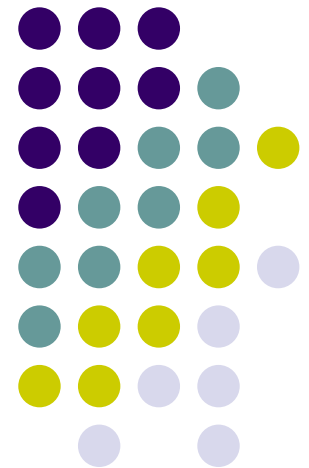


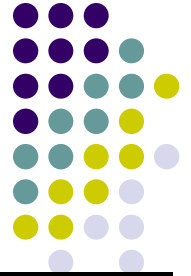
Economic Restructuring and Capacity Building in Kosovo

Some examples

Hajdar Korbi
Head of Macroeconomic Department
Ministry of Finance and Economy
Kosovo

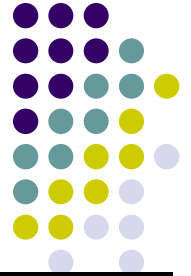


Outline



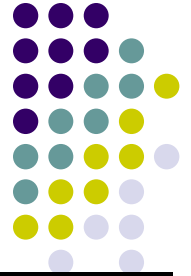
- Financial sector
- Privatization
- Social policy
- Capacity Building

Financial sector



- Entirely new structure – independent of previous system
- Objective to establish trust and confidence in banking and other financial institutions
- Financial system is supervised by the Central Banking Authority of Kosovo (CBAK)
 - Due to euroisation, there is no monetary policy
- CBAK has strong regulatory oversight for banking, pension and other financial institutions
 - Successfully handled the closure of an insolvent local bank (the only banking failure)

Financial sector, continued



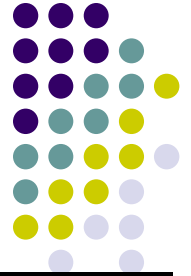
- ProCredit Bank (PCB) and American Bank of Kosovo (ABK) were among first banks with foreign capital
 - ABK, which was then sold to Raiffeisen Bank, was established by USAID
 - Created a competitive market for financial intermediation
- This increased public confidence and established grounds for entrance of other local and international banks and financial institutions into the market
- Currently three international plus four local banks (new international entrants expected)

Financial sector, continued



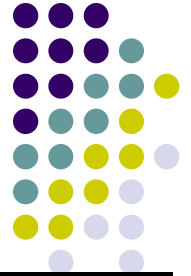
- Banking services highly efficient
- Deposits and loans-steady growth
- Arrears rate (bad loans) very low
 - below the regional average
- Interest rate spread high
 - Reflect high risk and high operational costs

Privatization



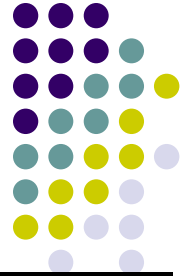
- Privatization is handled by Kosovo Trust Agency (KTA)
- Concentrated in Socially Owned Enterprises (SOE)
- For the Publicly Owned Enterprises (POE) KTA has established principles of sound corporate Governance - POEs have now been incorporated, but remained to be privatized
- Privatization process simple and transparent
- Funds raised held in KTA trust-20% of proceeds paid to employees

Privatization, continued



- Success of privatization attributed to the will of Government, international support, and acceptance of public
- Resulted in increased efficiency
- Attracted some foreign investment
- Has created some jobs
- Privatization funds held by KTA pending creditor claims

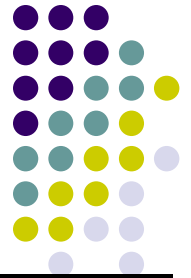
Privatization, continued



Challenges:

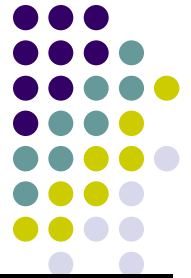
- Difficulties in privatizing Energy – subsidies to the Kosovo electricity provider (KEK) have not improved the situation
 - Solution is to attract private investments in new generating capacity-this process is proceeding with bidders identified
- Telecoms-PTK has monopoly
 - New mobile operator tender process completed
- To strengthen corporate governance and accountability

Social policy



- Immediate post-conflict situation:
 - Highest poverty in the region-unemployment 35-40%
 - No social safety net
 - Inequity of contributors to former Yug. Pension System
- Action
 - Establish broadly based social assistance scheme on three pillars:
 - Pillar I: flat rate pension to retirees paid from the budget;
 - Pillar II: fully funded independent pension scheme for employees, financed from contribution rate of 10% of wages (5% employer and 5% employee)-Administered by the Kosovo Pension Savings Trust (KPST)
 - Pillar III: Voluntary pensions, regulated by CBAK

Social policy, continued



- Start from clean sheet with support of international community
- A universal flat rate pension to all elderly over 65 introduced, regardless of employment history
 - paid out of the general budget revenues
 - had impact on reducing the poverty – elderly were left literally with no means of existence
 - Easily administered – executed through the Ministry of Labor and Social Welfare

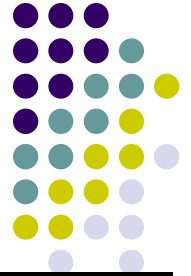
Social policy, continued



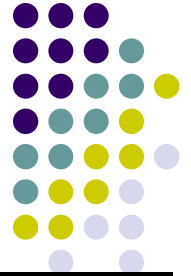
Challenges:

- Maintaining effective administration of the universal flat rate pension
- Maintaining integrity of the KPST board
- Avoiding political influence in pension funds
- Within the framework of prudential management, securing the best investment returns for contributors
- Addressing the issue of the contributors to the former YUG. Pension fund

Capacity Building



- Total supply of appropriate public service skills is limited
- Traditional approach of capacity building has worked well, in particular in Tax Administration, Budget and Treasury (USAID supported)
- In some cases, a better approach is to create or insert new capacity-notable success in some areas, e.g. MFE-USAID supported
- As in all post-conflict countries, public service salaries are too low
- A sustainable solution will involve a reduction in civil service numbers to create the head room necessary for substantial salary increases to attract scarce skills



THANK YOU FOR YOUR ATTENTION