An Overview of the Privatisation Process in Republic of Kosova

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Abstract

Nowadays, elements of privatisation and free-market orientation can be seen in almost every economy in the world. In Central and Eastern Europe after the collapse of the socialist system in 1989-1990, the privatisation has been seen as the panacea for economic problems. The most important economic goals of post-communist privatisation have been the improvement of corporate governance. Kosova was an autonomous province in the former Yugoslavia which had a centralized economic system. In 1999 Kosova became a separate territory under United Nations administration, and, in 2008, it declared independence. Additionally, starting from mid-2002 the legal framework of the privatisation process in Kosova has been prepared by UNMIK and the process was exercised by the Kosova Trust Agency. This Trust aimed to preserve or enhance the value, viability, and corporate governance of socially owned and public enterprises in Kosova. The paper reviews the privatisation process in the Republic of Kosova from the very early start until today. The main goal of this paper is to investigate the effects of the privatisation process on the economy of Kosova. To achieve the set goal, we have used the integrative review method. The results show that the privatisation process did not yield positive results as expected. The process did not reduce the unemployment rate, which today is among the highest in the

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region. Also, it was characterized by many problems discussed in the paper. It is hoped that this study will provide a summary of the key points and will shed light on the effects of privatisation on the economy of Kosova. Moreover, it pinpoints the importance of SMEs for the country's economic development since they represent the largest business sector in any world economy.

Key words: Central and Eastern Europe (CEE); privatisation; effect of privatisation; transition economy, Kosova;

JEL Classification: L33, P2, N44

1. Introduction

"That's the standard technique of privatisation: defund, make sure things don't work, people get angry, you hand it over to private capital".
Noam Chomsky, 2011

Rosenbaum et al. (2000) emphasizes that corporate governance has to do with the way in which business firms are run; that is, how these are managed and controlled. It examines the governance of corporations, concretely; firms whose publicly traded shares of equity capital are listed on a stock exchange. Those firms are characterized by a separation of ownership and management, which poses the well-known agency problem between management and outside capital suppliers, such as external shareholders.

Corporate Governance has received particular attention during an episode of financial crises in Russia, Asia, and Brazil in 1998 (Claessens and Yurtoglu, 2012, p.2) and following a wave of corporate scandals in both the US and Europe in the early 2000s which caused corporate governance issues into the public focus and has since been an area of constant interest, both in academic research and in the public domain. The latest financial crisis (culminating in 2008-2009) has served to increase that interest and triggered a number of new and revised guidelines/codes on several aspects of corporate governance (Gericke, 2018).

In the economic subsystem, the transformation was subdivided into the components of liberalization, stabilization, and privatisation. Privatisation, that is, the transfer of state property to the private sector, was considered the main instrument for the change of the socialist property system (Engerer, 2001).

Today, elements of privatisation and free-market orientation can be seen in almost every economy in the world, from the mixed markets of Europe and the United States to the former communist economies of Eastern Europe and even communist China, which is gradually opening up to private enterprise (McGowan, 2011). As specified by Rosenbaum et al. (2000), one of the most important economic goals of post-communist privatisation has been the improvement of corporate governance. Nonetheless, privatisation is no longer considered a panacea for economic problems (McGowan, 2011).

In years past, the radical change of Central and Eastern European systems, historically unique, has been referred to as 'transition' (Engerer, 2001). Peev and Mueller (2012, p.371) think that:

Although former communist countries are still generally referred to as transition countries, enough time has elapsed since the end of communism to claim that the transition process is, or should be, largely completed, and to assess how well the countries have done achieving growth and transforming themselves into market economies.

Kosova, like other countries in the Western Balkans, was part of a socialist system. This system had a deeply negative impact on the economy of Kosova. Politically, like the other countries, Kosova had been detached from the European Union (EU) for around half a century because of the communist bloc. After the collapse of communism, transitions have taken place in the Western Balkans (Nezaj, 2015).

Privatisation was undertaken using a large variety of methods, and the literature has suggested that these may have influenced the effects on company performance (Estrin et al., 2007). In numerous transition economies, mass privatisation was just one of many approaches to privatisation - including restitution, leasing, managements−employee buyouts, small-scale privatisation of retail and service establishments, and case-by-case transactions through trade sales or public offerings (Lieberman et al., 1997). In Kosova, the process of 'mass privatisation' and the decision to choose it as the main approach to address Kosova's economic challenges was not based on particular characteristics or an in-depth analysis of the economy (Balkan Investigative Reporting Network - BIRN 2016). Indeed, Kosova has had to manage major economic challenges from three main sources: a post-war economy; problems of nonrecognition; and the incomplete privatisation of socially owned enterprises (hereinafter often referred to as SOEs) in the post-socialist era when Kosova was still part of Serbia and Montenegro (Joireman, 2016).

The fundamental argument in favour of privatisation is that privatisation increases economic efficiency and ultimately leads to more potential for long-term economic growth than nationalization. The driving force that brings about this efficiency is competition (McGowan, 2011). As claimed by Rosenbaum et al. (2000), post-communist privatisation has essentially been a political project. While spontaneous processes of privatisation 'from below' have arguably played a greater role than originally expected, government decisions and programmes have remained at the very heart of the privatisation process. As well, the start of the privatisation process in Kosova was more of a political decision than an economic one (Institute for Critique and Emancipation - ICE 2017). Around 500 SOEs were privatised, but examples of successful privatisation cases in Kosova are extremely rare. Only a small number of enterprises are currently functional and even fewer continue production at pre-privatisation levels. Therefore, privatisation is considered to have damaged rather than improved the production capacity of Kosova, and thus its economic prosperity (BIRN, 2016).

Consequently, the main goal of this paper is to investigate the effects of the privatisation process on the economy of the Republic of Kosova. To achieve the set goal, we have used an integrative review. As explained by Whittemore and Knafl (2005), the integrative review is the most comprehensive methodological approach of reviews, and it allows including experimental and non-experimental studies to fully understand the phenomenon analysed. It also combines data from the theoretical and empirical literature and has a wide range of purposes, such as definition of concepts, review of theories and evidence, and analysis of methodological problems of a particular topic.

The paper is organized into five sections. The first section starts with an introduction. The second section provides a brief background of the case study. Then it is followed by the third section, privatisation process in Kosova. Section four presents the effects of the privatisation process in Kosova, whereas in section five are presented some indicators about Kosova today. In the end, the concluding remarks are given.

2. Background

Great Britain and Chile were two of the most notable nations leading the privatisation crusade (McGowan, 2011). After the collapse of the socialist systems in Central and Eastern Europe towards the end of the 1980s, most countries in the region jumped onto the privatisation train. Privatisation was seen as a key element of any successful transformation strategy (Rosenbaum et al., 2000). Consequently, the question of ownership became a topic again only as a result of the events in Central and Eastern Europe in 1989-1990. The failure of socialism seemed to confirm that, at long last, private property is superior to state property. In order to change their property system, Central and Eastern European countries were advised to cut back rapidly their dominant state sector in favour of the private sector. Since then, the privatisation of state enterprises plays a key role in the conceptions of economic transition (Engerer, 2001). Additionally, in most transition economies the privatisation of industries which were classified among 'strategic industries', took place later and proceeded more slowly than that of the other sectors of the economy (RIINVEST, 2009).

Moreover, Yugoslavia was a socialist state with a federal structure, and Kosova was a part of the Yugoslav federation. The economic system was based on a centrally planned economy. Up to 1990, Yugoslavia has had an economy according to the model of the other socialist countries. The collapse of communism led to a process of gradual economic reform. The transformation began after 1991. This process took a particular course, with increasing political tensions and wars between the constituent parts of the Yugoslav federation. Kosova experienced a difficult transition from centrally planned to open market economy. Kosova was the poorest part of the federation. While it was within the federation, the federation decided on the economic policies. When the constitutional powers were abrogated in 1989, Kosova was not able to begin implementing a programme for the economic development. From 1989 until 1997, Kosova experienced very weak economic development. The conflict from 1998 to 1999 left an economic gap in Kosova. During this period, Kosova was an extremely underdeveloped country (Nezaj, 2015). Therefore, before the privatisation process, and also before the 1990s when the political situation escalated in the region, Kosova was an autonomous province in the former Yugoslavia, which had a centralized economic system. Although Kosova was systematically treated as a second-hand entity in Yugoslavia, there were, however - a considerable number of large enterprises in the country that had exported to European countries for years. Those enterprises include the Trepça mine and industrial conglomerate, the vehicle suspension equipment factory, Ferronikeli, and others. The abrogation of Kosova's autonomy in the late 1980s, and the war in the late 1990s, badly affected those enterprises in terms of the loss of markets and the degradation of machinery, among other aspects. The consequences of this are evident even today, as their privatisation has barely restored the status they had in the past (ICE, 2017).

In historical terms, Kosova is Europe's youngest country. After its experience as part of the former Yugoslavia, Kosova became a separate territory under the United Nations (UN) administration in 1999, and, in 2008, it declared independence. The country has since made considerable socioeconomic progress, benefiting from international support and its own considerable Diaspora. With its policies directed to the overarching political objective of European integration, it aspires to become a member of the European Union (EU). However, because its international status has not yet been resolved, its economic development is confronted by unique difficulties in areas such as transport, telecommunications, agriculture, banking, and insurance (World Bank - WB 2017).

Today, Kosova has 103,755 registered enterprises[1], from them: 102,070 (or 98.37%) are micro-enterprises; 1,406 (1.35%) are small; 221 (0.22%) are medium; and, only 58 (0.06%) are classified as large (Ministry of Trade and Industry - MTI 2011). Based on data from the Tax Administration of Kosova (TAK), the total turnover of SMEs in 2010 was €1,693,926,734.31 or 43.30% of GDP. The total turnover of all businesses was €2,222,485,094.15 (56.81% of GDP) (MTI, 2011).

3. Privatisation process in Kosova

In Kosova, following the creation of a Department of Trade and Industry (DTI) in December 2000, an UNMIK regulation (No. 2002/12 of May 2002) set up the Kosova Trust Agency (hereinafter often referred to as KTA) as the landlord and trustee of socially - and publicly - owned property. Exclusively under international control and operated by EU staff and

[1] The number of headcounts is the sole criterion for classification of Kosova enterprises. Also, this is in accordance with the enterprises 'classification by the European Union.

USAID contractors, the Trust Agency, aimed to 'preserve or enhance the value, viability, and corporate governance of socially owned and public enterprises in Kosova' (Pugh, 2005).

The privatisation process in Kosova had very difficult start followed by hesitation and delays, and experienced it's forwards and backwards during its development. From the very beginning in June 2002, it experienced two breaks, firstly during the fourth quarter of 2003 and 2004; then it had a good flow during 2005, 2006 and 2007 before again having a major slow down during the 2008 (RIINVEST, 2008). As mentioned by Aliu (2014), there were many reasons why the privatisation process in Kosova didn't start earlier. The primary cause was the political status of Kosova which wasn't well-defined till 2007, not well defined property rights and major documents of the cadastre were taken away by Serbian forces and sent to Serbia in 1999.

The main methods used for privatisation in Kosova were '*spin-off*', special '*spin-off*' and liquidation. Spin-off privatisation meant transferring an SOE's assets to a subsidiary company established by the KTA, a 'New Co', and selling off this New Co. New Cos was established by the KTA as limited liability companies, with the rights and interests of the old SOE's assets, but not liable for its debts or claims. Special spin-off' meant selling SOEs to investors, with certain conditions attached (Knudsen, 2010). Special Spin-off is considered the most important and most complicated form of privatisation since the impact on the economy and a huge number of workers that these companies were carrying out. This form of privatisation signify transferring the ownership to the new proprietor in purpose of creating a New-Co, liabilities remain a responsibility of the Privatisation Agency of Kosova (power electricity, water supply, accounts payable and so forth). Accordingly, the privatisation process is administered by the Privatisation Agency of Kosova (hereinafter referred to as PAK). PAK has been established as an independent public body which manages the privatisation of SOEs (KPMG, 2017).

International officials deemed it important to clarify legal ownership of Kosova's enterprises before privatising, especially of the socially owned ones that were to be privatised first. While Serbia was laying claim to all Kosova's publically owned enterprises (hereinafter often referred to as POEs) and SOEs – indeed, to Kosova as a whole – identifying the ultimate title-holder of Kosova's SOEs was first and foremost related to Yugoslavia's specific ownership system, to the concept of social ownership in particular (Knudsen, 2010).

The privatisation process in Kosova inherited around 500 SOEs of which only 30% with around 60,000 employees were functioning after the War. Out of this number, only 16,000 were on a payroll. Significant technological and human resources were concentrated in these enterprises during the 1980s but because of the imposition of ‘special measures’ by the Serbian government and the violent governance and inadequate management during the 1990s; the depreciation of assets and technologies, and changes in regional and international business environment most of these enterprises were operating ineffectively and below their capacities and many ceased operations altogether (RIINVEST, 2008).

Although the EU Pillar assumed responsibility for Kosova’s SOEs as well as its POEs, the period of formal international leadership of privatisation came to concentrate on SOEs. Evidently, SOEs were a key part of the economy at the start of the international state-building project and represented a significant potential source of reconstruction and longer-term economic development. The POEs in Kosova – which were also put under Pillar IV administration in 1999 – are generally estimated to be worth even more than the SOEs, but these were not to be scheduled for privatisation until after the end of the formal international leadership of privatisation in Kosova (Knudsen, 2010).

In addition, the privatisation process in Kosova is also referred to as ‘mass privatisation’ given the fact that it covered all SOEs, irrespective of importance. Even enterprises with significant economic importance were included. Although the special spin-off method was adopted as a means to preserve the enterprises’ value and avoid potential change of destination, as noted above, this was not achieved due to several drawbacks highlighted above (BIRN, 2016). During the period from June 2012 to December 2015, the total revenue from privatisation through spin-off was €573 million whilst revenue from the sale of SOEs through liquidation was €87 million. Whereas, in 2013, 136 contracts (liquidation 105, spin-off 31) were completed, while in 2014, in total 145 contracts were completed. PAK did not execute any asset sale due to the lack of Board of Directors in 2015. The total amount of the sales proceeds during the entire process (June 2002 – December 2015) is €660,223,469 (KPMG, 2017). As of today, it is considered that 1,483 contracts have taken place from 97 sale waves. These sales have generated €684,772,221. Twenty percent (20%) of this amount belonged to the former workers (PAK, 2018). According to the Balkan Investigative Reporting Network (2016), the SOEs were sold without an appropriate assessment or a clear long-term strategy regarding the benefits and consequences for employees or the economy.

On the other hand, privatisation of POEs has proven to be a difficult process, regardless in which part of the world it has occurred. Nevertheless, when deemed necessary, POE must be privatised for several reasons, including but not limited to improving performance and efficiency, fostering improvements and strategies that are not necessarily politically safe, increasing accountability and hampering corruption, increasing market discipline and response, and reducing political influence (RIINVEST, 2009). The process of privatising POEs commenced properly in 2010, under the authority of the local PAK, established in 2008 (Knudsen, 2010).

4. Effects of the privatisation process in Kosova

One of the major problems with privatisation has been the decision to privatise itself, more precisely the circumstances under which the decision was made. In democratic societies, privatisation is debated, questioned and analysed by politicians, experts, and other important stakeholders, and the decision to privatise as well as the methods to be applied are generally based on the economic reality of the country. Contrary to other post-communist countries, privatisation in Kosova was chosen as the principal economic strategy by international officials of UNMIK and the EU Pillar and not by the state itself, given its undefined status (BIRN, 2016). Also, as reported by RIINVEST (2009), the privatisation of SOE was ordered by UNMIK (which prepared the necessary legal framework) and was exercised by the Kosova Trust Agency, under the understanding that the SOEs were property of Kosova and to some degree of SOE's respective employees.

Dobra and de Vries (2016, p.25) assessed the effects of the privatisation processes in Kosova between 1999 and 2008. They concluded that: "the privatisation processes did not bring about the positive effects expected from such a policy." Also, as said by them, privatisation did not ameliorate the employment rate in Kosova.

A report of Institute for Critique and Emancipation (2017) sheds light that the process was characterized by many problems, including suspicions over corruption, low privatisation prices in the case of certain enterprises, a loss of jobs, and a delay in the allocation of the 20% of shares belonging to the workers. Likewise, Knudsen (2010) has emphasized that internationally led privatisation has led to a loss of jobs in Kosova, although the exact figures have not been established. In 2002, some 50,000 to 60,000 jobs were predicted to be negatively affected by UNMIK's administration of SOEs, while Kosova's trade union currently estimates that privatisation has left around 75,000 workers jobless, without pensions or social assistance. The precise figure relates to the number of actual SOE employees since the number of jobs preserved by New Co buyers, in any case, appears low. While it is sometimes claimed that few registered SOE workers really worked or received a salary, a study of a sample of SOEs has estimated that in 2000, around six out of ten of registered SOE workers were active, full-time employees.

5. Some indicators about Kosova today

Kaufmann et al. (2011) created two measures of governance corresponding to each of these three areas, resulting in a total of six dimensions of governance:

(1) *The process by which governments are selected, monitored, and replaced*: Voice and Accountability (VA), and Political Stability and Absence of Violence/Terrorism (PV);

(2) *The capacity of the government to effectively formulate and implement sound policies*: Government Effectiveness (GE), and Regulatory Quality (RQ);

(3) *The respect of citizens and the state for the institutions that govern economic and social interactions among them*: Rule of Law (RL), and Control of Corruption (CC).

Kaufmann et al. (2011, p.225) argue convincingly that:

These six dimensions of governance should not be thought of as being somehow independent of one another. One might reasonably think for example that better accountability mechanisms lead to less corruption, or that a more effective government can provide a better regulatory environment, or that respect for the rule of law leads to fairer processes for selecting and replacing governments and less abuse of public office for private gain. In light of such inter-relationships, it is *not very surprising that our six composite measures of governance are strongly positively correlated across countries.*

Sahiti and Smith (2017) have gathered information from the World Bank about the indicators related to institutional quality. They show that Kosova is ranked considerably below comparator countries (see Table 1).

Table 1: The quality of institutions–Balkans countries

Percentile rank (0–100)								
Dimensions	**Year**	**Alb**	**Cro**	**Kos**	**FYROM**	**Mntg**	**Srb**	**Rank**
Voice and accountability	2007	51.44	61.54	36.54	55.29	55.77	56.73	
	2012	50.24	63.51	42.18	49.76	56.4	55.92	6
Political stability and absence of violence/terrorism	2007	37.98	67.31		30.29	48.08	25.48	
	2012	39.81	64.45	15.17	33.18	63.98	38.86	6
Government effectiveness	2007	42.23	68.93	48.06	49.51	50.49	47.09	
	2012	44.98	72.25	41.63	51.67	59.81	50.72	6
Regulatory quality	2007	55.83	65.53	54.85	56.8	50.49	40.78	
	2012	56.46	66.51	52.63	61.24	53.11	50.72	5
Rule of law	2007	27.75	55.02	24.40	39.71	49.28	37.32	
	2012	35.07	59.72	35.55	47.87	55.45	44.08	5
Control of corruption	2007	29.61	59.22	23.79	44.66	48.54	45.63	
	2012	26.79	57.42	30.14	59.33	55.02	48.33	5

Source: Sahiti, F., and H. L. Smith. 2017. An application of growth diagnostics on the growth of firms: with evidence from Kosovo firms. *Journal of Innovation and Entrepreneurship, 6*(1), 16-40, p.23.

It is quite clear that privatisation did not reduce corruption. Corruption and inequalities have reached unprecedented levels. Data from the World Governance Indicators point out that Kosova scores much worse than other European and Central Asian countries on these indicators (Dobra and de Vries, 2016).

There are nine 'Doing Business Indicators' used by the World Bank to measure some areas of a country's business environment. According to the

World Bank's 'Doing Business 2011' report, published in November 2010, Kosova ranks bottom for the whole of Central and Eastern Europe region for starting a business and for enforcing contracts. Therefore, one of the goals of SME strategy was to improve Kosova's ranking in the World Bank's 'Doing Business Indicators'. The following table presents a summary of Kosova's ranking for the period 2011-2018.

Table 2: Kosova ranking in the World Bank Report 'Doing Business'- 2011-2018

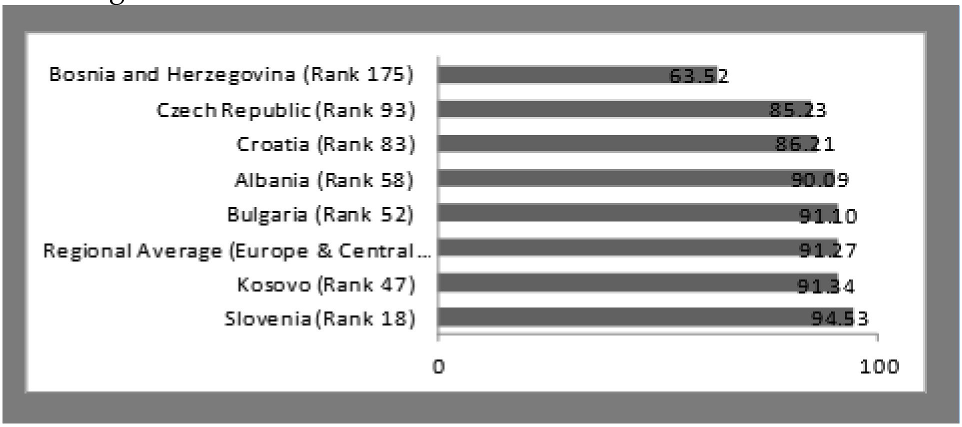
Year	Rank	Total countries	Compared to the previous year
2011	113	183	-
2012	117	183	↓
2013	98	185	↑
2014	86	189	↑
2015	75	189	↑
2016	66	189	↑
2017	60	190	↑
2018	40	190	↑

Source: Reports '*Doing Business*', World Bank (2011; 2012; 2013; 2014; 2015; 2016a; 2017; 2018), compiled by the authors.

As we can see, except in the year 2012 where it has fallen, other years Kosova has made significant progress in *facilitating doing business*. Mainly, progress has been made in *facilitating business start-ups* and *investor protection*.

Globally, Kosova stands at 47 in the ranking of 189 economies on the ease of starting a business (Figure 1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Kosova to start a business (WB, 2016b).

Figure 1: How Kosova and comparator economies rank on the ease of starting a business



Distance to frontier score

Source: World Bank. 2016b. *Doing Business 2016. Economy Profile 2016 - Kosovo*, p.8.

The recent report 'Doing Business 2018' emphasize that Kosova is among the top 10 economies worldwide with the most notable improvement in doing business reforms. Last year, Kosova was ranked 40th out of 190 countries in ease of doing business, compared to the 60th place in 2017.

6. Conclusion

The Kosova economy was mapped by the Rambouillet ultimatum where the requirement to convert to a free market was inscribed and was subsequently written into the framework constitution (Pugh, 2005). After independence in 2008, Kosova undertook a number of economic reforms and institutional developments with the aim of building an open market economy (Nezaj, 2015).

Transparency is crucial in maintaining political acceptability for privatisation (Lieberman et al., 1997). McGowan (2011) stresses out that under state ownership, companies are subject to both corruption and bureaucracy. Corruption is ordinary because the state has nobody else to regulate the companies and decisions are often made for purely political reasons. Bureaucracy is problematic because the government is often unwilling to improve or advance a good or service unless the industry's performance is so poor that it reflects negatively on the administration. Ideally, competition eliminates these elements.

The internationally managed privatisation of SOEs in Kosova cannot be said to have been a success if judged according to UNMIK Pillar IV's own stated objectives: economic reconstruction and development. Although no comprehensive evaluation has so far been undertaken of the economic impact of privatisation in Kosova, the available evidence indicates that the process has contributed to limiting Kosova's socio-economic potential, by restricting the operational possibilities of enterprises and transforming them into cash at a time of low value – and by blocking employees from work while awaiting privatisation, and not assisting with post-privatisation employment or social protection (Knudsen, 2010).

Almost two decades following the end of the war and 15 years after the start of the privatisation process, Kosova continues to be the poorest country in Europe, with unemployment figures reaching well over 30 percent. The country continues to go through deep trade deficit cycles. In 2016, the Statistical Agency of Kosova (SAK) advised that there was an increase in imports and a decrease in exports of Kosovan products. The export total in 2016 was €309 million, while the import figures reached €2,789.4 million. Direct foreign investments in the country have decreased every year since the declaration of independence (ICE, 2017). Furthermore, incomplete privatisation and legalization/regularization programs, as well as cases involving illegal occupation of land/buildings belonging to displaced owners mean that many properties cannot be formally registered (WB, 2017).

It is believed by Dobra and de Vries (2016), that the lack of appropriate institutions, of a legislative framework and of a proper strategy are judged to be the main cause for the failure of the process of privatisation engaged by the international administration of UNMIK in Kosova. Thus, the privatisation process is coming to an end, but it did not meet the intended expectations because only a few privatised enterprises can be considered successful (BIRN, 2016).

Kosova is aiming to become a member of the EU in the future. At the moment, Kosova is seeking to build a well-functioning, competitive and open market economy. However, this process of the economic transformation will take a long time to complete (Nezaj, 2015). Accordingly, the Government of Kosova decided to amend its tax policies in order to provide tax incentives for new investments; for example, depending on the size of the investment, 0% corporate income and value-added tax rates may be executed. The decision will be implemented once the respective administrative instruction is signed by the Minister of Finance. The time frame for these incentives has been extended from 3 to 4 years for investments ranging from €2 to 5 million, and from 1 to 3 years for investments under €2 million (KPMG, 2017).

Nezaj (2015) argues convincingly that it will take years until Kosova completes its own cycle of an economic transformation into a market economy. At the present time, Kosova has put on its own agenda a huge commitment to absorb EU rules and principles. Absorbing the new rules and principles of the EU is not an easy task. From Kosova's perspective, the EU market economy is an exemplary model for Kosova in the future. However, besides the commitment that is enshrined in the agenda, some of the principles for enforcement are lacking. Kosova is aspiring to develop a set of rules and enforcement institutions to comply with the EU rules and principles regarding a free market economy.

An important issue which is addressed in the post-privatisation literature is the choice between privatisation and *de novo* or Greenfield enterprises as an alternative for increasing private sector activity in transition economies. Overall, empirical studies suggest that the performance of privatised enterprises lies between that of *de novo* private and SOEs. Many empirical studies suggest that *de novo* firms are invariably better performers than any privatised firms (RIINVEST, 2008). For example, Earle and Estrin (1996) highlighted that governments should make more efforts for the development of small and medium *de novo* enterprises (as cited by RIINVEST, 2008). Admittedly the SMEs are very important for the country's economic development. They represent the largest business sector in any world economy (Culkin and Smith 2000). Van Gils (2005) highlights that SMEs are important engines to stimulate the economic growth of a country. Phillips and Moutinho (2018) think that despite their contribution to the economy in terms of turnover and number of jobs created, SMEs are often neglected in books about strategy.

Kosova suffers from an imbalance of payments with imports significantly dominating exports. This is mainly due to the fact that Kosova's SMEs are not internationally competitive. Weak export-oriented SMEs hinder the further contribution of SMEs to GDP, job creation and economic growth. Exports are dominated by base metals and ores produced by large companies (MTI, 2011).

As stated by Ayyagari et al. (2007), the SME contribution to GDP in Australia is 23%, in New Zealand 35%, 52% in the UK, 48% in the US, around 57% in Denmark, Canada and Japan, in Luxembourg around 76%, Germany nearly 43%, Greece around 28%, Italy around 59%, and Slovenia around 17%. Whereas consistent with the Ministry of Trade and Industry (2011), the contribution of Kosovan SMEs to GDP is nearly 40% (as cited by Berisha Qehaja and Ismajli, 2018).

As alleged by the Ministry of Trade and Industry in Kosova (2011; 2013; 2015), the role of the private sector, especially SMEs until now have been relatively weak. Nevertheless, Kosova is still in the transition phase in which entrepreneurship and small business creation are expected to play an important role on the road to a modern economy, free market and so towards development and economic growth.

The recent World Bank Report '*Doing Business 2018 - Reforming to create jobs*', states that World bank Group contributed to notable improvements in the business enabling environment in Kosova over the last years, and it remains dedicated to supporting private sector development through its engagements in the energy sector, agriculture, competitiveness, and the investment climate. Private sector-led growth is one of the three crucial pillars of the World Bank Group Country Partnership Framework for Kosova for 2017-2021.

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