

DIFFICULTIES OF PUBLIC ENTERPRISES IN KOSOVO IN THE PROCESS OF ACHIEVING SUSTAINABLE DEVELOPMENT

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ABSTRACT

Analyzing the sustainable development of public enterprises while facing challenges is particularly important not only for the boards of directors and management of the enterprises, but also to shareholders, the public and third parties in the context of a financial environment burdened by low economic development and the specifics of the current economic conjunctures. This problem has been researched extensively in studies of foreign countries in regards to financial aspects and sustainable development of public enterprises, but it is less studied in the case of public enterprises in Kosovo. Thus, our work is focused on studying and analyzing the key factors that cause difficulties in developing sustainable public enterprises in Kosovo. Through this research paper, we will try to prove the hypothesis that the excess of challenges would have direct effects on sustainable development and improving the quality of services provided by public enterprises. For this purpose, we have analyzed the financial activities of public enterprises providing electricity, drinking water, and waste management for the period of 2010-2013. The statistics are based on data obtained by financial documents and the processing of the questionnaires. The paper analyzes the factors affecting the sustainable development of economic and financial aspects, and it further elaborates the capacity and their influence. Through this research paper, we will also explore the challenges that public enterprises are facing in the process of the delivery of public services. Finally, some recommendations are provided for all the stakeholders and parties involved in this process because there is still a room for improving the sustainable development of public enterprises.

Keywords: Public enterprises, sustainable development, services, challenges, quality.

INTRODUCTION

The concept of sustainable development is mentioned in economic theory in the last quarter of the last century. The use of this concept is found more and more in terms of a provision of the successful completion of the activity, sustainable growth, and sustainable success etc. This is the typical case of public enterprises providing quality services to the public as users of these services. However, in the literature the most acceptable definition can be found in Nations World Commission on Environment and Development known as the Brundtland Commission (named after former prime minister Chairwoman Norwegian Gro Harlem Brundtland) report entitled "Our Common Future", for the first time in 1987, which defined sustainable development as "development that meets the needs of the present at the same time not jeopardize the ability of future generations to meet their own needs". In scientific and political terms there is no agreement on the meaning of the concept of sustainable development. World Summit on Sustainable Development of 2002 marked the fastest expansion in defining standards relying extensively on the three pillars of sustainable development: economic, social and environmental. Naturally, the three pillars of sustainable development are important, but economic development has enormous implications and also affects the other two pillars.

The problem with most of the public enterprises in Kosovo is related to achieving sustainable development. They have not yet reached this stage; sustainable development would be the next major challenge. Sustainable development of public enterprises is the goal of all participants from employees up to the users of public services. Internally interested parties for sustainable development of public enterprises are boards of directors, senior officers and employees while externally the shareholders, units of monitoring, regulatory offices and as a third party the users of public services. Therefore, sustainable development of public enterprises in this context is used for conducting comprehensive development and quality of public services.

Public enterprises in Kosovo apply corporate governance model as one of the most advanced models of governances in today's economies. Enterprises with this model of operation were formed in 2008 (under the Law on public enterprises in Kosovo (Law No. 03 / L-087), they did not have enough experience with this system of government. It is relevant to point out that many public enterprises today are the derivatives of the former socially owned enterprises and those that have been under the administration of former Kosovo Trust Agency (KTA). This paper will highlight the most important enterprises that are engaged in electricity supply, water supply, waste collection, road transport, rail and air transport, irrigation, post and communication. Basically, we will include services which affect the level of the quality of citizen's life. Thus, the sustainable development of public enterprises is also directly related with the quality of services while improving the welfare of the citizens.

CHALLENGES

Challenges that public enterprises face during the development phase are countless but taking into account the impact of their source, the challenges faced by enterprises are divided into two groups:

- Internal- influenced by the factors within the enterprise, and
- Exterior - influenced by factors outside the company.

INTERNAL CHALLENGES

Low levels of revenue collection

The most difficult challenge for the majority of the public enterprises, but especially those enterprises that provide public services like electricity supply, water supply, and waste management has been and it continues to be the low level of collection of revenues compared with billing. The percentage of collection differs depending on the activity of the enterprise. According to data from the annual reports of public enterprises, collection rates in KEK have been: in 2011-89%, 2012-89%, and in 2013 to 91%. Data presented are only four months after the privatization process. At Regional Water Company "Prishtina" collection rates have been as follows: in 2011-69%, in 2012-73%, and in 2013-75%. Whereas, in Regional Waste Company "Unity" collection level has been: in 2011-61%, in 2012-62%, and in 2013-64%. With this level of collection, enterprises fail to cover essential expenses for carrying out the activity. Consequently, they face difficulties in their operation. These difficulties often affect the quantity but also the quality of public services. So, for example in Kosovo even nowadays there is still a problem with power outages, reductions in water supply, waste collection reduction or scheduled collection set out by public enterprises. Thus, the low level of revenue collection forces the management of public enterprises to address the problem and to require financial help from the consolidated budget.

Insufficiency of funds and requests for assistance from the Budget

As mentioned above, public enterprises are facing difficulties in carrying out their activities, due to the lack of funds caused by the low level of collection of revenues in this way forcing them to request financial help from the Kosovo Consolidated Budget (KCB). In addition to financial resources in the form of grants for capital investments and financial assets to cover technical losses, the Kosovo Consolidated Budget (KCB) once permitted loan to improve power supply for Kosovo Energy Corporation (KEK). Therefore, it is very relevant to have government's intervention through the Policy and Monitoring Unit of public enterprises to improve the level of public services. In the sector of water supply and waste management, due to insufficient revenue generation the sole source of funding has been the Kosovo Consolidated Budget (KCB).

Difficulties with the level of liquidity

Due to the low level of collection by public enterprises they have also problem with cash flow. This affects the obligations, which reach maturity, and because of such delays economic operators constrain or reduce the supply level of payment. So these companies are forced to seek other suppliers or in some cases to avoid mandatory procurement procedures. This failure affects the principles of economy and efficiency, respectively misapplication of transparency and competition procedures which results in receiving expensive and unsatisfactory service. Dealing with low liquidity forces public enterprises are forced to take short-term loans called bank overdraft (overdraft) in this way causing additional burden considering the main debt (principal) and the interest.

Inexperience in corporate governance

Many of these enterprises up to the process of corporation had different forms of governance. In previous governances the director of the enterprise had greater autonomy in decision making without any other level of supervision. Without comparing pros and cons of the previous governances, it is important to emphasize that corporate governance with the board of directors as the highest decision-making body has been a positive and new element in the governance of public enterprises, applied for the first time from members of boards of directors, senior officers and employees. This form of governance suggests that the members of boards of directors shall have experience in accounting and finance and they have to meet ethical standards of the code of ethics. Lack of experience, especially in accounting and finance created difficulties for the board members to understand the positions of financial statements. This certainly represents an obstacle to early detection of negative indicators and consequently in decision-making activity.

EXTERNAL CHALLENGES

Privatization, public-private partnerships and private sector development

A relevant challenge faced by public enterprises in Kosovo is privatization or partial privatization. So far only two public companies have managed to change the form of organization. Thus, PE Pristina International Airport "Adem Jashari" through the process of international public procurement in 2010 it was given with concession to consortium Turkish-French "Limak & Lion". Also from May 2013, distribution of JP "Kosovo Energy Corporation" was privatized and it functions as Kosovo Electricity Distribution and Supply Company (KEDS). Another public enterprise "Post and Telecom of Kosovo" (PTK) was in

the process of privatization but never ended because the process was accompanied by objections from employees but also by some political parties and civil society. In order to advance the efficiency of the organization and functioning at the highest level, parts or segments of enterprises should be privatized or regulated in the form of public-private partnership.

Environmental requirements

Public enterprises in Kosovo will be increasingly challenged with environmental protection requirements. At this stage of development where enterprises have operational problems and providence of public services is a challenge, dealing with environmental requirements poses an additional burden on public companies. Enterprises that are engaged in power supply sector will be facing demands to reduce carbon dioxide in the air. Enterprises in the water supply sector will be challenged with increasing demands for water purity and ingredients, whereas waste management enterprises will have to deal with separation by composition, creation of closed landfills, waste disposal, etc.

Political crises-institutional vacuum

One of the challenges public enterprises are facing nowadays in Kosovo are political crisis and institutional vacuum. Referring to the Law on public enterprises in Kosovo (Law No. 03 / L-087), central public enterprises are owned by the Republic of Kosovo and the Government has exclusive jurisdiction to exercise the rights of shareholders of the Republic of Kosovo, whereas the right of shareholder for local public enterprises is exercised by Municipal Shareholder Committee. In case of elections, and delays on the established of government, making decisions relating to the activity or regulation of any other subjects is limited. There are cases when boards of directors in public enterprises are not complete, because some members of board of directors have resigned because it was requested by the Anti-Corruption Agency (ACA) due to conflict of interest.

CONCLUSION AND RECOMANDATIONS

Public enterprises in Kosovo are characterized with the lack of experience in corporate governance and obvious difficulties to operate and provide services. In these circumstances, achieving a sustainable level of development in terms of meeting the demands for qualitative public services is one of the main challenges they are facing nowadays. However, to overcome these challenges public enterprises should continue positive development from the lowest sectors of the enterprise. Some recommendations that may be helpful for boards of directors and the management of public enterprises are as follows:

First, public enterprises in Kosovo cannot achieve sustainable development if they don't increase the level of revenue collection. Thus, in all levels of decision making there should be taken actions to improve the revenue collection process. Secondly, improve the level of corporate governance as the most advanced model in the governance of public enterprises. Third, complete the process of reorganization in order to improve the delivery of qualitative services and at the same time revolutionizing the technological aspect of production in order to meet the environmental requirements. Thus, we believe that internal challenges for sustainable development of public enterprises are related to decision makers who should insist on finding a solution for increasing the level of revenue collection, whereas for external

challenges of public enterprises there should be policies which will provide the framework for further development.

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