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## **Removing Barriers to Market Access through Infrastructure Development**

### **Introduction**

Kosovo, with 10,877 km square land area, is a place where food incomes are very low. 53% of this area is agricultural land, 41% is forest and forestry and 6% is for other use. About 50% of the farmland is used for grains (corn, wheat and barley), 45% for pastures and meadows, 3% for vineyard and groves and the rest 1% for other uses (“Kosovo State Of Environment”).

Kosovo has the youngest population in Europe, 70% of the population is under 35 years old. The active population in Kosovo is very high; 61% of the population is between 15-64 years old (Andrea Shundi). While there are 40% unemployed people, the real question is, if there’s enough food production for the entire population? “Over the past few years Kosovo's economy has shown significant progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance. With international assistance, Kosovo has been able to privatize 50% of its state-owned enterprises (SOEs) by number, and over 90% of SOEs by value” (“The World Factbook”).

The war with the Serbian army between 1998-1999 caused harm to Albanian land as 50 % of the livestock were killed and, of course, during the Serbian occupation, Albanian people weren’t allowed to own their own fields (“World Investment News”).

In particular, there are two main factors in favor of livestock investments in Kosovo. “Firstly, the country offers very good natural and climatic conditions for various types of livestock farming. Secondly, market demand for livestock farming products is currently much higher than domestic production is supporting. The planned revitalization of the food processing industry will help create higher opportunities for livestock farming in the future” (“World Investment News”).

Agricultural statistics show that 88% of the farm land is privately owned while the other parts belong to private companies (“Kosovo State of Environment”). But Kosovo has plenty of small farm holders and 46% of them have less than one ha (“Leader + Observatory”). Farm sizes are getting smaller day by day, because during the recent years at least 1000 ha have been transformed into building areas and this is part of the new urban planning.

Another factor that is being faced is industrial pollution and landfills; a number of controlled and uncontrolled landfills in Kosovo are situated in around near farming areas.

Almost every farm family in Kosovo is poor and the farm owners are always men. There is used extensive farming, trying to increase productivity by using large areas with minimal outlay and labor. Farm families in Kosovo have more children than normal families. The average size of a Kosovo farm family is around 9 to 10 people, and they are usually traditional families with grandparents living in the home. The educational level in these rural areas is also very low, because they don’t have enough income to have other people who work on farms, therefore children (girls) are those who work on the farms and leave school in early ages. The farms are usually small and what is produced usually is consumed on the farm.

While farmers may produce enough food, there is a lack of enough organized markets that buy their products. So small farmers sell the food they can to these markets and those that can't, sell for very low prices. Most of the time small farm holders are forced to sell their food in the street, because of low incomes and high rents to own a market.

Two other reasons affecting small holders market opportunity are excess supply and not enough demand and the boycott of neighbor countries. Small farm holders are cut off the big market access because they rather buy imported products and sometimes small farm holders don't fulfill their wants. 10-25% of foods in Kosovo are imported from Serbia. And while Serbia benefits from Kosovo it isn't reversed ("Life in Kosovo"). "Major food commodities are imported" ("USAID"). As the boycott matter, for example, Kosovo's winemakers face bitter harvest. "Kosovo's biggest wine producer, Stonecastle, has decided not to buy any grapes this year from farmers in the area because its reserves are still full. In the other side Serbia and Bosnia and Herzegovina have also refused to allow in any imports with the hallmark of the Republic of Kosovo, thereby depriving the new country of key exports markets" ("Kosovo winemakers")

**Focus of research: # 13 factor:**

**"Removing barriers to market access through infrastructure development (roads and railways, markets institutions) or supply-chain innovations (product design, logistics, packaging, technologies, etc. )."**

Kosovo is already on its way in working to remove market access barriers. On the 19<sup>th</sup> of February 2009, the Prime Minister of Kosovo H. Thaqi asked Albania to give the northern Port of Shengjin to Kosovo for its own use. They made an agreement. They built a highway that connects Kosovo to Albania. "All total, the highway is roughly 170 km (110 mi) long, at a total cost of 1.4 billion euro (\$2 billion)" ("The Highway").

This highway assures Kosovo a way out to the Adriatic Sea. Meanwhile Albanians gain money from tourists and new markets. The food productivity would increase, if small farm holders would have access to more buyers that are interested on their products or if they would have access to international commerce. "Assisting rural poor people in improving their access to markets must be a critical element of any strategy to enable them to enhance their food security and increase their incomes" ("Rural Poverty").

"Improved infrastructure leads to increased market integration and more commercially oriented production systems. Market access is thus a key determinant of household production systems. A good infrastructure is a central concern for rural communities throughout the developing world." A poor infrastructure, on the other hand, "undermines the ability of producers to buy their inputs and sell their crops; it results in high transportation costs and high transaction costs, both to buyers and sellers" ("Promoting Market access").

Being landlocked is a major reason why 16 of the world's 31 landlocked developing countries are among the poorest in the world, say three World Bank economists working on trade logistics issues. So how do countries become landlocked? Mountains are a key physical reason. 'But there are borders and there are borders. Where one country ends and another begins is not something that is fixed for all time.' So, yes, Kosovo is currently landlocked ("Landlocked countries").

The new Kosovo-Albania highway makes access so much better by shortening a 5-hour road to a 2-hour drive. It gives access to the sea to Kosovo, Macedonia and southern Serbia. Besides increasing food productivity and the economy itself, this highway may be a light through which women's education is improved. If small farm holders are better able to access international commerce, food productivity and

their sale will increase, and farmers will be able to hire their own workers, so women may be more able to proceed with their school education.

Over the past few years Kosovo's economy has shown “significant progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community” (“Economy overview”). Kosovo (under UNSCR 1244) is officially considered a potential EU candidate by the European Union, and it has been given a clear “European perspective” by the Council of the European Union. But still Kosovo needs more roads, ports, and highways.

“On the 16<sup>th</sup> of August 2009, the Albanian minister of economy and finance called on the Turkish government and businessmen to focus on trade in Balkans in cooperation with the young country. ‘The highest taxation applied to foreign investors is only 10 percent. We would like to see more Turkish investors coming and investing in Kosovo,’ Minister Shala says as he suggests the two countries work together toward creating a free-trade zone.” Already a member of the Central European Free Trade Agreement, or CEFTA, with Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, and Serbia, Kosovo also benefits from non-reciprocal, customs-free access to the European Union market based on the EU Autonomous Trade Preference, or ATP, regime (“Daily News-Hurriyet”).

The Kosovo – Albania highway starts from Prizren and goes to the northern cities of Albania: Kukes – Merdare, etc. These cities have a Mediterranean climate with a hot dry summer. “The total area land in this region is around 990,813 km square and the average area per holding is 0.51 hectare” (Andrea Shundi). This fact gives Kosovo the opportunity to sell their products even in those areas of Albania that are agriculturally very poor, because of mountains.

### **Other Major Issues Affecting Factor #13**

Another major issue that can affect the wellbeing of rural families is energy demand. “A major characteristic of Kosovo’s energy sector is that the use of natural gas is in very low scale. Kosovo heavily was focused on electrical energy generated from fossil fuels and in import of liquid fuels. “The renewable energy sources in total energy production is accounted for by: firewood 8.46%, hydro-energy 0.54% and solar energy 0.04% . The only renewable energy used now are hydropower and biomass in the form of wood, but there are no purposely grown field agricultural crops for production of bio-fuels and no facilities and equipments for production of biogas. The production of electrical energy from fossil fuels (coals) is dominant in the production of electricity with the share of around 97.5 % . Kosovo is fully dependent on imported petroleum products from all the neighboring countries and regions. Most of the petroleum imports take place in the shape of road transportation, while railway transport is still low. 50% of families in Kosovo use firewood regularly (heating purposes, direct burning for cooking and hot water preparation.) Until now there are no wind parks in Kosovo. One of findings was that there are opportunities for developing at least 18 small hydropower plants in Kosovo. Currently, the production of electricity is a monopoly of the government-owned Kosovo Energy Company (KEK). The KEK operates the coal-fired power stations Kosova A, Kosova B -- both near Pristina -- and two small hydroelectric plants. Production at these plants has been hampered by chronic technical problems as well as multiple lightning strikes. In 2009, KEK formed an agreement with minority communities --primarily Serbs living south of the Ibar River -- to buy power from the KEK. Given existing energy deficits, Kosovo has been forced to import electricity to fill gaps in supply” (“New energy ideas”).

“Currently there is no bio-fuel and bio-ethanol production in Kosovo. There is very limited potential for cultivating energetic crops for the use of biomass for bio-fuel production. The main reasons for this are: high-density population of Kosovo, limited agricultural area, and small size farms. In Kosovo there is no production of biogas yet, although there is potential for this production in agricultural farms from organic wastes of animal and plant origin. Although Kosovo has enormous natural sources of coal, enough to become an energy power in Balkans, Kosovo aims to become a producer of renewable energy (RE)” (“New Energy Ideas”)

Having in mind that investments in this area of renewable energy are usually expensive in one side with shortages from the Kosovo budget to support investment on the other side, then as a solution, one is to look for investors which may be interested in this area of RE. “New landfills are constructed in EU standards but the problem remains with the treatment of leaching from landfills and there is no known RE innovation. Currently farmers in Kosovo are not investing in RE. There are several reasons for that: first of all the overall situation of Kosovo agriculture sector is characterized with low profitability and low access to financial funds which cause low investments on farms. Under these conditions it is clear that yields of agriculture crops in general are in low levels, which causes low level of farms incomes. Kosovo farmers therefore have no financial capabilities (at least for the time being) to invest in the renewable energy sector. Another hindrance for Kosovo farmers is also a lack of policy incentives from the government or other institutions in order to support the RE sector.” There is no direct financial support for farmers for investment in renewable energy sector (“Renewable Energy”).

### **Recommendations and Suggestions for Appropriate Roles**

“The development of the renewable energy sector would fit with these three general objectives, impacting on employment opportunities in rural areas, additional incomes for farmers, improved quality of life and environment protection” (“Renewable Energy”).

Likewise, investing in building new highways will help economic growth. If there’s no road for small farm holders to access the markets, they have no chance to sell their products, and that’s the reason that most of the time what is produced is used on a farm.

Highways, roads, and railways will help not only families that live in rural areas and mountains, it will also give opportunity to urban families to have international access, especially with the new highway. Highway Albania – Kosovo is a good beginning for that, but there’s still a lot of work left to do. Kosovo and Serbia should stop their cold war for the Mitrovica Bridge and be done with the project of building the highway that links Serbia to Kosovo and Albania, meanwhile Kosovo profits with access to world markets.

The connection will open a variety of European corridors, while creating construction jobs. Kosovo also called Turkey for investment in its infrastructure. Despite infrastructure development, there should be direct help from government. The government should build an agricultural university, organize seminars or programs for the small farm holder who cannot afford studying. Those organizations can teach them about producing wheat in intensive conditions.

The small farm holder should take the initiative to build their own business but there should be help from government and they should help them out. If government can’t afford giving them amount of cash to help them start a business they should refer them to the World Bank, which invests in new partnerships.

The government should pay for farms that don’t get farmed at all because of lack of equipment. This would increase profit incentive. Small farm holders should also create their own non-governmental organizations and that would help them.

“Agricultural development is essential for economic growth, rural development, and poverty alleviation in low-income developing countries. Productivity increase in agriculture is an effective driver of economic growth and poverty reduction both within and outside agricultural sectors. Such productivity increase depends on good rural infrastructure, well functioning domestic markets, appropriate institutions, and access to

appropriate technology. While the state of rural infrastructure varies widely among developing countries, most lower-income developing countries suffer severe rural infrastructure deficiencies” (“Rural Infrastructure”).

## **Conclusions**

Small farm holders are cut off from big market access, because big markets buy in large amounts (economies scale) don't buy food from small holders, so they are forced to sell them in the streets. This causes low product prices and results in the lower educational level of farm kids. Those factors don't assure small holders to expand their farms but otherwise, infrastructure through building roads, development of renewable energy and direct governmental help, will help break down those barriers and will have positive affect in agricultural development and access to marketplace for small farm holders.

Energy Company of Kosovo (KEK) sells energy to neighbor countries. Sometimes farmers are not able to produce because of no electricity. For example dairy farmers can't produce that much milk because of the lack of the energy that they need for coolers.

But having help from the government to build renewable energy, farmers can work on producing agricultural crops for production of bio-fuels, so that unavailable electricity won't affect economic expansion.

In addition, this development will have the effect of making it more possible for farm girls to proceed with their education. All of these things tie together and turn into profit incentives and economic growth possibilities for small farm holders.

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