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Outlook on Kosovo 2019

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Investing in Kosovo • Banking on Kosovo • Kosovo's road to Europe runs through Serbia
Manufacturing in Kosovo • Kosovo's IT scene • Kosovars want to travel. Why will Europe not let us?



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Investing in Kosovo

Emerging Europe sits down with Neil Taylor, head of Kosovo at the European Bank for Reconstruction and Development (EBRD), to discuss both the opportunities and challenges facing the young country.

WORDS ANDREW WROBEL

As country boss of one of the leading institutional investors in Kosovo, few people are in a better position to offer a thorough perspective of the country's investment climate than the EBRD's Neil Taylor. One of the first pieces of insight he offers is that as a young country, Kosovo has exceptional opportunities that many other countries in Europe do not have, but that challenges remain.

"After independence, Kosovo was able to establish a new legal and regulatory system, modelling it on modern best practices," he says. "To achieve the best results, Kosovo must continue to focus on consistent and timely implementation of legislation and strengthen the capacities of the judiciary and rule of law. The economy remains constrained

by low productivity, high unemployment, a thin export base and limited foreign direct investment (around three per cent of GDP annually over the past five years). Businesses lack the know-how and capacity to expand, improve productivity and innovate. These challenges need to be addressed in order for the country to reach its full potential."

While a young and growing population provides an ample supply of labour in contrast to most European countries, enhancing the quality of education and training is key to reducing skills mismatches.

"This is an issue which is often reported by companies," says Mr Taylor. "Also, improving the quality of life and the business

environment is necessary in order to reduce still high emigration and keep talented people at home. Kosovo's economy is growing faster than its peers in the region but it needs to accelerate even more. The young generation of Kosovars represents perhaps a unique opportunity to achieve this."

Mr Taylor also feels that improving the political relationship with Serbia would help to enhance the economy. "It would send the right signal to foreign investors. This would undoubtedly contribute to faster growth," he adds.

In 2018, Kosovo's economy grew by 4.1 per cent. The EBRD sees this as sustainable. "I think that we can expect Kosovo to sustain a growth rate of around four per cent in the medium term, or indeed even increase it if the business environment improves further."

The energy question

The challenges that the EBRD wants to tackle in Kosovo are similar to those of the wider region: fostering the private sector's potential, strengthening regional integration and connectivity, and addressing the energy challenge.

"We are well aware that energy is a crucial question in the Western Balkans where the majority of energy generation depends on coal and efficiency standards throughout the value chain leave considerable room for improvement," says Mr Taylor. "This issue is probably nowhere more acute than in Kosovo. We are determined to make a strong contribution to help the country address this challenge and find sustainable solutions. Our focus is on energy diversification through renewable energy production, improving power transmission



and supporting energy efficiency improvements. We are working closely with the authorities to finalise the regulatory framework in a form that will unlock significant investment in clean, domestic power. We are also working to improve residential energy efficiency by extending a number of credit lines and in 2018 we signed Prishtina up to our Green Cities programme.”

To promote the private sector, the EBRD is expanding its private sector finance and advice: “In 2018 we launched our new SME Competitiveness credit lines with two banks and made deals with three corporate and SME clients. This goes hand in hand with work to develop the sector sustainably through policy discussions on the investment climate and governance, and with advisory services to accelerate the growth of small businesses. More remains to be done on privatisation and we have offered to support the government’s intentions in this regard, starting with Kosovo Telecom.”

The EBRD also recognises that supporting connectivity, regional integration and infrastructure development is needed to improve Kosovo’s main transport links, strengthening cooperation with the region and beyond, and helping to attract foreign direct investment.

“Kosovo needs to build the main roads to Pan-European corridors, and update its railway network,” says Mr Taylor. “We have financed some transport projects but implementation needs to speed up. Municipal infrastructure is an additional area that offers significant investment opportunities. Last year we signed an MoU with the government on this and we plan to sign the first project under this envelope, the Gjilan wastewater treatment plant, very soon.”

The EBRD intends to be a long-term partner for Kosovo in each of these sectors and its goal is to crowd-in other investors where we can. “Last year we financed 52 million euros of projects in Kosovo, of which around three quarters in the private sector. Over the coming few years, and

given the right conditions, we are aiming to increase our investment up towards 100 million euros a year.”

The euro

While not part of the eurozone, Kosovo makes use of the euro. Mr Taylor believes this brings both advantages and disadvantages.

“On the positive side, use of the euro eliminates the risk of speculative attacks and exchange rate risks for businesses, allowing lower transaction costs. Interest rates can also be lower. On the other hand, there is no monetary policy independence, thus restricting options to respond to economic shocks. Benefits from using the euro can increase as Kosovo becomes more integrated with the European Union/eurozone and the institutional and business environment improves further.”

Mr Taylor sees three preconditions as being necessary for developing an entrepreneurial and innovative culture.

“Creating a legal and institutional environment in line with the EU approximation process, which is the region’s stated goal, is one. Progress here is essential also in order to mobilise investment. Investors need the protection of a well-functioning system based on the rule of law.

“A second important step is regional integration: building mutually supportive relationships with neighbours. Here, developments like the establishment of transnational business registries or the creation of a regional investment platform can be a step in the right direction and we are supporting Kosovo’s involvement.

“Third, Kosovo needs to overcome physical barriers such as the opening of border crossings and also eliminating tariff and non-tariff barriers to trade as all countries in the Western Balkans hugely benefit from more trade. They also gain a lot from, more than anything, the creation of an infrastructure that links the countries with each other and with the wider neighbourhood. Hard connectivity also includes addressing the energy needs of an economy fit for the 21st century,

from generation through distribution to consumption. And speaking of the 21st century: Infrastructure today must include the components for a digital economy from fast internet to modern broadband.”

Positive examples

In terms of innovation, Mr Taylor highlights Kivo, a plastic recycling company, that the EBRD financed last year. The local entrepreneur partnered with an established Dutch business, learned best practice and technologies from them, and together they successfully launched a recycling plant in Kosovo. “This is a great example of taking innovation from abroad and we encourage more of Kosovo’s talented entrepreneurs to create these kinds of links in order to accelerate their business growth,” he says.

“Another good example of fostering innovation is the Innovation Centre Kosovo (ICK), which has been our partner for a few years now. The ICK has provided an initial home for new exciting companies such as J-coders, who provide training to young would-be programmers, and Zombie Soup, an ICT solutions provider that exports services to the US and EU. In fact, J-coders’ new initiative, Lab box, recently secured funding through ENIF, the enterprise innovation fund that we set up with other IFIs and the EU to stimulate entrepreneurship in the region. Creating an ecosystem for start-ups in high potential sectors such as ICT, where Kosovo has a comparative advantage, is critical to create the next generation of local companies that can contribute to longer term growth.”

In sum, the EBRD wants to put in place an environment in which the private sector can flourish – by improving governance, and transport, and by providing businesses with access to finance and advice, among other things - is where governments and international organisations can help.

“We’ll know it has succeeded when the market takes over and it all starts happening by itself,” concludes Mr Taylor. ▲

Banking on Kosovo

Raiffeisen has been operating in Kosovo since 2003. Emerging Europe speaks to the bank's CEO, Robert Wright, about the country's potential across a number of sectors, as well as the growth of retail banking.

WORDS ANDREW WROBEL

Kosovo's conflict with Serbia, which reached its violent peak during 1998 and early 1999, destroyed much of the country's economy, and nearly 20 years on the Kosovo economy still relies heavily on diaspora remittances which consistently total over 700 million euros per annum. However, Robert Wright, the CEO of Raiffeisen Bank Kosovo, sees things finally beginning to move forward.

"In the years since 2003, various investors in financial services, telecoms, mining and energy have entered the market, and coupled with the substantial government investment in road infrastructure,

this has helped the country to achieve some important milestones in its economic development," he says.

Kosovo still has a very large net export gap, and consumption is mainly based on the trade of imported goods and services, but even this is changing. "In recent years we have actually witnessed Kosovo becoming a net exporter of services. We also see a significant growth of investments in areas such as IT and agriculture," he says.

"Banks have also been more willing to support the development of the economy with an increasingly diverse loan portfolio by providing credit to successful entrepreneurs and in turn creating jobs and an overall improvement of the wellbeing of the citizens of Kosovo."

The role of the euro

Even though Kosovo is not part of the eurozone, it does use the euro. Mr Wright views this as an advantage.

"Kosovo has stable economic output growth of above 3.5 per cent on average which shows that the euro is not an impediment to economic growth rather an important enabler to local and foreign investors," he tells *Emerging Europe*. "In years of financial turmoil such as 2008-2009 the euro currency shielded the Kosovo economy in three important ways.

"First, Kosovo has a large diaspora that saves in Kosovo and thanks to the fact that we did not face the risk of currency depreciation, since we do not have a local currency, lots of savers and investors did not find it risky to maintain funds and capital in euros in Kosovo and pull deposits and investments out of Kosovo. Even during the difficult times of the 2008 crisis Kosovars continued

to use euros as a means of payment, rather than using euros as a safe-haven, and therefore consumption confidence in Kosovo was not harmed. In fact it was the contrary and the deposits and remittances in Kosovo continued to increase. Privatisation of large parts of the economy and new entrants into the market continued even after 2009 and this was also a positive development for euro investments.

"Secondly, during the economic crisis, small currencies usually suffer in price compared to hard currencies, but we did not see any depletion in the purchase power parity of Kosovo citizens at that time. The number of Kosovo households has increased by around 20,000 each year since 2009, and Kosovo credit growth has consistently been in double digit percentage rates, supported by very low NPL's and very high NPL coverage rates.

"Thirdly, euro currency investments in Kosovo are considered capital friendly since the euro itself provides a shield to the loss of value for investors who are holding their investment in the form of capital in euros in Kosovo. On the other hand, capital investment holders in countries denominated in weak local currencies suffered important losses in value in euro terms in the aftermath of the currency crisis. We have seen currencies like the forint, dinar and rouble depreciate significantly in recent years."

Kosovo still faces many challenges. Mr Wright views the large trade deficit, weak contract enforcement, low labour participation, high unemployment, disrespect for the rule of law, and matters concerning the governmental sector as all being issues that need attention. Improvement in air quality, and creating incentives for a comprehensive

Robert Wright



investment framework for FDI are two other challenges that need to be addressed in order to put the Kosovo proposition onto the investor map.

Growth potential

Mr Wright identifies four sectors – agriculture, energy, IT and tourism – as having excellent potential.

"In agriculture, Kosovo needs to increase the amount of arable land as proportionately, compared to the region, it is small. In Kosovo even wheat and vegetables are goods with a net import balance, but with the right strategy the country has the potential to flip the equation and be self-sufficient in many aspects of the food and beverages industry.

"Kosovo has a lot of potential in renewable energy and serious investments are currently occurring in wind energy. With an average population age of only 28, many young Kosovars are savvy in foreign languages, something which is driving investment in IT.

"Another area where Kosovo has potential is mountain tourism. Kosovo has two ski resorts but hotel capacity is lacking in peak season, and the infrastructure itself needs significant renewal and transformation to reach an acceptable standard for potential regional, European or Asian tourists.

"In summary, Kosovo has a bright future ahead with significant untapped potential in many areas, and with the support of regional and international investors, important and very positive changes can be made for the benefit of the economy and society in general."

Kosovo's banking sector has developed dramatically in recent years, and currently boasts some numbers which while relatively small are impressive in their growth. Loans outstanding at the end of 2018 for example totalled 2.7 billion euros compared to 1.4 billion euros in 2010, a 93 per cent increase. Interest rates on loans have also decreased dramatically from an average 14 per cent in 2010 to six per cent in 2018. Meantime, deposits grew by 73 per cent in the same period to a total of 3.36 billion euros in 2018.

"In addition to excellent growth, the Kosovo banking sector consistently delivers impressive KPIs with a Cost Income Ratio around 50 per cent in 2018, NPLs three per cent and profit of around 87 million euros," says Mr Wright.

Retail banking

As a young country, Kosovo is playing catch-up with the rest of Europe and banking is no exception. Mr Wright views this as a positive for the banking industry, however.

"The young population want to do their banking via non-branch channels and this has driven the relatively fast development of alternatives such as mobile and e-banking. Kosovars are very aware of banking products, although awareness is one thing, usage is another. Money transmission on remote channels is relatively good by regional standards but credit card usage is low and consumer loans and mortgages still have significant growth potential. This opens up the on-going and passionate debate about access to finance. Why is it relatively low and how do we fix it?"

As such, Raiffeisen's CEO sees lots of potential for growth in retail banking. There is still a significant percentage of the individual population outside of the banking system or only partially engaged with banks: just 52 per cent of Kosovo adults have a bank account. The rates in neighboring countries such as Serbia (71 per cent) and North Macedonia (77 per cent) are much higher. "There is also room for significant growth with existing customers," he says, "and all regional comparisons show that Kosovo lags behind on product ownership and usage."

One specific area which Mr Wright feels is dramatically under-developed is the residential mortgage market. The total loan portfolio in Kosovo is around 100 million euros compared to 600 million euros in North Macedonia which has similar size population. Montenegro, with a population of just 600,000, has a mortgage portfolio of 1.5 billion euros. Wright believes that while Kosovo banks love to issue mortgages

and will lend up to 95 per cent of the property value, "it is other issues on the demand side that limit the market such as property prices, reliability of title and low public sector salaries which severely limit the amount a potential home owner can borrow."

Raiffeisen is the largest bank in Kosovo with a market share of around 22 per cent of loans and deposits. It also has the most branches (46) and ATMs (115). However, Mr Wright is keen to point out that market share is not a key target: "We gain market share as a consequence of delivering on other key targets such as the quality of our customer service, the relevance of our products and services and the footprint of our distribution network," he says."

Private sector finance

While the private sector has certainly moved forward in the 11 years since Kosovo independence, it still has some way to go to be on a par with its regional neighbours.

"The saturation and concentration of industries can be a problem where competitors simply have price driven propositions in over-supplied markets with no clear sustainable competitive advantage. Construction, petrol retailers, and supermarkets are good examples of this," says Mr Wright.

"The banking market is often accused of not providing access to funding but I can assure you we are all keen to expand and diversify our loan portfolios. Ten banks and 12 MFIs are competing in a relatively small market and we need to maximise its full potential. However, our ability to improve access to funding is often limited due to a number of factors, including a lack of transparency from potential business clients – for example no audited accounts and obvious tax evasion, late entrants into saturated markets, no equity investment, no clear sustainable business plans with value-creating competitive advantages and salary payments made in cash which limit the borrowing ability of employees," concludes Mr Wright. ▲

Kosovo's road to Europe runs through Serbia

Historic enemies, the future of both Kosovo and Serbia requires compromise and a willingness to work together. Kosovo's president currently appears more willing to achieve this than the country's prime minister.

WORDS JERRY CAMERON



To all intents and purposes, Kosovo's modern borders were defined in 1945 when it became an autonomous entity within the People's Republic of Serbia. Under the 1974 Yugoslav constitution (which, as anyone who has studied it will know, is one of the most insanely complicated constitutions ever written), Kosovo obtained more extensive autonomy, but was not granted the status of constituent republic alongside the other republics of Yugoslavia. Protests by ethnic Albanians in 1981 over the status of Kosovo resulted in Yugoslav territorial defence units being brought into Kosovo and a state of emergency being declared. The protests were violently put down.

Economic decline throughout the 1980s, which forced many ethnic Serbs to leave the province, as well as a far higher birth rate amongst Albanians, meant that by the end of the decade Albanians accounted for around 90 per cent of the province's population. At the beginning of the decade it had been 75 per cent.

In July 1989, Kosovo's autonomy was largely revoked by then Serb president Slobodan Milošević and Kosovo returned to its pre-1974 status. Kosovo Albanians responded with a non-violent separatist movement, employing widespread civil disobedience and the creation of parallel structures in education, medical care, and taxation, with the ultimate goal of achieving full independence.

War and peace

In July 1990, the Kosovo Albanians proclaimed the existence of the Republic of Kosova, and declared it a sovereign and independent state in September 1992. Only Albania recognised the new country, however.

The Dayton Agreement which brought an end to the war in Bosnia in 1995 ignored the status of Kosovo. Ibrahim Rugova, who had served as the president of independent Kosovo and who had called for non-violent resistance against Serb forces was usurped by the Kosovo Liberation Army, which began a guerrilla campaign against the Yugoslav army and Serb police.

Fighting intensified throughout 1998, with thousands of deaths. Massacres of civilians and ethnic cleansing were carried out by both sides. A number of international-brokered ceasefires failed to hold.

NATO finally intervened early in 1999, but the initial impact was the mass expulsion of Kosovo Albanians by Yugoslav forces. Fearing new massacres and ethnic cleansing, NATO carried out a bombing campaign against Serbia from March to June 1999. As the then UK prime minister Tony Blair put it at the time: "Fail to act now, and we would have to deal with the consequences of spiralling conflict and hundreds of thousands of refugees."

The conflict was brought to an end by the signing of a treaty in Kumanovo, Macedonia, under the terms of which Yugoslav and Serb forces – weakened by the NATO campaign – agreed to withdraw from Kosovo. International peacekeepers, known as KFOR, replaced them, and the province was placed under direct UN control.

Independence

UN-backed talks to resolve the long-term future of Kosovo began in February 2006, led by UN Special Envoy Martti Ahtisaari, a former Finnish president, and although they reached no formal agreement, Kosovo subsequently declared independence from Serbia on February 17, 2008. The new country was immediately recognised by the United States and most European Union member states. Today, more than 100 countries recognise Kosovo as an independent country, including all of its neighbours with the exception of Serbia. It has become a member of a number of international organisations, but not the United Nations, where Russia, a Serb ally, has a veto.

Today, Kosovo is a multi-party parliamentary democracy, with an elected president as head of state. Since 2016 this has been Hashim Thaçi, a former key leader of the KLA. The government is led by prime minister Ramush Haradinaj, also a former KLA commander. Mr Haradinaj has twice been acquitted of war crimes by the Hague Tribunal.

The relationship between the two has long been fraught, and according to a recent report in the Kosovan newspaper Koha Ditore the pair have not met at all in 2019. Much of the antagonism stems from the differing stance the pair have over ongoing negotiations with Serbia. Mr Thaçi has recently been the more willing to compromise, and openly supports a solution that would see Serbia and Kosovo swap territory, with three predominantly ethnic Albanian municipalities in Serbia's Presevo valley becoming part of Kosovo, and part of north Kosovo – where the majority of Kosovo's ethnic Serbs live – being offered to Serbia in exchange. Mr Haradinaj opposes the plan, as does the European Union, which fears such a deal could reopen old border disputes elsewhere in the Western Balkans. Without explicitly saying so, Serbia, the US and Russia appear to be broadly in favour.

Furthermore, Mr Haradinaj has felt marginalised by Mr Thaçi taking the leading role in negotiations.



Last year, the EU was forced to issue a statement in which it said that Mr Thaçi was the only Kosovan representative it would recognise.

The EU has long made it clear that neither Serbia nor Kosovo will be allowed to become a member state unless an agreement is reached. In its latest Western Balkans strategy, published in February 2018, the EU stated that only "the comprehensive normalisation of relations" could allow both countries to continue along their European path. Kosovan reaction to the strategy was lukewarm.

"Kosovo, as an integral part of the mosaic making up the Western Balkans, needs to be treated as an equal with the other five partners in the region, in the European Union's plans to enlarge in this non-EU pocket of Europe," says Bekim Collaku, chief of staff to the president of Kosovo and a former minister for EU Integration.

Stalemate

In November 2018, Kosovo's government introduced high customs tariffs on all goods entering the country from Serbia and Bosnia and Herzegovina. The EU has said that the tariffs defy the basic principles of trade within the Central European Free Trade Agreement (CEFTA) and has called on Kosovo to remove them.

Since then, negotiations between Mr Thaçi and his Serbian counterpart Aleksandar Vučić

have continued, but little progress has been made. After their last meeting, in Vienna in February, Mr Vučić claimed that negotiations had reached a "stalemate". Mr Thaçi appeared to agree. "We are now in a state of a frozen conflict, which, I believe, means a regression – we need a compromise that would provide mutual recognition and enable Kosovo's UN membership," he said, also suggesting that the customs tariffs might be lifted if Serbia discontinued its practice of vetoing Kosovo's membership of Interpol.

Mr Thaçi did, however, leave the door open to compromise.

"There is still hope, because there is a willingness to sit down and talk – we do have differences in our opinions but we are still willing to discuss them," he said.

"I know that recognition won't be a present from Serbia, it has to be a compromise. The EU and US must be as united as possible in their support, and there is even a chance that Russia will accept the compromise. Leaders in the region also support our agreement. We can maintain this frozen relationship, but it will have a negative impact for the entire region."

It is likely that both sides are now waiting for the installation of a new European Commission later this year to provide fresh ideas and impetus to negotiations. What's clear is that a continued stalemate suits neither side. While history has divided the two countries and communities, their future relies on them being able to work together. ▲

Manufacturing in Kosovo

Kosovo's industrial sector, like much of the economy, was weakened by the war for independence and is now playing catch-up with the rest of the region. There are some positive signs however that the speed of progress is about to quicken.

WORDS DOMINIK ISTRATE



Like many other transition economies, Kosovo has been showing continuous and remarkable growth over the past few years – growing by at least four per cent annually since 2015 with a similar outlook for 2019. While the economy is dominated by services, agricultural businesses and industrial activities also make considerable contributions. With a population of less than two million, a privatisation process that started late in 2003 and “only” around 21,000 registered businesses, the country provides several opportunities for those planning on doing business.

Sectors to watch

As suggested by the Kosovo Investment and Enterprise Support Agency, key sectors within the manufacturing industry prime for investment include textile and leather processing, wood processing, as well as food processing and packaging.

With a population out of which 60 per cent works in agriculture and a surface of arable land at 53 per cent, the Kosovan food industry stands out. With a strong tradition of producing dairy products, fruits, vegetables, meat, wine and other beverages,

Kosovo's agriculture contributes 13 per cent to the country's GDP and accounts for 18 per cent of exports. Altogether, with more than 800 businesses, the food and beverages sector has started to penetrate EU markets as well as expanding in the domestic economy. Interestingly, more than two-thirds of businesses produce biscuits, bread, cereals and wheat while only 35 per cent of them are micro-, small- or medium-sized enterprises. Among others, businesses within the sector face high electricity costs, high taxes, poor access to loans and problems in local infrastructure.

Once the second most important sector of the Kosovan economy after mining, the textile industry has seen a drastic loss in markets and faces numerous challenges in competitiveness with other companies from the Balkan region due to the fact that many of these businesses were established by employees of Yugoslav-era state companies. Since 2012, the Kosovan government has made several efforts to consolidate the industry by prioritising creating jobs and attracting foreign investors. Currently, textile companies amount to 182 active businesses, more than 86 per cent of which are either medium or large enterprises such as Jatex, Unikat, Remateks, Semtex and KosovaTex. Around 54 per cent of these enterprises deal with the production of garments, more than one-third of them manufacture textiles, followed by companies preparing leather products that have a 10 per cent share in the market. While the industry has experienced a significant recovery compared to the 1990s, competition from the informal sector, low purchasing power in the domestic market, access to finance, high taxes and the cost of raw materials all pose a challenge for businesses, especially small and microenterprises that produce solely for the Kosovan market.

Still, the sector offers three major benefits for investments: cheap and well-trained labour, a solid technological background, as well as sub-contracting and outsourcing possibilities.

Building on a forest area of more than 465,000 hectares, wood processing is considered one of the strategic sectors in the country, with a total standing volume of 53 million cubic metres. Out of the close to 1,500 companies operating in the sector, recent data shows that 75 per cent of them manufacture final products – the remaining 18 per cent prepare semi-final products while 10 per cent produce raw materials. Kosovo's investment promotion agency reports that most of the wood processing companies can look positively to the future after achieving positive results in terms of turnover, value-added

production, as well as growth in employment and exports. Products such as kitchen cabinets, chairs, tables, home and office furniture amount to 40 per cent of the wood industry's production while another 40 per cent builder's carpentry and joinery, with the remaining 20 per cent specialising in sawmilling, planing, impregnation or other manufacturing activities. Companies producing wood furniture and home interior products have made significant gains in exports, having increased by 22 per cent from 23 million euros in 2017 to 28 million euros in 2018.

Politics over trade

According to the Kosovo Manufacturing Club, an NGO incorporating the largest manufacturers with 30 factories, more than 100 brands and 15,000 employees, the country's economy is facing considerable pressure from Serbia. At the end of 2018, Kosovo's government raised

tariffs from 10 to 100 per cent on all products imported from Serbia for which the latter reacted with same countermeasures. Although the dispute between Serbia and Kosovo originates from a political and not trade-related motive, it will have mostly economic consequences.

The decision taken by Kosovo's government was a retaliation against Serbia blocking the country's bid to join Interpol. It has been heavily criticised by both the Kosovan public and on an international scale, with the EU and the US both calling for an end to the de-facto trade war. While Serbia has a track record of making business highly difficult for exporters from Kosovo – such as blocking goods arriving at the border or enforcing non-tariff barriers to Kosovo exporters – the move of Kosovo's government is sure to hit local businesses which have already submitted a request to exempt Serbia-based international enterprises from the tariff as they supply Kosovan manufacturers with raw materials. ▲



Kosovo's IT scene

A viable and sustainable ICT sector is something that most countries in the emerging Europe region have been working hard to develop. However, in some markets, Kosovo included, while the industry is growing rapidly, keeping pace with more-developed neighbours has not been easy.

WORDS SHAKHIL SHAH

Access to the internet has grown in Kosovo over the last few years, and a majority of households now have an internet connection. However, 38.7 per cent of the country's population still has no access to any type of electronic computer device.

According to the Kosovo Association of Information and Communication Technology's (STIKK) IT Barometer report for 2018, the ICT sector is currently considered as one of the few sectors with a positive trade balance. More than 78 per cent of IT companies in Kosovo now export their services and products, a huge increase compared to 2017 when only 58 per cent of IT companies exported their services.

"This year's [2018] IT Barometer results reveal positive trends in terms of revenues and salaries in the IT industry. Monthly salaries for IT professionals have also seen steady growth over the last two year. Salaries for IT professions have gone up by four per cent. The largest rise in salaries are for business development managers (nine per cent), developers and administrators (eight per cent each)," the report explains.

Challenges

While the development of the ICT sector in Kosovo has become one of the government's top priorities over the last five years, challenges remain. This is further highlighted by the results of a survey carried out by PwC.

The results show that a large number of respondents are unsatisfied with the current policy and regulatory environment and developments (43 per cent), and also feel that the quality of schools and training for people working in the digital tech sector is inadequate (58 per cent compared to 29 per cent that feel it is of a high

level), and that access to finance is a challenge.

However, the most worrying results of the survey show that a staggering 72 per cent of respondents feel that finding skilled workers is a huge challenge, despite there being an unemployment rate of 31.4 per cent in the country at the end of 2018 according to the latest figures published in March 2019 by the Kosovo Agency of Statistics (KAS).

While Kosovo's biggest markets are in Western Europe and North America, a number of challenges are hindering the industry.

"Visa requirements, a lack of business contacts in target markets and finding the right business partner are the main obstacles in boosting Kosovo's nascent IT sector," says Donjeta Sahatciu, president of the board at STIKK.

In spite of those challenges, according to the PwC survey the Kosovo ICT sector does have two major advantages: the availability of affordable workspace and access to incubators and accelerators.

The need to get women involved

Based on data from a PwC Regional ICT Sector Study, 88 per cent of businesses in the ICT sector are domestically owned, with only eight per cent of companies being foreign-owned. In addition, 87 per cent of businesses are owned by men. This is also reflected in the workforce for the sector where there is an 80/20 ratio of male to female workers.

That said, there are organisations trying to change this dynamic such as Girls Coding Kosovo (GCK), who hosted the world's largest game creation event: Global Game Jam, in January 2019.

"Our vision is to create a free-of-gender-bias IT sector in Kosovo and the Balkan region by increasing the number of women



in technology and programming, expanding the number of women to consider programming as an academic or commercial profession and encouraging young girls' early exposure to coding and software programming," says Alborita Mehana, project coordinator for GCK, adding that she also considers GCK as fundamental to changing the current situation in the technology and programming industry:

"Technology is becoming an essential part of our daily lives. There are many fields related to technology; internet, smartphones, social media. There is an obvious lack of women actively working in the technology industry," adds Ms Mehana.

Organisations like GCK are in a prime position to help



develop the ICT sector in Kosovo, in particular due to the fact that, according to the PwC report, there is inadequate and insufficient education at university level, in particular, when it comes to developing skills such as marketing, sales, project management and business analysis. In addition, there is also a lack of institutions providing specialised training for IT professionals. Other organisations such as STIKK and the Innovation Centre Kosovo (ICK) have also established training academies to combat these challenges.

“Given the untapped potential of our youth, this centre [ICK] has become a home to many young people who see it as an opportunity to develop their ideas into sustainable businesses. Basically, they come to us with an idea, and

we offer them tailored services and programs to help them accelerate their businesses,” says Uranik Begu, ICK’s director.

Limited options

Based on the STIKK forecast, 2019 is set to be a great year for ICT professionals in Kosovo, at least where remuneration is considered. They believe that the positive trend in the number of employees and their remuneration will continue. In addition to that, 25 per cent of the companies that they interviewed foresee an increase of 50 per cent in the number of their employees, while more than half of IT firms (55 per cent) believe that there will be a 10 per cent increase in the salaries of IT specialists.”

However, finding the right talent will continue to be a challenge. Universities are underfunded and require substantial investment. They only produce around 350 IT graduates a year and 91 per cent of IT companies surveyed by STIKK agree that educational programmes do not meet the skills and requirements of the sector.

“Kosovo has the youngest population in Europe, but our youth have limited options living here. They either have to work for someone or create their own business. We also have people who are seeking to complement their formal education with some ICT skills. The only sector that yields a positive balance is services,” concludes Mr Begu. ▲

Rebuilding Kosovo

Neglected for decades, investment in infrastructure has been a priority for the Kosovo authorities since the country declared independence in 2008.

WORDS CLAUDIA PATRICOLO



Road infrastructure is considered as the most important public asset in Kosovo, contributing to both the economic and social development of the country. Demand is growing for quality urban housing, class-A office spaces, government buildings and schools, which leads to road, highways, and other infrastructure needs. The ministry of infrastructure continues to have one of the country's highest budgets for capital investment.

"In 2018, in the category of the capital expenditures, the government of Kosovo spent approximately 1.34 billion euros on infrastructure projects: 714 million euros by the central government and 629 million euros by local authorities," says Diana Metushi Krasniqi, project manager at the Kosovo Democratic Institute (KDI).

Challenges remain

Corruption is a problem. The KDI claims that in 2016, out of 9.1 million euros spent for maintenance of national and regional roads, a total of 1.9 million euros were "lost".

The ministry of infrastructure has not been sufficiently transparent with regard to the provision of access to documents related to tenders. Of the seven requests for access to public documents submitted to the relevant departments, only four were received a response.

The National Audit Office also concluded that some of the key problems are related to delays in initiating procurement procedures. The European Bank for Reconstruction and Development (EBRD) has suggested that Kosovo set up a central unit dealing with the implementation of projects in order to accelerate the process.

"We signed a few large infrastructure projects in 2015 but they have not been implemented yet," EBRD first vice-president Jurgen Riegerink said at the end of 2018.

There are other issues. Delays lead to the extension of contract terms and additional work, a lack of technical specifications regarding the width of roads prevents accurate calculation of road maintenance costs, while awarding contracts without publication of the tender and the lack of proper reporting documentation and registration of works and expenditures all create additional problems and hamper progress.

(Not) environment-friendly

The KDI has warned that major post-war infrastructure projects have seriously degraded the country's nature and environment.

In particular, it highlighted the degradation of rivers in Kosovo through lowered riverbeds, but also damage done to mountains.

"Although Kosovo has built a strategy on sustainable and environment-friendly energy, this strategy has not been implemented into practice yet," explains Mrs Krasniqi.

"Despite Kosovo being very rich in lignite, as the primary source of energy in the country, the current infrastructure dates from 1960-1970, and is one of the key polluters of the air. Additionally, the industrial waste water that was used for cooling purposes, is a major land polluter in the area of the power plant," she adds.

Similar reports from civil society express concerns about water pollution near the Ferro-Nickel Factory in the municipality of Drenas, where industrial waste waters are disposed in the nearby river, and a battery factory in Mitrovica, where old batteries

have resulted in the contamination of the surrounding land.

“The [KDI] report *Political Economy of Gravel* lists several concerns related damages done to river beds due to the extraction of gravel which is mainly used for road and building construction, and how the government has neglected the oversight of these activities for political gain,” comments Mrs Krasniqi.

“But these are not the only attacks on the rivers. Lack of strategic planning on road construction and management of dump pits have also contributed to the pollution of the rivers. This is a major concern as Kosovo faces shortages in sustainable water supplies.

The private industry of wood is a major contributor to deforestation. The current legislation has gaps that are being used to avoid accountability in the matter. Currently, we do not have an official number or percentage of deforestation in Kosovo. Only in 2019, a law came in force to check the pollution caused by vehicles used in Kosovo, so until next year we will not have official data at to what level cars are contributing to air pollution.”

Western Balkans initiative to boost infrastructure

The government is currently working on amending existing

legislation to meet the EU Acquis on sustainable energy and investments.

“Adapting the existing infrastructure to be environmentally friendly will require further investment,” Mrs Krasniqi says.

Kosovo’s participation in the Western Balkans Six initiative will likely include additional funding for infrastructure projects, such as railway and road construction. Last year, the government initiated a public tender for the first two segments of a new highway connecting Kosovo with southwest Serbia. Future projects entail public procurement for the Dukagjini highway that will connect major cities in the western part of Kosovo. ▲



Kosovars want to travel. Why will Europe not let us?

The European Union demands that Kosovars obtain costly, difficult-to-procure visas before travelling outside of their home country. This process is discriminatory and must come to an end.

WORDS LIRIDON BLAKAJ



Liridon Blakaj is the Prishtina representative of AICS, the Italian Agency for Development Cooperation.



What a sad fate to live in the heart of the continent called Europe, and not being able to live it. Welcome to Kosovo!

This story is not a thriller but it is all based on the sad truth of this country, called Kosovo, which I do not want to judge either on the past or on the future but I would simply like to tell a European story.

A country that has two million inhabitants and is independent thanks to or because of that very same Europe, continues to be the only country where people live as if they were prisoners at Guantánamo Bay, isolated in the open sky.

The citizens of this country are the only ones on the continent who don't have the right of freedom of movement, with the banal excuse that they do not reach

the political/technical conditions to have such freedom.

Officially, because Kosovo is a 'Kingdom of Corruption' and organised crime is rife, so it is better to isolate the problem, right?

But is Europe not ashamed to use such undignified tactics when it has been present in the country for years and, what's more, practically controlled it for several years?

Until now no Kosovar politician has been denied entry to Europe because of corruption. Indeed, the EU bureaucrats have elevated these people to interlocutors. If they are held to such a high standard, then who is corrupt?

Regarding crime; when one is called a criminal, this label infers that they do not care for the law, consequently in our case, the criminal elite have no problem crossing borders illegally, as

they have always done and will continue to do so.

So since corrupt politicians and international criminals, such as drug traffickers and religious extremists can travel easily to conduct their business which part of Kosovo society is being denied the right to move freely?

Luan is a young man of 34, with a specialist degree in sports sciences and he tells me that he never thought of leaving Kosovo, because he has his own house here, a good job, and he knows that nowhere else will be better. But Luan would like to be able to go to Europe just to see European gymnasiums and to be able to bring back modern equipment for his gym in Kosovo. Denied!

Bardha, 25, a telecommunications architect and fluent in English, French and Italian, as well as



Albanian of course, says she has a good job in Prishtina and is very active in civil society but would like to be able to travel to Europe to meet *dostat*, a familiar term for friends from these parts. Denied!

Perparim, just 31 years old, is an excellent banker in Kosovo and his standard of living allows him to live well here, but he would love to go with his wife to watch Milan play football from time to time. Denied!

You can find many people like these in Kosovo, people who do not seem to matter to Europe.

Or you could say that if these people met all the requirements,

they would have no problem getting a visa, and you are right. But there is another peculiar condition that would leave the majority of young Europeans without a visa: to get one, all embassies ask to you to prove that you have a couple of thousand euros deposited in your bank account.

I wonder how many young people, and not just young people in Europe, have over three digits deposited in their own name today?

Luan, Bardha, Perparimi and many others like them could comfortably spend the weekend in an EU capital but to have a couple of thousand euros in the bank is

actually quite difficult if they live and work honestly in Kosovo.

But this, of course, is not a problem for the children of the politicians; corrupt as Europe calls them, because for them that amount in the bank is an unremarkable detail.

As you can see, it is the healthiest part of society that is being condemned by these restrictions and in doing so, in a certain way, it is actually supporting more corruption and crime.

In this country, unlike all the member states of the European Union, no group, association or political party exists or ever existed that has spoken out against the country's accession to the European community, this is not an insignificant statement.

But if Europe continues in this way, then young Kosovars - driven by frustration - may rethink these perennial refusals.

True, two million Kosovars may not be important to Europe, and how would you expect them to be when a neighborhood in Rome, Paris or Berlin has more inhabitants. But perhaps the European bureaucrats have forgotten about geopolitics and don't remember that this region, from the most ancient empires of the continent, has been desirable precisely because of its geo-strategic position.

This discrimination is felt everyday by the people in the youngest European republic. Are levels of corruption and crime lower in Kosovo's neighbours? Does the drug trafficking that gets pinned on Kosovo drop from the sky? Or does it also pass through these countries?

I want to be positive and think that soon this article of mine will be resigned to the past, but for now I feel obligated to raise my voice to the injustice and unfairness, in my opinion, that is being done daily to the inhabitants of this pocket of Europe.

As a young man raised and educated in European universities, with the ideas of European humanism, it makes me feel sad that my continent can still discriminate its inhabitants in this way. ▲



Tetovi



