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The Neoliberal Privatization in Kosovë: A Deconstructed Myth

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The Neoliberal Privatization in Kosovë: A Deconstructed Myth

Honors Society Project

Presented to

The Academic Faculty

By Edison Jakurti

In Partial Fulfillment

of the Requirements for Membership in the

Honors Society of the American University in Kosovo

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I cannot empathize with but I do sympathize with countless, misfortunate workers whose fate has been tightly linked with their working positions; and, whose working positions and conditions have been drastically affected by the neoliberal privatization all over the world, and especially in developing countries such as Kosovë.

I wish this work would not be necessary since there would be no worker affected by the consequences of this phenomenon. But, as an ocular witness, the least I can do is to write about it. And, to hope that the future generations will be much more conscious and careful.

Hence, I dedicate this work to all the workers that have been affected by neoliberal privatization.

Abbreviations

GDP – Gross Domestic Product

KEDS – Kosovo Energy Distribution and Supply

PAK – Privatization Agency of Kosovo

POE – Publicly Owned Enterprises

PTK – Post and Telecommunications of Kosovo

SOE – Socially Owned Enterprises

UNMIK – United Nations Interim Administration Mission in Kosovo

Abstract

This paper describes and analyzes the process of neoliberal privatization in Kosovë, mainly focusing on the privatization of Kosovo Energy Distribution and Supply (KEDS) and the attempt to privatize Post and Telecommunications of Kosovo (PTK). The methodology used to obtain the results includes both primary and secondary data collection. Initially, we examine privatization as a concept and neoliberalism as an ideology that promotes privatization. To contextualize how neoliberal privatization has worked, we look at a brief history of privatization in Kosovë.. We come to the conclusion then that what was promised before privatization was not accomplished once privatization took place, especially in the case of KEDS. Also, the attempt to private PTK depicts both the logic of neoliberal ideology and corruption.

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Problem Statement

The privatization of publicly and socially owned enterprises has been presented as the main tool for economic development in Kosovë. However, the long lasting belief that privately owned companies work better in terms of efficiency and productivity is being put to doubt in practice. In many instances, what was offered by the privatizers was not actually done. Often, the number of employees was decreased and even the destination of these enterprises was completely changed. So far, the private investment has been just an excuse to sell these enterprises as cheap as possible and as quick as possible. Hence, the purpose of this study is to investigate the relationship between the neoliberal ideology and privatization in Kosovë - with a particular focus on the privatization of Kosovo Energy Distribution and Supply (KEDS) and the attempt to privatize Post and Telecommunication of Kosovo (PTK)

Chapter I

Privatization and Its Roots

Defining Privatization

The extent to which an individual belongs to the society or a society belongs to an individual is still a question without a definitive answer. By “belonging” we refer to an axis of synonyms which range from cooperation and co-existence up to the materialistic notion of ownership. Although “owning” someone may sound too harsh in today’s circumstances where freedom and democracy are some of the most common words in politics, historically we have witnessed different periods such as slavery and serfdom where even owning people was a common practice. But, why in particular do we relate ownership with privatization? Well, in essence, privatization is a premise for private ownership. And, that we can comprehend by simply looking at different definitions of privatization.

One definition of privatization is “to remove (something) from government control and place it in private control or ownership” (Merriam Webster, 2014). Another similar definition is “the transfer of ownership of property or businesses from a government to a privately owned entity” (Investopedia, 2014). Once again, we see that this transfer of ownership is what privatization per se is all about. However, as such, privatization does not explain the necessities of this transaction. Why should we transfer ownership from the public to the private? Why should the private own something instead of the government, which is supposed to represent the public? Again, such questions are not answered by privatization per se. However, it is the ideology which privatization derives from that explains the reasoning used to support privatization.

Neoliberalism – The Ideology behind Privatization Today

Although private property has existed for a very long time now and privatization is also an early concept, we will focus mainly on the modern approach of neoliberal perspective regarding privatization. According to Professor David Harvey, “Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey, 2005).

Here, “liberating individual entrepreneurial freedoms and skills” is one of the arguments provided by this ideology in support of privatization. The notion of liberation would not make sense unless the subject or the object, whom or which we are seeking liberation for, is at first in the state of occupation. The neoliberal theory does not explicitly view the society as the occupier of the individual, but it attributes such a qualifier to the state. When describing the neoliberal state, “According to theory, the neoliberal state should favor strong individual private property rights, the rule of law, and the institutions of freely functioning markets and free trade” (Harvey, 2005). If the state goes beyond that, then such an intervention would be qualified as a violation of individual liberties (Harvey, 2005). In this sense, neoliberalism promotes the idea that enterprises should be in private hands and not have state own and run them.

Another strong, neoliberal argument in favor of privatization is efficiency. The state is not interested in profit maximization, but the individuals are (Harvey, 2005). Hence, the argument goes, the enterprises owned by individuals are constantly seeking for profit maximization, which makes efficiency a necessity. The theory claims that this efficiency will not serve only the individuals who have privatized but it will serve the society, too. The privatization of enterprises will create a situation where “enclosure and the assignment of private property rights is considered the best way to protect against the so-called ‘tragedy of the commons’ (the tendency for individuals to irresponsibly super-exploit common property resources such as land and water) (Harvey, 2005). Such a thesis assumes that the privatizer is responsible for his behavior and capable of making rational decisions (Harvey, 2005).

Paradoxes of Neoliberalism = Paradoxes of Neoliberal Privatization

Neoliberalism may sound reasonable at the first theoretical review described at the previous section – it supports individual liberties, it preaches growth of capital, and it promises a win-win situation where not only the individual entrepreneur wins but the society wins, as well. But, even if its failures in practice did not exist, just by scrutinizing the theory in both philosophical and practical senses, we can see a number of paradoxes which make the theory unsound and doubtful. Let’s examine a number of drawbacks of neoliberalism which are also transmitted to privatization.

The first neoliberal argument that we discussed earlier and that supports privatization derives from the idea of liberating markets from the state. Hence, the enterprises should be privatized. This notion implies that the state's interests are not aligned to individual's interests (Harvey, 2005). Yet, the neoliberals demand from the state to create the legal framework that guarantees security and smooth functioning of free markets (Harvey, 2005). But, the line to which the state should interfere is not decisive. And, when we take into consideration bailouts, where governments rescue private businesses, the neoliberals' view of the state is quite contradictory since in "good times" they want the state out, but in "tough times" they want the state all in.

Another paradox of the neoliberal perspective on privatization is efficiency. Here, it is assumed that by privatizing public enterprises these enterprises will become more efficient. But, why should we believe that the private owner is more efficient than the state? The neoliberal answer is, again, because the private owner seeks profit maximization derived from self-interest, whereas the state does not seek profit maximization (Harvey, 2005). Then, the next logical question would be: efficient or profit maximizer for whom? If we go back to the essence of privatization, which is ownership, we will see that efficiency will serve to maximize the profit of the owner. Then, we have another question. Well, then, in case the private owner is more efficient than the state, this means that the private owner is efficient for himself. The private owner is doing that for personal profit. So, why should the society let an individual privatize a publicly owned company when that individual is supposedly going to make the enterprise more efficient in order for him or her to make a higher profit? The neoliberals would then claim that besides maximizing his or her profit, the owner will help the community by creating jobs, paying taxes, participating in charity activities, etc (Harvey, 2005). And, this idea of who is really benefiting, leads us to the next paradox.

In his masterpiece "An Inquiry into the Nature and Causes of the Wealth of Nations," the well-known Scottish economist and philosopher, Adam Smith, mentioned the "invisible hand" three times only. But, this concept has become one of the tenets of capitalism. He said,

The rich...are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society. (Smith, 1776)

Here, Smith is even admitting that, in our case, the private owner is not intending to “advance the interest of the society” (Smith, 1776). Nevertheless, regardless of his or her intentions, we want to see if both Smith’s and neoliberals’ claim that even society benefits from privatization is valid; which, in a way, would serve as an excuse or a justification for the selfish fact that an individual would privatize to maximize his or her own profit. First, we have to raise a question on the view of society: how do we see society? The neoliberal answer, in its simplest form, would be that society is comprised of a group of individuals (Harvey, 2005). However, there is at least another answer to that question. Karl Marx, the German philosopher and political economist, said, “Society does not consist of individuals, but expresses the sum of interrelations, the relations within which these individuals stand” (Marx, 1939). This would mean that the relation between the privatizer and the rest of the society is what determines whether society is benefiting or not.

A quick example that depicts vividly how the relation between the privatizer and the rest of the society determines whether society benefits or not is the well-known statement of the Nestle Group C.E.O., Peter Brabeck, who considers the idea of declaring water a “public/human right” to be “an extreme solution” (Wagenhofer, 2005). He implies that water should be treated as foodstuff and should have a market value (Wagenhofer, 2005). Hypothetically, if all world’s drinkable water were to be privatized, a great number of people’s lives might be put to danger. Hunger is already a great, world issue. Thirst would be next to it. In an article he wrote later, he said,

However, I do not think it is right that some people in the world do not have access to a clean, safe supply when others can use excess amounts for non-essential purposes without bearing a fairer cost for the infrastructure needed to supply it. (Brabeck-Letmathe, 2013)

This takes us back to a question that we asked earlier: why should we believe that this particular company would be more efficient than the public water systems? Or, another, simpler question: why is this benevolent gentleman willing to discipline the people by privatizing the world’s water distribution? As we can see, the relation between the privatizer and the society can be a threat for the society to the extent that the necessity of the existence of the private owner can be put to doubt.

When writing a critique of a particular theory, it is important to contextualize. Theoretical disagreements on principle can give sound justifications, but when we put that particular theory in a given context, we can easier relate our reasoning to what is actually happening. So far, we have elaborated neoliberalism and now we will contextualize through the example of what has been happening in Kosovë.

Chapter II

Kosova Being Made to Believe a Myth

Kosova in Yugoslavia

In 1912, when Albania declared independence, Kosovë was occupied by Serbia (Malcolm, 1998). After World War I, Yugoslavia was created and Kosovë became a member (Malcolm, 1998). Most of the enterprises back then were either publicly or socially owned. Kosovë was one of the less developed countries within Yugoslavia. Its natural resources served to develop other countries within federation (Knudsen, 2010). “Two thirds of energy produced in Kosovë was sold to other regions at a very cheap price set by the federal authorities, and most of the minerals produced in Kosovë were exported” (Knudsen, 2010). The well-known President of Yugoslavia, Josip Broz Tito, died in 1980 and a deep economic crisis is often considered to be one of the propellers of the dissolution of Yugoslavia (Malcolm, 1998).

After Milosevic Came to Power

In 1987, Slobodan Milosevic came to power and the economic situation of Yugoslavia kept worsening off since corruption and mismanagement increased (Knudsen, 2010). The socialist nature of the federation began to change. Milosevic began a program of marketization of economy, which was mainly focused on efficiency, and which ended the ownership rights of the socialist system (Knudsen, 2010). Prior to that, in 1982, International Monetary Fund conditioned Yugoslavia to move from the socialist system to the market system in order for IMF to support the federation (Knudsen, 2010). Milosevic then began the politics of privatization by calling for foreign investors to privatize in Yugoslavia, and he made private property a constitutional right (Knudsen, 2010). Next, he ended the workers’ ownership of the enterprises

where they worked, using the excuse that it was interrupting the rational distribution of labor and workers didn't have much incentive to work (Knudsen, 2010). It is worth mentioning that incentive is still used today as an argument to support market economy and private ownership.

In this spirit of marketization, the great wave of privatization began in 1989 under the Markovic laws, which were named after Ante Markovic, who was the last Prime Minister of Yugoslavia (Knudsen, 2010). This law of Enterprises gave absolute power to managers to hire and fire workers as they pleased, and this began to destabilize the situation within the labor force of Yugoslavia (Knudsen, 2010). Such reforms failed to re-vitalize the economy of the federation. And, again, they are often referred to as some of the propellers that helped to dissolve Yugoslavia (Knudsen, 2010).

While the situation in whole Yugoslavia was worsening off, the situation in Kosovë was worsening off at a greater pace. Milosevic did not make only negative, economic reforms. He also developed a repressive system for Albanians in Kosovë (Malcolm, 1998). He fed the Serb chauvinism by saying that Serbia was discriminated economically and also politically since it could not exercise its sovereignty over its own territory (Knudsen, 2010). Such a campaign resulted in an increase of hatred against Albanians. In a survey conducted a few years later, 41.8% of Serbs said that in order to solve the problems in Kosovë, the Albanian population had to be removed either peacefully or violently (Knudsen, 2010).

Milosevic had removed the autonomy of Kosovë in 1989 (Malcolm, 1998). 145,000 workers who worked in the civil administration, public services and economic enterprises were fired over a short period of time (Knudsen, 2010). A process of re-colonization of Kosovë started. Albanians' land began to be taken from them and given to Serbs (Knudsen, 2010). Serbs were suggested to live in Kosovë, since Milosevic was interested to change the demographics of Kosovë by increasing the number of Serbs living there (Malcolm, 1998). This situation made the Albanians to create a "parallel state" where they organized education, healthcare and other institutions parallel to Yugoslavia's institutions which were conquered by Serbs (Malcolm, 1998). In 1991, Kosovë even declared its Independence, which was recognized only by Albania (Knudsen, 2010). Yet, the situation was continuously worsening off.

In the 90's another process of privatization in Kosovë began to take place (Knudsen, 2010). This was a discriminating process since Albanians were not permitted to participate (Knudsen, 2010). Again, this whole process was part of the Milosevic's repressive system against Albanians. Small loans and short term loans were given to enterprises in Kosovë, and this began to cause the depreciation of capital (Knudsen, 2010). An example that shows such devastation is the mineral industry. In 1988, 48% of Kosovë' GDP was derived from the mineral industry (Knudsen, 2010). Since Milosevic came to power, investments decreased drastically and this sector was severely weakened (Knudsen, 2010). This way, the market value of enterprises would lower and privatization would be beneficial to Serbs and other ethnicities, but not to Albanians.

Oppression was reaching an extreme point and liberation became an urgent necessity. The war broke out in 1998 and, as bloody as it was, it resulted in the liberation of Kosovë (Malcolm, 1998). The war was another punch to the already damaged economy. According to United Nations' food agencies, Kosovë lost 65 percent of its agricultural product and cattle as a result of war (Knudsen, 2010). In 1999, wheat production covered only 30 percent of the needs in Kosovë (Knudsen, 2010). According to a study in 2001, the damage of socially owned enterprises, caused during the war, was approximately 1.3 billion Deutsche Marks (Knudsen, 2010). However, another study in 2004 showed that 75 percent of socially owned enterprises were still functioning (Knudsen, 2010). 192 of these enterprises were in a range from medium to big enterprises, which consist of 55 percent of the total number of enterprises, and their value was said to be around 4.5 billion Deutsche Marks (Knudsen, 2010). These figures showed that although the economy was greatly damaged, there were plenty of assets that could be used in order to re-vitalize the economy.

After the War

Right after the war, Kosova was under international protectorate of the United Nations Interim Administration Mission in Kosovo (UNMIK) (Knudsen, 2010). And, "the EU-led Pillar IV responsible for economic reconstruction and development quickly made it clear that a massive privatization programme would be the strategy of the international statebuilding project with regard to Kosovo's shattered economy" (Knudsen, 2010). As it happened in many other post-

socialist countries, privatization of socially owned and publicly owned enterprises began at a fast pace. Actually, even after the independence in 2008, privatization itself was presented as one of the main tools for economic development. So far, there have been 60 waves of privatization either through spin-off or liquidation (Privatisation Agency of Kosovo, 2014).

Summary

We saw how the ideology of neoliberalism explains and proclaims privatization. The definition of privatization itself is pretty straightforward to understand; whereas, the neoliberal ideology has a number of paradoxes which leave us with many doubts in mind. Next, we saw how Kosovë was part of a socialist federation, which began to dissolve partly because of the economic crisis. The privatization was proclaimed to be a rescuer but that did not prevent the dissolution of Yugoslavia. The war severely damaged the economy of Kosovë, yet there was hope that many enterprises could still be re-vitalized. After the war, Kosova was set under an international protectorate. The privatization of enterprises simply increased its pace and it continued even after Kosovo declared its independence in 2008.

Chapter III

Methodology

Overview

In the previous chapters, we described the concept of privatization as suggested by the neoliberal ideology. There we saw a few implications that exist once we suggest privatization. Also, we presented a brief history of privatization in Kosova, which could be divided into two phases: the pre-war period and the post-war period. However, the main focus of this study will be on the post-war period, with a specific analysis on the privatization of Kosova Energy Distribution and Supply (KEDS) and the attempt to privatize the Post and Telecommunication of Kosovo.

Once again, the aim of this study is to evaluate the results of privatization in Kosovë, with a specific focus on the privatization of the two aforementioned enterprises. The main question that this study tries to answer is whether the cost or the benefit of privatization has been greater. The initial hypothesis that led to that question is that the privatization in Kosovë has had a greater cost than benefit for the society in general.

In order to test the hypothesis, primary and secondary data were collected. The primary data consists of qualitative data collected through interviews. Here, two interviews are being presented. In order for the interviewees to be anonymous, and due to the fact that what they said will not be cited but rather paraphrased, nicknames based on their respective profiles will be used. One of them was done with the Professor, who is a professor of Economics. The other one was done with the Manager, who is the head of an association and an official involved in the process of privatization of PTK. The secondary data consist of studies and reports done specifically on KEDS and PTK. Again, most of the data is qualitative.

Population and Sample

Sample of Enterprises

There were around 600 socially owned enterprises evidenced by the Privatization Agency of Kosovo, and most of them have already been privatized (Privatisation Agency of Kosovo, 2014). Also, there were 25 publicly owned enterprises, where PTK is still one of them whereas KEDS used to be one of them until it was privatized (Kosova Democratic Institute, 2014). This project includes the process of privatization for two publicly owned enterprises. These two enterprises, PTK and KEDS, were not chosen on random basis; rather, they represent 2 out of 9 central publicly owned enterprises, with KEDS being part of Electro-Energy Corporation of Kosovo (KEK). PTK, although not yet privatized, was chosen because its process has been very long, ambiguous, and it not been executed yet. KEDS was chosen because there were clear objectives for privatizing it and now we can compare the results with those initial objectives.

Sample of interviewees

The two interviewed experts were the Professor and the Manager. The first one was picked because of the expertise and knowledge about privatization as a concept, and his views on the empirical evidence. The second interviewee was picked because of his expertise, and the fact that he was heavily involved in the process of privatization of PTK.

Data Collection and Instrumentation

A mixture of primary and secondary data was collected in order to answer the research question and test the initial hypothesis. Two main instruments used to collect primary data include the following:

- Interviews – Two interviews were conducted. First, appointments were made ahead of time. Interviews lasted approximately 45 minutes each. The interview with the Professor was recorded, whereas notes were taken during the interview with the Manager. The main questions that were introduced during the interview include:
 - Privatization in general – Why or why not?
 - Neoliberalism in general – Why or why not?
 - How do you view the privatization in Kosovë overall?
 - What do you think of the privatization of Kosova Energy Distribution and Supply (KEDS)?
 - What do you think of the attempt to privatize the Post and Telecommunication of Kosovo (PTK)?
 - Should privatization in Kosovë continue or is there an alternative to it?
- Online research on secondary data – In order to have a more in-depth analysis, we had to conduct research on secondary data. Most of the information was retrieved from reports that were conducted by independent agencies and research institutes such as Privatisation Agency of Kosovo, Kosova Democratic Institute (KDI), Riinvest - Institute for Development Research, etc. Most of these institutions include both primary and secondary data for their reports; where primary data consists of survey and interviews, and secondary data consists of research on already-existing materials on the topic.

Data Analysis

Since most of the data provided is qualitative, there is no particular, universal rule that will guide the analysis. Instead, after the results are presented, the analysis will be based on two main pillars:

- **Patterns** – there will be a check for patterns that derive from the information received by different sources (interviews, reports, papers, etc.). Finding logical reasoning and

similarities among different sources may present a consensual answer, or at least a part of the answer, to the research question.

- **Deviations** – there is a high probability that different sources may present some differences, both objective and subjective. So, besides the patterns, part of the analysis will contain these “extremes” that may be found in the data from different sources.

Limitations

There are several limitations that this study has been restricted by:

- Limited time – there was a limited time given for each section of this study. Three other interviews may be conducted at a later time due to the inability of the interviewees to participate within the time frame set for this part of the study.
- Lack of data – it has been quite a challenge to find data on the pre-war period. Even the after-war period lacks of data, especially on different enterprises. Lack of enough quantitative data has prevented this study from including statistical analyses.
- Lack of information accessibility – the main source that would provide information for this study would be the Privatization Agency of Kosovo. This agency was contacted via e-mail and asked for an interview, yet no response was received. Unofficial sources suggest that several officials of the agency are currently under investigation.
- Topic sensitivity – as much as neoliberals would argue that this is a purely economic topic, politics is always involved in it. Although it has not been debated much over it, still, privatization in Kosovë remains a politically sensitive topic. An example that portrays the sensitivity of the topic is the death of Dino Asanaj, who was the head of the Privatization Agency of Kosovo (PAK). He died from 9 stab wounds under very suspicious circumstances (Aruqaj, Gashi, & Olluri, 2012).

Summary

This study consists of two groups of samples and populations. The first group is the topic over which the study was conducted. In our case, we had PTK and KEDS. These two samples were picked out of 25 publicly owned enterprises due to their specifics that were evaluated as the best representative elements of the whole privatization process. The second group consists of people available for interview. Here, information from two interviews is provided. There is a high

possibility that three additional interviews will be added in the future (these interviews were not conducted due to inability of the interviews to participate until now). The two interviewees were picked because of their expertise and knowledge on the field.

Both primary and secondary data were collected and included in this study. The two main instruments used for collecting information were interviews (primary data) and online researches (secondary data). Interviews consisted of a number of questions that aimed to answer the research question and test the hypothesis. Online researches provided additional information, which was a necessary element in order for the next step to happen, which is the data analysis.

Data analysis will be based both on primary and secondary data. The analysis will be guided by two broad pillars: patterns and deviations. The first one will structure the similar information that present a certain view. The second one will point out the differences and the additional information found in particular data.

This study has been constraint by several elements. First, the time given for each section of the study is limited. This limits also the participants since they were not available at the time set for this section. Lack of data (especially quantitative data) presented another challenge. Another limitation was the lack of information accessibility due to different reasons. Then, the topic sensitivity is another limitation which, in a way, both affects and explains other limitations.

Chapter IV

Results

Overview

Here, the information gathered about the privatization process in general, and PTK and KEDS in specific, will be presented without additional discussions, since a deep analysis will take place in the following chapter. The results will be divided based on the data: primary and secondary. First, the primary data will include a summary of each answer given by the interviewees. In order for a better comparison in the future chapters, both answers will be presented consecutively. Then, two overviews for both PTK and KEDS will set the stage for the description of their respective privatization processes.

Primary Data Results

Privatization in general – Why or why not?

Manager: The structure of ownership has a significant effect on the performance. By privatizing an enterprise, the efficiency improves in the macro aspect. The state is not capable of achieving that level of efficiency due to the structure of ownership, whereas the private owner is capable due to the self-interest. On the other hand, privatization strengthens democracy, since the ownership is decentralized from state to individuals.

Professor: Privatization as a process is connected with the idea of governing – if you want to limit the role of government in creating an environment for competition and protecting property rights but not in being involved actively in economy, then you pick some of publicly owned assets and transfer them to the private sector. The idea of minimizing the role of the state derives from the belief that the state management, which does not risk its own money, does not have an incentive to maximize profits, either. Especially, since they know that in case of experiencing a loss, the state will cover them. In this case, a private company would go bankrupt, but a public company would be covered by the state. Also, the state does not have an incentive to pick the best managers for its public enterprises. Governments usually try to fill those positions with people who support their political parties, who do not necessarily possess the necessary skills to manage a public enterprise.

But, in my opinion, if there is a belief that the public company is being mismanaged, before a decision for privatization is made, we need to identify the sources of mismanagement, and to look at the models that will help us solve those issues of mismanagement. If there is no alternative to solve those issues, then privatization is the last option. And, then we need to ask a question: what is the best privatization method for that specific enterprise? We need to bear in mind that there is not a single privatization method that would fit to all enterprises. The privatization methods depend on the nature of the industry, the size of the enterprise, the role of that product in society, etc.

Neoliberalism in general – Why or why not?

Manager: The attitude towards privatization is not neoliberal. As a matter of fact, there is no such term as “neoliberal privatization.” Calling privatization a “neoliberal privatization” is a tendency to make it sound rough.

Professor: I do not agree that neoliberalism suggests all sorts of privatization – it suggests privatization for capitalist economies. But, in places that go through transition, it is known that they go through transition. So, no matter what economic school you are using, when a transition from communism to capitalism takes place, privatization will take place. But, for companies that have a strategic importance, you can say that neoliberalism suggests that we privatize them.

Neoliberalism after the financial crisis is in defensive, as a theory. But, I do not think that it is fair to blame everything on neoliberalism. Maybe the deregulation of the financial markets is more to be blamed on than neoliberalism itself. Neoliberalism suggests that the state gives more room to the private sector, in the sense that the private sector has the incentives to accumulate the human capital. And, it should be obvious that the “brain” should be concentrated in the private sector, since that is the place where revenues are generated from. From those revenues then, we finance the public sector. When there is more “brain” in the private sector, it is a fact that those assets are better managed. And, now the state has a different role. For example, although Sweden privatizes a lot, or Germany, still, the public sector is more powerful. This happens because there is a need for the state to intervene in healthcare system, pension funds, unemployment, etc. So, the state is still needed, although it cannot be concentrated in all aspects. The problem, however, is when we try to put this model to poor countries. In those countries, there is not much human capital in the private sector. So, to use neoliberalism as a universal key is the same as using Marx’s idea of communism in Russia. Marx’s idea was for us to be equal in wealth, not in poverty. So, now, it is a mistake if we blame Marx for the failure in Russia. And, I think that for an ideal model, neoliberalism is not a problem. But, it is a problem for Kosova.

How do you view the privatization in Kosovë overall?

Manager: When we look at the process of privatization, we should bear in mind the structure that motivates people. And, private ownership can be such a structure. Nevertheless, Kosova should not simply privatize, but also produce more. In general, privatization in Kosova is not

discussed as much as it should. We should also recognize the negative aspects of today's economies, such as the increase of inequality.

Professor: In Kosovë, there were not chosen different methods for privatization. The whole process is characterized by two main problems. The first problem is that without conducting any research or analysis on whether privatization is the best way out, it was decided to privatize. The second problem is that the specifics and differences of the industries and enterprises were not taken into consideration; instead, one method was used. That method took into consideration only the revenues obtained by privatization – who offered more, privatized it. Also, the highest bid may come from the most efficient enterprise since they can afford to offer more due to their efficiency. But, even in these two aspects, the privatization in Kosova has failed. The whole privatization has brought around 400-500 million Euros, which is the amount offered for a medium enterprise that has been privatized in the region. This makes us believe that misusages have occurred because this privatization should have brought us in revenue 1 or 2 billion Euros.

But, even if we say that the revenues are the most important, we need to see if we have those revenues. Does anyone within the domestic economy has that much money to privatize that particular enterprise? If the answer is no, then you need to consider whether foreign investors are going to approach these enterprises knowing that when privatization was initiated, the status of Kosova was not resolved yet. If no one within has that money nor anyone from outside wants to invest, then you have one of these options: stop the method that you are currently using or you have to agree with the idea that shady investors might come and try to privatize. The latter one has happened in Kosova.

What do you think of the privatization of Kosova Energy Distribution and Supply (KEDS)?

Manager: I do not have much detailed information regarding this process, but I have checked on it due to curiosity. The amount of money that was invested before the privatization does not imply anything regarding the amount for which KEDS was privatized. That investment might have been crucial for the existence of KEDS itself. Rather, we need to look at the book value and compare it to other distributions, such as the one in Macedonia. Also, we need to bear in mind the components that have been sold. I know that some people say that if we gather all the wires themselves, which are made by aluminum, have a higher value than the amount given for

privatization. However, selling those wires is not permitted. Hence, such an analogy is not a scientific argument for rejecting privatization.

Professor: We need to look at this privatization from two aspects. First, why did the government hurry so much to privatize KEDS? It happened so fast. And, how was the price determined? In fact, some people who worked for this government say that that price of 26.3 million Euros is just a public price, because we sold it for 65.5 million Euros but the rest of this money went into politicians' pockets. Some say that there are even documents where this amount, 65.5 million Euros, is written. Some others say that even that document is not real because it was privatized for 165.5 million Euros. So, some money was stolen from the parallel structures of the government. It is an absurd to sell all the assets that KEDS possess for a price that you would sell a small bakery. It doesn't make any sense. I don't know how that price was set.

The second element that needs to be discussed is what did the government expect from this privatization and has that been realized? Did they expect a better supply? By that, I mean less electricity reductions. I mean better supply with better prices. Has that happened? No, the opposite has happened. The prices have constantly risen, whereas the electricity reductions outside Prishtina still occur. And, the government still wants to intervene and help them financially. This makes us suspect that there are people from the government involved in and benefit from KEDS. If we sold the company, why should we keep supporting you? The whole procedure of privatization was very suspicious.

What do you think of the attempt to privatize the Post and Telecommunication of Kosovo (PTK)?

Manager: The whole process was well-managed in the technical aspect, but it was not well-managed in the political sense. Politics was heavily involved. However, this process is supposed not to be guided by politics but by a different nature – by mathematics. A cost-benefit analysis conducted properly would give us the most precise reasons for privatizing or not – it will give us numbers. Based on that numbers, we can evaluate other processes, too. It is a shame that this particular process (of privatizing PTK) has not been finalized yet.

Professor: The case of PTK presents an example where fictive enterprises try to privatize a real enterprise. Technical procedure of privatization was not contested, but the reason for

privatization was. If you had asked the previous minister: why are you privatizing it? He would say that people are being employed there in an illegal way. But, who employed those people? This government did. I cannot trust the government the privatization process, when this government misused it while it was public. If we say that the market sets the price, why then the government first announced the price? It seems that the government set the price. Why the government did not allow investments in PTK? The government wanted to lower its value. PTK is a very valuable asset. If you want to privatize PTK that brings you annually 60 million Euros, you need to have an alternative that will replace PTK and bring you that money. What could the government do with 300 million Euros earned from the privatization of PTK in order to replace that 60 million Euros dividend annually? The government wanted to invest in asphalt. Instead of building the highway for 1 year the government could have built it for 3 years by using that 60 million Euros dividend from PTK. After 3 years you would have both the highway and PTK. So, it didn't make sense. First, we need to identify the problems and see ways how to get out of them. If the management is a problem, we could change or even privatize the management. And, at the end, we will probably realize that we do not have to privatize PTK, at all. But, if it is necessary, let's first do a cost-benefit analysis and see if it worth it.

Should privatization in Kosovë continue or is there an alternative to it?

Manager: The privatization should continue, of course. There is room for improvement, but it should continue.

Professor: Even the international community has admitted that this form of privatization should not continue. Most of them conclude that the way how privatization has taken place, and not privatization as a process, has damaged the economy of Kosovë. So, it should not continue this way. However, we need to answer two questions: what should happen with the process that has finished so far, and what should happen with the assets that have not been privatized yet. So, a group of people who are familiar with the issue should gather and analyze the process. Also, analyze the assets that have not been privatized yet, such as Trepca. The state should even acquire loans to invest in places like Trepca, if we conclude that its benefit is greater than its cost. So, the government should have priorities and know the reason for taking certain steps. Personally, I don't mind if instead of investing 100 million Euros in the highway, we invest it in

the healthcare system, if we have a plan and know why we are doing it. So, if you want to privatize Trepca or any other asset, you need to have other priorities where you are going to invest that money. I don't mind the privatization of PTK even for 200 million Euros, if the government guarantees that that money will significantly improve the education system or agriculture, for example. So, the government needs to know why it is doing it, and what the society is going to benefit from it.

The Privatization of Kosova Energy Distribution and Supply Company (KEDS)

What is KEDS?

According to KEDS website, here is a brief overview of this enterprise:

“Kosovo Energy Distribution and Supply Company (KEDS) is a joint stock company that operates throughout Kosova. KEDS J.S.C. has the exclusivity of electricity supply and distribution. KEDS J.S.C. was established in 2009, while its operational activities were initiated on May 08 2013, when it finally split from KEK J.S.C. KEDS J.S.C. is owned by prestigious Turkish companies Çalik Holding and Limak. This consortium has offered the highest price in the open bid for privatization of ex-Distribution of KEK.

KEDS J.S.C. has 2618 employees by being as such one of the largest employers in Kosova. KEDS J.S.C. under the licenses from Energy Regulatory Office operates with electricity supply and distribution to the customers. To operate in the most efficient way the company is divided in two basic divisions: Supply Division and Network Division, and has within it the supporting departments. These divisions to be closer to the customers are distributed in 7 districts located in seven major cities of Kosova and 30 sub districts, were included local municipalities.” (KEDS, 2013)

The Process of Privatization

In 2008, the Government of Kosova decided to privatize KEDS, it set up a working group to carry out the process, and a few days later the assembly agreed, in principle (GAP, 2012). This marks the beginning of the process. The process was managed by Project Implementation Unit (PIU), a technical group, which would report to the working group created by the government

(GAP, 2012). The deadline for the submission of pre-qualifications ended in 2011 and four companies were announced: “Calik Holding and Limak Holding registered in Turkey, Elsewedy Electric registered in Egypt, and TAIB - Yildizlar Consortium registered in Turkey and Bahrain” (GAP, 2012). Companies had a period of 8 months during which they had access to data, and at the end of that period they requested from the government to permit them to create consortiums (GAP, 2012). The government permitted them; hence Limak-Calik and Elsewedy consortium was formed (GAP, 2012). In 2012, the Limak-Calik was announced the winner since it offered 26.3 million Euros, which was by 3.5 million Euros higher than the Elsewedy consortium offer (GAP, 2012). Then, both the consortium Limak-Calik and the Government entered the final phase of agreement, where the government would either recognize Limak-Calik as the ultimate winner or restore the process from the beginning (GAP, 2012). At the end, the Government recognized them as the winner and the KEDS was privatized at the end of this 4-year process.

The Attempt to Privatize Post and Telecommunication of Kosovo (PTK)

What is PTK?

According to KEDS website, here is a brief overview of this enterprise:

“On 21st December 2006, the Post and Telecommunications of Kosovo J.S.C. celebrated the 47th anniversary of foundation. The Post, Telephone and Telegraph of Kosovo were established in 1959 under a Decision no. 1115497/1-1959 of the Steering Council of Yugoslavian PTT Communion. Then, as of 13.09.1990 all the Albanian employees and other minorities who disagreed with the politics of Milosevic were driven out of their workplaces by force. During the war all the office items and assets of the PTK were stolen, demolished, and some of them completely damaged. After the war, negotiating teams of the PTK, KFOR and UNMIK enabled the legal return of employees to their workplaces. At that time, postal services were unfeasible whereas the Telephony and Telegraphy of Kosovo as well as international connections were almost inoperative. After 6 years of efforts, PTK has established following three business units: Post of Kosovo, Telecom of Kosovo, and Vala mobile network operator. These three business units of the PTK are licensed by the Kosovo Telecommunications Regulatory Authority. On 29 June 2005, PTK was transformed into a joint-stock-company under the new name of PTK

J.S.C. PTK J.S.C. has actually a five years business plan with an investment of 550 million euros.” (PTK, 2010)

The Attempt to Privatize PTK

The government of the Republic of Kosovo decided to sell PTK in 2008; yet, in 2010 it decided to privatize only 75 per cent of its assets (BIRN, 2013). In April 2013, the government revealed that “a German company, AXOS-capital, in consortium with Najafi Companies LLC, had been selected as the winner to take over 75 per cent of PTK in return for the sum of 270 million euro” (BIRN, 2013). However, the members of the parliament did not vote on selling PTK since they claimed that the company was undervalued and they did not find enough reliable information about AXOS (Bytyci, 2013). Hence, the privatization has not been finalized yet. Nevertheless, a public debate was raised when doubtful information regarding AXOS were presented by different media networks.

Summary

In this chapter we presented the results gathered both through interviews and online researches. The first part of the chapter consisted of answers provided by two interviews, which included mostly qualitative data. There we saw two perspectives on the aspect of privatization. Based on their stands, we can say that the Professor had a more critical viewpoint towards privatization; whereas, the Manager had a more supportive stand. The second part consisted of brief descriptions of both enterprises and brief histories of privatization for both of them. In the case of KEDS, the privatization process was described. In the case of PTK, the attempt to privatize it was described. It is important to note that Kosova does not have many enterprises that could be distinguished for their importance with regard to strategic, economic development. Yet, these two enterprises can clearly be classified as national assets of Kosovë.

Chapter V

Analysis & Discussion

Privatization is Political

Despite the *laisse faire* idea, the “government is always involved and those free-marketeers are as politically motivated as anyone” (Chang, 2010). KEDS’s privatization process was sealed in 2012 when the government sold it for 26.3 million Euros. During the period 1999-2011 over 180 million Euros have been invested in the energy network (GAP, 2012). Only during the period 2007-2012 a total investment of 55 million Euros was made in the energy network (GAP, 2012). It is difficult to simply find an economic rationale for this transaction: to invest over 180 million Euros and then sell it for 26.3 million Euros, when no bankruptcy or anything like that was threatening the energy distribution and supply network. One of the main reasons presented by the government for selling PTK was to build a highway that would connect Prishtina and Skopje. Yet, as the interviewee nicknamed Professor said,

“If you want to privatize PTK that brings you annually 60 million Euros, you need to have an alternative that will replace PTK and bring you that money. What could the government do with 300 million Euros earned from the privatization of PTK in order to replace that 60 million Euros dividend annually? The government wanted to invest in asphalt. Instead of building the highway for 1 year the government could have built it for 3 years by using that 60 million Euros dividend from PTK. After 3 years you would have both the highway and PTK” – Professor

So, once again, we see that privatization is as much a political case as it is economical. And, the sooner we understand it, the sooner we will be able to reject the myth that the state will or should keep its hands out of the market.

No Win-Win Situation

The typical argument of efficiency was used by the government as a rationale for privatizing KEDS and PTK. Once again, as explained in the first chapter, the private owner is described as more efficient because he is a profit maximizing seeker and the state is not. So, according to this logic, the privatization of enterprises will make them more efficient. But, who will benefit from

that efficiency? Is it the private owner or the society in which the enterprise operates, or both? The typical neoliberal answer would be: both – the owner will make a profit, and the society will benefit from good services, taxes paid to the government will serve for more public goods, etc. Was this the case with KEDS? When KEDS was privatized, although the full contract was never made public, it was claimed by all parties involved that the consumers will benefit. Yet, the price of electricity has increased twice since the privatization: first it raised the price by 10 percent and after a few months it raised it again by 5.18 percent (Energjia, 2014). The electricity shortage is still a problem mostly in rural areas. Regarding PTK, once again, the interviewee nicknamed as the Professor said:

“If you had asked the previous minister: why are you privatizing it? He would say that people are being employed there in an illegal way. But, who employed those people? This government did.” - Professor

So, it was the government that employed people at PTK and then it wanted to sell PTK to a company that was suspected to belong to some members of the government itself. Again, not only that the case is political but privatizing such national assets would not create a win-win situation. In the case of KEDS, consumers are now paying higher prices and still face energy shortages mostly in rural areas; whereas, the enterprise itself stands pretty good in financial terms.

Workers after Privatization

The neoliberal ideology assumes that because the private owner makes a profit, he strives for efficiency (Harvey, 2005). This then connotes that the owner cares the most about the enterprise since it is the enterprise that brings him a profit. However, we need to take into the consideration the workers without whom that enterprise would not function properly. But, who loves the enterprise more: the owner that makes a profit out of it or the workers? Neoliberalism would say the owner (Harvey, 2005). But, the owner can sell the enterprise. If someone makes him a lucrative offer, he might easily sell it. Yet, the workers are in a more difficult situation since, in most instances, they depend on their wage. They might even decline a higher wage in a different place simply because that would mean that they would have to change their living place, leave their families, change their children's school, etc. So, at the end of the day, it might cost them

more, not only in monetary terms but in the general sense of benefiting or losing from such an action. Hence, the workers constitute an important aspect that the government should bear in mind before it decides whether to privatize an enterprise.

Efficiency is believed to improve the production (Harvey, 2005). And, a more qualitative production can lead to a higher demand; which may lead to more production. In turn, more employment opportunities may be presented in the market. But, this has not happened in Kosovë. For example, “Kompresori” (a vehicle service and technical control enterprise in Gjakovë) used to have over 100 workers. After its privatization, a part of it remained a vehicle technical control enterprise, whereas the other part turned into a restaurant mainly for weddings. Now, at its best period during the summer when most weddings take place here, it has around 15 workers. Also, for the SOEs, 20 percent of the revenues from privatization are supposed to be distributed among workers (Knudsen, 2010). Note that this 20 percent is of the value sold and not the real value. In many cases, the SOEs and POEs have been sold very cheap in comparison to their asset value. Nevertheless, this 20 percent has not always been distributed among workers. For example, the workers of the “Factory of Steel Tubes” in Ferizaj are on a strike for more than 250 days now since they have not received their money (KOHA, 2014). Despite the fact that they have been striking right in front of the government’s building, besides promises, no action has been taken to solve this issue.

Summary

In this chapter, we saw a number of controversies that the privatization process in Kosovë has been characterized by. First, we need to understand the privatization is a political process as much as it is economical. We need to understand the political aspect of this process and not neglect it. Then, as in many other instances, it is not necessarily as it is presented as a win-win situation. Raising the price of electricity and still having electricity shortages does not benefit the citizens. Next, workers are an important aspect of these enterprises and their future in the privatized enterprises has not been as bright as it is suggested by the neoliberal theory. In general, what has been promised by neoliberalism on paper, has often sounded like a myth on our minds, and has often been deconstructed in Kosovë.

Chapter VI

Conclusions and Recommendations

Based on the results and the analysis done in the previous chapters we can conclude that:

- As much as neoliberalism proclaims that the state should keep its hands out of the market, and as much as the market is presented as a depoliticized arena, this is not the case. Actually, the request itself for depoliticizing an issue is often a pure political agenda which serves the other side – the opposite side that is claimed to be politicizing it. Neoliberalism, just like other ideologies, works as a granted phenomenon – a natural one. It seeks to be there without emphasizing its presence.
- The privatization of SOEs and POEs has not led to economic development, as it has been presented over the years. It is important to distinguish between economic growth and economic development, where growth can be measured by GDP, whereas development is measured by the well-being of the citizens. And, even growth due to privatization can be put to doubt since the fund raised with the money received from privatization is not in Kosovë, at all. So, that money has not been circulating in our economy. Hence, the neoliberal privatization has not propelled development as the theory suggests.
- The privatization of POEs, which are not that many in Kosovë, is not beneficial to Kosova's economy. These enterprises belong to the people of Kosovë and they should benefit the people of Kosovë.
- The privatization of KEDS has not resulted in the improvement of the well-being of citizens. Again, the neoliberal privatization suggests that once a private owner is in charge, the efficiency of an enterprise is likely to increase. If that has happened in KEDS, then that would mean that KEDS is working at lower costs. However, we have had two price increases for the electric energy. Does this mean that KEDS is producing at a lower cost and it is charging even more than it used to before it was privatized? Once again, we face one of the paradoxes of neoliberalism: who wins? Apparently, not the society in general, but the owner(s) of KEDS.
- The attempt to privatize PTK has failed so far due to suspicious bidders. Ironically, corruption has actually prevented its privatization. PTK is a national asset which is more

worth than selling it to build roads. A decent management would be able to improve further this enterprise, whose profits can be used to build roads in the future.

- The economic development of Kosova should not be depended nor prevented by privatization which has been one of the most common features of investment in Kosova. Instead, privatization may be needed in certain cases and might serve as a supplementary tool to the overall economic development plan.

Based on these conclusions, we recommend that:

- An auditing committee for the privatized enterprises is formed by the Assembly of the Republic of Kosova. Such a committee should create groups of experts that could evaluate the whole process of privatization that has been done so far. In case this committee finds that a particular owner has not fulfilled its obligations as set before he or she privatized that enterprise, then legal actions should be taken without excluding the nationalization of that enterprise.
- A particular law that recognizes and protects public enterprises that have a strategic importance for Kosova should be written and presented to the Assembly of Kosova. Such a law should include enterprises such as PTK and Trepca. Also, POEs should be managed by the Assembly of Kosova instead of the Government. This way, transparency is likely to increase and these enterprises are not controlled only by the parties in power; which has resulted in overemployment in these companies. PTK is a perfect example of this phenomenon.
- The Privatization Agency of Kosovo should not be allowed to manage SOEs or POEs. This agency has had too many affairs to be credible; hence its shut down might be necessary. Again, instead of having such an Agency, the Assembly itself should form a committee that will be given the authority to supervise the progress of these enterprises.

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