produce is lopsided in favour of imported products. Whereas Kosovo has a liberal import regime, this is not reciprocated by the neighbouring countries where restrictive quotas are retained. More damaging is the subsidies enjoyed in agricultural sector of trading partners enabling them to produce and sell at a lower price than Kosovo.. In order to secure a market farmers and agro-processors must be able to compete on a level-playing field with their main trading partners. Other rural business activities face similar constraints.

An adequate rural infrastructure is important for stimulating investment and economic growth in the sector. Effective investment in the energy sector is necessary to address the

problem of unreliable power supply; a major constraints to development of the agro-processing sector. Furthermore strategic investment in the irrigation system is needed to ensure that farmers have access to the water, ensuring returns to previous investments are realized.¹ Other rural infrastructure, roads, social and cultural facilities etc. are also important for attracting economic business activities to the region and retaining the young and able workforce.

Further progress should be made in establishing a legal and regulatory framework, harmonized towards EU legislation, with emphasis on establishing the institutional capacity to implement and enforce these laws. Public information dissemination and awareness should be complementary to this work.

B. Land Reform

Land reform is critical to the competitiveness of the agriculture sector in Kosovo. Average farm size is estimated at 2.2ha (divided into 8 plots)² and the situation is worsening as a result of further land fragmentation. In order to support the emergence of viable, commercial farming in Kosovo land consolidation programme should be supported as a long term goal. Current constraints to expansion of farm size such as, lack of finance, machinery, market, lack of alternative employment opportunities, etc must be addressed in parallel.

Progress needs to be made on privatisation of agricultural SOEs to ensure that productive land is not left idle or exploited on a short term basis. In the short to medium term an effective institutional framework needs to be established to ensure the proper management of state owned agricultural land that has not yet been privatized.³

Proper administration and management of land must be realized, including the introduction and enforcement of environmental standards to both address and prevent pollution of agricultural land. The latter relates not only to consumer welfare but consumer perception of agricultural products produced in Kosovo and thus their marketability both in the domestic and export markets.

C. Rural Finance

The private banking sector is lending only X% of its portfolio to the agriculture sector and is unlikely in the medium term to expand lending activities to the rural sector.⁴

¹ Earlier investments have focused on rehabilitation of primary irrigation channels. Investment is required in secondary channels to ensure that farmers have access to the irrigated water.

² MAFRD, The Kosovo Greenbook, A Strategy for Sustainable Agriculture and Rural Development in Kosovo, May 2003

³ This may be necessary in the case of disputed land.

⁴ Private banks typically favour lending to the urban sector as they are able to secure collateral and avoid the high risks associated with lending to the agricultural sector. Thus until lending to the urban sector is saturated it will be difficult for agriculture to secure finance from the banks.

Moreover the duration of the loans are too short for the purposes of agricultural activities. To develop the agriculture sector it is necessary to ensure better access to rural finance for farmers and agro-processors that meet the specific needs of the agriculture sector both for working capital and investment. Micro-finance should also be encouraged to support the diversification of rural income sources.

D. Development of Agro-processing

Marketing is relatively unsophisticated and local products face increasing competition from better 'positioned' and 'marketed' imports. The agro-processing sector provides a market for primary production and is an important source of employment creation in rural areas. It also creates local demand for related non-agricultural economic activities (e.g. packaging and mechanical workshops etc.). The agro-processing sector needs to be supported through privatization of existing agro-enterprises, improved access to finance and the introduction of new technology and modern management practices.

D. Marketing

Improved marketing of agricultural products and enhanced market orientation of economic activities in rural areas is critical to the development of the sector. This can be achieved largely by investing in human resources. Development of institutions to support marketing should also be encouraged including market information systems, improved public markets, and rural organizations, for example service cooperatives, producer associations, etc.

E. Access to information and advice

There are substantial opportunities in Kosovo to improve productivity at the farm level through improved animal husbandry and adoption of modern farming techniques. Similarly in the agro-processing sector and among non-agricultural rural businesses there is a need for advice to improve technical know-how and management practices. This requires a concerted effort and investment to improve the delivery of demand-driven information and advice to the rural population. This can be achieved through support to both public and private institutions in both the generation and delivery of this information and advice.

G. Institutional strengthening / Training

Institutional strengthening and training of both public and private organizations involved in rural development is critical to its future development and the development of Kosovo as a whole. Skills both in the public and private sector are low especially in the public administration and service sector. There is a need in particular to develop essential skills

related to operating in a market economy including, marketing, bookkeeping, and management, with the overall aim to improve use and management of resources.