

# *Early Warning Report*

## *Kosovo*

*Report #11*

*July-September 2005*



**USAID**  
NGA POPULLI AMERIKAN  
OD AMERICKOG NARODA



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The views expressed in this publication are those of the authors and do not necessarily represent the views of either UNDP or USAID.

In this report, "Kosovo" refers to the UN administered territory according to United Nations Security Council Resolution 1244.

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***EARLY WARNING SYSTEM –  
A systematic Approach to  
Conflict Prevention***

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The Kosovo Early Warning System Project is aimed at building the capacity of local analysts to foresee potential crises, and based on its findings to advise on crisis prevention policies. The Reports are intended as strategic planning, response, and policy tools for development and peace-building actors in Kosovo by deriving recommendations for preventative measures from trend analysis and monitoring of key sector indicators of fundamental conflict-causing factors.

The Early Warning System Project is a UNDP regional initiative; at present most SEE UNDP Programmes produce Early Warning Reports on a periodic basis. The Kosovo Reports are cofunded by USAID and UNDP, and implemented by the Institute for Development Research “Riinvest” and independent Kosovo analysts.

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Your comments and feedback are important for the further development of the Reports. Please forward these to: [early.warning.ks@undp.org](mailto:early.warning.ks@undp.org).

## SELECTED INDICATORS

	Sep-Dec 2004	Jan-Mar 2005	Apr-Jun 2005	Jul-Sep 2005	Trend
GDP growth rate (annual), %	3.7 <sup>1</sup>		-0.5 <sup>1</sup>		↘
Inflation rate (annual), %	1.5	-0.5 <sup>2</sup>			↘
Bank deposits, million €	638.0 (Oct)	704.8 (Feb)	731.2 (May)	765.8 (Aug)	↗
Commercial bank loans, million €	353.1 (Dec)	356.5 (Feb)	400.1 (May)	473.4 (Aug)	↗
Trade balance, million €		-219.1 (Jan-Mar)	-308.5 (Jan-Apr)	-723.4 (Jan-Aug)	↘
Registered job-seekers	300,697 (Nov)	303,095 (Jan)	311,230 (May)	314,446 (Aug)	↗
Consumer Price Index, % (compared to May 2002)	98.0 (Sep)	101.4 (Mar)	100.0 (May)	98.5 (Aug)	↘
Basic pensions (per month), €	40	40	40	40	↔
Political pessimism, % ("Not satisfied" or "not satisfied at all" with current political trends)	38.7	38.6	35.8	41.0	↗
Economic pessimism, % ("Not satisfied" or "not satisfied at all" with current economic trends)	67.7	71.1	69.9	68.8	↔
Subjective welfare pessimism, % (Economic situation in the family equal or worse than six months ago)	87.0	84.7	85.7	87.9	↗
Satisfaction with UNMIK's performance*, %	24.1	29.7	41.4	34.5	↘
Satisfaction with SRSG's performance, %	69.9	81.2	81.7	69.8	↘
Satisfaction with Government's performance, %	72.2	81.2	67.7	48.7	↘
Satisfaction with Assembly's performance, %	64.5	73.7	63.0	59.0	↘
Satisfaction with KFOR's performance, %	85.7	81.0	87.3	84.3	↘
Return of refugees, number of returnees	1,437 (Jan – Jul 2004)**	1,017 (January – July 2005)			↘
Personal security, % ("Somewhat safe" or "very safe" while outdoors)	48.9	62.0	63.5	63.3	↔

<sup>1</sup> - IMF estimates, Aide Memoire of April-May 2005

<sup>2</sup> - Compared to the value recorded in August 2004

\* - "Satisfied" or "very satisfied" with the performance of institutions

\*\* - According to UNHCR data, the total number of returnees during the period 2000-2004 was 11,411

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AAK	Aleanca për Ardhmërinë e Kosovës (Alliance for the Future of Kosovo)
APK	Army for the Independence of Kosovo
BPK	Banking and Payment Authority of Kosovo
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EU	European Union
EWB	Early Warning Report
EWS	Early Warning System
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDP	Internally Displaced Persons
IMF	International Monetary Fund
KAN	Kosovo Action Network
KCB	Kosovo Consolidated Budget
KFOR	Kosovo Forces
KPS	Kosovo Police Service
KTA	Kosovo Trust Agency
LDK	Lidhja Demokratike e Kosovës/ Democratic Union of Kosovo
MEF	Ministry of Economy and Finance
OSCE	Organization for Security and Cooperation in Europe
PDK	Partia Demokratike e Kosovës/ Democratic Party of Kosovo
PISG	Provisional Institution of Self-Government
SOE	Socially Owned Enterprises
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development

## *Executive Summary*

### **Key Issues**

- Status talks start with a strong divergence of views between Pristina and Belgrade about the final status of Kosovo.
- Depending on their ethnic affiliation, respondents have expressed great differences in their expectations regarding the future status of Kosovo
- The political stability is burdened by tense relations between the Government and the opposition and the continued boycott of Kosovo institutions by Kosovo Serbs.
- Some positive changes within the economy are observed. However these changes are minor and not expected to have a significant impact on economic growth in 2005.
- No encouraging signs concerning improvement of inter-ethnic relations between Albanians and Serbs are observed.
- The security situation has started to become a concern as alleged armed groups started electronic message threats on the eve of status talks.

### **Summary of Trends**

- A decreasing trend of satisfaction with the work of local institutions and UNMIK is marked compared to the previous reporting period.
- Decentralization continues to face challenges in implementation in two pilot municipalities with a majority Serb population (Graçanica/ Gracanica and Partesh/ Partes).
- The tax income collected by the Tax Administration has marked a positive trend. On the other hand, the registered unemployment is rising constantly, deflation has decreased, and the trade deficit continues to be very high.
- All ethnic groups continue to be unsatisfied with the economic situation and current business conditions.
- Privatization is moving fast forward compared to last reporting period.
- Albanian and Serb respondents continue to express opposite opinions on many issues, including factors causing tense inter-ethnic relations.
- Some major offences have increased in number during the July to September 2005 period, compared to the April-June period 2005.

## Negative Indications

- Kosovo Albanians and Kosovo Serbs have opposite views on final status: 90.2% of Albanian respondents are in favor of the independence of Kosovo, while 86.6% of Serb respondents support autonomy for Kosovo.
- About 86% of Albanians support unconditional independence, while approximately 87% of the Serbs are against independence for Kosovo.
- 75.9% of Albanian respondents, 85% of Serb respondents and 38.9% of the non-Serb minority respondents have expressed readiness to protest if their expectations about Kosovo's status are not achieved.
- Respondents "unsatisfied" or "very unsatisfied" with the current political situation comprise 41% of the sample, while in June 2005 this percentage was approximately 36%.
- Only 6.7% of Albanian respondents, none of Serb respondents and 6.8% of non-Serb minority respondents assess current business conditions as being favorable.
- Negative trade balance increased by 24% during the January-August 2005 period, compared to the same period last year.
- The number of Internally Displaced Persons and refugees returned during the first seven months of this year was 1017, while during the same period in 2004 this number amounted to 1435 returnees.
- An increase is registered in the number of homicide cases (31%), sexual assaults (18%), obstruction of justice (17%), attacks with explosive devices (35%) and demonstrations (100%) as compared to the April-June period 2005.

## Positive Indications

- The readiness of the respondents to protest due to political reasons has not changed significantly in comparison with June 2005, although it still remains very high.
- The Consumer Price Index in August 2005 has decreased by 0.5% in comparison to August 2004.
- Continuous and sustainable growth of deposits and loans.
- The collection of domestic taxes during the January-August 2005 were 14.5% higher than during the same period in the previous year.
- Albanian respondents believe inter-ethnic relations are less tense than they were three months ago.
- The percentage of Serb respondents satisfied with the performance of the KFOR has increased to 25%.

## *Challenges around Kosovo's final status issue*

### Status talks start with many uncertainties

1. The issue of Kosovo's final status has been a significant political issue since the end of the conflict in 1999. However, this issue has dominated the July-September 2005 period with much more intensity than usual.

Opinion polls have shown that the issue and uncertainty of Kosovo's final status continues to be the greatest concern to Kosovans and especially to Albanians – see Table 1.1. In a September 2005 opinion poll, eight factors that are perceived as being threatening to the stability of Kosovo were presented to respondents. Approximately 61% of Albanian respondents have indicated that the uncertainty regarding Kosovo's final status was their greatest concern (Table A1.1 in the Annex).

**Table 1.1. Ranking of the "Uncertainty about the final status" from among 19 of the biggest problems faced by Kosovo**

	Albanians	Serbs	Others
November 2003	1	4	3
March 2004	2	3	3
July 2004	1	3	3
November 2004	1	-	3
March 2005	1	4	1
June 2005	1	4	3
September 2005	2	5	2

Source: Riinvest's opinion polls – Nov. 2003 to Sep. 2005

2. Various political personalities have expressed that the time has come for changes in Kosovo. They point out that there is a risk from maintaining the status quo: "If it does not come to a quick resolution of the status, the situation could escalate".<sup>1</sup> Calls for the necessity of engagement on the issue have even come from the European Union that had always been criticized for the lack of strategy for Kosovo and the Balkans,<sup>2</sup> but which now recognizes a need for change and for a regional approach to the issue of Kosovo. European Union High Representative Javier Solana has reflected this clearly: "Kosovo returns the Balkans to the focus of EU strategy".<sup>3</sup>

3. After perceived hesitation, the international community started engaging in the resolution of Kosovo's status issue more substantially and intensively. Based on the comprehensive analysis of the situation in Kosovo presented in October 2005 by Ambassador Kai Eide, the Special Envoy of the Secretary General of the UN,<sup>4</sup> the UN Security Council decided to start the negotiations for the future status of Kosovo.<sup>5</sup> This decision ended the dilemma about whether the international policy

<sup>1</sup> German Minister of Defense Peter Struck in *Koha Ditore*, 14 September 2005.

<sup>2</sup> Erhard Busek: "Europe does not have a strategy", *Express*, 6 October 2005.

<sup>3</sup> *Koha Ditore*, 27 September 2005.

<sup>4</sup> This complex task was assigned to Ambassador Kai Eide on June 14<sup>th</sup>. The final report has been submitted to UN Secretary-General Kofi Annan on October 7, 2005 after intensive work in the field which lasted the entire summer. It has been speculated that in the later stages of his work Ambassador Kai Eide had been put under pressure by some international actors to soften or remove altogether critical parts from his report, in order to have the report warrant the recommendation for the start of negotiations and the quicker resolution of Kosovo's status. (See, "Kai Eide: No pressure on me", *Express*, 26 September 2005.)

<sup>5</sup> The decision was reached in a Security Council session on 24 October 2005.

of “standards before status” would be continued. Now, a new strategy will be sought in order to accelerate the solution of the Kosovo’s status.<sup>6</sup>

4. Although the initiative to start status talks is welcomed by many parties, some people in Pristina and Belgrade argue that the Security Council’s declaration to begin international negotiations for the resolution of Kosovo’s future status does not offer any clear indication of what shape the county’s status might take. A statement unanimously adopted by the 15-nation council reads, “The Council offers its full support to this political process, which would determine Kosovo’s future status, and further reaffirms its commitment to the objective of a multiethnic and democratic Kosovo which must reinforce regional stability.”

### Divergences of the current positions about status

5. The current positions of various actors about the future status of Kosovo are primarily those that have been voiced since the status issue has been raised. Currently, they reflect irreconcilable positions about Kosovo’s status, with a strong divergence of opinions between the governments of Kosovo and Serbia:

- The Kosovo Government supports “nothing less than independence”;<sup>7</sup>
- The Serbian Government believes that Kosovo should have “more than autonomy, less than independence”.<sup>8</sup>

The positions supported by international actors vary significantly, but certain proposals have been unanimously excluded. Other options have received attention, but international actors have only generalized about the principles behind these options.

6. **The position of Kosovo authorities.** The political and institutional leaders of Kosovo see independence as the only solution to Kosovo’s political status. They proclaim that negotiations with Serbia can be held on numerous issues (such as return of the displaced, return of the remains of the war victims, Serbian cultural heritage, war damages, etc.) but not on Kosovo’s status issue. They believe that the independence of Kosovo is non-negotiable.<sup>9</sup>

7. Since these political actors consider Kosovo’s independence non-negotiable, they have demanded the preliminary approval of a resolution on independence in the Assembly of Kosovo.<sup>10</sup> Parliamentary factions have reached a preliminary agreement on passing a resolution related to the will for independence but did not agree on its content.<sup>11</sup> It still has to be made more concrete for it to be part of the

<sup>6</sup> “The end of the status quo”, *Koha Ditore*, 17 July 2005; the risk of the continuation of the status quo in Kosovo has also been elaborated on in detail in Ambassador Kai Eide’s report.

<sup>7</sup> Nexhat Daci, the President of the Kosovo Assembly, in his meeting with SRS Søren Jessen - Petersen on September 29, 2005 has stated: “Kosovo is not prepared to negotiate with anyone on independence. This is the border line below which no one in Kosovo institutions has the mandate to go”.

<sup>8</sup> Serbia’s Prime Minister has elaborated and emphasized this position also in a Security Council session on October 24, 2005, when the decision to start status talks was undertaken. Only a small number of individuals from Serbia favor independence for Kosovo, primarily former high-ranking Serbian officials, politicians and intellectuals. At a conference held in Pristina they have stated that Serbia should not prevent the self-determination of Kosovo, but that it should actively engage in the democratization of Kosovo, with priority emphasis on securing the rights of the Serbian minority.

<sup>9</sup> Ibid reference 7.

<sup>10</sup> “The PDK demands a resolution on the independence of Kosovo”, *Koha Ditore*, 30 September 2005; “PDK insists on the approval of the resolution for independence”, *Koha Ditore*, 1 October 2005.

<sup>11</sup> During the July-September 2005 reporting period the discussion have continued.

negotiating platform or to have an impact on decision-making. The resolution could still be annulled by UNMIK since UN Resolution 1244 and the Kosovo Constitutional Framework states that the Assembly of Kosovo does not have the right to make decisions about sovereignty independent of UNMIK, since those are part of the “reserved powers” of UNMIK and the SRSG.

**8.** Civil society in Kosovo has also been active in stating its position on the future status of Kosovo. Forum 2015, a coalition of non-governmental organizations for Euro-Atlantic integration, has drafted a report entitled “Why Independence”. This report presents all the main political, historic, geo-strategic, legal, economic, and ethno-cultural arguments in favor of the independence of Kosovo.<sup>12</sup> The report concludes that “independence is the only safe and long term solution”, and states that “any other solution, such as becoming an autonomous territory within the Serbian-Montenegrin federation, conditional independence or independence without sovereignty, leaves open the way towards destabilization”.

**9. The position of Serbian authorities.** Without exception, the political and institutional leaders of Serbia are against the independence of Kosovo and see the solution of the status issue as “more than autonomy and less than independence”.<sup>13</sup> This formulation has only been recently elaborated on by the Head of the Coordination Center of Serbia for Kosovo and Metohija, according to which Kosovo should have executive, legislative and judicial authority. Its sovereignty, however, would have to be entitled to Serbia, through the Serbian-Montenegrin federation.<sup>14</sup> On another occasion the Head of the Coordination Center has indicated that this solution is practically what Kosovo has today and what it had during the 1974-1989 period.<sup>15</sup>

**10. Position of the international community.** There has been a multitude of opinions from international actors regarding the resolution of Kosovo’s status. The proposed solutions are numerous and various, depending on the institutions and the individuals presenting them, and also depending on the changing developments in the political landscape.

Certain actors have openly supported the right to self-determination or independence.<sup>16</sup> Some of this support has come from political actors of neighboring countries, whom had earlier expressed reservations and fear from an independent Kosovo.<sup>17</sup> It should be mentioned, however, that the more prevalent

<sup>12</sup> “Why Independence? The issue of status, political challenges and the course of Kosovo towards European integration”, published by *Forum 2015*, Pristina, July 2005.

<sup>13</sup> Ibid reference 8.

<sup>14</sup> [www.unmikonline.org](http://www.unmikonline.org), *Local Media Monitoring*, 12 September 2005.

<sup>15</sup> According to *Tanjug* press agency, this pronouncement has been made in the *Radio Kontakt Plus* of Mitrovica in Serbian. See also, [www.unmikonline.org](http://www.unmikonline.org), *Local Media Monitoring*, 17 September 2005.

<sup>16</sup> Some of these actors are: Micheline Calmy-Rey, Minister of Foreign Affairs of the Swiss Confederation, who stated: “Kosovo should be an independent and multi-ethnic state”, *Koha Ditore*, 1 August 2005. See, “Calmy-Rey reasserts the Swiss position for the independence of Kosovo”, *Koha Ditore*, 27 July 2005; “Swiss Kosovar Micheline Calmy-Rey”, *Express*, August 2, 2005; Richard Moore, head of the Liberal International in London states “British Liberal democrats pro Kosovo-independence”, *Koha Ditore*, 1 October 2005; Charles Kupchan, professor at Georgetown University in Washington DC: “Kosovo on the road to independence”, *Express*, 10 September 2005; Janusz Bugajski: “Road towards Independence”, *Koha Ditore*, 18 August 2005; Bugajski: “New Horizons for Kosovo and Albania – Road to Independence is Open”, *Koha Ditore*, 20 September 2005.

<sup>17</sup> Croatia’s President Stipe Mesic stated: “Kosovo with acceptable status for its people”, *Koha Ditore*, 8 July 2005; “VMRO party of Dimovska supports independence of Kosovo”, *Koha Ditore*, 26 August 2005.

opinion has been for the conditional independence of Kosovo.<sup>18</sup> Another option, that has been less frequently mentioned but supported by circles that favor the Serbian position, suggests a compromise solution in which Kosovo would enter into the federal or confederal union with Serbia and Montenegro.<sup>19</sup> In fact, the word compromise is also frequently used by other officials and analysts, but usually without elaborating on its terms, thus making it as vague as the notion of what is meant by 'conditional independence'.

Lately, the international community has been leaning toward finding a solution that would guarantee the rights of all citizens of Kosovo, but also the security and stability of Kosovo and the region.

11. Considering the divergent positions of key players in Kosovo and Serbia, it should be expected that talks between Pristina and Belgrade on the future status of Kosovo are unlikely to yield a mutually beneficial compromise. For this reason, the role of the international community in resolving the future status of Kosovo will be very difficult but, at the same time, indispensable for securing peace and stability in Kosovo and the region.

### **Political opportunism related to the status issue**

12. One of the key factors for the success of status talks would be the cohesion of Kosovo's political parties. In order to achieve this cohesion, the SRSG had proposed, in May 2005, the establishment of the Kosovo Political Forum, which was to participate and prepare the platform for status talks. The establishment and the work of the Kosovo Political Forum has been accompanied with numerous difficulties, the largest part of which is generated by the political opportunism for party-political gains, which can only damage the very process of talks for the future status of Kosovo.<sup>20</sup>

13. The establishment and the activities that this Forum has undertaken have faced uncertainties and conditional blockades from the very beginning, due to the considerable conceptual differences between parties and conflict of party interests.

- i) Prime Minister Kosumi has insisted that the negotiating platform and its implementation should be carried out by the Government, which would appoint its coordinator and expert groups that would facilitate and support the negotiators. The opposition and society as a whole would contribute to the negotiating process in other forms, primarily in a consultative capacity, in order to ensure the comprehensive legitimization of the negotiation process.<sup>21</sup>
- ii) The opposition, led by the PDK and ORA, has insisted that the Political Forum has a particular role to play in the negotiating process, representing the unity and the will of the majority of the citizens of Kosovo. According

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<sup>18</sup> German expert Helmut Kramer suggests expanded autonomy or conditional independence for Kosovo with a continued international presence, *Express*, 23 September 2005; Serbian President Boris Tadic asserts that during his visit to London it was made clear to him by Toni Blair that "Great Britain is in favor of conditional independence for Kosovo", News of *Radio B92*, 5 October 2005, [www.b92.net](http://www.b92.net).

<sup>19</sup> The desire to compromise has been expressed publicly by German expert Franz Lothar Altmann. See: "Where is Mr. Altman wrong", *Express*, 10 August 2005.

<sup>20</sup> *Kosovo status in a broad context*, ISS (Institute for Strategic Studies - Ljubljana) Policy Analysis n° 12, October 2005.

<sup>21</sup> *Zëri*, 9 August 2005.

to them, the Forum would have to be the highest authority carrying out the negotiating process, without the influence or the direct control of the Government. Furthermore, the opposition has demanded that, for the sake of unity, it should be the one leading the Forum and the negotiations.<sup>22</sup> Although the Government also insists on entering negotiations with one unified voice,<sup>23</sup> this issue has been continuously prolonged which has caused some political tension. The lack of compromise and tension has also been recognized and criticized by diplomatic circles in Kosovo.<sup>24</sup>

- iii) Other alternatives have been considered in the quest of finding unity on this issue. The creation of a government that would broaden its membership past the current ruling coalition of the LDK and AAK has been proposed. This government would be expanded to also include the PDK and ORA. The media have even published a plan about such a speculated government, which was alleged to have been drafted by internationals, but that has been denied by its rumored key actors.<sup>25</sup>

14. The concern over the inability to find unity in the representation of Kosovo and the possibility of crisis in the government during the delicate pre-negotiation phase, has been exacerbated by the news that President Rugova suffers from lung cancer.<sup>26</sup> The unexpected possibility that the illness could hinder the engagement of Kosovo's strongest political figure has brought about a softening of inner-party animosities and the desire to find a compromise. This solution has been formulated first by ORA's president and elaborated in more detail on September 13<sup>th</sup> in a decision made by President Rugova,<sup>27</sup> which highlighted the composition of the Negotiating Team. This team includes the main institutional and political leaders of the governing coalition and the two largest opposition parties, as well as the coordinator of the negotiating team.<sup>28</sup> This formula, which has been called a historic compromise,<sup>29</sup> has been approved by the Assembly of Kosovo with considerable difficulties.<sup>30</sup>

15. Inclusion of minorities in the Negotiating Team, primarily that of Kosovo Serbs, is an important issue which still remains unresolved.<sup>31</sup> Kosovo Serbs and other Kosovan minorities have voiced their objections about the composition of the Forum and have demanded their inclusion in it. Regarding the concept of

<sup>22</sup> "Crisis within the Forum", *Koha Ditore*, 20 August 2005; "The Government blackmails the Forum", *Koha Ditore*, 22 August 2005; "Forum – neither extension of the government, nor a super-government", *Express*, 24 August 2005.

<sup>23</sup> Nexhat Daci: "Kosovo will enter negotiations united", *Koha Ditore*, 30 September 2005.

<sup>24</sup> "You are disorganized", interview with Philip Goldberg, Head of the US Office in Pristina, *Express*, 29 August 2005.

<sup>25</sup> "New government on paper", *Express*, 15 September 2005; "The operation to create a new government – one way for two objectives", *Express*, 17 September 2005.

<sup>26</sup> "President Rugova suffers from lung cancer, continues activity for independence", *Koha Ditore*, 6 September, 2005.

<sup>27</sup> Surroi: "The Forum as carrier of the negotiations under the umbrella of President Rugova – on the day that Rugova got ill", *Koha Ditore*, 25 August 2005.

<sup>28</sup> "Rugova leads the team of unity, coordinator Blerim Shala", *Koha Ditore*, 14 September 2005; "Bravo Rugova – for inclusion of the opposition", *Express*, 14 September 2005.

<sup>29</sup> *Express*, 16 September 2005.

<sup>30</sup> "The negotiating team got the majority of votes, but not the consensus in the Assembly", *Koha Ditore*, 29 September 2005.

<sup>31</sup> The President of the Assembly of Kosovo Nexhat Daci, Prime Minister Bajram Kosumi and the leader of the ORA party, Veton Surroi, have provided different formulas for inclusion of Serbs and other non-Serb minorities in the negotiation process, but nothing substantial has been achieved regarding this issue.

appropriate representation in the negotiating process, Kosovo Serb leaders have expressed diverging opinions. While the leader of the Serbian List for Kosovo and Metohija, Mr. Oliver Ivanovic, has demanded that Kosovo Serbs to be included as a third party in the negotiations, the Head of the Coordinating Center of Serbia for Kosovo, Ms. Sandra Raskovic-Ivic has stated that Kosovo Serbs should be included in Belgrade's delegation.<sup>32</sup>

16. Status talks might be affected by an alternative political movement called "Self-Determination" that has recently emerged and significantly increased its activities in this period. It opposes not only the Government of Kosovo but also the opposition's idea to consolidate representation, as well as the evaluation process for the implementation of standards and the resolution of Kosovo's status through negotiation. This movement believes that Kosovans have the inalienable right for self-determination and that there is no need for negotiation, especially with Serbia. The individuals behind this movement believe that Kosovo should instead be granted the right to self-determination through a referendum.<sup>33</sup>

### **Opinion polls show great divisions about the status issue**

17. In order to assess what the perceptions of the general public were regarding the negotiating process for the resolution of Kosovo's status, an opinion poll that Riinvest carried out in September 2005 also included a block of questions related to this issue. Depending on their ethnic affiliation, respondents have expressed great divisions in their expectations and visions having to do with the status of Kosovo. Following are the main results of the opinion poll related to issues that have to do with the future status of Kosovo.

18. An overwhelming majority of Albanian respondents (90.2%) said that they are in favor of independence for Kosovo within the current borders, while 9.1% are for the unification of Kosovo with Albania, 0.7% want the partitioning of Kosovo, and 0.1% want to keep Kosovo under the international protectorate in its current form. On the other hand, an overwhelming majority of Kosovo Serbs responded that they are in favor of autonomy for Kosovo within Serbia (86.6%), 9.3% are for the partitioning of Kosovo, 3.1% want Kosovo to have a confederal status with Serbia and Montenegro. Members of the non-Serb minority are closer to the opinions articulated by Albanians – see Table A1.2 in the Annex.

19. It should be emphasized that these opinions have prevailed for almost the entire time that opinion polls have been carried out regarding this issue – see Figures 1.1 and 1.2. Lately a small increase in the percentages of the Albanian respondents for unification with Albania is observable, as well as of Serb respondents for the partitioning of Kosovo.

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<sup>32</sup> The head of the Coordinating Center of Serbia for Kosovo, Ms. Sandra Raskovic-Ivic, has stated that in the talks for the future status of Kosovo the Serb delegation should be united and made up of the representatives of Kosovo Serbs and Belgrade authorities; *Beta*, 19 September 2005.

<sup>33</sup> The "Self-Determination" movement was initiated by a network of young activists, earlier called the Kosovo Action Network (KAN). It organizes demonstrations throughout Kosovo and writes banners and graffiti saying "Self-determination – No negotiation". Their clashes with police and their being arrested by the KPS and international UNMIK police, almost on daily basis, have granted this group considerable publicity that has helped increase their size and popularity among the youth.

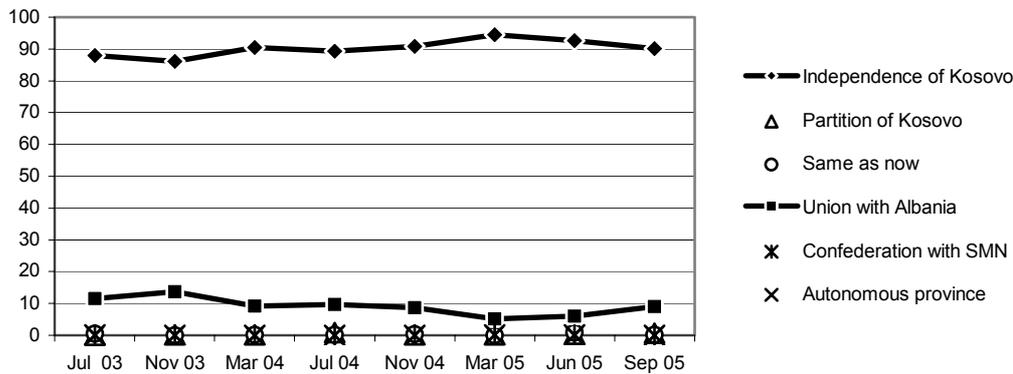


Fig. 1.1. Opinions on the best solution for the future status of Kosovo –Albanian respondents  
 Source: Riinvest’s opinion polls – July 2003 to September 2005

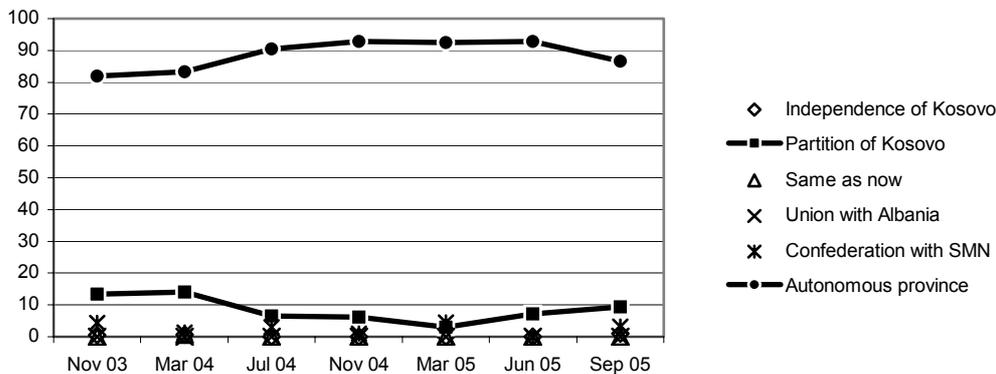


Fig. 1.2. Opinions on the best solution for the future status of Kosovo –Serb respondents  
 Source: Riinvest’s opinion polls – July 2003 to September 2005

20. About 86% of Albanians respondents support unconditional independence, while 7% support conditional independence if there is not other solution – see Table 1.2. Approximately 87% of the Kosovo Serb respondents are against any kind of independence for Kosovo, while 11% have never even heard of this option. Other non-Serb minority respondents replied that 68% support unconditional independence, while 16% were not aware of this option.

21. About 72% of Albanian respondents and 61% of non-Serb minority respondents consider that Kosovo’s status should be determined through a referendum, while 86% of Serb respondents maintain that this should be achieved through direct dialogue between officials of Kosovo and Serbia in addition to international mediation – see Table A1.3 in the Annex.

22. Although some experts have said that Kosovan negotiators are less prepared than Serbian ones,<sup>34</sup> Albanian respondents are to a certain extent optimistic regarding the preparation of their negotiators: 21% consider that Kosovan politicians are “very prepared”, while 68% consider them “somehow prepared” for negotiations – see Table A1.4 in the Annex. However, the majority of Kosovo Serb

<sup>34</sup> Tim Judah, “Serbs more prepared than Kosovars”, *Koha Ditore*, September 29, 2005.

respondents (approximately 72%) consider that Kosovo Serb leaders are not prepared for negotiations.

23. Respondents have expressed a high degree of readiness to protest if their expectations about Kosovo's status are not achieved. Thus 75.9% of Albanian respondents, 85% of Serb respondents and 38.9% of the non-Serb minority respondents have declared that they would protest, while those who said that they would refuse to protest was very low – 15.9% of Albanian respondents, 4.4% of Serbs and 25% of non-Serb minority respondents said that they would not protest.

**Table 1.2. Respondents' opinions on whether they would support conditional independence of Kosovo (%)**

	Albanians	Serbs	Others
Never. Kosovo must be unconditionally Independent	86.1	1.0	67.9
Never. Kosovo should not be independent in any way	0.8	86.7	4.8
Yes, if there aren't any other choices	6.9	0.0	3.6
Yes, this is the best solution for everyone	2.3	1.0	8.3
I haven't heard about this option at all, therefore I can not reply	3.9	11.3	15.5
Total	100.0	100.0	100.0

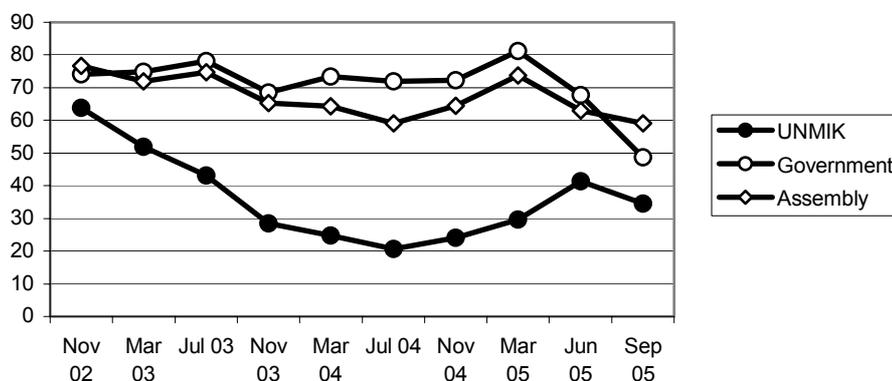
24. About 29% of Albanians have declared that they fully support the "Self-Determination" movement and that they would join in the movement's activities if called upon. Around 22% declared that they supported this movement but that they would not respond to their call for action, while 21% of respondents declared only their reserved support for this movement. Only 9.4% of Albanians declared that they do not support the movement, while 1.6% said they decisively oppose the "Self-Determination" movement (see Table A1.5 in the Annex).

## *Political and Institutional Stability*

### Political situation

25. Political developments in the July-September 2005 period have not shown any significant differences in comparison with the previous reporting period that would be reflected positively in respondents' opinions related to the activities of key institutions. On the contrary, recent polls have marked negative trends in several areas:

- i) According to the opinion poll carried out in September 2005, the political pessimism of respondents has increased in comparison to June 2005, thus reaching the lowest point of satisfaction of respondents with political developments ever since the poll taken in July 2004 – see Table A2.2 in the Annex. Currently, respondents “unsatisfied” or “very unsatisfied” with the current political situation comprise 41% of the population, while in June 2005 this percentage was approximately 36%. Albanian respondents have expressed the largest increase in pessimism at 38% in September 2005 compared with 32% in June 2005.
- ii) The decrease in satisfaction of respondents with the work of key Kosovo institutions may be related to the increase in political pessimism. As can be seen in Fig. 2.1 the satisfaction of respondents in September 2005 has decreased in comparison with June 2005, both with the work of UNMIK as well as with the work of domestic institutions (Government and Assembly). The satisfaction with the work of the Government and the Assembly has also marked a decrease in comparison with March 2005. The largest decrease in



**Fig. 2.1. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (%)**

satisfaction has been registered with respect to the performance of the

government: from 81.1% in March 2005 to 67.7% in June 2005 and down to only 48.7% in September 2005 (Table A2.3 in the Annex).

- iii) The readiness of the respondents to protest due to political reasons has not changed significantly in comparison with June 2005. However, it still remains very high – see Table A2.4 in the Annex. Almost every second Albanian respondent and over 75% of Serb respondents have expressed their readiness to protest.

**26.** Observed superficially, the July-September 2005 period may appear as the calmest one in the entire post-conflict period. However, a closer examination reveals internal tensions and disputes.<sup>35</sup>

Political activities during this period have been primarily focused on two tracks. While the Kosovo institutions have been focusing on the implementation of standards, opposition forces have been contesting the legitimacy and the competence of the Government.

**27.** Nevertheless the most important activities that have unfolded were related to the preparations for the beginning of the talks about the future status of Kosovo, where the disagreements in opinion within the Kosovo Albanian political sphere have caused considerable difficulties.

Other developments of an institutional and political nature that have characterized this period are:

- Difficulties related to the decentralization of the government and handing power over to the pilot municipalities;
- Accusations by the opposition against the Government;
- Continuation of non-participation of Kosovo Serbs in the sessions of the Kosovo Assembly;
- Difficulties in the implementation of the collective contract.<sup>36</sup>

### **Relations between the Government and the opposition remain tense**

**28.** Disagreement and friction between the ruling coalition and the opposition have continued during this reporting period. They have been characterized primarily by: i) disagreements about the composition and the mandate of the Negotiating Team; and ii) repeated accusations by the opposition against the Government.

- i) The functional unity between the main Albanian political parties related to the preparations for Kosovo's status talks have been achieved with considerable difficulty, both from the aspect of the establishment of an inclusive representative formation, as well as related to the composition and the mandate of its Negotiating Team. This unity has only been achieved after open criticism and pressure was applied by international actors.<sup>37</sup> However, this unity is still fragile and accompanied by occasional

<sup>35</sup> Political actors have tried to leave a good impression on the Special Rapporteur of the UN Secretary General, the Norwegian diplomat Kai Eide, because in this quarter he had been monitoring the development and implementation of standards in Kosovo.

<sup>36</sup> During this period the Government has not managed to implement an increase in wages that is part of the Collective Contact. This has caused great tension and has been the cause of frequent warnings of strikes by employees from various public sectors, especially the education sector. Their strike started on October 3, 2005 and has lasted about one month.

<sup>37</sup> In an interview with the daily *Express* of July 28, the Head of the US Office in Pristina, Mr. Philip Goldberg, has said that Kosovo's organization and preparation for the upcoming status talks are not sufficient.

disagreements. The continued cohesion of the Kosovo Albanian political factor regarding this issue will depend on numerous factors such as the course of the talks, their duration, and the fulfillment of the expectations of the population.<sup>38</sup>

- ii) The political climate in Kosovo continues to be burdened with constant accusations between the Government and the opposition on almost all issues of political and institutional life. The opposition accuses the Government of corruption, organized crime, bad management, abuse of budgetary resources and with the poor economic situation. Furthermore, the opposition, and especially the PDK, has demanded the resignation of the actual government and the formation of a technical government.<sup>39</sup>

The popularity of the Government and that of the Prime Minister's might have been negatively affected by continuous accusations made towards the Government<sup>40</sup> and stories of Prime Minister Bajram Kosumi's various controversial actions being published in the media.<sup>41</sup>

### Implementation of standards – a permanent challenge

29. The attitude of Kosovan politicians and of Kosovo society as a whole towards standards implementation, recognized as a continuous process, remains an important criterion for the resolution of the future status of Kosovo.

30. This has also been acknowledged by the critical assessment and evaluation that has been expressed by Ambassador Kai Eide during his visits to Kosovo and the region during the summer, as well as in his report to the Security Council related to the delay in the implementation of standards and the importance of their fulfillment. The assessment specified that there remains insufficient engagement on the advancement of the position of minorities in Kosovo (freedom of movement, return of the refugees and internally displaced, etc.), absence of dialogue and the obstruction of the decentralization project. Similar criticism has been articulated by other international actors and has been addressed to the Government and the opposition.<sup>42</sup>

31. During the July-September 2005 period the Government of Kosovo in the agenda of its activities has prioritized the fulfillment of "Standards for Kosovo". This task, however, has been more frequently understood as the carrying out of various formal administrative activities,<sup>43</sup> so that the process of standards

<sup>38</sup> The circumstances that will accompany the process of future negotiations about the status of Kosovo have been elaborated on the *The Challenges of the Future Status of Kosovo* chapter of this report.

<sup>39</sup> In a press conference organized by the main opposition party in Kosovo (September 10, 2005) the PDK General Secretary Jakup Krasniqi told the media that his party did not exclude the possibility of early elections. He voiced criticism against the Kosovo Assembly and the SRSG for the present situation with regards to Kosumi government. He called on the Assembly to vote in favor of a "technical government".

<sup>40</sup> The PDK parliamentary group has sent a letter to the Chairman of the Kosovo Assembly calling for an Assembly motion against the Prime Minister about the recent accusations for the abuse of power (September 11, 2005).

<sup>41</sup> "Cool Prime Minister", *Express*, August 31, 2005; "Will his plane fall?", *Express*, 6 September 2005; "The plane was paid by my friends", *Koha Ditore*, 8 September 2005; "Jessen - Petersen defends Kosumi", *Express*, 12 September 2005.

<sup>42</sup> "Solana surprised with the delay", *Koha Ditore*, 21 July 2005.

<sup>43</sup> "The report of the Kosovo Government after 100 days in office has been full of protocol procedures, instead of concrete achievements. For example, within the report the Prime Minister boasts about having had 500 meetings within 100 days. He counts every meeting that he has had, even protocol ones, as the personal successes and achievements of his cabinet. However, in the

fulfillment had even been delayed, for which objections have been made also by Ambassador Kai Eide, during his visit to Kosovo as well as in his report.<sup>44</sup>

32. Depending on ethnic affiliation, the public has different opinions with respect to the engagement of the Government in the implementation of “Standards for Kosovo”. According to the opinion poll carried out in September 2005, not all the respondents are of the opinion that in the implementation of Standards the Government has done all it could. Only every third Albanian respondent, every fifth non-Serb minority respondent and no Serb respondents were of the opinion that the Government has done all within its authority to fulfill standards’ implementation – see Table 2.1.

**Table 2.1. Respondents’ opinions on Government’s engagement to fulfill “Standards for Kosovo” (%)**

	Albanians	Serbs	Others
Government did not work at all to fulfill standards	4.3	77.2	7.4
Government did some work to fulfill standards	45.4	2.9	40.7
Government did all that is in its competencies to fulfill standards	31.5	0.0	20.4
Don't know	16.4	15.0	26.9
No answer	2.4	4.9	4.6
Total	100.0	100.0	100.0

Source: Riinvest’s opinion poll – September 2005

33. Although some progress in the decentralization process is achieved, this process still remains one of the most important Standard facing the Government of Kosovo.

From the five pilot municipalities planned for the initial phase of decentralization,<sup>45</sup> this process has been only completed in two municipalities populated mainly with Albanians (Junik and Elez-Han/ Djeneral Jankovic)<sup>46</sup> as well as a third municipality populated mainly with Turks (Mamusha/ Mamusa).<sup>47</sup> Although it was anticipated and indeed planned that another two municipalities with a majority Serb population were to be established (Graçanica/ Graçanica and Partesh/ Partes), thus far they have not, despite the fact that the current phase of decentralization in Kosovo has been initiated exactly in order to provide for the inclusion and participation of Serbs in political and institutional life.

34. The issue of decentralization has been one of the most dominating issues not only of an administrative but also of political character. It has dominated almost the entire summer agenda and has caused the Government and the opposition to

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report there is no mention any significant improvement or real change that has occurred because of them”, *Express*, 15 July 2005.

<sup>44</sup> All Albanian language *dailies* from 19 August 2005 reported that Ambassador Kai Eide was disappointed with progress in Kosovo.

<sup>45</sup> On August 12, 2005 the Deputy SRSG Lawrence Rossin signed five executive decisions establishing the territorial delineation of the five pilot municipal units.

<sup>46</sup> The municipality of Junik has been established on September 26, 2005 while that of Elez Han/ Djeneral Jankovic was established on September 22, 2005.

<sup>47</sup> The municipality of Mamusha/ Mamusa was established on September 27, 2005.

continue arguing about the implementation of decentralization in the pilot municipalities.

The differences between the Government and the opposition related to decentralization are numerous and have to do with the nature and proportion of authority granted to local governments. Disagreements between the Government and Kosovo Serb leaders as well as Serbian Government, to a considerable extent have focused on the territories that these pilot municipalities would encompass as well as their ethnic composition. This was the reason why the original Government plan was refused by Kosovo Serb leaders and why the Government had to come up with a new variation on the proposal for decentralization.<sup>48</sup> However, this “variation B” was also turned down by the Kosovo Serb leaders. As a consequence the decentralization process has stagnated in the pilot municipalities where there was a majority Serb population. It may continue to remain without improvement since many related issues have remained unresolved and, as such, are likely to remain so in the future. These issues are: i) the number of new municipalities to be created;<sup>49</sup> ii) their ethnic character;<sup>50</sup> iii) danger of cantonization;<sup>51</sup> and iv) the extent of authority to be granted.

**35.** Decentralization, which is the formation of new municipalities with expanded authorizations, has been ranked as one of the main priorities in the Ambassador Kai Eide’s report. In light of those priorities, it is not to be excluded that tension within the Albanian political sphere might re-emerge if it is demanded that further concessions be made to the decentralization model. In case of such tensions, renewed accusations by the opposition against the Government and demands for the resignation might occur again.

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<sup>48</sup> “Kosovo Government adopts “B version” of its decentralization plan”, *Beta* agency, 10 August 2005.

<sup>49</sup> Ivanovic: “Kosovo should have 70 municipalities”, *Zëri*, 8 August 2005.

<sup>50</sup> Haziri: “Variation B of the decentralization plan will mainly focus on multiethnic principle”, *Zëri, Express*, 8 August 2005.

<sup>51</sup> Thaçi: “Plan B has elements of cantonization”, *Express*, 6 August 2005.



## *Economic and Social Stability*

### **General economic situation**

36. During the July–September 2005 period minor changes occurred within the economy as compared to the previous quarter of this year. These changes were: 1) deflation has decreased from 2.5%, as observed in December 2004, to 0.5% in August 2005; 2) the trade deficit increased; 3) the increase in deposits' and loans' has shown signs of slowdown; 4) and generally, budget revenues and spending have been realized in accordance with projected frameworks. These changes are not expected to have a significant impact on economic development in 2005, which has been assessed to consist of 0.5% decrease in GDP when compared with 2004.

37. During the third quarter of 2005 some activities and processes were undertaken which may have a positive effect on future economic trends. Some of these positive developments are as follows:

- Signing of the Free Trade Agreement with Macedonia;
- Approval of the Energy Strategy 2005-2015 by the Kosovo Assembly;
- Beginning of the Investment Promotion Agency activities;
- Agreement between the European Bank for Reconstruction and Development (EBRD) and Kasabank to buy approximately 20% of Kasabank's shares;
- Increase in tax income collected within Kosovo.

Developments considered to have negative effects on the economy are as follows:

- Increase in the trade deficit and stagnation of the exports;
- Disagreements related to the leveling of salaries in the public sector, especially related to salaries in education and the health sectors;
- Challenges and disagreements regarding the privatization of Ferronikel, socially owned enterprises in Gjakova/ Djakovica and of enterprises located in northern Kosovo;
- Continued increase in the number of people registered as unemployed.

38. This reporting period did not see significant changes in the economic trends compared to April-June 2005 period. This is also reflected in public opinion regarding various economic issues, which has remained unchanged since the last reporting period. It is worth reiterating that the level of dissatisfaction concerning the economic situation still remains very high. The percentage of respondents "dissatisfied" or "very dissatisfied" with the economic situation according to an opinion poll conducted in June 2005 was 69.9%, in September 2005 this percentage was similarly at 68.8% – see Table A3.1 in the Annex. Opinions regarding the current economic situation in respondents' households are also similar to what they were six months ago. In September 2005 the economic situation in the household

that was perceived to be “much worse”, “somehow worse” or “the same” was noted at approximately 88%, while in June 2005 this opinion was shared by roughly 86% of respondents.

39. The readiness of respondents to protest due to economic reasons has also remained very high, irrespective of respondents’ ethnic affiliation (see Table 3.1).

**Table 3.1. Respondents’ readiness to protest against the current economic situation (%)**

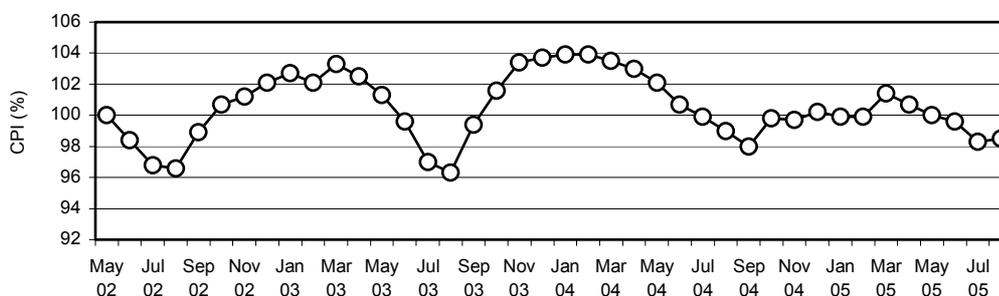
	Albanians	Serbs	Others
Yes	57.6	76.2	36.1
No	34.9	15.0	46.3
Does not answer	7.5	8.7	17.6
Total	100.0	100.0	100.0

Source: Riinvest’s opinion poll – September 2005

40. Respondents are also not satisfied with current business conditions. Only 6.7% of Albanian respondents, none of Serb respondents and 6.8% of non-Serb minority respondents assess current business conditions as being favorable (Table A3.2 in the Annex). In addition, respondents do not expect that these conditions will improve in six months time – see Table A3.3 in the Annex.

#### Deflation marks a decrease

41. According to the Statistical Office of Kosovo (SOK), the Consumer Price Index in August 2005 has decreased by 0.5% in comparison to August 2004, while compared to July 2005 this index marked an increase of 0.2%.<sup>52</sup> In general, since August 2004, seasonal fluctuations of prices are less pronounced than in previous years. Since December 2004, when inflation was recorded at 2.5%, it has experienced a decrease – see Fig. 3.1. During the July - August 2005 period the decrease in prices of vegetables, fat and oil has been observed. The decrease in the deflation rate can be explained, in part, by the increase of prices of cheese, sugar, tea, coffee, petroleum and transport.



**Fig. 3.1. Consumer Price Index**

Source: Statistical Office of Kosovo, September 2005

<sup>52</sup> Statistical Office of Kosovo, September 2005.

## Exports and the trade balance

42. The export of goods from Kosovo during January-August 2005 was almost stagnant compared with the same period in 2004 (Table 3.2), whereas during the June-August 2005 period even marked a decrease.<sup>53</sup> Imports, however, continued to increase considerably. Consequently, a negative trade balance of 723.4 million Euros was recorded, which is 24%

higher than during the same period in 2004. The coverage of imports with exports has decreased to an insignificant 3.8%, whereas during the first quarter of 2005 it amounted to 4.37%. Similar to the previous periods, export of goods continues to be dominated by scrap metals and basic metals (approximately 50%), while the rest consists of leather and leather articles; foodstuffs, beverages and tobacco.

43. Some changes in legislation have caused a temporary increase in imports. For example, the enacting of regulation that restricts the import of second hand vehicles older than eight years, prompted an increase in the number of imported cars for which custom duties were paid during the first quarter of 2005.<sup>54</sup> As a result, the share of vehicles in the import structure for the reported period has increased from 4.6% in 2004 to 10.8% in 2005, with a significant increase of imported goods from Germany.<sup>55</sup> If the percentage of imported vehicles would have remained at the level it was in 2004, then the trade deficit would have been 7.3% lower.

44. Another significant factor is the increase of oil imports of approximately 14% during the July - September 2005 period compared to the same period in 2004. This increase may indicate that some positive economic growth is occurring, since oil contributes to an important part of economic input. An increase in imports of textile and textile articles (30%), as well as machinery, electric equipment and materials (4.9%) has also been observed. On the other hand, a decrease in imports occurred for food items, beverages, tobacco (19%) and agricultural products (30%), which demonstrates a tendency to substitute the import of these items with domestic products.

45. It is expected that the free trade agreements signed with regional countries will have positive effects in fostering exports from Kosovo. In August 2005, Kosovo signed the Free Trade Agreement with Macedonia. This agreement is considered to be an important step for Kosovo's foreign trade development, especially if one considers the fact that Macedonia is one of its most important trading partners.<sup>56</sup> This is the second free trade agreement signed with regional countries; the first was signed with Albania in 2003. Such agreements will moderate Kosovo's asymmetric position in foreign trade with neighboring countries, which has been evident since the end of the conflict.

**Table 3.2. Dynamics of exports and imports (in million €)**

	Jan-Aug 2004	Jan-Aug 2005	Increase/ decrease
Exports	28.4	28.6	0.70%
Imports	611.6	751.9	22.94%
Trade balance	-583.2	-723.4	24.04%

Source: SOK, Foreign Trade Statistics, Sep. 2005

<sup>53</sup> Exports marked a noticeable decrease during August; exports in June amounted to 4.264 million Euros, whereas in August they amounted to 3.136 million Euros.

<sup>54</sup> In accordance with UNMIK Regulation 2005/11, which was enacted on 28 February 2005, beginning in March 2005 cars that are more than eight years old are not allowed to be registered in Kosovo. Consequently, owners of cars that were older than eight years old were prompted to register their vehicles in due time.

<sup>55</sup> Germany's participation in Kosovo's total imports almost doubled during the reported period - from 6.8% in 2004 to 12.1% in 2005.

<sup>56</sup> Some 22% of goods are exported from Kosovo to Macedonia, whereas goods from Macedonia make about 18% of imports to Kosovo.

### Sustainable growth of deposits and loans

46. In August 2005 deposits have increased by 24.3% compared with that of August 2004, while their total amount has reached 765.7 million Euros. The deposit growth rate during the August 2004 to August 2005 period has been reduced by 4.5% compared to the August 2003 to August 2004 period. Similarly, time deposits

**Table 3.3. Deposits and loans (million €)**

	August 2004	August 2005	Index
Deposits	616.145	765.787	124.3
Time deposits	320.296	473.442	147.8
Loans	312.412	401.770	128.6
Loans/ deposits	50.7%	52.5%	3.6%

Source: BPK, Monthly Statistics Bulletin, August 2005

have marked a slower increase compared to the same period last year. Nonetheless, they now comprise around 62% of total deposits, in comparison to 52% in August 2004, featuring thus without doubt the most positive development in this sector. Issued loans mark a continuous trend in growth consisting of 52.5% of total deposits, whereas this percentage in August 2004 amounted to 50.7% - see Table 3.3.

However, the level of savings and the non-stimulating interest rates for time deposits are still being reflected in the low level of total deposits, as well as in the insufficient loan capacity of Kosovo.<sup>57</sup>

47. Table 3.4 shows that despite the above-mentioned trends, interest rates remain high and without essential changes. They reflect the current imbalance between credit supply and credit demand, the insufficient competition in the loan market, as

**Table 3.4. Comparison of loan interest rates**

Loan types	August 2004	August 2005	Increase/ decrease
Business investment loans - more than one year, less or equal to three years	15.10%	14.37%	-5.1%
Other business loans – more than one year	14.89%	14.93%	0.0
Other business loans - more than three months, less or equal to one year	15.75%	15.42%	2.1%
Credit lines	14.99%	15.62%	4.2%
Household loans	13.10%	12.47%	-5.1%

Source: BPK, Monthly Statistics Bulletin, August 2005

well as the current high risk level. Difficulties encountered in the implementation of mortgages have an impact on this situation. As a result, banks have started to rely much more on business plans than on collateral when they issue loans.<sup>58</sup> The encountered difficulties are a consequence of the low efficiency of the courts, as well as of the lack of a tradition in this area, which is reflected in hesitation shown in mortgage. This issue needs to be addressed by the judicial system, especially in the execution phase of judicial decisions, because of its big implications in the investment

activity.

48. A positive development in this sector has been achieved with the start of negotiations for an agreement between EBRD and Kasabank. EBRD will buy 20% of Kasabank's shares. It is considered that this transaction will contribute to raising the image of the banking system in Kosovo and in the FDI markets, as well helping to generate deposit growth in general.<sup>59</sup>

### Fulfillment of budget projections

49. Budget revenues collected by the central government during the January-August 2005 period have progressed in line with projections of the Kosovo

<sup>57</sup> Compared with other regional countries, Kosovo's low savings level has had a negative impact in the development of loan potential. Per capita deposits in Albania in April of this year were around 917 €, whereas in Kosovo they amounted to 330 €, which is three times lower than in Albania.

<sup>58</sup> Riinvest's interview with Mr. Florin Lila, Deputy Director of ProCredit Bank.

<sup>59</sup> According to the General Director of Kasabank, Mr. Milazim Abazi, EBRD's investment in buying 20% of Kasabank's shares, for one seat on the governing council, as well as their investment increase in Slovenia's Factor Bank, from 10% to 25.1% of Kasabank shares, are expected to be finalized before the end of the year.

Consolidated Budget (KCB). Taxes collected at the border during the January-August 2005 period were 2.6% higher than during the same period in 2004, whereas revenues during the June-August period of 2005 were 4.12% lower than during the same period in 2004.<sup>60</sup>

It has been considered that recent increase in oil price and the increase of their imports could have triggered an increase of the revenues collected at the borders.<sup>61</sup> This seems to have considerably offset the negative effects of reduction in the collection of forecasted revenues.

A very important positive development marked during the January-August 2005 period represents the noticeable increase in the collection of domestic taxes, which were 14.5% higher than during the same period in the previous year. This increase was even more pronounced during the June - August 2005 period, when collected taxes were 16.1% higher than at the same period in 2004.

50. The low level of revenue collected from property tax at the municipal level continues to represent a challenge for budgetary stability, albeit during the June-August period the trend regarding the collection of these taxes improved.<sup>62</sup> During the January-August 2005 period, municipal revenues were composed of only 40% of what was initially projected and were 1.8% lower than at the same period last year.<sup>63</sup>

51. Budget consumption during the January-August 2005 period has moved within the projected budgetary framework. This holds especially true for expenditures for goods and services, which compared to the same period in 2004 has shown a significant decrease by 21.7% (Table 3.5). This fall has counterbalanced the increase in the position of subsidies and transfers, as well as of wages and salaries. Expenditures for capital projects were realized by 9.4% more than in 2004, but they are below the level of budget projections for 2005 - see Table 3.5. These capital expenditures/investments trends are an indicator of the inadequate preparation of the projects or uneven commitment in using these funds in the course of the year. This usually has as a consequence on the increase of spending pressures during the last three months of a year.

**Table 3.5. Budget expenditure for January-August 2004 and January-August 2005 compared to projections (in million €)**

Expenditures	Budget Consumption			Budget Consumption		
	January-August 2004	January-August 2005	Index 2005/2004	Projections for 2005	Realization January-August 2004	Realization/projection

<sup>60</sup> MEF data; data for July and August 2005 are preliminary and do not include tax returns.

<sup>61</sup> The World Bank considers that the inflexible nature of oil, possible increase in the business activities and the recent changes in customs rules for goods imported from Macedonia could lead to higher oil imports, in spite of high prices; source: World Bank, Kosovo Monthly Economic Briefing, August 31, 2005.

<sup>62</sup> Municipal revenues during the first five months of 2005 were 13% lower than those of 2004. (See also EWR#10.)

<sup>63</sup> MEF data, September 2005.

Wages and salaries	107.57	112.74	104.81	193.75	112.74	58.19%
Goods and services	116.26	91.03	78.30	146.21	91.03	62.26%
Subsidies and transfers	110.97	123.77	111.53	192.04	123.77	64.45%
Reserves	3.54	0		13.8	0	0.00%
Capital expenditures	64.7	70.68	109.24	150.63	70.68	46.92%
<b>Total expenditures</b>	<b>403.04</b>	<b>398.49</b>	<b>98.87</b>	<b>696.42</b>	<b>398.49</b>	<b>57.22%</b>

Source: MEF data, 2005

52. Challenges, which are predicted to afflict the sustainability of the budget in the upcoming periods, are expected to come from pressures toward the initiation of the implementation of the Collective Bargaining Agreement and the new salaries scheme.<sup>64</sup> Thus, earlier pronouncements that the new salaries scheme would be implemented in August of this year, then the failure to implement it - allegedly due to insufficient funding - and then further delays in the implementation of this process, has caused dissatisfaction among civil servants in the health and education sectors who warned that they would strike.<sup>65</sup> The current salary levels within the health and the higher education sectors have not only strained the social situation, they have also become an obstacle towards the reform process and in providing better quality of services in these sectors. Given the limited amount of KCB funds, a reform in the way that these sectors are financed should be considered, while taking into account the possibility of ensuring a greater role for the use of the funds from consumer participation.

53. The forthcoming transfer of competencies, accompanied by the creation of new institutions of self-government, as well as creation of new municipalities in the course of the decentralization process, imposes the necessity of establishing a new administrative infrastructure, which has additional budget implications. Therefore, the IMF called for rationalizing budget expenditure in order to avoid last year's experiences with fiscal deficit. Otherwise, the IMF predicts a higher fiscal deficit - approximately 143 million Euros - than planned for 2005 (102 million Euros).<sup>66</sup>

### Unemployment continues to be a serious issue

54. According to Riinvest's opinion poll, conducted in September 2005, unemployment is considered to be Kosovo's biggest problem by Kosovo Albanian respondents (about 34%) and respondents of non-Serb minority groups (44%), while Kosovo Serb respondents rank it in the fifth position among the biggest problems - see Table A2.1 in the Annex.

<sup>64</sup> In June 2005, the Government reached an agreement with the Trade Union (BSPK) on the implementation of the Collective Bargaining Agreement, which defines basic rights for employees. Due to the lack of funding in the 2005 Kosovo Consolidated Budget, the Government and the Trade Unions agreed to postpone implementation of three articles of the agreement, i.e., a mandatory 13th bonus payment every year, the provision of the daily meal allowances, and sick leave provisions.

<sup>65</sup> "Leveling of salaries spoils social calmness", *Zëri*, 9 September 2005; "Threat of strike", *Express*, 20 September 2005.

<sup>66</sup> Aide Memoire of the IMF Staff Mission to Kosovo, July 14-25, 2005.

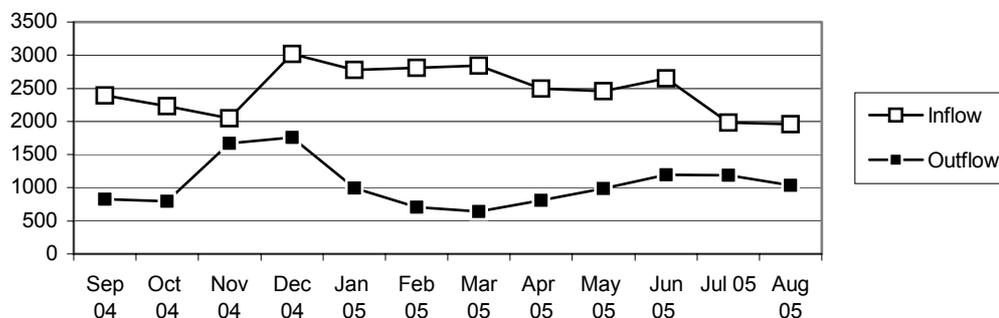
55. The total number of those registered as unemployed continues to rise, accounting for 314.446 unemployed people in August 2005 (Albanians 92%, Serbs 3 % and non-Serb minorities 5%).<sup>67</sup>

56. The current dissatisfaction with the high unemployment rate is reflected in the opinion of respondents as well. Riinvest's opinion poll carried out in September 2005 shows that about 78% of Albanian respondents, 88% of Serb respondents and 74% of non-Serb minority respondents consider that the current employment conditions are unfavorable – see Table A3.4 in the Annex. The opinions are similar concerning respondents' expectations regarding employment conditions in six months time.

57. In general, the average monthly inflow and outflow rates in the labor market are still relatively low. The average monthly inflow rate decreased from 1.2% in 2003 to 0.86% in 2004 and to 0.81% in 2005, while outflows decreased from 0.44% in 2003 to 0.32% in 2004 and then increased to 0.34% in 2005. This indicates that Kosovo's economy has low circulation and limited dynamics, especially in terms of job-creation and the reintegration of the unemployed to employment.<sup>68</sup> This in-turn will place additional pressure on long-term unemployment.

58. The percentage of females within registered unemployed population is lower (45%) than that of males (55%). During the May-June 2005 period, the gender gap continued to decrease as a result of the increasing rate of female unemployment registration being over-proportional to that of male registrations. The contrary is true for the June-August 2005 period, when the gap started to increase.

59. Considering the gender inflow-outflow trends, higher relative inflow and outflow of registrations have been observed among men compared to women.<sup>69</sup> In



**Fig. 3.2. Inflow/ outflow trends in the labor market;**  
Source: Monthly reports of the Ministry of Labor and Social Welfare

addition, the training profile by gender shows that the participation of unemployed males in training schemes has always been higher than that of unemployed females. This confirms presumptions that females are at a disadvantage when competing in the labor market.

### Privatization still encounters some obstacles

<sup>67</sup> Ministry of Labor and Social Welfare, press release, September 2005.

<sup>68</sup> Ministry of Labor and Social Welfare, Kosovo – Labor and Employment, 06/ 2005, Performance Report.

<sup>69</sup> Except for February, when the inflow amount of females was higher than that of males.

60. After a long period of adopting procedures, operational policies and a relatively slow start of privatization, the KTA has recently embarked on what appears to be a fast track to privatization. This period is characterized with two or three waves launched in a very short time. The general public has approved this new fast track approach by the KTA.<sup>70</sup> Thus, these changes have raised hopes that the privatization process is finally winning ground. The actions undertaken by the KTA will not be short-lived, which is promising because it indicates that Kosovo's transition is heading in the right direction. However, there are concerns that recent waves of privatization have led to a reduction of cash amounts in the market, so that some of the bid winners face serious problems with newly bought companies, as well as with existing companies.<sup>71</sup>

61. The KTA still encounters a number of obstacles. At present, the KTA is under heavy pressures from Ferronikeli workers and Glogoc/ Glogovac Municipality for "being non-transparent" regarding the privatization of one of the largest metallurgic SOE's (Ferronikeli) in Kosovo.<sup>72</sup> The other issues are related to the speed of the KTA Board's "ratification" of sales contracts, refunding of bid deposits to the losing bidders and, most importantly, defining who the eligible employees are for the 20% distribution of sales proceeds. The number of workers that benefit from the distribution of 20% of sales proceeds is still low. Up until the end of August, about 1,800 workers have received this compensation.<sup>73</sup> Out of 50 privatized companies only 11 of them have received this compensation.<sup>74</sup> Therefore, specific financial policies for supporting privatization and post-privatization needs should be considered.

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<sup>70</sup> Interview with Mr. Ahmet Shala, Deputy Managing Director SOEs, 29 September 2005.

<sup>71</sup> Ibid. Up until the 8<sup>th</sup> wave of privatization, more than 120 companies out of 450 SOEs identified by KTA now are officially in private hands. The total amount for all seven waves is approximately € 120 million.

<sup>72</sup> *Express*, 9 September 2005; *Kosova Sot*, 20 September 2005.

<sup>73</sup> Interview with Mr. Ahmet Shala, Deputy Managing Director SOEs, 29 September 2005.

<sup>74</sup> Ibid.

## Inter-ethnic Relations

### Trends in inter-ethnic relations

62. Compared to the April-June 2005 reporting period, no specific events were recorded in this period that could aggravate or improve inter-ethnic relations to an extent that could affect stability in Kosovo.

Nevertheless, considering the current tense relationship between Kosovo Serbs and Kosovo Albanians, even isolated cases have considerably negative affect on ethnic relations. This is especially true regarding the perception of the Serb community in Kosovo. Thus, as a result of the killing of two Serbs and the wounding of two others in an armed attack on their car in the Bainca village near Shtërpçë/ Sterpce on August 28<sup>th</sup> 2005, Kosovo Serbs responded much less favorably to the state of inter-ethnic relations in an opinion poll conducted in September 2005 than in an opinion poll conducted in June 2005.<sup>75</sup> Currently, almost all Serb respondents (98.5%) believe that ethnic relations are tense and that they will continue to be tense, while in June 2005 this perception was about 20% more favorable - see Table 4.1. On the other hand, Albanians actually believe inter-ethnic relations are less tense than they were three months ago.

**Table 4.1. Opinions on inter-ethnic relations between Albanians and Serbs (%)**

	November 2004		March 2005		June 2005		September 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Relations are and will continue to be tense	28.8	98	21.2	81.3	23.0	76.0	18.8	98.5
Relations are tense, but some improvements have recently occurred	28.3	1.5	32.2	13.4	32.2	14.0	24.3	0.5
Relations are tense, but considerable improvements have occurred	18.1	0.0	19.9	4.8	18.1	9.4	20.0	0.5
Relations are not so tense	14.8	0.0	13.1	0.5	12.3	0.6	16.3	
Relations are not tense at all	10.0	0.5	13.5	0.0	14.4	0.0	20.6	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest surveys – November 2004 to September 2005

63. Depending on their ethnic affiliation, respondents continue to have almost totally opposite opinions on what is making the relationship between Albanians and

<sup>75</sup> It needs to be stressed that according to official crime data registered by UNMIK, the percentage of Serb victims who experienced crime against the person (murder, assault and battery) during the July - September period was relatively small (4.6%) in relation with other recorded crimes in Kosovo. Source: UNMIK Police, MHQ Operations, CDSU, covering period 01/07/05 – 30/09/05. However, these crimes have a very significant impact on mood of the Serbian community.

Serbs tense. Approximately 75% of Serb respondents think that the main factor is the attitude of Albanian leaders, whereas around 49% of Albanian respondents think that Belgrade's influence is responsible for making relations between the two ethnic groups tense - see Table A4.1 in the Annex. It is worth mentioning that the percentage of Serb respondents who consider that Albanian leaders' attitudes are the reason for current tense inter-ethnic relations had marked an increase compared to the opinion poll conducted in June 2005. An increase has also been observed in Albanian respondents who think that Kosovo Serb leaders are the ones who are the prime contributors in making inter-ethnic relations tense.

### Obstacles to better inter-ethnic relations

64. Albanian and Serb respondents continue to express completely opposite opinions or preferences about many issues that are influenced by the nature of inter-ethnic relations. For this reason, it is not realistic to expect that the relations between Albanians and Serbs will undergo a considerable improvement within a short period of time, especially during the forthcoming phase of talks about the future political status of Kosovo. Based on polls carried out for purpose of the Early Warning Report, the opinions that differ the most are that:

- a) Albanians and non-Serb minorities see unemployment as the main problem facing Kosovo (Table A2.1 in the Annex), while Kosovo Serbs see personal and public security as the main challenge.
- b) Albanians and Serbs have totally different views regarding the final status of Kosovo. While 90% of Albanians favor independence, 86% of Serbs think that autonomy for Kosovo is the best solution.<sup>76</sup>

65. A serious obstacle to the integration of Kosovo Serbs into Kosovo's society comes from the influence that the Serbian Government exerts on Kosovo Serb leaders and the Serb population living in Kosovo for the boycott of Kosovo provisional institutions. Thus, Kosovo Serb representatives are still refusing to participate in the Kosovo Assembly sessions. In addition, some calls are made to Kosovo Serbs not to work with UNMIK as well.<sup>77</sup>

According to Kosovo Serb respondents, Kosovo Albanian leaders are not sufficiently contributing to the lowering of inter-ethnic tensions and to the integration of Kosovo Serbs into Kosovo's society (see Table A4.1 in the Annex). Their visits to Serbian communities are very rare, while their calls for integration addressed to Kosovo Serbs sound too formal.<sup>78</sup>

66. Problems related to the freedom of movement are the most limiting factors to the successful integration of Kosovo Serbs into Kosovo's society. Divergence of

<sup>76</sup> For more details see the *Challenges to the Kosovo Status Issue* chapter of this report.

<sup>77</sup> According to *Tanjug* news agency (23 September 2005), the Head of the Coordination Center for Kosovo Sanda Raskovic-Ivic said in Shtërpçë/ Strpce: "Four years ago, the Kosovo Serbs had accepted to go to the polls and to work for UNMIK institutions, but working for UNMIK today means working for Kosovo Albanian institutions".

<sup>78</sup> On August 15, 2005 Albanian dailies reported that institutional and party leaders of Kosovo will send an open letter to Kosovo Serbs inviting them to integrate in Kosovo society. "This is an expression of our good will and readiness for the integration of Kosovo Serbs, along preparations for the process of decentralization and other important processes in Kosovo, and of our interest to create a calm, safe and multiethnic Kosovo", declared Avni Arifi, an Advisor to Prime Minister Kosumi. Sometimes even compatriots are an obstacle to the improvement of inter-ethnic relations. The case of Mrs. Tanja Tosic, the Head of the Community Office in Klina, could serve as an illustration. She was physically attacked by a group of Serbs because of her "cooperation with Albanians", *Zëri*, 26 August 2005.

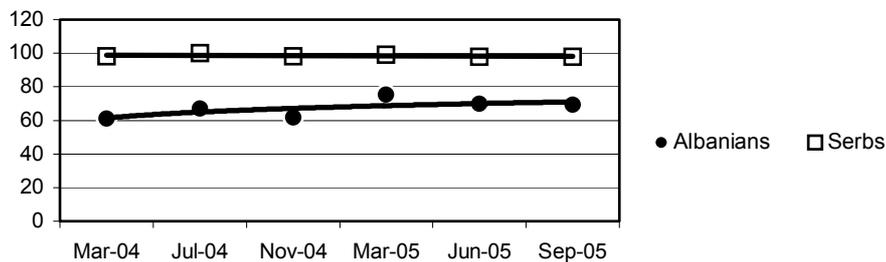
opinions appear on this issue. While representatives of the Kosovo Government say that freedom of movement exists in about 92% of Kosovo's territory,<sup>79</sup> Kosovo Ombudsman Marek Nowicki states that freedom of movement in Kosovo is still limited.<sup>80</sup> The reality is that freedom of movement is still limited for Serbs in most parts of Kosovo as well as for Albanians in the northern part of Kosovo, thus making integration very difficult for the population as a whole.

### The decline of returnees

67. Although the return of Kosovo Serbs to their homes in Kosovo continues, the influx of returnees has marked a decrease compared to previous years after the 1999 conflict. According to UNHCR data, the number of Internally Displaced Persons (IDPs) and refugees returned during the first seven months of this year was 1017, while during the same period in 2004 this number amounted to 1435 returnees. This amounts to a decrease of more than 400 returnees.<sup>81</sup>

68. This data is in contrast with the readiness shown by respondents to support returns. Opinion polls conducted for the purpose of the Early Warning Reports show an increasing trend of both Albanian and Serb respondents in favor of the return of refugees and displaced persons - see Fig. 4.1 and Table A.4.2 in the Annex. Based on the opinion poll conducted in September 2005, about 70% of Albanian respondents favor the return of IDP's and refugees.

69. Like on many other issues, Kosovo Albanians and Kosovo Serbs have different opinions on whether enough has been done by the Kosovo Government



**Fig. 4.1. Respondents' readiness to support returns (%)**  
Source: Riinvest's opinion polls – March 2004 to September 2005

to make progress on the return of IDPs and refugees to Kosovo. Oliver Ivanovic,<sup>82</sup> the Leader of the Serbian List for Kosovo and Metohija, has said: "I am not at all happy with the efforts of the Kosovo Government regarding the return of Serbian IDPs, for the Government their return has not been a priority". According to Ivanovic, Kosovo's status has been a priority for the Government, yet it greatly depends on the implementation of this standard. On the other hand, Lutfi Haziri,

<sup>79</sup> "Full freedom of movement in 92% of Kosovo's territory says Government", *Zëri*, 15 July 2005.

<sup>80</sup> Nowicki: "Freedom of movement is still limited in Kosovo and there are no mechanisms for human rights protection", *RTS*, 12 July 2005.

<sup>81</sup> According to UNHCR Information Center in Pristina, the UNHCR data only includes returns to the place of origin, and not the movement to secondary places of displacement within Kosovo. Figures include both returns from internal displacement as well as from external displacement and include only voluntary returns.

<sup>82</sup> "Albanians and Serbs have different beliefs on returns results", *Koha Ditore*, 25 September 2005.

Minister of the Local Government Administration in Kosovo, declares that there have been undisputable results in the implementation of the Returns Standard.<sup>83</sup>

70. In order to encourage the number of returns, in early July 2005, UNMIK, UNDP and the PISG Ministry of Communities and Returns have signed a memorandum in support of returns to Kosovo.<sup>84</sup>

Beside the many problems that the returns process already encounters, financial problems may also pose a significant obstacle to the return of Serbs. In order to give impetus to the process of refugee returns, the Ministry of Returns and Communities has decided to organize a donor conference to raise funds for IDPs' return. Although the Government and Ministry have allocated about €8 million for refugee returns, another €22 million is needed for sustainable returns. "At this donor conference, we [UNMIK and the Government] must raise the awareness of donors and tell them that these are programs for refugee returns. Give us the funds and stop saying that we have not achieved results because refugee returns cannot happen without funds" said Kilian Kleinschmidt the Acting Director of the Office of Returns and Communities to newspapers.<sup>85</sup>

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<sup>83</sup> Ibid.

<sup>84</sup> "Some 20 Kosovo-wide multi-sectoral returns projects approved by various Municipal Working Groups are ready to be implemented and many IDPs are waiting to return through these projects", Kilian Kleinschmidt said on one occasion. This Memorandum of Understanding provides the framework for the implementation of the "Sustainable Partnerships for Assistance to Returns to Kosovo" project (SPARK) amounting to €8,800,000 from the Kosovo Consolidated Budget, [www.unmikonline.org](http://www.unmikonline.org), 4 July 2005. Note: This agreement was subsequently amended to €7,400,000.

<sup>85</sup> "Government asks for money for returns", *Koha Ditore*, 9 August 2005.

## *Public and Personal Security*

### The security situation

71. Based on official crime statistics presented in Table 5.1, the security situation during the July-September 2005 period has not changed significantly from that of the April-June 2005 period which, for the most part, was characterized by relative stability.<sup>86</sup>

Nevertheless, within the categories of crimes registered there were differences from the last period: weapon-related crimes have increased by 12%, while the number of crimes against property has decreased by 11%.<sup>87</sup> It should be emphasized that the security situation was made worse by the increase in the number of homicide cases (31%), sexual assaults (18%), obstruction of justice (17%), attacks with explosive devices (35%) and demonstrations (100%).<sup>88</sup> The increase in the use of explosive devices is of particular concern since they are also directed against institutions and the police. These bombings are also disconcerting because in recent years cases involving the use of explosive devices have never been solved.<sup>89</sup>

Table 5.1. Crime statistics by categories of crime. Covering period:  
01/04/05 - 30/09/05

Category	April-June 2005	July-Sept 2005	+/- (%)
Crimes against persons	2,305	2,323	1%
Crimes against property	4,674	4,167	-11%
Crimes against society	1,015	1,041	3%
Weapon related crimes	742	831	12%
Other crimes/ incidents	8,723	9,126	5%
Total	17,459	17,488	0%

Source: UNMIK Police, MHQ, Central Database Support Unit, 13 October 2005

72. Although the crime statistics do not indicate any significant change in the overall security situation, crimes which are suspected of being ethnically motivated have a major influence on the opinions of respondents regarding personal security,

<sup>86</sup> "Kosovo: UN envoy sees much progress since March 2004 riots", [www.unmikonline.org/archives/news0905.htm](http://www.unmikonline.org/archives/news0905.htm).

Daily newspapers in Albanian from August 31, 2005, covered the meeting that Deputy Prime Minister Adem Salihaj had on August 30, 2005 with UNMIK Police Commissioner Kai Vittrup. Both parties are quoted as saying that the security situation in Kosovo is stable.

<sup>87</sup> The following crimes have been included in the crimes against property category: arson, break-in, burglary, destruction of property, blackmail, theft, auto theft, fraud and trespassing. Weapons-related crimes are composed of: illegal possession of ammunition, explosive devices and firearms, and attacks with grenades, mines or explosives.

<sup>88</sup> UNMIK Police, MHQ, Central Database Support Unit, 13 October 2005.

<sup>89</sup> On July 2, 2005 three explosions occurred in Pristina simultaneously: one within the UNMIK compound, one in front of the OSCE and one close to the Kosovo Assembly building.

especially by Serb respondents. Hence, the grave incidents that have taken place in the vicinity of Shtërpçë/ Sterpce municipality in which two Kosovo Serb citizens were killed and two others wounded<sup>90</sup> and in another incident where a Kosovo Police patrol car was attacked, thus wounding a local Serb officer,<sup>91</sup> have influenced negative perceptions of the security situation by Kosovo Serb respondents.<sup>92</sup> In an opinion poll carried out in June 2005, only 2.1% of Kosovo Serb respondents considered the security situation in Kosovo worse than in 2004. However, in an opinion poll carried out in September 2005, the percentage of K-Serb respondents who consider that the security situation has gotten worse has increased to 35% - see Table 5.2.

**Table 5.2. Opinions expressed in June and September 2005 about the security situation in Kosovo compared to one year period ago (%)**

	June 2005			September 2005		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Situation has worsened	3,4	2,1	5,4	4,5	35,0	7,5
Situation unchanged	29,2	93,8	39,9	41,4	63,1	42,5
Situation has improved	67,4	4,1	54,7	54,1	2,0	50,0
Total	100,0	100,0	100,0	100,0	100,0	100,0

Source: Opinion polls carried by Riinvest – June 2005 and September 2005

**73.** The serious incidents that have taken place in the vicinity of the predominantly Serbian Shtërpçë/ Sterpce municipality have also affected the increase in the sense of personal insecurity within the Kosovo Serb population (Table A5.1 in Annex). In a June 2005 opinion poll, 39% of the Serb respondents felt “very insecure”, and in September 2005 this feeling of insecurity had increased to 49%.

On the other hand, it should be emphasized that satisfaction with the work of the KFOR among Kosovo Serb respondents has increased as compared to the previous periods – see Table A5.2 in Annex. In an opinion poll conducted in June 2005 only 6.4% of Serb respondents were “satisfied” or “very satisfied” with KFOR’s work. However in September 2005, this number increased to 25%. An explanation for this increase could be related to KFOR’s joint exercise with the Army of the Union of Serbia and Montenegro that was held in July 2005. In the September 2005 opinion poll, Albanian respondents have not expressed any significant change with respect to their feeling of security nor to the satisfaction with the work of KFOR in comparison with the poll of June 2005.

<sup>90</sup> At the end of August 2005, on the road linking Ferizaj/ Urosevac with Shtërpçë/ Sterpce, two Serbs were killed and two others wounded. The Euro-parliamentarian Angelika Beer has stated: “Kosovo continues to be a powder keg and Serbs need guarantees for their security; this is proven by the recent killing of two Serbs in Kosovo”, *Lajm*, September 5, 2005.

<sup>91</sup> On September 9, 2005, in an armed attack against a police patrol car between the villages of Firaja and Drajoc on the road between Ferizaj/ Urosevac and Shtërpçë/ Sterpce, a KPS Serbian policeman was wounded. Two other local Serbian policemen were also in the patrol car but did not suffer any injuries. On the same day and area, an explosive device destroyed the UCK Monument to Fallen Soldiers and Martyrs of Freedom.

<sup>92</sup> The highest ranking Serbian KPS officer, Colonel Dejan Jankovic, was shot at while in his car on September 28, 2005, in the vicinity of Kaçaniku i Vjeter/ Stari Kacanik village, which is populated only by Albanians. Although Colonel Jankovic has stated that “the assassination attempt against me was carried out by Serbs, not by Albanians”, this case had no repercussions for the local Serb population since the Serbian organization called ‘Tigers’ took responsibility for the attack, *Lajm*, October 3, 2005.

## Armed Groups Endanger Security

74. The security situation has started to become a concern in the second part of September 2005, as well as in the beginning of October 2005 when alleged armed groups started appearing in Kosovo. Considering the general fragility of the situation in Kosovo and the timing of these groups' appearance before the beginning of status talks, these groups could be considered as threatening elements to the negotiating process.<sup>93</sup>

According to available information, the following armed groups have emerged in Kosovo:

- Various police units from Serbia,<sup>94</sup> and
- Army for the Independence of Kosovo (APK).<sup>95</sup>

75. **The presence of Serbian police forces in Kosovo.** The presence of members from the Serbian police has been registered several times within the July-September 2005 period. On September 19, 2005, during routine checks in Shtërpçë/ Sterpce, with majority Serb population, a special unit of the Kosovo Police Service (KPS) had searched two Serbs and found one carrying an official identity card of the Serbian Interior Ministry. On September 29<sup>th</sup>, another KPS patrol unit in the vicinity of Brod village within Shtërpçë/ Sterpce municipality arrested two armed Serbs which possessed identification documents issued by the Serbian *Gendarmerie*. These cases, as well as previous cases of the Serbian *gendarmes* who were seen in the border zone of the Gjilan/ Gnjilane region, indicate a systematic albeit concealed presence of Serbian police forces in Kosovo.<sup>96</sup>

76. The presence of Serbian police units in Kosovo has not been denied by Belgrade.<sup>97</sup> In addition, various media outlets in Kosovo and Serbia have reported that a civilian group has been formed in Kosovo, which is called the "Serb Liberation and Anti-Terrorist Movement of Kosovo and Metohija". This group proclaims to have been established for the defense of the Serb people in Kosovo and they warn that they could mobilize a significant force for this purpose.<sup>98</sup>

77. **The alleged emergence of the Army for the Independence of Kosovo.** Although the existence of this illegal military organization has been speculated on since August 2005, the first information published about it had emerged only in October 2005. According to the information which was first published in the *Epoka e Re* newspaper and later in other Kosovo newspapers, members of this Kosovo Albanian organization called the Army for the Independence of Kosovo

<sup>93</sup> "The situation in United Nations-administered Kosovo has greatly improved since the riots of March 2004, but there are new threats from organized crime and corruption and the next few months may be difficult as the ethnically divided province moves towards a decision on its final status", the top UN envoy Jessen – Petersen declared on September 1, 2005; [www.unmikonline.org/archives/news0905.htm](http://www.unmikonline.org/archives/news0905.htm).

<sup>94</sup> All Albanian language *dailies*, 20 and 30 October 2005.

<sup>95</sup> *Epoka e Re*, 12 October 2005.

<sup>96</sup> *Zëri*, 3 October 2005.

<sup>97</sup> According to the International Crisis Group, Serbian officials have stated that they have 1,000 Serb policemen in Kosovo engaged in various administrative duties. *Lajm*, 4 October 2005.

<sup>98</sup> In an interview given to *Glas Javnosti* on August 14, 2005, the former President of the Yugoslav Wrestling Association and current leader of this organization has declared: "We have founded the movement in order to stop the Albanian terrorists and secessionists who have accelerated their preparations in camps throughout Kosovo and Albania to commit more crimes against the Serb people."

(APK) have been seen in the region of Peja/ Pec and on the road between Gjakova/ Djakovica and Deçan/ Decani.<sup>99</sup>

In various communiqués the organization said that they have 378 members and that their number will swell in the coming months to 5, 000. According to some media outlets, this paramilitary group has sent an ultimatum to the Parliament of Kosovo demanding the declaration of independence of Kosovo by October 15; otherwise it would initiate war operations.<sup>100</sup>

78. Initially, the existence of the APK has been denied by UNMIK, the KPS and KFOR, but shortly thereafter they had declared that they are prepared to counter the potential escalation of violence.<sup>101</sup> Commenting on this organization, General John Harrell, Commander of the KFOR Multinational Brigade East, has stated that the individuals in uniform that have emerged in Kosovo lately are part of a paramilitary unit whose presence will not be tolerated.<sup>102</sup>

79. Although these groups have not yet undertaken any activity that would affect the overall stability of Kosovo, their emergence in public is alarming, especially considering the fact that Kosovo future status talks will begin soon and that the diametrically opposite expectations of Kosovo Albanians and Kosovo Serbs can hardly be fulfilled to the degree of their aspirations.<sup>103</sup>

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<sup>99</sup> "Emergence of armed groups", *Epoka e Re*, 12 October 2005.

<sup>100</sup> *Lajm*, 4 October 2005.

<sup>101</sup> "Police admits existence of armed groups in Kosovo", all Albanian language *dailies*, 20 October 2005.

<sup>102</sup> *Koha Ditore*, 26 October 2005.

<sup>103</sup> In an interview for a Czech newspaper, General Ales Vodenhal, the new Commander of the KFOR Multinational Brigade Center, has declared; "At first sight, the situation is calm. But for Kosovo Albanians the only acceptable alternative is full independence. In case those efforts fail, things that I even don't want to imagine could start happening"; *Koha Ditore*, 4 August 2005.

## *ANNEX 1. Selected results of the opinion poll*

**Note.** The opinion poll for this Report was conducted in September 2005, by the “Riininvest” polling team. The part of the opinion poll for Kosovo Serb population was carried out by a local Serb NGO.

The survey was based on face-to-face interviews, and included 1,247 respondents: 933 Albanians, 206 Serbs, and 108 respondents from other minorities (21 Bosnians, 12 Goranis, 30 Turks, 1 Roma, 22 Ashkalis and 22 Egyptians). In order to increase the reliability of opinions of the minority groups, the number of respondents belonging to minorities was chosen to be higher than their percentage participation in the entire population of Kosovo.

The sample was stratified on the basis of geographic regions, and urban to rural population ratio (1:1). The target population was over 18 years of age.

### Sample Demographics

	Albanians	Serbs	Others	Total
<b>REGION</b>				
Prishtinë/ Pristina	25.5%	13.1%	20.4%	23.0%
Mitrovicë/ Mitrovica	12.1%	67.5%	19.4%	21.9%
Prizren	19.3%	0.5%	39.8%	18.0%
Pejë/Pec	14.8%		0.9%	11.1%
Ferizaj/Urosevac	12.2%	9.2%		10.7%
Gjakovë/Djakovica	5.0%		19.4%	5.5%
Gjilan/Gnjilane	11.0%	9.7%		9.9%
<b>EMPLOYMENT</b>				
Unemployed (working able)	32.9%	11.7%	41.7%	30.2%
Working in public sector	12.0%	29.1%	9.3%	14.6%
Working in private sector	16.1%	25.7%	24.1%	18.4%
Employed from time to time	5.0%	11.2%	1.9%	5.8%
Pensioner	7.6%	11.7%	6.5%	8.2%
Housewife	18.1%	4.4%	10.2%	15.2%
Student/ pupil	7.7%	5.8%	2.8%	7.0%
Other	0.5%	0.5%	3.7%	0.8%
<b>GENDER</b>				
Male	60.7%	59.7%	63.0%	60.7%
Female*	39.3%	40.3%	37.0%	39.3%
<b>EDUCATION</b>				
Mean years of schooling	10.9	12.7	9.7	11.1
<b>AGE</b>				
Mean age	38.1	41.8	36.6	38.6

\* Whenever gender opinions differed, corresponding values were appropriately weighed throughout the Report

**Table A1.1. Opinions on circumstances threatening mostly stability of Kosovo (%)**

	Albanians	Serbs	Others
Further aggravation of interethnic relations	4.9	69.6	7.1
Current social and economic problems	20.9	3.1	37.4
Deterioration of relations with neighboring countries	0.8	0.0	0.0
Deterioration of relations with international community	2.1	0.0	0.0
Unresolved issue of the status of Kosovo	61.2	17.8	46.5
Lack of rule of law	3.7	9.4	7.1
Corruption and mismanagement	6.3	0.0	2.0
Total	100.0	100.0	100.0

Source: Riinvest's opinion polls – Nov. 2003 to Sep. 2005

**Table A1.2. Opinions on the best solution for the future final status of Kosovo (%)**

	Albanians	Serbs	Others
Independence of Kosovo in the present borders	90.2	1.0	93.4
Partition of Kosovo	0.7	9.3	2.2
Same as now (international protectorate)	0.1	0.0	4.4
Unification with Albania	9.1	0.0	0.0
Confederal state within Serbia, such as Montenegro	0.0	3.1	0.0
Autonomous province within Serbia	0.0	86.6	0.0
Total	100.0	100.0	100.0

**Table A1.3. Respondents' opinions on how should the agreement on the final status of Kosovo be achieved (%)**

	Albanians	Serbs	Others
Through an organized international conference similar to Dayton Conference	8.8	8.9	3.4
Through a direct dialogue between Kosovo's and Serbia's officials, with the internationals as intermediates	9.6	86.0	23.7
Decision for the final status should be taken from the international instance, i.e. from the Security Council	9.8	0.6	11.9
Through an organized referendum of self-determination	71.8	4.5	61.0
Total	100.0	100.0	100.0

**Table A1.4. Respondents' opinions on how ready are the Kosovan politicians to start talks regarding future status of Kosovo (%)**

	Albanians	Serbs	Others
Very prepared	21.0	2.2	31.8
Somehow prepared	68.1	25.7	53.4
Not at all prepared	10.8	72.1	14.8
Total	100.0	100.0	100.0

**Table A1.5. Respondents' readiness to support activities of the "Self-determination" movement of Albin Kurti (%)**

	Albanians	Serbs	Others
I strongly oppose	1.9	77.9	10.6
I do not support	11.4	18.3	34.0
I support up to a certain degree	25.6	1.9	23.4
I support but I would not join	26.2	1.0	8.5
I fully support and I would join them if I am invited	34.8	1.0	23.4
Total	100.0	100.0	100.0

**Table A2.1. Opinions on the biggest problems faced by Kosovo (%)**

	Albanians	Serbs	Others
Infrastructure (roads)	0.5	0.0	0.0
Power supply	3.6	1.5	9.3
Urban problems (unregulated building)	0.2	0.0	0.0
Environment	0.4	1.5	0.0
Poverty	19.4	15.3	17.6
Prices	1.2	0.0	2.8
Healthcare services	0.2	0.0	0.9
Public and personal security	0.1	30.7	0.0
Education	0.8	1.0	0.0
Interethnic relations	0.1	12.9	2.8
Unemployment	33.8	12.4	43.5
Uncertainty about the final status of Kosovo	28.3	9.9	20.4
Social problems	0.4	2.0	0.9
The fate of the missing	4.3	3.0	0.0
Organized crime	0.4	6.4	0.0
Unsolved killings and murders	1.0	0.5	0.0
Corruption	4.8	0.5	1.9
Unsocial behavior (prostitution, drugs)	0.3	0.0	0.0
Something else	0.1	2.5	0.0
Total	100.0	100.0	100.0

**Table A2.2. Percentages of respondents “dissatisfied” or “very dissatisfied” with the current political situation (%)**

	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05
Albanians	44.0	35.1	35.5	32.1	38.0
Serbs	99.5	98.0	97.1	97.4	98.5
Others	31.1	33.0	25.7	28.2	28.0
Weighed average (%)	46.6	38.7	38.6	35.8	41.0

Source: Riinvest's opinion polls – July 2004 to September 2005

**Table A2.3. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (%) “satisfied” or “very satisfied” respondents (%)**

	UNMIK	Government	Assembly
Nov-02	63.8	74.1	76.7
Mar-03	51.9	74.9	71.9
Jul-03	43.1	78.1	74.7
Nov-03	28.4	68.5	65.3
Mar-04	24.9	73.9	64.3
Jul-04	20.7	71.9	59.1
Nov-04	24.1	72.2	64.5
Mar-05	29.7	81.1	73.6
Jun-05	41.3	67.7	63.1
Sep-05	34.5	48.7	59.0

Source: Riinvest's opinion polls – Nov. 2002 to Sep. 2005

**Table A2.4. Respondents' readiness to join protests that could be organized due to the current political situation (%)**

	June 2005		September 2005	
	Albanians	Serbs	Albanians	Serbs
Yes	46.6	75.5	44.4	78.2
No	43.1	11.7	45.0	12.1
Does not answer	10.3	12.8	10.6	9.7
Total	100.0	100.0	100.0	100.0

Source: Riinvest's opinion polls – June 2005 and September 2005

**Table A3.1. Percentages of respondents "dissatisfied" or "very dissatisfied" with the current economic situation (%)**

	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05
Albanians	69.0	65.4	70.3	69.1	67.5
Serbs	95.5	93.1	95.1	92.3	91.2
Others	71.4	75.2	58.2	60.0	65.1
Weighed average (%)	70.7	67.7	71.1	69.9	68.8

**Table A3.2. Respondents' assessment of the current business conditions (%)**

	Albanians	Serbs	Others
Unfavorable	55.4	85.2	66.2
Neither favorable nor unfavorable	38.0	14.8	27.0
Favorable	6.7	0.0	6.8
Total	100.0	100.0	100.0

**Table A3.3. Respondents' expectations regarding business conditions six months hence (%)**

	Albanians	Serbs	Others
Unfavorable	48.2	85.3	62.3
Neither favorable nor unfavorable	41.3	14.1	31.9
Favorable	10.5	0.6	5.8
Total	100.0	100.0	100.0

**Table A3.4. Respondents' assessment of the current employment conditions (%)**

	Albanians	Serbs	Others
Unfavorable	77.7	88.4	74.4
Neither favorable nor unfavorable	17.1	11.6	20.7
Favorable	5.2	0.0	4.9
Total	100.0	100.0	100.0

**Table A4.1. Public opinion on the factors causing tense relations between Albanians and Serbs (%)**

	November 2004		March 2005		June 2005		September 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Insufficient efforts by Albanians for integration of Serbs	2.8	26.5	2.5	42.1	3.9	27.5	4.8	21.1
Lack of readiness of Serbs for integration into Kosovo society	41.3	0.0	32.4	0.0	35.4	0.0	33.1	0.6
Attitude of Albanian leaders	1.0	73.5	0.9	57.4	1.7	71.9	0.8	75.4
Attitude of Serb leaders	8.6	0.0	13.1	0.5	8.0	0.6	11.8	2.3
Belgrade's influence	46.3	0.0	51.0	0.0	50.9	0.0	49.4	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest's opinion polls – November 2004 to September 2005

**Table A4.2. Respondents' readiness to agree with the return of displaced persons and refugees to Kosovo (%)**

	Albanians	Serbs	Others
Agree with the return	69.2	97.9	84.2
Do not agree with the return	30.8	2.1	15.8
Total	100.0	100.0	100.0

**Table A5.1. Respondents' feeling of safety while outdoors (%)**

	June 2005		September 2005	
	Albanians	Serbs	Albanians	Serbs
Very unsafe	7.6	39.3	7.9	48.5
Somewhat unsafe	25.8	44.9	27.7	29.7
Somewhat safe	35.8	14.8	42.7	18.3
Very safe	30.8	1.0	21.7	3.5
Total	100.0	100.0	100.0	100.0

**Table A5.2. Percentages of respondents "satisfied" or "very satisfied" with the work of security institutions**

	Albanians					
	Mar-04	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05
KFOR	88,4	85,6	85,7	84,9	92,9	89,0
UNMIK Police	57,1	44,2	41,6	54,7	63,7	61,1
KPS	90,5	89,9	88,2	92,7	90,3	90,3
	Serbs					
	Mar-04	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05
KFOR	11,4	10,7	10,6	14,7	6,4	25,3
UNMIK Police	3,7	3,7	4,8	6,1	2,1	5,0
KPS	3,0	1,8	0,5	4,0	1,6	5,0

Source: Riinvest's opinion polls, March 2003 – September 2005

## *ANNEX 2. Events during the period July-September 2005*

### July 2005

- **1 July** – The Secretariat formed as part of the Political Forum held its first meeting and proposed an agenda of work.
- **2 July** – Three explosions occurred in Pristina: one within UNMIK yard, one in front of the OSCE and one close to Kosovo Assembly. No casualties were reported.
- **4 July** – SRSG Søren Jessen-Petersen has sent a letter to the media announcing his support for the launch of the internal security sector review. The beginning of the review was recommended by the advisory group from the British Government.
- **4 July** – UNMIK, UNDP and the Ministry of Communities and Returns signed a Memorandum of Understanding in support to returns in Kosovo.
- **18 July** – SRSG Søren Jessen-Petersen transferred the competencies for the Economic and Fiscal Council to local institutions. The new Regulation amends UNMIK Regulation No. 2002/10 on the establishment of the Economic and Fiscal Council (EFC).
- **19 July** – SRSG Søren Jessen-Petersen submitted to Prime Minister Bajram Kosumi the draft for the creation of two new ministries – the Ministry of Interior and the Ministry of Justice.
- **26 April** – The Kosovo Government has decided that Pristina University Rector Arsim Bajrami and his staff should leave the university so the situation can return to the way it was prior to 1 December 2004.

### August 2005

- **12 August** - Deputy SRSG Lawrence Rossin has signed five executive decisions establishing the territorial delineation of the five new Pilot Municipal Units.
- **17 August** – UNMIK Police handed over control of its last police station to the Kosovo Police Service. The last station under UNMIK police control was in the northern part of Mitrovica. The Kosovo officers are now in charge of all 33 police stations throughout Kosovo.

- **22 August** – “Trepça” mines started production after 6 years of no operation. Manager of “Trepça” Nazmi Mikullovi said that 250 tons of minerals have been extracted on the first day of work.
- **24 August** – The Teachers Union of Kosovo, SBASHK, has threatened that if the Government does not confirm what they have promised to level salaries of public servants, the strike is inevitable.
- **27 August** – An incident in Bainca village near Strërpçë/Strpce took the life of two Serbs, while two others have been wounded. The victims were traveling along the Ferizaj/Urosevac - Shtërpçë/Strpce highway when their car came under fire by another passing car.

## September 2005

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- **2 September** – Kosovo has received its own TARIK customs code, which will be placed on all documents on import and export of goods in Kosovo. Before, UNMIK customs used the customs code of the former Yugoslavia.
- **11 September** – A KPS patrol with three Serbian officers on board was attacked in the road Ferizaj/Urosevac - Shtërpçë/Strpce. One of the police officers was wounded.
- **18 September** – Four Kosovo Serbs have been arrested near Graçanicë/Gracanica on charges of committing war crimes against Kosovo Albanians in April 1999 in the village of Sllovi/Slovinje near Lypjan/Lipljan.
- **21 September** – Four senior managers at Pristina Airport are suspended from duty, on suspicion of corruption involving fraud.
- **22 September** – Hani i Elezit/ Djeneral Jankovic has become the first pilot municipal unit in the process of decentralization.
- **23 September** – Serbian Minister of Culture Mr. Dragan Kojadinovic and Kosovo Minister of Culture, Youth, Sports and Non-Residential Affairs Mr. Astrit Haraçia, talked for the first time in Belgrade about progress in the reconstruction of Orthodox churches damaged in Kosovo during the March 2004 riots.
- **28 September** - A Kosovo Serb KPS officer, Colonel Dejan Jankovic, from Shtërpçë/ Strpce, who has been appointed recently to head the KPS regional office of Gjilan/ Gnjilane in eastern Kosovo, was wounded when unknown attackers opened fired on his vehicle in the village of Kaçaniku i Vjetër/ Stari Kacanik.

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