

Kosovo Early Warning Report

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

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 Kosovan 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.

SELECTED INDICATORS

	Sep-Dec 2002	Jan-Apr 2003	May-Aug 2003	Trend
GDP growth (annual), %	-	4-5*	4-5*	↔
Inflation rate (annual), %	-	4-5*	4-5*	↔
Bank deposits, million of Euros	419	428 (Jan-March)	453 (Apr-June)	↗
Term deposits, million of Euros	-	146 (March)	149 (June)	↗
Trade balance, million of Euros	-	-247	-178	↘
Registered job-seekers	257.505 (December)	268.440 (March)	276.781 (July)	↗
Consumer Price Index, % (Compared to May 2002)	102.1 (December)	102.5 (March)	99.6 (June)	↘
Basic pensions (per month), Euros	28	35	35	↔
Political pessimism, % ("Not satisfied" or "not satisfied at all" with current political trends)	31.8	41.7	37.3	↘
Economic pessimism, % ("Not satisfied" or "not satisfied at all" with current economic trends)	58.0	67.7	65.0	↘
Subjective welfare pessimism, % (Economic situation in the family equal or worse than last year)	72,2	80,9	87.9	↗
Consumer Confidence Index, % (Measure of the public's confidence in the health of the economy)	-	-	18.0	-
Satisfaction with UNMIK's performance**, %	63.8	51,9	43.1	↘
Satisfaction with SRSG's performance, %	73.1	64,1	71.4	↗
Satisfaction with Government's performance, %	74.1	74,9	78.1	↗
Satisfaction with Assembly's performance, %	76.7	71,9	74.7	↗
Satisfaction with KFOR's performance, %	87.6	85,4	81.4	↘
Return of refugees, number of returnees	-	182 (Until February)	1.416 (Until the end of June)	↗
Personal security, % ("Somewhat safe" or "very safe" while outdoors)	58,9	52,9	59,6	↗

* - Projected rates

** - "Satisfied" or "very satisfied" with the performance of institutions; the corresponding values reported for November 2002 in the previous Report included not only valid percentages, but also percentages of respondents who refused to answer

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LIST OF ACRONYMS AND ABBREVIATIONS

BPK	Bank and Payment of Kosovo
CIVPOL	Civil Police
EFC	Economic and Fiscal Council
EU	European Union
EWS	Early Warning System
GDP	Gross Domestic Product
IOM	International Labour Organization
ITUK	Independent Trade Union of Kosovo
KEK	Kosovo Energy Corporation
KFOR	Kosovo Forces
KPS	Kosovo Police Service
KTA	Kosovo Trust Agency
MEF	Ministry of Economy and Finances
MLSW	Ministry of Labour and Social Welfare
OSCE	Organization for Security and Cooperation in Europe
PISG	Provisional Institution of Self-Government
PTK	Post and Telecommunication of Kosovo
SME	Small and Medium-size Enterprises
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
TMK	Trupat Mbrojtëse të Kosovës/ Kosovo Protection Corps
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissariat for Refugees
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Political and institutional stability:

The political situation, as well as institutional life in Kosovo, during the period May–July 2003 can be considered as rather stable. Public opinion on the performance of key institutions is to a small extent more favorable compared to the period January – April 2003, apart that is, from the performance of UNMIK. The situation became more complex in August, after the killing of two young Serbs, followed by an increase in the political engagement of Belgrade on the Kosovo issue. This has led to a verbal aggravation in the relationship between Belgrade and Pristina that may have an impact on future Albanian-Serb relations, as well on future talks between Pristina and Belgrade. Our public opinion survey, which was conducted before such an aggravation of mutual relations occurred, shows that 30.4% of surveyed Albanians and 21.1% of Serbs think that the inter-ethnic relations will improve after the beginning of the dialogue.

There are differences in opinions regarding the achievements in Kosovo to date. The international community considers there to be “significant progress”. The pronouncements of Kosovo Albanian leaders are mainly positive, while Serb leaders consider the international mission in Kosovo a failure. Kosovo Albanian leaders accuse UNMIK of being too slow regarding the transfer and share of competencies. The establishment of operational plans and deadlines for a meaningful transfer of competencies would certainly help offset such criticism.

Economic and social stability:

The period May to August 2003 was marked by the continuation of unfavorable trends in certain macro economic indicators: economic growth has slowed, unemployment has increased, while the trade deficit has remained very high. This period was also characterized by: (i) a noticeable increase in social tension in particular amongst those employed in sectors financed by the Kosovo Consolidated Budget. Teachers and health workers, amongst others, have threatened massive strike action over low wages; (ii) dissatisfaction concerning current developments in the privatization process. Despite the fact that the process is still in its initial phase, potential sources of tension can already be seen; 1) the lack of interest from buyers and the low prices received for companies that have been sold, 2) the lack of transparency and social cohesion, 3) the relationship between KTA and the municipalities concerning ownership issues, 4) differences in interpretation of the existing legislation, and 5) the use of privatization funds. Overall, the perceptions of Kosovans regarding business and employment conditions as well as the economic situation of families are very unfavorable.

In addition, there are numerous problems concerning the process of strengthening the economic system, especially in the domain of economic policies and the transfer of competencies from UNMIK to the PISG. The current economic policies (taxation, business finance, trade policies) are in contradiction to the needs for

economic growth and job creation. They cause investments to be more costly and they impede the competitiveness of the indigenous manufacturing sector. The business community and professional institutions must voice their concerns if a further deepening of the economic crisis is to be averted. They must press for the reduction of taxes on the importation of capital goods, the need to increase the medium and long term credit supply and the need to regulate trade relations with neighboring countries.

Inter-ethnic relations

The relationship between Albanians and Serbs during the period May-August 2003 were characterized by two different phases: i) a phase of relaxed inter-ethnic relations during the period May to mid August, and ii) a phase of considerable deterioration during the second part of August, after the killing of two young Serbs in Gorazhdec/ Gorazhdevac village of Peja/ Pec region by mid August. The opinion poll shows that Albanians and Serbs are polarized on most issues concerning the co-habitation and integration of Serbs in Kosovo society. In addition, opinions of both groups tend to be unfavorable: i) both parties think that the main cause of tense inter-ethnic relations is the lack of readiness of the other party to integrate, (ii) Albanians and Serbs have opposing opinions concerning the issue of the status of Kosovo; (iii) they have opposing opinions on the performance of international and local institutions and (iv) both parties show a low level of readiness to agree with the return of refugees in their surroundings. The worsening of inter-ethnic relations and the difficulties in providing suitable conditions for the return of refugees may be influenced in the future by: 1) unilateral acts of predetermining the status of Kosovo; 2) the calls of Serb leaders for the return of the Serbian army and police to Kosovo and for interruption of the transfer of competencies to the PISG; and 3) the announced intentions of the Kosovo Serbs to hold their own elections.

Public and personal Security

The first half of the year 2003 was characterized by a relatively stable situation in certain security sectors. The public and personal security situation deteriorated considerably during the month of August, when attacks with explosives against police and court buildings occurred. Since these incidents took place in the Peja/ Pec region, as well as in Mitrovica, perceptions on security in these regions is less favorable as compared to other regions. In the complex circumstances that Kosovo is facing, the efficiency of police and court institutions is hindered by: (i) the high number of as yet unresolved cases of major offences and attacks against the police; (ii) the insufficient level of cooperation between the population and the police and court structures; and (iii) the high number of small arms carried by the population.

The opinion poll indicates a very high perception of respondents with respect to the existence of organized crime. About 72% of Albanian respondents, 28% of Serb respondents and 40% of respondents from other minority groups think that organized crime is present "at a medium level" or "at a high level". Respondents of all nationalities think that organized crime is more present in the area of serious crimes. This highlights the necessity to more efficiently combat organized crime, in order to increase the level of security for the citizens of Kosovo.

POLITICAL AND INSTITUTIONAL STABILITY

General Situation

1. The political situation, as well as institutional life in Kosovo, during the period May–July 2003 can be considered as rather stable. The relative tranquility has been influenced by several factors: a considerable decrease of tensions amongst Albanian political entities, an increase in the cooperation and engagement of the Kosovo institutions with UNMIK, and the temporary political vacuum towards Kosovo created in Serbia and among the Serb minority leaders after the killing of the prime-minister Zoran Djindjic. During this period some differences were noted in the views of various actors with respect to the achievements reached so far in Kosovo, as well as to the scale and intensity of the transfer of competencies from UNMIK to local institutions.

The killing of the young Serbs in mid August, followed by the political reaction in Belgrade, led to a verbal aggravation of the relationship between Belgrade and Pristina, which may have an impact on future Albanian-Serb relations.

Differences in estimating the achievements to date in Kosovo

2. Following the review of the achievements reached during the four-year period since the establishment of the interim international mission in Kosovo in June 1999, some differences in views have been pronounced in June and July 2003. Different evaluations of the mission have been made by: (i) the international community (ii), Albanian leaders and (iii) Serb leaders.

(i) **The evaluation of the international community and UNMIK.** The key words accompanying such considerations have been “significant progress”¹. On July 3, 2003, at the Security Council Meeting, the SRSG Michael Steiner stated: “From the oppression, humiliation and tragedy of 1999, Kosovo has embarked on the road towards a liberated, functioning, democratic society”². Before leaving Kosovo, the UN top envoy M. Steiner insisted on declaring that UNMIK was “a successful story” because “the whole picture of Kosovo has changed for the better”³.

Some international circles, have expressed some reservations with respect to the dynamics of the transfer of competencies from UNMIK to local institutions. During a visit to Kosovo, the U.S. Defense Under-Secretary declared that “It’s time

¹ “Four years into the mandate of the United Nations Mission in Kosovo, the province has made significant progress in achieving autonomy and self-government, but firmly establishing the rule of law and creating a sustainable foundation for economic growth and development remain challenges”; Report by UN Secretary-General Kofi Annan, July 1 2003.

² Security Council 4782nd Meeting* (AM), Press Release SC/7807.

³ The report of SRSG, Michael Steiner before the Permanent Council of OSCE in Vienna, the daily “Koha ditore”, May 9, 2003.

for Kosovans to take more responsibilities on themselves”⁴. In a way, this renders less strong the slogan of Chief Administrator Steiner “standards before status”. The need to establish deadlines with respect to standards would be more a pragmatic approach considering the latest developments in international politics, and the implications of such developments for the mission of both the KFOR protective corps and the civil administration in Kosovo. NATO has recently made public the plans for considerable disengagement in Kosovo. The KFOR forces that currently number 23,000 will, by the end of the year, be reduced to 17,000, with only 7,000 remaining in the coming year⁵.

(ii) **The evaluation of Albanian leaders.** Evaluations of Albanian leaders with respect to the developments to date have also been mainly positive. The President Ibrahim Rugova stated that “Kosovo has shown progress in all areas”⁶. However, there were some opposing voices regarding UNMIK which some charged with being incapable of exercising control over the whole territory of Kosovo even four years after its mission was established in Kosovo. This is mainly due to the fact that in the Northern part of Kosovo various forms of parallel Serb institutions, which are not integrated with the Kosovo institutions and which are influenced or dictated by the Serb administration, are still being tolerated by UNMIK

Mr. Jakup Krasniqi, Minister of Public Affairs, in his open letter addressed to UNMIK, accused the mission of a complete disinterest in strengthening the authority of local institutions. Furthermore, Krasniqi stated in his letter that UNMIK has a hidden agenda for favoring the interests of Serbia⁷. In addition, the Speaker of the Kosovo Assembly, Mr. Nexhat Daci, has stated that the UNMIK administration is “slow and non-professional”⁸. Charles Brayshaw, Deputy SRSG, rejected the above claims and noted that “the majority of Kosovans do not agree with Jakup Krasniqi”⁹. After that, Kosovo Albanian leaders addressed the public with conciliatory statements, reconfirming their support for UNMIK.

(iii) **The evaluation of Serb leaders.** Serb leaders accuse UNMIK of failing to provide the conditions for full security and free movement of Serbs. They also consider as too slow, the return process of Serbs and members of non-Serb minorities displaced after the NATO forces entered Kosovo in 1999. The representative of the Serbia and Montenegro Union stated at the Security Council Meeting that “the political climate in Kosovo currently appears worse than ever since 1999”¹⁰.

After a period of relative calm, in the aftermath of the assassination of Prime Minister Djindjic, Belgrade has begun once again to concentrate on the issue of Kosovo. The main demand of the Kosovan Serbs, as well as of the Belgrade administration, is the reconfirmation of the sovereignty of Serbia over Kosovo. Belgrade asks for full respect of the 1244 Resolution of the UN Security Council. The Serb Prime Minister, Mr. Zoran Zivkovic, has accused UNMIK of non-

⁴ The daily “Koha ditore”, 18 May 2003.

⁵ The daily “Koha ditore”, 7 May 2003.

⁶ The President Ibrahim Rugova’s speech held at the World Forum in Krasn Montana; the daily “Koha ditore”, June 30.

⁷ This letter was sent during the period when Mr. Krasniqi was replacing the Kosovo Prime Minister. The concrete claims of Minister Krasniqi are that UNMIK is applying the judicial system of Serbia, that the security system in Kosovo is politicized and that in the Kosovo Police Service UNMIK has favored and promoted officials that were previously engaged in the Serbia’s secret police.

⁸ Daily newspaper “Koha ditore”, 26 June 2003.

⁹ Daily newspaper “Koha ditore”, 1 August 2003.

¹⁰ Mr. Dejan Sahovic’s (Serbia and Montenegro) speech at the Meeting of the UN Security Council held on July 3, 2003, Security Council 4782nd Meeting* (AM) Press Release SC/7807.

compliance with the 1244 Resolution¹¹. Belgrade's current hard political course toward Kosovo may herald an increase in tension in the future¹².

Opinions on the political situation and the performance of institutions

3. Our opinion poll conducted in July 2003 reconfirms the trends observed in our previous surveys, manifested by a relatively high dissatisfaction of all the communities living in Kosovo with the current political situation and events (see Fig. 1.1). Compared to March 2003, in July 2003 a small decline in dissatisfaction of all the communities is marked. One third of the surveyed Albanians (34.7%) are "dissatisfied" or "very dissatisfied" with the current political situation in Kosovo – see Table A.6 in the Annex. As in previous surveys, Serb respondents are much more discontent with the situation: 83.1% of Serb respondents declare that they are "very dissatisfied" or "dissatisfied". Members of other minority groups have a position closer to Albanians, but with a higher emphasis on dissatisfaction (38.9%).

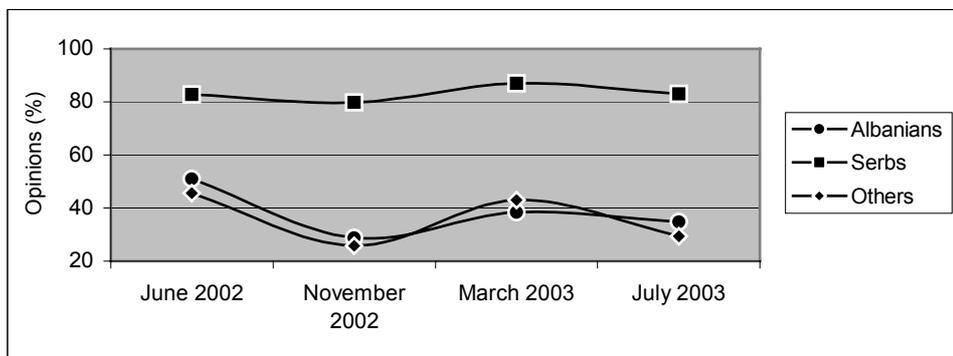


Fig. 1.1. The trends of "the political pessimism"- percentages of respondents "dissatisfied" or "very dissatisfied" with political developments during the period June 2002 - July 2003; Source: opinion polls – June 2002, November 2002, March 2003, July 2003.

Contrary to the big discrepancies in the opinions of Albanians and Serbs with regard to the current political situation, both communities agree, to a considerable extent, about the entities responsible for this situation. According to our opinion poll, both Albanian and Serb respondents consider that the biggest responsibility (about 65%) belongs to UNMIK, whereas nearly 18% of both Albanian and Serb respondents think that responsibility belongs to the PISG (Table 1.1). It should be

¹¹ "Serbia has complied with the obligations of the 1244 Resolution, but UNMIK has not", stated the Prime Minister Zoran Zivkovic, comparing Kosovo with Cyprus; daily newspaper "Koha ditore, May 24, 2003.

Serbia's new platform for Kosovo is defined by the Deputy Prime Minister of Serbia and the Head of the Coordination Center for Kosovo, Mr. Nebojsa Covic. The platform consists of 9 points and in addition to the request for full compliance with the 1244 Resolution, which means reconfirmation of Serb sovereignty over Kosovo, the platform also includes some more radical positions, which show that Serbia is determined to follow a tougher course towards Kosovo. Apart from the paragraph related to the sovereignty of borders, Covic warns that the new Serb Constitution will include a paragraph which bans any Serb citizen or institution from giving up Kosovo; daily newspaper "Koha ditore, July 22, 2003.

¹² Some voices have been critical of the official policy in Serbia, for example, Natasa Kandic, Director of the Humanitarian Law Fund, has reacted against the official appeal of Belgrade to Kosovan Serbs to boycott the institutions, considering it a "policy that impedes the integration of Serbs in Kosovo society"; daily newspaper "Koha ditore, May 7, 2003. While analyzing current developments, Biljana Kovacevic - Vuco thinks that in Serbia there "continues to exist the institutional Milosevic-type schizophrenia "; daily newspaper "Koha ditore, July 22, 2003.

noted that such a responsibility is less attributed to political parties, while the perceived responsibility of civil society is of almost no relevance.

	Respondents in total		Respondents "dissatisfied" or "very dissatisfied"		Respondents "satisfied" or "very satisfied"	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
UNMIK	65.4	64.8	68.0	66.7	63.9	54.8
PISG	18.0	17.3	14.9	16.3	19.3	22.7
Political parties	14.4	16.0	14.9	15.3	14.5	18.2
Civil society	2.3	1.9	2.2	1.6	2.3	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Opinion poll, July 2003.

4. In July 2003, respondents' satisfaction with the performance of key institutions, both international and local, is to a small extent more favorable than in March 2003, apart from satisfaction with the performance of UNMIK, which has shown a constant decline since November 2002 (see Fig. 1.2 and Table A.7 in the Annex).

The differences between the opinions of Albanian and Serb respondents in July 2003 are considerable, whereas the members of other minority groups appear to be close to the views of the Albanian respondents. The Serb respondents consider the performance of all the key institutions, local as well as international, very negatively - see Table A.8 in the Annex. Albanian respondents however, express more positive than negative opinions on the performance of all institutions, both local and international, with the exception of UNMIK, whose performance is evaluated more negatively (51.2%) than positively (42.4%). With regard to the international institutions, Albanian respondents have a very high opinion on the performance of

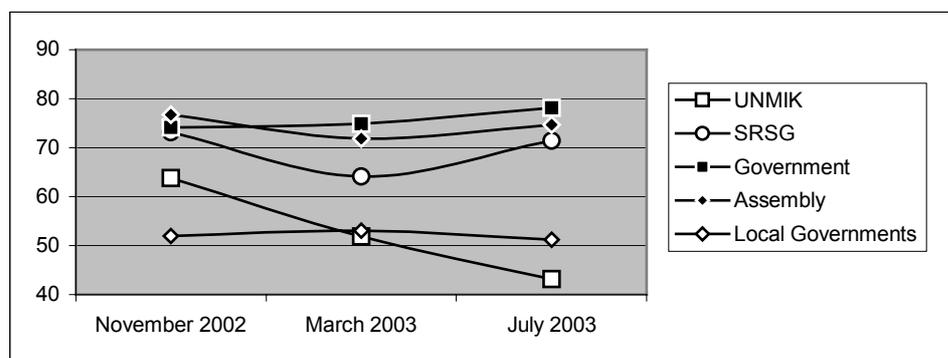


Fig. 1.2. The trends of satisfaction with respect to key institutions - percentage of respondents "satisfied" or "very satisfied" with the performance of some institutions during the period November 2002 – July 2003; Source: opinion poll.

KFOR (85.1% "satisfied" or "very satisfied" – see Table A.16 in the Annex).

5. Taking into account the key role of UNMIK for the overall development of Kosovo, the permanent decline in respondents' satisfaction with the performance of this institution since November 2002 is a matter for concern. Due to the very high percentage of responsibility that the respondents attribute to UNMIK for the current political and economic situation, the reasons for low satisfaction level with this institution should be viewed in correlation with several factors including: respondents' dissatisfaction with the current political and economic situation, the

existing social problems, the difficulties related to the transfer of competencies and with the current problems with the management of some public services, in particular KEK and PTK.

The regression analysis of the public opinion survey conducted in July 2003 indicates that the groups of Kosovo Albanian respondents dissatisfied with the performance of UNMIK include mainly males, better educated people, the rural population, those who are dissatisfied with the economic and political situation, as well as those who feel insecure on the streets and in their homes (see Table A.9 in the Annex). The Serb respondents dissatisfied with UNMIK's performance are mainly those who are dissatisfied with current political developments.

6. Concerning the biggest problems facing Kosovo, respondents of different ethnicities express different opinions. Albanians consider the status of Kosovo to be the paramount problem, Serbs see public and personal security to be the paramount problem, whereas other minorities rank unemployment as the top issue (see Table A.10 in the Annex). It should be noted that in contrast to November 2002 and March 2003, when Albanian respondents perceived unemployment as the biggest problem, the status of Kosovo is currently ranked in first place, unemployment in second, and poverty in third. Serbs and non-Serb minorities also ranked the status of Kosovo and poverty among the three top problems (see Table A.10 in the Annex).

The transfer and share of competencies

7. The need to speed up the process of the transfer of power from the international administration to local institutions is becoming more and more apparent. Kosovo institutions are asking UNMIK to establish operational plans and set deadlines for a meaningful transfer of competencies, Kosovans complain that they are criticized for not demonstrating the required skills to govern without being given the instruments to achieve this.

8. On May 29, 2003, at the second meeting of the Council for the Transfer of Competencies, 44 areas of unreserved competencies to be transferred were identified, 19 of them to be transferred immediately.¹³ The PISG insists that the first package of transferred competencies should cover the economy, finance and public service enterprises. Actually the major disagreements between the PISG and UNMIK exist over sharing the competencies with respect to fiscal policy, budgetary policies and control over KEK and PTK. The problems in dealing with the energy supply¹⁴ and suspicions of abuse with PTK funds¹⁵ are brought as arguments by PISG representatives for contesting the control exercised by UNMIK (through the KTA) over these companies. Such disregard of PISG demands for a more meaningful share of competencies may deepen the disagreements between the PISG and UNMIK¹⁶ and may lessen the readiness of the PISG to cooperate with UNMIK.

9. Further possible disputes between the PISG and UNMIK regarding the share of competencies were outlined in a letter from the Kosovo Prime Minister, Mr.

¹³ UNMIK, Press Release 975.

¹⁴ During July 2003, drastic shortages in energy supply were suffered.

¹⁵ The PTK Director, Leme Xhema, was suspended in June 2003 from her post upon a decision of the KTA on the basis of suspicions of abuse and is still under investigations by the Financial Police "Guardia di Finanza".

¹⁶ "Kosovans are only a décor in decision making structures of economy"; quotation from the interview of Mr. Bajram Rexhepi, Prime Minister of Kosovo, given to the daily "Zëri", 31 May 2003.

Bajram Rexhepi, addressed to the SRSG at the end of August 2003¹⁷. The Office of the Prime Minister seems to be more decisive in its intention to take competencies and warns that it will take constitutional measures and announce its position to the public in the case of a refusal by the SRSG. The Office of the Prime Minister insists on taking all the responsibilities provided by chapter V of the Constitutional Framework, while concerning chapter VIII, although recognizing the reserved powers, it asks for more competencies, or at least co-governance, in the areas of security, justice and minority issues.

The relatively challenging spirit of the above-mentioned requests for more competencies, in particular those that according to the Constitutional Framework represent reserved powers of the SRSG, may seriously worsen the relations between these parties.

Dialogue between Prishtina and Belgrade

10. The dialogue between Prishtina and Belgrade presents a highly important issue for future Albanian-Serb relations. Such dialogue could help solve some practical issues that are currently burdening the relationship. The dialogue, due initially to start in the spring of 2003, was postponed after the assassination of Prime Minister Djindjic. During May 2003 some initiatives took place to launch the dialogue during the EU Summit, which was held in Thessalonica in July 2003. However, this did not occur. For Belgrade it was already a considerable concession having accepted Kosovo to be represented in this Summit, although within the UNMIK delegation - as a specific political entity of the region. The issue of the dialogue is currently being raised again, following the arrival of Mr. Harri Holkeri as the new SRSG in Kosovo. The success of the dialogue will be put at risk after the enactment by Serbia's Assembly of the Declaration on Kosovo made in August 2003, which defines Kosovo as an indivisible part of Serbia. Albanian political parties in Kosovo have reacted harshly to this declaration, even raising doubts over the rationality of commencing the dialogue at all.

11. The public survey conducted in July 2003, just before the tension in inter-ethnic relations increased due to the killing of the young Serbs in Gorazhdac/Gorazdevac and the enactment of the Declaration on Kosovo by Serbia's Assembly, indicated relatively favorable opinions concerning the beginning of the dialogue and their expectations from it. According to the survey, both Albanian and Serb respondents have fewer reservations regarding the beginning of the dialogue than their respective leaders. Only 10.1% of Albanian respondents and 5.8% of Serb respondents think that inter-ethnic relations would worsen after the beginning of the dialogue (see Table A.11 in the Annex), while 30.4% of Albanian respondents and 21.1% of Serbs think that inter-ethnic relations would improve. 25.7% of Albanians and 47.9% of Serbs think that the dialogue will not affect their relations. According to a survey conducted by the Index-Kosova organization in July 2003, 42% of the surveyed Albanians totally agree with the beginning of the dialogue, while 17% of them partially agree.

Opinions differ regarding the priority issues that should be the subject of discussion in these talks. Albanian respondents, as well as those from non-Serb minorities, consider the issue of missing people as top priority - 65.3% of Albanians and 23.3% of non-Serb minorities; while for Serb respondents the priority issue is the return of displaced people (52.6%) – see Table A.12 in the Annex. Serb respondents also consider the issue of missing people to be an issue of high priority (21.6 %), while

¹⁷ On August 29, 2003, the daily "Koha Ditore" printed a document considered confidential, according to which Mr. Bajram Rexhepi asks for additional competencies for his cabinet.

respondents from non-Serb minorities consider the position of minorities in Kosovo and Serbia (13.5%) and the return of displaced people (10.4%) as priorities too. Other issues raised (trade, power supply and transport) do not exceed 7% for either Albanian or Serb respondents, which suggests that they are not currently considered as urgent issues by those polled.

SOCIO-ECONOMIC STABILITY

General trends

12. The main features of the socio-economic situation during May-August 2003 are:

- The continuance of unfavorable trends of key macroeconomic indicators;
- A noticeable increase in social tension in particular amongst those employed in sectors financed by the Kosovo Consolidated Budget;
- Dissatisfaction with the current situation in the privatization process;
- Unfavorable public opinion regarding the economic situation and the negative trends in this regard

In addition, numerous problems are present in managing the process of strengthening the economic system, especially in the domain of economic policies and the transfer of competencies from the international administration to Kosovo institutions. These problems continue to remain of concern especially in a situation where the strategy of transition from the emergency phase of reconstruction to a situation of sustainable economic development is not yet established.

Macroeconomic trends

13. Based on available data (see Table 2.1), current macroeconomic trends are characterized by the following:

- Continuous slowdown in economic growth;
- Decline in inflation and in the consumer price index;
- Continuous increase in unemployment;
- High trade deficit (very high disproportion between import and export);
- A continuing increase in bank deposits and credit activity.

Information provided by the BPK bulletin, monthly reports of the MEF and some publications of the Statistical Office of Kosovo, have improved somewhat the flow of information regarding the state of the economy. However, quarterly as well as annual monitoring of macroeconomic indicators still remains difficult.¹⁸ For this reason, the challenge of estimating trends in GDP, investment in private SMEs and publicly owned companies, average salaries and so on is considerable. This in turn affects the planning and implementation of policies necessary to overcome present challenges.

¹⁸ The not yet consolidated analytical database has caused different institutions to produce different estimations with regard to GDP growth and other macroeconomic indicators, in particular with regard to per capita GDP, and the share of budget revenues, capital investment and government expenditures in GDP.

Indicators	2002	January-April 2003	May-August 2003
Nominal GDP ⁽¹⁾	1,990	2,163	-
Annual growth of GDP (%)	7.4	4-5 ⁽²⁾	-
GDP per capita (in Euros) ⁽¹⁾	1,005	1,070	-
Annual inflation rate (%)	6.5	4-5 ⁽²⁾	-
Bank deposits ⁽³⁾	394.6	427.5 ⁽⁴⁾	452.5 ⁽⁵⁾
Trade balance	- 1,730	- 247	- 178
Registered unemployment	257,505 (December)	268,440 (March)	276,781 (July)
Consumer Price Index (CPI) compared to May 2002	102.1 (December)	102.5 (April)	99.6 (July)
Basic pension per month (in Euros)	28	35	35

⁽¹⁾ – Estimation of MEF.
⁽²⁾ – Projected values; Monthly Macroeconomic Monitor, MEF, May 2003.
⁽³⁾ – BPK: June 2003;
⁽⁴⁾ for the period January 2003 – March 2003;
⁽⁵⁾ for the period April 2003 – June 2003.

14. GDP trend. In the absence of comprehensive data on economic activity in general or on consumption trends, estimations on the GDP trend differ: the World Bank estimates that GDP for 2003 was €2,163 million, while the MEF have produced two estimates, €2,197 and €1,712 million. Regardless of these differences, projected values indicate that the growth rate of GDP will fall considerably. It is projected that nominal growth will be 7-8.5% and real growth 3-4%. The data from our surveys with private SMEs, as well as other projections¹⁹, indicate that Kosovo is experiencing a crisis caused by the “shock” of the radical decline in foreign financial injections, which has diminished by three quarters at a time when the domestic economy is still not able to substitute this injection through domestically generated incomes. Such a GDP trend is not in line with the current needs to overcome the high imbalances in Kosovo's economy²⁰. On the other hand, economic policy-makers (UNMIK, the Government of Kosovo) are not making sufficient strides toward correcting economic policies, in particular the taxation policy (i.e. reducing tariffs and taxes for capital goods, imports and inputs for agricultural production), trade policy and power supply. The situation in these spheres will not help economic growth and job creation; high taxes for instance make the investments in Kosovo more costly, and reduce the competitiveness of manufacturing businesses. Proposals by professional institutions to change the situation in these sectors should be made as soon as possible, before the economic crisis deepens.

15. Prices and inflation. According to the data of the Statistical Office of Kosovo, prices constantly decreased in the period March-June 2003. During this period, the CPI marked a decrease by 1.7% in total (vegetables –20%, milk, cheese and eggs –1.2%, goods and services for households routine maintenance –1,5%). However, prices in June 2003 are 1.2% higher as compared to June 2002 - see Fig. 2.1.

In addition to the decline caused by the seasonal effect of spring, the fall in prices during March-June 2003 should be put in correlation with the fall of purchasing power of the population during this period, compared to the first 2-3 years after the conflict, when consumer demand was higher on account of international donations and a higher level of remittances.

¹⁹ Consumer Price Index, SOK, June 2003.

²⁰ For more details see Early Warning Report #2.

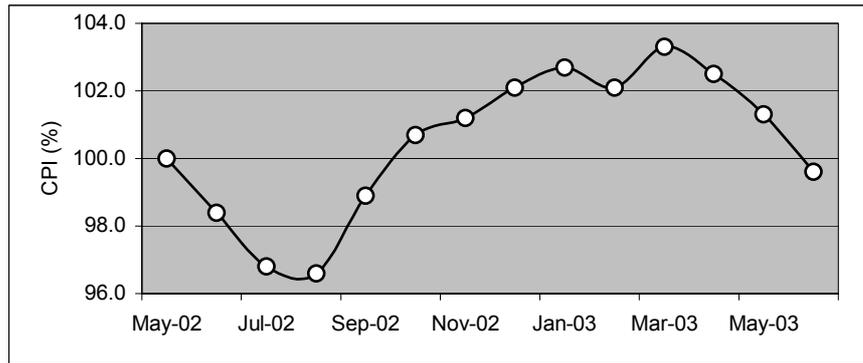


Figure 2.1. Consumer Price Index (CPI) during May 2002 – June 2003; May 2002 = 100
[Source: Statistical Office of Kosovo]

16. Trade deficit (export and import). Disproportions between exports and imports began in 1999 and have resulted in a high trade deficit, which in 2002 was €1,730.0 million. In 2003 the economy of Kosovo is also facing these disproportions, with a very high trade deficit: €247.1 million in the first quarter, and €177.9 million in the second quarter. The current Kosovo's trade deficit, which is not expected to go down soon, is a real source of instability, with a negative impact on other macroeconomic indicators. The main problem is in the very low level of exports. The trends in this domain during the first half of this year were unfavorable too. While in the first quarter of 2003 exports amounted to €8.83 million, this fell to €6.54 million in the second quarter, thus marking a decline of 26.0%. On the other hand, imports continue to be very high compared to exports, although in the second quarter imports declined by 28.8%.

17. Unemployment. The continuous increase in unemployment and its long-term persistence remains the greatest destabilizing factor in post-conflict Kosovo. An increase in the number of registered unemployed continued during this period. The number of registered unemployed increased by 7% from December 2002 to July 2003 (257,505 to 276,781). During March-July 2003 alone, registered unemployment increased by 3%.²¹ The long-term structure of unemployment has also been maintained in this quarter. For example, women represent 45% of the total number of job seekers, while the share of the 16-24 age group in the total number of unemployed is 26%.²²

18. Banking system. The banking system in Kosovo continues to develop. At the same time, commercial banks are cautiously expanding their activities, especially in lending. During the first half of this year bank deposits increased from €427.5 million in the first quarter (January-March) to €452.5 million in the second quarter (April-June), which presents an increase of 5.8%.²³ Termed deposits, an important source of lending to enterprises, experienced a slight increase – from €146.0 million in the first quarter to €149.4 million in the second quarter. Lending also showed positive trends, with an increase from €115.7 million in the first quarter to €162.7 million in the second quarter, or an increase of 40.6%. This has influenced the increase in the share of credits in total banking deposits from 27.0% to 36.0%. The share of credits in term deposits increased as well, from 79.2% to 108.9%.²⁴ The

²¹ MLSW Reports, 2003.

²² Ibid.

²³ Monthly Statistics Bulletin, BPK, July 2003; these figures represent average values for the corresponding periods stated in brackets.

²⁴ Ibid.

banks should focus on policies that attract long-term savings, so as to improve the environment for the availability of medium and long term loans.

Borrowers proved to be disciplined in paying back loans, despite difficulties in implementing the guarantee instruments. According to the estimates of Riinvest Institute, in March 2003 bad loans were present in only 1.0-1.5% of the total number of loans approved, which represents a very low share compared to other countries²⁵. However, our interviews with commercial banks carried out during July and August indicate an increase in the share of bad loans of 2.0-2.5% during the last months²⁶. More attention should be paid to the problem of bad loans in order to maintain the present stability in the banking sector in Kosovo. The rise in the share of bad loans could be taken as a signal of the real difficulties pressurizing business activities, such as: the unregulated market, unfair competition and inappropriate terms and conditions for financing, which may have as the consequence a lower level of liquidity among businesses.

Public opinion on the economic situation

19. Opinion poll data for the period June 2002 to July 2003 indicates differences in satisfaction amongst ethnic groups concerning the economic situation (see Fig. 2.2). Although slightly lower in July 2003 than in March 2003, dissatisfaction with economic trends is high: around 65% of Albanians, 76% of Serbs and 57% of non-Serb minorities declared themselves to be “dissatisfied” or “very dissatisfied” with the current economic situation (see Table A.2 in the Annex). The level of dissatisfaction is also very high regarding family economies. Around 88% of Albanians, 90% of Serbs and 90% of non-Serb minorities consider the economic situation of their families to be the same or worse than six months ago (see Table A.3 in the Annex).

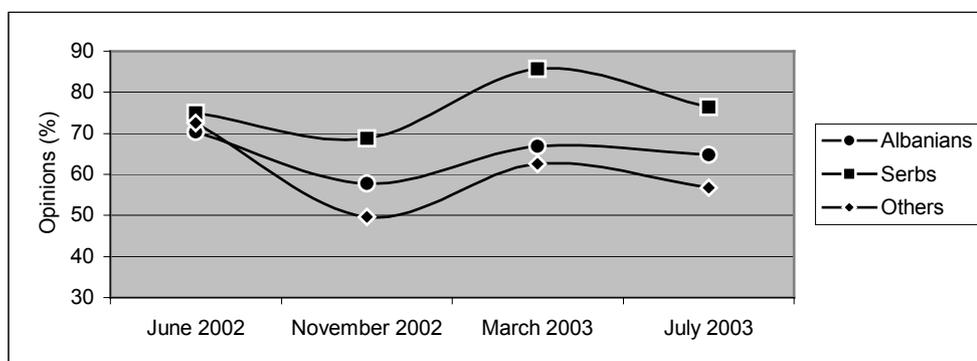


Figure 2.2. Trends of “economic pessimism” during June 2002 – July 2003, expressed in percentage of respondents “dissatisfied” or “very dissatisfied” with economic situation; [Source: Public opinion polls – June 2002, November 2003, March 2003, July 2003]

Responsibility for the current economic situation was mainly addressed to UNMIK, and less to the Government of Kosovo by all respondents. About 67% of

²⁵ The share of bad loans in total loans in 2001 for selected countries was: Bosnia and Herzegovina 9.1%, Croatia 7.2%, Macedonia 33.5%, Slovenia 8.2%, Bulgaria 7.0%, Czech Republic 11.8%, Estonia 1.3%, Poland 18.3% and USA 2.0%; Source: Fundamental Trends in Financial Sector/Banking Sector Trends Through 2001, Southeast Europe Financial Sector Conference, Zagreb, 2002.

²⁶ Trade as the main activity in Kosovo has a very high share (about 85%) of the total number of bad loans. Most of the bad loans belong to entrepreneurs that used loans for the first time. As for the repayment period, over 84% of bad loans consisted loans that had to be repaid within a 12 months period. In these estimations data from the Raiffeisenbank were not available.

Albanians, 62% of Serbs and 68% of non-Serb minorities held UNMIK responsible, while 24% of Albanians, 28% of Serbs and 26% of other respondents saw the Government of Kosovo as being responsible (see Table A.4 in the Annex). Only a few respondents think that this responsibility falls to local governments and the business community.

20. In order to measure the health of the economy, five questions related to consumer confidence, were included in the July opinion poll ²⁷. The results of our survey are presented by indexes in Tables 2.2 and 2.3, while the methodology of their calculation is provided in Table A.5 in the Annex.

As can be seen from Tables 2.2 and 2.3, the lowest component of the confidence index concerns expectations of current employment conditions and the best relates to expectations for family income. 35% of Albanian respondents are confident that their family incomes will improve, while only 4% think they can find jobs. Estimations and expectations of the Serb respondents are less favorable than those of the Albanians and non-Serb minorities.

Table 2.2. Results of the Consumer Confidence Survey conducted in July 2003 (%)

	1.Current business conditions	2.Expectations on business conditions	3.Current employment conditions	4.Expectations on employment conditions	5.Expectations on total family income
Albanians	13	26	4	16	35
Serbs	6	14	3	6	18
Others	10	28	6	8	26

Table 2.3. Consumer Confidence Indexes (%)

	Consumer Confidence Index	Present Situation Index	Expectations Index
Albanians	18.8	8.9	25.5
Serbs	9.4	4.4	12.5
Others	15.6	8.4	20.7

Social tensions and the pressure on the budget

21. In the current circumstances of unsustainable economic and social development in Kosovo, social tensions are showing signs of increase. Presently, these tensions are being expressed through requests for higher salaries in various sectors financed by the budget. People employed in the education sector did not accept an offer to increase their salaries by 20%. By the end of August they warned of a massive strike if their requests were not fulfilled.²⁸ Similar warnings came from people employed in health services, pensioners and workers of the "Trepça" corporation²⁹. Such social tensions are undoubtedly a consequence of the high level of unemployment and poverty in Kosovo. All respondents of the opinion poll, regardless of their ethnic background, ranked these two issues among the top three problems facing Kosovo (see Table A.10 in the Annex). From the first quarter of

²⁷ There were five questions in total: two questions concerning the respondents' appraisal of the current business and employment conditions, and three questions concerning respondent's expectations during the forthcoming six months regarding business conditions, employment conditions and the total family income.

²⁸ The strike of teachers at primary and secondary schools started on September 1, 2003.

²⁹ Workers of the "Trepça" corporation also started a strike on September 1, 2003.

2002 to the first quarter of 2003, the average monthly salary per worker in education dropped from €141 to €129, in the health service from €133 to €124³⁰, while pensions have remained at the same level as before (€35). In addition, opinion poll data indicates a high level of poverty among respondents: around 51% of the Albanian respondents declared that they earn less than €2 (around \$2) per day, and 43.4% of them earn less than €1 per day (around \$1), similarly, about 52% of Serb respondents declared earnings of less than €2 per day and 25.8% of them less than €1 per day³¹.

22. The current increase in social tensions could also be related to the lack of transparency regarding budget policies. The method of delivering the budget surplus, in which many stakeholders claim a share should be reviewed. The budget is still managed from two centers (the EFC and the MEF), which makes responsibilities about budget expenses and their efficiency ambiguous. The structure of the budget should be reconsidered and viewed in line with development priorities and as such should be clearly justified in advance to taxpayers and the public. Consequently, irrational expectations about the budget could be reduced, and a greater public support for a socio-economic program would be ensured. Budget creation and spending under pressure may lead in the wrong direction.

Privatization: beginning of the process, ambiguities and implementation challenges

23. Nearly one year after the Regulation on the Establishment of the Kosova Trust Agency (KTA) was enacted, the first tenders for privatization of six socially-owned enterprises were published in May 2003³². Up to the end of July, five SOEs were sold via the spin-off method, while for one SOE there were no buyers interested.

The first round of privatization was characterized by low interest from potential buyers. Only 22 buyers in total submitted bids. The six SOEs were sold for €4.6 million in total. The greatest interest came from domestic bidders, while only five bidders were from outside of Kosovo.

Although privatization is in its initial phase, so far there are some elements that may become a source of concern and tension:

- (i) The lack of interest from buyers
- (ii) Prices received for the companies that were sold,
- (iii) The lack of transparency and social cohesion,
- (iv) The relationship between the KTA and municipalities about ownership issues,
- (v) Differences in the interpretation of the existing legislation between Trade Unions and the KTA staff
- (vi) The use of privatization funds.

24. **The lack of interest from buyers.** In the first round of privatization the participation of buyers in the privatization process was generally low. The reason may be that most of the potential buyers still do not understand thoroughly the

³⁰ Monthly Macroeconomic Monitor, Kosovo, MEF, Economic Policy Department, May 2003.

³¹ Incomes of \$2 per day are considered to be a measure of poverty and those of \$1 a measure of extreme poverty; *Human Development Report 2002*, Oxford University Press, New York.

³² The Regulation on Formation of the KTA was enacted after numerous discussions, sometimes being followed by severe disputes between UNMIK on one side, and the Government, the business community and civil society on the other side. The Regulation was supplemented later with the Operational Politics and the Regulation on Land. This legislation was enacted in absence of a consensus with local institutions and the business community, as well as in absence of a necessary transparency that would create a basic social consensus.

rules of the game and the procedures involved. In addition, Kosovans lack experience when it comes to competing in the privatization process. Improvements in the business environment will promote greater competition in the privatization of SOEs. This implies the creation of a more favorable investment climate and encouraging a greater number of domestic and foreign investors to participate in privatization tenders. In this respect, changing the current customs tariffs for the import of equipment and raw materials not being produced in Kosovo would encourage potential investors. In the second round of privatization interest in buying socially owned companies was considerably higher compared to the first round – 10 competitors per company, compared to 3.6 per company in the past round. The prices of the SOEs sold in the first round have attracted more buyers for the second round. Nevertheless, serious foreign investors are still absent from this process.

25. Price of the companies sold. Prices of the companies sold have been considered exceptionally discounted. This has caused reactions from the trade unions and the workers and has become a source of dissatisfaction in some of the companies that have been sold³³. The negative perceptions of workers are a consequence of the lack of a comprehensive information campaign by the KTA and other institutions to explain the privatization process, its advantages and disadvantages, and the long-term benefits to key stakeholders, especially regarding the contribution of the privatization to the economic growth and job creation in later phases. The prices of SOEs sold are the result of the tender conditions offered and the interest shown by buyers, as well as of the existing economic environment. These prices were to be expected taking into consideration the current economic policies being implemented (the fiscal policy and the trade regime), as well as the existing business environment and the negative investment climate. All these elements should be viewed from the perspective of efficient implementation of operational policies. Privatization cannot be successful if it is considered as an isolated process, and if it is not supported by economic reforms, the strengthening of institutions and the implementation of favorable policies towards investors. The KTA should make an effort to overcome its current isolation and start to promote an alliance with key relevant actors.

26. The lack of transparency and social cohesion. The present choice of privatization methods in Kosovo is promoted in the absence of a consensus between the key players in the present transition phase: (i) the Government, (ii) Trade Unions, and (iii) UNMIK. Thus, the Government complains that it will not be able to have access to and control of the proceeds from the sale of SOEs. On the other side, representatives of the Independent Trade Unions of Kosova (ITUK) are of the opinion that despite the benefits provided by the “compensation package” they are not able to actively become partial owners of SOEs. After the first round, the ITUK came with the following request³⁴ for changes in the privatization operational policies:

- Recognition of workers’ years of service,
- Signing of the collective contract,
- SOEs with over 50 workers to be privatized via special “spin-off”,
- 20% of the proceeds to be allocated to the workers to be calculated within the package of shares,

³³ Unsatisfied with the price for which the company was sold and with procedures followed during the tender, the workers of “Montazha e Kosovës” company have organized strikes several times and have announced respective charges at the Special Chamber.

³⁴ Daily newspaper “Koha ditore”, 9 August, 2003.

- Liabilities to the workers to be included within the liabilities transferred to the company.

Such requests are indicators of the lack of consensus, the absence of a campaign on the essence of privatization, as well as the lack of communication channels between the key players. Transparency and social cohesion are considered to be very important instruments during the implementation of the transition process, and within its framework of the privatization process. On the day when the first bids for companies were publicly opened, officials in charge of privatization declared a victory for transparency. However, transparency should be understood in a wider sense. Transparency should be provided through effective and comprehensive communication between governmental institutions, the business community and civil society. The absence of this communication can destabilize the process and create difficulties during the ownership transformation of SOEs to buyers. Therefore, it is necessary to provide transparency in all phases of the process: the preparatory, implementation and post-privatization phases. A more transparent process can be achieved through regular reports to UNMIK, the Parliament, the Government, civil society and the media. The contacts with leaders of Kosovo institutions initiated during the time of tensions that came following the first tenders represent a step in the right direction, but this is not sufficient.

27. Differences in the interpretation of the existing legislation. Different interpretations of the articles in the relevant applicable regulations (operational policies, regulation on land) are present even within the KTA Board itself. Such differences present a source of tension and conflict that may cause further deterioration in the business environment and investment climate within Kosovo and may discourage potential domestic and foreign buyers. The differences in interpretation are related to: (i) the status of SOEs to be privatized via the special “spin-off” method, (ii) transfer of debts from the current SOE to the new private company, (iii) opportunities to transform the compensation package into shares, and (iv) sufficient number of applicants to be considered as qualified buyers. In order to have a successful privatization process in future, these differences should be overcome before the beginning of the next round of privatization.

28. Use of funds from privatization. This is perhaps the most critical issue in the entire process. A Privatization Fund, which is an important privatization institution in other countries in transition, was not created in Kosovo. Instead, UNMIK created the Trust Fund in order to save the proceeds for eventual creditors and claimants. As a result, the proceeds are precluded from commitment towards the social and economic development of Kosovo. Establishing funds for social and development purposes, would integrate the privatization process into the overall economic development, e.g. SME development, social funds (social assistance and training for workers who lose their jobs after privatization) and infrastructure development.

29. Relations between the KTA and municipalities and disputes about the municipal ownership. The real meaning, character and management of social ownership has been a source of confusion since the international administration was set up. During the reconstruction phase, experiences gained in successor states of the former Yugoslavia regarding social, public and state ownership were not used in Kosovo. There is now a conflict of interests between the KTA and the municipalities concerning the ownership of land in social and communal ownership. Municipalities complain that they have in fact lost their property and cannot implement their policies for sustainable development. The KTA on the other hand refers to the existing regulation on the management of social ownership. This ambiguity presents a real conflict that can be resolved only if a proper

relationship between the KTA and municipalities is established. Relevant institutions of UNMIK and the PISG should formulate a clear distinction between municipal and social ownership by referring to positive experiences in Slovenia and Croatia. If not resolved, the present contest will damage the interests of domestic and foreign investors for the purchase of SOEs.

INTER-ETHNIC RELATIONS

General situation and the public opinion survey

30. During the period May-August 2003 the relationship between Albanians and Serbs and the situation with regard to minorities were characterized by two different phases: i) the phase of relaxed inter-ethnic relations during the period May to mid August, and ii) the phase of considerable deterioration during the second part of August.

i) Apart from the killing of the three members of the Serb family Stolic in Obiliq/Obilic³⁵ at the beginning of June and a number of attacks by Serb extremists against Albanians living in the Northern part of Mitrovica, there have not been any further events to cause worsening or aggravation of inter-ethnic relations between May and mid August. This had led to a better climate for the return of refugees and displaced people and eased the movement of Serbs outside their enclaves in vehicles carrying Kosovo registration plates. To a certain extent the creation of such a climate should be attributed to the joint appeal of the representatives of the PISG and the Kosovo Albanian political parties for displaced people now living in Serbia, Montenegro and Macedonia to return to Kosovo.³⁶ The Kosovo Assembly has also

Table 3.1. Public opinion on inter-ethnic relations between Albanians and Serbs (%)

	November 2002		March 2003		July 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Relations are tense and will continue to remain so	34.1	68.8	41.6	73.1	30.6	73.2
Relations are tense, but there have been some improvements lately	36.3	17.7	36.6	18.3	43.8	21.3
Relations are tense, but there are considerable improvements	16.7	10.2	9.7	7.4	13.9	3.8
Relations are not all that tense	10.0	2.2	6.9	1.1	5.6	1.6
Relations are not tense	2.9	1.1	5.1	0.0	6.1	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Opinion surveys - November 2002; March 2003 and July 2003.

reacted similarly by supporting the return of the displaced population and enacting respective recommendations at the session of July 9th 2003. As a result, during the first part of 2003, 1,416 displaced persons returned.³⁷ Findings of our public survey conducted during July 2003 reveal also the existence of a more favorable climate during the above-mentioned period. According to this survey, both Serb and Albanian respondents are more satisfied with the political situation compared with March of this year (see Fig. 1.1), despite the fact that the level of dissatisfaction of Serb respondents is still very high. In July, Serb and Albanian respondents expressed a more positive

³⁵ UNMIK Police, Press Notification, June 6, 2003.

³⁶ The joint appeal of the representatives of the PISG and political parties, July 2, 2003.

³⁷ Focus Kosovo, 2003.

opinion regarding their mutual relations than in March while responding to the option “Relations are tense, but there have been some improvements lately” (see Table 3.1)

ii) Relations between Serbs and Albanians marked a drastic deterioration after the killing of two young Serbs and the injuring of four others in the village of Gorazhdec/ Gorazdevac in the Peja region in mid August. Apart from the fact that this terrible act was strongly condemned by both UNMIK and all the representatives of the PISG, it was automatically perceived that the killings were conducted by Albanians, and the tragic event was followed by several days of violent acts by Serbs against Albanians in the Northern part of Mitrovica as well as in Gračanica/ Gracanica³⁸. This, together with the politicization of the killings by Belgrade has made the process of the return of refugees, the free movement of citizens and the integration of Serbs into Kosovo even more difficult.

Factors hampering co-existence and integration

31. Relations between Albanians and Serbians are highly dependent upon daily political developments, or different tragic events, as shown by the case of the recent killing of the young Serbs in Gorazhdec/ Gorazdevac. However, the core of the problem lies with the events that occurred before, during and after the conflict of 1999, which make the opinions of Albanians and Serbs strongly opposite on many issues upon which the co-existence and integration of Serbs into Kosovo society depend. Some of these issues are:

1) The majority of Albanians think that the main causes of the tense relations between Serbs and Albanians are the lack of readiness of Serbs for integration into Kosovo society and the influence of Belgrade, while Serbs think that the insufficient efforts of Albanians for integration of Serbs and the stands of Albanian leaders are the main causes of the tense relations (see Table 3.2).

	November 2002		March 2003		July 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Insufficient efforts by Albanians for integration of Serbs	5.0	46.4	5.7	87.7	3.5	57.0
Lack of readiness of Serbs for integration into Kosovo society	36.0	1.2	45.2	1.2	40.5	2.5
Stands of Albanian leaders	3.1	47.0	1.7	9.2	1.9	36.7
Stands of Serbian leaders	13.4	4.8	11.0	1.2	12.2	1.9
Belgrade's influence	42.5	0.6	36.4	0.6	41.9	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Opinion polls - November 2002; March 2003 and July 2003.

2) Albanians and Serbs have completely different opinions concerning the issue of the status of Kosovo. The majority of Albanians think that the future status of Kosovo should be independence within the existing borders, while the majority of Serbs think that Kosovo should be an autonomous province under Serbia (see Table A.13 in the Annex).

3) Serbs and Albanians have completely different opinions on the performance of international and local institutions. The dissatisfaction of Serbs regarding the performance of such institutions is extremely high, with no exceptions at all, while that of Albanians appears more moderate, and in some case Albanians

³⁸ “A hand grenade is thrown into an Albanian house in the Bosnian quarter (in Northern Mitrovica)”, daily newspaper “Koha ditore, July 15, 2003; “Local Serbs in Gračanica/ Gracanica beat 5 Albanians and demolish their car”, RTK News, July 17, 2003.

appear very satisfied with the performance of these institutions, in particular in the case of KFOR and KPS (see Table A.16 in the Annex).

4) The readiness of both Albanians and the Serbs to agree upon the return of refugees into their surroundings does not yet appear to be at a level that would guarantee a more successful return of refugees. According to our public opinion survey nearly 30% of all respondents, including both Albanians and Serbs, do not agree with the returns at all³⁹ – see Table A.14 in the Annex. The reasons why Serb and Albanian respondents do not agree with the returns are almost completely opposite. Albanians rank at the top the events before, during and after the conflict, while Serbs rank the deterioration of the security situation that would follow the returns (see Table 3.3). On the other hand, the regression analysis of the survey findings shows that the Albanian respondents that agree with the return of the refugees into their own properties are those who appear satisfied with the current political situation, are older, better educated and live in cities (see Table A.15 in the Annex). The respective analysis for the Serb respondents does not show any specific correlation with the above, except for the fact that, similar to the Albanian case, the respondents living in cities tend to agree with the returns.

	Albanians	Serbs	Others
Because the returns would cause the security situation to deteriorate	24.9	52.8	28.6
Because the returns would cause the economic situation to deteriorate	8.8	8.3	14.3
Because the returns would cause the political situation to deteriorate	8.8	16.7	0.0
Due to the events before, during and after the conflict	57.5	22.2	57.1
Total	100	100	100

Source: Opinion poll, July 2003

32. Almost the only issues on which no significant differences appears in perceptions of the Albanian and Serb respondents are those of economic character, either with respect to current economic developments Kosovo-wide (see Table A.2 in the Annex and Table 1.2), or with respect to the economic situation of respondents' households. Dissatisfaction of both sides with economic trends represents a significant barrier to the return of refugees, because they offer no perspective on providing for the economic existence of returned people. However, the multi-ethnic projects on familiarizing displaced people with the business environment, and job and training opportunities in Kosovo may positively affect the formation of a sustainable return process⁴⁰. The IOM projects with the demilitarized members of the KLA on professional skill training may serve as a model. The positive experiences to date in integrating minorities through employment in public institutions in the geographic areas freed from serious war conflicts should be continued⁴¹.

Factors that may cause further deterioration in inter-ethnic relations

33. The worsening of inter-ethnic relations and the difficulties in providing suitable conditions for the return of refugees may be influenced in the future by subsequent political developments inside and around Kosovo:

i) **Unilateral acts of predetermining the status of Kosovo.** The political aims of Serbia towards Kosovo, in which the Government, the main Serbian political

³⁹ Apart from Albanians, Serbs too impede the massive return of refugees - see "Serbs impede the return of 50 Albanian families in Popovc village", daily newspaper "Epoka e re", May 23, 2003.

⁴⁰ Such a process should be built in a way that does not create an impression to the Albanians of an extra preferential treatment for the minorities, because such a treatment can obstruct the performance of the process itself.

⁴¹ "Integration of minorities, tolerance and co-existence are at a proper level", estimation of the KMLDNJ activists in Prizren, daily newspaper "Koha ditore", April 14, 2003.

parties as well as the Orthodox Church are involved, to formalize the status of Kosovo as part of Serbia were strongly intensified during August. On August 12, 2003⁴², the Serbian Government approved a declaration that defines Kosovo as a part of Serbia, while it is expected that the Serbian Parliament will enact it in its first session. On the Albanian side these measures are seen as acts of extreme provocation and even as “a constitutional aggression against Kosovo”. The top leaders of the PISG in Kosovo have opposed such a statement and called on the international community to stop the Belgrade campaign against Kosovo⁴³.

Taking into account that the status of Kosovo represents a particularly important issue for the Albanian population – see Table A.1 in the Annex, such actions taken by the Serbian side will directly worsen inter-ethnic relations in Kosovo. Further more, based upon the experiences to date about the issue of the status of Kosovo, it can be expected that in response to the declaration of the Serbian Parliament defining Kosovo as an indivisible part of Serbia, a proclamation of the independence of Kosovo will follow. This scenario may well lead to the end or boycott of previously announced negotiations between Pristina and Belgrade by both parties⁴⁴.

ii) Calls of Serb leaders for the return of the Serbian army and police to Kosovo and for interruption of the transfer of competencies to the PISG. The calls of Serb leaders for the return of the Serbian army and police to Kosovo intensified after the launch of strategy for Kosovo of the former Serbia’s Prime Minister Djindjic⁴⁵. These calls and the requests for bringing an end to the transfer of competencies to the PISG, including the call for the dissolution, in particular of the KPC, make relations between Serbs and Albanians in Kosovo constantly tense and discourage the Serb population in Kosovo from involvement in these institutions⁴⁶.

iii) The announced intentions of the Kosovo Serbs to hold their own elections. The announced intentions of the Kosovo Serbs to hold elections within their own “municipal communities”⁴⁷ represents one of the biggest threats to inter-ethnic relations and the political stability of Kosovo. This act could cause a general regression in the achievements to date towards establishing a multi ethnic society in Kosovo. Such action could be perceived by Albanians as an attempt at the division or federalization of Kosovo, which appears to be Serbia’s option⁴⁸, and may encourage the extremists of both Albanians and Serbs to continue inter-ethnic violence in an attempt to achieve their respective political objectives through the use of force.

⁴² Serbia’s Government adopted guidelines for solution of the issue of Kosovo, B92 News, 12 August 2003; www.b92.net.

⁴³ “Rugova, Rexhepi and Daci call on the international community to stop the Belgrade campaign against Kosovo”, daily newspaper “Zëri”, August 14, 2003.

⁴⁴ The dialogue Pristina – Belgrade has recently been conditioned by Belgrade even with the improvement of the security situation – see “Covic: There are no talks about final status without security”, B92 News, 4 August 2003; www.b92.net.

⁴⁵ For further details see Early Warning Report #3.

⁴⁶ See RPH #3 and article: “Rada Trajkovic asked Steiner to dissolve the institutions of Kosovo!”, daily newspaper “Zëri”, July 6, 2003.

⁴⁷ “M.Ivanovic: “Kosovo Serbs will organize their own elections”, B92 News, 12 July 2003, www.b92.net.

⁴⁸ For details see Early Warning Report #3.

PUBLIC AND PERSONAL SECURITY

Security situation

34. The public and personal security situation during the period May to August 2003 is characterized by two different phases: i) the phase of continuing stabilization of the security situation during the early part of the period May-August, and ii) the phase of considerable deterioration during the month of August.

i) The data of UNMIK police referring to the first half of 2003 indicates improvements and stability during this period in certain areas (see Table 4.1). Thus, the number of attempted murders, kidnappings and robberies has reduced compared to the same period last year. Based on these trends, the spokesperson of UNMIK police, Derek Chappell, declared at the end of July that “ordinary crimes in Kosovo are stabilized at the level that makes Kosovo comparable to Western Europe; this is an extraordinary achievement of the Kosovo population and police that should not be underestimated”⁴⁹.

Our opinion poll conducted in July 2003 reconfirms the official view of the police: the feeling of safety on the streets of respondents of all nationalities has increased compared to March 2003 (see Fig. 4.1). The high satisfaction level of respondents with the performance of KFOR, CIVPOL and KPS in July 2003, though somewhat lower than in November 2002 and March 2003 (see table A.16 in the Annex), is an indicator of the relatively favorable security situation that has dominated up to August 2003. It should be emphasized that the perception of security in the streets and satisfaction with the performance of KFOR, CIVPOL and KPS of Serb respondents is still low compared to Albanian respondents and non-Serbian minorities.

Despite the improvements achieved in some segments of security between January and June 2003, in some other important segments of public and personal security the trends have either remained unchanged or have worsened, including rape cases, grievous assault cases and arson cases (3 times more than the same period last year). During this period the number of explosions targeted against the courts and police institutions has intensified: between July 15-20, 2003 the police station in Skënderaj/ Srbica was attacked, a grenade was thrown in Podujevë/ Podujevo, and two explosions occurred in Pristina - one at the District Court with a rocket launcher and one at Police Station no. 2, which was attacked with a hand grenade⁵⁰;

Table 4.1. Crime statistics recorded during the period 1 January 2003 to 30 June 2003, and the statistics for the same period during 2000 and 2002

Major offences	2001	2002	2003
Murder	69	34	37
Attempted murder	116	92	61
Kidnapping	80	55	41
Rape and attempted rape	57	68	68
Grievous Assault	153	107	241
Arson	136	85	246
Robbery	282	200	183
Total	893	641	878

Source: UNMIK Police Press Release, 22 July 2003

⁴⁹ Daily newspaper “Zëri”, 23 July 2003.

⁵⁰ Daily newspaper “Zëri”, 21 July 2003; daily newspaper “Koha ditore”, 22 July 2003.

on July 24 near the police station in the Southern Part of Mitrovica two grenades exploded and as a consequence one person was killed and four others injured⁵¹.

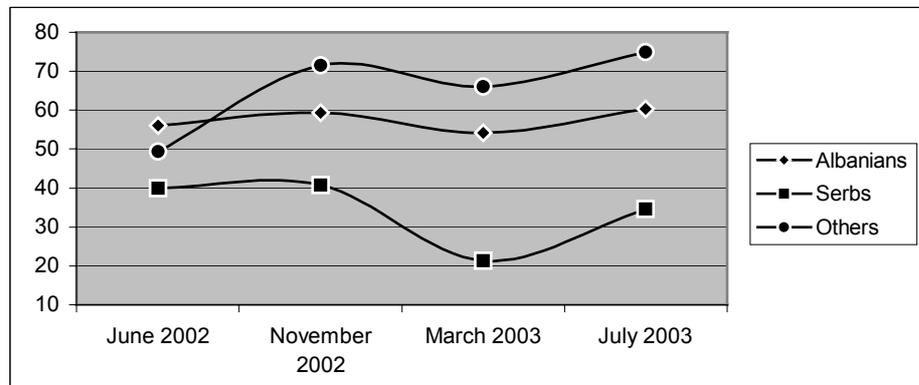


Fig. 4.1. Percentages of respondents that feel "safe" or "very safe" in the street

ii) The public and personal security situation significantly worsened during August 2003. The events that have caused the deterioration in the security situation during August are:

- On 2 August three young Albanians (two females and a male) were killed and three others hurt in an attack with firearms in Peja/ Pec.
- On 4 August Major Satish Menon, a member of the international police force in Kosovo, was killed while on duty in the village of Sllatina/ Slatina of Leposaviq/ Leposavic in the north of Kosovo⁵².
- On 13 August in the Gorazhdec/ Gorazdevac village of Peja/ Pec, two Serbs, one a child and the other a teenager, were killed by unidentified persons, and four other young people were injured⁵³. Unlike other murder cases in Kosovo, this one greatly increased inter-ethnic tensions. This case was condemned by all the relevant political factors in Kosovo, and also by the UN Security Council⁵⁴.
- On 17 August, a group of Serbs from Graçanica/ Graçanica, in revenge for the killings in Gorazhdec/ Gorazdevac, attacked five Albanians and beat them until they lost consciousness.
- On 20 August in Vinarc village in the North of Kosovo, two young Albanians were attacked and seriously injured by a group of Serbs. In the northern part of Mitrovica, on three consecutive days, three explosions caused by grenades occurred near apartments inhabited by Albanians. There were no victims in these incidents⁵⁵.

Apart from these cases, during August a number of attacks with explosive means were aimed against the courts and police: on 8 August at the building of the Viti/ Vitina Court⁵⁶, on 17 August at the yard of the police station in Prizren, on 19

⁵¹ Daily newspaper "Zëri", July 25 2003.

⁵² Daily newspaper "Koha ditore", 4 August 2003.

⁵³ UNMIK Police, Press Release, 13 August 2003.

⁵⁴ Security Council, Press Release SC/7845, 14 August 2003.

⁵⁵ The daily newspapers printed in Albanian language, 18-20 August 2003.

⁵⁶ The daily "Koha ditore", August 11, 2003.

August at the Municipal Court for minor offences in Skënderaj/ Srbica⁵⁷. During this month kidnapping cases occurred and masked people reappeared⁵⁸.

35. A feature of the above-mentioned cases is that their regional distribution does not appear uniform; consequently, the security situation in different regions is not equal. More often such events took place in the Peja/ Pec region, as well as in Mitrovica. This has influenced the citizens' perceptions on security in these regions as less favorable compared to other regions. According to our opinion poll conducted during July 2003, 50.9% of Albanian respondents in Peja/ Pec and 50.4% in Mitrovica feel "not too safe" or "not safe at all" in the street, whereas in almost all other regions the figures in the respective percentages are far lower (see Table A.17 in the Annex). Even the respondents from the non-Serbian minorities in Peja/ Pec feel less secure than in other regions (48%). On the other hand, Serb respondents feel less secure in the Pristina region (87%) than in other regions. It should be noted that the Serb respondents in this region were inhabitants of the municipalities of Obiliq/ Obilic and Graçanica/ Gracanica - residential areas close to the area where the murder of the three members of the Serb family Stolic took place at the beginning of June 2003. These findings indicate that the security bodies should intensify their activities in the above-mentioned regions.

Factors hindering the performance of the police and courts

36. The deterioration of the security situation during August, following a relatively stable period during the first part of the year, shows that the security situation in Kosovo has not yet reached a sustainable level of stability. Therefore, during its regular meeting on August 20, 2003⁵⁹, the Government of Kosovo demanded an increase in the efficiency of security and court bodies, putting an emphasis on the international bodies responsible for security and justice. Following the intensified violence during August, particularly after the killing of two young Serbs in Gorazhdec/ Gorazdevac, the Security Council of the UN expressed "deep concern that four years after the conflict such brutal incidents should occur" and demanded that "no efforts be spared to bring the perpetrators to justice"⁶⁰.

37. Increasing the efficiency of the police and courts in the complex circumstances of transition that Kosovo is facing appears to be a difficult task. Some factors that hinder the efficiency of such structures are given below:

i) **The high number of as yet unresolved cases of major offences and attacks against police institutions.** So far a very limited number of major offences have been resolved, in particular when it comes to those suspected to be politically or ethnically motivated. The situation appears similar with respect to the attacks against the police and judiciary institutions. Such attacks have occurred in previous periods too, but they have intensified after the court reached its verdict against four members of the "Llapi Group", charged with war crimes. The inability to solve such crimes and assaults quickly makes people less afraid to continue with destabilizing and disruptive activities. Consequently, the number of major crimes keeps growing, while the chances for the police and court structures to become more effective in resolving cases decline.

⁵⁷ The daily "Zëri", August 18 and 20, 2003.

⁵⁸ On 5 August 2003, 11 members of a family from the Vrella village of the Istog/ Istok municipality were kidnapped; according to the daily "Koha ditore", the kidnappers, who spoke in Serbian, Bosnian and Albanian language, requested a ransom of €30,000 and "have asked for explanations about the prohibition on the sale of properties owned by Serbs in Istog/ Istok".

⁵⁹ The daily "Zëri", August 21, 2003.

⁶⁰ Security Council, Press Release SC/7845, 14 August 2003.

ii) **The insufficient level of cooperation between the population and the police and court structures.** The efficiency of the police and courts depends upon the cooperation of the population with such structures. So far this cooperation has been insufficient. According to our opinion poll, fear from revenge attacks (Albanians 43.2% and non-Serbian minorities 39.1%) and the lack of trust in the police (Serbs 51%) are the main factors that hamper successful cooperation with the police (see Table A.18 in the Annex). The OSCE in Kosovo has so far identified a considerable number of cases⁶¹ in which potential witnesses of major offences, particularly with respect to those with “a serious political profile”, have withdrawn their testimonies before or during the court hearings. The reasons, say OSCE⁶², lie in the lack of trust in the current system of witness protection.

iii) **The high number of small arms carried by the population.** Although a number of measures have been undertaken for weapons collection, the number of small arms carried by the population is still very high. According to a UNDP report published in June 2003, the number of weapons carried by the population is between 330,000 and 460,000⁶³. Such a high prevalence of weapons undoubtedly increases the chances of weapons being used in crimes, or for instance in family feuds all with negative consequences for society at large.

Respondents perceptions of organized crime

Organized crime is an extensively debated phenomenon in different institutional and non-institutional circles in Kosovo. However, it is rare that cases are made public, and therefore the real extent of this phenomenon cannot be perceived in its whole dimension. Our opinion poll conducted in July 2003 indicates a much higher perception amongst respondents on the presence of organized crime than the results from official statements, or the press coverage of this phenomenon would indicate. According to the survey, 71.7% of Albanian respondents, 28.3% of Serb respondents and 39.8% of respondents from other minority groups think that organized crime is present “at a medium scale” or “at a high scale” (see Table A.19 in the Annex). These findings appear to be very worrying, due to the fact that organized crime negatively impacts upon public and personal security and generates dissatisfaction with respect to the political situation. Our opinion poll confirms such a correlation. The regression analysis⁶⁴ of the survey outcomes shows that the respondents of all ethnic backgrounds that think that organized crime is present, they also feel insecure in the street and are unsatisfied with the current political situation (see Table A.20 in Annex). With respect to Albanian respondents, such correlation is more typical of those living in the villages as opposed to those living in cities.

38. Public opinion was surveyed also with regard to the spheres in which respondents think organized crime is most present. The survey findings are given in the Table 4.2. As can be seen from the table, respondents of all nationalities think that organized crime is almost equally present in trafficking of human beings and drug smuggling, as well as in economic and serious crimes (murders, kidnappings, robberies, arson). Nevertheless, more respondents think that organized crime is

⁶¹ OSCE Mission in Kosovo, Kosovo Review of the Criminal Justice System (March 2002 – April 2003): “Protection of witnesses in the Criminal Justice System”.

⁶² Ibid.

⁶³ Khakee, A. and Florquin, N., Kosovo and Arms/Weapons: “Basic estimation of small arms and light weapons in Kosovo”, June 2003.

⁶⁴ Regression analysis is the estimation of the linear relationship between a dependent variable and one or more independent variables.

more present in the domain of serious crimes, which highlights the necessity to more efficiently combat and resolve organized crime in order to increase the level of security for the citizens of Kosovo.

Regarding the entities which respondents think are linked with organized crime, differences in opinions appeared depending on the ethnic background of the respondents. While 45% of Albanian respondents think that the business community is related to organized crime, 46.9% of Serb respondents and 54.2% of respondents from other minorities think that organized crime is linked to the international community (see Table A.21 in the Annex).

	Albanians	Serbs	Others
Trafficking of human beings and prostitution	24.3	22.5	21.5
Drug smuggling	23.7	26.2	23.3
Economic crime	23.0	22.5	25.3
Serious crimes	29.0	28.8	29.9
Total	100	100	100

Source: Opinion poll, July 2003

ANNEX 1. Selected results of the opinion poll

Note. The opinion poll for this Report was conducted in July 2003, by the “Riinvest” polling team. The part of the opinion poll conducted in the Serb enclaves was carried out by a local Serb NGO.

The survey was based on face-to-face interviews, and included 1,340 respondents: 987 Albanians, 190 Serbs, and 163 respondents from other minorities (Bosnians, Turks, Goranis, and Romas – Ashkalis and 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 (7 regions – about 30% living in the Pristina region; percentage distribution in the other Kosovo regions is made according to appropriate percentages before the conflict), and urban to rural population ratio (1:1). The target population was over 18 years of age.

	Albanians	Serbs	Others
Infrastructure (roads)	1.3		
Power supply	2.5	2.2	4.3
Urban problems (wild building)	2.4	1.1	
Environment	1.4	0.5	0.6
Poverty	15.4 (3)	12.0 (3)	22.2 (2)
Prices	2.0		6.2 (4)
Healthcare services	0.4	1.1	
Public and personal security	0.6	24.5 (1)	3.1
Education	0.5	0.5	
Interethnic relations	0.5	9.8 (5)	4.3 (5)
Unemployment	26.5 (2)	8.7 (5)	38.3 (1)
Uncertainty about the final status of Kosovo	36.3 (1)	19.0 (2)	10.5 (3)
Social problems	1.8	1.6	3.7
The fate of the missing	3.9 (4)	10.3 (4)	3.1
Organized crime and corruption	2.6 (5)	5.4	3.7
Unsocial phenomena (prostitution, drugs)	1.3	1.1	
Something else	0.4	2.2	
Total	100	100	100
* - Ranking of five biggest problems for each ethnic group is given in parenthesis			

Table A.2. Economic pessimism – the percentage of respondents “unsatisfied” or “very unsatisfied” with the current economic situation (valid %)*

	June 2002	November 2002	March 2003	July 2003
Albanians	70.3	57.8	66.8	64.8
Serbs	75.0	68.8	85.7	76.4
Others	72.6	49.6	62.6	56.8
Total (weighted %)**	70.7	58.0	67.7	65.0

* Valid percentage do not include in it the percentage of the respondents that did not answer

** These percentages represent percentages for all respondents weighted according to their participation in the population (88% Albanians, 6% Serbs, 6% respondents of non-Serb minorities)

Table A.3. The percentage of respondents considering that the economic situation in their families is worse or the same as one year before (valid %)

	November 2002	March 2003	July 2003
Albanians	70.5	81.7	87.6
Serbs	86.1	66.3	90.4
Others	82.8	83.9	89.5
Total (weighted %)	72.2	80.9	87.9

Source: Opinion polls – November 2002, March 2003, July 2003.

Table A.4. Opinions on entities responsible for the current economic situation in Kosovo (valid %)

	Albanians	Serbs	Others
UNMIK	66.8	61.7	67.6
Government	24.2	27.8	26.1
Local governments	4.0	4.3	3.5
Business community	5.0	6.2	2.8
Total	100	100	100

Table A.5. The Consumer Confidence Index

The Consumer Confidence Index is based on responses to five questions included in the Consumer Confidence Survey:

1. Respondents appraisal of current business conditions.
2. Respondents expectations regarding business conditions six months hence.
3. Respondents appraisal of the current employment conditions.
4. Respondents expectations regarding employment conditions six months hence.
5. Respondents expectations regarding their total family income six months hence.

For each of the five questions, there are three response options: POSITIVE, NEGATIVE and NEUTRAL.

For each of the five questions, the positive figure is divided by the sum of the positive and negative to yield a proportion, called the “RELATIVE” value or the index value for that question. Based on these relative values the corresponding indices are calculated as follows: Consumer Confidence Index – average of all five indices; Present Situation Index – average of indexes for questions 1 and 3; Expectation Index – average of indexes for questions 2, 4 and 5.

Table A.6. The percentage of respondents “unsatisfied” or “very unsatisfied” with the current political situation in Kosovo(valid %)

	June 2002	November 2002	March 2003	July 2003
Albanians	51.1	28.9	38.5	34.7
Serbs	82.8	79.9	87	83.1
Others	45.6	25.8	43	29.4
Total (weighted %)	52.7	31.8	41.7	37.3

Source: Opinion polls – June 2002, November 2002, March 2003, July 2003.

Table A.7. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (weighted %)

	UNMIK	SRSB	Government	Parliament	Local governments
November 2002	63.8	73.1	74.1	76.7	52.0
March 2003	51.9	64.1	74.9	71.9	53.0
July 2003	43.1	71.4	78.1	74.7	51.2

Source: Opinion polls – November 2002, March 2003, July 2003.

Table A.8. Opinions on the performance of some institutions in Kosovo (%) – July 2003

Institution	Albanians		Serbs		Others	
	“Dissatisfied” or “very dissatisfied”	“Satisfied” or “very satisfied”	“Dissatisfied” or “very dissatisfied”	“Satisfied” or “very satisfied”	“Dissatisfied” or “very dissatisfied”	“Satisfied” or “very satisfied”
UNMIK	51.2	42.4	88.5	4.2	47.3	46.6
SRSB	22.9	71.3	91.1	2.1	39.9	51.5
Parliament	19.8	76.8	92.1	2.6	30.6	60.7
Government	16.2	79.1	92.7	2.6	27.3	63.2
Local governments	43.2	50.4	85.3	7.4	31.9	59.2

Table A.9. Regression analysis⁶⁵ of respondents’ dissatisfaction with the performance of UNMIK

Predictors	Albanians		Serbs	
	Correlation coefficient	Standard error	Correlation coefficient	Standard error
Female	0.135	0.000***	0.115	0.180
Age	0.031	0.349	-0.130	0.147
Education	-0.062	0.073	-0.058	0.500
Unemployed	-0.003	0.923	-0.040	0.640
Living in village	-0.109	0.001***	0.018	0.830
Satisfaction with the economic situation	0.131	0.000***	0.092	0.272
Security in the street and at home	-0.052	0.099	0.089	0.296
Satisfaction with the political situation	0.223	0.000***	0.240	0.004**
Adopted R ²	0.205		0.070	

Significance level: * p<0.05, ** p<0.01, *** p<0.001

Dependent variable: How satisfied are you with the performance of UNMIK (linear regression)

⁶⁵ Regression analysis is the estimation of the linear relationship between a dependent variable and one or more independent variables (predictors). The significance level of 0.05 (p<0.05) means that the probability of the correlation not being statistically significant is below the 0.05 confidence level.

	Albanians	Serbs	Others
November 2002	Unemployment (1), status of Kosovo (2), power supply (3)	Inter-ethnic relations (1) status of Kosovo (2), public and personal security (3),	Unemployment (1), power supply (2), poverty (3)
March 2003	Unemployment (1), status of Kosovo (2), poverty (3)	Public and personal security (1), social deviations (2), inter-ethnic relations (3)	Unemployment (1), poverty (2), status of Kosovo (3)
July 2003	Status of Kosovo (1) unemployment (2), poverty (3)	Public and personal security (1), status of Kosovo (2), poverty (3)	Unemployment (1), poverty (2), status of Kosovo (3)

Source: Opinion polls – November 2002, March 2003, July 2003.

	Albanians	Serbs	Others
Inter-ethnic relations will improve	30.4	21.1	31.9
Inter-ethnic relations will not be influenced	25.7	47.9	9.8
Inter-ethnic relations will deteriorate	10.1	5.8	5.5
Don't know	30.3	22.1	46.6
No answer	3.4	3.2	6.1
Total	100	100	100

	Albanians	Serbs	Others
Transport	2.3	1.6	3.1
Trade	4.4	1.1	12.9
Missing persons	65.3	21.6	23.3
Return of refugees	6.0	52.6	10.4
Mutual recognition of personal documents	6.0	0.5	3.1
Position of minorities in Kosovo and Serbia	1.8	7.4	13.5
Power supply	0.9	-	9.2
Something else	1.8	5.8	3.7
Ref/PP	11.4	9.5	20.9
Total	100	100	100

	November 2002		March 2003		July 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Independence of Kosovo within current borders	84,3	0,0	88,5	1,1	87.9	2.9
Division of Kosovo	0,5	34,4	0,3	4,0	0.0	26.6
Current status (international protectorate)	5,2	2,2	0,9	1,1	0.5	0.0
Union with Albania	9,8	0,0	9,9	0,0	11.5	0.0
Confederation with Serbia, similar to Montenegro	0,0	2,7	0,0	12,5	0.1	7.6
Autonomous province within Serbia	0,1	60,8	0,3	81,3	0.0	62.9
Total	100	100	100	100	100	100

Table A.14. Opinions on the readiness of respondents to agree with the return of refugees in respondents' surroundings (%)

	November 2002		March 2003		July 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
I agree with the return to their properties	37,6	75,7	36,8	24,1	45,9	59,8
I agree with the return to new settlements	3,1	13,8	1,6	10,3	4,6	11,6
I do not agree with the returns at all	30,2	3,2	38,0	49,4	28,3	26,5
Does not concern to me (there are not refugees in my surroundings)	29,1	7,4	23,6	16,1	21,1	2,1
Total	100	100	100	100	100	100

Table A.15. Regression analysis of the readiness of respondents to agree with the return of refugees in their surroundings

Predictors	Albanians		Serbs	
	Correlation coefficient	Standard error	Correlation coefficient	Correlation coefficient
Female	-0.041	0.277	-0.040	0.613
Age	0.078	0.043*	-0.011	0.889
Education	0.149	0.000***	-0.059	0.470
Living in village	-0.072	0.051*	-0.219	0.006**
Satisfaction with the political situation	0.095	0.009**	-0.014	0.861
Adopted R ²	0.033		0.020	

Significance level: * p<0.05, ** p<0.01, *** p<0.001
 Dependent variable: I agree with the return of refugees in their properties – in the surroundings where respondents live (linear regression)

Table A.16. Percentages of respondents "satisfied" or "very satisfied" with the performance of KFOR, CIVPOL and KPS (valid %)

Institution	Nationality	November 2002	March 2003	July 2003
KFOR	Albanians	91.7	89.5	85.1
	Serbs	27.4	19.2	26.4
	Others	87.4	90.4	81.5
CIVPOL	Albanians	78,5	74.3	65.5
	Serbs	22.9	14.7	11.3
	Others	90.0	80.5	77.1
KPS	Albanians	95.5	92.6	89.9
	Serbs	9.3	17.9	4.6
	Others	90.6	89.7	85.3

Table A.17. Percentages of respondents that feel "not too safe" or "not safe at all" in the street – regional distribution (%)

	Pristina	Mitrovica	Prizren	Peja/ Pec	Ferizaj/ Urosevac	Gjakova/ Djakovica	Gjilan/ Gnjilane
Albanians	41.6	50.4	33.6	50.9	27.5	26.8	35.2
Serbs	87.0	63.4	-	-	38.9		70.0
Others	16.0	21.2	13.5	48.0	*	26.4	*

* Number of respondents was too small

	Albanians	Serbs	Others
Fear of revenge	43.2	15.7	39.1
Lack of trust in police bodies	18.1	51.0	20.7
Low interest of police bodies for cooperation	11.3	20.9	13.8
People do not have interest for cooperation	27.4	12.4	26.4
Total j	100	100	100

	Albanians	Serbs	Others
Not present at all	8.5	18.6	32.4
Present in a small scale	19.8	53.1	27.8
Present in a medium scale	34.8	17.7	36.1
Present in a high scale	36.9	10.6	3.7
Total	100.0	100.0	100.0

Predictors	Albanians		Serbs		Others	
	Correlation coefficient	Standard error	Correlation coefficient	Standard error	Correlation coefficient	Standard error
Unsafety on the streets	0.217	0.000***	0.187	0.028*	0.306	0.006**
Satisfaction with the political situation	-0.103	0.006**	-0.090	0.287	-0.299	0.008**
Interest in the current developments in Kosovo	0.062	0.088	0.304	0.000***	0.171	0.094
Living in village	0.070	0.056*	0.117	0.167	0.094	0.373
R ² adopted	0.068		0.119		0.264	

Significance level: * p<0.05, ** p<0.01, *** p<0.001
 Dependent variable: The scale on the presence of organized crime (linear regression)

	Albanians	Serbs	Others
Business community	45.5	32.8	25.0
SOEs	7.1	4.7	0.0
International community	24.3	46.9	54.2
Political parties	23.1	15.6	20.8
Total	100	100	100

ANNEX 2. Events during May-August 2003

May

- **6 May** - UNMIK and KFOR suspend all KPC activities and trainings to be held abroad. The reason is the case of the bridge damaged in an explosion in northern Mitrovica, where one of the attackers was a KPC member.
- **9 May** - SRSG Michael Steiner signed the “Land Use Regulation”, officially known as The Regulation on the Transformation of the Right to Use Socially Owned Immovable Property.
- **13 May** - SRSG Michael Steiner promulgated the Laws on Telecommunications, on External Trade, on Management of Public Finances and Accountability and on Higher Education. The four laws had been pending for some time because they could not be promulgated as adopted by the Assembly without changes bringing them into conformity with UNSCR 1244 and the Constitutional Framework
- **15 May** – The provisional authorities in Kosovo were today excluded from the United Nations delegations to three forthcoming international meetings after the Kosovo Assembly past a resolution that the top UN envoy in Kosovo called “divisible” and against the spirit of avoiding a return to Kosovo’s violent past.

June

- **3 June** - Three members of a Serb family were killed by unknown suspect(s) in Obiliq/ Obiliq, where progress was made in the co-existence between Serbs and Albanians.
- **21 June** – SRSG Michael Steiner announced that President Ibrahim Rugova, Prime Minister Bajram Rexhepi and the Inter-ministerial Coordinator for Returns, Milorad Todorovic, will form part of the UNMIK delegation to the EU-Western Balkan Summit in Thessaloniki.

July

- **1 July** – UN Secretary-General Kofi Annan reports that four years into the mandate of the United Nations Mission in Kosovo, the province has made significant progress in achieving autonomy and self-government, but firmly establishing the rule of law and creating a sustainable foundation for economic growth and development remain central challenges.
- **6 July** - SRSG Michael Steiner promulgated the Criminal Code of Kosovo and Criminal Procedure Code of Kosovo. “The signing of these two regulations will bring criminal law in Kosovo into greater conformity with international and European standards” said SRSG Michael Steiner.
- **8 July** - United Nations Secretary-General Kofi Annan’s Special Representative in Kosovo, Michael Steiner, ended his assignment today after a year and a half’s tenure.
- **9 July** - According to the UNDP report launched today in Pristina, there are between 330,000 and 460,000 firearms in civilian hands in Kosovo, most of them unregistered and uncontrolled.
- **25 July** - Secretary-General Kofi Annan has named former Prime Minister Harri Holkeri of Finland, as his new envoy and head of the United Nations Interim Administration Mission in Kosovo (UNMIK).

August

- **3 August** - A United Nations police officer in Kosovo was killed in an attack on a police vehicle. The top UN envoy called this attack a “despicable” and “repugnant” act of murder.
- **12 August** - The United Nations mission in Kosovo is set to launch a month-long weapons amnesty in September, its third such effort to take out of circulation “the huge quantity of unauthorized weapons” left in the wake of the fighting between ethnic Albanians and Serbs.
- **13 August** - Unknown suspect(s) armed with an automatic weapon fired on a group of Serbian teenagers swimming in the river near Gorazhdec/Gorazdevac. One young man died at the scene. A second victim died later of his injuries.
- **18 August** - The United Nations Security Council strongly condemned the deaths of two teenagers and injury to four others after unknown suspects opened fire on a group of Kosovo Serb youngsters, demanding that no efforts be spared to bring the perpetrators to justice

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