

## 2 Overall Context

### 2.1 Overview



#### Key facts

Land area: 10,877 sq km  
 Population: 1,900,000 (est. SOK)  
 Age structure: 0-14 years: 33%  
 15-64 years: 61%  
 65 years+: 6%  
 Population density: 175  
 Capital: Pristina Population: 200,000 (1991 census)  
 Ethnic Groups  
 Kosovo Albanians 88%  
 Kosovo Serbs 7%  
 Other ethnic groups 5%  
 Territorial-administrative structure: 5 districts  
 30 municipalities  
 Source: Statistical Office of Kosovo, 2004  
<http://www.sok-kosovo.org>

Kosovo and Methoija used to be an autonomous province, an integral part of the republic of Serbia within the former republic of Yugoslavia. On 28 March 1989, the autonomous status of Kosovo was abolished by the authorities in Belgrade. While celebrating the 600<sup>th</sup> anniversary of the Kosovo-Polje battle on 28 June 1989, Mr Slobodan Milosevic gave a speech which is said to have sparked the tension between the Serbian and the Albanian communities in Kosovo. During the summer 1990, Belgrade ordered the dismissal of all Albanians working in the business sector, public administration and teaching.

*Parallel Institutions were organised by ethnic minorities*

The Albanian Kosovars organised a parallel governance system. On 7 September 1990, the "Parliament", now underground, proclaimed a Republic in the Yugoslav framework. On 30 September 1991, after an unofficial referendum, Kosovo proclaimed its independence. A new Parliament was elected on 14 May 1992, along with a President of the Republic of Kosovo (Ibrahim Rugova). The Kosovars then boycotted

the elections held by the Belgrade authorities. The so-called “parallel institutions”, which existed between 1989 and the creation of the Joint Local Interim Administrative Structure after the war, were effective and made Kosovo anything but a lawless and institution-free area.

Following the Kosovo war and the NATO interventions in 1999, the Security Council of the United Nations issued Resolution (UNSCR) 1244 of June 10th 1999 which authorised an interim international administration in Kosovo, while not changing its constitutional inclusion in the Republic of Serbia, itself a component entity of the Former Republic of Yugoslavia. This status was not changed when FRY became the State Union of Serbia and Montenegro.

*Pursuant UNSCR 1244, UNMIK and KFOR were established.*

The decision of the Security Council was the basis to establish the UN Interim Administration Mission in Kosovo (UNMIK), led by the Special Representative of the Secretary-General (SRSG), and the deployment of the NATO-led Kosovo Force (KFOR). Although Kosovo remains Yugoslav territory, Kosovo is for the time being *de facto* out of Belgrade’s control.

The fundamental issue in Kosovo is inter-ethnic relations. Statistics which might give insights on the issue are old and unreliable. The Statistical Office of Kosovo (SOK), which is part of PISG, has started preparations for a population and housing census. While awaiting the political decision on the census, work on cartography issues has started in co-operation with the Kosovo Cadastral Agency (KCA). Census documents, (e.g. a draft CL Census Law), have been prepared by SOK. An inter-ministerial working group finalized the draft census law and delivered it to the Kosovo Government in March 2003. The draft census law was sent to the Kosovo Assembly in May 2003 and was approved on July 11, 2003. . The date at which the next census will be undertaken is to be decided by the Assembly in a special decision at an unspecified time in the future. The Census Law has not been promulgated by the SRSG.

*Inter-ethnic relations is the fundamental issue in Kosovo.*

Detailed demographic data are not available - but the total 1998 resident population was believed to around 1.9m, including between 82 and 90% ethnic Albanians. A large Diaspora, mainly in Western Europe, plays an important role, particularly through remittances. Apart from the ethnic Serbs, minorities include Gorans or Bosniacs (Muslim Slavs), Roms, and Turks. Demographic growth is estimated at about twenty per thousand and average household size is believed to be about 6 to 7 persons. Kosovo’s population is by far the youngest in Europe, with about half the people below the age of 20 and unemployment being estimated at around 50%, predominately amongst the young. The Serb minority is geographically concentrated above all in the North around the town of Mitrovica.

The Kosovo War (1999) precipitated an exodus of Kosovo minorities (including what some estimates put at 200,000 Serbs) and a rapid return of almost all pre-War Albanian refugees. The rate of return of

Serb refugees has been slow. The main reasons are concerns about security and freedom of movement, employment and service provision, as well as fears about Kosovo's future status.

The International Community has strongly supported the maintenance of Kosovo as a multi-ethnic entity. The preamble of the 2001 Constitutional Framework recognizes "the need to fully protect and uphold the rights of all Communities of Kosovo and their members". Thus UNMIK is faced with the task of building PISG in an uncertain Constitutional context, while maintaining the multi-ethnic character of Kosovo and its institutions, in the face of continuing mutual mistrust, often descending into hostility, and geographic concentration of minorities.

UNMIK had a three-pronged approach:

- It set up and managed the executive and the judiciary. As concerns the judiciary, UNMIK limited its activity to re-establishing and overseeing predominantly nationally staffed systems.
- The UN, together with other international donors, started to rebuild and reform institutions in line with European standards and with an obligation on multi-ethnic staffing.
- UNMIK's most important objective was to build indigenous capacity capable of administering the new institutions after the international community has left, a process later-on known as "Kosovarisation"

*UNMIK's most important objective has been to build indigenous capacity – "Kosovarisation"*

To re-establish and deliver central and municipal administrative services, UNMIK set up the Joint Local Interim Administrative Structure (JIAS) in December 1999. These institutions were managed by international staffers with a Kosovar Co-Head. The Kosovar Co-Heads were selected by UNMIK from a broad cross-section of Kosovar society. However, more often than not the international Head of the institution did not really involve the Kosovar Co-Head in the day to day work.

In 2001 UNMIK decided to proceed with the "Kosovarisation" of the administration and create the Provisional Institutions of Self Government (PISG) in advance of elections which were scheduled for 17<sup>th</sup> Nov 2001. The general principle was that the ministries of the PISG should grow out of the JIAS structures.

By the middle of the year, all the JIAS departments were seeking to complete their work programmes, including promulgation of priority legislation, in time for a handover to their Kosovar successors. This meant completing their devolution to counterpart administrations in the municipalities, restructuring themselves around their remaining responsibilities and completing their own "Kosovarisation" which involved replacing international staff by Kosovar staff. As international staff stayed on as advisors, often with the title of 'Principle

International Officer' (PIO), this move was not without resistance from those international staff who were unwilling to relinquish their positions and powers. Resistance also arose partly because the Kosovar Heads of the PISG Institutions were either new or, due to their insufficient involvement during the Co-Head phase, were not necessarily ready for the responsibilities.

*UNMIK developed a "standards before status" strategy*

Ethnic Albanians and Serbs disagreed on the decision to set up the Kosovar provisional institutions: ethnic Albanians insisted on obtaining independence; ethnic Serbs firmly wanted to remain part of Serbia. Further, the international community could not reach consensus regarding the future status of Kosovo. UNMIK therefore developed a "standards before status" strategy. This established standards for Kosovo's institutions to meet before status negotiations could begin. A standards document presented on 12 December 2003 set out point-by-point the meaning of these standards. However, this strategy was criticised by Kosovo self-government leaders who wished to obtain greater policy-making powers, and to reproach UN officials for not devolving more powers.

Kosovars and Serbs remain reluctant to fully cooperate. For instance, although the UN announced the official closure of the "parallel" municipality in Mitrovica in November 2002, many parallel offices and institutions from Belgrade still operate in Kosovo. While they provide some services to Serb communities, they may hinder efforts to extend the institutions of the Kosovo government to all communities.

*As SAAs are signed with sovereign states, there will be no separate SAA for Kosovo...*

The recent Thessaloniki EU-Western Balkans Summit confirmed that the current framework for European relations with the region, i.e. the Stabilisation and Association process and SAA, will remain central, but will be enriched with elements drawn from the recent enlargement process. However, as SAA are signed with sovereign states, there will be no separate SAA for Kosovo, as it is part of Serbia and Montenegro. The European Commission recommends that any SAA signed with Serbia and Montenegro should be suspended with regard to Kosovo while UN Security Council Resolution 1244 remains in effect<sup>1</sup>.

*... but an STM is established.*

In this context, the third meeting of the Kosovo SAp (Stabilisation and Association process) Tracking Mechanism (STM) took place in Pristina on 26/27 November 2003. The delegations from the European Commission, UNMIK, and the Provisional Institutions of Self-Government, discussed trade and customs issues, key economic legislation and competition.<sup>2</sup>

<sup>1</sup> [http://europa.eu.int/comm/external\\_relations/see/news/ip03\\_860.htm](http://europa.eu.int/comm/external_relations/see/news/ip03_860.htm) : Thessaloniki Summit: A milestone in the European Union's relations with the Western Balkans, 19 June 2003, p. 5

<sup>2</sup> [http://europa.eu.int/comm/external\\_relations/see/news/ip03\\_1619.htm](http://europa.eu.int/comm/external_relations/see/news/ip03_1619.htm)

## 2.2 Political conditions

The self-government process in Kosovo has taken place in two stages, each following an election. The municipal elections held in October 2000 signalled the start of local self-government. The general elections held in 17 November 2001 paved the way for self-government through the establishment of the Provisional Institutions of Self-Government (PISG)<sup>3</sup>.

Serb communities boycotted the previous municipal poll in October 2000 and only agreed to take part in the November 2001 general election under heavy Western pressure. The vote was down from 79% in the 2000 election to 65%. 47% of Serbs residing in Kosovo and 57% among those displaced in Serbia voted.

The largest party that emerged after the 2001 election was the Democratic League of Kosovo (LDK), which secured 47 seats in the 120-seat Assembly. Serbs in Kosovo are represented in Parliament by the Return Coalition (PK). Ibrahim Rugova, leader of the LDK, was elected President in the fourth round of voting on March 4. Bajram Rexhepi, a member of Kosovo's second largest party, the PDK, was appointed Prime Minister. The international administration in Kosovo secured the participation of two ethnic Serbs in the Kosovo government from July 2002. However, it should be noted that the government was not formed until almost three months after the parliamentary election.

On 26 October 2002, Kosovo voters elected their municipal assembly representatives for a four year term. Voter turnout was 58%. LDK won in 12 municipalities, PDK won a majority in 7 municipalities and Alliance for the future of Kosovo (AAK) place third in ranking with a majority of seats in one municipality.

In general, a broad coalition government was seen as the only way to avoid conflict within Kosovo's institutions which are still weak. Therefore, parties, rather than institutions, remain at the centre of power in Kosovo's politico-administrative system. However, before the establishment of local and central level institutions, these parties had not worked together, and a high level of distrust characterised their early interactions.

While the coalition has been important for stability, this need for consensus has undermined the ability of the government to exercise leadership and implement policies.

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<sup>3</sup><http://www.unmikonline.org/2ndyear/unmik2p6.htm>: Frameworks for self-government

## 2.3 Role of key institutions in the reform process

### 2.3.1 Constitutional Framework

Kosovo is a particular constitutional experiment, as it is a system of 'dual power' combining an international governing administration (UNMIK) and a subordinate, domestically-elected administration.

UNSCR 1244 has called upon UNMIK to<sup>4</sup>:

- Perform basic civilian administrative functions;
- Promote the establishment of substantial autonomy and self-government in Kosovo;
- Facilitate a political process to determine Kosovo's future status;
- Coordinate humanitarian and disaster relief of all international agencies;
- Support the reconstruction of key infrastructure;
- Maintain civil law and order;
- Promote human rights;
- Assure the safe and unimpeded return of all refugees and displaced persons to their home in Kosovo.

*Kosovo is a constitutional experiment, combining international and domestic elements of administration*

To implement its mandate, UNMIK initially brought activity together under four "pillars". At the end of the emergency stage, Pillar I (Humanitarian Assistance), led by the Office of the UNHCR, was phased out in June 2000. It was replaced by the Democratisation and Institution- building pillar led by the OSCE. :

Currently the pillars are

- I: Police and Justice, (under the direct leadership of the UN)
- II: Civil Administration, (under the direct leadership of the UN)
- III: Democratization and Institution-building, (led by the OSCE)
- IV: Reconstruction and Economic Development, (led by the EU<sup>5</sup>).

The head of UNMIK is the Special Representative of the Secretary-General for Kosovo (SRSG). This official presides over the work of the pillars and facilitates the political process designed to determine Kosovo's future status. The civilian executive powers come from the UN Security Council, which also authorised an international military presence, KFOR<sup>6</sup>. Nearly 40,000 foreign troops are deployed in Kosovo in the NATO-led KFOR, in accordance with UNSCR 1244.

*A Constitutional* Following the November 2001 elections, new arrangements were

<sup>4</sup> <http://www.unmikonline.org/intro.htm>

<sup>5</sup> <http://www.unmikonline.org/intro.htm>

<sup>6</sup> <http://www.unmikonline.org/intro.htm>

*Framework for Provisional Self-Government was promulgated...*

outlined in a document titled 'A Constitutional Framework for Provisional Self-Government in Kosovo'. It was promulgated, on the basis of UN resolution 1244, by the SRSG. Throughout the work to draw up the Constitutional Framework, UNMIK's foremost priorities were to protect the rights and interests of all communities on the one hand, and to respect the sovereignty and territorial integrity of the FRY, in particular not to prejudice a final political settlement for Kosovo, on the other hand.

The final document represents the collaborative effort of UNMIK, a Group of international experts, Kosovo's political leaders and the international community<sup>7</sup>.

*...And emphasises equal rights and the protection of minorities*

The Constitutional Framework puts great emphasis on equal rights and the protection of minorities. E.g. Art 3 para 1 states that all persons in Kosovo shall enjoy in full equality, human rights and fundamental freedoms. Art 4 para 1 states that that communities of inhabitants belonging to the same ethnic or religious or linguistic group shall be guaranteed the rights necessary to preserve, protect and express their ethnic, cultural, religious, and linguistic identities. Finally, Art. 4 para 3 and 5 stipulates that the Provisional Institutions of Self-Government shall be guided in their policy and practice by the need to promote coexistence and support reconciliation between communities and to create appropriate conditions enabling communities to preserve, protect and develop their identities and that they also have to ensure fair representation of Communities in employment in public bodies at all levels.

Based on UNSCR 1244, the Constitutional Framework (UNMIK Rule 2001/9) and the Refugee Convention (Geneva, 1951), on 4 July 2002, the Kosovo Assembly adopted the resolution on "Rights of Members of Communities and Conditions of Return of Displaced People".

Chapter 5 and 8 of the Constitutional Framework for Provisional Self-Government<sup>8</sup> define both the reserved and transferred powers responsibilities of the SRSG and the Provisional Institutions of Self-Government respectively.

*Public Administration Reform (PAR) and the assurance of fundamental rights...*

In line with UNSCR 1244 and the Constitutional Framework, the provision of administration, the assurance of fundamental rights and the promotion and development of Kosovo Institutions are at the core of UNMIK's and Kosovo authorities' tasks.

*... were core concerns*

One of the objectives of UNMIK under UNSCR 1244 is to build autonomous institutions of self-government, and transfer administrative responsibility to these institutions before facilitating the

<sup>7</sup> <http://www.unmikonline.org/2ndyear/unmik2p6.htm>

<sup>8</sup> The full text of the Constitutional framework, including the list of reserved and transferred powers is to be found at: <http://www.unmikonline.org/constframework.htm#8>

political process to resolve the status of Kosovo. As of the end of 2003, antagonism in UNMIK-PISG relations due to different views about the speed of the transfer of competences (which sometimes overlapped significantly with PISG areas of authority), continues to threaten to delay the final resolution of the status of Kosovo even further.

*Belgrade objected to the involvement of the PISG in the consideration of reserved powers, and competencies*

To get out of this impasse, the Prime Minister suggested a consultative forum between UNMIK and the PISG to address the sharing of power. It was initially prepared to assess whether UNMIK had handed over sufficient so-called “transferred powers” to PISG, as well as to explore how to secure the gradual involvement of the PISG in the execution of the UNMIK reserved powers. However, Belgrade strongly objected to the involvement of the PISG in reserved powers, arguing that discussion of competencies prejudiced the final status by creating *de facto* independent institutions.

The main argument put forward by UNMIK to slow down the transfer of competencies was the low administrative capacity of the PISG. Therefore, as mentioned above, the SRSG presented, in April 2002, to the Security Council a series of standards for institutions to assess Kosovo’s administrative efficiency. These standards target functioning democratic institutions, the rule of law, freedom of movement, returns and reintegration, the economy, property rights, dialogue with Belgrade, and guaranteeing the civilian mandate of the Kosovo Protection Corps.

### 2.3.2 Interaction and relations between three branches

*The principle of the Separation of Powers was endorsed...*

According to chapter 1 article 1.4 and chapter 2 of the Constitutional Framework, the principle of the Separation of Powers between the Legislature, the Executive and the Judiciary should be respected and promoted by the Provisional Institutions.

*...but UNMIK’s mandate was interpreted as placing all authority in the hands of the SRSG*

This appeared to introduce significant changes to the power relations under the UNMIK administration. UNMIK’s mandate was *de facto* interpreted and implemented as placing full legislative, executive and judicial authority in the hands of the SRSG.

*A real separation of powers has not yet taken place.*

Although not expressly stated in the resolution, UNMIK’s mandate to provide an interim administration for the people of Kosovo was interpreted as implying the authority to legislate. UNMIK regulation The SAP Tracking Mechanism (STM) now in place allows for supporting the creation of institutions and governance systems that are, generally, in line with the *acquis*, at least in those areas where it exists. 1999/1 of 25 July 1999 made clear that all legislative and executive authority with respect to Kosovo, including the administration of the judiciary, is vested in UNMIK and is exercised by the SRSG. Despite some progress in Kosovarisation, a real separation

of powers has not yet taken place, i.e. laws adopted by the Assembly still have to be submitted to the SRSG for approval and promulgation.

### 2.3.3 Parliamentary and ministerial accountability

Following article 9.3.10 of the Constitutional Framework, the Assembly may express its lack of confidence in the Government; however, to ensure continuity, it may do so only in a “constructive” way, by simultaneously electing a new Prime Minister together with a list of Ministers proposed by him. The Assembly has the right to ask the Government and individual ministers to report.

*In reality, the Assembly does not carry out its functions.*

However, in reality, the Assembly does not carry out its functions. Assembly members do not monitor government activities. Ministries are rarely requested to appear before the Assembly to answer questions and defend their activities. This leaves UNMIK as the only effective form of control.

### 2.3.4 Parliament

Before the election of the Kosovo Assembly in November 2001, the Kosovo Transitional Council (KTC) was the highest consultative body of Kosovo’s political, religious, ethnic and civic communities and could be considered as a ‘nascent parliament’. It served as a bridge between Kosovo society and other important players concerned with Kosovo’s future, frequently being addressed, for example, by leaders of the international community.

*UNMIK set up an Assembly Service Secretariat, which now has 125 staff of which about 60 staff are advisors to the members of parliament*

Since November 2001 the Assembly is the highest institution of the PISG (Chapter 9, article 9.1.1 of the Constitutional Framework). UNMIK set up an Assembly Service Secretariat that was responsible for initial staffing, outlined budget requirements and drew up Provisional Rules of Procedure for the Assembly. The Assembly administration is now staffed with 125 staff of which about 60 staff was recruited as advisors to the members of parliament. According to the Constitutional Framework, the Assembly endorses the government and adopts laws on a wide range of matters under its purview. The Kosovar assembly is a tri-lingual (English, Albanian and Serb). A seven-member Assembly Presidency (of which at least 2 members are from minorities) is responsible for managing the Assembly’s day-to-day business.

Chapter 9 of the Constitutional Framework provides for the Assembly to have 120 members, elected by secret ballot. For the purposes of election to the Assembly, Kosovo is considered a single, multi-member electoral district.

The Constitutional framework provides a system for the protection of the ethnic balance:

- 100 of the 120 seats of the Assembly are to be distributed amongst all parties, coalitions, citizens' initiatives, and independent candidates, in proportion to the number of valid votes received by them in the election.
- 20 of the 120 seats are reserved for the additional representation of non-Albanian Kosovo Communities as follows:
  - 10 seats are allocated to parties, coalitions, citizens' initiatives and independent candidates having declared themselves as representing the Kosovo Serb Community. These seats are to be distributed among the various parties, coalitions, citizens' initiatives and independent candidates in proportion to the number of votes received by them in the election; and
  - 10 seats are allocated to the Roma, Ashkali and Egyptian Communities (4), the Bosniak Community (3), the Turkish Community (2), and the Gorani Community (1). These seats are to be distributed to parties, coalitions, citizens' initiatives and independent candidates representing each Community in proportion to the number of votes received by them in the election.

Chapter 9 of the Constitutional Framework calls for Main and Functional Committees of the Assembly to review draft laws and make recommendations as appropriate. *Inter alia* there is a Committee on Rights and Interests of Communities, composed of 2 members from each of Kosovo's communities elected to the Assembly. At the request of any member of the Presidency of the Assembly, any proposed law has to be submitted to this Committee for its comments. The Assembly may establish Functional Committees as it deems necessary and appropriate to carry out its responsibilities.

The Assembly had a slow start. One reason was the failure to establish operational committees quickly. In addition, many Assembly members had multiple jobs and did not make time for their committee responsibilities. To encourage attendance, "additional compensation" was introduced in March 2003. This has dramatically improved committee performance and increased Assembly efficiency as well.

*The Assembly has had frequent clashes with UNMIK*

The Assembly's work over the last year has been characterised by its frequent clashes with UNMIK. UNMIK criticised the slow pace of work at the Assembly while the Assembly criticised the overpowering role played by the SRSG and the Office of Legal Affairs (OLA) in the drafting and promulgation of laws.

The SRSG together with the OLA checks the compliance of Acts adopted by the Assembly with UNSCR 1244. Only after a positive assessment will SRSG promulgate new laws.

OLA representatives intervene throughout the legislative process: they are invited to sit on ministerial working groups that draft laws.

*The role of OLA in preparing draft laws was problematic*

The OLA has been the subject of intense criticism from the PISG, which reproached OLA representatives for providing their comments on draft laws, which had been prepared in government working groups, very late or not at all. The biggest point of contention is the amendments that the OLA made to these laws after they had gone through the legislative process. An agreement was finally reached that bills would be sent in their final draft form to the OLA. If the OLA had objections, it would submit specific recommendations in written form so that Assembly committees could review and incorporate them.

As a result, relations between the Assembly and the OLA have improved significantly. Yet the potential for tension remains.

### 2.3.5 Judicial system

Following article 9.4.4 of the Constitutional Framework, there shall be the Supreme Court of Kosovo, District Courts, Municipal Courts and Minor Offence Courts. Article 9.4.6 guarantees the independence of judges. Article 9.4.11 creates a Special Chamber of the Supreme Court on Constitutional Framework Matters. The judiciary is a reserved power which is under the OSCE's jurisdiction.

*The Judicial system relies on the international presence*

The judicial system still relies heavily on the international presence, which presents a wide range of experiences and concepts of the management of the judiciary. Many judges are foreigners. In spite of the international presence and the massive investment during the last years, the Kosovar judiciary is still weak. However, without an adequate judicial system it will be impossible to sustain the rule of law and smooth administrative functioning.

UNMIK Regulation 1999/24 defines the law applicable in Kosovo. It stipulates that Courts in Kosovo may request clarification from the SRSG in connection with its implementation. The SRSG shall provide such clarification for the consideration of the courts in the exercise of their functions.

### 2.3.6 Executive

*Under the Constitutional Framework, most executive power rests with the SRSG/ UNMIK and the PISG*

Under the Constitutional Framework, the executive power remains mainly with the SRSG/UNMIK and the PISG.

The role of the President of Kosovo is very limited. The President represents the unity of the people and guarantees the democratic functioning of their self-government. S/he is elected by the Assembly. The President nominates the Prime Minister and other governmental members for Assembly approval, and coordinates with the SRSG to conduct certain functions in the field of external relations. However,

The President is not in charge of promulgating new legislation.

The Government consists of the Prime Minister and 10 Ministers. At least 2 Ministers have to be from minority communities, one of which has to be from the Kosovo Serb community. (Art. 9.3.4; 9.3.5). The Government as a collegiate body exercises the executive authority and is responsible for proposing and implementing the legislation within the scope of responsibilities of the PISG.

Bajram Rexhepi (PDK)	Prime Minister
Ali Sadriu (LDK)	Minister of Finance and Economy
Rexhep Omani (LDK)	Minister of Education, Science and Technology
Behxhet Brajshori (LDK)	Minister of Culture, Youth and Sports
Zef Morina (PShDK-LDK)	Minister of Transportation and Communications
Ali Jakupi (PDK)	Minister of Trade and Industry
Jakup Krasniqi (PDK)	Minister of Public Services
Ethem Ceku (AAK)	Minister of Environment and Spatial Planning
Ahmet Yusuf (AAK)	Minister of Labour and Social Welfare
Numan Balic (Vatan)	Minister of Health
Goran Bogdanovic (KP)	Minister of Agriculture, Forestry and Rural Development

Government meetings are attended by the Prime Minister, the ministers, the SRSG or his representatives, the permanent secretary of the office of the prime Minister, the Principal International Officer (PIO) from the Prime ministers office, permanent secretaries, the spokesperson of the government and representatives from the President's office. The Government meetings are held in both Albanian and Serbian.

*The transferred powers of the PISG include elements of public administration reform and customs activities*

As stated in Chapter 5 of the Constitutional Framework, the transferred powers of the PISG include elements of public administration: in particular, administrative and operational customs activities; public administration services; good governance, human rights and equal opportunity. As stated in Chapter 8 of the Constitutional Framework, the reserved powers of the SRSG include: the protection of the rights and interests of communities, security matters, fiscal and monetary policy, law enforcement, external relations, ultimate budget control and external audit of the Kosovo Consolidated Budget.

In addition, chapter 12 states that the PISG shall not affect or diminish the authority of the SRSG to ensure full implementation of UNSCR 1244 and Constitutional Framework when exercising its responsibilities.

## 2.4 Economic conditions

Following a strong rebound in 1999-2000, under the impetus of a massive infusion of donor assistance and remittances, the economy is likely to show a significant slowing over the past 2 years. This is due to a decline in inflows and an unintended tightening of the fiscal stance.

**Table 1 –: Main Economic Indicators**

Source: UNMIK/UE – Fact sheet Kosovo May 2003

	2001	2002 (Est.)	2003 (Proj.)	2004 (Proj.)
Real GDP (% growth)	11.0	7.0	4.5	4.5
CPI Inflation (% growth, end of period)	11.3	6.5	4.0	3.5
<b>Central Government Operations</b>	<b>Percent of GDP</b>			
Revenue	17.1	20.0	21.2	21.4
Expenditure	49.4	47.1	35.3	31.4
Balance (before grants)	-32.3	-27.1	-14.1	-10.0
Public debt				
Current Expenditure:				
Expenditure on goods and services				
Interest payments				
Grants	4.4	0.5	1.2	0.6

*Economic growth is expected to pick up to more than 4% in 2003 and 2004, and ....*

The major brake on the economy was the large swing in the budget deficit (from a deficit of 6.5% to a surplus of 5.5 of GDP) resulting from a remarkable increase in tax yields. In 2002, the main drag on growth came from a major decline in foreign assistance, whose first round effect may have depressed aggregate demand by some 13%. Growth is expected to pick up to more than 4% in 2003. In the context of continued decline in foreign assistance and workers' remittances, the pick up of growth will reflect trends in private consumption and investment and the stance of fiscal policy.

*... Private sector consumption and investment trends may persist in 2004...*

In 2004, growth could be sustained at 4% if supported by further expansion in the government investment program, assuming a moderate impact from the scaling down of UNMIK's operations. The envisaged expansion in government spending could be financed in its entirety by past accumulated surpluses. Private sector consumption and investment trends are likely to persist in 2004 with prospects for private investment to be boosted by privatization and the improvement in infrastructure.

*...though there are uncertainties due to various factors, including a lack of data*

Economic prospects are however clouded by major uncertainties. These are related to the prospects of remittances and donor support; fiscal policy stance; supply response to structural policies; external environment; and timing and modalities of the resolution of Kosovo's final status. These uncertainties are further aggravated by large data-related deficiencies which hamper a proper assessment of the state of the economy and of the underlying trends<sup>9</sup>.

9 <http://www.imf.org/external/hp/ms/2003/061603a.htm>: IMF, Staff Visit to Kosovo June 4-16, 2003, Concluding Statement; and <http://www.balkanpeace.org/hed/archive/dec03/hed6156.shtml>: IMF warns of "uncertain outlook" for Kosovo economy, 20 December 2003

While UNMIK is reducing its involvement in Kosovo, the EU remains committed in Kosovo and has extended its involvement to improve the economic situation *inter alia* through public administration reform and institution building. Kosovo plays a crucial role in the EU's overall strategy for the region. Kosovo is therefore included in the Stabilisation and Association process and the Stability Pact which both seek to strengthen economic growth and stability in the region.

The JIAS announced a programme for the privatisation of 250 key companies in August 2001. The major utilities were not included in the programme, nor were the Trepca non-ferrous metals mine. The PISG was committed to make a success of the scheme, but competing claims from the Albanian and Serbian populations delayed implementation. The PISG has set up a Kosovo Trust Agency (KTA) to manage the process of privatisation. The Serbian government's concerns over creditors' rights and the fate of the subsidiaries of Serbian companies during the Kosovo privatisation process are been addressed by the UNMIK in cooperation with the PISG.

Delay in the planned privatisation/liquidation of socially owned enterprises has been one of the main obstacles to economic development and transition to a market economy. To ensure the success of privatisation, KTA should provide maximum transparency and as much advanced information as possible on prospective tenders to allow time for potential investors to assess their interest.

Steady progress has been made in putting in place the main building blocks of the legal framework. The main challenge in the coming years is to build the implementation capacity to enforce it. In addition, extremely long-delays in the handling of commercial court cases are hampering the imposition of market discipline. This is affecting particularly the collections of utility bills and the recovery of past due loans.

*Significant growth could be achieved if Kosovo could resume exports*

The Kosovo economy has made impressive progress over the last four years, as a result of sound policies, institution-building and large-scale donor assistance. Driven by significant private and official transfers of funds, GDP *per capita* is currently twice as high as the officially recorded levels in the mid 1990s. Progress has also been made through recent UNMIK and PISG initiatives aimed at stimulating an investment-friendly environment, through financial reforms and the promotion of a free market economy. However Kosovo's economy still remains heavily dependent on external aid flows. The Statistical Office of Kosovo has put unemployment at an alarming 57%, with even higher rates consistently found in minority and rural areas, as well as for women generally. With outside assistance expected to decline sharply, unemployment is likely to grow – at least in the short term. At the same time unregulated activities dominate many areas of the economy.

Both Kosovo and its neighbours should strive to restore the links that used to connect their economies. The tariff and non-tariff barriers which Kosovo faces in some neighbouring markets are reported to be very high.

A significant boost to employment and growth could be achieved if Kosovo could resume its exports to what used to be its natural markets in the neighbouring states<sup>10</sup>.

*Progress has been made in establishing the legal framework*

As the result, delays in the planned structural reforms reflect the difficulty encountered by Kosovo authorities and UNMIK in implementing reforms in the context of the contradictory interests of the two ethnic communities. However, the progress made in the establishment of a legal framework is promising.

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<sup>10</sup> <http://www.imf.org/external/np/ms/2003/061603a.htm>: IMF, Staff Visit to Kosovo June 4-16, 2003, Concluding Statement