

RETHINKING AGRICULTURE AND RURAL DEVELOPMENT IN KOSOVO

RICHARD BEILOCK

University of Florida

Abstract

In terms of percentage of households or population, Kosovo is one of the most rural and agrarian areas in Europe. Not unexpectedly, considerable stress is given to advancement through rural development and promotion of agriculture, including protective or, at least, 'level playing field' approaches to customs. In this paper, it is argued that this view is wrong. The potential of Kosovo's agriculture is severely limited and both the large majority of its people, as well as its most important agricultural industries, benefit from low or no barrier polices. Moreover, while over half of Kosovo's households are categorized as rural and have some agricultural production, the very large majority of these are in close proximity to large urban centers, derive the bulk of their incomes away from home, and produce food solely for own consumption. Though masked by poverty, these households are, in reality, suburban with large gardens and development efforts should be viewed in this light.

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1. Introduction

The oppressions of the 1990's, culminating in the 1999 war, have left much of Kosovo's economy in ruins. While there has been progress since the 1999 war, this appears to be, at least in part, the result of and dependent upon conditions which cannot be relied on to continue for many years:

Kosovo's economy is to a certain extent artificial and unsustainable, as it is largely driven and supported by the international and donor community, and Diaspora funds. Private sector activity is based more on trade, services, and construction than it is on production.

USAID (2003b)

In such circumstances, it is both natural and correct for planners to seek to build on still functioning, potentially sustainable industries. In these regards, agriculture appears to be a prime candidate:

Kosovo is endowed with a significant amount of fertile, arable land and a temperate climate that is suitable for the economic production of basic grains and higher valued commodities, such as fruits, nuts, vegetables, and livestock... Ninety to 95 percent of cultivable cropland, 30 percent of pasture, and 37 percent of forested land is privately owned. The agricultural sector accounts for a significant share of overall economic activity. In 1995, primary agricultural production (crops, livestock, orchards, vineyards) accounted for 30 percent of GDP; 35 percent with the inclusion of forestry and food processing. Agricultural activities prior to the conflict in 1999 accounted for 60 percent of employment in the province.

USAID (2003a)

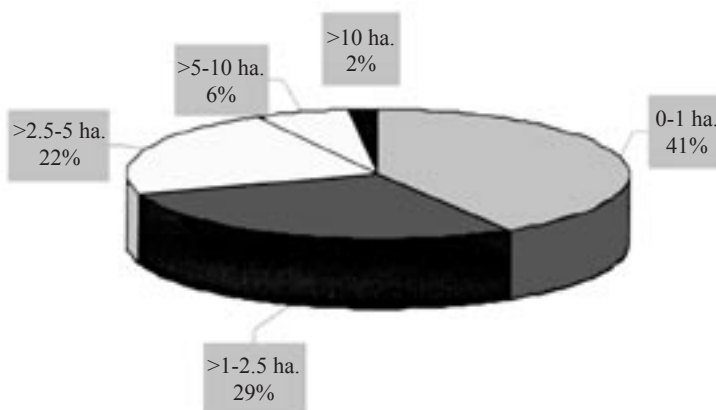
An aspect of Kosovo making agriculture particularly attractive for planners is that Kosovo's population is one of the most rural, with perhaps the most decentralized agriculture in Europe.¹ Fifty-one percent of Kosovo's households, accounting for 58 percent of its population live in rural areas, see Riinvest (2004b). Over 90 percent of these people, around 1,000,000, live in households having at least some agricultural land.

The very large majority of these holdings are very small. The average rural household has 2.4 hectares and only 10 percent have more than 5 hectares, see Figure 1. Kodderitzsch and Veillerette estimated between 100,000 and 150,000 rural households, see Kodderitzsch and Veillerette (1999). Based upon the results of Riinvest's 2004

1. For comparison with Kosovo's 61 percent rural population, 30 percent of Bulgaria's and 22 percent of Russia's populations are rural.

Kosovo Household Survey, see Riinvest (2004b) and assuming a total population of 2 million, there are just under 149,000 rural households. Data from *The Kosovo Greenbook* suggest that the number of households may exceed 220,000, see UNMIK (2003).²

Figure 1. Distribution of rural household land holdings by size categories



Source: Riinvest (2004b)

1.1 An Alternative View

The position taken in this paper is that the potential for Kosovo's agriculture is limited. It is vital for planners to appreciate what they can and cannot do to realize the potential within agriculture without compromising development of the overall economy. The current prominence of agriculture in Kosovo's economy is an aberration. It is the confluence of traditions, repressive policies of the previous regime, and the war.

In important regards, this aberration is fortuitous, acting as a life preserver for many Kosovars. Moreover, the broad distribution of assets, primarily in the form of land, can provide the financial means for hundreds of thousands of Kosovars to take advantage of opportunities, as they arise, to move into more productive sectors of the economy. There is widespread agreement that such a transition must occur. As is eloquently stated in the *Kosovo Greenbook*:

The small-scale agricultural structures currently play an important role in mitigating, but also preserving, rural poverty.
UNMIK (2003)

2. UNMIK is the acronym for the United Nations Mission in Kosovo. Employing UNMIK estimates of average family farm sizes and total land in Kosovo held by family farms it is estimated that there are 221,525 such farms.

There is both current dependence upon small-scale agriculture and the need to set the stage for making agriculture more competitive through restructuring. These two realities create dilemmas for the Government and donors. Measures to sustain and improve agricultural production by smallholders can alleviate current poverty, but may delay restructuring. This follows because, unless resources are unlimited, more effort to assist smallholders necessarily entails less to facilitate restructuring.³

There is widespread agreement on the points discussed thus far. The principal difference between the generally accepted views for agricultural and rural development for Kosovo and those presented in this paper is the greater emphasis the author places on providing for restructuring, rather than support for smallholders. This view reflects concerns over the feasibility of the international community or the Kosovar Government providing meaningful assistance to tens of thousands of very small producers; the advisability of trying to make more competitive enterprises which, due to scale or production mix, can never be truly competitive; the need for economically sound and sustainable agricultural/land use policies to maintain the value of the primary asset of smallholders; and the significant and rapid rewards of a balanced development strategy.

I will assert the following six points or propositions:

1. For a country to prosper, agriculture can play an important tertiary role, but the primary sectors always must be services and industry. In today's world, there are no exceptions to this rule.
2. Kosovo is poorly endowed for an agriculture-led economic development. Moreover, even if that were not the case, tariff/quota and farm support policies of other nations render agriculture-led economic development impossible for Kosovo.
3. Kosovo is well-positioned to profit from the farm support and *de facto* dumping of agricultural and food products by other countries:
4. Any Government efforts to ensure food security should be through accumulation of stocks, rather than production supports.
5. Approximately 150,000 rural households possess at least some land suitable for agriculture. With few exceptions, the land holdings are very small. Rather than viewing these households as small farms, the land should be viewed as savings or stock portfolios from which households can derive income through own production or rentals, or liquidate to acquire the means to enhance its earning potential, primarily in non-agricultural areas of the economy.

3. In theory, there could be policies complementary to both goals. In practice, this is probably rarely realized.

6. The overwhelming majority of so-called rural households are, in reality, suburbanites whose prosperity depends first and foremost on their ability to exploit employment and business opportunities in their neighboring city. Improvements integrating rural dwellers into the economies of nearby urban areas likewise create opportunities for urban dwellers. Efforts to assist rural households should be viewed in this light.

2. Point 1: It Is Impossible For A Nation To Be Prosperous With Agriculture As One Of Its Two Leading Sectors

Food is essential for all life. Its production or acquisition through production of other goods and services to trade for food is essential for all individuals and nations. As such, it seems nonsensical, perhaps edging on sacrilege, to assert a nation cannot prosper with agriculture as one of its primary economic pillars. But there are three reasons why this is true:

1. Prices are based on the benefit of an additional unit, not on the total benefit of a type of good or service.⁴ The world has been blessed with extraordinary advances in agricultural productivity. As a result, prices for agricultural production tend to be low. For example, it is estimated in the United States a unit of farm goods in 1910-14 was worth 2 ½ as much non-farm goods and services as the same amount of farm goods would command today.
2. Many nations, such as the United States, Japan, and South Korea, and trading blocs, most notably the European Union, provide their farmers with production incentives, artificially lower prices of their exports, and maintain barriers against imports. This further lowers agricultural prices beyond levels dictated by the sector's productivity. Despite GATT and WTO, protections on agricultural products continue to be maintained at high levels. In the 1960s, worldwide average tariff rates on both agricultural and non-agricultural goods were 40-45 percent. Today, the average tariff on non-agricultural goods and services is 3-5 percent, while there has been no substantive change for agriculture.
3. The range of non-agricultural goods and services and demands for these have risen exponentially. For example, many experts believe that the world's largest industry is tourism, which within living memory was inconsequential. Another example would be the myriad goods and services arising from the electronic and information revolution.

4. Economist often refer to this as the diamond-water paradox. Water is central to our existence, while diamonds are not. Save for a man dying of thirst in the desert, virtually everyone would pay more for an additional diamond than an additional cup of water.

2.1 Where Agriculture Is Important

The late economist, Kenneth Boulding, coined Boulding's First Law: What exists is possible, see Boulding (1978). Following this elegantly simple-minded logic, if there exists a nation in the world which both has a large agricultural sector and is prosperous, the same might be possible for Kosovo. In Table 1 is presented a listing of every nation in the world which has an agricultural sector accounting for at least 20 percent of its GDP. This primarily African and Asian group of nations includes virtually all of the world's poorest, along with a handful of low middle income, nations. Certainly, there is no nation with agriculture as a primary sector which Kosovo would choose to adopt as an economic model.

Narrowing down to Eastern and South-eastern Europe, the feasible paths for Kosovo's economic development are probably along the lines of one or more of its neighbors. In other words, it is unlikely that Kosovo's economy can develop in ways markedly different from those in its region. As such, examining the relationship between agriculture's share in GDP and prosperity in the region would be of interest. In Figure 2, the relationship between the share of the agricultural sector in GDP and *per capita* GDP is presented for the nations of South-eastern Europe. Again, low prosperity is closely associated with a high share of agriculture in the GDP.⁵

The bottom line is that neither in the region nor worldwide does there exist a prosperous nation with agriculture as one of its two main sectors. Unless Kosovo can blaze an entirely new economic trail, it cannot attain prosperity primarily through agriculture. Agriculture can and should be important in a supportive role and there will be individuals and firms achieving prosperity directly through agriculture, but it cannot be the primary engine of growth for the nation.

3. Point 2: Kosovo Is Poorly Endowed For Agriculture Led Development

Kosovo is endowed with fertile land and a temperate climate suitable for agricultural production.

Lane *et al.* (2004)

Virtually every analysis of Kosovo includes statements, such as that above, extolling Kosovo's land and climate. And they are entirely true. The large majority of Kosovo's central valleys are arable, with most of the rest comprised of pastures and forests. It is a bountiful land, however not uniquely so. Other nations in the region have lands at least as fertile and, in all cases in larger supply both absolutely and relative to their populations. Compared with the same nations examined in Figure 2, by a wide margin Kosovo has the highest population density, see Figure 3.

5. Another way of expressing this is that agriculture as a large share of GDP normally is a reflection of failures in the service and industrial sectors, rather than dynamism within agriculture.

Table 1. Nations with Agriculture at Least 20 Percent of GDP

AFRICA	ASIA	AUSTRALIA & OCEANIA	EUROPE	THE AMERICAS	
				CENTRAL & CARIBBEAN	NORTH SOUTH
Benin Burkina Faso Burundi Chad Comoros Congo, Democratic Republic Cote d'Ivoire Equatorial Guinea Ethiopia Gambia, The Ghana Guinea Guinea-Bissau Lesotho Liberia Madagascar Mali Mauritania Mozambique Niger Nigeria Rwanda Sao Tome and Principe Sierra Leone Sudan Tanzania Togo Uganda Zimbabwe	Afghanistan Armenia Bangladesh Bhutan Burma Cambodia East Timor India Kiribati North Korea Kyrgyzstan Laos Maldives Mongolia Nepal Pakistan Syria Turkmenistan Uzbekistan Vietnam	Papua New Guinea Solomon Islands Tonga Vanuatu	Albania Moldova Serbia & Montenegro Ukraine	Guatemala Haiti Nicaragua	Paraguay

Figure 2. Share of Agriculture in GDP and Per Capita Income: Southeastern Europe, 2003

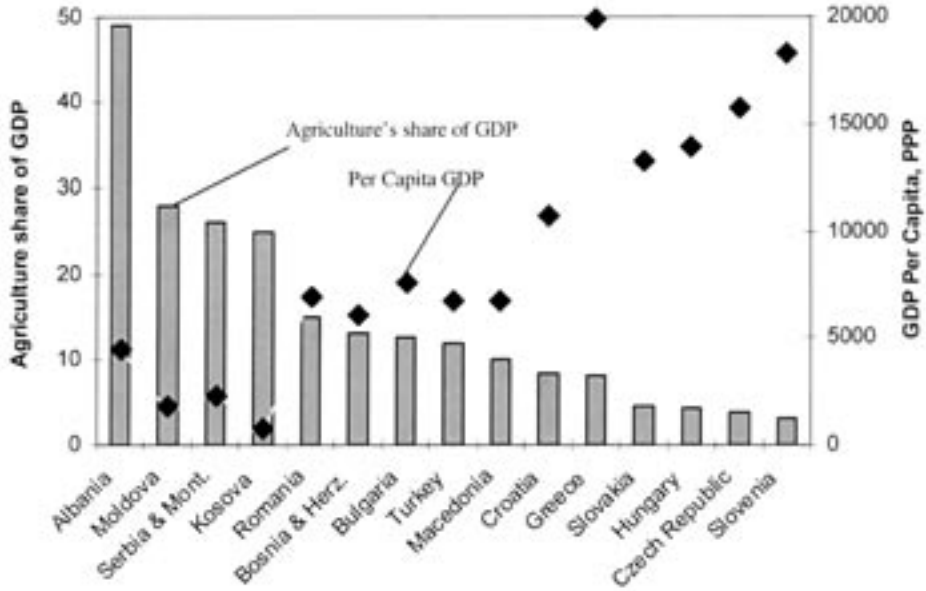
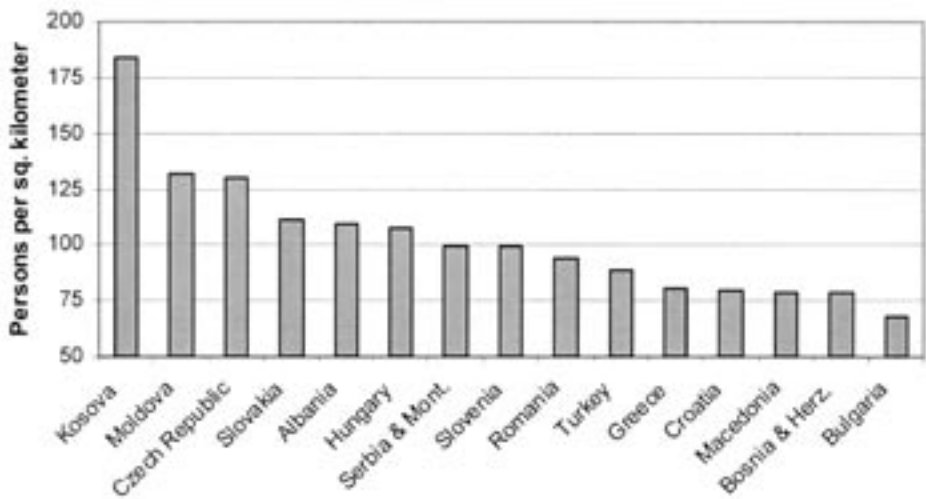


Figure 3. Population Density: Eastern and Southeastern Europe



Certainly having a high population density does not preclude agriculture. For example, the Netherlands has an even higher population density and is famous for specialty goods, such as flowers and cheeses. But the Netherlands prospers primarily through services and, to a lesser extent, industry. Agriculture accounts for less than 3 percent of the Dutch GDP. And it seems unlikely in the extreme that the least well-endowed nation in terms of land in the Balkans could turn agriculture into a greater engine of growth than any of its neighbors.

Some of the disadvantage of small land area might be compensated for by climatic advantages. Kosovo's climate is good. But its climate is essentially the same as that enjoyed by its nearest neighbors. Moreover, the climates of some of those more distant have advantages over Kosovo's, at least for some types of production - for example, Bulgaria being drier for wheat and Greece having a longer production season for vegetable production.

3.1 Agriculture As A Short Term Growth Strategy?

Even if the premise is accepted that agriculture is unlikely to be one of the primary mainstays of Kosovo's economy in the longer run, might not rapid growth in agriculture serve as a bridge until industrial production and sustainable development in the service sector begin in earnest?

This is a tempting proposition. After all, the land is there, as well as an underutilized labor force. Indeed, there are opportunities for increasing production and, in a few instances, even exporting. But there are two factors which suggest that advancements in agriculture will be slow, probably slower than in other areas of the economy.

The first factor is that the repressive policies of the 1990s resulted in low investment levels, which was compounded by damage during the 1999 war⁶ as well as the collapse of production and dissipation of capital on the *agrikombinats*. In many areas, agriculture has actually been in decline since the late 1980s, e.g., see UNMIK (2003). As a result, and even considering the small size of many farm units, much of Kosovo's agriculture is very low technology. This is reflected in low productivity. For example, relative to Kosovo, the average cow in Poland gives three times as much milk, four times as much for Hungary, and over 5 times as much in Western Europe. Czech and Croatian farmers realize half again more wheat per hectare as do their Kosovar counterparts, and West European yields are nearly three times as high, see Lingard (2002).

6. Kodderitzsch and Veillerette conservatively estimated the replacement value of war-related losses to the agricultural sector as \$700 to \$800 U.S., see Kodderitzsch and Veillerette (1999).

It will take investment to rectify these problems. In many instances, these would be fixed, single-purpose types of capital - fencing, tiles under fields, irrigation, milking facilities, etc., rather than more temporary, mobile, and/or potentially multiple use assets possible in many areas of the service sector. Uncertainties regarding land registrations and final status, as well as delays in full privatization of agrikombinats make it difficult for agriculture to attract investment. Indeed, barely one percent of foreign direct investment goes to agriculture, see Riinvest (2004a).

The second factor mitigating against a rapid recovery for agriculture is the exceedingly small scale of agricultural production units on 85 percent of Kosovo's agricultural land, i.e., the rural households and, again, ongoing delays in moving toward privatization of the agrikombinats which control most of the remaining lands. Even the most optimistic advocates of agriculture predict only marginal gains without restructuring lands of rural households to create larger scale production units. Of secondary importance, though, is utilizing assets still held by agrikombinats. Through leasing, some of these structural problems can and are beginning to be addressed. However, without the potential for secure ownership or very long term, binding contractual arrangements, developments will be slow and skewed toward those requiring little fixed investment.

Even if all problems related to land registration, final status, and contract enforcement were magically to disappear, the evolution from myriad smallholder producers to a more concentrated, productive and commercial agriculture would likely take many years or even decades. And without significant restructuring and investment, agriculture cannot become an engine for growth.

3.2 If Not Agriculture, What?

Agriculture as a primary engine of growth for Kosovo is impossible because:

1. it simply does not work anywhere in the modern world,
2. Kosovo's natural endowments are modest and non-unique and
3. there are considerable problems with infrastructure, investment, and production unit structure which preclude a dramatic take-off in that sector.

So, Kosovo is denied an enticing road to nowhere. In reality, it is denied little or nothing.

Then what? It is tempting to seek a simple answer, a single commodity or product or a set of these which will account for the bulk of Kosovo's future output and prosperity. Outside of the Persian Gulf, for oil, some smaller Caribbean islands, for tourism, and West African states, for cocoa and coffee, the answer rarely is that simple. Nor should it be. Tourist demands change, gluts and shortages occur for cocoa and coffee, and someday there will be an alternative to oil. In diversity there is flexibility and lower risk. A mixed economy is the likely road for Kosovo, and almost surely the only one to prosperity.

Consider Macedonia and Slovenia. Just prior to independence in 1991, these were, respectively, the poorest⁷ and richest republics in Yugoslavia. By coincidence, the populations of these two nations and Kosovo are nearly identical. Slovenia's land area is 2 times and Macedonia's 2 ½ times that of Kosovo. Their stocks of agricultural lands are markedly superior to Kosovo's in extent and, arguably, quality. And, of course, neither country has suffered the extensive destruction of agricultural infrastructure and equipment that Kosovo experienced in 1999. All of this suggests that the agricultures of Slovenia and Macedonia should have been able to realize in recent years more growth than will be true for Kosovo over roughly the next decade and that agriculture should be more prominent in Macedonia's and Slovenia's economies than will be the case for Kosovo.

The current values of agricultural production in Macedonia and Slovenia are almost identical to the each other, \$1.16 billion and \$1.19 billion, respectively, see Central Intelligence Agency (2004). This is roughly three times the value of Kosovo's current agricultural production. Again, these two nations are better endowed agriculturally, both naturally and in terms of infrastructure, than is Kosovo. Of even more significance is the share of agriculture in Macedonia's and Slovenia's economy. Barely 13 years after independence of Yugoslavia's poorest, least developed, most agrarian republic - and despite periodic internal problems and an embargo by Greece during the mid-1990s - Macedonia's people enjoy, in terms of purchasing power parity, an income over \$6,000 *per capita*. Agriculture accounts for 11 percent of that GDP, see Central Intelligence Agency (2004). Slovenia started well ahead of Macedonia and now has a *per capita* GDP (purchasing power parity) over \$19,000. Its agriculture is prospering, but accounts for only 3.2 percent of its economy.

So how do Macedonia and Slovenia earn the other 89 percent and 97 percent, respectively, of their GDP? The answer is through a mixed economy. For both nations, roughly 60 percent is from services, of all sorts - financial, transport, tourism, etc. And what physically do they make? Macedonia's most prominent industries are:

coal, metallic chromium, lead, zinc, ferronickel, textiles, wood products, tobacco processing, food processing, buses, and steel
Central Intelligence Agency (2004)

And this economic backwater of the Former Yugoslavia does not primarily sell raw agricultural goods and minerals to the world, but a wide assortment of value added products:

7. Indeed, Macedonia accounted for barely 5 percent of Yugoslavia's GDP. Moreover, the province was highly dependent upon transfers from Belgrade.

Manufactured goods	54.4 %
Machines and tools	2.5 %
Consumer goods	42.8 %
Other	.3 %

Macedonia Chamber of Commerce (2004)

As would be expected, Slovenia is even more impressive. Slovenia's most prominent industries are:

ferrous metallurgy and aluminum products, lead and zinc smelting, electronics (including military electronics), trucks, electric power equipment, wood products, textiles, chemicals, machine tools

Central Intelligence Agency (2004)

The goods it sells to the world are:

Manufactured goods	45 %
Machines and transport vehicles	30 %
Chemicals	10 %
Food	4 %

Geographic.org (2004)

The values of Macedonia's and Slovenia's exports are, equivalent to 100 and 600 percent, respectively, of Kosovo's GDP. The point is not that Kosovo's economy is so small, but that, like its near neighbors, Kosovo can achieve comfort and then prosperity with a mixed economy. The mix of production would include, but not be based primarily upon, agriculture.

3.3 But Might Kosovo's Economy Simply Be Evolving Differently?

Might there be something inherently different in Kosovo's development? A look at the current structure of Kosovo's economy does suggest a different development path from others in the region. As is evident in Figure 4, the structure of the Kosovar economy differs radically Macedonia's and Slovenia's. At present, Kosovo's economy is the least developed of the three. As such, that agriculture's share should be the largest in Kosovo is only to be expected. By the same token, however, it would be expected that the share of services in Kosovo's economy would be the smallest. Yet it is the largest. In terms of its structure, Kosovo is out of sync with what would normally be expected at any development stage, the service sector's size suggesting a higher level of development and the reverse regarding the agricultural sector's size.

This is not the result of a unique, inherently Kosovar, economic development path. Rather, it is an aberration, both with regard to the usual evolution of economies and for Kosovo itself. Until the 1990s, Kosovo's economy was evolving along fami

liar lines. In particular, between 1971 and 1988, the share of agriculture in its GDP declined from 28 percent to 20 percent, see Figure 5.

Figure 4. Structure of GDP: Macedonia, Slovenia and Kosovo

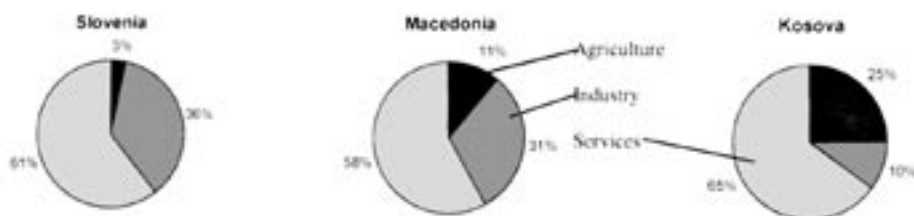
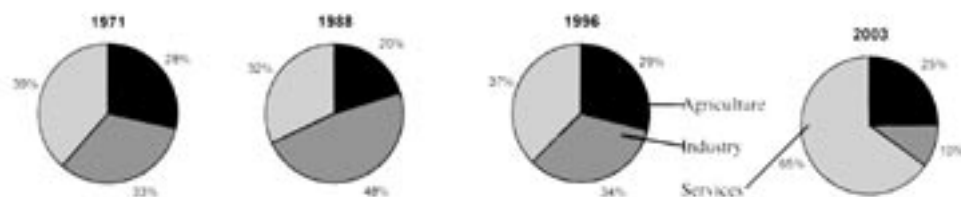


Figure 5. Structure of GDP for Kosovo: 1971-2003



Both the service sector and industry expanded. But by the second half of the 1990s, agriculture's share rebounded, the service sector's share grew modestly, while industry's share shrank by nearly a third. This did not reflect positive development, but rather the systematic repression and emasculation of Kosovo's economy by Serbia. The continuation of that repression and the 1999 war further shrank the share of the industrial sector. The distribution of economic sectors for 2003 are the result of the near collapse of industry after the 1999 war and service-oriented needs for rebuilding, including the unusual needs and opportunities presented by the presence of a large expatriate community for assistance and security. By default, due to the repression- and war-induced collapse of industry, agriculture's share remains large.

Asserting that Kosovo should follow the same kind of mixed economy evolution, led by service and industry, as that followed by Macedonia and Slovenia and, indeed, all of Kosovo's successful neighbors, is a call for Kosovo to resume the path it began in the 1970s and 1980s. Striving for an agricultural-led development because agriculture currently looms large in the economy would condemn Kosovo to slow growth, both absolutely and relative to Europe's.

4. Point 3: Kosovo Should Profit From Farm Supports By Other Countries

As is true in virtually all environments, some of those engaged in commercial agricultural production or with the potential to do so, favor increased tariffs and other controls on imports, either to protect 'infant' agricultural industries or to guard against domestic producers being unable to market all their products when they have abnormal or seasonal highs in production. For example, the Anadrini Producer Association has called for a 10 percent tariff on imported produce which rises to 20 percent "in that period of time when in Kosovo there is enough vegetable production," see Anadrini (2003). Such views, at least implicitly, are sometimes put forth by those in the international community. For example, UNMIK's assertion that "for food security reasons, it is important to maintain the production of cereal crops, even though a free-market approach would be to buy wheat and other cereals in the world market," (see UNMIK, 2003) would require elevated tariffs or producer subsidies or both. Another example is a call by an international consultant on poultry for tariff protection to help jump-start a broiler industry in Kosovo, see Aho (2001). In his proposal, over a seven year period, Kosovo's tariff and other taxes on imported broilers would rise and then fall in stages from 26.5 percent to 100 percent and then return to 26.5 percent.

In general, however, international advisors (including domestic groups funded by international organizations) argue for reforms to rectify asymmetries between tariffs in other nations and those of Kosovo and correct for subsidies those nations may provide their producers.

Imports from Macedonia, Montenegro, and Serbia are thought to be subsidized so that their border prices may not reflect their true economic value. Put bluntly, produce may be being unfairly dumped at prices well below their costs of production.

Lingard (2002)

The inconsistent application of tariff measures on the borders of Kosovo have artificially distorted domestic agricultural markets and created an un-level playing field for Kosovo producers.

Alliance of Kosovo Agri-Businesses (2001)

Over the foreseeable future, it seems unlikely that Kosovo actually would institute high protective tariffs, such as those proposed for peak production periods by Anadrini for produce, or to build an industry as proposed by Aho for the broiler industry, see Anadrini (2003) and Aho (2001). Such measures could spark retaliatory measures which Kosovo could ill afford. A more likely path would be to endeavor to have tariffs consistent with those of its trading partners with, perhaps, some adjustments for internal subsidies provided to the producers of those trading partners. In other words, a tariff regime geared toward creating a level playing field.

The "level playing field" approach should be reconsidered. Lingard refers to products which may be "unfairly dumped" in Kosovo (see above quotation). Efforts to

promote reciprocity between trading partners appeal to our senses of symmetry and justice. Emotionally and, at least at face value logically, such arguments are attractive. For Kosovo, however, the logic is flawed. Kosovo should welcome, rather than attempt to counter, lower cost agricultural imports. Indeed, it is difficult to imagine a people better positioned to gain from the *de facto* grants bestowed on them by the taxpayers of other nations through agricultural supports to their own producers. In most specific instances and certainly in aggregate, Kosovo will gain and the effects on its agricultural industries of pursuing a low or zero barrier policy toward imports of agricultural products will be negligible or positive. There are three principal reasons for these conclusions.

First, consumers will benefit from lower cost foods. This includes virtually all urban dwellers as well as the very large majority of rural households which do not meet all their food needs.

Second, an estimated 80 percent of Kosovo's agricultural production is for consumption by the producer. This production will be largely unaffected by changes in market prices.⁸ That is, over very wide ranges of prices in the market, it is unlikely that rural households will reduce the amounts they produce for themselves. Moreover, as the average rural household meets only one third of its food needs from its own production, these producers are net purchasers of foodstuffs.

Third, a no-barrier policy will favor Kosovo's commercial agriculture. Today, and as has been historically the case, roughly half of Kosovo's land is devoted to and half of the value of agricultural production is derived from livestock, including dairy and poultry. Livestock industries are widely regarded as having the most significant long run potential in Kosovo. Kosovo is well endowed with rich pastures. However, its cereals production has historically been insufficient to meet both human needs and for animal feed⁹ and, frequently domestic cereals production is more costly than imports. Cereal crops tend to have significant economies of size in production. Until Kosovo's agriculture restructures into much larger production units, it cannot be competitive

8. In the current economic environment, it is likely that many rural households employ their own 'surplus labor,' which they value at or near zero and frequently use inputs, such as seeds and natural fertilizers which they also produce. As such, market prices could fall to extremely low levels and still leave this production unaffected. As Kosovo develops economically and individuals revise upward their valuations of leisure time, lower market prices could translate into reduced production for own consumption. Under those happier circumstances, the issue could be revisited.

9. Since the war, Kosovo has approached self-sufficiency in some years and for some cereal crops. This should be considered as a fleeting anomaly, rather than indication of a trend. The anomaly is caused by unusual conditions regarding both demand and supply. Demand was sharply reduced due to war-related livestock losses and, to a lesser extent, reduced incomes. Domestic supplies may have been temporarily raised due to reduced post-war employment opportunities and international assistance in the form of farm inputs.

in cereals. This process will take many years, if not decades. Moreover, it is doubtful if Kosovo ever will have domestic industries which would be competitive with imports, e.g., see Lane *et al.* (2004) and UNMIK (2003). This is particularly true as nations and trading blocs, such as the United States and the European Union, provide supports for cereal production and exporting. Protecting inherently uncompetitive domestic cereals production would seriously jeopardize Kosovo's more promising livestock industries. Instead, Kosovo should allow its largest agricultural industry, livestock, to benefit from indirect subsidies bestowed on it through producer supports to cereal production in other nations.

Along with livestock and related products as the primary area for Kosovo's commercial agriculture, there will also be fruit and vegetable production for domestic consumption during seasons when imports are slack and/or when consumers are willing to pay premiums for domestically grown produce. Producers of these products will inevitably (and already do) favor tariffs and other protections. They should be encouraged, rather, to focus on hitting market windows and providing products of sufficiently high and consistent quality to be competitive with imports without resorting to protections. Policymakers should bear in mind that protections for the sake of this relatively small part of Kosovo's commercial agriculture will hurt domestic consumers and could jeopardize trade agreements for other commodities. In addition to livestock and seasonal produce production, there will be various specialty products, such as dried fruits, ornamentals, and wines. These products will compete based upon their qualities and abilities to gain name recognition, both domestically and in export markets. Protections for such products would be difficult or impossible to negotiate and of dubious value.

5. Point 4: Ensure Food Security Through Good Trading Relations And, If Necessary, Stocks

Kosovo has traditionally been a net importer of food and agricultural products, such as wheat. While part of the agricultural area is fertile and well suited for the production of cereals and industrial crops, it is unlikely to have a comparative advantage in the production of these high-volume, low-value crops. Nevertheless, Kosovo is a hinterland territory where, for food security reasons, it is important to maintain the production of cereal crops, even though a free-market approach would be to buy wheat and other cereals in the world market.

UNMIK (2003)

A people have food security if they have assured, uninterrupted means for securing sustenance. This can be achieved through internal food production, production of other goods and services to generate purchasing power to import food, and/or grants from external donors. Given Kosovo's recent history, there is a natural tendency for

Kosovars and those seeking to assist Kosovo to conceive of food security primarily in terms of the ability to produce needed food within its territory. This view should be reexamined.

To assert that Kosovo should “maintain the production of cereal crops, even though a free-market approach would be to buy wheat and other cereals in the world market” is equivalent to saying that Kosovo should be willing to have a smaller economy than would otherwise be possible for the sake of producing its own cereals.¹⁰ With the current presence of UNMIK and the world’s appreciation of recent events and determination not to see those tragedies repeated, in the short and medium term it is extremely unlikely that Kosovo will find itself abandoned by and entirely cut off from the international community. In the longer run, if Kosovo accepts reduced economic growth in an almost surely futile quest for food self-sufficiency, its level of food security will have been lessened and, even more ironically, it will have increased its vulnerability to circumstances in which domestic food self-sufficiency would be imperative. In other words:

1. It is unlikely that Kosovo could realize domestic self-sufficiency in food.
2. Efforts counter to free market principles in pursuit of food self-sufficiency will almost surely be at the cost of a smaller overall economy, and therefore, poorer citizens.
3. An economically smaller Kosovo, is a more vulnerable Kosovo.

It should also be noted that promotion of domestic cereal production beyond what would occur using free market principals would almost surely require tariffs and/or quotas at levels which would be objectionable to the international community. This would work counter to initiatives to integrate Kosovo’s economy with those in the region, the European Union, and beyond. Particularly given Kosovo’s size and endowments, integration, rather than self-sufficiency, should be the primary strategy for realizing prosperity and security, including food security.

Efforts to promote cereal production beyond free trade levels would also result in elevated cereal and feed prices within Kosovo. This, in turn, would jeopardize Kosovo’s livestock and dairy production. As noted earlier, livestock and dairy have traditionally accounted for half or more of all production and they have, arguably, the best prospects for becoming the core of a sustainable and internationally competitive

10. If imported cereals are less expensive than domestically grown, then a smaller amount of Kosovo’s resources would be needed to produce other goods and services to garner sufficient purchasing power to import the cereals than would be needed to produce domestically the same amount of cereals. The difference in resource usage (i.e., the resources needed for domestic production less that to generate purchasing power for imports) would be free to generate additional goods and services.

agriculture, see, e.g., UNMIK (2003). If higher internal cereal and feed prices did result in smaller domestic livestock and dairy industries (which would almost surely occur), the goal of self-sufficiency in cereals would be more easily attained, or at least, there would be the illusion of its attainment. Less cereals would be demanded within Kosovo, but more 'condensed cereals' would be imported in the form of meat and dairy products.

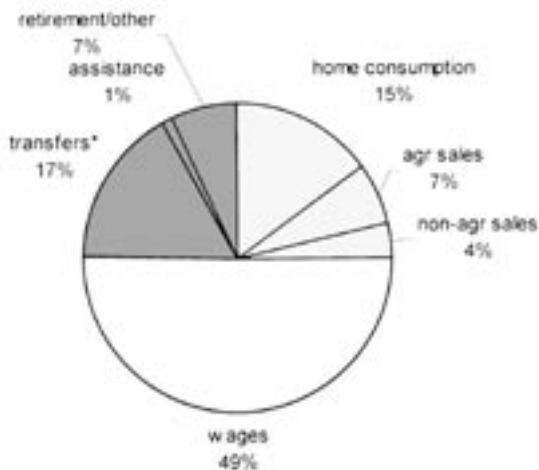
The advice of this author is that Kosovo should not promote internal food self-sufficiency, to any degree, in order to heighten its food security. If, however, the political decision is made that Kosovo must have the internal capacity to meet all or part of its cereal (or other food) needs internally for some period of time, it would achieve that goal more quickly, at less cost, and more completely through amassing stockpiles of foodstuffs than from supporting economically uncompetitive production. Indeed, a crisis which cut off Kosovo from external cereal and/or other food supplies would also cut off supplies of inputs, such as fuel, needed to utilize domestic production capacity. Moreover, if that crisis involved conflict, it seems unlikely that domestic production could be maintained.

6. Point 5: View Rural Household Land As An Asset, Rather Than The Households As Small Farms

Researchers and policy makers typically conceive of Kosovo's approximately 150,000 rural households as farm units whose members may or may not also engage in other activities on or away from their properties. However, for the very large majority of these households, income from agriculture is either non-existent or secondary. For the average rural household, agriculture accounts for just over a fifth of all income, see Figure 6. Two thirds of that income (or 15 percent of all income) is from home consumption. Only 7 percent, on average, is from sales of agricultural products. Indeed, 13 percent of these households have no agricultural production whatsoever and 76 percent do not market any agricultural products. Non-agricultural earned income, i.e., non-agricultural sales (primarily from self-employment) and wages/salaries, is 2½ times more important.

Allocations of time by adults in rural households reflect the secondary importance of agriculture. The average adult in a rural household spends a third of his/her time on earned income activities (i.e., agriculture, other self employment, and hired labor), see Figure 7. Of that work time, over twice as much is devoted to non-agricultural earned income than to agriculture.

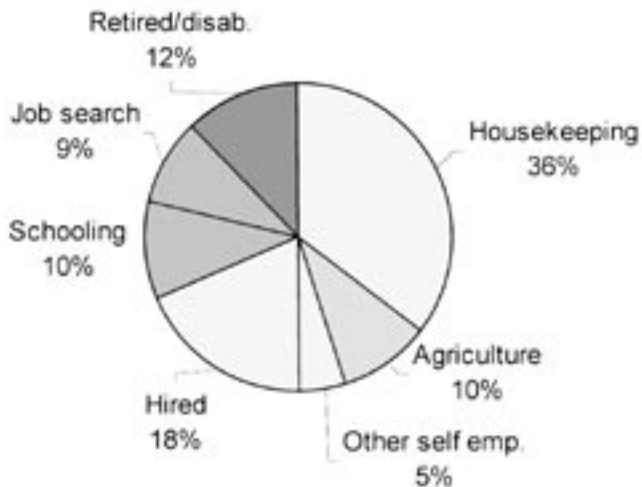
Figure 6. Distribution of Income Sources for Rural Households, Kosovo, 2003



Note: “transfers” includes contributions to the household from other households within Kosovo and abroad (i.e., remittances)

Source: 2004 Kosovo Household Survey, see Riinvest (2004b)

Figure 7. Time Allocations of Adults in Rural Households, Kosovo, 2003



Source: 2004 Kosovo Household Survey, see Riinvest (2004b)

Certainly for a segment of rural households, agriculture is of primary importance as the source for earned income and employment. Thirty percent of rural households realize at least half of their earned income from agriculture and 10 percent realize at least half of their cash income (i.e., income not including home consumption) from agriculture. By virtually any definition, these are farms. But particularly for the smallest two thirds (approximately 100,000) of rural households, agriculture is a sideline relative to other income sources and activities, albeit an important sideline for some.

It is vital for policymakers to consider the feasible options regarding agriculture for these 100,000 smallest rural households. Sixty percent have land holdings of one hectare or less, with average parcel size around a third of a hectare. The largest 40 percent [of the smallest two thirds] have land holdings between 1.5 and 2.4 hectares, with average parcel size of .45 hectares. It seems likely that all but a very few of these rural households already are or must become, in effect, non-agricultural producers with significant gardens. Indeed, 16 percent of these households have no agricultural production and only 15 percent market any agricultural products, see Beilock (2004). Even if such households somehow acquired and adopted the latest technologies, they would still be relegated to extreme poverty if their primary income were from agriculture.

6.1 Increasing Productivity In Agriculture For Employment Generation

With few exceptions, the productivity of Kosovo's agriculture is low relative to other areas of Europe. For example, milk production per cow in Kosovo is less than half that for Poland, a third that for Croatia, and less than a quarter of the EU or Hungarian average, see Lingard (2002). Virtually all analysts, this author included, concur that the future of Kosovo's commercial agriculture depends crucially upon raising productivity. In some cases, however, increasing productivity is viewed as a job creation strategy within agriculture, e.g., see UNMIK (2003). As there are currently so many employed in agriculture, at least to some degree, and with unemployment and underemployment being such severe problems throughout Kosovo, it is tempting to look to agriculture to retain its current workers and even absorb additional labor. There is an inherent dilemma, however. Raising productivity, requires adoption of newer, more capital-intensive technologies. That transformation will:

1. Enhance the competitiveness of Kosovo's agriculture.
2. Improve the earnings of those working in agriculture.
3. But, greatly reduce the numbers of those jobs.

A more efficient agriculture will have higher total production. In some cases that production will provide inputs for processing and other industrial uses and these industries will generate employment. Nevertheless, improving agricultural productivity will inevitably result in fewer jobs in agriculture and given the very large numbers

now in agriculture, it is doubtful if increased employment in processing facilitated by a more productive agriculture, would offset those declines.

Ironically, to the extent policymakers are interested in preserving the number of jobs in agriculture and perhaps for a time the total number of jobs in Kosovo, they should resist efforts to improve agriculture's productivity. But this would be hopelessly self-defeating, a land of peasants, rather than another Slovenia.

6.2 Increasing Productivity In Agriculture To Assist Rural Households

6.2.1 Improving Rural Household Incomes Prior to Transition to Large Scale Production

Another rationale, implicitly or explicitly given by some policymakers, for improving agricultural productivity is to increase the production, and therefore incomes, of rural households until such time as agriculture can make the transition to larger scale production and other sectors of the economy are able to absorb additional labor. The opportunities for productivity increases appear significant and, in terms of technical feasibility, many are. For example, most dairy herds in Kosovo are around 4 or 5 cows and average less than 2.7 liters of milk per day. These producers primarily market milk locally, without cooling, and make cheeses and yogurts for their own or local use. By contrast, there are some larger farms in Kosovo with 30 to 40 cows which get 25 liters of milk per cow daily, marketing their products to industrial dairies, see Chemonics (2002).

However appealing in a technical sense, the appropriateness and feasibility of programs to enhance the agricultural productivities of the very large numbers of rural households with small land holdings should be carefully considered. Referring to the preceding example, it appears self-evident that those with very small herds would respond enthusiastically to opportunities to increase yields nine- to tenfold. But to achieve such yields, these small producers would need to acquire different livestock; milk their cows twice, rather than once a day; switch to high protein feed; and greatly increase use of veterinary services. They would also need the capacity to hold much larger quantities of milk and to secure outlets for it. The fixed costs of acquiring those technologies, as well as transactions costs from greater reliance on off-farm inputs and more formal and distant outlets for products would be essentially the same for those with 4 or 5 cows as it would be for the larger farms. Indeed, as seems likely, if the household with capacity for only a very small number of animals has significant off-farm activities and little familiarity with advanced dairy practices, then the opportunity cost of acquiring the technical skills and changing herd management practices necessary for enhanced yields could be greater than for the larger, full-time dairy farmers. Moreover, those with very small herds probably would have to accept worse terms, relative to larger producers, with respect to input and product prices, credit availability and terms, etc.

Another example is the Ministry of Agriculture, Forestry, and Rural Development's plan to provide "technology packages" to wheat and maize producers through its own and municipal advisory services, see UNMIK (2003). Economies of size tend to be significant for these crops. Even employing the best practices for smallholders, it is questionable if they could ever be competitive with those cultivating larger areas within Kosovo, much less with imports from producers whose farmers receive generous supports.

The cost of reaching out to tens of thousands of producers would be prohibitively high. Almost regardless of how appealing the potential productivity gains from more advanced technologies, smallholders may be reluctant to adopt those technologies. It is easy to interpret such reticence as reflecting failed communications regarding the potential of the technology or stubbornness or ignorance or even stupidity of the smallholder, and not to consider if the smallholder may be correct. Given the fixed cost and volume-invariant transactions cost aspects of new technologies; inferior input, product, and credit terms generally available for smallholders; and household production alternatives of part time agriculturalists, rational smallholders should be less accepting of new technologies than their larger counterparts. In many cases, it is rational for them to continue more traditional practices, even at the cost of lower yields.

Therefore, the Ministry and municipalities should not endeavor to have their extension services reach out to all producers. Rather, technical assistance should be primarily directed toward larger producers who have the means and incentives to take advantage of new technologies and marketing approaches. The World Bank has recently issued similar advice, see Lane *et al.* (2004). This advice is not intended to imply that efforts to enhance smallholder productivity would always be inappropriate. Rather, the intention is to encourage careful, realistic considerations of the costs of administering extension programs and their attractiveness/sustainability for very small rural households whose involvement in agriculture is likely to be secondary to other income generating activities.

6.2.2 *Land As A Form of Savings*

It is undoubtedly difficult to look beyond this trying and frustrating period. But there is a wave of prosperity advancing toward Kosovo. The Economic Union is already in Greece and Slovenia, with Romania, Bulgaria, Croatia, and Turkey at earlier stages in the accession process. With the exceptions of Albania and Serbia and Montenegro, *per capita* GDPs, in terms of purchasing power parity, exceed \$6,000 in every other nation in the Balkans. In 2003, all Balkan nations had positive economic growth and 9 of the 12 nations exceeded the world's average growth rate. There is every reason to suppose that when Kosovo has: 1. final status; 2. secure land registration, with well-operating real estate markets; 3. internal harmony among all its people; and 4.

normalized relations with its neighbors, it will also realize rapid and sustained economic growth.

As argued earlier, Kosovo will have a mixed economy, with service and industry taking center stage. Its agriculture will be vibrant and important, though it will account for a small share of the overall economy and employment. Savings, particularly savings from which incomes can be derived, are important for individuals and households to weather the difficult current times and to acquire training and investments for positioning themselves in the emerging economy. To these ends, a benevolent donor might bestow savings across as many households as possible. The widely dispersed ownership of small, but significant, amounts of land by tens of thousands of Kosovo's households has exactly this effect. The land is like a large, interest-bearing savings account. Though too small to provide for all their needs, for tens of thousands of Kosovo's households the land is a source for auxiliary income from agricultural production, for own consumption or sale, or through renting the land. As opportunities develop in other sectors of the economy, it is expected that rural households, particularly those with smaller land holdings, increasingly will resort to rentals or sales.

Virtually all cultures treasure their small farmers. Rentals and, in particular, sales by smaller land holders to form fewer, larger farms is something with which all of us may have emotional difficulties. But it is an inevitable part of the modern world. And it does not mean that all small farms will disappear. Moreover, many will continue producing for their own consumption for years and decades to come - though increasingly because of love of the land, rather than economic necessity.

Rural households will be net beneficiaries of increases in agricultural productivity, even if and when it results in reduced agricultural employment, and as more and more commercial production becomes large scale. The coming rise of commercial agriculture in Kosovo will enhance the income-generating potential and sales value of their land. If rural households opt to hold on to the land, even farming it themselves, they would of course have that choice. But progressively as Kosovo's GDP transforms from its current structure to one closer to more developed economies, such as Slovenia's, land will be used as a source for funding (through rentals or sales) of the means to exploit opportunities in the service and industrial sectors.

7. Point 6: The Large Majority Of Rural Households Are Suburban Households

With over half of Kosovo's people living in rural areas, it is evident that Kosovo cannot prosper unless the benefits of economic growth extend to rural areas. An associated issue is migration from rural to urban areas. During and immediately after the 1999 war, there was rapid migration into urban areas, in some cases doubling city populations. These migrations continue, though at a slower pace. Understandably, there is concern over strains on urban infrastructures and services. For example, at

a meeting of donors with the Ministry of Agriculture, Forestry, and Rural Development, one of the projects proposed was entitled "Community Development: Preventing Migration of Population From Rural to Urban Areas (Village Revitalization)," UNMIK (2003).

7.1 How Rural?

As is recognized by analysts and policymakers worldwide, including those in Kosovo, rural development should not be equated with agricultural development. But there are degrees. For example, at one end of the spectrum, rural development in an isolated area of South Dakota or Ukraine or India would largely entail promoting increased activities in agriculture and associated industries. There would, of course, be attention to linkages with other markets, but in the same sense that one would consider export markets for an island nation. At the other end of the spectrum, rural development in Delaware or the Czech Republic or southern England, despite the significant agricultures of those areas, would primarily focus on other issues -non-agrarian enterprise development and, in particular, access/integration with nearby urban areas. Kosovo is at this end of the spectrum.

Kosovo is compact, with 6 cities¹¹ over 100,000. About two thirds of Kosovo's land area, accounting for perhaps 85 percent of the population is within 20 kilometers of at least one of these cities, see Map 1. If proximity to communities over 50,000 and above is considered, virtually all of Kosovo is within 20 kilometers of such centers. This close proximity to cities, combined with the fact that, for the very large majority of Kosovar rural households, agricultural activities are secondary and only for home consumption, means that the "rural development" problem is really more a "suburban development" problem. This fact is masked by Kosovo's poverty. Add \$30,000 to the income of what is now described as a household engaged in "subsistence farming," and you have a suburban family with a large garden. As demonstrated earlier, that is what most Kosovar rural households really are. On average, more than twice as much time is devoted to and over twice as much income earned from wage labor than agriculture. And those non-agricultural earnings are, primarily, in or near those urban centers, rather than their own villages. The average one way distance to their work is 14.3 kilometers. For adults continuing their education, the average one way commute is 17.7 kilometers.¹² Of those commuting to work or school, barely 30 percent travel 5 kilometers or less, see Beilock (2004).

11. There is considerable uncertainty regarding Kosovo's total population, as well as that of its cities. The last census was in 1991. Given the large scale movements into the cities during the late 1990s, it is almost certain that the 6 cities indicated are over 100,000. Indeed, some experts believe that there are actually 7 cities over 100,000.

12. The somewhat longer average distance for those commuting to school, rather than work, is likely due to most educational facilities being in the center of cities, while some workplaces would be on the peripheries closer to the rural dwellers.

It should be stressed, again, that agricultural production is widespread among rural households. Nearly 90 percent produce at least some agricultural products and a quarter of them sell some of that production.¹³ However, the main source for earned income is outside the home, in or near their neighboring city. For the very large majority of rural households, there is a city of at least 100,000 within 20 kilometers. They are suburbanites with that fact masked, but not changed, by Kosovo's low level of development.

Map 1. Areas in Kosovo Within 20 Kilometers of a City At Least 100,000 Population



13. It should be borne in mind that even those marketing agricultural products normally reserve the largest share for home consumption.

8. Integrating Urban Areas And Surrounding Communities

The importance of recognizing the close proximity to cities of the large majority of rural households is that the types and priorities of needs for suburbanites are different from those of isolated, primarily agricultural households. Moreover, the interests of urban dwellers are closely tied to those of suburban dwellers. This is particularly true in Kosovo where, in many instances, the bulk of the potential customers and employees for urban businesses may be in the satellite communities. Improving the degree of integration between urban areas and their hinterlands will impact positively on the economic and social well-being of all. An example of this is rural-to-urban migration.

8.1 Migration Problem or Transportation Problem?

During and just after the 1999 war, there was considerable migration from rural to urban areas due to security concerns and to have better access to sources of assistance. Some of Kosovo's cities may have doubled in population as a result. Since that time, migration has slowed, though not ceased. There are questions about the ability of city services to cope with rapid population growth and for the private sector to provide additional housing.

Kosovo has a large stock of housing in areas surrounding urban centers. Much of this housing is of very high quality. However, if the best employment or educational opportunities are in the urban center and transportation is costly or inconvenient, an individual may move into the urban area, rather than commute.¹⁴ For example, the minibus service between the village of Bardhi and Prishtina, costs .80 € one way (a distance of about 20 kilometers). To those in higher income nations this cost would be negligible. However, .80 € one way translates into an annual cost of approximately 440 €. This is over a third of Kosovo's average *per capita* income, over half if remittances are excluded. Faced with such costs, some may be relegated to lower value endeavors closer to home or migrate into the urban area.

8.2 Focusing On Consistent Services And Efficient Movements Throughout Urban Areas And Their Hinterlands

It is important to treat Kosovo's rural households as they actually are - i.e, primarily non-agricultural wage earners and business people working in or near neighboring urban centers, with auxiliary production of agricultural goods, principally for home

14. As anecdotal evidence, when discussing this topic with a Kosovar who owns a home in a village outside Pristina, his reaction was "You know, since they fixed the road, nobody has moved from my village into Pristina."

consumption - rather than as the more simplistic and idealized image of them as farmers who, given the right technologies and product prices, could earn all or the bulk of their livelihoods from the land. Again, there are some of the latter, but they are a small minority of the households and people in rural areas. For the majority, improvements in transportation, education, electricity, health care, etc. are likely to be more important than virtually any intervention to improve agricultural yields or marketing conditions. Moreover, improvements in these services will also benefit that important minority who truly are agriculturalists.

With nearly half of Kosovo's population living in close proximity to its six largest cities, increased priority for service improvements, particularly with regard to transport should be given very serious consideration. For example, a measure which lowered bus and minibus transport costs between urban centers and their surrounding villages from .80 € to .60 € might well prove more efficacious than other approaches in:

- Improving incomes for rural dwellers.
- Lowering rural-to-urban migration rates, perhaps even promoting limited reverse migration.
- Revitalizing villages.
- Reducing the volume (or, at least, its growth) of private automobile traffic in urban areas, with the attendant environmental and safety benefits.
- Expanding the overall economies of urban areas and their rural hinterlands and, therefore, of Kosovo.

8.3 Avoiding Gridlock

Another reason for more attention to transportation and other services now is to avert the near crisis conditions, particularly in urban areas, which have occurred in many formerly Socialist nations when they realized economic growth. There have been severe shortages across the spectrum of services. Again, this issue is of particular importance in Kosovo because of the very large numbers of people living near urban centers who already use some urban services and could greatly increase their demands upon them.

Perhaps the most critical issues are with regard to transportation. Currently among commuters from rural households, 43 percent of those going to work and 80 percent of those to school use the bus, while 39 percent and 6 percent, respectively use cars, see Beilock (2004). As incomes rise, so will automobile ownership. Investments now in infrastructures to handle those vehicles (including parking) and, of perhaps more importance, mass transit improvements to reduce growth of private auto usage for commuting, could avert future problems. These issues could be addressed now for a small fraction of the cost of later interventions.

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