LUND UNIVERSITY
School of Economics and Management

Property rights in Kosovo

- Analyzing the impact on access to credit

Lotta Moberg

Tutor: Andreas Bergh

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Abstract

After the war in Kosovo in 1999 there was much confusion over property ownerships. This essay examines the importance of increased property rights for economic development in the region since then. The link in focus is that between the decisions over property disputes after 1999 and the access to bank credit.

Because of the short time frame, no data can with accuracy reveal the connection between the juridical efforts to solve the property rights situation in Kosovo and bank lending. In addition therefore, other macroeconomical data are used to analyze the effects of other factors on lending. Showing a significant causality is difficult without field studies or larger amounts of data. In this essay, signs of a connection between property rights and bank lending are however observed, where the influence of other factors can be deemed excluded. The connection is attributed to the increased access to credit when bank customers can use their legally owned property as collateral security.

When looking at the broader macroeconomical landscape, there are strong indications that credit rationing has been prevalent on the credit market. The interplay between property rights and credit access and how it relates to credit rationing is explained as well.

The attention of economists is increasingly turning to the role of well functioning institutions. This essay provides a method by which to study a phenomenon like property rights, even as access to and reliance on the data is severely limited. No previous study found can be closely related to this analysis. There are quantitative examinations of legal ownership in relation to access to credit, but not in any context similar to that of Kosovo.

Key words: Property rights, institutions, banking, credit access, credit rationing

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Abbreviations

EULEX	European Union Rule of Law Mission in Kosovo
GDP	Gross Domestic Product
HDP	Housing and Property Directorate
HPCC	Housing and Property Claims Commission
KPA	Kosovo Property Agency
KPCC	Kosovo Property Claims Commission
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
UN	United Nations
UN-HABITAT	United Nations Human Settlements Programme
UNMIK	United Nations Mission In Kosovo

1 Introduction

In a post-war region with a history of insecurity and unrest, a main priority is to set the institutional prerequisites needed for economic growth. One such institution is the rule of law, a corner stone of which are reliable property rights.

The Peruvian economist Hernando de Soto (1989, 2001) claimed that properties obtain their real capitalized value when they are under formal ownership. One of his arguments was that when property can be used as collateral security for loans, this provides the opportunity for people to escape poverty. In this paper I examine that notion by analyzing the development of property rights in Kosovo after the 1999 war.

Many different phenomena can be alluded to when the term "property rights" is used. The concept is somewhat ambiguous. In the case of Kosovo, information on one aspect of the concept, the formal titling of properties after the turmoil of the war, has been documented. This is useful for economical analysis.

The background of the dire property rights situation is one of complexities of the interplay between external circumstances and unprofitable domestic policies. Kosovo is a former autonomous province of Serbia and is since its declaration of independence in 2008 considered a republic, recognized since its independence by more than 60 countries, amongst which are a majority of the European Union (EU) countries and the United States.

Kosovo was under the rule of the Ottoman Empire for 450 years. After the Balkan wars of 1912 and 1913, the major part of Kosovo was a part of Serbia (Glenny 1999, p. 231). When Yugoslavia was being formed in 1918, the region was included in the new state (p. 367)[*]. Efforts were made to assimilate the Albanians into the Serbian dominated culture and language. In the Second World War, Kosovo became under the control of Albania, which was at the time an Italian vassal state. After the war, Kosovo again became a part of Yugoslavia, then as an autonomous province within the socialist federal state. The autonomy within Serbia was not realized in practice, but the Albanians did at times have the opportunity to study in Albanian and enjoy Albanian culture without repression.

[*] The state was in December 1918 first proclaimed as the Kingdom of Serbs, Croats and Slovenes.

Since then, the political state of the Albanians, who now constitute over 90 % of the population in Kosovo, has varied. During the Milosevic regime in 1989-1999 the control and oppression increased. The tense relationship between the largest ethnical groups in Kosovo, Albanians and Serbs, thus originates from a long and complicated history. This is a factor which, as we will see, has affected the situation of property rights until this day.

The institutional environment has since 1999 been set and upheld by various international organizations, predominantly the United Nations Mission in Kosovo (UNMIK), the Kosovo Force (KFOR) of the North Atlantic Treaty Organization (NATO) and recently the European Union Rule of Law Mission in Kosovo (EULEX). The economy has further been supported by financial donations from countries and international organizations. These have been forming both the economy and politics of Kosovo.

Though not formally belonging to the euro area, Kosovo uses the euro as its currency and has by and large managed to hold inflation low and steady. Until the international financial downturn made its mark on Kosovo in 2009, exports from Kosovo had grown by 18.7 % in one year. However, an already large trade deficit grew in 2008 to 33 % of GDP (World Bank 2009). Kosovo currently has a relatively low income tax of 10 % for everyone earning above 450 euro per month, a corporate tax of 10 % and a VAT of 16 % (Ministry of Economy and Finance 2009)[*].

Kosovo has an abundance of mineral recourses and agricultural land. It has a fairly beneficial trade regime and a young population. Meanwhile, the economy is still relying heavily on donations and the presence of the international community. The estimated unemployment rate is around 40 %, which is one of several indicators that the economy is in a dire state. An important aim of the politicians in Kosovo is to attract foreign investment to the country. Still, there are many constraints to investment in infrastructure, with the unreliable supply of electricity perhaps being the major one.

As in any country, a functioning system of rule of law will be a corner stone for a prosperous economy in Kosovo, of which property rights constitute an important part. Studying previous impacts of the work to establish secure property ownership on the economy might therefore, among other things, provide indications of its importance in the future.

[*] Rates were changed in January 2009 from 20%, 20% and 15% respectively.

1.1 Purpose

The aim of this paper is to examine economic factors connecting enhanced property rights to residential properties and agriculture land with the increased lending in Kosovo after the war. Because of the small quantity of data, it is not my aim to find statistically significant proof of the importance of property rights or to quantify its contribution to the economy. Rather, I explore key macro economical factors that might be used for the analysis when data is limited.

The analysis is based on the theories and empirical studies that are presented in section II of the essay. My hypothesis is that a larger amount of legal property owners has led to more bank customers with access to collateral security, which in turn has enabled them to be granted loans from banks.

Three questions are central throughout the essay:

- Are there any signs of connections between property rights and increased lending?
- If there are, what other macro economic data could falsify this notion?
- Does increased access to collateral security seem to be behind the rise in the amount of bank credit?

1.2 Delimitation

For reasons found in the stormy history of Kosovo, statistical data is not always reliable and sometimes incomplete*. This, in combination with short data series, precludes any robust conclusions from statistics. Regressions using large samples of data or qualitative assessment by field studies would have provided a more robust picture.

Statistically robust conclusions are therefore not aimed at in this essay. Instead, a broader picture of a phenomenon like the access to bank credit is painted, with the inclusion of several macro economical indicators. I will mainly use macro economic data, which because of its limited scope in time and geographical space is not voluminous.

When examining the impact of other factors than property rights, I limit the analysis to factors having the most direct effect on the lending rate. Many institutions, formal as well as informal, have implications on the decisions of banks, firms and households. Their decisions depend on a sense of security and trust in the economic system, which is influenced not only by the economical, but also the political and social environment. It is impossible to give the whole picture of what is behind the statistics on bank lending. The indicators included can however provide a depiction which is broad enough, while keeping the analysis simple.

1.3 Disposition

In section II useful experience from theories and empirical evidence from previous studies is presented. An overview of the theory on property rights in general is followed by its connection with credit access in particular. The section reveals the practical mechanisms, as well as the obstacles, behind the relationship between property rights and bank lending.

In section III, the development of the property rights situation in Kosovo is outlined to raise an awareness of its complexity. In section IV, the efforts executed by the authorities to enhance the property rights situation are summarized. In section V, I explore the relationships between data on property rights, bank credit and other macro economical indicators in Kosovo and in some neighbouring countries. In section VI I draw conclusions from the analysis.

[*] Explanations of the data on claim resolutions and GDP are found in the appendix at the end of the essay.

2 Theoretical framework and previous research

This section provides a presentation of relevant theories and empirical studies, explaining the importance of property rights and the connection to bank lending. The purpose of his exposition is to define the property rights concept and to clarify what the theory about the interplay between property rights and lending is based upon.

Theories relating to the very basics of the importance of institutions for growth are included, and to the issue of collateral security as a precondition for access to credit specifically. This is to clearly outline the basis of the presumption of the importance of collateral security for bank lending, the importance of a developed financial market and the implications on economical growth in general.

When property rights in Kosovo are examined in this paper, the focus is on the quantitative occurrence of legal titling of properties. My way of examining the relationship between property rights and property titling programs is not similar to that of any previous study, which may be a strength, as well as a weakness. Most previous research has explored the difference between countries in property rights security, and its implications on issues like economic growth. Even though previous studies are quite different to this essay, they can together form a basis both in support and in defiance of my conclusions.

2.1 The broad concept of property rights

Legal ownership is a corner stone in the theoretical framework on property rights. However, it is by no means the only basis on which secured property rights stand. A majority of studies on the subject focuses on the risk of the property right being violated or on the obstacles in the way of obtaining legal ownership. The different definitions of the denomination of property rights are important to keep separate.

The projects Doing Business (Doing Business 2009) and Property Rights Index (Property Rights Index 2009) analyze the current state of property rights in different countries. Their definitions of property rights include the legal and political environment, the procedures around registration and protection of physical as well as intellectual property to a country's gender equality. In scholar papers on property rights, factors like corruption in a society and the secure implementation of contracts by a stable rule of law is frequently accounted for in assessing the quality of property rights.

By the broad range of definitions of secure property rights, different issues can be alluded to under the same denomination. When studying the legal determination of a person's ownership of a property, it is the legal titling, and thus the expected strengthening of a property's legal status, that is taken into account. Categories of ownership rights, the kind of rights one has to the land or the house, are in Roman law the right to use an asset, to capture benefits from an asset, to change its form and substance and to “transfer all or some of the rights specified above to others at a mutually agreed price“ (Pejovich 1990: 27–8). These legal rights are cornerstones of many assumptions about the effect of secure ownership. In this essay, property rights are referred to as the titling of properties and adjudications of ownership. Changes in the broader climate for secure property rights are thus not focused upon.

Property rights were for a long time taken as a given in studies of economics. It has now been given attention in many academic studies (Boudreaux 2005 p.3) and so has thereby the issue of quantitatively measuring those property rights. In a study of the impact of political institutions on growth, Glaeser et al. (2004) criticized measurements on institution commonly used in studies on their impact on growth. They found that estimates of the risk of expropriation or judicial independence as a measurement of property rights are too volatile to establish their relation to growth. Instead, they argued, one should focus on de facto existing laws determining ownership in the country of concern (p.298).

Acemoglu et al. (2004 p.2) pointed out that property rights, among other institutions, might be endogenous, determined by the society in question. While links between secure property rights and economic growth can be observed, this might also be a case of reverse causality (p.17). It seems plausible for instance, that in most cases economic growth will foster better institutions, including more secure property rights.

. These factors of uncertainty are not prevalent in the case of Kosovo. With the definition of property rights as the number of legal titles to properties, many problems concerning measurement are avoided. Property rights are quantifiable and it is clear that enhanced property rights resulted from decisions and legislation of the official authorities. They were not caused primarily by rapid growth or a particularly trustworthy society.

Some of the theories and empirical studies in this section apply the broader definition of property rights that differs from that of legal titling while they can still bring clarity of the effects of property rights in general. I leave out studies on property rights, however interesting, with a definition of property rights that is far from being relevant to this study.

2.2 Better allocation of recourses

Property rights are important for economic growth, primarily trough improved allocation of recourses and the capitalization of property. The latter factor is what I concentrate on in this essay, but the mechanism behind better allocation of recourses are presented here in order to make the distinction between them..

In 1937, Coase (1937) explored the importance of well defined property rights and institutions. When elaborating on the determinations of the size of a firm, he explained how all negative externalities of a firm can be neutralized by negotiation, as long as property rights are securely in place and there are no transaction costs. Under such conditions, people are able to bargain with each other and reach the optimal allocation of resources.

Coase (1960) further studied the crucial role of property rights in avoiding or neutralizing negative externalities. He raised forward the argument that the ability to negotiate about each others actions can lead to the ultimate allocation of recourses. For this to be possible, property rights must be well defined.

Papers written on property rights as an institution leading to more efficient allocations of recourses are numerous. Amongst them are also studies where property rights are defined as legal titling. Field (2007) studied a Peruvian state program providing property titling to urban households and its effect on the labour market in the country. She found that increased property rights shifted labour supply from domestic work to the labour market. Legal home owners seemed able to spend less time on property protection and on work in the house. Thus, the households gaining title to their property increased their labour hours and used their time in a more productive way than previously.

Schweigert (2006) studied the importance of property titles on the investment and output of farms by analyzing the effects from a titling program on rural households with agricultural land in Guatemala. Acknowledging that property rights have been shown to increase the access to credits for firms, he controlled for the effect that credit access might have on firms. He then solely examined the impact of property rights through the so called “tenure security channel”. This is the security originating from the basic right to the fruit of one’s labour, that induces a family to increase the labour, and thus investment, in the property. He found that ownership of a property did indeed have positive effects on farm investment and output. The study excluded the effect on growth of the credit market, which impact on the economy was not given attention.

In a study of rural Cambodia, Markussen (2008) found that legal ownership of land property had positive effects on both property value and agriculture output. He concluded that this was due to the tenure security channel, and not through the credit market. Markussen made a connection between the absence of effects of ownership through the credit market and the low level of financial development in the country. Cambodia is a somewhat special case because of its weak state. The study therefore indicated that the positive effects from proper legal ownership indeed occur even under such circumstances. This implies that the tenure security effect can be even more significant in countries with more robust legal structures.

The same conclusion is drawn by de Soto (1989 p.173) from a study of properties in the informal settlements in Lima in Peru. He found that similar properties were worth 40 times as much if they were legally titled as those that were not. Proper ownership seemingly induced more investment in the property. When people modernize and combine their property in ways leading to the best outcome, de Soto reasoned, this benefits the whole society.

Another way in which efficient allocation of resources come about with proper ownership is the more efficient way in which collective goods can be agreed upon and purchased in a more orderly, and therefore more beneficial, fashion. This is an issue which Soto observed in Lima, where almost half of the water and electricity supply was not being accounted for. In this context, illegal construction is a major problem. Commodities like networks for electricity and water are less likely to come about when customers are unlikely to pay their bills (de Soto 2001 p.73). In an area where houses are constructed illegally, the lack of property rights makes investing in common recourses less profitable.

2.3 The importance of the financial sector

The sophistication of a country’s financial system is important for the size of the impact of property rights on the economy. The allocation of monetary recourses, as well as the pricing of assets, is best realized through a modern banking system. Some studies provide convincing arguments on the importance of the financial system for growth and its connection to property rights.

Haber (2002) studied why the economy of the United States has grown so rapidly in comparison to that of Mexico. He found that differences in the development of financial markets in the United States and Mexico had major effects on growth. In the United States, the broadening of the suffrage around 1850 led to people voting to release the banks from certain regulations, making credit more obtainable. In Mexico, banks were granted monopoly status by the government. While the United States in 1920 had a functioning and competitive banking sector of 25,000 banks, Mexico had only 42 basically non-competing banks. The economic growth has since been significantly faster in the United States than in Mexico and GDP per capita is today around four times as high in the Unites States compared to that in Mexico.

Other studies have implications on the connection between property rights and financial markets. Claessens and Laeven (2003) assessed that property rights play an important role in the growth of firms, but only when the financial infrastructure is sufficiently developed. According to their model, property rights alone did not have a statistically significant impact on growth. However, an interaction term between property rights and a measurement of financial system sophistication did have a positive significant impact. This implies that secure property rights can favour prosperous asset allocation, but that a robust financial structure must be in place in order for that allocation to come about. It can also imply that only in an economy where enhanced property rights lead to a functioning financial market do they have a positive impact on growth.

To sum up, the financial system is crucial for growth and it might even be a necessary element for property rights to boost growth. Property rights and financial markets are interconnected, and may well reinforce each other. It does at least seem like enhanced property rights can lead to a better financial system by increasing the access to bank credit.

2.4 Access to credit

The impact of property rights through increased access to credit is in many studies compensated for instead of examined in itself. The relationship between these factors are however crucial for this essay. It explains why a functioning market where property can be used as collateral security for loans creates a better financial environment. The price of lending money is then determined by more than the interest rate.

2.4.1 Collateral security and interest rates: the cost of credit

Collateral security for a loan can be a way to compensate for the insufficient role of interest rates in agreements about credit. Stigler (1967) pointed out that for a lender, there is always a risk of moral hazard, as it is impossible to completely trust the borrower not to disappear. Furthermore, the borrower and the lender will always make different risk assessments. The borrower may know that he is basically risk free, while the lender must assume that all borrowers are somewhat risky. Merely negotiating about interest rates may not lead to equilibrium, since the borrower will not find the risk compensation for the loan sufficient.

Hoff and Stiglit (1990) explained how collateral security is one of several instruments through which to overcome the case of asymmetric information that persist in the credit market. Legal ownership of a property can be used as collateral security for the lenders to judge whether the borrower is credit worthy.

The credit market can be seen as moving towards equilibrium between the supply and the demand for credit depending on the interest rate and the collateral security for a loan. If collateral is used, it creates an incentive for the borrower not to default on the loan (Feder et al. 1988). This increased security should in theory lower the interest loan rate as the risk is reduced, making it more profitable for a borrower with access to collateral security to ask for credit.

Barro (1976) used a theoretical model to analyze the role of collateral in determining loan interest rates. He observed the case when the loan default would impose high transaction costs of a shift in the ownership of the commodity used as collateral security. Barro concluded that with higher costs of the shift, the interest rate for the loan would be higher too.

2.4.2 What can be used as collateral security?

Theoretically, any property can be used as collateral security. In practice, the more immobile a property is, the best it constitutes a security for a loan, as it will not easily disappear. Land is the ultimate non-movable property and is a widely used type of collateral. It is especially feasible where land is scarce. A house is extremely hard to transport, but can in theory be moved or destroyed before a new owner can take possession of it.

In a study on Asian countries, Feder, Onchar and Raparla (1988) concluded that institutional lenders, like banks and government agencies, preferred land rather than other securities for a loan. Also, they showed that they indeed seemed to offer more credit to farmers with access to collateral. Group security, however, where a group of people sign up as responsible for repayment of a loan, did not provide a better chance to obtain a loan from banks or government agencies.

The type of ownership over the property may also be important. A bank is more willing to lend money if it knows that the borrower actually does dispose of the land and has the possibility to sell it or at least to transfer user rights (Feder, Feeny 1991 p.141). The beneficial effects from property rights are therefore unlikely to persist when only usufruct certificates are issued instead of ownership.

Feder, Onchan and Chalamwong (1988) observed that certificates of limited usufruct rights issued by the government to farmers in Thailand did not increase the access to credit from institutional lenders, such as banks. Farmers titled as proper owners, meanwhile, could provide collateral for the loans and therefore they had better access to the credit.

2.4.3 When property turns into capital

The public understanding of property rights as a means to raise people from poverty was accomplished not least by Hernando de Soto (1989, 2001). Properties with proper legal ownership can be used as security for a loan, he argued, since it can be classified and categorized in a way not possible in its “illegal” state.

He pointed out that when a mortgage is granted, the house or the land itself is not the object taken into account. Instead, the title and the official document representing proper, legal and secure ownership is what is being accounted for (2001 p.78). No descriptions or photographs of a house or a piece of land can make up for this. When the value of a property is officially registered, a bank can be sure of its usefulness as collateral security for a loan.

Property rights were explicitly connected by de Soto with the very fundament of capital markets. When property is within formal ownership, business networking is possible between people who are unfamiliar with each other, far beyond the family or the clan. A bank does not have to know personal details about a customer to find out whether the person is reliable or not, and trade in capital can be conducted across borders. Objective valuations of assets enable a lender to spread the risk through various types of insurance solutions. The conditions for the bank offering credit to customers are enhanced, which makes the bank more willing to grant credit and perhaps lower interest rates (pp.73, 86).

Property rights empower the poor economically via their ability to capitalize on their assets, de Soto argued. From field studies in Latin America, he assessed that despite of a high value of their properties, the owners remained poor because of the lack of legal ownership. Once people could use their properties in a legal fashion, these “dead assets” could come to life into the system of capital.

A few studies take on the task of empirically examining the link between property rights and the access to credit. In their study including 43 countries, Qian and Strahan (2007) revealed the connection between creditor protection and the willingness of banks to offer loans to firms, with both longer maturity and lower interest rates. They also found that this effect was stronger on a country’s foreign banks than on domestic ones. This is because international banks have branches in many other countries and are therefore more sensitive to institutional change in a single country. Also, they recognized that domestic banks are more able to assess borrower risk and solve control problems without demanding collateral security.

The importance of property rights as a means to secure a loan has also been examined on a firm level in a study by Johnson et al. (2002). They measured the importance of factors like property rights on the investment of firms in several post-communist countries and their tendency to demand credit from banks. In this study, property rights were not defined as official ownership but assessed by institutional features, like the perceived security and whether courts could effectively enforce contracts.

They found that secure property rights indeed played an important role for the willingness to invest in the firms included in the study and also for firms to demand bank credit. They also saw that almost all firms in the study needed to use collateral security to gain access to loans.

Field (2006 p.5) found in a study of a titling program in Peru that secured property rights might increase the credibility of a borrower also through the labor market. As a legally registered house owner is more likely to be employed, she reasoned, the person becomes a credible credit receiver as a result of a steady income.

It seems that property rights are important for receiving credit, by the use of the assets as collateral and in other ways. Most empirical support for this is centered upon firms but the underlying mechanisms for this are in most cases applicable on households as well.

2.5 Studies revealing the obstacles

Some studies on credit access in connection to property rights have shown that obstacles might occur, preventing increased access to credit through titling programs. All possible complications may not be persistent in the case of Kosovo, but it is useful to understand what mechanisms might be disrupting the process.

In some cases, the effects on access to credit as a result of land titling are distorted by government ownership and regulations. Field (2006) focused on the impact of a government titling programs on the Peruvian banks' willingness to issue credit to households. She stressed that credit may not become accessible to property owners, as the state driven program signals that the government is prioritizing the poor and therefore will be siding with them in the case of a property dispute. This increases uncertainty for the banks and makes them less willing to give loans to poor households (p.24).

When banks of both private and governmental ownership are involved, the observations might be complicated to interpret. Field (p.3) found that property ownership did not seem to have any effect on the tendency of private banks to supply loans by using the property as collateral. She concluded that this was because the state owned bank in her study issued the bulk of the larger loans, leaving customers demanding smaller loans to private banks. Since collateral security is rarely demanded for smaller loans, property rights did not affect the access to private bank credit.

Musembi (2007) made similar conclusions when studying title programs in African countries and conducting field studies in Eastern Kenya. She saw that formal titling had no effect on African farmers' tendency to take on bank loans. Musembi connected this to the tendency of banks to shun small-scale landholders (p.1466). Also, she observed unwillingness amongst the people to risk the family land for a loan.

Musembi also criticized the theories of de Soto about the empowerment of poor people by the capitalization of their assets, and stressed that a property system is a social system dependent on its cultural context (p.1462). If this context is not right, a new formalized property system will not be the most efficient one.

Möllerström explains how in a severe conflict, it is hard to judge what is "most right" in a property ownership dispute. One can establish this by juridical considerations, but the conclusion might not be the morally right one. A lawful owner might return to a village with a changed ethnical identity, and this might lead to insecurity (2009 p.65). The same argument was put forward by Feder and Feeny (1991). They recognized that secure property rights rely not only on the legal registration of the ownership, but also on the implementation of property rights, which is dependent on social rules and contracts (p.137).

Carter and Olinto (2003) examined the impact of land titling of agricultural land on Paraguayan farmers. They studied both the willingness to invest in the land and the access to credits of farmers gaining legal titling of their land. Two conclusions were reached. There was no increased access to credit for smaller farmers, who constitute the bulk of the Paraguayan farming sector. Also, tenure security led not only to an increased demand for immovable property by farmers, but also to a decrease in the demand for the movable capital goods that cannot be used as collateral security in the case of loan default. They assessed that if this diversion is not combined with increased access to credit, there will only be a shift in investment from movable to immovable assets. Titling did therefore only seem to benefit the bigger farmers, for whom access to credit was increased due to the titling program.

Observing the Paraguayan financial market, Carter and Olinto concluded that titling reform must be accompanied by a reform in the credit market if it is to benefit the economy. Increased credit demand may follow from the incentive to invest in a titled property. But if demand is not met by supply, there will be a move of capital from movable property to the immobile agricultural land or residential property. This is merely a change in the optimal investment in different kinds of assets. Households may be investing more in renovating and enhancing their houses, while cutting down on investment in commodities like education and pottery. Farmers invest more in the land and less on machinery, equipment and livestock. The economy as a whole is however by no means larger or more efficient.

This means that the benefits of property rights measured by the value of an immovable property such as a house or a patch of land might be misleading. One must also include the changes in value of movable property. If credit supply really does increase however, the value of movables might be constant while that of immovable property is increased.

Boudreax (2006) was also critical of the impact of property rights on access to capital. She studied the governmental titling effort in Langa Township in South Africa and observed that the formal ownership of properties had contributed to growth and alleviated poverty. But she also fund that people with secured property rights still preferred to finance their investments through personal savings or savings clubs, rather than through commercial banks.

Some of the reasons for this may also have implications on countries in South-eastern Europe. Boudreax recognized that using a home as collateral security imposed a risk of losing it. This affected the whole family and sometimes the family business. There is a general inconvenience in worrying about repayments. Rather than receiving a mortgage to build a house, some people will instead prefer to erect it brick by brick, in the same paste as money can be spared.

2.6 Conclusion

This exposé of theories and empirical studies does not point in one direction. No theory can be completely relied upon to hold true in any environment. Instead, a notion has been given on some of the variety of arguments concerning the theories upon which this essay relies.

Property rights are a fundamental institution, and well functioning institutions are the backbone of economic growth. Financial markets appear to be another. If it is true that reliable property ownership increases the trust of banks, which then supply more credit, then property rights can enhance the financial markets, and thus spur economic growth. Instead of relying on a functioning financial market in order to spur economic growth, property rights might actually help in creating it. One link in this chain of causality is the one between property rights and increased credit lending. That relationship, the usage of property rights as collateral security for loans, is the focus of this essay.

3 The background to a dire property rights situation

State policies depraving the property rights situation of Kosovo can be found without looking far back in time. Various regulations after 1989 prevented free transaction of property rights. The way forward for the UN administration in Kosovo has not been self-evident. When previous regulations have stirred the property market in one direction, new ones have been implemented to resolve a seemingly unjust situation. However, the reliance on informal institutions of what is morally right can sometimes contradict institutions like the rule of law.

3.1 Historical background

Kosovo has a long history of conflicts, ever changing political and economical rules and limited trade. This has had a detrimental effect on the economic development of Kosovo. The property rights situation has also been shaken by the uncertain climate throughout the history. The dire situation after the war in 1999 has however partly been formed as late as in the 1990-th.

Before the war in 1999, socially and state owned property constituted 43 % of properties in Kosovo. Residential property was primarily socially owned apartments and people living in them were not formally owners but obtained occupancy rights.

Between 1989 and 1999, Kosovo lost its entitlement to self-government, which had implications on the property rights situation. As many Albanians were dismissed from jobs at public companies, they also lost their right to socially owned housing. As of 1992, the apartments could be bought from the state and made into ownership right. This resulted in many more Serbs than Albanians being property owners. Further, in order to stem emigration of Serbs from Kosovo, restrictions were made on to whom people could sell their property (HPD March 2002 p.1). Serbs were effectively prevented from selling residential property to Albanians. This resulted in a system of transactions of property from Serbs to

Albanians outside the legal framework and outside any cadastre or property record (HPCC 2007).

3.2 The destruction of violence

The war in 1999 made the property situation exceedingly complicated, as people fled their homes and as houses were destroyed. Many of the estimated 860,000 Albanians who fled Kosovo during years of turmoil returned when the NATO forces were deployed in Kosovo. Meanwhile, an estimated 230,000 Serbs left the region in fear of Albanian reprisal (von Carlowitz 2004 p.606).

Almost one half of all available housing was destroyed during the war, an amount estimated to a hundred thousand housing units (HPD March 2002 p.1). Tens of thousands of people did not have anywhere to live as the conflict ended and they had to find alternative shelter within Kosovo. Many refugees returning to Kosovo put in requisition abandoned apartments and houses, in which they stayed for many years (Ombudsperson Institution 2006 p.41). Numerous properties had been unofficially purchased by Albanians from Serbs because of the legal restrictions against it. Altogether, this meant that the legal status of many properties in Kosovo was highly insecure.

In March 2004, riots broke out in Kosovo, causing the worst wave of destruction since the war. An additional 10,401 properties were then identified as destroyed, a majority of which belonged to minority community members. Though most of the property owners were seeking compensation for the damages, many of the cases were still pending in court in 2007 (OSCE 2007 pp.31-32).

3.3 The emergence of new illegal houses

Primarily due to the weakly implemented legal framework after the war, illegal constructions surged. They emerged on occupied land without the authorities interfering. It has been estimated that around 30,000 illegal constructions were conducted during the first years after the war (USAID 2004). This did often prevent municipal authorities from efficiently providing inhabitants with water and electricity, and it was detrimental to urban planning. Furthermore, illegal constructions were often erected on the land of a property owner, the property right of whom was thereby violated. Many businesses would thus emerge and run for years on occupied land (Kretsi 2007 p.666).

The municipalities meanwhile were dealing with the problem most inconsistently. There were laws allowing them to demolish illegal constructions under certain premises, but this was hardly ever implemented (USAID 2004 pp.32-33). There were inevitably inconsistencies in the risks of constructing a home on a patch of land that in fact belonged to someone else.

3.4 Helping or hindering refugees and minorities

In restoring the rule of law, international bodies operating in Kosovo put great emphasis on the right of minorities and on the urgency of the return of internally and externally displaced people. How many of those who fled that has actually returned is disputed. It is clear though that there are still many refugees within as well as outside Kosovo (Kretsi 2007 p.667).

One aim was to achieve a property rights situation that is not only lawful, but also fair to minority groups. This has influenced the institutional setting to solve the property rights situation, in a way that might not only have been favorable. To prevent ethnically strategic transfers of property rights after the war, a special set of laws was adopted[*]. In certain areas, an approval was needed from UNMIK Municipal Administrator before a court could verify the sell (OSCE 2003 p.34). Agriculture land was, however, exempted from this regulation.

The regulation was intended to secure the right of minority people to stay in Kosovo and avoid marginalization. But it has been criticized for hindering voluntary transactions of property. It seems like the regulation has prevented the regulated property market that existed before 1999 from developing and modernizing. OSCE (2003) found that the regulations "create more problems than they solve from a human rights perspective" (p.48). OSCE claimed that the restrictions were disproportionate. The regulations were partly imprecise and in practice ended up being circumvented by many parties.

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[*] This was UNMIK Regulation 2001/17. The Ombudsperson institution deemed it "incompatible with recognised international standards" in the report 'Regarding the refusal of UNMIK to register a contract for the sale of a residential property in Lipjan/Lipljan' (2202-04-22, Included in EULEX Justice-Specific Training Site: http://www.eulex-kosovo.eu/training/?id=13.). In the report, they call for the abolishment of the regulation.

Non-legally binding guidelines were issued to secure the reconstruction of damaged property. As the mechanisms in these guidelines were often not used they did, alas, not secure the right to return for people from Kosovo. The OSCE concluded (2003) that the guidelines would have needed to be legally binding to secure property rights. As an example, the authorities would in many cases rebuild a property, the owner of which would then continue to occupy another person's property without the authorities preventing it (p.68).

3.5 Laws and moral confusion

The legal framework for property rights in place after the war has been causing confusion. It consists of laws from before 1989, some laws from the period 1989-1999 and UNMIK laws promulgated after 1999. No law conflicting any UNMIK regulation is to be considered valid (OSCE 2003 pp.3-4, 2009 p.6).

The property records of the old cadastre from Yugoslavian times were in many parts either inadequately founded or destroyed in the war. In many cases, the legal transfer of ownership of agricultural land was not updated. The registrations of property ownership, meanwhile, were in some cases manipulated by the very officials responsible for it (OSCE 2003 pp.8-9, 2009 p.4). Further, the courts have been deemed unable to appropriately apply property laws and in general incapable or unwilling to protect property rights. Both central and municipal authorities also failed to use the 'Law on Expropriation' to lawfully interfere and establish proper property ownership (OSCE 2003 pp.36-46).

As UNMIK was established in Kosovo after the war, it was explicitly obliged to repeal the discriminatory laws of the Milosevic regime. It was however unclear whether it would refuse those who benefited from the policies of the Milosevic regime the right to their homes if it would be considered morally right on historical grounds. There were also publicly owned apartments still under construction, which mainly Albanian workers had been erecting.

The underlying informal institutions thus induce some essential questions. What is socially accepted and by whom? Who are the righteous owners of the former socially owned properties? Would distribution of properties by the UN become another politically biased gesture with the intention to restore social justice (Kretsi 2007 pp.667, 671)? Institutions were then founded in part to prevent this from happening. They are presented in the next section.

4 Bringing justice

The situation in Kosovo after the 1999 war was very different from that in countries where previous studies of titling programs have been conducted. Neither did the measures taken to resolve the dire property rights situation resemble those in these empirical examples. An understanding of this conduct is needed to properly interpret the relationship emerging between the work by these authorities and the effect it had on crucial economical factors.

4.1 The task of a new directorate

In 1999, the Housing and Property Directorate (HPD) with its juridical branch the Housing and Property Claims Commission (HPCC) were established under the administration of UN-HABITAT. The HPD mainly received and processed property claims and the HPCC adjudicated them (Smith 2006 p.67, OSCE 2003 p.12). With the HPD being an international body, it was expected to be able to judge fairly between different ethnicities involved in the disputes (Kretsi 2007 p.668).

Due mainly to the lack of financing and a poor experience of UN-HABITAT the progress of the HPD was slow (Smith 2006 p.67). In March 2002, only 328 claims had been decided upon since the start in January 2001 (HPD 2002). In June, much needed donor funding was however received, enabling HPD to carry on with its mandate (HPD September 2002, December 2002).

The administration of HPD/CC was handled over to UNMIK in November 2002 (HPCC 2007 p.30) whereby the efficiency of the directory was enhanced significantly in the beginning of 2003. Similar claims were now brought together in groups of around ten claims each and a decision was made over all of them at once (Smith 2006 p.68).

Claims to HPD were to belong to one of three categories: Those who had lost their residential property right because of the discriminatory laws employed after 1989. Those who lived in a property that they had bought informally and were asking for a legal registration of the ownership. Those who lost their residence to illegal occupants after the war in 1999. This third category was the most frequent one (OSCE 2003 p13, Kretsi 2007 p.668).

When 29,154 claims had been filed in December 2005, 27,177 of them, or 93,2 %, were of the latter category. They were mainly internally displaced persons, a majority of which were non-Albanians. Meanwhile, most intricate were the cases concerning the loss of property because of the discriminatory laws of 1989 to 1999 (Kretsi 2007 p675).

4.2 Expanding the mandate

In 2006 HPD was replaced by the Kosovo Property Agency (KPA), which had a broader mandate. Not only would it deal with residential property, but commercial property and agricultural land as well. Also, offices opened in Serbia proper, Montenegro and FYROM, providing the opportunity for refugees there to file their claims without travelling to Kosovo (KPA 2007 p.23).

Instead of HPCC, the Kosovo Property Claims Commission (KPCC) was installed within KPA. They set a deadline for claim filing to 3 December 2007. For a faster process, KPCC decided, as did HPD, on claims without oral hearings for every case (pp.25-26).

4.3 The claim process in practice

HPD and KPA did in general process the claims in similar ways. If a property had been illegally occupied, a claimant would handle a claim to the authority, after which the occupant would be notified and allowed to handle in information to prove one’s right to remain in possession of the property (HPCC 2007 p.41). The case would be investigated, and if the parties were in a dispute, HPD or KPA made a recommendation to their judicial branches to make an independent review of the case. If the judgment benefited the claimant, the occupier had to vacate the property within 30 days (pp. 46, 60, 62).

In many cases, the claimant being granted ownership did not want to move back into the property. As an alternative to selling, the premises could be placed under HPD or KPA administration. The resident could then be used for humanitarian housing purposes by HPD and also, as KPA was established, leased, allowing the property owner to profit from the arrangement (HPCC 2007 pp.68-69, KPA 2007 pp.45-46).

In December 2005, 12,2 % of claimants winning a case had asked for property administration (HPD 2005). During 2004 and 2005, many claimants from minority communities recovered their properties from HPD only in order to sell them (Kresi 2007 p.675).

4.4 The right to return of the minority communities

In an economical perspective, which ethnical group that property ownerships were granted to might seem irrelevant. It does however have important implications when considered as an institution that is to be maintained in the future. If a decision on ownership is not accepted in a community, it is less likely to be sustainable. Kretsi (2007 p.664) recognized the complexities that this posed to Kosovo. Adopted norms and local legal systems concerning property rights, he explained, cause hierarchical systems that are important to consider.

Staying impartial was therefore a crucial issue for the new authorities. On its homepage, the HPD stated clearly that its mandate was to settle legal disputes and declared that “[t]he HPD is not a returns agency” (HPD 2009). The HPD decided on claims but left the issue of return to the property owners.

Smit (2006 p.72) was critical to HPD not considering the rights of internal refugees to return. She argued that it failed to create a “property rights-respecting culture” and a culture of rule of law. A symptom of this unsustainable situation is how, during the riots in 2004, people took advantage of the turmoil to break into properties that were under HPD administration, considering themselves to be entitled to the premises (p.77). Smit stressed that rather than restitution is compensation a more sustainable solution. Reintegration into the society might be too complicated for people from minority communities (p.81).

Those asking for HPD administration of a property were mostly from minority communities. They would wait and see how the political climate evolved before returning, and sell their property if they found it inopportune to return (Kretsi 2007 p.675).

Burbuqe Hashimi, mortgage sales manager at Raiffeisen Bank in Kosovo, confirms that property under KPA administration is not seen as collateral for a mortgage loan (Raiffeisen Bank 2009). The issue of HPD or KPA administration does therefore have some implication for the analysis. Not until the property owners decided to sell the property and a proper ownership emerges, would the house be useful as collateral security for a loan.

5 Examining the Kosovo case

Economic theory and empirical studies presented in section II revealed ways in which property rights security and titling programs are connected to the banking sector. The efforts to enhance the property rights situation in Kosovo may through these mechanisms have affected the economy. In this section, macroeconomical data is used to examine whether these effects can be observed and thus the theory about collateral security as a source of increased lending supported.

Lending is effected by many other factors than secure property rights. I therefore look into a few main macroeconomical factors to assess whether they have effected lending. I show how the impact of other factors in most cases can be falsified.

When the KPA started functioning in 2006, the largest part of claims no longer concerned households but agricultural land. The analysis is therefore divided into two time periods, that of the HPD and that of the KPA. From the perspective of economical analysis, this is unfortunate. It would be better to study either residential or agriculture property data for the whole period after the war and until 2008, with longer time series.

Also, there has been another institutional effort to enhance property rights within the agricultural sector. Privatization of firms and arable land was conducted by the authorities in Kosovo as a part of the reform to a market economy. This would have effected bank lending to agriculture and other business. I therefore examine this relationship as well.

5.1 HPD claims and household loans

HPD dealt exclusively with residential property claims. The period when most residential property claims were decided upon was between April 2003 and August 2005. Decisions on claims on residential property decreased significantly after the summer of 2005 and in 2006, the mandate of HPD finished as KPA was established. Its claims mainly concerned agricultural land.

In order to study the effects of claim resolutions on the granting of credits to households, I focus on the intense period of HDP claim resolutions. It shall be emphasized that a time lag of at least one month can be expected between the decision on a claim and the point at which a new owner is in possession of a property (HPCC 2007 pp.70-71).

As some theories imply, households gaining ownership through an HPD decision would be able to use the property as collateral security and be more likely to receive larger credits from the commercial banks. The previous property resident would likely not have been perceived by the bank as credible enough to receive such a loan.

5.1.1 Decisions statistics on residential property

Up until October 2006, HPD decided upon 29,160 claims. The average size of a household is often estimated to six persons*. Taking this into account, the claims decided upon might have included almost 9 % of the population.

Sessions of HPCC, the judicial branch of HPD, were usually held six times per year. The collection of claims was conducted between the summer of 2000 and 1 July 2003 (HPCC 2007). The frequency of property claims resolution varied throughout the years. In many cases, the HPCC conducted sessions during which many claims were decided upon, while in some months no such session was conducted. Figure I shows the amount of claim decisions made by the HPD and HPCC.

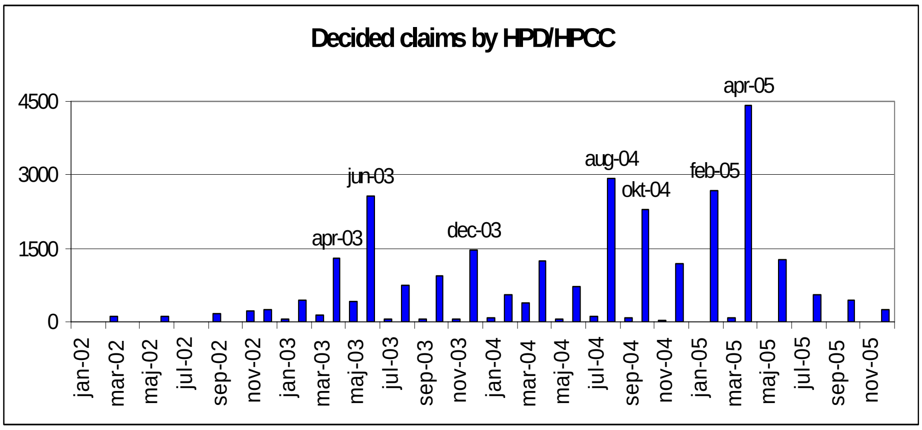

Figure I: The amount of claim decisions issued per month by HPD and HPCC (HPD 2005).

Even though claim intake started in 2000, no significant numbers of decisions made by the HPCC was seen until April 2003, when over 1,300 claims were adjudicated in one month.

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* The Statistical Ofiice of Kosovo generally uses an estimation of the modal household in Kosovo of four adults and two children. Particularly Albanian households are often big with room for many members of the family.

5.1.2 The concurrent increase in loans to households

Loans from commercial banks to households have increased steadily during these years. The trend has been positive and quite rapid, thanks to an influx of foreign bank branches. Pro Credit bank entered as early as in 2000, followed by others in 2001. No statistics on household loans before September 2002 are available from the Central Bank of Kosovo. By then, depository corporations declared a modest total of 493,000 euro in household lending, which was less than 0,02 % of GDP*. In December of 2008, that figure had risen to 7,7% of GDP. A graph on household lending compared with GDP illustrates this.

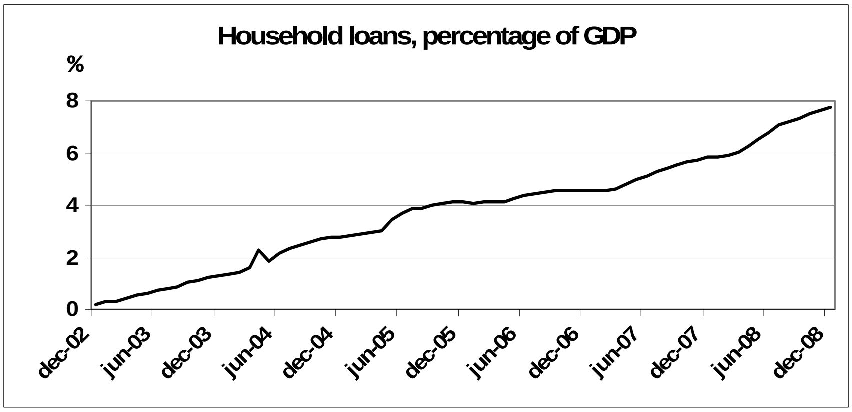


Figure II: Value of household loans in Kosovo from depository corporations, as a share of GDP, current prices in euro (BPK 2009 p.DC_S).*

It is perhaps not surprising that lending takes hold after a period of turmoil during which no official banking was conducted in the region. It is however possible that property rights enhancement helped to increase credit to households. Fluctuations in the speed of household lending growth can give a clue as to whether household property rights did contribute to this credit boost.

Since residential property claims were resolved mainly between 2001 and 2006, I concentrate my analysis on household lending on this period, so that the fluctuations are easier to study. Figure III below, showing the total amount of decided claims and the percentage of GDP that constituted household lending, reveals some similarities.

* GDP has been calculated using figures from the Statistical Office of Kosovo and the IMF. See the appendix for more information.

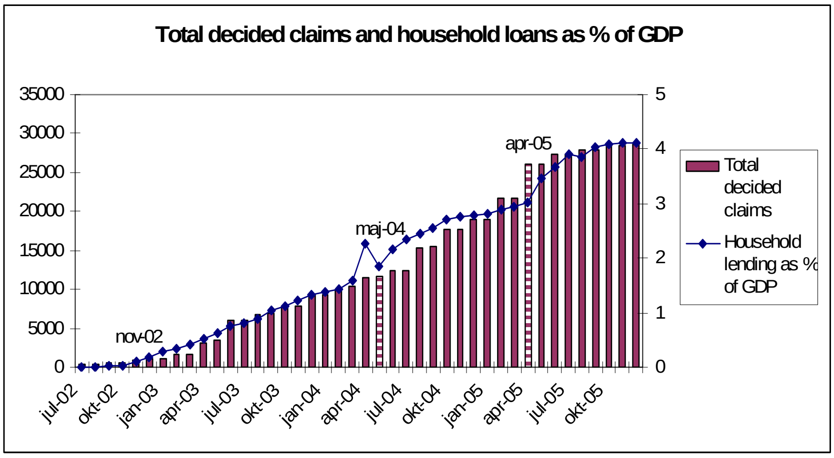


Figure III: Columns: Accumulated number of claim decisions issued by HPD, measured by the left hand scale. Line: The value of household lending, as percentage share of GDP value, measured by the right hand scale.

The graph reveals how the total amount of household claims that HPD decided upon has increased in line with bank credit to households. It is visible that around November 2002, lending from commercial banks started to take off in Kosovo and rose steadily thereafter. In this period, there are rapid increases in lending after May 2004 and April 2005.

The rise and fall in lending between March and May 2004 is somewhat peculiar to interpret. The fluctuations, however, coincide with the riots that flared up in Kosovo between 18 and 19 March that year. The sharp decrease after April 2004 might be an effect of the resulting insecure situation, followed by a stabilized atmosphere a month later when lending increased. Since many properties were destroyed during the riots, the peak might represent a temporary increased demand and supply for loans for restoring properties. Banks may then have briefly allowed for lending on somewhat riskier terms. Also, the insecure situation with people leaving Kosovo or moving within the region, made statistical estimations somewhat inaccurate and the fluctuations may in fact be overstated.

The next increase in household lending in comparison to GDP occurs between May and July 2005. In April 2005, a record 4,413 claims were decided upon and in February in that year, the number was 2,667. While this is the last real big increase in decided claims, this is also the last bigger increase that is observed in household lending in this period. From comparing these graphs, it seems that as an increased amount of people with legal and secure ownership had their property ownership case decided by HPD, a little more than a month

[*]Ibid.

later a significant share of them was granted banks loans. As claims decisions were petering out in mid-2005, the increase in household lending was no longer as rapid.

The phenomena seem to be somewhat connected. Next, I will examine some other indicators to find whether this notion can be falsified.

5.1.3 Regional comparison

In search of international causes to the shape of the loan curve, a comparison in the trends of loans to household can be made with neighboring countries. National banks in the former Yugoslav countries provide information about household lending, which can be compared in order to examine whether any broader changes in the household loans were occurring generally in the region. That might indicate that regional factors were affecting these countries, and possibly Kosovo as well.

All former Yugoslav countries are included to make this comparison except for Slovenia. Joining the European Union in May 2004, this affected the institutional economic situation in Slovenia and thus probably its access to credit. Montenegro is also not included since it was a part of Serbia until 2006. The countries included in this analysis are Serbia, Bosnia and Herzegovina, Croatia and The Republic of Macedonia. Below is a graph revealing the values of household loans for each country divided by GDP. For a comparison between Kosovo and the other countries, the mean value of all countries except that of Kosovo is represented by the series denominated “Index”.

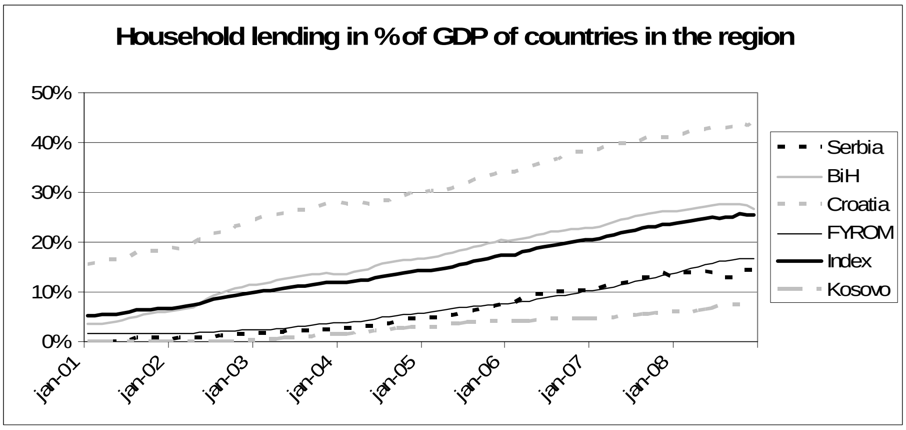


Figure IV: Household lending as a share of GDP in Serbia, Bosnia and Herzegovina, Croatia and FYROM (NBS 2007, NBS 2009, CBBH 1999, 2003, 2007, 2009, CNB 2009, NBRM 2006, 2008).

In virtually all other Yugoslav countries did the ratio between household loans and GDP rise since 2001. Examining this graph, there seems to be several years still, until Kosovo is on the same level as its neighbors.

To spot any regional trend, I examine how the loan ratio in Kosovo has changed in comparison to other countries. If the rapid increases observed in Kosovo coincide with increases in other countries, this is an indication that other factors than domestic ones had an effect on these fluctuations. The graph below reveals the value of the credit to GDP in Kosovo divided by the index from the other countries taken together.

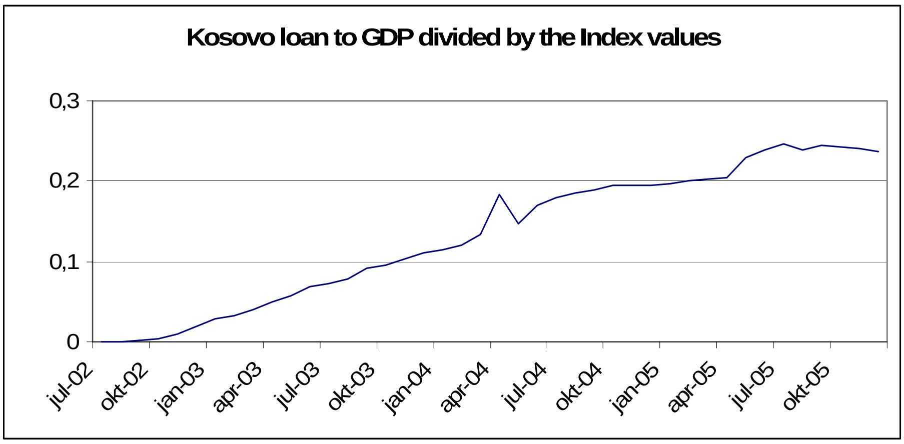


Figure V: Value of household loans in Kosovo divided by GDP, divided with the index compounded by the average values of loans as a share of GDP in other countries.

Figure V is similar to the previous Kosovo loan curve, with an unsteady period in the spring of 2004 and an increase in lending after April 2005. Two slight changes can be spotted. Here, the changes after April 2004 do not result in any major increase in relative lending, as it did in figure II. This is because several other countries also saw an increase in lending at that time. It seems likely therefore that the increase which could not be related to any changes in the number of property claim resolutions might instead have been a result of regional factors.

The increase in lending to households after April 2005 seems not to have been strong in other countries however, implying that the effort with property rights in Kosovo did play a part at that time. After this period, while lending continued to increase in the neighboring countries, it did not in Kosovo to the same extent. This can be concluded from the slight downturn in the curve in 2005. The work of property rights resolutions decreased significantly after June 2005, when in one month 1,274 claims were decided. The effect of those cases would presumably be observed roughly one month afterwards, and at that time the rate of household loans in comparison to other countries did indeed increase. But for the rest of that year, lending in Kosovo was lowered in comparison to other countries, coinciding with a period with only small amounts of claim resolutions.

This analysis of regional development therefore only further strengthens the claim that property rights resolutions in Kosovo contributed to raise bank lending. Other major factors affecting bank lending and access to credit are examined later. But firstly, I study the possible effect of the KPA administration on credit access.

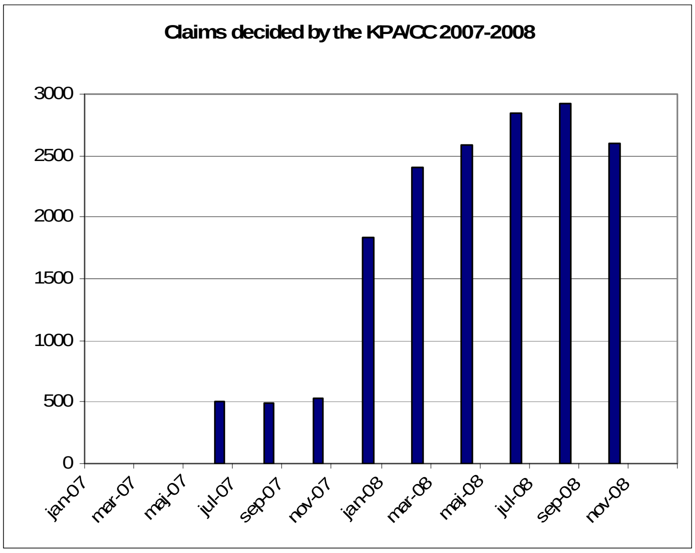
5.2 Increasing loans to the agricultural sector

5.2.1 Decision statistics from the KPA

As KPA was established, claims were accepted not only on residential property but on agricultural land and commercial property as well. When 38,335 claims had been received in the beginning of December 2007, 90 % of them were claims on agricultural land and only 7,4 % and 2,6 % on residential and commercial property respectively. Thus, while in July 2003, 29,160 claims on residential property had been received by HPD, only 2,812 such claims were received by KPA (KPA 2007 p.24). In October 2008, the total number of claims received by KPA had risen to 39,758, with claims on agricultural land constituting 91,7% of total claims (KPA November 2008).

The demand for a resolution on many disputes and uncertainties regarding agricultural land was thus large. During the war, not only residential property, but also tens of thousands of commercial and agricultural properties, had been seized illegally (ICTJ 2009 p.13). There was also a big problem with illegal construction on agricultural land. Arable land was made unusable as commercial property was erected on patches of land without clear ownership (p16). Before KPA started rapidly processing their claims, ownership disputes over agricultural land could only be solved by a long process in an ordinary court.

Statistics from the KPA do not reveal whether decisions over claims at different times are on agricultural land, residential property or commercial property. However, since agriculture land claims constitute a large share, the total number on claims decided upon is useful for examining the impact on the agriculture sector.



Notably, the number of decisions by the KPA increased during 2008. Though the intake of claims started earlier, KPA did not manage to complete larger numbers of decisions until the end of 2007.

Figure VI: Number of decided claims per KPCC session (KPA November 2008 p.2).

5.2.2 Rising bank loans to the agricultural sector

As in the case with household loans, bank credit to the agricultural sector has increased sharply throughout the years after the war. The graph below illustrates this phenomenon.

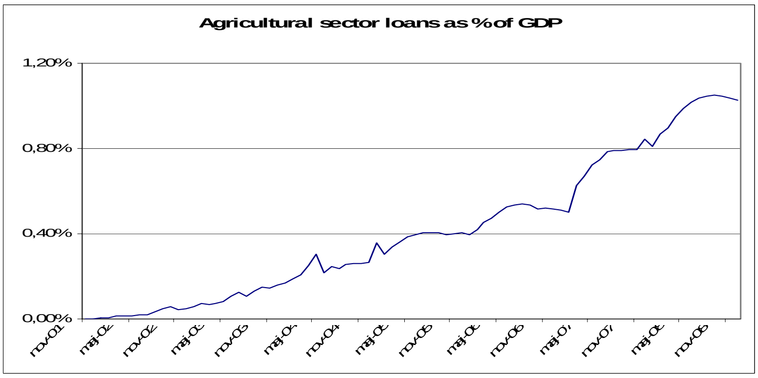


Figure VII: The value of loans by depository corporations to the agricultural sector, as a share of GDP in percent (BPK 2009 p.ODC_LBI).

Figure VII shows that the lending rate increased rapidly after February 2007. This seems to coincide with the resolution of property claims. The graph below gives some clarity to this. It shows both the total amount of claim resolutions and the relative amount of agricultural sector loans.

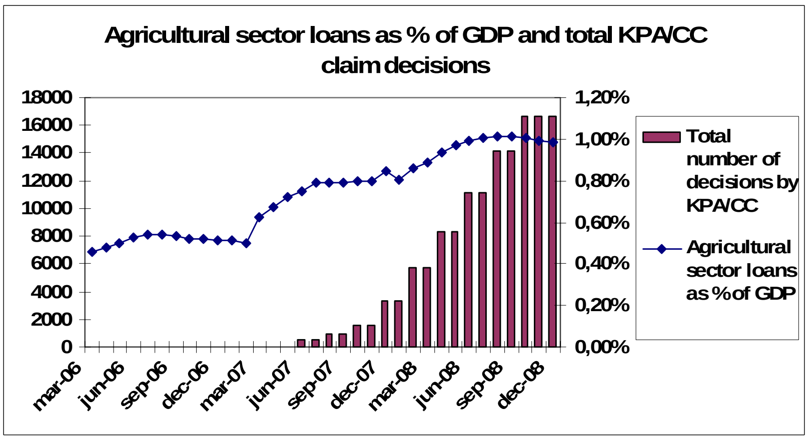


Figure VIII: Columns: Accumulated amount of decisions by KPA/CC, measured by the left hand scale. Line: Lending by depository corporations to the agricultural sector as a percentage share of GDP, measured by the right hand scale.

Figure VIII reveals how the increase in loans during this period took hold before the decisions of KPA about agricultural land constituted any impressive figures. The increased total number of decided claims after February 2008 might explain some of the increase in agricultural sector lending thereafter. It is however obvious that other factors contributed to raising the amount of bank credit in the period after March 2007.

One major other factor relating to property rights is privatization. Before moving on to examine this factor, however, I use one more method to examine the possible relationship between the work of KPA and the banks of Kosovo.

5.2.3 Regional banking sector development

A way to view the relationship between land property claim resolutions and banks' willingness to offer credit is to compare regional differences in claim resolutions to the banking development in that region. Data on where the properties that was decided upon by KPA were situated is scarce but can still provide some useful clues.

While most people live in the area of Prishtina, most claims decided by KPA were in the Pec and Gnjilane regions. One reason of the domination of more rural areas could naturally be the large share of agricultural claims where arable land is abundant.

Pec region	**31,3 %**
Gnjilane region	**25,2 %**
Prishtina region	**18,1 %**
Prizren region	**16,6 %**
Mitrovica region	**8,8 %**

Table: Percentage share of claim resolutions by KPA, in September 2008, in the five regions of Kosovo (KPA September 2008 p.2)

By the time that KPA started functioning, the banking sector in Kosovo was beginning to evolve and branches had spread throughout the region. When a bank sets up an office and employ people, they believe that there is an increased and steady demand for bank services, one of which being credit issuance. In January 2005, there were more than 30 bank employees working in each of the five regions in Kosovo. This might be enough to draw some conclusions about the differences between them.

As figure IX reveals, the number of people employed at bank branches increased heavily in the area of Prishtina, which is natural since this is the regional capital where new businesses predominantly do emerge. The distinctions between other regions are, however, interesting to make.

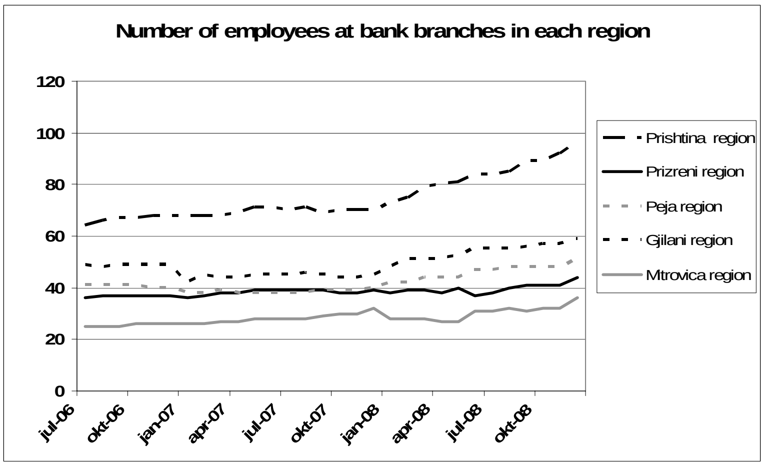


Figure IX: Depository corporations number of employees in regions of Kosovo (BPK 2009 p.DC_Network).

In the beginning of 2008, KPA started to increase the amount of claim decisions made substantially. Figure IX shows that since then, except for Prishtina, bank employees have increased the most in the regions of Pec and Gnjilane. The Pec region had one bank employee less than Prizren and seven more than Mitrovica when KPA started deciding claims on a larger scale in December 2007. This changed during 2008 with Pec having seven and 15 more bank employees than these two regions respectively, at the end of the year. Meanwhile, Gnjilane region started with six and 13 more employees than Prizren and Mitrovica respectively but ended the period with 15 and 23 employees more than those regions.

The figures give a notion of whether property rights resolutions had an effect on the willingness of banks to be more accessible to new credit borrowers. The Central Bank does not provide statistics on loans to the agricultural sector in different regions within Kosovo. The numbers of employees at the banks in different regions of Kosovo instead provide a proxy for the areas in which more banking activity was conducted.

The connection between claim resolutions and bank employees in different regions show signs that more legal ownership of agriculture land have contributed to increased banking activity.

5.2.4 The impact of privatization

The other factor that played an important role for the business climate and property rights was privatization, mainly of land and enterprises. The privatization of agriculture land might have had a considerable impact on lending to agricultural business. When the land is socially or state owned, there may not be a need to ask banks for loans as capital can be secured by the state. Also, the agricultural sector should grow when in some cases unexploited arable land is bought by someone willing to invest in the property.

The agency responsible for privatization of socially owned corporations was an entity within UNMMIK established in 2002. It launched waves of privatization once every month or once every second month, during which tens of smaller and bigger companies were privatized. The firms were published on a public list and bidders could make their offers until a certain date. The contracts of the purchases were then publicly revealed.

In order to estimate the scale of privatization of agricultural land, I count the areal of the privatized land. The price appeared to be an unreliable measure of the productivity of the land property, as it varied considerably. In some cases, the price of agricultural land was zero, though the land was declared as arable. The price might have been low to secure the sell of farmable but unexploited land. Privatization could have a significant impact on the loan rate as productivity may be widely enhanced.

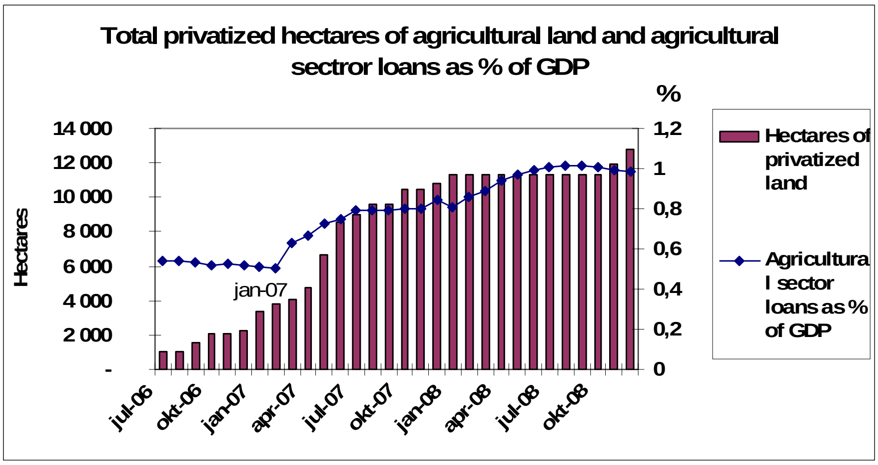


Figure X: Columns: The accumulated area of privatized arable land in hectares, measured by the left hand scale. Line: Loans to the agricultural sector, as a percentage share of GDP, measured by the right hand scale.

Figure X reveals that when agricultural land is concerned, privatization and the amount of bank credit appear somewhat interconnected. It seems like credit access was more influenced by the rate of privatization than by property rights claim resolutions. The rate of privatization does not fully explain the rise in loans, as it increased after February 2007, when the total privatization of agricultural land was still relatively low. However, the slight increase in January 2007 might have had some effect in this context.

5.3 Falsifying the importance of property rights

I have shown that there are signs suggesting that increased property rights and land privatization was connected to bank lending. In this section, I analyze other changes in the economy which might affect the lending rate, examining whether they can contradict the notion of the importance of property rights. I include the development of the banking sector, loan interest rates, the velocity of money and the black market. In conclusion, the phenomenon of credit rationing is presented as this seems to have been an important feature of the banks' conduct. Also, I discuss whether increased lending really was a result of increased bank supply or whether it was driven by bank customer demand.

5.3.1 The blossoming banking sector

Before the war in 1999, no functioning financial intermediaries existed in Kosovo. It was therefore crucial to establish a functioning financial system as soon as the conflict ended (BPK 2005 pp.2-3). In 1999, the central bank was established.[*] Soon commercial banks entered as well. Rules on the banking system have been based on the Basel Accords and no regulation of interest rates has been practiced.

Since 1999, the financial system of Kosovo has developed rapidly. Considering that the commerce in the region was almost entirely based on hard cash before the war, the success in terms of increased lending and deposits, as measured against GDP, is noteworthy. Total bank lending to all sectors increased from less than 1 % of GDP in December 2001, to almost 8 % two years later and almost 25 % in December 2008.

After the end of the war, Pro Credit bank was the first to establish a branch in Kosovo in 2000. By mid-2006, 6 banks were operating in Kosovo, together with 8 insurance companies, a universal pension fund, 16 microfinance institutions and 12 exchange bureaus (BPK 2007 p.2). Doubtlessly, this development has been the driving force behind increased lending from banks. The private sector has become more inclined to keep savings in bank deposits while banks have been more willing to trust the private sector with credit.

[*] The central bank bore the name the Banking and Payments Authority of Kosovo (BPK). It was in 2006 replaced by The Central Banking Authority of Kosovo (CBAK).

If lending to households and the agriculture sector increased after the war only as a result of this development, household credits would have increased at the same rate as other private sector loans. However, when comparing household loans to total loans from commercial banks in Kosovo, excluding loans to the central government, it becomes obvious that this is not the case. The figure below illustrates this.

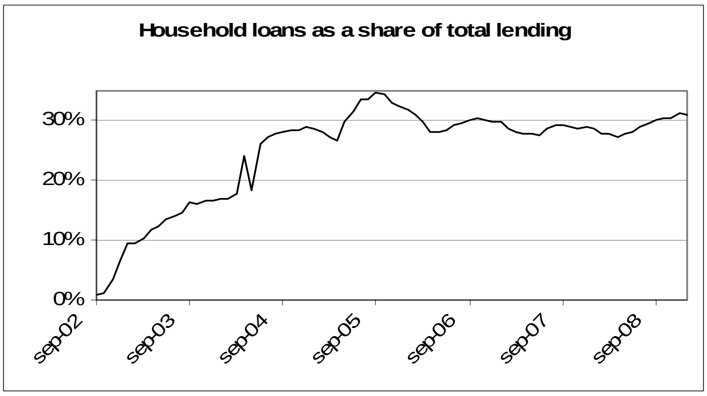
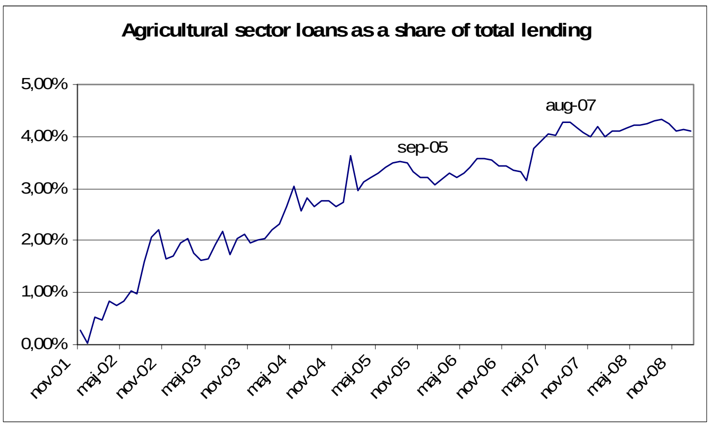


Figure XI: Loans from depository corporations to households, as a percentage share of their total lending (BPK 2009 p.DC_S).

Figure XI shows how lending to households has increased in comparison to loans to other sectors. It seems that lending to households increased not only as a share of GDP, but compared to total lending of commercial banks as well.

There was clearly a significant, though unsteady, rise in household credit around April to June 2004. As previously concluded, this might be caused by factors affecting the whole Yugoslav region. In comparison to total lending, the rise in household credits after April 2005 is still significant. This implies that the rise in lending is not explained with increasing private sector lending overall.

Further, there is a turning point in September 2005, after which household loans in comparison to total loans from commercial banks in Kosovo first decreased and then stabilized around 30 % of total lending. This coincides with the end of the intensive period of claim resolutions in the summer of 2005. This might therefore be connected to the handling of property rights.



Loans to the agricultural sector can be examined in the same fashion. The result is illustrated by the graph to the left.

Figure XII: Loans to the agricultural sector, as a percentage share of total lending (BPK September 2008 p.ODC_LBI).

Figure XII shows how agricultural sector loans have increased compared to total lending. From 2 % during 2003, it doubled to around 4 % at the end of the period. In contrast to household loans, agricultural sector loans did not decrease as a share of total lending after September 2005. It continued to rise until August 2007, when it stayed fairly steady on that level and has since only increased in line with total commercial bank lending.

There is an interesting contrast to be noted between household lending and agricultural sector lending as a share of total bank credit. This is illustrated in the graph below.

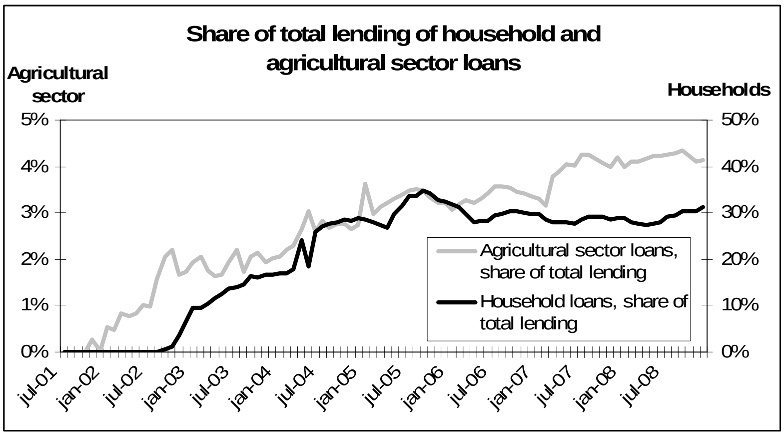


Figure XIII: Grey line: Agricultural sector loans as a percentage share of total lending from depository corporations, measured on the left hand scale. Black line: Lending to households as a percentage share of total lending from depository corporations, measured on the right left hand scale.

Lending to both sectors increased rapidly until fall in 2005. After this, lending to households began decreasing as a share of total lending. Lending to the agricultural sector, however, kept rising. If lending to the agricultural sector was increased by either property rights reform or privatization, both prevalent at that time, this pattern would be expected. It is also clear in both cases that the increase in lending depended not only on a rising amount of total bank credit.

5.3.2 Other methods to estimate financial sophistication

Another way to examine whether the over-all financial climate was behind increased house lending is by examining the velocity of money. This is one way to assess the sophistication of the financial market. In an advanced financial system, transaction costs from changing between cash and bank deposits are low. This allows people to in a higher degree lend their savings to the bank while being able to obtain them easily and cheaply when needed. Private actors then make use of deposit corporations for transactions and savings to a larger extent. As this produces a better allocation of financial recourses, it is generally beneficial for the economy.

Another way of interpreting velocity of money is that people rather keep more coins and notes at home when uncertain about future expenditure needs. With lower velocity, households and firms are keeping a disproportionately large amount of currency compared to their expenditures (Faig, Jerez 2007 p.844).

Velocity is generally measured as [GDP] / [Money Stock] (Burda, Wyplosz 2005 p.184). To measure the money stock, one can examine the amount of currency in circulation plus checkable deposits, known as "M1" (Faig, Jerez 2007 p.843). However, as it is unsure whether such deposits were truly easily available to extract money from in this uncertain period, the measure of currency in circulation only would be the most suitable to examine.

Monthly statistics of currency in circulation in Kosovo can be found between December 2003 and December 2006. This is useful for the analysis of the relation between velocity and household lending during this period. The velocity of money, calculated as [GDP] / [Currency in circulation], is presented in the graph below.

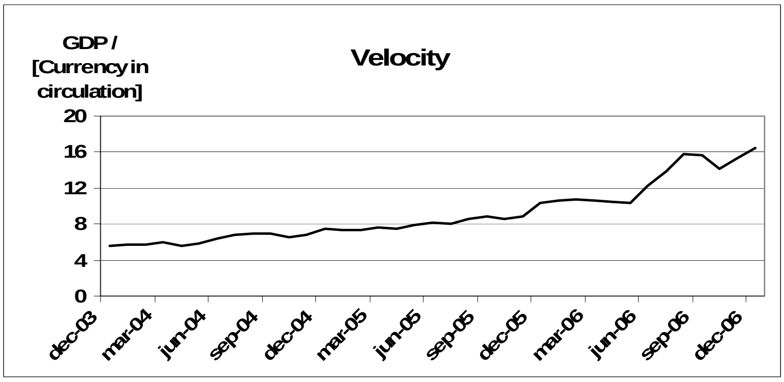


Figure XIV: velocity of money, measured as GDP divided by currency in circulation (BPK May 2005, June 2005, January 2006, May 2006).

The velocity of money has increased in Kosovo during this period. The money supply has been decreasing while GDP has been rising slowly. This corroborates the observation that lending generally has been increasing throughout the years.

Another way to assess the economical development is by assessing the size of the black market in an economy. It is assumed that the bulk of the informal economic activities is conducted through cash money and perhaps also sight deposits. A way to measure the size of the black economy is therefore to divide the value of currency in circulation with GDP. This will create a mirror image of velocity, and this graph will be low as velocity is higher. The interpretation of changes in velocity or black market is thereby two sides of the same coin.

There are naturally many ways to define well developed financial markets. In the Financial Development Report (2008), The World Economic Forum takes account of the institutional and business environment, financial stability, banks size, efficiency, market concentration, the degree of correct information disclosure and the degree of development of non-bank financial intermediaries. They also include the size and depth of the financial market and the access to financial services. It is thus clear that estimating the velocity of money is a simple but insufficient method to assess financial development.

I can conclude that the banking sector, along with the financial market as a whole, has been developing fast during this period, gradually increasing in sophistication. This gives weight to the previous observation of increased over all lending by the banking sector. It does however not explain the relative rise in lending to households and the agricultural sector.

5.3.3 Did changes in interest rates play a part?

Another possible explanation of increases in lending can be lower interest rates. As the price of a loan falls, households and firms might be more willing to ask for credit. Interest rates reflect the stability of the economy as a whole. Banks set interest rate on the basis of their reliance on the customers repaying the loan and the expected rate of inflation. As previously concluded, interest rates may be lowered if collateral security for loans is available. Also, the private sector increases its deposits when trust in the bank sector increases, which raises the liquidity of banks and allows banks to lower interest rates as lending becomes less riskful.

In Kosovo after 1999, interest rates of loans to households and to business have varied only slightly. I start with examining nominal interest rates on household loans. They have been fairly high and steady while real interest rates have fluctuated since the large price increases in 2007. The graph below gives an illustration of this. The real interest rate is here calculated as the nominal interest rate minus the inflation rate, which is measured by changes in consumer price index (CPI).

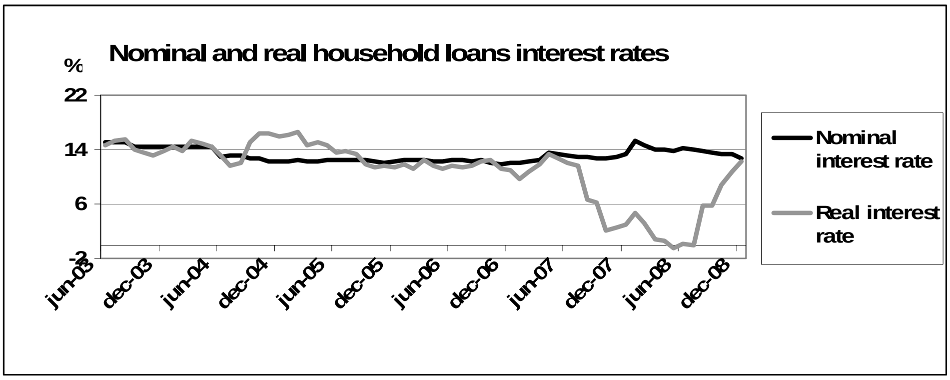


Figure XV: Black line: Nominal interest rates of household loans. Grey line: Real interest rates of household loans, measured as nominal interest rates minus changes in CPI (BPK 2009 p.ODC_IRR, Statistical Office of Kosovo December 2008).

There was one small decrease in nominal interest rates of loans to households between May and June 2004, when it was lowered from a level of 14,4 % by 1,4 %. Interest rates then continued to slowly declined to 12,3 % in December 2004. However, when comparing these changes to fluctuations in the CPI, it turns out that the real interest rate was as low as 12 % only for one to two months. As consumer prices started decreasing after August 2004, the real interest rate again increased.

An issue in this context is whether real interest rates or nominal interest rates matter the most for the willingness of households to take on loans. Nominal interest rates have been fairly steady and on a high level. After the decrease in rates between May and June 2004, they were still as high as 13 %, which means that the modest decrease cannot have had but a minimal effect. The nominal interest rate did not drop around the time in April 2005 when lending to households increased, and does therefore not seem to have contributed to this.

If inflation and deflation were being accounted for, real interest rates would have mattered. As we have seen, real interest rates rose shortly in the end of 2004, and subsequently soon returned back to previous levels. If loans to the household sector were mainly short-term, this fluctuation might have made some difference in lending. However, in June 2004, only 22 % of household loans had a maturity shorter than one year, and that share shank to 15 % in June 2006. In June 2004, over 60 % of loans had a maturity of more than two years, and this share has been steadily growing since then (BPK 2009 p.ODC_LMB).

If households and banks were aware of temporary fluctuations in real interest rates, that still should not have had a major impact on the credit market since most loan maturities are much longer than that. Small fluctuations observed in CPI cannot have added much to this picture. Significant increases in CPI are not observed until in August 2007, but this is beyond this analysis of household lending.

The interest rates to the commercial sector have been quite steady throughout the years as well, hovering around 15 %. Thus, while the banking sector grew, no sign of an increasing trust of the commercial banks was seen as far as interest rates are concerned.

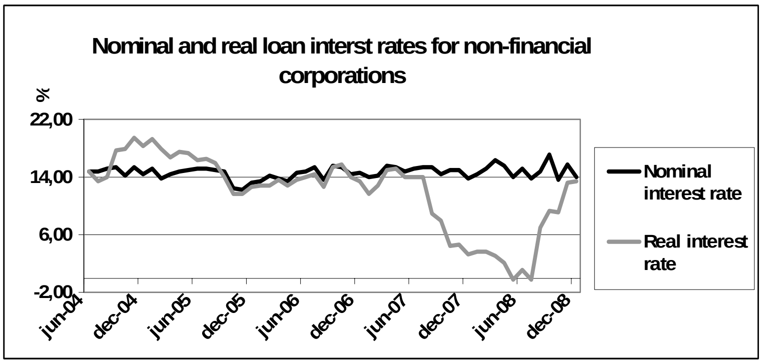


Figure XVI: Black line: Nominal interest rates on bank loans for corporations, except financial corporations. Grey line: Real interest rates, measured as nominal interest rates minus change in CPI (BPK 2009 p.ODC_IRR, Statistical Office of Kosovo December 2008).

Industries in general might have been affected by rising consumer prices in mid-2007, causing the real interest rate to drop sharply. Total lending to business have indeed increased steadily since that time. As we have seen though, the share of agricultural loans to total lending did also increase at this time. Also, there is nothing indicating that the agricultural sector would have been more affected than other kinds of firms by this drop in real interest rates.

The high and steady levels of interest rates might seem to represent the equilibrium on the credit market. This might not however be the case. Hoff and Stiglitz (1995), when elaborating on rural credit markets, acknowledged that one often sees very high interest rates in rural and farming areas. They saw this as a cause of the imperfection of rural credit markets. The "imperfect information paradigm" explains why lenders set a high interest rate. Direct mechanisms for valuing the credit worthiness of a borrower may not be accessible to lenders. This would otherwise allow them to lower interest rates, at least for those who seem to be secure borrowers.

We have seen that in Kosovo, there seems to have been no major increases or decreases in banks' interest rates that would have affected the amount of loans to the household sector or to the agricultural sector any more than to other credit receivers. Also, a conclusion can be drawn that although equilibrium for interest rates could be found, collateral security must be included in the equation.

5.4 Credit rationing

As the interplay between interest rates and bank loans has been presented along with an understanding of the ways in which access to collateral security may increase that to credit from banks, we are ready to look into the phenomenon of credit rationing. An explanation to the nature of credit rationing will here be presented, as well as the indicators that this has been, and indeed still is, a prevalent occurrence on the financial market in Kosovo.

While interest rates have remained high and steady, there have been large increases in loans to both households and agricultural sector firms. This relation is a strong indicator that borrowers of bank credit have been subjected to credit rationing. How can this phenomenon be explained and how well does it hold up to economic theory about the importance of property rights for assets to be used as collateral security?

Credit can be analyzed as any good being traded in a market, where interest rate is the price set to where supply meets demand. When the quantity of a traded good increases, this can be due either to greater demand, greater supply or a combination of both. When interest rates, the price of borrowing money, show no significant downward trend, the increase in household loans cannot be explained with the simple assumption that lending increases as demand for credit does, because of lower prices. Instead, banks choose to lend more at the same price level, meeting a larger share of the market demand.

The term for this phenomenon is credit rationing. When banks are unsure about the ability of borrowers to repay a loan, they might restrict lending in order to reduce risk instead of raising interest rates. Even if households expect their future wealth to increase, salary to rise and a university education to lead to a stable income in a few years time, banks cannot make the same assessment. When bank customers cannot receive the amount of credit that they would like at the current interest rate, they are said to be credit rationed.

One solution to the lack of information about a household's reliability is for the bank to demand collateral security for a loan (Burda, Wyplos 2005 p.135). When supply is restricted at a constant interest rate level, collateral security can be used to sort out the borrowers credible enough to receive a loan.

5.4.1 Why a bank is credit rationing

It might seem counterintuitive that a bank would demand collateral for a loan instead of raising interest rates. In any situation, if a supplier of a good or service prefers a certain amount of buyers, the most profitable way to select these would be to set a price high enough to meet this demand.

Hoff and Stiglitz (1990) explained why a lender might not have an incentive to increase the interest rate further and instead employ credit rationing. When interest rates rise, they remarked, some lenders on the margin will no longer desire the loan. These typically have lower average revenues but also lower risks. Left are customers with businesses exposed to a higher risk of default but with a higher expected net return. If a bank is aware that a larger share of borrowers is in high risk of default, it will be prompted to raise interest rates further.

It always will be those with the lowest risk of failing to repay the loan who will no longer accept the terms. This creates a situation of adverse selection*.

There will thus be a trade-off for the credit lender between obtaining a lot of risky credit customers and the return on the loan in the form of a high interest rate. At some point, the lender will not wish to raise the interest rate any further, and will have to find means to select customers that are in less of a risk of defaulting. As this creates a situation where demand for credit is higher than the supply, bank customers are being credit rationed.

Bester (1985) made the proposition in 1985 that no credit rationing would occur in a competitive market. He outlined a model where borrowers and lenders with different preferences should engage in contracts on a free market. He then reasoned that the access to collateral security works as a signaling mechanism that should compensate for the problem of imperfect information, averting the occurrence of adverse selection. He recognized, though, that low-risk borrowers may still not have the required collateral needed for this screening mechanism to work correctly and in such case, some adverse selection may still occur.

5.4.2 Credit rationing in practice

The next question is how much damage credit rationing actually could cause. Here, the size of the market portion being affected by banks credit rationing is crucial.

Field (2006) raised this issue in her study of the state led titling program in Peru. In seeking the ratio of households being credit rationed, she used a survey to ask people if they were being rejected a loan or if they would accept a loan were they offered one. She assumed that those who wanted a loan but had not applied for one were self-sorted from the market, aware that they would be rejected by the bank. She found that 34 % of households were by this definition credit rationed. She could conclude that credit rationing indeed is a common feature in Peru.

Private sector banks could individually lower interest rates, while the Peruvian public bank was unable to do so in the same extent and therefore had a bigger tendency to quantity

* This is the same problem that occurs for insurance companies with inadequate information about their customers. As the least risky customers will find it unprofitable to pay a high fee for an insurance, they will be the first to cancel insurance contracts as prises are raised, inducing the company to charge even higher fees (Burda, Wyplos 2005 p.147).

ration (p.23). This became obvious as households gained titles on their properties, whereby the public bank to a large extent than the private institutions reduced credit rationing.

Credit rationing to farmers may also occur quite frequently. In a study on Polish farmers, Petrick (2004) found that credit rationing was common, creating an excess demand amongst farmers for credit. While the interest rate was around 13 %, the farmers' average willingness to pay for a loan was over 200 % in interest rate, according to a survey.

He could also conclude that collateral security for the credit was crucial and that properties like tractors and rented land was not very useful as security for the loans. This indicates that legally owned immovable property really was central when credit rationing was concerned.

With an unchanged interest rate to the agricultural sector in Kosovo, the same situation might be persistent here. Farmers would probably be prepared to pay a significantly higher interest rate than the one on offer. In a paper issued for The Agro-Business Development Unit in 2004, credit to farmers was recognized as depending heavily on collateral security, the value of which sometimes had to exceed 200 % of the loan if it was to be accepted (Oldham, Chatham 2004 p.3).

It was acknowledged that while agriculture accounted for about 20 % of GDP in Kosovo, lending to the agricultural sector from commercial banks was only 3 % of total lending to industries (p.2). It was also noted that an unstable business climate persisted in Kosovo since the war. In a stable economy, the agriculture sector is usually seen to provide the least secure level of output. In a place like Kosovo, agriculture had therefore in comparison with other businesses been relatively secure (p.10). The willingness of commercial banks to lend to the agricultural sector would decrease, they reasoned, when other sectors of the economy became more stable and attractive to lend to.

Since then however, the ratio of lending to the agricultural business as a share of total lending has increased. It seems plausible that other factors, such as enhanced property rights, are behind these changes. But lending has only increased to a level of 4 % of GDP. This implies that credit rationing has not in any way disappeared.

5.4.3 The role of bank competition

There are empirical studies that show that when banks are large and have little close contact with customers they are unable to evaluate the risk that borrowers will be defaulting on loans. There is then a higher risk of credit rationing. It is therefore crucial to evaluate the competition in the banking sector. Larger, fewer and foreign banks induce more credit rationing. In Kosovo, two large foreign banks have long dominated the banking sector. And as figure XVII shows, the competition in lending between banks only seems to have decreased.

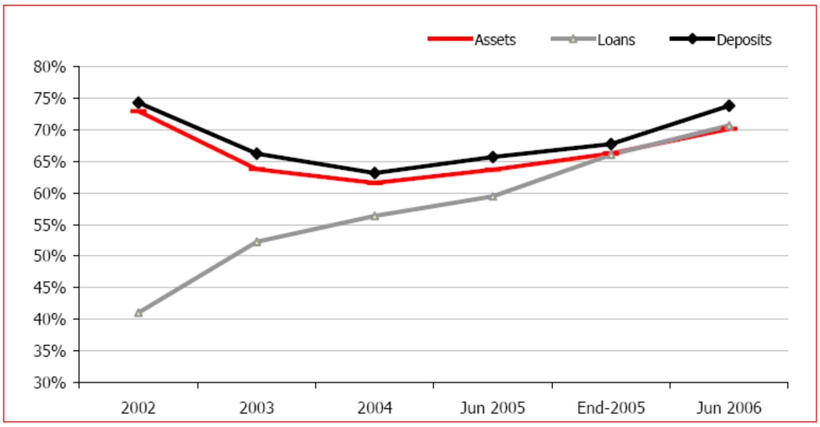


Figure XVII: The market share of assets, loans and deposits of the two largest banks (BPK June 2006 p.19).

There is a high concentration in the banking sector, which is dominated by two foreign banks that in December 2006 obtained 73,2 % of the market. This is yet another indicator of credit rationing by the banks in Kosovo.

The central bank acknowledged this in a report in 2005 (BPK 2005). A value of 1,800 of the HH-index is considered a sign of high market concentration, submitted to antitrust laws. In Kosovo in December 2004, this index was at 2,536 (p13, note 16). For the lending activity, this measurement of competition was in December that year 2,031, a figure that had risen to 2,191 in June the following year (BPK June 2005 p.19).

The banking climate in Kosovo has been highly uncompetitive. This low competition has probably made it easier to engage in credit rationing.

5.4.4 Not a rise in demand for credit

I have explained how enhanced property rights in Kosovo may have contributed to increase lending. An owner of a property can use it as collateral security, which lowers the risks when lending to that household or farmer. However, one can also argue that the actual reason why lending has increased is a raise in demand for credit. Here, we can study the household expenditures in search of implications.

If people feel more secure about the chance to remain in a house or an apartment, their willingness to invest in repairs and maintenance might increase. It could therefore be the demand for credit that has increased and pushed up lending. If lending had increased because of the need for credit to finance investment in properties, there would have been a general increase in spending on immovable property. If credit access meanwhile did not increase, there would simply have been a shift in investment from movable to immovable property.

Data on consumer expenditures in Kosovo throughout the years show that there has not been any simple transfer of money to immovable property for household. Spending on furnishing, household, equipment and routine maintenance of the house as a share of CPI did in fact drop between 2002 and 2006 from 7.6 % to 5.9 %, a decrease of 22.4 %. This cannot be explained by a fall in the prices on such items, since it only dropped by 2.5 %. This decline was 2.0 % more than the total decline of 0.5 % in CPI during that period (Statistical office of Kosovo 2008 p.10).

Since the decline in prices was modest, it cannot fully explain the decrease in the value of spending on household maintenance. Declining prices could in fact induce people to buy more, perhaps spending the same share of their income on house maintenance as prices fall. Since this has not been the case, there seems to be no great interest in renovating and repairing houses more than was previously the case.

As access to credit has increased, people have instead been spending more on water and fuel, but also on education, communication and health (Ibid.). This is yet another sign that raised lending stemmed from a rise in credit supply as a result of access to collateral security, and not from an increase in demand for credit to renovate properties.

6 Conclusions

In the essay I have explored ways to argue for and against the impact of property rights on the availability of bank credit. Kosovo is a good object of study for this purpose, since its process of property titling has been documented relatively well and on a monthly basis. It has been revealed that with the short time frame at hand, the inevitably low amount of data means that no statistical relationship between these parameters can be established. Instead, a broad macro economical picture has been painted in the search of factors contributing to the increase and fluctuation in the rate of bank credit to households and the agricultural sector, in order to balance it with the possible impact of enhanced property rights.

I find signs that the juridical resolution of property disputes had some impact on the amount of credit to both households and the agricultural sector. Except for the assumption that secure property rights would have had a positive impact on increased lending overall, two factors stand out to support this notion. After the largest increase in resolved claims on residential property in April 2005, lending to households increased significantly. No other factor presented here can explain this sudden increase. Also, since many residential properties were being titled before 2006 and mainly agricultural land claims afterwards, lending to these sectors was compared over time. In the end of 2005, household credit as a share of total lending was lowered while the share of lending to agricultural firms showed an increase that coincides with the bulk of claim resolutions on agricultural land.

There seems to be no sign that the fluctuation in the increase in bank credit to households was due to any regional factor. This was controlled for by comparing household lending in Kosovo to that in the neighboring former Yugoslav countries of Serbia, Bosnia, Croatia and FYROM.

The connection between property rights cases resolutions and loans to the agricultural sector was generally less distinct. Much of the increase in bank lending to the sector occurred before any major increases in decisions over agricultural land property rights. However, data on the increases in employees of bank branches in different regions of Kosovo seem connected to that of the number of resolutions in property rights cases.

The privatization of state owned arable land seems more likely to have played a role in credit access to the agricultural sector. As vast patches of land were put up for sale to private investors, lending to the agricultural sector increased.

The over all development of the banking sector was undoubtedly the major factor behind increased lending in general. However, also as a share of total lending did lending to both households and to the agricultural sector increase and fluctuate in a similar fashion as when compared only to GDP.

The increased sophistication of the banking sector can be observed by comparing the amount of currency in circulation with GDP. This gives both a measure of the velocity of money and of the size of the black market. Velocity has increased steadily and black market share of the economy has decreased. This implies better access to credit over all but does not present any alternative explanations of the fluctuations in lending examined.

As both real and nominal interest rates have remained high and steady for many years until 2007, that should not have had an impact on bank credit either. It is important to note that when interest rates are steady while the amount loans increase, borrowers may be credit rationed. This is when banks choose not to increase interest rates even though demand for credit exceeds the supply. The households and agricultural firms that receive the loans will then be those with access to a property applicable as collateral security. This is most likely a property that is legally registered to the bank customer.

Taking account of various macroeconomical factors and theories concerning collateral security for loans, a comprehensible picture of the market for bank credits in Kosovo emerges. Signs of an impact of increased property rights after the war cannot be falsified, while unchanged interest rates indicate a presence of bank credit rationing.

I have explored a simple way to assess the economical impact of a property titling policy. The detailed time series data on property rights claim resolutions can make Kosovo a special case. This type of method might however be applied in studies where similar property titling programs have been imposed.

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8 Appendix I: The data

8.1 Claims decisions

The statistics on decisions is gathered from the internet sites of HPD and KPA. Only first instance decisions are accounted for, which is done for two reasons. Firstly, accounting for both first and second instance decisions would give the picture that many more claims have been resolved in total than what is actually the case. Second, it is not clear how many of the decisions were appealed against and reconsidered for every given month, making it impossible to detract them from the data on claims decided.

The year during which the amount of reconsidered cases may be of importance is 2006. That year, 2,441 reconsideration requests were decided upon. While this is not a particularly high number, it was larger than the 179 first instance cases left from the previous year that HPCC decided upon.

8.2 GDP

Depending on which source that one relies upon, GDP growth and level are different. The Statistical Office of Kosovo (Economic statistics, national accounts) present on their homepage the following figures for GDP, in millions of euro:

The Statistical Office of Kosovo	**2004**	**2005**	**2006**	**2007**
GDP at current prices, million euro	**3,006.1**	**3,068.3**	**3,191.6**	**3,433.6**

In order to use GDP figures for estimations against other macroeconomic data, I combine statistics from the Statistical Office of Kosovo with estimates from the International Monetary Fund (IMF). It estimated the real growth rate in 2008 to 5,4 %. With the Statistical Office of Kosovo estimating the inflation to around 0,5 %, the real growth rate will be approximately 5,9 %.

To calculate GDP levels in previous years, IMF estimates from 2006 are used (World Bank September 2006 p.3):

IMF	2000	2001	2002	2003	2004	2005
Real GDP at current prices, million euro.	**1,750**	**2,423**	**2,482**	**2,496**	**2,542**	**2,463**

Since the level of GDP is estimated differently, one cannot connect the time series without recalculation. The growth rate of the IMF figures from 2006 is therefore applied to the GDP data from the Statistics Office of Kosovo. GDP for these years are thereby estimated as follows:

Combined series	2000	2001	2002	2003	2004	2005
Real GDP at current prices, million euro.	**2,069.5**	**2,865.4**	**2,935.1**	**2,951.7**	**3,006.1**	**3,068.3**

In order to make monthly estimates, the different GDP growth rates are assumed to be constant throughout each year.

9 Appendix II: A note on neutrality

This essay is in every way neutral to the issue of the status of Kosovo. The discussion about minority rights and refugees is included in the essay only because of their important influence as informal institutions.

The spelling “Kosovo”, and not the Serbian “Kosovo i Metohija” or the Albanian “Kosova”, is the form most generally used in reports claiming to be status neutral in their discussion, or not siding with any ethnicity by the use of language.

Also the name Pec, Peja in Albanian, or those of any town and region mentioned are written in one form. Double alternatives of spelling are in these cases avoided to make the text simpler and not to draw the attention to the issue of spelling.