

The Knowledge-based Economy - Human Capital Development in Kosovo

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Abstract

Kosovo aspires to join the European Union as soon as it can fulfill all the necessary requirements and standards. In fact, after Kosovo gained its independence in 2008, it now has to focus on sustainable economic development by using all its capacities and resources.

Information and knowledge have become the driving forces of the world economy. People are the most precious resource and the most significant component of a country's national wealth and development. With the youngest population in Europe, Kosovo must focus on its people.

This demographic structure creates a crucial advantage, and investment in knowledge and skills development would lead to wealth creation and economic progress. The legal and institutional frameworks need to play an important role in human capital development, particularly by financially investing in education and research to help enrich a knowledge-based economy.

The economies of Hong Kong, South Korea, Singapore, and Taiwan have achieved enormous growth because of their investments in education. Kosovo can benefit from best practices that have proven to be essential to the economic development of other countries. Indeed, as the world becomes increasingly globalized in terms of competition, small countries need to be at least "smart" if they have little or no other resources to develop their economies.

Keywords: sustainable economic development, information and knowledge, economic development Education, human capital development, knowledge-based economy

Introduction

"Education is the most powerful weapon which you can use to change the world"

Nelson Mandela

According to a report of the Commission of European Communities (2007): "Education systems have a significant impact on the quality of human capital development, which is characterized by innate skills and qualifications and knowledge gained through formal education, as well as by competence and

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experience gained at work. In turn, the quality of human capital has a direct impact on Kosovo's economic growth."

According to the United Nations Development Program (2009) research findings:

"From a macroeconomic perspective, empirical evidence suggests that one additional year in education on average increases GDP by about 5 percent over a short-term period and about 2.5 percent over the longer term. This results from the higher productivity of more qualified workers and their ability to use more advanced technology. The quality of human capital is particularly important for regions and countries in transition because it enables them to face competition in the global labor market."

Because of its tumultuous political situation in the past, Kosovo has stagnated in the development of education. Slobodan Milosevic's dictatorship brutally crushed every effort to develop education by closing down the doors of schools and universities in Albanian language. This contributed to the stagnation of the overall educational system and slowed socio-economic growth for ethnic Albanians. Kosovo needs to concentrate on improving the quality of education. In this regard, a quality education will be a catalyst for rapid economic growth, increasing employment, and creating a competitive environment. These factors will make it easier for Kosovo to participate in international financial institutions and reduce its imports while increasing its exports.

Kosovo aspires to join the European Union (EU) and fulfilling this aspiration is considered the greatest degree of its overall development goals. Taking in consideration Kosovo's young labor force, the development process can be fulfilled by proposing new criteria for a knowledge-based economy. Practicing and implementing the EU standard format for education and development can fulfill those criteria. In order to use all its capacities and resources, this country should invest in education because such an investment will return meaningful results and lead Kosovo to prosperity.

Structural changes in the local labor market caused by rapid global changes have transformed the method of selecting and recruiting human capital. As

information and technology rapidly become the driving forces of the global economy, Kosovo should use the high potential of its young labor force to develop its economy. Education reforms made in Kosovo should take in consideration fulfilling the European Education Standard. Kosovo could achieve EU membership at a much faster pace by focusing more in a practicum system. According to the World Bank (2005), around 65% of Kosovo's population is under the age of 30 while its unemployment rate is the highest in the region at 45 %. As much as 15% of Kosovo's population live in extreme poverty.

Significant investment in education is the key solution to Kosovo's dire economic situation because it will improve the labor market demand and supply. Further, it will create the first preconditions to getting specialized production, which remains an important factor in decreasing high unemployment and directly influencing GDP growth.

I. The Education System in Kosovo

At the center of economic planning and management should be education and human capital in order to spur economic growth. The development of technology and economy is impossible without quality education, which is indispensable to increase labor productivity and fulfill market demands. Attracting production is closely linked with education and human capital development as a source of economic growth.

It has been proven by the application of best practices in East Asian countries that increasing the quality of education results in improving the economy. According to a World Bank study (World Bank, 1993):

“In nearly all the rapidly growing East-Asian economies, the growth and transformation of systems of education and training during the past three decades has been very dramatic. The quality of education received by children at schools, and of training at the home, markedly improved. The cognitive skill levels of secondary school graduates in some East-Asian economies are comparable to, or higher than those of graduates in high income economies.”

One of the main problems in the education system of Kosovo are unprofessional teachers in pre-school, primary and secondary levels of education, the lack of using modern teaching methods and principles, and the low level of teacher motivation whose average salary is 200 euro per month. The educational curriculum at all levels of education does not reflect recent advancements in knowledge and scholarship because the books that are used for teaching are outdated. Libraries do not exist for students and staff in most schools, and teachers lack training and do not use modern teaching methods. In addition, facilities are overcrowded with 60 students per classroom in elementary and high schools, and 100 students per classroom in public universities. Such a large of number of students per classroom makes it difficult for students to learn and for teachers to teach. The above-mentioned facts show the lack of essential conditions for quality education, which is vital to individual professional development and to creating the foundation for human capital development. This is the issue where the focus should be.

Kosovo should enact reforms in its education system and at the same time start a program that would motivate its educated cadres abroad to return home. A scholarship program exists directly from Kosovo government, but the government should assure the return of graduates to Kosovo after they finish their studies by motivating them with higher salaries. This will actually enable it to begin the implementation of a human capital development program. In parallel way, Kosovo should invest in enhancing the proficiency of its labor force in English and other widely spoken languages in order to bring foreign professionals from abroad to provide training and education to the locals.

II. Challenges to Human Capital Development in Kosovo

Education is the main key to empowering Kosovo's labor force to attain and enhance certain skills and knowledge that would encourage further human capital development. The Human Development Report of UNDP (2008) illustrates the low level of human development in Kosovo compared to other countries in region. The report shows that the Human Development Index (HDI), which is based on 2005 data on enrollment rates in primary, secondary and university education, puts Kosovo at the bottom in the Western Balkans. The adult illiteracy rate stood at 5.8%,

which is about the same rate as in 2004. These figures show that Kosovo is far from human capital development which emphasizes the immediate need for change.

The need for change should encourage the government's intervention in order to transform Kosovo's economy from its current state to knowledge-based economy by 2017 through dynamic efforts for human capital development. The government needs to transform its education policy by increasing funding. An increase in education funding will also spur cooperation between the public and private sector.

- The strategy to raise the use of Kosovo's human capital should take place in four phases.
- The first phase should start with identifying the labor capital – by teaching it skills that are in demand.
- The second phase should consist of selecting employers by industry.
- The third phase should consist of evaluating educators and placing them in teaching positions for which they adequately qualify.
- The fourth phase should consist of attracting government support for municipalities and locations.

By identifying and measuring these phases, it is easier to apply the practice and principle of the circle of 'know what, know why, know how and know whom.' The combination of the above-mentioned strategies will directly impact the path of European integration. Definitely, it will be a matter of initiative to proceed with necessary changes; otherwise there are plenty of best practices to apply.

Kosovo is going to face various challenges in its development stage, particularly in the professional and scientific preparation of its educated labor force because the main fields of study among university students in Kosovo are economics, law and medicine.

In addition, a specific development program is needed to identify demands in the market knowledge by offering a variety of majors. By raising the quality and variety of education and majors, the economy will grow.

A. *The Need to Offer a Variety of Majors in Higher Education*

University graduates are apprehensive of the labor market because they cannot find a job when they finish their studies. Does the lack of jobs mean that students choose the wrong professions or does it mean that demand does not exist for the students' chosen professions? This question remains unanswered since there is no precise allocation of resources towards the strategic development of cadres. For example, the American practice has shown a very effective way of recruiting college graduates whose names, after finishing their studies, are put in databases that are used to identify candidates to fill demand in specific professions.

B. *Job Training for the Advancement of Skills and Knowledge*

Although Kosovo has made several steps in the direction of offering trainings, there is a slight change in the outcome of those trainings. One of the crucial problems in Kosovo remains the lack of a professional labor force that possesses the most up-to-date knowledge and skills. During the last decade, Kosovo has received support from the EU to develop its human capital knowledge, but the challenge lies in the implementation of projects offered because Kosovo does not have specialized people to successfully implement projects.

One of the challenges to unsolved economic issues is the lack of empirical research because most research institutions offer statements and not pragmatic solutions to existing economic problems. As a result, Kosovo has inefficient training for advancement because of unidentified requirements in market knowledge, which needs an intervention. Therefore, young generations hesitate to choose majors other than economics, law or medicine because they doubt they will be successful and achieve beneficial outcomes.

C. *The Motivation and Innovation of Human Capital*

A vital point to mention is that there can be enough people with smart ideas, but if they cannot "sell" their knowledge in the market, they cannot be called intellectual capital, rather they remain only a potential that needs to be developed (Khan, 2005). Human capital development is an important factor in creating a sustainable economy based on knowledge, and that point was emphasized in the strategic document called the Lisbon Strategy (Lisbon Strategy Document, EU

2000). The Lisbon Strategy stated that the economies of EU member states until 2010s must transform into knowledge economy, the main resource of which is intellectual capital.

The low salaries provided to professional cadres are a demotivating factor that explains why there is a low expectation regarding the implementation of innovative and creative methodologies to improve the current situation.

D. The Role of Institutional and Legal Frameworks towards Human Capital Development

The institutional and legal frameworks regarding human capital development play an important role in the financial support for the progress of education and research that would help enrich the knowledge-based economy.

Institutional role in Kosovo is one of the key factors that highly influences stagnation in the educational aspect, namely science and research. An indication of this is that for this year 1,000,000 euros were allocated which is an incredibly low amount compared to other countries in the region (Ministry of Education in Kosovo, The National Research Programme of the Republic of Kosovo).

A consequence of this low investment in education is that an estimated 7% out of a population of 2.3 million have completed secondary and tertiary levels of education, which is three times less than the European average. This results the civil society being unaware of or lacking an understanding of the significance of undertaking initiatives to improve the current quality of education.

According to a UNDP Human Development Report 2008, “civil Society in Kosovo lacks administration. Associations, sports organizations, unions, all get registered as NGOs. Although, they are high in number, most of the NGOs are not active. They have registered in times where donations were distributed and some of them are closed, sometimes without fulfilling obligations.”

Actually, these NGOs were in charge of working on human development programs, however, these programs were only of material interest to them because they failed to play an important role in contributing to increasing the quality and level of education. At the moment, Kosovo does not have any organization to

promote intellectual capital. An organization should be established as The Institute for Human Development Capital, a result of a partnership between the public and private sector. This would lead to Kosovo creating a community to promote the development of intellectual capital through educational programs.

III. The Implementation of Knowledge –based Economy for Sustainable Economic Growth in Kosova

In order to implement a long-term strategy, Kosovo needs to “import” knowledge from Europe and other countries that have already adopted human capital development programs. There is a need to engage experts who will bring in “know-how” strategies for further development of knowledge-based economy (Radosevic and Kriaucioniene, 2006).

Currently, there are no products that appear to be a result of only manufacturing capabilities. Production in manufacturing has become less important and important activities have become “intangible.” The focus should be on innovative and creative employees who are capable of selling goods and services. For example, the price of producing a bag is approximately 25% of the value (15% is spending, 10% raw material and other costs of transportation and packaging). This shows that 65% of the value belongs to intangible factors such as marketing, design and advertising.

A. Information, Knowledge, and Technology as the Driving Forces of 21st Century Economy

The neo-liberal system was based specifically on capital and labor, now this is changing into information knowledge and technology (Selmani, 2006). In reality, technological advancement broke all worldwide barriers by making possible easier communication and access to information. Linkages between information and its usage are related to knowledge that actually makes an ideal completion in the professional aspect.

B. Research and Development (R&D) Strategy

As a strategy for integration Kosovo should open a Human Development Institute for R&D. This institute would impact directly the advancement of empirical research that will contribute to prosperity primarily in education and serve as the

main pillar to increase the well-being of society. A key role of a well-developed R&D strategy is the awareness about education through several indicators, such as:

- a. Written and electronic media including newspapers, journals, TV, radio, Internet, telecommunication and availability of information.
- b. Public and private training centers as a part of educational institutions.
- c. Access to international libraries for research.
- d. New reforms in teaching.
- e. Structural funds to equally develop urban and rural human capacities knowledge.
- f. Accessible structure to information.
- g. Initiatives for different development structures.
- h. Trainings for private sector employees to develop human capital knowledge and increase productivity.
- i. The development of strategies by demographics through verifying needs and wants.
- j. Productive partnerships between the public and private sector.

IV. *Recommendations and Possible Solutions*

In order to follow rapid global changes, Kosovo should use its human capital knowledge to grow its economy. The EU Standards for knowledge development provides guidelines for strategies of integration (European Research Council, 2009). Kosovo should consider acting rapidly by proposing a win-win strategy for the development of human capital knowledge (Caracostas and Soete, 1997). Recommendations for this strategy are the following:

- Increase funding for education in order to improve its quality and increase the number of college graduates in mathematics and science.
- The Ministry of Education and Technology should undertake concrete actions to modernize the education system by applying modern teaching methods in schools. Education reform must be introduced and implemented faster.
- Curriculums in schools should be up-to-date and reflect the needs of the market.
- Training should be modified strategically with the purpose of encouraging teachers to increase student performance. Teachers and staff in the education system need motivation and innovation in order to apply the necessary reforms. The platform for education reform must include raising teacher salaries.
- Establish partnerships between public, private institutions, and society by equalizing their interests and competencies.
- Investment in education will improve labor market demand and supply. Further, it will create the first preconditions for getting specialized production, which remains an important factor toward decreasing high unemployment rate, and directly influence GDP growth.
- Investment should particularly focus on school buildings, libraries, and research laboratories.
- The government and the private sector should create special programs that offer scholarships to study in Kosovo and abroad.
- Kosovo should invest in raising the proficiency of students in English and in other most spoken languages in order to be able to bring foreign professionals to provide training and education to the locals.

- Change the government's economic policies so that the economy is transformed from its current dire condition to knowledge-based economy by 2017 through dynamic efforts to increase human capital development.
- Professionally and scientifically prepare students through integration programs because the most popular majors among students in Kosovo are economics, law and medicine. Diversifying the academic preparation and training of students in other majors will yield graduates with specialized knowledge in variety of fields.
- Create a database of graduates to enable the public and private sectors to recruit professional staff.
- Apply for donations from international financial resources such are the World Bank, the World Trade Organization, and the European Union.

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