

USAID/Kosovo
ANNUAL REPORT FY 2003

3/13/2003

Please Note:

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Portions released on or after July 1, 2003

A. Program Level Narrative

Program Performance Summary:

Background: International assistance and the energy and determination of the Kosovars have succeeded in improving living conditions for most of the population and in getting the province back to near normal conditions. In just three years Kosovo's turnaround has been impressive indeed. One major advantage it holds over its Balkans neighbors and post-transition societies of Eastern Europe and the former Soviet Union is that former elites beholden to a corrupted system have disappeared. The ponderous and change-resistant institutions have also fallen away. No entrenched bureaucracy has impeded progress for the most part, and Kosovars do not pine for anything resembling their recent past. This "cleaning-of-the-slate" offers Kosovars something unique: a virtual consensus toward reform among local political constituencies.

This clean slate means, however, that much building must be done and the process of building the elements of a democracy, the institutions for running a government, and the bases for a sound economy have just begun. A government, the Provisional Institutions of Self-Government (PISG), was created by the United Nations Mission in Kosovo (UNMIK) earlier this year and elections have been held involving new political parties. The new government and legislative assembly are still in the very early stages in developing the capacity needed to govern and many powers and responsibilities (the so-called "reserved powers") are still retained by UNMIK. The future status of Kosovo remains undefined and international organizations have yet to begin serious dialog on this topic.

On the economic front, Kosovo has made a remarkable rebound. Domestic revenues have grown from zero in 1999 to a projected 17 percent of GDP and are projected to cover approximately 95% of Kosovo's recurrent budget in 2002. However, there is almost no productive enterprise. Most enterprise is based on trade, which in turn is reliant on diaspora capital and the benefits of a large international presence. Unemployment, once estimated at more than 70 percent immediately after the war, now hovers in 45 - 55 percent range, though very recent estimates suggest it could around 25 - 30 percent. With a very young population, the youngest in Europe, unemployment if it is not reduced may very well trigger renewed conflict and certainly will not allow Kosovo to become a secure society. In 2003 assistance levels from the donor community are expected to drop substantially while at the same time Kosovo lacks the legal status to enable it to begin tapping international capital markets or IFI loans. Its current legal status also has a significant negative impact on its ability to export and attract foreign direct investment, leaving Kosovo economically disadvantaged.

Though still in the nascent stages of development, Kosovo is a place where we have a favorable set of conditions not found in most countries. Old structures in the public and private sectors have largely been swept away, and our interlocutors are highly receptive to advice, particularly from Americans. We have a chance to "green-field" a government, a democracy, and a market economy, which can serve as important examples in a problematic region. Institutions, though in their infancy, have been cleaned of the vestiges of their communist past. There are no oligarchs who control the broadcast media at the province level. Most observers find the press to be open, free, and vibrant, though lacking basic journalism skills. Government institutions, though underpaid and under-skilled, are not as yet bloated and for the most part do not exhibit signs of predatory behavior. But this opportunity comes at a cost. It requires that we - the U.S., the EU, and other donors - stay the course and provide sufficient resources, attention, and adequate time to do the job. Kosovo's final status remains unclear, but irrespective of that eventual outcome, it must be prepared to govern with whatever autonomy it eventually gains.

U.S. Interest and Goals: The U.S. Government is committed to support U.N. Security Council Resolution 1244, which calls for "substantial autonomy and meaningful self-determination for Kosovo." Within this mandate, the U.S. interest is to aid in the creation of a secure, well-functioning, multi-ethnic society with an open and free market economy, a system of justice that is impartially administered, and opportunities for people to make informed choices and participate in their own social and economic recovery.

The USG foreign policy interests are directly reflected in USAID programming. USAID has been the leader in establishing the economic policy and legal framework necessary for the creation of a free market economy. Mutually supportive assistance has provided the private sector with both the skills and financing needed for the development of viable enterprises. In the democracy and governance area, USAID has worked closely with other donors in paving the way for free and fair elections, three of which have been successfully held to date. Independent media and an active civil society have been integral to these elections and to the accountable and transparent workings of the elected leaders. Most critical to the development of society and a market economy is establishing the rule of law, in which disputes can be decided in a fair and transparent way and in which decisions are enforced. Though work has started in this area, USAID, beginning in 2003, will begin a multi-year effort to train judges and prosecutors and assist UNMIK in defining a court system that meets Kosovo's needs.

Donor Relations: The European Commission through the European Agency for Reconstruction has been the largest donor to date, with activities in reconstruction, public administration reform, decentralization, judiciary, customs and taxation, energy, environmental management, economic development, minorities and returns, rural development, civil society, and university education. Other major donors and their principal areas of focus include: Germany (energy, water and wastewater, transport, private sector development); Canada (public administration, public health, education, media, disability); Sweden (agriculture, infrastructure, public services, environmental protection, returnees, youth, anti-trafficking, civil society); Switzerland (energy, business development, agriculture, infrastructure, public services, environmental protection, vocational education); the United Kingdom (civil society, access to justice, privatization, customs, fiscal policy, health, social policy, public administration); and the UNDP (security, job creation and minority programming, and local development).

Donor relations are for the most part fairly good; overall donor coordination, however, is weak. The best donor coordination is sector, or sub-sector, specific. For example, OSCE, USAID, and the German Political Foundation Friedrich Ebert Stiftung developed the Assembly Support Initiative, a collaborative program of assistance to Kosovo's nascent legislature. USAID places a high value on working collaboratively with other donor organizations in Kosovo as a mechanism for leveraging our resources and informing our program. The Mission has chosen a very participatory and collaborative approach for developing our new strategic plan. Donor representatives provided valuable input during our initial strategy planning session and their input will continue to be sought throughout the strategy development process.

Challenges: Accomplishments have been impressive in three short years, but a secure and stable society does not yet exist. The overriding challenge in the near-term is to ensure that there is no slippage in the reforms made to date and that momentum is maintained despite substantially decreased funding levels from the donor community. With the passing of the reconstruction and emergency phase, the three most prominent programmatic challenges are strengthening Kosovar institutions, building a sustainable and growing economy that creates jobs, and developing a harmonious multi-ethnic society.

Donor assistance must tackle the tough job of strengthening institutions at all levels so that checks and balances exist throughout society. The reform process will deepen only when Kosovo has its own institutions in and outside government that are capable of delivering services, exposing and eradicating corruption, disseminating unbiased information, creating an environment conducive to the growth of the economy and in which the rule of law operates, maintaining civil harmony, among others. Even the most basic functions elude these institutions. At the same time the high unemployment rate, coupled with a very high youth population, is a trigger for renewed conflict if not adequately addressed and will erode any progress made in reducing ethnic tensions.

USAID has spent considerable effort over the past months preparing to adjust to the projected decline in resources while seeking ways to ensure the remaining resources (i.e., pipeline) get applied to best effect. USAID has made a conscious shift from supporting the UNMIK pillars to building PISG institutions (i.e. government departments). Whereas in the past USAID staffed line positions within UNMIK structures, the economic restructuring program is now largely directed toward building PISG offices, ministries, and the legislative assembly - those bodies that will become permanent institutions of democracy and

government. USAID will also shift its priorities in the area of community development from a focus on infrastructure to creating government-community partnerships that take on greater responsibility for promoting democratic and economic change at the local level.

Key Achievements: USAID, with USOP political support, has provided the impetus for the deep reforms and for “Kosovarization.” Significant gains have been made this year in further establishing a macroeconomic framework, establishing a representative system of government, and in addressing the massive infrastructure rehabilitation necessitated by the war and decades of neglect. Though the work is far from complete, a solid foundation has been laid and three years of rebuilding has brought Kosovo to the threshold of a substantial turnaround. Key achievements in the three major areas of implementation include:

Economic Policy and Business Development:

- implementation of a liberal tax regime, including an EU-compliant value-added tax, a wage/personal income tax, a corporate income tax, and a proactive and efficient tax administration apparatus (built from scratch);
- creation of a path-breaking pension system, including a fully-financed mandatory individual retirement account component and a supplemental voluntary component;
- establishment of critical economic governance institutions, including the budget planning, macro-analysis, and municipal finance departments of the Ministry of Finance and Economy and an effectively functioning legal unit in the Office of the Prime Minister;
- development of a sound intergovernmental finance system and a functioning municipal certification program to ensure best practices of budgeting and funds management at the municipal level;
- development and adoption of core commercial law regulations, including mortgage, real property rights, business registration, and telecommunications.

Democracy and Governance:

- establishment of a functioning justice system with modern court administration procedures; development of new criminal procedure and juvenile justice codes, and widespread access to legal materials;
- development of a vibrant media sector, including direct assistance in the creation of a terrestrial broadcast network covering 80 percent of the population;
- direct advisory support for the creation of a balanced legal and regulatory environment for media that protects free speech and encourages a free press;
- extensive support to shift the NGO community’s focus from service delivery to advocacy, concentrating in numerous sectors: anti-corruption, environment, education, health, consumer protections, minority and human rights, and gender;
- development and inclusion of core “good governance” laws in the Kosovo Government’s priority legislation, including Freedom of Information and Conflict of Interest Laws;
- direct support to the 120 members and 16 committees of Kosovo’s Assembly - a multi-ethnic, multi-party democratic institution.

Community Development:

- completion of hundreds of community-level infrastructure programs, which by involving communities in decision making encourages integration of all members of the community
- over one-third of the projects have been directed toward mixed ethnic communities, promoting ethnic harmony and creating favorable conditions for further returns.

Environmental Compliance: All Strategic Objectives and related activities are in compliance with their approved Initial Environmental Examinations and Categorical Exclusions.

Since FY 2003 is the final year of USAID/Kosovo's current strategy many of the IEEs for existing programs will expire. The Mission will prepare IEEs for on-going programs at the Strategic Objective level. Only one new program is expected to begin in FY 2003 -- an anti-trafficking program in the second quarter of FY 2003. An IEE will be prepared for this activity.

Country Closeout & Graduation: N/A

D. Results Framework

167-0130 Establishment of an Economic Policy and Institutional Framework

SO Level Indicator: Growth in real GDP

SO Level Indicator: Private Investment as % of GDP

- 1.3.1 Sound Fiscal Policy and Administration
- 1.3.2 Competitive and well regulated financial sector
- 1.3.3 Commercial Law regime that effectively establishes and protects property, contract and investor rights
- 1.3.4 Privatization of socially owned enterprises
- 1.3.5 Expanded formal and SME sector

Discussion:

167-0210 Accountable and Transparent Governance

- 2.1.1 Free and Fair Elections
- 2.1.2 Transition to Effective and Impartial Justice System
- 2.1.3 Independent Media and Civil Society free to operate

Discussion:

167-0310 Restored Normalcy in Living Standards and Opportunities

- 3.1.1 Improved sustainability of social services and community infrastructure
- 3.1.2 Strengthen Civil Institutions

Discussion:

167-0410 Special Initiatives

Discussion:

167-0420 Cross-Cutting Program

Discussion:

Selected Performance Measures - Kosovo

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Indicator (all data should pertain to FY or CY 02)	OU Response	Significant Result: Description of the significant result for a strategic objective	Data Quality Factors: Information relevant to the collection of this indicator data, e.g. "this data was not collected last year because it is only collected every five years."
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Pillar I: Global Development Alliance

Did your operating unit achieve a significant result working in alliance with the private sector or NGOs?

a. How many alliances did you implement in 2002? (list partners)	2				
b. How many alliances do you plan to implement in FY 2003?	3				American International Health Alliance (AIHA); National Albanian American Council (NAAC)
What amount of funds has been leveraged by the alliances in relationship to USAID's contribution?					AIHA, NAAC, TBD

Pillar II: Economic Growth, Agriculture and Trade

USAID Objective 1: Critical, private markets expanded and strengthened

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0130 Establishment of an Economic Policy and Institutional Framework	Yes			A commercial bank (American Bank of Kosovo) was established through USAID-financed Kosovo Business Finance Fund. At the end of FY 2002, ABK had mobilized approximately \$ 42,000,000 in deposits and has approved approximately \$ 20,000,000 loans to 500 clients.	Data sourced from Kosovo Business Finance Fund -American Bank of Kosovo.
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USAID Objective 2: More rapid and enhanced agricultural development and food security encouraged

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0130 Establishment of an Economic Policy and Institutional Framework	No		
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USAID Objective 3: Access to economic opportunity for the rural and urban poor expanded and made more equitable

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0310 Restored Normalcy in Living Standards and Opportunities	No		
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USAID Objective 4: Access to quality basic education for under-served populations, especially for girls and women, expanded

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of children enrolled in primary schools affected by USAID basic education programs (2002 actual)	Male	Female	Total	
b. Number of children enrolled in primary schools affected by USAID basic education programs (2003 target)	Male	Female	Total	

USAID Objective 5: World's environment protected by emphasizing policies and practices ensuring environmentally sound and efficient energy use, sustainable urbanization,

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Hectares under Approved Management Plans (2002 actual)				
b. Hectares under Approved Management Plans (2003 target)				

Pillar III: Global Health

USAID Objective 1: Reducing the number of unintended pregnancies

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of in-union women age 15-49 using, or whose partner is using, a modern method of contraception at the time of the survey. (DHS/RHS)	12.5%				UNFPA
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USAID Objective 2: Reducing infant and child mortality

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of children age 12 months or less who have received their third dose of DPT (DHS/RHS)	43 Male	44 Female	Total		UNICEF and Institute of Public Health
Percentage of children age 6-59 months who had a case of diarrhea in the last two weeks and received ORT (DHS/RHS)	0.6 Male	0.8 Female	Total		UNICEF and Institute of Public Health
Percentage of children age 6-59 months receiving a vitamin A supplement during the last six months (DHS/RHS)	Male	Female	Total		
Were there any confirmed cases of wild-strain polio transmission in your country?	No				

USAID Objective 3: Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of births attended by medically-trained personnel (DHS/RHS)	95%				UNFPA report
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USAID Objective 4: Reducing the HIV transmission rate and the impact of HIV/AIDS pandemic in developing countries

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Total condom sales (2002 actual)				
b. Total condom sales (2003 target)				
National HIV Seroprevalence Rates reported annually (Source: National Sentinel Surveillance System)	%			
Number of sex partners in past year (Source: national survey/conducted every 3-5 years)per DHS or other survey)				
Median age at first sex among young men and women (age of sexual debut) ages 15-24 (Source: national survey/conducted every 3-5 years) per DHS or other survey)	0 Male	0 Female	0 Total	

Condom use with last non-regular partner (Source: national survey/conducted every 3-5 years)per DHS or other survey)	%			
Number of Clients provided services at STI clinics				
Number of STI clinics with USAID assistance				
Number of orphans and other vulnerable children receiving care/support				
Number of Orphans and Vulnerable Children programs with USAID assistance				
Number of community initiatives or community organizations receiving support to care for orphans and other vulnerable children				
Number of USAID-supported health facilities offering PMTCT services				
Number of women who attended PMTCT sites for a new pregnancy in the past 12 months				
Number of women with known HIV infection among those seen at PMTCT sites within the past year.				
Number of HIV-positive women attending antenatal clinics receiving a complete course of ARV therapy to prevent MTCT (UNGASS National Programme & Behavior Indicator #4)				
Number of individuals reached by community and home-based care programs in the past 12 months				
Number of USAID-assisted community and home-based care programs				
Number of clients seen at Voluntary Counseling and Testing (VCT) centers				
Number of VCT centers with USAID assistance				
Number of HIV-infected persons receiving Anti-Retroviral (ARV) treatment				
Number of USAID-assisted ARV treatment program				
a. Number of individuals treated in STI programs (2002 actual)	Male	Female	Total	
b. Number of individuals treated in STI programs (2003 target)	Male	Female	Total	
a. Is your operating unit supporting an MTCT program?				

b. Will your operating unit start an MTCT program in 2003?				
a. Number of individuals reached by community and home based care programs (2002 actual)	Male	Female	Total	
b. Number of individuals reached by community and home based care programs (2003 target)	Male	Female	Total	
a. Number of orphans and vulnerable children reached (2002 actual)	Male	Female	Total	
b. Number of orphans and vulnerable children reached (2003 target)	Male	Female	Total	
a. Number of individuals reached by antiretroviral (ARV) treatment programs (2002 actual)	Male	Female	Total	
b. Number of individuals reached by antiretroviral (ARV) treatment programs (2003 target)	Male	Female	Total	

USAID Objective 5: Reducing the threat of infectious diseases of major public health importance

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of insecticide impregnated bed-nets sold (Malaria) (2002 actual)				N/A
b. Number of insecticide impregnated bed-nets sold (Malaria) (2003 target)				
a. Proportion of districts implementing the DOTS Tuberculosis strategy (2002 actual)	90%			Data gathered by implementing partner Doctors of the World and National TB Commission
b. Proportion of districts implementing the DOTS Tuberculosis strategy (2003 target)	90%			

Pillar III: Democracy, Conflict and Humanitarian Assistance

USAID Objective 1: Strengthen the rule of law and respect for human rights

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0210 Accountable and Transparent Governance	No		
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USAID Objective 2: Encourage credible and competitive political processes

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0210 Accountable and Transparent Governance	Yes		Key parties and coalitions established, maintained and improved party platforms, annual plans, organizational budgets, and budgetary outlay mechanisms. Central Assembly is effectively functioning as multi-ethnic institution and has improved institutional procedures and practices in drafting, analyzing and debating legislation.	Data gathered by the implementing partner National Democratic Institute-NDI.
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USAID Objective 3: Promote the development of politically active civil society

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0210 Accountable and Transparent Governance	No		
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USAID Objective 4: Encourage more transparent and accountable government institutions

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

167-0130 Establishment of an Economic Policy and Institutional Framework	Yes			Developed an intergovernmental finance system that resulted in the formulation of systematic grant policies and procedures for FY 2002 and a municipal certification program (24 municipalities certified by independent audit), providing systematic training and technical support to all municipalities in preparation for municipal fiscal audits.	Regular reports by implementing partners; BARENT's.
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USAID Objective 5: Mitigate conflict

Did your program in a pre-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?

Did your program in a post-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?

167-0310 Restored Normalcy in Living Standards and Opportunities	Yes			Improved access to services through implementation of small scale projects, e.g., electricity, waer, educational and health facilities, market access, etc., serving priority needs of 845,000 people. Program actively encouraged 613 multi-ethnic exchanges through joint community group activities, training and other special events aimed at increasing interaction between ethnic groups and promoting tolerance. In addition 411 permanent fulltime private sector jobs were created through provision of technical assistance to businesses, associations and farmers. 2,500 farmers increased household agricultural production.	Data gathered by implementing partners: Save the children, PARSON's and USAID Community Development Office database
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Number of refugees and internally displaced persons assisted by USAID

Male	Female	Total	
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USAID Objective 6: Provide humanitarian relief

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Number of beneficiaries				
Crude mortality rates	%			
Child malnutrition rates	%			
Did you provide support to torture survivors this year, even as part of a larger effort?				
Number of beneficiaries (adults age 15 and over)	Male	Female	Total	
Number of beneficiaries (children under age 15)	Male	Female	Total	