



Kosovo Monthly Economic Briefing

April 2006

Preparing for next winter

• Preparations for stockpiling coal and putting in place necessary import contracts for the beginning of 2007 are critical to avoid electricity shortages next winter. This requires the concerted effort of a host of actors—the power utility company KEK, the Kosovar Authorities, and the international community over the coming few months in terms of finance, organization, procurement and political support. During winter months, the load demand for electricity is extremely high, partly due to the excessive use of electricity for space heating. Existing domestic supply is insufficient to meet total demand, requiring Kosovo to import electricity worth about €20 million during winter months. Plans and preparations for winter seasons have to be made well beforehand in order to avoid potential power supply crisis or adverse budgetary shocks. This includes adequate coal stockpiling activities during the summer and long-term and reliable electricity import contracts being in place to meet the short-fall in generation. In terms of coal supply, current estimates are that only 5.5 million tons of lignite will be mined in 2006—6.8 million was projected. The main reason for this gap is that, on current projections, only 10.5 million m³ of overburden covering the lignite out of a necessary 16.2 million m³ will be removed for securing supply and stabilizing the slopes to avoid additional landslides in the current mines. Small scale landslides during the spring rainy season demonstrated vulnerability of the operations to short term disruptions. Safety zones imposed by the mining regulatory authority – the Independent Commission on Mines and Minerals (ICMM) - on both the north and south slopes have since concentrated mining into the central pillar area, leading to crowding of equipment that reduces production efficiencies. This also leads to diminishing returns — later this year it will be necessary to remove additional overburden which is within the “no go” safety zones. That overburden cannot be removed absent a major push back of overburden on the north and south slopes. Thus, the mines are slowly being compromised by physical constraints imposed by overburden and a lack of funding to adequately address the problem. This problem adds risk to development of the Sibovc SW mine which is both essential for continued coal supply and predicated upon an adequate redress of current mining problems. Additionally, delays in public procurement of essential mining equipment, together with having the necessary financing, is critical to avoid the risk of having an inadequate coal supply during the critical winter months to meet even the current available generating units (one unit of A and Kosovo B1 and B2). There also is a need to put in place the necessary import contracts for the end of the winter. This year KEK has signed a contract of twelve lots for electricity imports for each month of 2006 and an extra lot for emergency imports. Currently, no contracts have been signed for January, February and March 2007—a process that requires financial resources to be available. Against this backdrop of preparing for the next winter, the most important pressing issue from a budgetary perspective, and for raising the potential for private investors to supply the domestic market is to raise billing and collection rates in electricity. At present, over half of all electricity delivered to the distribution network in Kosovo is not paid for due either to theft or the nonpayment of bills by consumers. Political support from all is necessary over a sustained period of time to raise these rates and thus strengthen the financial viability of KEK.

• **Trade statistics - composition of trading partners.** Kosovo continues to rely upon its immediate neighbors for the bulk of its imports and exports. In 2005, total imports into Kosovo were an estimated €1.1 billion and €48 million respectively. An examination of Kosovo’s main trading partners over the past three years shows that FYR Macedonia is Kosovo’s largest import and export market (averaging €220 million and €9 million respectively), followed by Serbia and Montenegro (€11 million and €5 million). 35 percent of imports and 37 percent of exports in 2005 were from the 25 European Union countries. The importance of Chinese imports for Kosovo’s economy has grown by 346 percent over the past three years to €5.7 million in 2005—the fifth largest source of imports, mainly in terms of hi-tech equipment and clothing.

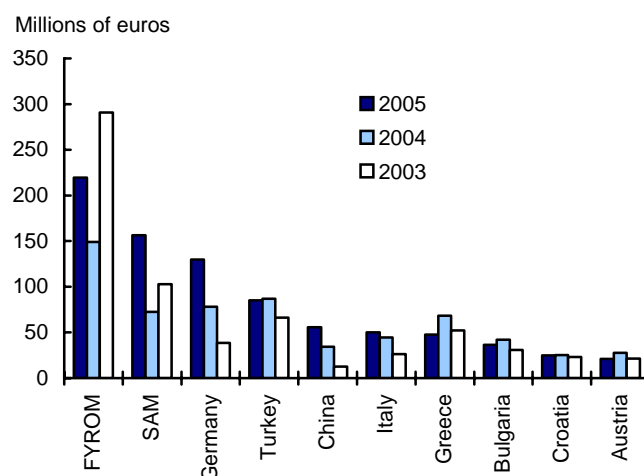
Key Statistics - at a glance

	2001	2002	2003	2004	Oct	Nov	2005 Dec
GDP (% change)	..	..	-0.6	2.8	..	..	..
Reg. unemployment	238.0	282.3	282.3	302.0	317	318.1	319.7
CPI (SOK)	..	..	1.6	-2.5	1.3	2.2	2.6
Fiscal balance (€mn)	96.6	106.4	62.6	-134.3	..	..	..
Exports (€mn)	10.6	27.6	35.6	56.5	4.7	5.1	4.7
Imports (€mn)	684.5	854.8	973.1	1,063.2	115	89.4	113.0

Note: Monthly fiscal balance, export and import figures are non-cumulative.
SOK (CPI) is % change year-on-year (e.g. Oct 2004 is change from Oct 2003 to Oct 2004). Registered unemployment in thousands.

Source: BPK, SoK, MFE, Kosovo Employment Office and IMF staff estimates

Top 10 trading partners by imports, 2003-05





Review of education in Kosovo

Education is critical for both future economic development and—as a primary dimension of individual well-being—for poverty reduction. In Kosovo, education inputs are currently low in comparison to the region—there are issues of inadequate capital expenditure resulting in a multiple shift system in many schools, and concerns over the quality of education being provided. While no objective measures such as results of international student assessment are available in Kosovo, the educational outcomes are considered to be low given the poor quality of inputs. As the high birth rate continues to increase the proportion of the population in education, it is critical to invest in this sector and to ensure the maximum efficiency gains from existing expenditure. Education in Kosovo is characterized by a parallel system, i.e. educational services are provided separately for the main ethnic groups.

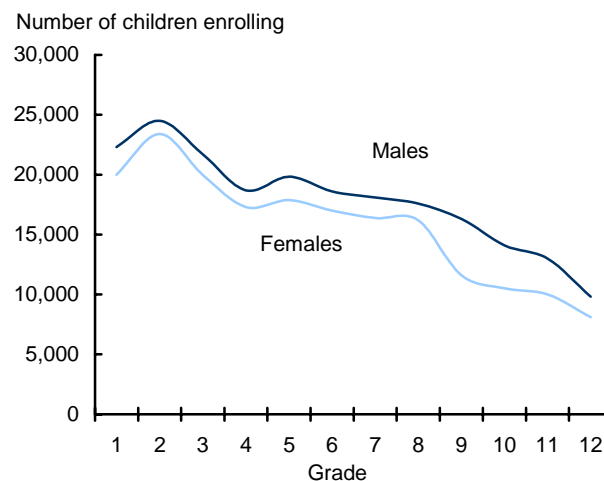
At 5.8 percent, illiteracy rates in Kosovo are high (although concentrated in over 65s where it reaches 49 percent). Positively, enrollment rates in primary education stand at 95 percent—a figure that is above the international average—but enrollment declines steeply at secondary education (75.2 percent in 2003) and there is a persistent gender gap (see chart). There are also ethnic differences, with enrollment being lowest amongst non-Serb ethnic minorities. In rural areas, distance to secondary schools is a major barrier to education—71 percent of households have to travel more than 5km to reach a secondary school. Enrollment in pre-school education is extremely low, with preschool currently not being compulsory.

The Ministry of Education, Science and Technology (MEST) is responsible for the oversight of educational services, with a mandate including higher education, school inspection, standards setting, developing curricula, promoting equality of opportunity in access to primary and secondary education, special needs education, and the licensing of private educational institutions. Nominally, municipalities play a significant decision-making role in education, but in reality services are not significantly decentralized. Municipalities receive an education grant from the Ministry of Finance and Economy (MFE) for educational expenditure, but the formula applied (using the number of pupils for primary and secondary education, moderated for minorities and population density) is only a starting point for discussions leading to the final grant allocation. Under the current system, municipalities currently do not have the incentive or the freedom to optimize resources within their budgets. The same is true at the level of the school—head teachers are appointed by a committee which has a majority of MEST nominees, and school directors have little control over resources or staff.

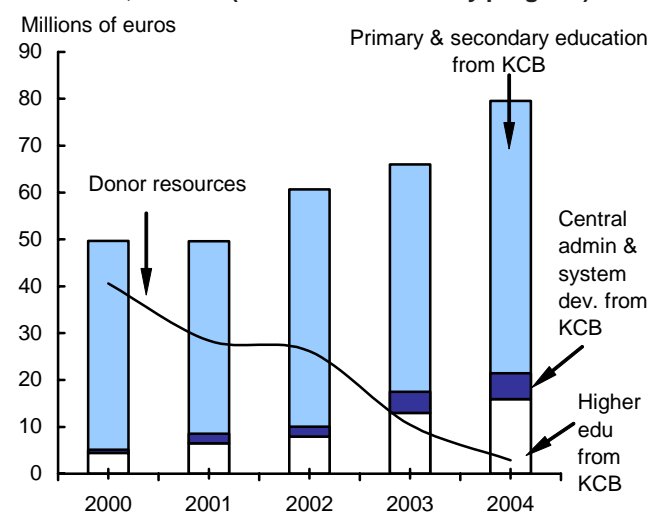
Higher Education is served by two public institutions—the University of Pristina, and the University of Mitrovica, which have a clear ethnic-split. Currently more than 30,000 are enrolled in the University of Pristina. There are now 18 private institutions in Kosovo, 10 of which are licensed by MEST with the other 8 awaiting confirmation of the license. Around 4,000 students currently study in these private institutions.

As a percentage of GDP, total public sector spending on education was 5.7 percent of GDP in 2004. Whilst higher than other regional neighbors, education spending in Kosovo has to account for poor

Enrollment rates for education at primary and secondary school and the gender gap

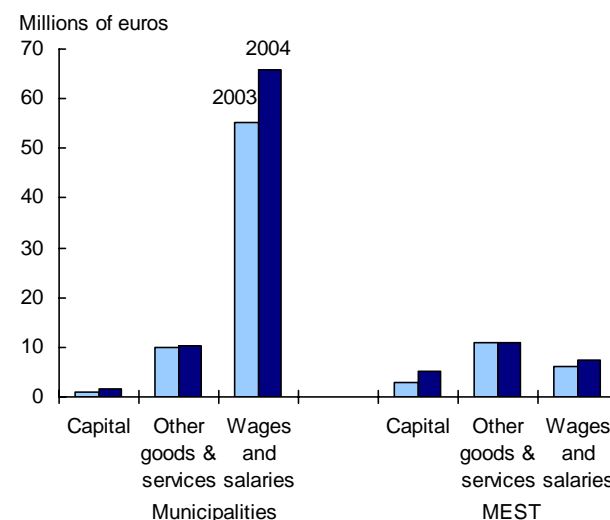


Kosovo Consolidated Budget and donor financing on education, 2000-04 (breakdown of KCB by program)



Source: Ministry of Finance and Economy

Educational expenditures by Municipalities and MEST by economic classification





initial conditions and an extremely high young population, which can explain part of the figure. Donor resources have rapidly declined in the sector since 2000, which has been offset by funding from the KCB. However, capital investment remains minimal (6.7 percent of education expenditure in 2004). The Education Grant to the municipalities does not include significant funds for capital investment, and municipalities are not committing their own funds. A needs assessment of capital investments in schools needs to be undertaken alongside an examination of the extent of multiple shift schools and additional space requirements.

Wages and salaries have been increasing since 2000 and currently account for 70 percent of expenditures, leaving little discretion for reallocating funds. Overall the pupil: teacher ratios in 2003/04 were 20:1 for primary; 14:1 in secondary; and 8:1 in special schools. For Albanians the average was 20:1, in Serb schools 9:1 and for other ethnic minorities 18:1. These ratios are slightly better (in efficiency terms) than the average for OECD countries, and are reasonably similar to those in the Czech Republic. However, the pupil: teacher ratio at pre-primary level is high, at 33:1.

While funds allocated to basic education seem to equally benefit poor and non-poor children, there are disparities in the quality of teaching between high poverty and lower poverty areas. The Household Development Indicator Survey data reveal that there a large number of unqualified teachers in Kosovo, particularly in municipalities with a higher incidence of poverty. As yet, there is no objective method of assessing the quality of education in Kosovo through an examination or assessment system. End of secondary school exams are internally set and moderated. Improving quality, together with ensuring adequate capital expenditure on schools are critical for maximizing the benefits from education in Kosovo.

Additional information is available on request. For more information, please contact Neil Bush (nbush@worldbank.org), Shpend Ahmeti (sahmeti@worldbank.org) or Vito Intini (vintini@worldbank.org) at the World Bank Office in Kosovo on (381-38) 249-459. The findings, interpretations, and conclusions expressed in this briefing are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.