

Djankov: EC's priority should be economic integration of Balkans countries

European Union's enlargement policy and economic integration of the Western Balkans countries should be a priority of the new structures of the European Commission, Simeon Djankov, the director of the World Development Report 2019, said.

In an interview with "Koha Ditore", Djankov, a former-Deputy Prime Minister and former Minister of Finances in Bulgaria (2009-2013), spoke about the steps that should be undertaken by the new European Commission, expected to be constituted based on the elections held on Sunday.

Second priority, according to him, should be the social cohesion of the regional countries, specifically support for people to build their skills and integrate. Djankov, who is the founder of the Doing Business report, spoke also about Kosovo's rank in the Report and the reasons why Kosovo is not managing to attract foreign investments.

He said that Kosovo is a small market and does not have a good infrastructure for exports. According to him, the Government should focus on overcoming the limitations of being a small market by developing electronic services, so, not goods only, but other services, too, such as travel, financial, accounting services which require smart people, who can export such services abroad via computers.

KD: The European Parliament has elected the new composition. What are the weaknesses of the outgoing European Commission and what should be the priorities of the new structure of this new institution towards the Western Balkans countries?

Djankov: I believe that the next European Parliament and Commission will pay more attention to the Western Balkans and Balkans in general than the outgoing European Commission of Juncker did. The current Commission has faced with external shocks, the migrant crisis 2015-2016 and Brexit in 2017-2018, and it paid almost the entire time to these two issues. The enlargement of the European Union and economic integration of the Western Balkans countries into the European Union have not been high priorities, they were secondary issues of the European Union. This is acknowledged as a weakness in Brussels itself and my prediction is that the next European Commission will look immediately at the possibilities for the economic integration of the Western Balkans countries. By economic integration I mean first of all the road infrastructure, including e-tolls for the use of roads for moving from Bulgaria, Greece, through Western Balkans up to Germany or the Netherlands. So, it is the road infrastructure. Also, the energy integration because the energy systems of different economies in the region need to be integrated jointly into the European energy system. Last year, when my country, Bulgaria, chaired the European Union, the economic integration of the region was put on the table and many plans have been developed, but we need funds from the European Union and assistance from all the politicians in the region for the integration to happen. The World Bank can help in this regard because we have plenty of projects in the majority of the regional countries, including Bulgaria, Romania, and Greece and we can integrate these projects into one or more regional projects in order for the integration to really happen. The second priority of the European Commission for Kosovo and the Western Balkans, in my opinion, is the social cohesion, meaning that no one in the society is left aside, support is provided for people that need more skills and have bigger needs for integration. In this regard, I think of the support for kindergartens, primary and secondary schools, in order for everyone to get the right education. These are fields that the

European Commission has financed traditionally in many countries in the Southern Europe, Bulgaria, Romania, therefore, such assistance should come here, too. The World Bank has experience in projects that support social cohesion in different countries in the world and the region and it will make a partnership with the EU in order that projects that really support social cohesion provide a better sustainability.

KD: In World Bank's Doing Business Report, Kosovo is amongst the top 50, but there is a lack of foreign investments. How is Kosovo ranked in this Report and what are its deficiencies?

Djankov: The Doing Business Report includes all the world economies, compares laws and regulations, and their implementation in terms of issues related to doing business. So, it looks only at what the Assembly and governmental agencies produce. Kosovo performs well in this report, it is amongst the top 50 in the world as far as facilitation of doing business is concerned. But, as I said, this is more a result of the work done by the Assembly, so, the Assembly has done a good job in terms of the laws and regulations mainly because the majority of them are in harmony with the relevant regulations of the European Union. What should be added to this report in order to make conclusions about the general business environment is the size of the market and Kosovo is a small economy. For having a really good business environment you need a much larger market. Therefore, the Government should think how to increase competition for exports in order to cover more markets in the region and the world. This depends on the quality of the infrastructure and the internet connection. There should also be basic infrastructure for having a better business environment since good laws only are not enough. Another element we see in other studies of the World Bank on Kosovo is that while you have a bigger number of youth, the educational system, particularly higher education is not focused on the needs of economy, it is standard-based in terms of the offered courses and curricula and they do not prepare the youth for economic growth. So, the general environment of doing business depends on the business legislation, labour force educated for economic growth, and infrastructure that enables you to be competitive globally and Kosovo needs to invest a lot in these two factors.

KD: Talking about investments, what are the barriers that are preventing Kosovo from attracting foreign investors and in which sectors does it have to focus for increasing investments and employment?

Djankov: The biggest barrier to foreign direct investments is the small size of the market. When you are an investor you look at the local consumption possibilities or the possibilities for producing it somewhere and then for exporting your products easily. In the case of Kosovo, the market is small because Kosovo has a small population compared to the region. Export possibilities are limited here due to the infrastructure and some trade policies. Some small countries have managed to overcome the limitations of small market by developing electronic services, so, not goods only, but other services, too, such as travel, financial, accounting services which require smart people, who can export such services abroad via computers. My country, Bulgaria, for instance, is very active in the exportation of electronic services. These services constitute 10 percent of the economy and they are increasing rapidly. Salaries in this sector are at the global level. Average salary in Sofia in this market is 5.000-6.000 Euro, so, much higher than in the rest of the economy. For this you do not need better road infrastructure, but you need well educated people and Kosovo has people. However, as I said earlier, universities should change their curricula and start offering such electronic services, and you need better internet connection, not only in the capital, but in the villages as

well in order that more people take part in economy, but this is not the case in Kosovo. I am currently staying in one of the best hotels in Prishtina and the internet has not worked there over the past two days, which means that internet is an issue here, too.

KD: According to the data of Kosovo Statistics Agency, Kosovo has a high unemployment rate, which is around 30 percent. This has influenced the youth to leave the country. How do you see this phenomenon and what should the Government do for stopping migration?

Djankov: The entire Balkans region has been facing with the migration process, mainly migration of the youth, who are going to Western Europe countries like Germany, United Kingdom, France, Austria, and Switzerland looking for jobs. This is a really regional problem. Eurostat collects such data and they show that Greece, Bulgaria, Serbia, Romania, and Kosovo have been exporting human capital to Western Europe. This is a major issue for the entire region. There are two reasons for this. Firstly, salaries in the European Unions are much higher than in the Western Balkans. People compare the salaries and they conclude that it is better to go there and to receive those salaries. Secondly, regional economies are very small individually and if a bigger regional market is not created, it will be difficult to compete with the opportunities offered in the Western Europe. The Government can do two things. First of all, it needs to support employment in the sector of electronic services, where the market and salaries are integrated into the global level. I mentioned earlier that electronic services constitute 10 percent of the economy in Bulgaria and the salaries in Sofia are the same as in Berlin and Paris. The youth that know languages and computers are looking for such jobs and you have plenty of young people that know languages and can work with computers. The only thing that should be done is that this should be done together here. As far as production is concerned, you need roads. Kosovo is closer to the Western Europe but roads are not there. You want to produce here to export the products quickly to the big markets. The World Bank can help you in this regard as it can support regional projects that connect Kosovo with Munich, Berlin, Paris, Athens, Thessaloniki, the ports are there, in order for it to be able to export to other countries like China, India, or others.

KD: According to some reports of the Government, there are problems regarding the attraction of loans for foreseen projects. What are the reasons why Kosovo has a low level of disbursement?

Djankov: In order to have a better implementation of projects, they need to be really connected with a general economic strategy, so, they are clearly connected to the ways how to increase economy and create jobs. Different Governments have analysed the deficiencies and have requested projects in those fields. It is much easier if you have a general strategy and identify 5 necessary things. Afterwards, they may be put together and may be implemented in a big project. This is an experience of the World Bank with other countries in the region, such as Bulgaria, Romania, Macedonia North, where implementation of projects goes quickly and it is better connected with economic growth and jobs. The World Bank and Kosovo Government are working on preparing such a programmatic project, DPL, and this is our idea how to better help Kosovo's economy, as well as to improve implementation through this general projects that meets all the needs in the country instead of going with projects gradually. I hope we will have such a prepared project for Kosovo by the end of this year.

KD: You have been a Minister of Finances in Bulgaria. What is your opinion about the fiscal policies in Kosovo and can you compare them with the ones in your country?

Djankov: As far as fiscal policies are concerned, the Government has been implementing a conservative policy. Minister of Finances, including me when I was the Minister of Finances in Bulgaria, like that, but you need also a fiscal policy that helps economy and creation of jobs. This is the programmatic approach I mentioned earlier. For example, in Bulgaria, in addition to the annual budget, we also have 3-year budgets and 10-year budgets. The Assembly adopts the annual, 3-year, and 10-year budgets every year. In the long term budgets we speak about investments in the physical infrastructure, education, and healthcare, which support economic growth. I think this is needed in Kosovo and in the Western Balkans in general. The European Union has a 7-year plan, too. The next budget is 2020-2027 - a 7 year budget. This is done to have a long term strategy and Kosovo needs exactly the same.

KD: Pensions and other benefits constitute the largest part of the budgetary expenses in Kosovo. How much does the increasing tendency of these expenditures threaten the financial stability?

Djankov: The entire region has an aged population and pensions constitute the largest part of the budget in all the countries in the region. However, Kosovo differs as it has various sorts of special pensions, such as pensions for war veterans, teachers, fire fighters, etc. and the countries in the region do not have them. The difference is not about the heavy burden of pensions, because other countries in the region have them, too, but Kosovo, differently from other countries, such as Bulgaria, Romania, and Greece, has special privileges for pensions, which are becoming an increasing burden every year and the Minister of Finances cannot do a lot about this. This needs to be reformed somehow because the burden of special pensions cannot be held.