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Main challenges for Kosovo's nascent economy

Reuters, <http://www.reuters.com/article/latestCrisis/idUSL09454037>

A European Union-hosted donors' conference for newly independent Kosovo hopes to collect up to 1.5 billion euros on Friday to start turning the former Serbian province from an aid-dependent protectorate to a viable economy.

Here is a look at the main economic challenges facing Kosovo, which declared independence in February after almost nine years under United Nations stewardship.

UNEMPLOYMENT

Some 44 percent of the work force is in formal employment, with the rest either long-term unemployed or working unofficially. Some 30,000 young people enter the job market every year, five times what Kosovo businesses can absorb. The government wants to get formal access to the EU labour market by setting up labour-exchange programmes in specific sectors.

POVERTY

Some 45 percent of the population lives below the poverty line of 1.5 euros a day. Wages average around 240 euros a month, and most households receive remittances from at least one family member working abroad.

INFRASTRUCTURE

Kosovo's road and rail network was neglected in Yugoslav times, fell into total disrepair during the 1990s, and was partly destroyed in the 1998-99 conflict. The repair of major arteries around the capital Pristina has been marred by low-quality planning and materials. The government plans international tenders for country-wide highway concessions.

Utilities, especially water and power, are generally unreliable although much improved from the previous decade. A major planned project, the Kosovo C thermal power plant, aims to draw on the territory's lignite deposits to turn Kosovo into a power exporter by 2015. A reliable water supply will require the political agreement of the Serb minority, which dominates the area around the main reservoir in north Kosovo.

EDUCATION

Serbia's decision to strip the province, with its 90 percent Albanian majority, of its



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autonomy in the late 1980s resulted in the creation of ad-hoc Albanian parallel systems of education. The low quality of the informal schooling -- mostly in small groups in private homes -- was exacerbated by the mushrooming of dubious private colleges after the U.N. took over in 1999, translating into poor skills even among university graduates. Foreign language learning is a bright spot, with the majority of young people being competent in one or two European languages due to the diaspora influence and the international presence.

CORRUPTION

A wartime legacy of racketeering combined with the Albanian tradition of strong family networks has created an opaque system of personal connections that permeates everything from simple administrative services to the allocation of tenders and scholarships. EU-standard laws were imported almost unchanged, but implementation is extremely patchy. Extensive media reports on graft and corruption in the U.N. mission failed to lead to prosecutions due to the immunity afforded to international officials, adding to Albanian disenchantment with the system.

BUSINESS CLIMATE

The main drags on investor confidence and competitiveness are a weak legal system, high interest rates -- around 13 percent -- and the tax system, which frontloads start-up costs through customs duties on capital goods. Access to international financial institutions which would help establish cheaper credit lines is at the moment blocked by Serbia. The government plans to shift the focus of tax collection to favour small and medium enterprise development.

OTHER ISSUES

The unilateral adoption of the euro as the successor to the German mark imposed financial discipline and secured a low inflation environment, but left fiscal policy as the main tool of economic policy. Budget stability is seen as crucial as the government takes on more responsibilities, and the associated costs, from its international overseers.

The inheritance of part of Serbia's foreign debt will add more pressure once the exact amount is determined.