

Transitions

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Buried Treasure

by **Barbara Frye**

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While politicians and diplomats debate Kosovo's status, the impoverished province's potential remains untapped.

Azemine Gerbeshi lives in the depressed mining village of Novo Brdo in a small house with her husband and five of her six children. The stove heats the kitchen, where Gerbeshi cooks large, puffy disks of bread while her four youngest girls crowd around. Her husband, disabled in the 1998-1999 war, works occasionally as a miner, she says. Her only son, 21, is unemployed. Her oldest daughter is married and moved away. Gerbeshi, 44, is ethnic Albanian. Asked about her relations with her Serbian neighbors, she shrugs, saying, "Our problem is we don't have what we need to live: jobs, work, money."

Almost eight years after NATO bombs pushed Slobodan Milosevic's army out of this breakaway Serbian province, the eyes of the world are once again on Kosovo. While talk of statehood

dominates diplomatic circles, many who live and work in Kosovo say their primary concern is much more basic. Alleviate Kosovo's economic hardships, they say, and you're at least halfway to peace and stability.

PUTTING POLITICS IN ITS PLACE

If you have a job and can feed your family, "you don't think anymore of who your neighbors are," said Verena Knaus, a Kosovo analyst with the European Stability Initiative, a think tank that focuses on southeastern Europe and Turkey. Knaus has spent considerable time talking to Kosovars in village cafes and meeting halls. Publicly, she said, they often endorse the unyielding rhetoric of Pristina or Belgrade, but privately, they are far more worried about their financial situation. "In order to create conditions for people to stay here, there needs to be an economic focus here. Ultimately you decide with your pocket where you feel safe and where you can live," Knaus said.

Likewise, Randjel Nojkic, a Serb representative in the Kosovo Assembly, said, "The strategy of the international community has been to solve the problem of Kosovo politically – [but] it will be solved in an economic way."

According to the World Bank, the average annual income in Kosovo was about 1,200 euros in 2005. Unemployment estimates range from 28 percent to more than 40 percent, with one-third of the population under 15 years of age. Most of the country's industry – which, Knaus points out, used to provide a place for Serbs and Albanians to mix – is in mothballs.

Remittances from family members abroad are the second-largest source of income for most families. According to the Kosovo Public Service Ministry, for the years 2000 through 2004, they accounted for about 13 percent of household income. A European Stability Initiative report argues that remittances have served as a substitute for real development. If so, replacing them is becoming more important: the amount of remittances has been dropping, as more Kosovar emigres have returned home.

Kosovo's economy can get off the ground, experts say, if the provisional government and its international overseers can tackle a few serious issues. Primarily, Kosovo must develop a reliable source of energy. Outages are daily occurrences in much of the province.

"Electricity is a bottleneck preventing growth, discouraging new investors from coming in and preventing existing enterprises from growing," said Orhan Niksic, a senior economist with the European Union's office in Pristina. "At the same time, electricity is one of the biggest hopes for development." Kosovo has 14 to 18 billion tons of lignite, the largest deposit in Central and Eastern

Europe, Niksic said. And he offered a staggering statistic to illustrate what that coal might mean for the province's future. According to World Bank estimates, another 1,000 megawatts of electrical generating capacity could raise Kosovo's GDP by 15 percent, and the province has enough lignite for an additional 4,000 megawatts of capacity.

TRADE IMBALANCE

Kosovo must also invest in improving its people's skills and education. "[Albanian] Kosovars boycotted the education system beginning in 1989, and the education system is not up to the challenges. Now we have teachers and professors from the generation that skipped school," Niksic said. Banks are ready to lend money, but "There simply are not enough good ideas which are backed by the people who will realize those plans," Niksic said. He suggests massive investment in public education and the establishment of business centers to help train Kosovars for various types of enterprises. At least in the short term, most of these funds would have to come through foreign aid to Kosovo.

Such efforts might help right the balance in an economy tipped precariously toward retail trade. Pristina and other towns in Kosovo are awash in shops selling sundries, shirts, fabrics, and groceries. Niksic said about 50 percent of economic activity here is in trade, with 20 percent concentrated on services and a mere 16 percent on production. Even foodstuffs that Kosovars used to grow themselves, such as corn and wheat, come from elsewhere now. In 2005, the value of imports outpaced that of exports by 24 to 1.

Finally, Kosovo must have a defined status and the ability to join international financial institutions, which will allow it to take out badly needed loans. Under UN envoy Martti Ahtisaari's proposal for the province's future, Kosovo will be allowed to seek membership of international institutions as though it were already a sovereign state. Its status will likely be decided by the UN Security Council later this year. In presenting his proposal in Pristina on February 2, Ahtisaari acknowledged that Kosovo's "dire economic situation needs most urgent attention."

To Niksic's list of challenges, Knaus would add Kosovo's young population, which could push up the unemployment rate. She said the job market sees a net increase of 30,000 job-seekers each year. Knaus' European Stability Initiative has urged European countries to allow young Kosovars to migrate west in search of jobs. "The alternative is to send ever more policemen to Kosovo to deal with a new generation of angry and desperate young men," a September ESI report warns.

AN ECONOMY IN LIMBO

Kosovo's economic woes are unmistakable. But so is its potential, according to Niksic. The fact that much of the province's wealth lies in minerals is an advantage because Kosovo's mining tradition ensures a pool of skilled workers and because mineral investors are not as likely to be scared away by Kosovo's economic chaos, Niksic said. Indeed, the largest single privatization so far has been the sale of the Ferronikeli mining complex in 2005 to London-based IMR/Alferon for 30.6 million euros. Alferon also promised to invest an additional 20 million euros and to hire 1,000 workers.

Kosovo's privatization process got a slow start because ownership of many businesses is not clear and because Serbia claims a stake in state-owned businesses. Belgrade has raised repeated objections to the process. Still, since 2004 the province's privatization agency has recorded more than 300 signed or pending deals worth almost 258 million euros. Twenty percent of that money goes to former employees of those companies. The other 80 percent is locked away, however, pending the resolution of creditors' – and Belgrade's – claims against the privatized firms. Once those cases are dealt with, the government will be able to tap those funds.

For one potential investor, Kosovo is just too good to pass up. CEZ, the giant Czech energy company, formed a consortium with an American firm last year to bid on lignite mining and power plant development in Kosovo. CEZ spokeswoman Eva Novakova said the company took extra measures to evaluate the risk, but in the end went for it because Kosovo fits in nicely with CEZ's aggressive expansion into southeastern Europe. Results of the tender are slated to be announced by late March.

Aside from privatization, Niksic said the construction industry is picking up steam, fueled in part by the population boom that so worries Knaus. And he points out that Kosovo's economy grew by 4 percent last year, according to the IMF. Even a zero growth rate in 2005 reflected some strength, he said, considering that donor funds declined that year.

For all the hopeful signs, though, the resolution of Kosovo's status is the key to unlocking its potential. Until then, high interest rates will reflect the high risk of investing here, and the province will continue to rely on grants, rather than favorable loans, from the World Bank.

For people like Azemine Gerbeshi, the status of Kosovo is a means to an end. Although she admits she has paid little attention to the diplomatic maneuverings over the province, she said, "We'd like to have independence because we think after that, we will have more employment. What's important is to have a better life."

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