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National Development Strategy:

progress, setbacks and
future expectations

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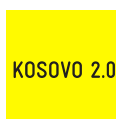
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This analysis was originally written in Albanian.

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1. Introduction

In September 2020, the Government of Kosovo published the concept for the drafting of the National Development Strategy (NDS) 2030¹. A month later, another decision was taken by the government to initiate the drafting process of this strategy.² This strategy, which will be developed in a number of stages, aims to define long-term objectives regarding the rule of law, economic, social and environmental development, and the country's EU membership course. As a strategic document for long-term planning, it is expected that all future sector strategies and operational plans will be in line with its objectives.

However, since Kosovo had already drafted a similar strategy in 2016 which is still in effect (NDS 2016–2021), it is important to see which of its objectives have been achieved. In April 2017, the roadmap for the implementation of the strategy 2016–2020 was adopted. This document defined the plans for the fulfillment of objectives, cost assessments of measures, key performance indicators, and the NDS monitoring system.³ The aforementioned roadmap is also a very important document, as it designs a schema with all the elements, operations, and systems that must interact for a successful implementation of measures. Although this roadmap provided for the monitoring and reporting on the operational plan and implementation of measures on a biannual and annual basis, respectively, the first and only monitoring report of NDS was developed in October 2018.⁴

GAP Institute assessed the fulfillment of objectives by monitoring the performance of 12 key macroeconomic indicators. The results show a poor performance, including major setbacks in economic growth, employment, trade balance, and foreign direct investments. As a result, even in a situation without the COVID-19 pandemic in 2020, most objectives would not have been fulfilled in 2021. Five changes of government cabinet occurred within five years while the strategy was being implemented, each with varying governing policies, lack of systematic assessment of implementation of measures, and poorly analyzed plans are some of the reasons for the failure in the fulfillment of key objectives.

1 Government of Kosovo. Concept document for the drafting of the National Development Strategy 2030. Source: <https://bit.ly/3tzJoRL>

2 Government of Kosovo. Decision No. 15/34 on the drafting of the National Development Strategy 2030. Source: <https://bit.ly/3oR7ll5>

3 Government of Kosovo. Roadmap for the implementation of the NDS 2016–2021. Source: <http://bit.ly/3eBrvhi>

4 Government of Kosovo. First report on implementation and results of the National Development Strategy 2016–2021. Source: <https://bit.ly/3c67r55>

2. Assessment of objectives

2.1 Economic Growth

2.1.1 Gross Domestic Product per capita

One of the most important economic targets of NDS 2016-2021 is the Gross Domestic Product (GDP) per capita. GDP is a comprehensive indicator of a country's economic performance over a particular period of time, an aggregate measure of total local production or income. GDP per capita reflects the average participation of citizens in these incomes and is related to economic wellbeing.

In 2015, the annual GDP per capita was 3,277 Euro, whereas the NDS included a target of 5 thousand Euro by 2021. To achieve this target, this indicator should have increased on average by 8.5% per year, while the actual average increase from 2016 to 2019 was 5%. With this trend, in order to achieve the target, during the year 2020 and 2021 the GDP growth per capita should increase on average around 12% per year. Although the 2020 data have not been published yet, given the economic development to date and the dire economic situation caused by the COVID-19 pandemic, it is clear that this target, despite a slight increase, has not been achieved as projected.

Table 1. Gross Domestic Product per capita and the NDS-2016-2021 target

| | Baseline (2015) | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|---------------------------|--------------------|-------|-------|-------|-------|---|---|------------------------|
| GDP per capita (€) | 3.277 | 3.386 | 3.566 | 3.746 | 3.986 | 4.464 ▲ 12% of 3,986 | 5.000 ▲ 12% of 4,464 | 5.000 |

*GAP Institute calculation

Economic programs and reforms planned in the NDS have not shown sufficient positive results to meet the target. Moreover, taking into account the GDP decline in the second and third quarters of 2020, this economic indicator is expected to be far from projections.

2.1.2 Real annual GDP growth rate

The real GDP rate also marked limited achievement. In 2015, real growth was 4.1% while economic reforms aimed to increase the trend and achieve an average annual growth of 7% by 2021. To achieve this goal, the growth rate per year should be around 1.05 percentage points (pp) above the 2019 rate, or 5.95% in 2020. However, even if 2020 is completely disregarded, given that an economic decline is expected, this target has not been achieved. Average growth rate from 2015 to 2019 was around 4.2%, or 2.8 pp lower than the target. For this reason, this economic indicator defined in NDS has been assessed as limited progress.

Table 2. Real GDP growth rate and the NDS-2016-2021 target

| | Baseline (2015) | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|-------------------------------------|--------------------|------|------|------|------|---|---|------------------------|
| Real GDP growth rate | 4.1% | 4.1% | 4.2% | 3.8% | 4.9% | 5.95% (1.05 pp or 21.4% ▲ from 4.9%) | 7% (1.05 pp or 17.6% ▲ from 5.95%) | 7% |

*GAP Institute calculation

2.1.3 Gross fixed capital formation as a percentage of GDP

On the other hand, the gross fixed capital formation⁵ as a percentage of GDP has progressed since 2015 by an average of 0.9 pp per year. This made this indicator in 2019 to be 3.4 percentage points closer to the target. This progress has been achieved as a result of increased gross capital formation more than the other components that make up GDP. However, to fully attain the NDS target, this indicator must increase by 1.7 pp per year, or 30.3% in 2020, and 32% in 2021. This increase is unlikely given the trends of previous years.

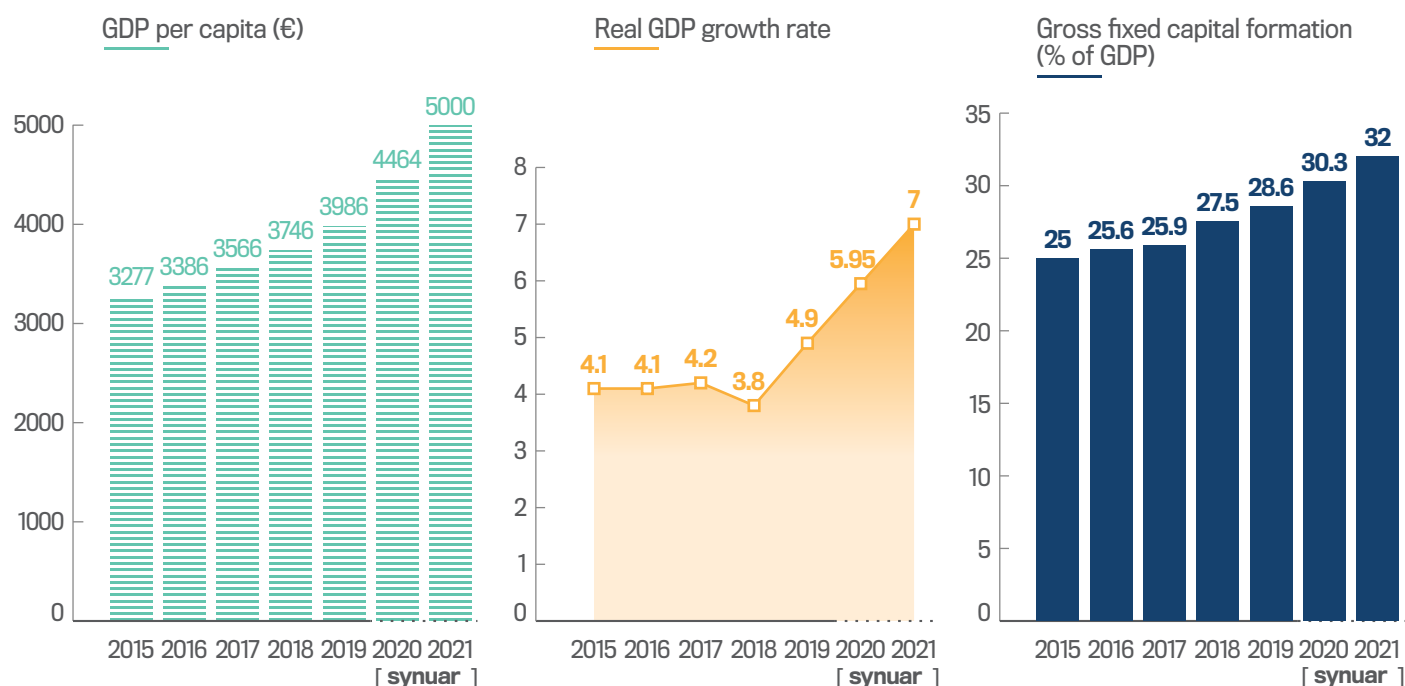
Table 3. Gross fixed capital formation as a percentage of GDP and the NDS 2016-2021 target

| | Baseline (2015) | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|---|--------------------|-------|-------|-------|-------|--|--|------------------------|
| Gross fixed capital formation (% of GDP) | 25% | 26.6% | 25.9% | 27.5% | 28.6% | 30.3% (1.7 pp or 5.9% ▲ from 28.6%) | 32% (1.7 pp or 5.6% ▲ from 30.3%) | 32% |

*GAP Institute calculation

GDP per capita and the real GDP rate are the most comprehensive indicators of the performance of the economy. The failure to fulfill these NDS targets indicates a setback in the reforms envisaged to achieve these goals. Target parameters have not been reached in any year since 2015.

⁵ Gross Capital Formation includes the investments of businesses in the purchase of manufacturing machinery or in accumulating inventory, and the purchase of a new house by households, which GDP considers as investment rather than consumption.

Figure 1. Key economic growth indicators and NDS targets 2016-2020

Source: Kosovo Agency of Statistics (KAS)

2.2 Labor Market

From the 15 key macroeconomic indicators selected to assess the progress made with the NDS, six are indicators related to the labor market. Their improvement over the years, namely the achievement of the targeted values, also shows the effectiveness of measures and policies implemented under the NDS, aimed at labor market reform.

2.2.1 Labor force participation and employment rate

By the end of 2019, the effective comparative year, as the COVID-19 pandemic in 2020 had a direct negative impact on employment indicators, the most significant progress compared to other indicators was with the labor force participation and employment rate. Labor force participation had reached the value of 40.5% or 1.5 pp (3.7%) away from the target value (42%) for 2021, while the employment rate had increased to 30.1% or 3.9 pp (12.96%) away from the target value (34%). Assuming a non-pandemic situation for 2020, according to GAP calculations, the indicator of labor force participation rate could have reached the targeted value in 2021 only if the period of 2020-2021 would have had an increase of over 1.8 %, or 0.75 pp each year. This increase should be higher than the average annual growth during the period 2015-2019 of 0.73 pp, although it is rather close. While the employment in 2020 and 2021 should have had an average increase of over 6% or about 2 pp to reach the target value for 2021, the average annual growth of this indicator in the period 2015-2019 was only 1.23 percentage points. The Covid-19 pandemic has pushed back these objectives further, as employment in 2020 marked a decline.

Table 4. Labor force participation and employment rate and NDS targets 2016-2021

| | 2015 | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|--|-------|-------|-------|-------|-------|---|---|------------------------|
| Labor force participation rate (% of total population 15+ years old) | 37.6% | 38.7% | 42.8% | 40.9% | 40.5% | 41.25% ▲ of 1.85% | 42% ▲ of 1.82% | 42% |
| Employment rate (employment-population ratio) | 25.2% | 25.5% | 27.3% | 28.8% | 30.1% | 32.05% ▲ of 6.48% | 34% ▲ of 6.08% | 34% |

*GAP Institute calculation

2.2.2 Unemployment rate and youth unemployment

The biggest deviation from the target value for 2021 is the forecasted reduction of youth unemployment to 30% by 2021. This objective of creating more jobs and greater employment opportunities through a correlation of curricula with market demands, creating a good environment for investments, and investment in education, has not been fulfilled, as there were missing results each year. In 2019, the youth unemployment rate was 49.4%, in 2018 it was 55.4%, while previous years had over 52%. Similarly, the indicator of the percentage of young people who are not in the labor market, education, or trainings in 2019 marked a deviation of 7.7 pp from the target value of 25%. Because the situation of young people in this group had already deteriorated in recent years, particularly in the period 2018-2019 when the number of young people outside the labor market or not attending trainings had increased, and in a non-pandemic period, this indicator would have needed an increase of about 12% in 2020 and 2021 in order to reach the target value. In the period 2015-2019, on average this indicator marked a deterioration, therefore an increase of young people outside the labor market or education.

The general unemployment rate in Kosovo in 2019 also deviated from the target value for 2021 by 5.7 pp, or 22.2%. In reality, this indicator had a continuous improvement during 2015-2019, with an average of 1.8 pp on an annual basis. However, to achieve the target value of 20% unemployed, progress in 2020 and 2021 would have had to be rather significant, even when assuming a scenario without the COVID-19 pandemic. Specifically, an average reduction of about 12%, or 2.85 pp, in both years, 2020 and 2021, would have been needed.

Hence, it was rather unlikely that the target values for these indicators would have been achieved in 2021.

Table 5. Unemployment rate, non-inclusion in education, training and employment, youth unemployment, and the NDS target for 2016-2021

| | 2015 | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|---|-------|-------|-------|-------|-------|---|---|------------------------|
| Youth unemployment rate (15-24 years) | 57.7% | 52.4% | 52.7% | 55.4% | 49.4% | 39.7% ▲ from 19.64% | 30% ▲ from 24.43% | 30% |
| Percentage of young people not involved in education, employment or training, total, NEET (% of young population) | 31.4% | 30.1% | 27.4% | 30.1% | 32.7% | 28.85% ▲ from 11.77% | 25% ▲ from 13.34% | 25% |
| Unemployment rate (total unemployed as % of total labor force) | 32.9% | 27.5% | 30.5% | 29.6% | 25.7% | 22.85% ▲ from 11.09% | 20% ▲ from 12.47% | 20% |

*GAP Institute calculation

2.2.3 Women's participation in the workforce

Participation of women in the labor force remains at an undesirable level, with only one fifth of women of working age were part of the labor market in 2019 as employed or registered jobseekers. Although the target value for 2021 was 27%, increasing the participation of women in the labor force in this level, given the growth trends from 2015 to 2019, would have been nearly impossible even in the case of a non-pandemic period. Specifically, an increase of over 12%, or around 3 pp per annum would have been needed in 2020 and 2021 in order to achieve this target, whereas the average annual increase over the years was only 0.75%. On the other hand, the COVID-19 pandemic has further deteriorated the situation of the labor market, as indicated by many reports, due to an increase in other unpaid works during the quarantine.⁶

Table 6. Participation of women in the labor force and NDS targets 2016-2021

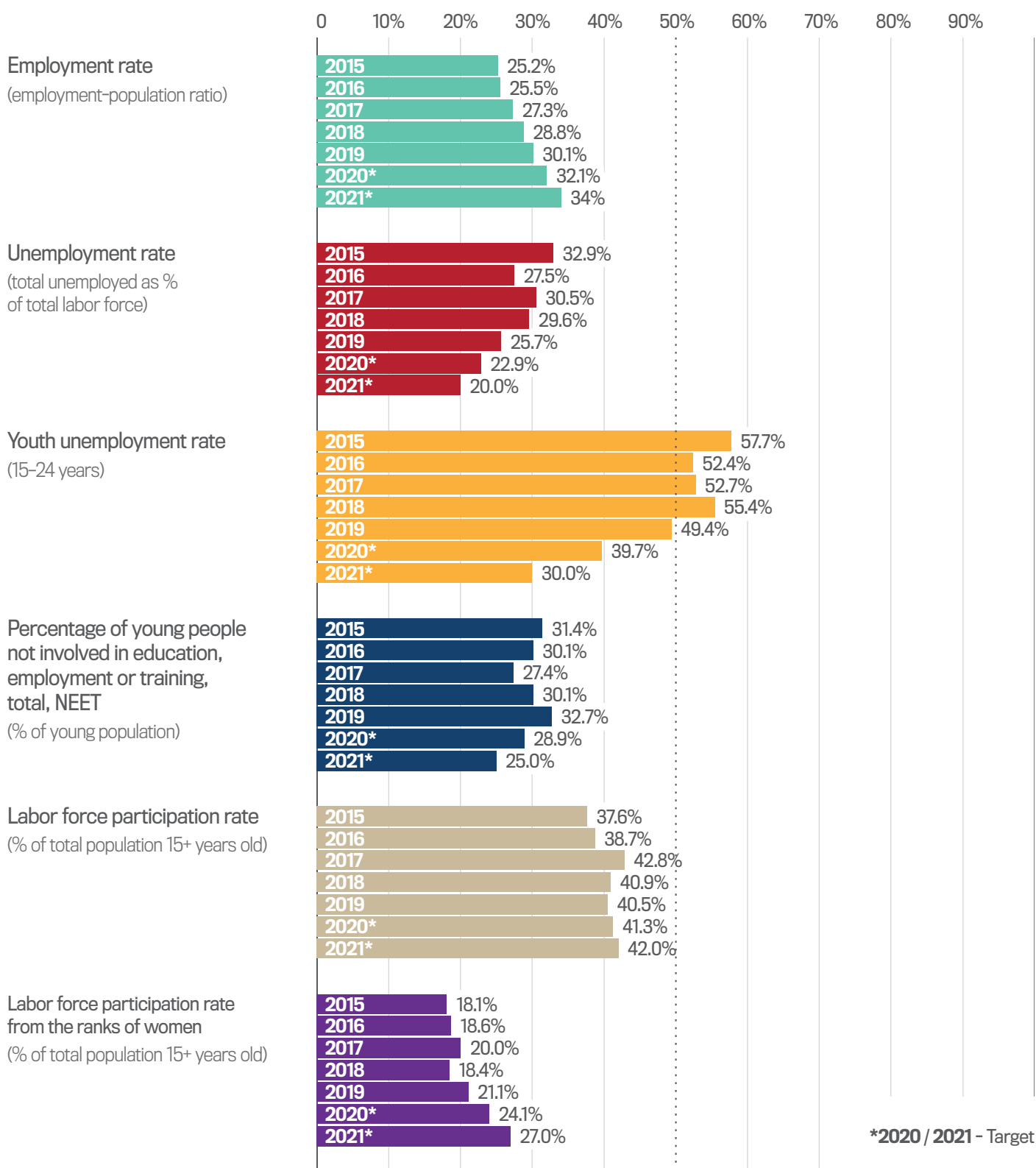
| | 2015 | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2020 (average)* | Improvement needed in 2021 (average)* | Target value (2021) |
|--|-------|-------|-------|-------|-------|---|---|------------------------|
| Labor force participation rate from the ranks of women (% of total population 15+ years old) | 18.1% | 18.6% | 20.0% | 18.4% | 21.1% | 24.05% ▲ from 13.98% | 27% ▲ from 12.27% | 27% |

*GAP Institute calculation

6 UNDP. Quick assessment of the socio-economic impact of COVID-19 in Kosovo. Source: <https://bit.ly/2Nf3Jwe>

The poor performance of key labor market indicators and the notable deviation from the target highlight the lack of reforms and adequate policies of Kosovo governments over the years to increase the quality of education by linking education with the labor market demand which would in turn create conditions for economic development and a conducive environment for the inclusion of women in the labor market.

Figure 2. Assessment of macroeconomic indicators under the NDS 2016-2021



Source: Kosovo Agency of Statistics (KAS)

2.3 Foreign direct investment and commerce

2.3.1 Foreign Direct Investment

Two other important indicators for economic development included in the NDS are investments and trade. Foreign Direct Investment (FDI) is the foreign capital invested in Kosovo. These revenues help increase GDP and overall economic performance. In 2015, foreign investments were around 309 million Euro, while the NDS projected 600 million Euro in 2021. A number of reforms in attracting foreign direct investment were assumed, including procedural facilitation of foreign capital investment, improving the efficiency of courts in dealing with economic disputes, and deepening international trade relations.

However, despite a positive trend, FDI data indicates that from 2016 to 2018 there was a decrease in foreign direct investments, compared to the baseline year (2015). In 2020 there was an increase in FDI to 321.7 million. However, despite these improvements, the FDI target is 86.5% away from fulfillment.

Table 7. Foreign direct investment and NDS target 2016-2021

| Indicator | Baseline (2015) | 2016 | 2017 | 2018 | 2019 | 2020 | Improvement needed in 2021 (average)* | Target value (2021) |
|--------------------------------|-----------------|------|-------|-------|-------|-------|---------------------------------------|---------------------|
| FDI inflows (million €) | 308.8 | 220 | 255.4 | 272.1 | 254.6 | 321.7 | 600 ▲ 86.5% from 321.7 | 600 |

*GAP Institute calculation

2.3.2 Trade ratio and exports as a percentage of GDP

In terms of the trade ratio, exports have grown higher than projected in the NDS. The target for percentage of exports of goods and services in GDP was 28% by 2021, from 19.3% in 2015. It reached 29.5% in 2019, which is 1.5 pp higher than the NDS target. The positive performance of exports is mainly related to services. In recent years, Kosovo has achieved a positive balance in terms of services, while deepening the trade deficit in goods. For this reason, another NDS target which measures the progress of exports and imports of goods marked a decline. Compared to the baseline year, this ratio decreased by 0.6 pp in 2019, and is far from the NDS target by 5.8 pp. The increase in domestic consumption of goods and the failure to substitute imports has deepened the trade deficit in goods. Therefore, this indicator is assessed as having reached no progress at all.

Table 8. Trade indicators and NDS target 2016-2021

| Indicator | Baseline (2015) | 2016 | 2017 | 2018 | 2019 | Improvement needed in 2021 (average)* | Target value (2021) |
|--|-----------------|-------|-------|-------|-------|--|---------------------|
| Export-import ratio (goods) | 12.8% | 11.7% | 13.8% | 12.2% | 12.2% | 18% (2.9 pp or 19.2% ▲ from 15.1%) | 18% |
| Percentage of exports in GDP (goods and services) | 19.3% | 21.6% | 26.5% | 26.7% | 29.5% | – | 28% |

*GAP Institute calculation

3. Conclusion

The results of the assessment of key macroeconomic indicators above indicate an unsatisfactory progress of Kosovo in relation to the targets defined in the NDS 2016–2021. The reasons for the limited impact of NDS measures may vary considering the unstable political environment with frequent changes of governments in the period 2016–2020, lack of coordination of government policies with the measures defined in the NDS, and lack of systematic progress assessment of measures under the NDS. The most significant setbacks are with key indicators, such as a low economic growth and failure to create opportunities for increased employment.

As it stands, the process of developing the NDS for 2030 is expected to go through several stages. As a significant portion of the NDS 2030 is expected to be implemented during mandate of the incoming government (2021–2025), it is important that its measures are in line with the development focus and program of the new government. The new strategy should also reflect the situation caused by the COVID-19 pandemic, especially in terms of changes in the way the sectors operate, the need for digitalization of services and businesses, and the need for quality and all-inclusive health services. Coordination between measures concluded from various assessments carried out by central institutions and the new government program given the low economic development, poor production capacity, poor trade balance, and unreformed education sector should be an easier process. Furthermore, with the necessary updates, the NDS implementation schema developed for the 2016–2021 strategy where the mechanisms, deadlines and processes for the implementation of measures and monitoring of results were defined is a great help toward achieving the objectives.

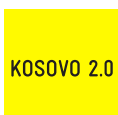
Therefore, it is important that:

- Prior to approving the NDS 2030, a detailed assessment of the implementation of the NDS 2016–2021 should be made, particularly in terms of the results achieved, reasons for not fulfilling the certain targets, and issues that affected the implementation of the strategy and lessons learned;
- An assessment should be done of the impact of the COVID-19 pandemic in economic, social, and health aspects, and how it may affect the way these sectors function in the future. These changes are then reflected in the framework of strategic measures;
- NDS 2030 should be prepared in coordination with institutions responsible for drafting the strategy and the new government in order to increase the likelihood of a higher level of implementation;
- During the implementation of NDS 2030, monitoring and assessing progress should be made systematically so that the impact of reforms and measures is greater. Specifically, updates in results give the government a better picture of the commitment required to achieve the objectives.



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