

EARLY WARNING REPORT KOSOVO

Report # 13

Political and institutional stability
Economic and social stability
Inter-ethnic relations
Public and personal security

January - June 2006

Disclaimer

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

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Selected indicators

	Jan-Mar 2005	Apr-Jan 2005	Jul-Sep 2005	Oct-Dec 2005	Jan-Jun 2006	Trend
Population (in ,000) ^{a)}		1,999 ¹⁾			2,033 ^{**)}	↗
GDP growth rate (annual), % ^{a)}	3.7		-0.5		3.0 ^{**)}	↗
GDP per capita, € ^{a)}		1,105 [*])			1,107 ^{**)}	↔
KCB, million € ^{b)}		641.5			656.2 ¹⁾	↗
Workers' remittances, million € ^{a)}		375.0 [*])			347.0 ^{**)}	↘
Foreign assistance, million € ^{a)}		462.0 [*])			388.0 ^{**)}	↘
KPST fund, million € ^{a)}		145.8 (Dec)			167.5 (May) ^{d)}	↗
KTA fund, million € ^{a)}		113.1 (Dec)			234.9 (Apr)	↗
Bank deposits, million €	704.8 (Feb)	731.2 (May)	765.8 (Aug)	809 (Nov)	844.6 (Apr) ^{e)}	↗
Commercial bank loans, million €	356.5 (Feb)	400.1 (May)	401.8 (Aug)	435.7 (Nov)	459.7 (Apr) ^{e)}	↗
Trade balance, million €	-219.1 (Jan-Mar)	-308.5 (Jan-Apr)	-723.4 (Jan-Aug)	-1,028.4 (Jan-Nov)	-956 (Jan-Dec) ^{a)h)}	↗
Registered job-seekers	303,095 (Jan)	311,230 (May)	314,446 (Aug)	319,721 (Dec)	323,201 (May) ^{f)}	↗
Consumer Price Index, % (compared to May 2002)	101.4 (Mar)	100.0 (May)	98.5 (Aug)	101.9 (Nov)	102.9 (May) ^{g)}	↗
Basic pensions (per month), €	40	40	40	40	40	↔
Voluntary returns		2126			777(June) ^{h)}	

*) Estimated

**) Projected

Sources:

a) IMF (2006), Aide Memoire of the IMF Staff Mission to Kosovo, May 22-31, 2006.

b) MEF (2006), Budget 2006, MEF, Government of Kosovo, Prishtina.

c) KPST (2005), Annual Report 2005, KPST, Prishtina.

d) Assessment obtained from KPST through e-mail.

e) BPK (2006), Monthly Statistics Bulletin, No. 56, BPK, Prishtina, April 2006.

f) MLSW (2006), Information on labor market in Kosovo - May 2006, MLSW, Government of Kosovo, Prishtina.

g) SOK (2006), Price Statistics Division, Consumer Price Index, SOK, Government of Kosovo, Prishtina.

h) the rest of the figures are from UNDP (2006), Early Warning Report No. 12: October - December 2005, UNDP, Prishtina, op. cit.

h) United Nations High Commissioner For Refugees Kosovo

The rest of the figures on the above table are taken from the UNDP (2006), Early Warning Report No. 12: October - December 2005, UNDP, Prishtinë/Priština, op. cit.

Selected indicators from opinion poll

	Jan-Mar 2005 ^{a)}	Apr-Jun 2005 ^{a)}	Jul-Sep 2005 ^{a)}	Oct-Dec 2005 ^{a)}	Jan-Jun 2006 ^{a)}	Trend
Political pessimism, %("very dissatisfied" or "dissatisfied" with current political trends)	38.6	35.8	41.0	40.2	43.4	↗
Economic pessimism, %("very dissatisfied" or "dissatisfied" with current economic trends)	71.1	69.9	68.8	73.3	76.0	↗
Willingness to protest due to economic reasons, %	62.9	63.5	57.4	69.3	62.8	↘
Willingness to protest due to political reasons, %	48.9	48.4	45.4	56.2	45.5	↘
Satisfaction with UNMIK's performance*, %	29.7	41.4	34.5	35.9	30.5	↘
Satisfaction with SRSG's performance*, %	81.2	81.7	69.8	72.0	70.5	↔
Satisfaction with Government's performance*, %	81.2	67.7	48.7	51.0	43.3	↘
Satisfaction with Assembly's performance*, %	73.7	63.0	59.0	56.2	45.4	↘
Satisfaction with KFOR's performance*, %	81.0	87.3	84.3	86.3	81.0	↘
Satisfaction with KPS performance *, %	86.9	84.4	84.5	84.2	81.8	↘
Feelings of insecurity ("Somewhat unsafe" or "very unsafe" while outdoors)	38.1	36.6	36.7	42.9	35.5	↘

*) includes "satisfied" and "very satisfied"

Sources:

- a) UNDP (2006), Early Warning Report No. 12: October - December 2005, UNDP, Prishtinë/Priština, op. cit.
b) UNDP (2006), Opinion Poll: January - June 2006.

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List of Acronyms

AAK	Alliance for the Future of Kosovo
AKB	Alliance of Kosovar Businesses
BPK	Banking and Payment Authority of Kosovo
ESI	European Stability Initiative
CPI	Consumer Price Index
EAR	European Agency for Reconstruction
EWR	Early Warning Report
EWS	Early Warning System
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
IDP	Internally Displaced Persons
IMF	International Monetary Fund
KCB	Kosovo Consolidated Budget
KEK	Korporata Elektroenergjetike e Kosovës/Kosovo Energy Corporation
KFOR	Kosovo Force
KLA	Kosovo Liberation Army
KPC	Kosovo Protection Corps
KPS	Kosovo Police Service
KPST	Kosovo Pension Savings Trust
KTA	Kosovo Trust Agency
LDK	Lidhja Demokratike e Kosovës/Democratic League of Kosovo
MEF	Ministry of Economy and Finance
MEM	Ministry of Energy and Mining
MLSW	Ministry of Labour and Social Welfare
MTI	Ministry of Trade and Industry
OAG	Office of the Auditor General
OEK	Oda Ekonomike e Kosovës/Kosovo Chamber of Commerce
OIOS	Office of Internal Oversight Services
PDK	Partia Demokratike e Kosovës/Democratic Party of Kosovo
PISG	Provisional Institutions of Self Government
POE	Public Owned Enterprises
PTK	Post and Telecommunication of Kosovo
SCG	Srbija i Crna Gora/Serbia and Montenegro
SOE	Social Owned Enterprises
SOK	Statistical Office of Kosovo
SRSO	Special Representative of the Secretary General
TAK	Tax Administration of Kosovo
UNDP	United Nations Development Programme
UNMIK	United Nations Interim Administration Mission in Kosovo
UNSC	United Nations Security Council
USAID	United States Agency for International Development

Preface

This edition of the Early Warning Report (EWR) is the thirteenth in the series that commenced in August 2002, under the sponsorship of United States Agency for International Development (USAID) and the United Nations Development Programme (UNDP). Covering the period from January to June 2006, the report marks the start of Phase IV of the Early Warning System which will continue through to June 2007. It follows the tradition of previous reports by examining the evolving situation in Kosovo under four main areas covering political, economic, social and security issues. A particular feature of Phase IV is that for the first time every quarterly report will draw from the expertise of a diverse pool of analysts.

This edition of the Early Warning Report is published in a period of intensive and important developments, the start of UN-mediated status negotiations between Prishtinë/Priština and Belgrade, the death of Kosovo's President and long-time political leader Ibrahim Rugova, and the changes in the Provisional Institutions of Self Government (PISG) leadership. As the ongoing negotiations regarding the final status of Kosovo continue, monitoring early warning indicators may prove to be a necessary tool for obtaining insight into potential conflict-causing factors as well as the opinion of Kosovans on the negotiations' process.

The EWR Number 13 includes four topics: political and institutional stability, the socio-economic situation, interethnic relations and personal and public security. The analysis of these issues is supported by data from a public opinion survey carried out by the "UBO Consulting" agency during the first half of June 2006. This extensive survey measures the perceptions of citizens about some of the main issues that preoccupy Kosovo's society. The findings provide a solid basis for drawing certain conclusions and recommendations. While the report might be of interest to the general reader, its primary intention is to provide monitoring and conflict prevention proposals for action by key actors within the PISG and local leadership, development actors, United Nations Interim Administration Mission in Kosovo (UNMIK) and the International Community.

We remain confident that the set of analyses presented in EWR Number 13 will stimulate much thought and discussion among readers and that it will attract appropriate attention from the relevant political and other actors in Kosovo. It gives us great pleasure, therefore, to extend our appreciation and gratitude to the contributing authors for their perceptive analyses of the situation in the past six months, and to all those who supported us in the process of completing this edition of EWR.

Frode Muring
UNDP Resident Representative



EXECUTIVE SUMMARY

Key issues and highlights

- President Ibrahim Rugova died on January 21st following a short battle with lung cancer. Swift election of Fatmir Sejdiu, a long-time senior leader of the LDK, as President avoided a possible political deadlock and did not impact the unity of the Prishtinë/Priština Negotiation Team and the coalition between LDK and AAK.
- Sejdiu's election was followed by unexpected leadership changes resulting in the resignation of Prime Minister Bajram Kosumi and Assembly Speaker Nexhat Daci. Soon after, KPC Commander Agim Çeku was appointed as Prime Minister while Kolë Berisha, senior LDK leader assumed the role of the Assembly Speaker. Initially, leadership changes were welcomed by opposition parties, however, accusations of corruption follow promptly as PM Çeku retained most of the ministers from Kosumi's cabinet.
- Direct negotiations between Prishtinë/Priština and Belgrade delegations on Kosovo final status began in Vienna. Six rounds of negotiations took place during this reporting period on what UN mediators referred to as "technical issues". Negotiating issues included decentralization, cultural heritage, and economic issues. Views of the Prishtinë/Priština and Belgrade delegations continued to be diametrically opposed.
- No significant changes within the economy are observed. Increasing unemployment and poverty rates continue to be areas of concern.
- Five waves of privatization took place during this reporting period marking a significant progress in the privatization process.
- Job cuts in the public sector were announced. Government announced commitment to initiate a public service reform which will result in the reduction of the civil service for some 10% by 2008.
- The process of developing a Kosovo Development Strategy and Plan began during this reporting period. The Strategy is expected to provide a vision and direction for Kosovo's development in several sectors.

- Interethnic relations remain fragile though no significant increase in interethnic tensions was noticed.

- The PISG increased its efforts to support the return of IDPs/refugees.

Summary of Trends

- Kosovo Albanians and Kosovo Serbs continue to be deeply divided in their preferences for Kosovo's future political status. Independence of Kosovo within present borders remains the preferred preference among K-Albanians (95 %) and Other minorities (74 %), while the opinions of K-Serb respondents mark a significant shift from previous reporting periods. In December 2005, K-Serb preferred option was autonomous province within Serbia (86 %) while during this reporting period they are divided between partition of Kosovo (46.5 %) and autonomous province within Serbia (35 %).

- Approximately 58 percent of all respondents see Kosovo's unresolved political status as the most threatening issue to stability, followed by social and economic problems comprising 26 percent. Looking at the figures along ethnic lines, unresolved political status of Kosovo is seen as the number one threat to stability by K-Albanians (53 %) and Others (36 %). K-Serbs see aggravation of interethnic relations as most threatening (46 %) followed by unresolved political status (22 %).

- Satisfaction with Kosovo's main political institutions continues to be low. Compared to December 2005 the biggest decrease was observed with regard to Kosovo Assembly (more than 10 %). UNMIK continues to be the least favored institution.

- Economic and political pessimism continued to increase.

- Readiness of respondents to protest due to economic and political reasons has decreased compared to previous reporting periods, though still at high rates. Also, Kosovans are also much more prone to protest due to economic situation (58%) than due to political situation (40%).

- Unemployment continues to be perceived as the main problem facing Kosovo among all ethnicities.

- Feelings of insecurity have decreased. Additionally the number of respondents who have stated that interethnic relations are tense has decreased, most notably among K-Serb population. In December 2005 the number of K-Serb respondents who stated that interethnic relations are tense was 83 % while in June 2006 it decreased to 41 %.

- There is a continued rise in interethnic tolerance. This opinion poll shows that 52% of K-Albanians respondents declared that they agree to work with a K-Serb compared to 48 % in December 2005 and 26 % in December 2002. The same trend is present among K-Serb respondents with 58 % stating that they agree to work with K-Albanians compared to 51 % in December 2005 and 21 % in December 2002.

- Perception regarding Belgrade's influence as a factor that causes tense relations between K-Serbs and K-Albanians has increased. In December 2005, 52.7% of K-Albanians responded that Belgrade makes the relations between K-Albanians and K-Serbs tense while in June 2006 this increased to 59.2%. Similarly, in June 2006 just over 15% of K-Serbs stated the same, increasing from just 0.5% in December 2005.

- Just over 38 % of K-Serbs reported public and personal security as the biggest problem facing Kosovo. This is a significant reduction compared to December 2005, when over 68% of K-Serbs reported it as the biggest problem.

- Respondents' perceptions on the presence of organized crimes on "a medium to a large scale" remained the same as compared to December 2005, however this perception is still very high (60%).

METHODOLOGY

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 the 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 (EWR) on a periodic basis. The Kosovo Reports are co-funded by USAID and UNDP. The Kosovo EWR's are produced quarterly.

The Kosovo Early Warning Report Nr. 13 is written by local analysts and it is based on statistical analysis of an opinion poll conducted by UBO Consulting during the first half of June 2006. The survey was based on face-to-face interviews, and included 1,251 respondents of which 851 were K-Albanians, 217 were K-Serbs, and 183 respondents from Other minorities, namely 38 Bosnian, 14 Gorani, 49 Turk, 17 Ashkali, 44 Roma, 9 Egyptian, and Other 12.

The sample was selected through a random sampling method and was stratified on the basis of geographic regions that are based on telephone area codes (7) and municipalities (30) and urban rural ratio (1:1).

POLITICAL AND INSTITUTIONAL STABILITY

1. Political Situation

The six-month period from January to June of this year is marked by three major political events: the death of Kosovo's President and long-time political leader Ibrahim Rugova, the replacement of Kosovo's leading political figures, and the start of UN-mediated status negotiations between Prishtinë/Priština and Belgrade. The overall political situation in Kosovo during this period can be characterized as tense but stable. While a peaceful and orderly political transition ensued after the death of President Rugova, the beginning of status negotiations has created a highly anticipatory atmosphere in Kosovo. While there are no signs of an imminent political crisis, the uncertain course of negotiations with Belgrade has combined with a number of other controversial issues to produce a fragile political situation. The complicated issue of decentralization has emerged as one of the most contentious issues in negotiations with Belgrade. Furthermore, recent moves by Serb-dominated municipalities in the north of Kosovo to freeze relations with Prishtinë/Priština indicate that negotiations will not proceed without being challenged by events on the ground.

This chapter first examines the above-mentioned political developments, and then proceeds to discuss the most recent EWS opinion poll¹ results in order to gain a measure of the political mood of the population as Kosovo enters a key period that may decide its political future.

1.1 Rugova's death and subsequent leadership changes

After a short battle with lung cancer, President Ibrahim Rugova died on 20 January 2006. Political observers had hoped that Rugova would survive the process of status negotiations that were due to begin on 23 January. Dr. Rugova was chair of the Kosovo Negotiating Team, whose members include high-ranking leaders from government institutions and the opposition. Fears abounded that his passing would affect the unity among the Negotiating Team as well as per-

haps igniting political haggling between the two coalition partners the LDK and AAK, and the opposition parties PDK and ORA, over who should occupy the position of President. These fears proved to be unfounded. The LDK produced a candidate for President that was acceptable both to its coalition partner and the opposition. On 10 February 2006, Fatmir Sejdiu, a professor of legal studies and long-time senior leader of the LDK, was elected by the Assembly as Kosovo's second post-conflict President. Immediately following his election, President Sejdiu convened the Negotiating Team and took his place as the Team's new leader. Sejdiu's quick takeover avoided a possible political deadlock and on 20 February, Prishtinë/Priština sent a group of negotiators to attend the status talks in Vienna.

In Prishtinë/Priština, Sejdiu's election was followed by unexpected changes in Kosovo's other governing institutions. On 1 March Bajram Kosumi offered his resignation from the post of Prime Minister, in what one Kosovo daily called a "general cleaning" at the PISG.² Although Kosumi gave no detailed reason for his departure, the high level of dissatisfaction with Kosumi's leadership had been evident in the prior weeks and months. As Figure 1.4 indicates, EWS opinion poll indicators show that support for Kosumi among K-Albanians underwent a steady decline throughout 2005. Criticism against the Kosumi government was probably at its height during the closure of Kosovo's main road artery, which links Kosovo with FYROM. It took the Government several weeks to reopen the road, which was closed due to a mudslide. Vital supplies were blocked from entering Kosovo at an enormous³ economic cost, prompting charges of corruption and incompetence against the Government. The press thus expressed no regrets for Kosumi's departure, welcoming his replacement by KPC Commander General Agim Çeku, a highly popular figure in Kosovo.⁴

Assembly Speaker Nexhat Daci was also pressured to resign by the LDK parliamentary group, in what appears to have been a package agreement between the majority coalition LDK-AAK. The opposition parties PDK and ORA welcomed the changes, however, the new Government promptly faced accusations of corruption and incompetence as Prime Minister Çeku retained most of the ministers of the Kosumi cabinet.⁵

Furthermore, Çeku's appointment as Prime Minister was met by harsh attacks from the Belgrade officials, which accuse Çeku of war crimes and has had an arrest warrant issued in his name for several

¹Conducted during the first half of June by UBO Consulting under UNDP/EWS supervision.

²Koha Ditore, 2 March 2006.

³For further detail see chapter on Economic and Social Stability.

⁴See reports in Koha Ditore, Express, Epoka e Re, and Iliria Post of 2 March 2006.

⁵See Kosova Sot, 2 March 2006.

years. UNMIK SRSJ Søren Jessen-Petersen however dismissed Belgrade's charges. These words, however, did not dampen the objections of Kosovo's Serb leaders, who have continued to boycott Kosovo's institutions despite Çeku's efforts to breach out to the members of minority communities, including such symbolic gestures as conveying part of his acceptance speech in the Serbian language. These gestures do not seem to have had a great impact on the mood of the K-Serb minority, as opinion poll results show that the vast majority of K-Serb respondents (82 %) continue to be either dissatisfied or very dissatisfied with Kosovo's political direction.⁶

Dr. Rugova's death has also created a deep vacuum within Kosovo's largest party, the LDK, which was led by Rugova since its foundation in 1990. While the LDK has been able to maintain an outward appearance of unity during the volatile period between Rugova's death and the beginning of status talks, bitter rivalries for the leadership position in the LDK have become increasingly open to public view. While a number of personalities vying for the party's leadership have emerged, including former Assembly Speaker Nexhat Daci and Deputy Prime Minister Lutfi Haziri, the intra-party conflicts have thus far not threatened to split the party, as some analysts feared.

Kosovo's political transition after Rugova's death took place without any major problems, indicating perhaps both the strength of the institutional structure and the unwillingness of political actors to risk a crisis at this juncture. Diplomatic pressure and the prospect of direct status talk with Belgrade undoubtedly proved strong incentives to maintain stability and cooperation between Kosovo Albanian political parties.

Moreover, Çeku's appointment as Prime Minister has brought some political prowess to what was a highly unpopular Government, especially during this very delicate period in Kosovo's history. Thus far, the LDK has also been able to successfully manage its own transformation after Rugova's death, though the future of the party is still up for grabs in the ongoing competition for what is perhaps one of the most prized leadership posts in Kosovo today.

1.2 Final status talks

On 1 June, delegations from Prishtinë/Priština and Belgrade met for the sixth round of talks over Kosovo's status, concluding the portion of the status negotiations dealing with what UN mediators call "technical issues." The issues, that were dealt with on

an individual basis, included decentralization, cultural heritage, and economic issues. While no agreements were reached during the talks, mediators have reported some progress in finding common ground. The most difficult of the issues discussed has been decentralization, also the most controversial since it involves the establishment of a number of new K-Serb-dominated municipalities in Kosovo.

1.2.1 Decentralization

Decentralization was the topic of negotiations in the first four rounds of the negotiations. While the mediators have not made public any of the documents produced during the talks, the starting positions of each party were made known in the weeks prior to the negotiations. The Serbian Government of Vojislav Kostunica dropped its earlier demand for the outright division of Kosovo in favour of a platform, which foresees Kosovo's territorial fragmentation along ethnic lines.⁷ At the talks, the Belgrade negotiating group proposed the creation of 17 K-Serb-dominated municipalities in Kosovo with a high level of autonomy from Prishtinë/Priština, strong intra-municipal ties and direct institutional ties with Belgrade. Prishtinë/Priština, in turn, offered to establish four K-Serb-dominated municipalities in Kosovo, including a K-Serb-dominated sub-municipal unit in northern Mitrovica, without intra-municipal ties or any ties with Belgrade that would sidestep the central authorities in Prishtinë/Priština. After the talks in Vienna, UN mediators, led by former Finnish president Martti Ahtisaari, continued to conduct separate meetings with the negotiating teams, and suggested that the final solution for decentralization might be reached together with Kosovo's status in negotiation rounds that are expected in the second half of the year.

1.2.2. Talks on cultural heritage

The talks on cultural heritage primarily involved the status of the Serbian Orthodox Church in Kosovo. These talks reportedly proceeded in a much more constructive manner, in which the Kosovo side promised to provide an unspecified special status to the Church and its properties in Kosovo, in exchange for the return of archaeological objects seized by Belgrade during the 1999 conflict. According to Belgrade news reports, the negotiating teams agreed to form a joint commission with representatives of the Prishtinë/Priština and Belgrade Governments, the Serbian Orthodox Church, and UN mediators to meet in Kosovo and draw maps of the protected sites.⁸

⁶This number has dropped slightly since the December 2005 poll, when 96 % of K-Serb respondents said they were either dissatisfied or very dissatisfied with Kosovo's political direction.

⁷See report on Serbian platform by FoNet news agency, 10 January 2006.

⁸RSCG report of 27 May 2006.

That the question of creating specially protected zones around Serbian Orthodox sites may represent a contentious issue is illustrated by the recent controversy surrounding the status of the territory around the Deçan/Decani monastery in western Kosovo. In May, UNMIK renewed a regulation granting the territory around the Serbian Orthodox monastery the status of a "protected zone," which in addition to the immediate surroundings of the monastery, also includes private properties of K-Albanian residents. The special status prohibits local residents from engaging in construction or other major activity within the protected zone without special permission by UNMIK. Opponents of the measure criticize it as a step towards the granting of extraterritorial status to the Serbian Orthodox Church, linking these territories with those of new Serb-dominated municipalities and leading to the territorial division of Kosovo. On the eve of the renewal of the UNMIK regulation, activists and local residents organized a protest in opposition to the special status.

1.2.3 Opposition to negotiations

The Vetëvendosje (Self-Determination) movement has been the most vocal group opposing both the UNMIK measure in Deçan/Decani and the negotiations with Belgrade, arguing that the end-result of the talks will be the ethnic division of Kosovo. In mid-April the group organized a protest against UNMIK's regulation in Deçan/Decani. This culminated in a protest event held on 8 June, the eve of the renewal of the UN Security Council's Resolution 1244. While both UNMIK and Kosovo's major political parties refrained from publicly confronting Vetëvendosje until its protest on 8 June, Kosovo's ruling coalition and the opposition have continually held that the negotiations with Belgrade are designed to lead Kosovo towards independence.⁹ While rumours of growing support by the US and European Governments for Kosovo's independence from Serbia have been abundant in the Western press during the past several months, Western diplomats have continually insisted on the necessity for "compromise" without however, specifying what that "compromise" is or what it might entail for Kosovo. And while the position of the Kosovo Negotiating Team has been bolstered by a Contact Group statement in April which said that the future status of Kosovo must also take into account the will of the majority, there is still a high level of uncertainty in Kosovo as to where the negotiations might lead, creating space for movements such as Vetëvendosje to challenge the legitimacy of the process.

1.3 Other contentious issues during the period

While status negotiations have dominated Kosovo's political agenda in the first half of 2006, other issues that impinge upon the legitimacy of the Government and the Negotiating Team have not faded away from public attention. Although unemployment remains a major issue of concern for many Kosovans (as borne out by the EWS opinion poll), two other very contentious issues have also received significant attention during this reporting period, including the controversy over a recently passed law on the status of war heroes, veterans, and invalids, and the decision of Kosovo's northern Serb-dominated municipalities to sever ties with Kosovo's central authorities.

1.3.1 Controversy over law on Kosovo Liberation Army (KLA) veterans

Protests of KLA veteran organizations were sparked by modifications in the Law on War Heroes, Veterans, and Invalids. The law was finally adopted by the Kosovo Assembly after lobbying by associations representing the interests of former KLA fighters. In accordance with normal procedure, UNMIK reviews and formally promulgates all laws passed by the Assembly. In the case of this particular law, the SRSG's legal office made a number of changes in the language used, which the KLA organizations believe denigrates their status and undermines the historical significance of what they consider to have been a war of liberation in Kosovo. Street protests were planned but were avoided due to the intervention of Assembly member Fatmir Limaj, a former KLA commander who has become an unofficial leader of sorts for the movement demanding restoration of the original contents of the law. However, the issue has not yet been resolved. In May, the KLA veteran associations issued a strongly-worded letter of protest that included threatening language against the international administration. The letter was issued in response to statements reportedly made by UNMIK Deputy SRSG Steven Schook, regarding the possibility that former members of the Serbian Ministry of Interior may also join the Kosovo Police Service. KLA veteran organizations have expressed dissatisfaction with UNMIK in the past, and the latest incidents have only heightened such tensions.

1.3.2 Kosovo's northern municipalities break ties with PISG

At the beginning of June, Kosovo newspapers carried reports that Kosovo's northern K-Serb-dominated municipalities of Leposaviq/Leposavic, Zubin

⁹The protest of 8 June of Vetëvendosje ended abruptly with the arrest of over 80 activists of the movement, who had encamped in front of UNMIK Headquarters in Prishtinë/Priština. The activists were sentenced to 10-day prison sentences under the charge of disturbing public peace.

Potok/Zubin Potok and Zveçan/Zvecan declared "states of emergency" and cut all ties with the PISG. This was in response to an unresolved murder of a K-Serb male. The consequences of these measures are unclear. The municipalities did not anyway cooperate with the PISG, and they did indicate that they would continue to cooperate with UNMIK.¹⁰ However, this has raised fears that Kosovo's northern municipalities may attempt to break away from Kosovo if the final status resolution is not favoured by the K-Serb community. These concerns have been bolstered by reports that members of the Serbian Ministry of Interior are patrolling northern Kosovo, and that local K-Serbs are organizing local defence forces.¹¹ While there has been no official confirmation in this regard, the developments in the north have raised security concerns. UNMIK and KPS have deployed police reinforcements and KFOR has reopened a base it had recently closed in the area. While for now the situation seems to be at a manageable scale, given the tragic experience of the events of March 2004, an escalation at this delicate period may result in a situation that threatens the stability of Kosovo.

2. Analysis of the results of the June 2006 opinion poll

The following analysis of the EWS opinion poll is intended to offer some indication of the popular mood in Kosovo with regard to the political developments during the first half of the year with a focus on preferences expressed in relation to the status negotiations, support for political institutions, and willingness to protest.

2.1 Status preference among K-Albanians and K-Serbs and support for status negotiations

In light of the status negotiations that began in the first half of the year, poll results show that Kosovo

Albanians and Kosovo Serbs continue to be deeply divided in their preferences for Kosovo's future political status. While an overwhelming number of respondents (88 %) want independence for Kosovo, 95 % of those expressing that preference are K-Albanian, while 74 % of Other minorities also favour that option. The most preferred option for K-Serbs (46.5 %) is the partition of Kosovo, while 35 % would like Kosovo to become an autonomous province within Serbia. In comparison to previous polls, support for independence among K-Albanians has remained relatively steady. Among K-Serbs, however, there has been a significant shift from overwhelming support for Kosovo to become an autonomous province within Serbia (86 % in September 2005 and nearly 90 % in December 2005) to the current level of support for partition (see Table 1.1). This suggests that K-Serbs may be moving away from Belgrade's official position on the future status of Kosovo towards a solution that finds the territorial division of Kosovo acceptable.

Regarding the progress of status talks, 67 % of all respondents either have no opinion or are neutral on the issue. This may be due to the fact that the early rounds of negotiations have produced no concrete results, making it difficult for members of the public to draw firm judgments on the issue. However and as shown in Figure 1.1 below, while no K-Serb is satisfied with the progress, nearly 19 % of K-Albanian respondents stated that they are satisfied with the progress of the negotiations. This suggests optimism that the negotiations will lead to the desired outcome is greater among K-Albanians than K-Serbs, partly reflecting the dominant view among K-Albanian political leaders that negotiations will lead Kosovo towards independence. K-Albanians and K-Serbs also differ markedly in their views on decentralization (see Figure 1.1 below). Although decentralization dominated the agenda of the first rounds of status talks, only 6 % of K-Albanian

	K-Albanians			K-Serbs		
	Sep 05	Dec 05	Jun 06	Sep 05	Dec 05	Jun 06
Independence of Kosovo within its present borders	90%	93%	95%	1%	0.5%	0%
Partition of Kosovo	7%	0%	0.2%	9%	8%	47%
Autonomous province within Serbia	0%	0%	0%	87%	90%	35%
Unification with Albania	9%	5%	3%	0%	0%	0%

Source: EWS opinion poll, September 2005 - June 2006

Table 1.1 Best option for future political status

¹⁰The Serbian government's Coordination Centre for Kosovo, its chief policymaking arm for Kosovo, has recently made calls to Kosovo Serbs to cut all ties with the PISG, by not accepting salaries from the Kosovo budget and not joining Kosovo institutions. It is, however, unclear if the behaviour of Kosovo's northern municipalities is a consequence of direct instruction by Belgrade.

¹¹"Kosovo Serbs recruit ex-soldiers for defence," Reuters, 20 June 2006.

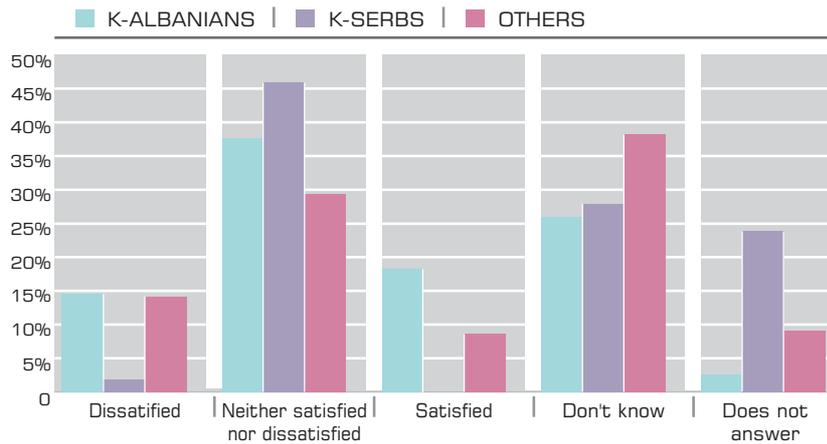
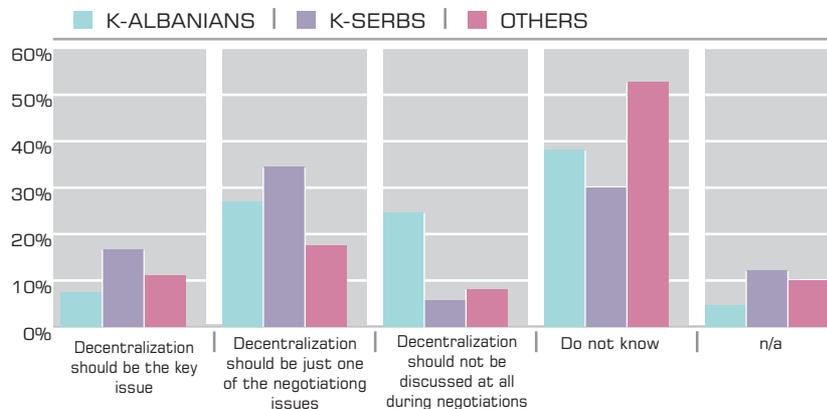


Figure 1.1 Satisfaction with the current course of the negotiation process for Kosovo's future political status



Source: EWS opinion poll, June 2006.

Figure 1.2 Respondents' opinions on decentralization as one of the most important issues during the talks regarding the political status of Kosovo

respondents agreed with the view that it should be the main issue under consideration. K-Albanians are, however, divided in the view that decentralization should be only one among other issues discussed at the negotiations (27 %) and that it should not be discussed at all (25 %). Among K-Serbs, 16 % believe that decentralization should be the key issue, while 35 % that it should only be one of the issues. Only 6 % of K-Serbs agreed with the view that decentralization should not be discussed at all. The notable divergence in views on the importance of decentralization between K-Albanians and K-Serbs partly reflects the different meaning that this issue has for members of the two communities. On the one hand, the considerable number of K-Albanians believing that decentralization should not be discussed at all may reflect the growing influence of the view that decentralization will lead to the territorial division of Kosovo, an outcome that is not favoured by the major-

ity of K-Albanians. On the other hand, the issue does not seem to be as key for K-Serbs as it is commonly portrayed by diplomats and by Belgrade, suggesting perhaps that for most K-Serbs, the status that Kosovo will attain at the conclusion of the negotiations is much more important than the issue of decentralization alone.

2.2 Support for institutions

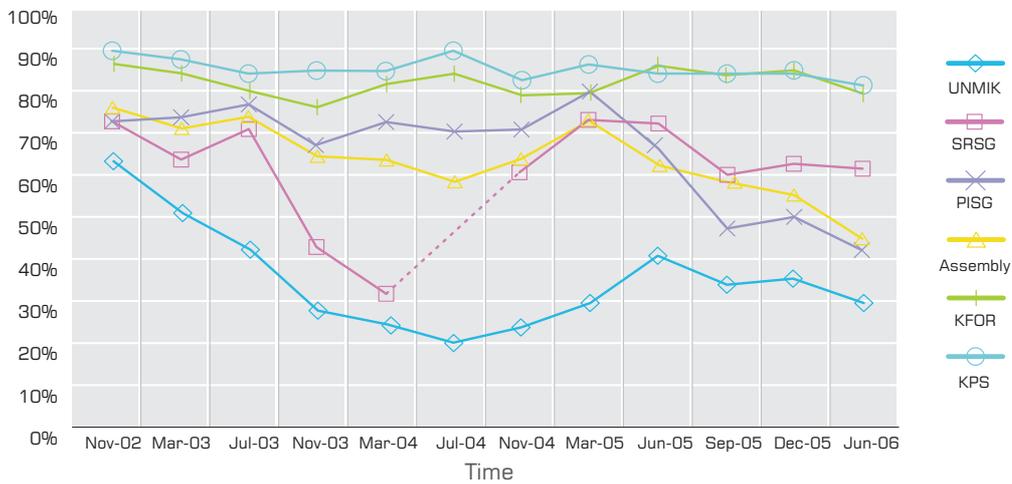
Opinion poll results show that satisfaction with Kosovo's main political institutions continues to be low. As shown in Figure 1.3, leadership changes do not seem to have improved the popularity of the PISG or that of the Assembly in particular, whose popularity has dropped even further since the last poll.¹² This suggests that leadership changes by themselves do not deeply impress the Kosovan public, and that Kosovo's

¹² Another survey by Index-Kosova showed that while support for the government is low, the popularity of the Prime Minister Agim Çeku is the highest out of all other major political figures. See Bul Salihu, "Prijnë LDK dhe Agim Çeku," Express, 19 June 2006, pp. 6-7.

political institutions need to provide much more in terms of tangible results in order to gain the approval of their voters. UNMIK has not fared much better and continues to be Kosovo's least favoured institution in terms of performance, though its decline in popularity may also be related to the growing view that the mission has begun counting down to its final days.¹³ Satisfaction with the SRSG, however, is considerably higher, indicating the difference in public perception between UNMIK as an organization and the public figure of the SRSG.¹⁴ The same is true for the Prime Minister Agim Çeku, who enjoys a very high level of support among K-Albanians even if the institution he leads does not (see Figure 1.4). Çeku has an opportunity to use his popularity among K-Albanians to move Kosovo forward politically, however, his political capital cannot for long compensate for weak institutional performance. Unsurprisingly, long-term poll results show that public support for political leaders fluctuates considerably in response to developments, and whether Prime Minister Çeku can maintain his level of popularity will be determined by the ways in which he responds to current challenges.

The government continues to be accused of corruption both by members of the opposition and the press, and perception of corruption in the government continues to be high with 65 % of all respondents believing that there is corruption at some level. There are however, differing views on the scale of corruption

with a majority (52 %) believing that corruption is at a small or medium scale. This suggests that perceptions of the problem of corruption have not attained such heights as to bring into question the entire legitimacy of the Government, and that the opposition has not been successful in laying blame for corruption on the top leadership, or in convincing the public that corruption in the Government is at a massive scale.¹⁵ However, the situation is different for a number of public services, which are perceived to be corrupt on an alarming scale. The three institutions believed by Kosovans to be the most corrupt are the health care system, the Kosovo Trust Agency (KTA), and KEK. While 34 % of all respondents and 42 % of K-Albanian respondents believe that there is a high level of corruption in KEK, 38% of all respondents believe that there is corruption in the KTA (46 % for K-Albanian respondents). Similarly, 34 % of K-Albanian respondents believe that there is corruption at a high scale in health care. Forty one percent of respondents cite the media as their main source of information on corruption, while 57% of respondents reported a personal experience of corruption among officials in the health care sector in the form of bribes, gifts or the giving of other favours. Only the KPS is viewed by most respondents as an agency with relatively little corruption. Thirty-nine percent of K-Albanian respondents and 32 % overall believe that there is no corruption in the KPS, while 24 % of K-Albanians and 24 % of all respondents believe that corruption is present at a small scale in the KPS.



Source: EWS opinion poll, November 2002 June 2006

Figure 1.3 Level of satisfaction with main institutions in Kosovo

¹³This view was again reiterated by the Kosovo press reporting on the departure of UNMIK SRSG Søren Jessen-Petersen from his post. Many papers referred to him as UNMIK's "last chief." See Kosovo press reports on Jessen-Petersen's departure on 1 July 2006.

¹⁴Søren Jessen-Petersen left his post as UNMIK SRSG on 30 June. As poll figures indicate, Jessen-Petersen was highly popular in Kosovo, particularly among the K-Albanian majority. On his last day, he was greeted by crowds of K-Albanians in Prishtinë/Priština, who saluted him alongside Çeku. President Sejdiu awarded Jessen-Petersen a Gold Medal for civil service in Kosovo. See Kosovo media reports of 1 July 2006.

¹⁵Opposition leader Hashim Thaçi launched a series of criticisms against the new Government in March, accusing it of corruption (see press reports of 23 March 2006). The opposition continues to accuse the Government of corruption. Recently, a senior PDK leader accused the Ministry of Public Services for paying higher than market prices for fuel (see press reports of 27 May 2006).



Source: EWS opinion poll, June 2006.

Figure 1.4 Satisfaction with key political officeholders over time (includes K-Albanian respondents only)

2.3 Willingness to protest

Perhaps one of the key indicators of dissatisfaction with the political situation in a democracy is the willingness of its citizens to engage in public protests against its governing institutions. While the portion of respondents that are either unsatisfied or very unsatisfied with the present political direction of Kosovo has not changed significantly since December 2005 (remaining at around 47 %), the number of respondents not willing to protest against the political situation has increased.¹⁶ Slightly more than half of all respondents (51 %) stated that they are not willing to participate in protests against the current political situation, compared to 41 % in December 2005. This may be a consequence of perceived progress towards Kosovo's status resolution in the ongoing negotiations. However, poll results suggest that a majority of Kosovans are more dissatisfied with the economic situation, since 53 % of respondents are willing to protest for economic reasons, though this number has also dropped significantly since its December 2005 level of 71 %.¹⁷

Distribution by ethnicity indicates that willingness to protest against the political situation is roughly the same among all groups, although K-Albanians display the most readiness to protest (42 %) and the least readiness is exhibited by Other minorities (24 %). In addition, K-Albanians are the most willing to protest against the economic situation (62 %), while most K-Serbs are against participating in such protests (49 %). Unemployment does not seem to be a determinate

factor in willingness to protest for political reasons, as both employed and unemployed respondents were almost proportionately represented among those willing to protest. However, a majority of 54 % of respondents answering yes to their willingness to protest for economic reasons are employed, indicating that employment by itself does not appear to resolve economic woes for most Kosovan families.

In further examining the social and political profile of those willing to protest, the poll shows that respondents between the ages of 18 and 25 are the most willing to protest (see Figure 1.5 below). However, there is little correlation between those willing to protest and those expressing support for Vetëvendosje, the movement that has been openly calling for protests against the negotiations. Thus, 44 % of those that have expressed support for Vetëvendosje have also expressed an unwillingness to protest for political reasons and 23 % of those that highly support the movement have expressed the same attitude. That would suggest that willingness to protest for political reasons is probably not primarily a response to calls by this organization, but that it most likely stems from other reasons, such as dissatisfaction with the performance of political institutions, unemployment and economic hardship.

¹⁶ There are significant differences in the satisfaction level when broken down by ethnicity. Out of those very dissatisfied, 47 % are K-Serb and 12 % are K-Albanian. The distribution by ethnicity for those dissatisfied is roughly the same - 30 % among K-Albanian respondents, 36 % among K-Serbs, and 26 % among other minorities.

¹⁷ The question on whether the respondent would protest for political or economic reasons should be interpreted to mean that it would be strictly political and/or strictly economic reasons that might motivate one to protest. It should be said that a protest motivated by economic reasons, if one actually took place, would still represent a political protest.

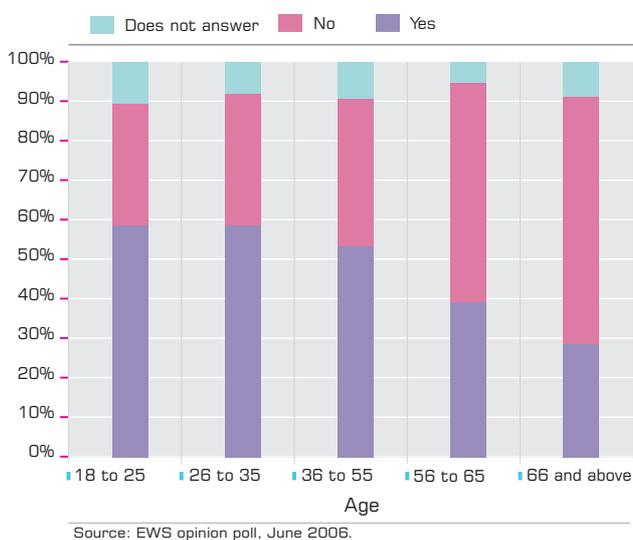
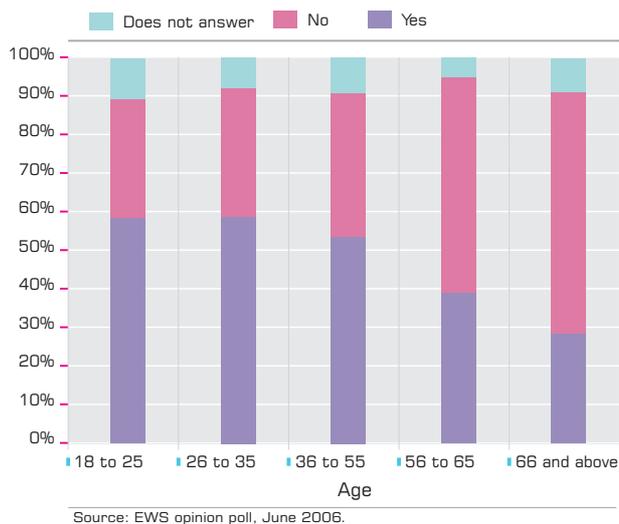


Figure 1.5 Distribution of respondents by age and answers to the question on their willingness to protest against the current political (top chart) and economic (bottom chart) situation. This calculation must take into account that the 18 to 25 group, which is estimated to represent nearly half of the total population in Kosovo, is slightly underrepresented in the poll.

3. Conclusions

In the first half of 2006, Kosovo experienced major leadership changes that occurred without there being a major impasse between Kosovo's main political parties. The status negotiations may be the main reason for the quick resolution of major political challenges, such as the election of a new President and the replacement of the Prime Minister. At the same time however, the opposition has maintained a deeply critical attitude against the Government with its main charge being corruption in the ranks.

In addition, and as borne out by the EWS opinion poll, there continues to be deep dissatisfaction with Kosovo's governing institutions, despite the leadership changes. Furthermore, ongoing protests by groups such as Vetëvendosje, the infuriation of important polit-

ical constituencies such as KLA veterans, and the developments in Kosovo's Serb-inhabited northern municipalities all indicate that the political situation continues to be tense and that the growth of popular outbursts against the political situation can not be ruled out at this time.

The developments of the first half of the year suggest that in the short run, overall political stability in Kosovo will be challenged by, among other things, the possibility of unfavourable developments in the negotiations with Serbia, a possible escalation in the north, and growing dissatisfaction with the performance of governing institutions due to corruption and a lack of economic growth.

ECONOMIC AND SOCIAL STABILITY

1. Macroeconomic environment and trends

The dynamics of economic growth in Kosovo during the first half of 2006 reflect both positive and negative trends. This suggests macroeconomic imbalances still pose a significant challenge to sustainable economic development. The group of indicators with positive trends over the period under consideration include:

- An increase in GDP reversing the negative growth from the second half of previous year;
- A slight improvement in the foreign trade balance;
- An increase in banking deposits;
- A rise in the loans to private businesses;
- Continuation of the privatization process and the rise of proceeds from the sale of SOEs;

In addition to some macroeconomic indicators, where negative trends have continued for some considerable time, a deteriorated economic environment still persists. Both are risk indicators for economic and social stability and can be broken down as follows:

- The ongoing rise of unemployment and the plans to cut thousands of jobs in the government and public sectors;
- The fall of aggregate consumption and the rise in the CPI;
- A lower level of budget revenues than planned and a continued budget deficit;
- The fall of donor support, foreign assistance and remittances;
- A continued trend in domestic dissavings;¹⁸
- The highest level of economic pessimism in the last four years among the respondents of the EWS opinion poll.

Positive real GDP growth, is expected to turn negative in the forthcoming year. According to the IMF's projections, GDP will fall from €2,250 million in 2006 to €2,183 million in 2007 or, a corresponding decrease in the rate of growth from 3% to - 1.6% of GDP.¹⁹ The major source of this economic decline is related to the eventual downsizing of UNMIK and the resultant decline in spending as well as the implications of Kosovo's status resolution, meaning newly

established entities will need to be financed.²⁰ The EWS opinion poll shows a higher percentage of respondents are pessimistic regarding the economy (Table 2.1).

	Jun-05	Dec-05	Jun-06
K-ALBANIANS	69.1	69.6	75.3
K-SERBS	92.3	91.7	85.3
OTHERS	60.0	69.3	76.5
WEIGHTED AVERAGE	69.9	73.3	77.2

Source: EWS opinion polls, June 2005, December 2005, and June 2006.

Table 2.1: Percentage of respondents that are "very dissatisfied" and "dissatisfied" with the current economic situation

Perceptions on economic pessimism varied among ethnic groups; it has decreased among K-Serb and increased among K-Albanian and Other respondents. Regardless of ethnic background, the respondents primarily blame UNMIK and then the Government for the current economic situation. But compared to the findings of the EWS opinion poll conducted in December 2005, the willingness to join public protests over the current economic situation has fallen from 63.0% to 61.9% among K-Albanians, from 73.7% to 35.9% among K-Serbs, and from 62.7% to 34.4% among Other respondents (see Table A1, Annex 1).

1.1 Financial and banking sector stability

In line with the real sector,²¹ the financial sector experienced a corresponding growth during the period January-May 2006. As of May, the monetary base stood at €380,761,000, or higher than in December 2005 when it was €378,716,000. Deposits have gone up from €834,498,000 in December 2005 to €844,951,000 in March 2006, and the amount of outstanding loans from €387,868,000 in December 2005 to €459,961,000 at the end of April 2006.²²

Banking sector stability came to the attention of the media and the public on 13 March 2006 when the BPK revoked the license of the Credit Bank of Prishtina (CBP). There were many speculations and various interpretations in the media about this unexpected case, ranging from suspicions of an attempt of fraud by the banks' shareholders, to claims of whether the BPK is effectively supervising commercial banks. A press release by BPK showed that after a review of all commercial banks, it found that only one was not fulfilling the needed requirements to be sufficiently safe in

¹⁸ Dissavings or negative saving takes place when spending is greater than income. Financing more spending than disposable income allows, may come from various sources such as accumulated savings, borrowings, or any in kind finance.

¹⁹ IMF, Aide Memoire of the IMF Staff Mission to Kosovo, May 22-31, 2006.

²⁰ These remarks were made by Mark Auboin, chief of IMF mission in Kosovo, in an interview with the daily newspaper Zëri (14 June 2006), IMF: UNMIK's departure will have consequences on Kosovo's economy, page 5.

²¹ Real sector refers to the production of goods and services through the use of raw materials, labor force, land and capital.

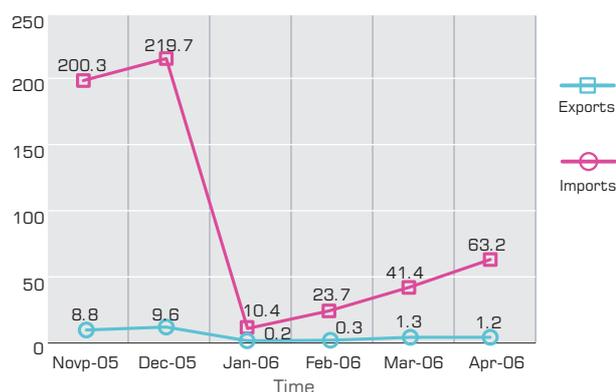
²² BPK (2006), Monthly Statistics Bulletin, No. 57, BPK, Prishtinë/Priština, May 2006. The figures on deposits in this report were not available for later months than March.

terms of liquidity by putting the money of its depositors at risk.²³ Financial statements of the commercial banks published by the BPK showed that the total required liquidity reserve of CBP stood at €2,456,000 at the end of 2004 and that after a year they were almost halved (€1,281,000).²⁴ The BPK ensured that the other six commercial banks are well in liquidity and guaranteed that it will refund those who have deposited money in the CBP. The largest depositor in CBP was the PTK that runs a risk of losing some €15 million. This was the first case of banking failure in post-conflict Kosovo, and it should be a warning indicator for tighter supervision of the banks. Although it created confusion in the initial phase, trust in the banking sector may not have been dramatically affected as indicated by the increase in deposits.

1.2 Exports rising at a faster rate than imports

Available data from SOK on foreign trade during the first four months of 2006 indicates that the trade balance is improving, despite the persisting huge trade deficit. Compared to the same period last year, coverage of imports by exports has steadily grown reaching the highest share in April and falling again in May. The volume of Kosovo's

exports amounted to over €8 million in April and slightly below that amount in May 2006 (Table 2.2).



Source: calculated from the data published by BPK (2006), Monthly Statistics Bulletin, No. 56, BPK, Prishtinë/Priština, April 2006, Table 31, op. cit

Figure 2.1 Kosovo's trade with FYROM from November 2005 to April 2006 (in millions of euros)

In spite of a higher trade deficit in absolute figures during the five-month period in 2006, there has

been an increase by 2.4 percentage points in coverage of imports by exports from the same period of 2005. It is obvious that the closure of the Prishtinë/Priština -Skopje highway for 50 days from 15 January to 6 March, due to a landslide in Kaçanik/Kacanik, has affected Kosovo's trade in the first two months of 2006 when the level of both exports and imports fell. Figure 2.1 below indicates the impact this closure of the highway has had on Kosovo's imports through and from FYROM, its main trading partner.

The World Bank estimated that the effect of this closure in the first eight weeks was a loss of €8 million in revenue.²⁵ An interim budget report of MEF for the first quarter of 2006 showed that revenues from border taxes were down by 8.9% on the first quarter of the previous year.²⁶

Table 2.2: Exports and Imports (in '000 €)

	Exports	Imports	Trade balance	% of imports covered by exports
Jan-05	2.555	65.092	-62.537	3.9
Feb-05	2.817	66.867	-64.050	4.2
Mar-05	4.163	101.200	-97.037	4.1
Apr-05	4.191	101.018	-96.827	4.1
May-05	4.436	104.310	-99.874	4.3
Total	18.162	438.437	-420.325	4.1
Jan-06	2.761	58.689	-55.928	4.7
Feb-06	3.922	73.621	-69.699	5.3
Mar-06	7.168	99.261	-92.093	7.2
Apr-06	8.054	109.764	-101.710	7.3
May-06	7.989	117.526	-109.537	6.8
Total	29.894	458.861	-428.967	6.5
Difference (2006-2005)	11.732	20.374	-8.642	2.4

Source: SOK (2006), External Trade Statistics April 2006, Economic Statistics, SOK, Prishtinë/Priština, Table 1, p. 5, available at: http://www.ks-gov.net/esk/esk/pdf/english/economic/external_trade/ext_trade_may_06.pdf and author's own calculation.

²³The full statement is published in the internet and is available at:

http://www.bpk-kos.org/downloads/Press%20Release%2003_13_2006.pdf

²⁴The lowest amount of total required liquidity reserves in the end of 2004 was in Economic Bank of Kosovo (€1,451,000) that went up to €1,818,000 at the end of 2005, or the second lowest after the amount of the CBP (see Annual Report 2005, BPK, Prishtinë/Priština, May 2006).

²⁵The World Bank (2006), Kosovo Monthly Economic Briefing: A provisional assessment of the effects of Kacanik/Kacaniku landslide on foreign trade, the World Bank, February 2006, available at: http://siteresources.worldbank.org/INTKOSOVO/147270-1121700806276/20867935/Kosovo_Economic_Briefing_Feb06.pdf

²⁶MEF (2006a), Interim Budget Report: First Quarter 2006, treasury department of MEF, Prishtinë/Priština.



Figure 2.2 Consumer price index

Note: Monthly data were aggregated by average on half-year basis for the period 2002-2005 and the first five months of 2006.

Source: Statistical Office of Kosovo (2006), Price Statistics Division, Consumer Price Index, Table 1, available at:

http://www.ks-gov.net/esk/esk/pdf/english/economic/CPI_may_06.pdf and author's own calculation.

1.3 Consumption and Consumer Price Index

Consumption as a component of GDP has always been higher than GDP itself in post-conflict Kosovo. Recent assessments by the IMF suggest that this imbalance continues. Despite the fact that GDP is expected to increase from €2,209 million in 2005 to €2,250 million in 2006, consumption is estimated to decrease from an aggregate level of €2,591 million in 2005 to €2,572 million in 2006.²⁷ On this basis, consumption as a share of GDP will fall from 117% to 114%. This may be due to factors such as the decline of incomes from donor financing and worker remittances, a fall in expenditures among others. However, during this period prices have continued to rise.²⁸ The CPI rose by 2.6 percentage points in the first four months of 2006 (see Figure 2.2 below).

A graphical portrayal on a half-yearly basis since the second half of 2002 shows that the CPI rose in the first, and fell in the second half of each year, except in 2005 when it was constant. The ups and downs are related to seasonal effects of some agricultural products included in the CPI, such as fruit, vegetables, and cereals. Their prices vary on supply and demand during seasonality, i.e. an increase in demand during the winter and spring period, and usually a fall when domestic production reaches its peak during the summer and early fall, when larger quantities of domestic products are offered in the market.

1.4 Fiscal and budget sustainability

The KCB during 2006 is expected to be €656.20 million, meaning a deficit of over €43.8 million against total planned expenditures of €700 million. Just over 20.4 % of planned revenues for the 2006 budget were collected in the first quarter of the year. Although the plan was to collect €164.05 million in revenue during the first quarter of 2006, only 82% (€133.72 million) of that figure was actually collected.²⁹ This was due partly to the closure of the Prishtinë/Priština -Skopje highway as referred to earlier.

Budget sustainability is also considered to be affected by smuggling and fiscal evasion. Since last year when the SCG removed transitory tax, many Kosovo importers began to import through and from Serbia proper.³⁰ From a control carried out on 1,200 businesses, the TAK discovered that unpaid taxes or fiscal evasion during the first five months of 2006 amounted to €28 million. Fiscal evasion came mainly through the north of Kosovo where control was weak.³¹

1.5 Unemployment and poverty

There is no official measure of the unemployment rate during the period January-June 2006. Estimates on unemployment are mostly approximations varying in a wide range from 23%³² and 42%³³ depending how agricultural, informal and seasonal employment as well as job search activity are taken into

²⁷ GDP per capita in 2006 is estimated to be €1,107 or an increase of just €2 from 2005. The basis of this calculation was the estimated population of 1,999,000 for 2005 and 2,033,000 for 2006. See IMF (2006), Aide Memoire of the IMF Staff Mission to Kosovo, May 22-31, 2006.

²⁸ One explanation for this cause may be that the IMF's estimates are for a full year, while CPI refers to the prices of the first four months of 2006.

²⁹ MEF (2006b), Budget 2006, MEF, Prishtinë/Priština.

³⁰ Daily newspaper Bota Sot (27 May 2006), Smuggling in the north of Kosovo is on the rise, page 7.

³¹ Daily newspaper Koha Ditore (4 June 2006), Fiscal evasion: €28 million for only five months, page 5.

³² World Bank estimation varies between 23% and 33% when seasonal and informal work (which is mostly concentrated in agriculture sector) is taken into account.

³³ Ministry of Labour and Social Welfare Employment Report, 2005

account. An assessment by the SOK for 2004 estimates unemployment to be at around 40%.³⁴ Based on low economic growth, the decline in donor financing and worker remittances, job cuts in the government and the public sectors as well as new entries in the labour market, it is obvious that both unemployment and poverty may record further increases.³⁵

Table 2.3: Registered number of jobseekers

	Jun-05	Dec-05	Jun-06
Male	172.494	172.845	172.947
Females	149.625	149.880	150.254
Total	322.119	322.725	323.201

Source: MLSW (2006), Information on labor market in Kosovo - May 2006, MLSW, Prishtinë/Pristina

The fastest rise in the number of jobseekers is among those belonging to the age group from 25 to 39. A continued rise in unemployment may be a risk indicator giving rise to social tensions. Over 53% of the respondents to the EWS opinion poll think that unemployment and poverty represents the paramount problem facing Kosovo. According to this opinion poll, the respondents' intention to protest is present more because of economic rather than political reasons (53.2% vs. 37.2%). The overwhelming majority of the respondents (71.2%) consider the current employment situation as unfavourable.

1.6 Development plans: between wishes and reality

Since the beginning of January of this year, the Government, through its Secretariat for the Kosovo Development Strategy and Plan, embarked on preparing the strategy for the economic development of Kosovo until 2013. The coordinator of the Secretariat announced that the strategy is to be prepared by local experts and that Government and civil society will be

involved with "full capacities".³⁶ In any case, €2.5 million has been allocated to prepare this strategy, of which the Government provided €500,000.³⁷

Another strategy which, when implemented, will have a long-term impact on economic development, is that from MEM, called Policies to attract strategic investors in the energy sector in Kosovo. It was published on 3 May 2006, and among other things, it provides a list of 36 studies on the energy sector in Kosovo since 2000. The core project of this strategy is to build a new thermo power plant "Kosova C" at a cost of over €2 billion. The construction, as defined by the strategy, is expected to start in 2008 to be completed by 2012. With "Kosova C" operational and with the repair of two existing blocks of KEK ("Kosova A" and "Kosova B"), Kosovo will not only have electricity for its own needs but will also be able to export large quantities of electricity.

MEM has decided to attract private investors to implement the strategy. The selection of investors is expected to be made during this year. In this project, MEM says it has the support of USAID, EAR, and is awaiting the support of the World Bank.³⁸ This strategy is regarded by the daily newspaper Koha Ditore as a "nice story on paper."³⁹ Efforts to attract foreign investors in the energy sector were supported by Joachim Ruecker, head of Pillar IV, who highlighted UNMIK's reservations toward the demand of the Minister of MEM, Et'hem Çeku, to change the rules of the energy regulatory in order for his department to take over reserved powers and manage energy related projects worth hundreds of millions of Euro.⁴⁰

It is also worth mentioning the urban planning strategy of the Municipality of Prishtinë/Priština that has been criticized for being too optimistic and for making over ambitious assumptions *vis-à-vis* limited resources for implementation. It was also identified as one of the aspects featuring poor governance in the municipality.⁴¹

³⁴ SOK (2004). Labour Market Statistics 2004, Series 5: Social Statistics, SOK, Prishtinë/Priština.

³⁵ A study by the World Bank (2005), Kosovo Poverty Assessment: Promoting Opportunity, Security, and Participation for All, Report No. 32378-XK, Washington D.C., found that 37% of the population in 2002 was living in poverty, or consuming less than €1.42 per day. Of these, 15% were in extreme or food poverty by €0.93 per day.

³⁶ An interview of Dr. Muhamet Sadiku, coordinator of the Secretariat for the Development Plan of Kosovo, given to daily newspaper Epoka e Re (26 April 2006), Sadiku: this year we will have the development strategy until 2020, page 5. Dr. Sadiku also told Epoka e Re that the Secretariat at political level is coordinated by the Prime Minister and the inter-ministerial group that includes the heads of MEF and MEM. In a pronouncement for the daily Iliria Post (7 June 2006), Status, the impediment for Kosovo to obtain foreign loans, page 11, Dr. Muhamet Mustafa, president of the Riinvest Institute, emphasized that one of the conditions to obtain loans from the international finance institutions is to prepare good projects, referring specifically to the strategy which the Secretariat within the Government is preparing.

³⁷ Daily newspaper Zëri (03 June 2006), Kosovo will not be identified as an energy country, page 6.

³⁸ Weekly political magazine Zëri (27 May 2006), A two billion thermo power station: can we afford it, is it worth?, page 6-7.

³⁹ Daily newspaper Koha Ditore (17 May 2006), The strategy for attracting investors in the energy sector is a nice story in paper, page 52.

⁴⁰ Daily newspaper Koha Ditore (26 May 2006), Interferences of [Et'hem] of Çeku in energy sector are in contradictions with the European principles, page 5.

⁴¹ These remarks are made by ESI in Utopian Visions: Governance failures in Kosovo's capital, discussion paper, 08 June 2006, available at: http://www.esiweb.org/pdf/esi_document_id_78.pdf. Last year, ESI made an attempt to prepare a development strategy for Kosovo immediately after the MTI's strategy failed, but the concept of ESI became unusable.

2. Microeconomic environment and issues

The most important microeconomic events that characterized Kosovo during the period January-June 2006, are as follows:

- Allegations about widespread corruption and the findings of the OAG;
- The privatization process and disputes over property rights;
- The commencement of restructuring through job cuts in the public sector;
- A deterioration in the economic situation of the respondents' households and dissatisfaction with public services;

2.1 Auditing reveals many shortcomings and mismanagement at central as well as local administration

Immediately after the UN's OIOS published the report accusing UNMIK of turning a blind eye against corruption at the Prishtinë/Priština International Airport,⁴² the media began to report that corruption is a widespread phenomenon in public institutions and enterprises, and that its magnitude is extremely worrying. UNMIK and the SRSG reacted by refuting the OIOS allegations.⁴³

Allegations about corruption and the findings of the OAG refer mainly to the transactions that occurred during 2004 and 2005 public during this period of reporting. The OAG found many violations of the procedures of management in almost all institutions where auditing took place such as: i) Ministries; ii) Municipalities; iii) Office of the Presidency; iv) the Assembly; and v) POEs. There is a long list of violations and mismanagement in the entities concerned including: the majority of internal audits not having an audit plan,⁴⁴ payments made not matching with the contracted amount, the winning bidders not submitting all the documents required in the tender, unfair treatment and non-neutral assessment of the bidders, change in destination of the funds, selection with less than three bidders, non-standard format of the contracts, and many more.⁴⁵

This EWS opinion poll included a new question related to the KCB. The results show that over 42% of the respondents think that "spending in luxury goods" is the main problem in the management of the KCB against some 15% who attributed the problem to "insufficient capacities and expertise". A further 10.7% said that the problem is related to "non-transparent spending". A total of 25% of the respondents claimed not to have any opinion or did not know about the question asked, and 3.7% provided no answer (see Table A12, Annex 1).

2.2 Vetëvendosje initiated a campaign to boycott goods from Serbia

On 21 May, Vetëvendosje launched a campaign to boycott goods coming from Serbia. Vetëvendosje maintains that this is for the benefit of Kosovo producers as well as the economy. Although it comes from an organization that does not recognize the Government (referring to it as a "puppet of UNMIK"), some governmental and public entities have lent their support to the initiative. The leader of Vetëvendosje, Albin Kurti, suggested that imports from other neighbouring and EU countries are the alternative to the boycott of Serbia's goods. His statement together with the initiative were supported by the Minister of the MTI, Bujar Dugolli, and the director of OEK for international relations, Safet Gërxhaliu. On the other hand, the chairman of Alliance of Kosovar Businesses (AKB) Agim Shahini,⁴⁶ emphasized that the market in Kosovo is liberal and dependent upon the consumer's freedom, but the consumer should become conscious about the value of domestic products.

2.3 Privatization and property rights

There has been significant progress in the privatization of SOEs during the first half of this year. Five waves of privatization (waves 10 to 15) took place, including both ordinary and special spin-off. The total number of SOEs privatized since the beginning of the process is now 263 (including the provisional results of the 15th wave). This half-year is closed with the sale of an SOE through special-spin-off, and the announcement of the 17th wave of privatization⁴⁷

⁴² OIOS, Report of the Office of Internal Oversight Services on the investigation conducted by the Investigations Task Force into fraud and corruption allegations at Pristina Airport, Report of the Secretary-General on the activities of the OIOS, Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations, Sixtieth session, 16 May 2006, available at:

http://www.eyeontheun.org/assets/attachments/documents/report_on_investigation_of_OIOS_pristina_720_3-14-06.doc

The document was first produced on 14 March and made public in 10 April.

⁴³ The press release in question is available at:

[http://www.unmikonline.org/DPI/PressRelease.nsf/0/55481F3F1CD95B52C125714D0029A15E/\\$FILE/pr1531.pdf](http://www.unmikonline.org/DPI/PressRelease.nsf/0/55481F3F1CD95B52C125714D0029A15E/$FILE/pr1531.pdf)

⁴⁴ Here it should be noted that an internal audit within the TAK identified irregularities in choosing non-professional personnel to serve or educate the taxpayers. The internal auditor recommended to the TAK's management to undertake measures (daily newspaper Koha Ditore, 31 May 2006, TAK appoints less skilled personnel to serve the taxpayers, page 27.

⁴⁵ Detailed reports of the OAG and the forms of mismanagement are available at: <http://www.oag-ks.org/reports.htm>

⁴⁶ Extract from the interview of Minister Dugolli, Safet Gërxhaliu, and Agim Shahini in the telecast ZOOM of TV21 on 01 June 2006 from 22:50 to 23:50, under the patronage of Zenel Buzuku.

⁴⁷ Detailed information were obtained from the KTA's website www.kta-kosovo.org. Additional information that was not available on this web site was provided from daily newspapers.

The process did however see a number of challenges during the period January-June 2006. At the end of May, out of a total 201 SOEs sold, 61 contracts had not been signed. There was also a criticism by the BSPK against the Special Chamber for delaying the payment to SOE workers of 20% of the proceeds from the sale of SOEs.⁴⁸ In addition, operational policies are considered to be delaying the process. Suspicions of collusion between the bidders to decrease the price of SOEs increased from one wave to another. It is estimated that the KTA has lost €40 million since the beginning of the process as 45% of the bidders with the highest prices have withdrawn their offers leaving the companies to be bought by the second or third bidder at a lower price.⁴⁹ The KTA has recently announced a change in operational policies that will enter into force at the 17th wave. From this time on an SOE can also be bought by the second or the third highest bidder provided the price to be paid is as high as that of the first bidder who decides to withdraw. This change may not help the KTA eliminate collusion between the bidders since they may agree amongst themselves in advance of the process to set the highest price.

Some problems regarding management and ownership have resurfaced for large SOEs such as Trepça in Mitrovicë/Mitrovica and the Youth and Sports Center in Prishtinë/Priština. The Government in its meeting of 17 May required the right to veto in order to avoid unilateral decision making for the transformation of Trepça, as up to now it did not have decision making powers over Trepça.⁵⁰ The Municipality of Prishtinë/Priština has requested the right to manage the Youth and Sports Center with a justification that the Municipality is the founder. However, the KTA reiterated the provisions of the UNMIK Regulation 2002/12 (amended by the Regulation 2005/18) that it is only the SRSG who can decide about such issues.⁵¹

Unlike SOEs and POEs, there were also many disputes over private ownership. Most cases relate to the dispute between Kosovo Albanians over properties that was previously in the possession of Serbs. Perhaps the most widely known case of late is the killing of two men in Shtime/Stimlje, among them the deputy head of the Municipality of Shtime/Stimlje, Vezir Bajrami. Six other people were wounded in the incident.⁵² In another property dispute in Podujevë/Podujevo, two people died on 1 May.⁵³ On 4 May the Kosovo Property Agency was established with the mandate to resolve all property disputes that have arisen since the second half of 1999.⁵⁴

2.4 Job cuts in SOEs, POEs and Government sector

During this reporting period it was announced that thousands of jobs are to be cut in the public sector, including SOEs and POEs. For example, KEK is planning to reduce its workforce by 3,000 in the next four years.⁵⁵ Also, the Government has committed to initiating a public service reform during 2006 which would result in the reduction of the civil service for some 10 % by 2008. This is a macroeconomic issue driven by fiscal pressure and not by the intention to increase productivity. However, the following analysis treats it at the micro level referring to the events in some companies during the period January-June 2006.⁵⁶

The job cuts taking place in SOEs in the aftermath of privatization are defensive restructuring, or downsizing in response to the constraints imposed by the market. While the new owners will determine the efficiency of the privatized SOEs and the correct staffing levels, neither the POEs nor the government sector,⁵⁷ apart from Prishtinë/Priština Airport, have any developed criteria for defensive restructuring. Over-employment in the public sector may have occurred as a result of there being no sound criteria of employment in place when the workers were hired initially.

⁴⁸ Daily newspaper Lajm (16 May 2006), Shabani criticizes the KTA and the Special Chamber, page 5

⁴⁹ Daily newspaper Kosova Sot (13 April 2006), KTA lost €40 million, page 7.

⁵⁰ Daily newspaper Zëri (18 May 2006), The Government wants power and the right of a veto for transformation of Trepça, page 4.

⁵¹ Daily newspaper Kosova Sot (27 April 2006), The municipality is expropriated from POEs, page 13.

⁵² Daily newspaper Express (23 April 2006), Massacre for the house of a Serb, front page and page 12-13.

⁵³ Reporting on a property disputes between Kosovo Albanians for the property previously owned by a Serb in the city of Ferizaj, the daily newspaper Express (29 April 2006), The devil in the Serb properties, page 12-13, summarizes as follows: "if sometimes it is said that the devil stays in the borders of the parcels, now it can be said that it stays in the properties of the Serbs that have left Kosovo"

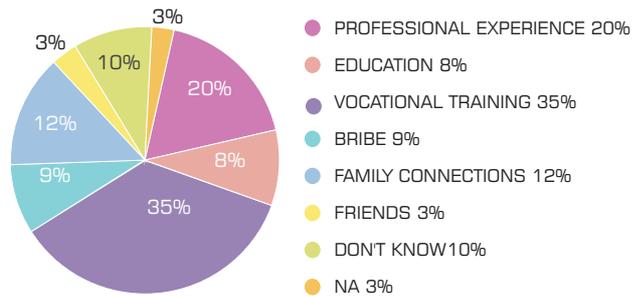
⁵⁴ The Agency is established by the UNMIK Regulation No. 2006/10 On the Resolution of Claims Relating to Private Immovable Property, including Agricultural and Commercial Property.

⁵⁵ Daily newspaper Kosova Sot (5 May 2006), 3,000 workers in the street, page 7.

⁵⁶ See Kosovo: Memorandum of Economic and Financial Policies, signed by the SRSG and the Prime Minister on 2nd November 2005, and addressed to the International Donor Community. The memorandum is available at: <http://www.euinkosovo.org/upload/Letter%20of%20Intent%20Kosovo%20Memorandum%20of%20Economic%20and%20Financial%20Policies.pdf>

⁵⁷ Job cuts in the Government's civil service were required for the purpose of limiting the pressure of wages on budget. See Kosovo: Memorandum of Economic and Financial Policies, signed by the SRSG and the Prime Minister on 2nd November 2005, and addressed to the International Donor Community. The memorandum concerned is available at: <http://www.euinkosovo.org/upload/Letter%20of%20Intent%20Kosovo%20Memorandum%20of%20Economic%20and%20Financial%20Policies.pdf>

The EWS Opinion poll obtained the opinions of the respondents on job cuts in the public sector. Around 52% of the respondents think that the job cuts will increase poverty, against approximately 15% who would agree with the need for job cuts due to overstaffing (see Table A13, Annex 1). For the largest proportion of the respondents, to be able to work in the public sector it is important to have "vocational training", followed by "professional experience". Twelve percent of respondents see "Family connections" as more important to gain employment in the public sector whereas only 8% think "education" is important (see Figure 2.3).



Source EWS Opinion Poll June 2006

Figure 2.3 What is important for finding a job in public sector?

3. Conclusions

The first half of 2006 shows that little progress has been made in improving the state of the economy or the economic situation of Kosovars. Overcoming the myriad challenges to economic stimulation will be a difficult process posing a significant threat to security, and will remain so in the post-status period. While some positive trends have been observed regarding the trade balance and investments/loans to support the private sector, the persistent high unemployment, pessimistic growth estimates, and increasing fiscal pressures stand in the way of any significant improvement in the near term.

The process of developing a Kosovo Development Strategy and Plan finally began during the reporting period, which will be important in providing a vision and direction for Kosovo's development in not only the economic sector. Similarly, a new strategy for attracting investors to the energy sector was unveiled which, if successful, will be a major contribution. These are important steps, but ones whose real benefits could only be realized in the long term. For the short-term, however, the rise in economic pessimism and the continued willingness of to protest for economic reasons should keep the challenge of stimulating economic opportunities at the top of Kosovo's security related priorities.

INTERETHNIC RELATIONS

1. Important events (January - June 2006)

Interethnic relations during January - June 2006 have remained fragile. Nevertheless, negotiations on the final status of Kosovo, due to continue in July 2006, are expected to have an affect on interethnic relations mainly due to the opposing positions of K-Albanians and K-Serbs on the issue. Although, there has been no significant increase in tensions, this reporting period has been marked with important political and social events, which have had an impact on interethnic relations. The most important of these include:

- Changes in the PISG and Mr. Agim Çeku's election as a Prime Minister;⁵⁸
- Beginning of direct status talks between Belgrade and Prishtinë/Priština, which are mediated by the United Nations Special Envoy Mr. Marti Ahtisaari, and
- Establishment of the Community Council on Security by Prime Minister Çeku.

1.1 Changes in the Government

On 20 December 2005, the SRSB reported to the Security Council that 'over the second half of 2005 a few shortfalls in the Standard implementation have been identified'. One of the priority Standards identified by the international community is that of Minority Rights. Following the election of the new Prime Minister the process of standards implementation in general gained momentum with, in particular, increasing emphasis on the Returns and Freedom of Movement Standard. As indicated Chapter I, Agim Çeku's appointment as Prime Minister was initially met with pessimism by Serb politicians in both Kosovo and Belgrade who considered it as a sign of potential radicalization of Kosovo Government policies against minorities and in particular against the Serb minority. However, Prime Minister Çeku has appeared to be relatively more active compared to other Kosovo Albanian leaders in terms of relations with Kosovo Serbs as shown through various initiatives including his speeches in the media as well as visits and very frequent contact with K-Serb minority members.

1.2 Kosovo Status Negotiations

An important factor related to interethnic relations over the six-month reporting period was the continuation of negotiations on the final status of Kosovo. The first meeting of the Prishtinë/Priština and Belgrade delegations took place on 21 February 2006. Although the negotiations (except perhaps for those relating to cultural and religious heritage) have not in general reached the expectations of all parties i.e. the international community, K-Serbs and K-Albanians - it should be noted that there is no evidence on whether the psychological effect of two delegations sitting at one table has been positive or negative.

1.3 Community Council on Security (CCS)

The establishment of the Community Council on Security by the Government of Kosovo is another move by Kosovo institutions to address the implementation of the Returns and Freedom of Movement Standard seriously and to reach out to Kosovo's communities. The Council joins the Government of Kosovo, UNMIK, KFOR and other stakeholders in efforts to promote the improvement of living conditions of vulnerable minorities in general and of the K-Serb minority in particular.⁵⁹

2. Interethnic Relations - Trends over the recent years

One of the most interesting trends is the decrease in the number of respondents who indicated that interethnic relations are tense. This tendency is particularly visible amongst the K-Serb community respondents. As Table 3.1 below shows, while in December of 2005 a positive answer on this question was given in 83.2 % of cases, in June 2006 this percentage dropped down to 40.7 %. This significant decrease is due perhaps to the beginning of status talks, although there is no indication how status talks have been perceived in different regions in Kosovo. As mentioned above, some municipalities are taking more responsibilities regarding interethnic relations at the local level.⁶⁰ This is partly due to the renewed central-level push for such activities, but can also be attributed to the initiative of some of the municipalities themselves.⁶¹

In addition, the fact that increased attention in the media and elsewhere paid to the PISG efforts to promote the return of IDP's (especially displaced K-Serbs) since 2005,⁶² has led to more positive percep-

⁵⁸ Kosovo media reported that politicians in Serbia have expressed their scepticism on the improvement of the situation in Kosovo following the election of the new Prime Minister of Kosovo, Mr. Agim Çeku. This scepticism has been grounded in the fact that the present Prime Minister used to be the Commander of the Kosovo Liberation Army, and that following the war, he assumed the post of the Commander of the Kosovo Protection Corps. Belgrade perceived this development as a radicalization of the Kosovo Government while Kosovo final status talks are ongoing.

⁵⁹ Available at: [http://www.unmikonline.org/DPI/PressRelease.nsf/0/F299FDBBE4087C81C12571A40025C9A0/\\$FILE/pr1568.pdf](http://www.unmikonline.org/DPI/PressRelease.nsf/0/F299FDBBE4087C81C12571A40025C9A0/$FILE/pr1568.pdf)

⁶⁰ Available at: http://www1.osce.org/documents/mik/2006/06/19682_en.pdf

⁶¹ Ibid

⁶² Available at: <http://www.db.idpproject.org/idmc/website/countries.nsf/>

Table 3.1: Opinion poll of K-Albanians and K-Serbs on perceived interethnic tensions

	March 2004		March 2005		December 2005		June 2006	
	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs
Relations are and will continue to be tense	36.0	83.7	21.2	81.3	12.9	83.2	11.6	40.7
Relations are tense, but some improvements have recently occurred	36.0	8.2	32.2	13.4	30.1	14.2	31.3	24.1
Relations are tense, but considerable improvements have occurred	9.6	7.5	19.9	4.8	18.5	0.5	14.2	13.9
Relations are not so tense	10.7	0.7	13.1	0.5	18.0	1.0	11.2	2.3
Relations are not tense at all	7.3	0.0	13.5	0.0	20.5	1.0	6.1	0.5
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: EWS Opinion Polls March 2004 - June 2006

tions amongst K-Serbs. These trends are also visible in the response to the statement "interethnic relations are tense, however a lot of improvements have been made recently". K-Serb respondents have shown an increase in the percentage of affirmative answers to this assertion (0.5% in December 2005 to 13.9% in June 2006). Perceptions of K-Albanian respondents in relation to interethnic relations have also improved, though not as much as amongst K-Serbs.

ing from just 0.5% in December 2005. The change in the perceptions of K-Serb respondents regarding the impact of the positions of K-Albanians leaders on interethnic tensions should also be noted. While this perception marked its highest percentage (60.9%) in December 2005, in June 2006 the figure decreased to 36.1% (see Table 3.2).

Table 3.2 Opinion poll on the factors causing tense relations between Albanians and Serbs (%)

	November 2002		March 2003		September 2004		December 2005		June 2006	
	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs
Insufficient efforts by Albanians for integration of Serbs	5.0	46.4	41.6	73.1	1.4	51.0	3.2	33.3	1.9	29.6
Lack of readiness by Serbs for integration into Kosovo society	36.0	1.2	17.7	36.6	42.5	0	32.8	0	20.7	7.6
Attitude of Albanian leaders	3.1	47.0	10.2	9.7	1.7	42.5	1.4	60.9	0.6	36.1
Attitude of Serb leaders	13.4	4.8	2.2	6.9	11.9	0	9.7	1.6	5.2	0.5
Belgrade's influence	42.0	0.6	1.1	5.1	39.4	0	52.7	0.5	59.2	15.3
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: EWS, opinion polls, November 2002- June 2006

Regarding the factors affecting interethnic relations, Belgrade's influence reaches the highest perceived rate among both K-Albanian and K-Serb respondents in June 2006 as compared to all other reporting periods (see Table 3.2 below). More specifically, in December 2005, 52.7% of K-Albanians responded that Belgrade makes the relations between K-Albanians and K-Serbs tense. In June 2006 this increased to 59.2%. A similar trend is also evident among the K-Serb community. In June 2006 just over 15% of K-Serbs agreed that Belgrade makes the relations between K-Albanians and K-Serbs tense, increas-

Some notable PISG efforts to reach out to the communities during this period have taken place, especially during December⁶³ 2005. Moreover, under its new political leadership the PISG has initiated a series of outreach visits to municipalities with a significant Kosovo Serbian population.⁶⁴ At the municipal level there are indications that several municipalities are taking a more hands-on role in promoting the integration of minorities into public life.⁶⁵ These efforts by K-Albanian leaders may have had an impact on the decrease in perception among the K-Serb respondents that K-Albanians leaders have a negative influence on interethnic tensions.

⁶³ OSCE, Report of Amb. Werner Wnendt to Permanent Council, January 2006

⁶⁴ Available at: http://www.osce.org/documents/html/pdf/tohtml/19682_en.pdf.html

⁶⁵ Ibid

Also, the poll results indicate a continued increase in interethnic tolerance indicators. For example, the readiness shown by K-Albanians to work with K-Serbs in June 2006 was expressed at 56.6 %. The same trend can be seen amongst the K-Serb respondents, 51.6% of whom stated in the June 2006 EWS opinion poll that they would be ready to work with K-Albanians. In December 2002, this percentage was only 21.3. The decrease in violent interethnic crimes⁶⁶ can perhaps be seen as one of the factors that have impacted these trends.

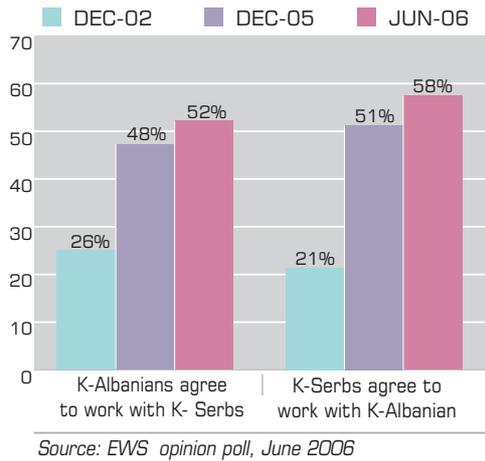


Figure 3.1 Fast Facts on Interethnic Tolerance

3. The Return Process

3.1 Return process investments and plans

Investments anticipated for the process of returns do not seem to be sufficient compared to the number of people who have shown their willingness to return.⁶⁷ As at the end of June 2006, over 30 concept papers for projects to support return have been formulated and been submitted to the central approval committee for funding. On the basis of these concept papers alone there is a shortfall of € 27 million for support to organised groups of returns, with other concept papers currently under formulation. A substantial increase in the number of referrals for assistance for Individual spontaneous returns has also been noticed during the initial part of 2006, with 135 referrals for assistance received during January -June 2006, compared to 51 for the same period in 2005. According to UNHCR during 2006

the general number of returns is 777 of a total figure of 15,282 minorities or other ethnic groups who have returned voluntarily to their community of origin in Kosovo.⁶⁸ Up to June 2006 the biggest number of returns is in Peja/Pec (317 returns), while the smallest is Mitrovicë/Mitrovica (29 returns).⁶⁹

Although there is € 8.8 million available from the Kosovo's Consolidated Budget 2005 for returns projects implemented in 2005/2006 the progress of returns continues to be perceived by some observers as lacking.⁷⁰ However several large returns initiatives have begun implementation during this reporting period, including the first multi-sectoral organised return project implemented directly by a municipality in Kosovo in Klinavac/Klinavc village, Klinë/Klina municipality where 26 housing units will be reconstructed including 20 for IDPs and 6 for vulnerable members of the receiving community, with further small works to make a further 7 houses habitable for the receiving community; the reconstruction of 74 houses and infrastructure and economic livelihoods for the entire village of Babushi Serb/Srpski Babush in Ferizaj/Urosevac municipality and the support to breakthrough return of K-Albanian families to the northern municipality of Leposaviq/Leposavic with 25 housing units for K-Albanians and a further 3 houses for vulnerable K-Serbs in the receiving community with a further rehabilitation of 15 houses of vulnerable previous returnees to the area.. Over 150 houses will be built in these initiatives and a further 130 houses are planned to be built for individual and spontaneous returnees throughout Kosovo in 2006.⁷¹

In addition, the signing of the Protocol on Returns and the Displaced on 6 June 2006 by UNMIK, Prishtinë/Priština and Belgrade,⁷² seems to be a positive step since it provides an agreement by all parties on the several key issues related to the returns process.⁷³ The main point of the protocol is to ensure that the returnees have freedom of choice to live wherever they want, whereas before it was assumed that the returnees could return only to the place of origin.⁷⁴ The protocol will also establish mechanisms so that municipalities in Kosovo where people want to return can deal directly with municipalities in Serbia where the displaced are currently living. This is a positive and practical development that brings things down to the local level, enabling the process to move along more quickly.⁷⁵ In addition, the period covering April - May 2006 saw a complete revision of the policy framework for Returns in Kosovo in the

⁶⁶ Soren Jessen Petersen, United Nations Security Council, 20 June 2006

⁶⁷ Ibid

⁶⁸ UNHCR, Voluntary Minority Returns From Internal And External Displacement, June 2006

⁶⁹ Ibid

⁷⁰ Human Rights Watch (2006), Report on Human Right in the World, p 393 - 398

⁷¹ This support for the returns process is entirely funded from the Government of Kosovo through UNDP

⁷² Kosovapress, 6 June 2006

⁷³ Soren Jessen-Petersen, United Nations Security Council, 20 June 2006

⁷⁴ Available at: www.unmikonline.org, press briefing, 14 June 2006

⁷⁵ Ibid

form of the review of the UNMIK Manual for Sustainable Return. This followed a nine month consultative process and it was the first major review since the Manual was originally published in 2003.

The decrease in the willingness of K-Albanians to accept the return of refugees and IDPs (from almost 80% in December 2005 to 60% in June 2006 - see Table 3.4) is concerning. However, this may be interpreted as dissatisfaction among K-Albanians toward a Government that is perhaps seen to be focusing its efforts on the implementation of minority related Standards rather than on economic and social issues. There is also a slight increase in the percentage of K-Albanian respondents who do not agree that returns should take place. When this percentage of 27.7 % is analyzed it is interesting to note that just over 91% of these respondents have never had contact with people of different ethnicities.

Table 3.3 Frequency of contacts of given ethnicity with other ethnicities

	More than three times	Twice	None	I have intentionally avoided the contacts with persons of different ethnicity
K-ALBANIANS	10%	8%	79.2%	2.8%
K-SERBS	41%	33.2%	21.7%	4.1%
OTHERS	41%	10.4%	44.3%	4.4%

Source: EWS opinion poll, June 2006

December 2005, 68% of K-Serbs indicated that public and personal security is the biggest problem facing Kosovo this figure has decreased to 38% in June 2006. There is a decrease in general in crimes in Kosovo for the reporting period January - June 2006⁷⁶, which decrease is also noted in ethnically motivated crimes.⁷⁷ These crimes have been 19 during the period January - March 2006 compare to 72 for same period of year 2005.⁷⁸

Table 3.4 Readiness of respondents to accept the return of refugees in Kosovo (in %)

	September 2004		March 2005		December 2005		June 2006	
	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs
I agree with the return of refugees to Kosovo	61.4	98.0	75.3	99.0	79.8	97.4	60.6	92.6
I disagree with the return of refugees to Kosovo	30.3	0.0	24.7	1.0	20.2	2.6	27.7	0.9

Source: EWS opinion polls, September 2004 - June 2006

The EWS opinion poll also shows that K-Albanians have had relatively fewer contacts with other community members in comparison to K-Serbs (see Table 3.3). Opinion poll results show that 74.2 % of K-Serbs have had contacts with other community members, whereas amongst K-Albanians this is just 18 %. This reinforces the importance of outreach efforts to increase the general level of interethnic contact and dialogue.

The main obstacle to the return of refugees and IDPs seems to be the difficult economic situation of Kosovo. As discussed in Chapter II, unemployment rate in Kosovo remains high with estimates vary in a wide range of 23 % to more than 40%. This situation makes the displaced hesitant to decide on their return, knowing that they may not find a job or good living conditions for their families. Security and the freedom of movement continue to present another problem to the process although there have been significant improvements in this regard. In

4. Conclusions

The views of K-Serbs and K-Albanians on the desired outcome of the status negotiations continued to be at odds during the first half of 2006. However, there is a noticeable decrease in the perceived tensions associated with interethnic relations. More specifically, the EWS poll shows a decrease in the number of respondents, especially among K-Serbs, who believe that interethnic relations are tense, and also reflects a continued rise in willingness of respondents to live on the same street and work with members of other communities and ethnicities.

When looking at the interethnic relations, the reporting period was also marked by new initiatives by the PISG to reach out and engage minority communities. While it would be difficult to establish a definitive causal link between recent outreach initiatives by the PISG and

⁷⁶ SHPK, Të dhënat statistikore për krimet në Kosovë 2005-06, Qershor 2006

⁷⁷ Available at: [http://www.unmikonline.org/DPI/PressRelease.nsf/0/9E786A1FAACB8309C12571780049B05A/\\$FILE/pr1554.pdf](http://www.unmikonline.org/DPI/PressRelease.nsf/0/9E786A1FAACB8309C12571780049B05A/$FILE/pr1554.pdf)

⁷⁸ Ibid

changes in EWS polling data regarding interethnic relations, it is interesting to note the decrease during the reporting period in the percentage of K-Serb respondents who believe tense relations are the result of the attitudes of K-Albanian leaders, and the increased perception of Belgrade's influence as the cause of tensions. The latter result was possibly most influenced by the state of emergency declared by Kosovo's northern municipalities in June at the same time the polling was conducted. Nonetheless, continued outreach and serious engagement by the PISG and civil society organisations with all communities in Kosovo is considered essential in promoting continued improvement in interethnic relations, and could provide new momentum for the returns process in particular.

PUBLIC AND PERSONAL SECURITY

This chapter examines some major issues in relation to public and personal security in Kosovo. Most indicators show that Kosovo still remains vulnerable in this regard. The security situation remains highly complex but very much related to the status issue. Inter-ethnic relations remain tense although as noted in previous chapters some improvements have been noted. However as the EWS opinion poll shows, economic problems and lack of prosperity for the unemployed are having a growing impact on the security situation. The decrease in confidence towards Kosovo institutions is a further concern.

As a consequence it is critical that the unresolved issues related with the 1999 conflict, such as the status of war veterans and the return of IDPs/refugees, are tackled in a timely manner in order to avoid serious reactions from communities in Kosovo.

1. On the eve of status determination

According to the EWS opinion poll, just over 38 % of K-Serbs reported public and personal security as the biggest problem facing Kosovo. This is a significant reduction on the last opinion poll, conducted in December 2005, when over 68% of K-Serbs reported it as the biggest problem. Public and personal security has never been considered a major issue among K-Albanian respondents or Other minority respondents with just 0.1% and 0.7% respectively reporting it as a problem, with the figures showing little change from the last reporting period.⁷⁹

However the security situation in Kosovo may face serious challenges as the status talks near their conclusion. The security situation remains vulnerable especially due to the fact that opinions over status between K-Serbs and K-Albanians remain polarized. Over 90% of K-Albanian respondents think that the final status of Kosovo should be "unconditional independence", while 71 % of K-Serb respondents think that Kosovo should not be independent in any way.

This polarization of opinions can not only further increase interethnic tensions but it can also enhance opportunities for extremists who very often try to create an unstable security situation that can be used for political ends. An effort to create an impression of total insecurity for the K-Serbs in northern Serb municipalities in mid June resulted in three Serb municipalities declaring a unilateral state of emergency (see section below).

1.1 Politicizing Crimes

Even though the security situation was stable for the first quarter of 2006, in mid June municipalities in northern Kosovo (populated with K-Serb) declared a unilateral state of emergency and cut off their ties with the UN administration.⁸⁰ The reason for such a decision, according to Zveçan/Zvecan Municipality officials, was two attacks against K-Serbs in which one man was killed and another was seriously injured.⁸¹ The initial belief by K-Serb officials that these attacks were ethnically motivated was dismissed as untrue by Police Commissioner Kai Vittrup who in a press conference on 5 June said investigations did not prove the killing of the K-Serbs in these two cases was ethnically motivated.⁸²

With the declaration of a state of emergency, leaders in northern K-Serb populated municipalities said they would not trust their safety to the KPS.⁸³ On 20 June Serb representatives in northern municipalities said they have recruited hundreds of former Yugoslav army soldiers to protect them.⁸⁴ Zveçan/Zvecan Mayor Dagisa Milovic said to Reuters Agency this move was taken because of police ineffectiveness. The situation was exacerbated when DSRSG Steven Schook was reported to have said that the former MUP forces will be recruited into the KPS.⁸⁵ This triggered a reaction among the associations of the KLA veterans who referred to the statement as a "call for war".⁸⁶ The strong language used by KLA associations reflects the sensitivity of these associations toward the issue.

However, the UN Security Council in a special meeting on Kosovo on 20 June 2006 has positively assessed the progress of the security situation in Kosovo. It is important to note that by mid June KFOR

⁷⁹ EWS, Report #12, p 32

⁸⁰ All Prishtinë/Priština based dailies, 14 June 2006.

⁸¹ 11 May 2006 after an attack on a gas station in Mitrovicë/Mitrovica two K-Serbian youths were injured after a fire attack; Another attack that according to the UNMIK police was conducted by a Serb KPS police happened in village Rudare of Zveçan/Zvecan 6t May. In this attack a Serb priest died. See: <http://www.kosovo.net/erpkiminfo.html>

⁸² All Prishtinë/Priština daily newspapers, 6 June 2006

⁸³ Koha ditore, 14 June, p. 3

⁸⁴ Kosovo Serbs recruit ex-soldiers for defence, Reuters, 20 June

⁸⁵ Newspaper Express, 7 June 2006, p.4

⁸⁶ Ibid

re-established a military base in the northern part of Mitrovicë/Mitrovica. At the same time KFOR stated that there are no security problems in the northern part of Kosovo.⁸⁷ Similarly, the KPS and UNMIK police have intensified patrols throughout Kosovo as they consider the approaching finalisation of the status talks as a potential security threat.⁸⁸ The confidence of the UN SC regarding security in Kosovo taken together with the increasing police patrols and the re-establishment of KFOR in Mitrovicë/Mitrovica is giving a new quality to the security situation in Kosovo. The overall impression is that law enforcement institutions are taking measures to be prepared for any security challenge.

1.2 Readiness for protest

The events of March 2004 are evidence of how easily the security situation can derail if a massive protest occurs. The EWS opinion poll shows that the number of respondents not satisfied with the political direction in which Kosovo is heading has increased by 10% as compared with the figures from December 2005.⁸⁹ Over 47% of Kosovans are either dissatisfied or very dissatisfied with the political direction in which Kosovo is heading, a factor that can be seen as serious for public security.

In addition, the readiness to protest for both economic and political reasons, though it has decreased since December 2005, still remains high. Even though the readiness of K-Albanians and K-Serbs to take part in a public protest for political reasons has dropped (by 12% among K-Albanian respondents and 50% among K-Serb respondents), as compared with December 2005⁹⁰ the readiness to take part in a protest for economic reasons remains fairly high.⁹¹

2. The Internal Security Sector Review begins

The Internal Security Sector Review (ISSR) for Kosovo was launched during the reporting period. The objective of the Review is to ensure that, regardless of the outcome of the current status negotiations, the formation of a future security architecture for Kosovo will be as a result of a holistic consultative process. The eight-stage ISSR process includes a strategic environment review, analysis of perceived security threats and existing security policy, a gap analysis and related responsive development strategies. Wide-ranging consultations, reaching all of Kosovo's communities were conducted during this reporting period, as well as

extensive quantitative opinion polling, which have ensured that the ISSR's findings reflect the broadest possible level of public input. The final Report, is expected in December 2006 and is expected to also make recommendations for future capacity development of the security sector.

2.1 Unemployment threatens Security

In the EWS opinion poll, 46% of Kosovans report that they are unemployed. Other estimates suggest a rate of 40% as discussed in the Chapter on Economic and Social Stability. Even at 40%, Kosovo has the highest unemployment rate in the region. As seen in Figure 4.1 above, 35% of K-Albanian respondents see unemployment as a paramount problem for Kosovo. This is an increase of 5% from the last reporting period. This issue is also of increasing concern among K-Serb respondents. Nineteen percent of K-Serbs reported unemployment as the biggest problem facing Kosovo jumping from just 8% in December 2005.

The ISSR process has also identified unemployment as a significant potential threat to security along with lack of reliable electricity, poor education and health services.

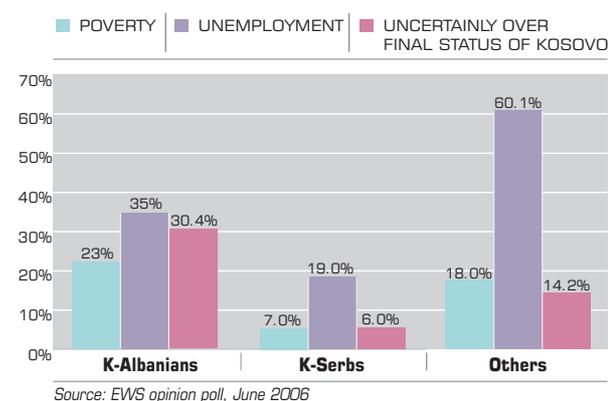


Figure 4.1 Main problems facing Kosovo

Readiness to protest for economic reasons correlates roughly with the unemployment rate. Almost 62% of K-Albanians, say they are ready to protest for economic reasons, while around 36% of K-Serbs and 34.4% of Others say they would protest (see Table A6, Annex 1). In total 77.2 % of Kosovans are either dissatisfied or very dissatisfied with the economic direction in which Kosovo is presently heading and a total of 53.2% of all respondents say they are ready to protest for economic reasons.

⁸⁷ Lajm Exclusive, 14 June 2006, p. 3)

⁸⁸ KTV Main News, 24 June

⁸⁹ EWS, Report #12, p.32

⁹⁰ Table A1.3. respondents' readiness to join public protest due to the current political situation, EWS, Report#12, p.32 and Ethnic crosstabulation A3, line 32

⁹¹ See in this section "Unemployment threatens security"

In addition, the expectations of the respondents' for employment prospects are very low. Only 2.1% of K-Albanians have positive expectations regarding unemployment. In total, almost half of respondents think the future situation for employment is unfavourable. This situation can worsen the general dissatisfaction over the economic direction in which Kosovo is heading and on the readiness of the people to participate in public protests.

These figures continue to show considerable gloom among Kosovans regardless of their ethnicity. With high readiness to protest for either economic or political reasons, public and personal security remains highly vulnerable. While Kosovo institutions and leadership remain focused on the status of Kosovo, they are perhaps seen as not doing enough to address the economic situation.

3. Crime statistics and perceptions

According to statistics for this reporting period crimes against individuals decreased or remained the same in most cases. However, May saw a significant increase in the number of murder cases as compared to April and March 2006 (namely a total of eight murder cases in May as opposed to five in April and two in March). Sexual assaults also increased more during May with seven cases committed during May an increase of 40% as compared to April 2006.⁹²

Violations on property rights during May 2006 decreased by 8% compared with April 2006. Illegal possession of weapons is marked by a continuous growth of 10% throughout this period, but possession of explosives decreased in May 2006 for 50% as compared with April 2006.⁹³

The statistics generally show a slow shift, since the March 2004 events, to a better situation in relation to crime. The significant decrease in violations of property rights and the decrease in the possession of explosives, mines and grenades, both of which were residues from the last conflict, gives hope that the situation in relation to crime is improving.

However, even if there are positive trends in crime statistics, this is not reflected in the perceptions of K-Serb respondents, around 90 % of whom reported feeling unsafe or somewhat unsafe when alone on the street. This figure was 81.6% in December 2005. The increase in the feeling of insecurity among K-Serbs, especially when there are indications that the overall crime situation

is improving, maybe due, for the most part, to several political tensions during the period of status negotiation as well as to the difficulties in the day to day life of the K-Serbs still living within enclaves almost seven years after the end of the conflict. Another factor for such negative perceptions may be a practice by the Serbian media to often assign ethnic motivation to all crimes in which the victim is a K-Serb⁹⁴

3.1 Organized crime and corruption

One of the few issues on which all participants share similar perceptions is the presence of organized crime. Over 60% of respondents from all ethnic groups, are of the opinion that organized crime is present on a medium to large scale. Even though the perception over the presence of the organized crime saw almost no changes as compared with the EWS opinion polls of December 2005 which also show a perception of over 60%⁹⁵ of all ethnic groups, this perception is still very high.

As discussed in the Political and Institutional Stability Chapter, the situation is even worse in relation to opinions on corruption with 65 % of respondents stating corruption in Kosovo is present on a medium to large scale. Forty-four percent of respondents think that there is corruption in central administration, while 41% of people believe there is corruption within local authorities. These figures climbed since the last opinion poll for the period of October-December last year when some 23% of the respondents saw the central institutions as being corrupt and some 20% expressed the same for the local government.

Increasing perceptions on the presence of the organised crime and corruption affects the confidence of people toward the law enforcement mechanisms, judiciary and in general toward central institutions. This undermines the credibility of the police and judiciary and makes it much more difficult to win the necessary trust of citizen in strengthening the stability of the security situation.

4. Confidence in Kosovo Institutions

K-Serbs show a high rate of dissatisfaction towards the Kosovo institutions and especially toward law enforcement mechanisms. Almost 64% express themselves dissatisfied or very dissatisfied with KFOR, while at 64 % their attitude is roughly the same towards the Kosovo Police Service. Moreover Zubin Potok/Zubin Potok, Zveçan/Zvecan and Leposaviq/Leposavic municipalities in a common statement made

⁹²Statistic data about crimes in Kosovo for the year 2005-2006, Directorate for Crime Analyses, Prishtinë/Pristina, KPS

⁹³Statistic data about crimes in Kosovo for January - May 2006, Directorate for Crime Analyses, Prishtinë/Pristina, KPS

⁹⁴SRSB Petersen's comment on Security Council's 5470th meeting, Tuesday, 20 June 2006

⁹⁵Early Warning Report, #12, October - December 2005

in June said⁹⁶ they will forbid KPS to patrol their respective territories and will create their own security forces.⁹⁷ Until now representatives of UNMIK and KFOR said there will be no group allowed to organize security in the northern part of Mitrovicë/Mitrovica as it is the responsibility of UNMIK police, KPS and KFOR.⁹⁸

Within the general population there remains a fairly high dissatisfaction with institutions. Over 50% of K-Albanians are dissatisfied or very dissatisfied with the performance of UNMIK, while over 40% are not satisfied with the Kosovo Assembly. Dissatisfaction with Government among this group is 42%. The highest level of dissatisfaction among K-Albanians is toward local government. Over 53 % of respondents report themselves to be dissatisfied or very dissatisfied with this institution.

Compared with December 2005 the satisfaction of K-Albanians towards the KPS dropped slightly by 3.1% while satisfaction with UNMIK Police dropped by 10%. Satisfaction rates among K-Albanians with KFOR remains high at 85%, although this has decreased by 5% since December last year. The attitude of K-Serbs and K-Albanians toward KFOR remains almost polarized.

5. Status on war veterans and Krusha e Vogël/Mala Krusa

Taking into consideration that over 40% of K-Albanians are ready to take part in public protests for political reasons it may be said that a critical moment occurred when the SRSG and Prime Minister Çeku signed the Law on KLA veterans with a terminology that was subsequently criticized by the KLA veterans.⁹⁹ A representative of the war veteran associations was reported to say on the 30 May that there is considerable pressure from the regional branches to protest as soon as possible about the Law on status of war veterans.¹⁰⁰

Another example of the type of incident that could cause deterioration in the public security situation was a recent confrontation between UNMIK police and the villagers of Krusha e Vogel/Mala Krusa, which experienced severe atrocities during the 1999 conflict.¹⁰¹ According to Police Commissioner Kai Vittrup UNMIK police vehicles brought two members of the legal team of the former Yugoslav army chief of staff, Dragoljub Ojdanic, a Hague Tribunal war crimes indictee, into the village on 25 May.¹⁰² Local residents blocked the road and police came into direct confrontation with the villagers during the incident.¹⁰³ UNMIK subsequently reported mistakes were made regarding the lack of communication with villagers in advance of the visit which led to the confusion regarding its purpose.

These two cases were discussed in the Kosovo Assembly. Though Assembly did not enact any resolutions it made a note that events such as Krusha e Vogel/Mala Krusa and the simulation of the Law on the status of KLA veterans have a potentially negative effect on the security situation and must therefore not be repeated.¹⁰⁴ Parliament urged the law enforcement mechanisms to do thorough investigations in order to find out exactly what happened in Krusha e Vogel/Mala Krusa on 25 May.¹⁰⁵

6. Conclusions

With a fairly high dissatisfaction of both K-Albanians and K-Serbs over the current political and economic direction of Kosovo, the security situation remains fragile. Understandably, concerns of a possible deterioration in the security situation increase as the status negotiations continue. However, the persistent high unemployment rate and the bleak expectations of people for any improvement in their economic situation are gaining increased significance as potential threats to public and personal security in Kosovo.

Table 4.1 Satisfaction level with the performance of the institutions

UNMIK Police			KFOR			KPS		
K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others
51.1%	21.7%	65.0%	85.1%	25.8%	75.4%	86.6	14.7%	77.6%

Source: EWS opinion poll, June 2006

⁹⁶ http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2006/06/06/feature-01

⁹⁷ Koha Ditore, 18 June 2006, p.3

⁹⁸ Regular press conference of UNMIK spokesman Neeraj Singh, 15 June 2006

⁹⁹ Further details on this issue included in the Political and Institutional Stability Chapter

¹⁰⁰ Koha Ditore, 2 June, p.3

¹⁰¹ Police Commissioner Kai Vittrup Press Conference 26 May 2006, all daily newspapers

¹⁰² Police commissioner Kai Vittrup, 7 June 2006

¹⁰³ Southeast Europe Online, Serbian Defence Team Faces Problems in Kosovo, 29 May 2006

¹⁰⁴ All Kosovo dailies, 2 June 2006

¹⁰⁵ Ibid

Confidence in Kosovo institutions in general remains low among both K-Serbs and K-Albanians, with the PISG and the Assembly suffering the biggest decreases in satisfaction among K-Albanians during the reporting period. Continued high perceptions of the prevalence of organized crime and corruption contribute to this weakened confidence. Regarding law enforcement agencies, however, K-Albanians continue to express a relatively high of confidence in the KPS and KFOR, while K-Serbs remain critical of these institutions.

Despite the increasing focus during the reporting period on the status negotiations process and unfavourable economic situation as potential threats to security, the row over the Law on War Veterans, the incident in Krusha e Vogel/Mala Krusa, and the reactions to the reported suggestion that former SUP members could join the KPS demonstrated the lingering potential for conflict-related sensitivities to very rapidly evoke confrontation. These incidents are a reminder that even though the underlying causes of dissatisfaction and frustration which pose security threats can be reasonably identified through analysis of polling and other data, the catalysts which could actually trigger confrontation and unrest are much more difficult to anticipate.

ANNEX 1. Selected results of the opinion poll

Note. The opinion poll for this Report was conducted in June 2006, by UBO Consulting.

The opinion poll was based on face-to-face interviews, and included 1,251 respondents: 851 K-Albanians, 217 K-Serbs, and 183 respondents from Other minorities (38 Bosnian, 14 Gorani, 49 Turk, 17 Ashkali, 44 Roma, 9 Egyptian, and Other 12). The target population was over 18 years of age.

In order to increase the reliability of opinions of the minority groups, an over-sampling procedure was applied for the K-Serb community and the non-Serb minority sub-samples. Specifically, the percentage of respondents belonging to minorities was much higher within the sample than their percentage within the entire population of Kosovo.

Three sub-samples were selected through a random sampling method and were stratified on the basis of geographic regions that are based on telephone area codes (7), municipalities (30), and urban rural ratio (1:1).

REGION	K-Albanians	K-Serbs	Others	Total
Prishtinë/ Pristina	24.8%	26.7%	27.3%	25.5%
Mitrovicë/ Mitrovica	13.9%	31.8%	9.8%	16.4%
Prizren	17.6%	0.5%	29.0%	16.3%
Pejë/Pec	13.5%	0.0%	14.8%	11.4%
Ferizaj/Urosevac	11.8%	7.4%	0.5%	9.4%
Gjakovë/Djakovica	10.7%	10.6%	10.9%	10.7%
Gjilan/Gnjilane	7.8%	23.0%	7.7%	10.4%

EMPLOYMENT				
Unemployed (working able)	37.7%	34.1%	53.0%	39.3%
Working in public sector	7.4%	5.1%	3.3%	6.4%
Working in private sector	9.2%	21.7%	7.1%	11.0%
Employed from time to time	11.6%	3.2%	9.3%	9.8%
Pensioner	3.4%	2.8%	2.2%	3.1%
Housewife	9.3%	9.7%	7.7%	9.1%
Student/ pupil	14.0%	6.5%	13.7%	12.6%
Other	6.7%	15.7%	3.8%	7.8%

GENDER				
Male	51.7%	54.8%	56.8%	53.0%
Female	48.3%	45.2%	43.2%	47.0%

EDUCATION				
Mean years of schooling	10.2	11.3	9.2	10.2

HOUSEHOLD SIZE				
Average number of family members	7.4	4.6	6.3	6.7

AGE				
Mean age	38	37	37	38

Early Warning Trends November 2002 -June 2006

Table A1. Satisfaction of respondents with the performance of various institutions - "satisfied" or "very satisfied" respondents (%)

Period	UNMIK	SRSG	PISG	Assembly	KFOR	KPS
Nov-02	63.80	73.10	74.10	76.70	87.80	90.00
Mar-03	51.90	64.10	74.90	71.90	85.50	87.90
Jul-03	43.10	71.40	78.10	74.70	81.40	84.50
Nov-03	28.40	43.10	68.50	65.30	77.60	85.20
Mar-04	24.90	32.40	73.90	64.30	83.00	84.90
Jul-04	20.70	n/a ¹	71.90	59.10	85.60	89.90
Nov-04	24.10	69.90	72.20	64.50	80.40	82.90
Mar-05	29.70	82.00	81.10	73.60	81.00	86.90
Jun-05	41.35	81.65	67.67	63.06	87.25	84.38
Sep-05	34.55	69.77	48.72	58.94	85.12	84.50
Dec-05	35.93	72.04	51.04	56.15	86.32	84.21
Jun-06	30.47	70.45	43.32	45.39	80.94	81.75

Table A2. Selected indicators (%)

Period	Political Pessimism	Economic Pessimism	Feelings of Insecurity
Jul-02	52.7	70.0	45.7
Nov-02	31.8	58.0	41.0
Mar-03	41.7	67.7	47.4
Jul-03	37.3	65.0	40.4
Nov-03	47.9	71.8	48.5
Mar-04	45.4	75.3	43.4
Jul-04	46.6	70.7	44.8
Nov-04	38.8	67.7	51.2
Mar-05	38.6	71.0	38.0
Jun-05	35.7	66.1	36.6
Sep-05	41.0	68.7	36.7
Dec-05	40.3	63.5	42.9
Jun-06	43.8	76.0	35.5

Table A3. Respondents' opinions on prime responsibility about political and economic situation (%)

Period	Political responsibility		Economic responsibility	
	UNMIK	PISG	UNMIK	PISG
Jun-03	60	17	62	23
Mar-04	62	13	65	17
Jun-04	72	15	72	19
Dec-04	65	18	63	28
Jul-05	57	22	58	37
Dec-05	50	44	28	52
Jun-05	48	34	45	36

¹⁰⁶No SRSG in place.

Table A4. Percentages of respondents "dissatisfied" or "very dissatisfied" with the current political situation (%)

	Nov-04	Mar-05	Jun-05	Sep-05	Dec-05	Jun-06
K-Albanians	35.1	35.5	32.1	38.0	36.7	42.1
K-Serbs	98.0	97.1	97.4	98.5	96.1	82.0
Others	33.0	25.7	28.2	28.0	36.8	30.6
Weighted average (%)	38.7	38.6	35.8	41.0	40.2	43.9

Table A5. Respondents' readiness to join protests that could be organized due to the current political situation (%)

	Sep-05		Dec-05		Jun-06	
	K-Albanians	K-Serbs	K-Albanians	K-Serbs	K-Albanians	K-Serbs
YES	49.7	86.6	54.5	83.2	46.9	34.8
NO	50.3	13.4	45.5	16.8	53.1	65.2
Total	100	100	100	100	100	100

Table A6. Respondents' readiness to join protests that could be organized due to the current economic situation (%)

	Sep-05			Dec-05			Jun-06		
	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others
YES	57.6	76.2	36.1	63	73.7	62.7	61.6	35.9	34.4
NO	34.9	15	46.3	29.7	14.8	21.1	32.5	49.3	50.8
Does not answer	7.5	8.7	17.6	7.4	11.5	16.2	5.9	14.7	14.7
Total	100	100	100	100	100	100	100	100	100

Table A7. Percentages of respondents "satisfied" or "very satisfied" with the work of security institutions

K-Albanians

	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05	Dec-05	Jun-06
KFOR	85.6	85.7	84.9	92.9	89	90.3	85.1
UNMIK Police	44.2	41.6	54.7	63.7	61.1	56.9	51.1
KPS	89.9	88.2	92.7	90.3	90.3	89.4	86.6

K-Serbs

	Jul-04	Nov-04	Mar-05	Jun-05	Sep-05	Dec-05	Jun-06
KFOR	10.7	10.6	14.7	6.4	25.3	28.4	25.8
UNMIK Police	3.7	4.8	6.1	2.1	5	13.1	21.7
KPS	1.8	0.5	4	1.6	5	2.5	14.7

Table A8. Respondents' opinions on whether they would support conditional independence of Kosovo (%)

	Sep-05			Dec-05			Jun-06		
	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others
Never. Kosovo must be unconditionally Independent	86.1	1	67.9	92.5	1.1	63.3	92.9	0.5	67.8
Never. Kosovo should not be independent in any way	0.8	86.7	4.8	0.6	92.8	9.4	0.6	71.9	1.1
Yes, if there aren't any other choices	6.9	1	3.6	3.9	0	7	2.5	3.7	6.0
Yes, this is the best solution for everyone	2.3	0	8.3	2	1.1	9.4	0.8	0.9	1.1
I haven't heard about this option at all, therefore I can not reply	3.9	11.3	15.5	1	5	10.9	1.4	2.3	7.7
Total	100	100	100	100	100	100	100	100	100

Table A9. Opinions on inter-ethnic relations between Albanians and Serbs (%)

	Mar-05		Jun-05		Sep-05		Dec-05		Jun-06	
	K-Albanians	K-Serbs								
Relations are and will continue to be tense	21.1	81.3	23.0	76.0	18.8	98.5	12.9	83.2	11.6	40.6
Relations are tense, but some improvements have recently occurred	32.2	13.4	32.2	14.0	24.3	0.5	30.1	14.2	31.4	24.0
Relations are tense, but considerable improvements have occurred	19.9	4.8	18.1	0.0	20.0	0.5	18.5	0.5	14.2	13.8
Relations are not so tense	13.1	0.5	12.3	0.6	16.3	0.0	18.0	1.0	11.2	2.3
Relations are not tense at all	13.5	0.0	14.4	0.0	20.6	0.5	20.5	1.0	6.1	0.5
Total	100	100	100	100	100	100	100	100	100	100

Table A10. Readiness of Albanians and Others to agree/disagree to live in the same street with Serbs

	Dec-02		Dec-05		Jun-06	
	K-Albanians	Others	K-Albanians	Others	K-Albanians	Others
Agree	9.9%	42%	41%	64.5%	48.77%	61.2%
Disagree	90.1%	58%	59%	35.5%	40.66%	26.78%

Table A11. Readiness of Serb and Others to agree/disagree to live in the same street with Albanians

	Dec-02		Dec-05		Jun-06	
	K-Serbs	Others	K-Serbs	Others	K-Serbs	Others
Agree	8.5%	97.2%	21.8%	96.4%	47%	86.89%
Disagree	91.5%	2.8%	78.2%	3.6%	33.64%	2.73%

Table A12. Opinions on the final status of Kosovo (%)

	Nov-02		Jul-03		Jul-04		Sep-05		Jun-06	
	K-Albanians	K-Serbs								
Independence of Kosovo within present borders	84.3	0.0	87.9	2.9	89.3	0.0	90.2	1.0	95.1	0.0
Partition of Kosovo	0.5	34.4	0.0	26.6	0.8	6.5	0.7	9.3	0.2	46.5
Same as now (international protectorate)	5.2	2.2	0.5	0.0	0.1	0.0	0.1	0.0	0.0	4.6
Unification with Albania	9.8	0.0	11.5	0.0	9.7	0.0	9.1	0.0	2.7	0.0
Confederate state within Serbia, such as Montenegro	0.0	2.7	0.1	7.6	0.0	3.0	0.0	3.1	0.2	2.8
Autonomous province within Serbia	0.1	60.8	0.0	62.9	0.0	90.5	0.0	86.6	0.0	35.0
Total	100	100	100	100	100	100	100	100	100	100

Table A13. Respondents' feeling of safety while outdoors (%)

	Sep-05			Dec-05			Jun-06		
	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others	K-Albanians	K-Serbs	Others
Very unsafe	7.9	48.5	0.9	8.5	39.6	8.6	7.8	39.2	4.9
Somehow unsafe	27.7	29.7	11.1	32.8	42	19.3	24.3	51.6	25.7
Somehow safe	42.7	18.3	62	37	14	60	38.9	3.7	54.6
Very safe	21.7	3.5	25.9	21.8	4.3	12.1	27.8	0.9	13.7
Total	100	100	100	100	100	100	100	100	100

Table A14. Perceptions on main problem in the management of Kosovo Consolidated Budget

	K-Albanians	K-Serbs	Others	Total
Insufficient capacities and expertise	13.7%	26.3%	6.0%	14.7%
Careless spending in luxury goods	49.7%	7.4%	48.6%	42.2%
Non-transparent spending	12.9%	3.7%	8.7%	10.7%
To many public sector employees	1.6%	12.9%	1.6%	3.6%
Do not know	21.9%	33.2%	30.1%	25.0%
No answer	0.1%	16.6%	4.9%	3.7%
Total	100.0%	100.0%	100.0%	100.0%

Table A15. Opinions about job cuts in public sector

	K-Albanians	K-Serbs	Others	Total
I approve because there is overtuffing	12.9%	26.7%	8.7%	14.7%
I approve because it is recommendation of international comm	3.5%	6.5%	2.7%	3.9%
I do not approve because it will increase poverty	58.2%	31.8%	46.4%	51.9%
I do not approve because it will decrease the quality of ser	4.3%	3.7%	4.4%	4.2%
Do not know	18.1%	21.7%	30.1%	20.5%
No answer	2.9%	9.7%	7.7%	4.8%
Total	100.0%	100.0%	100.0%	100.0%

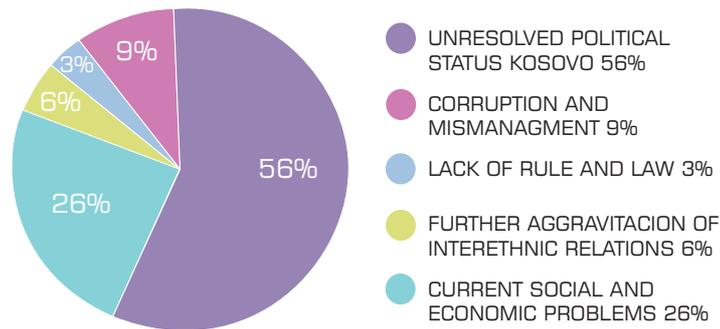


Figure A1: Circumstances most threatening to stability

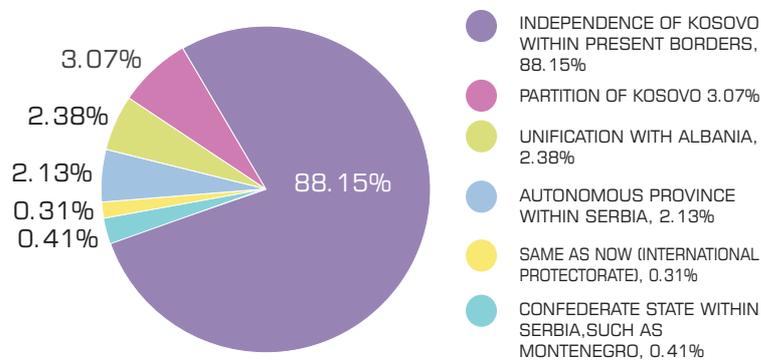


Figure A2: Best option for future political status

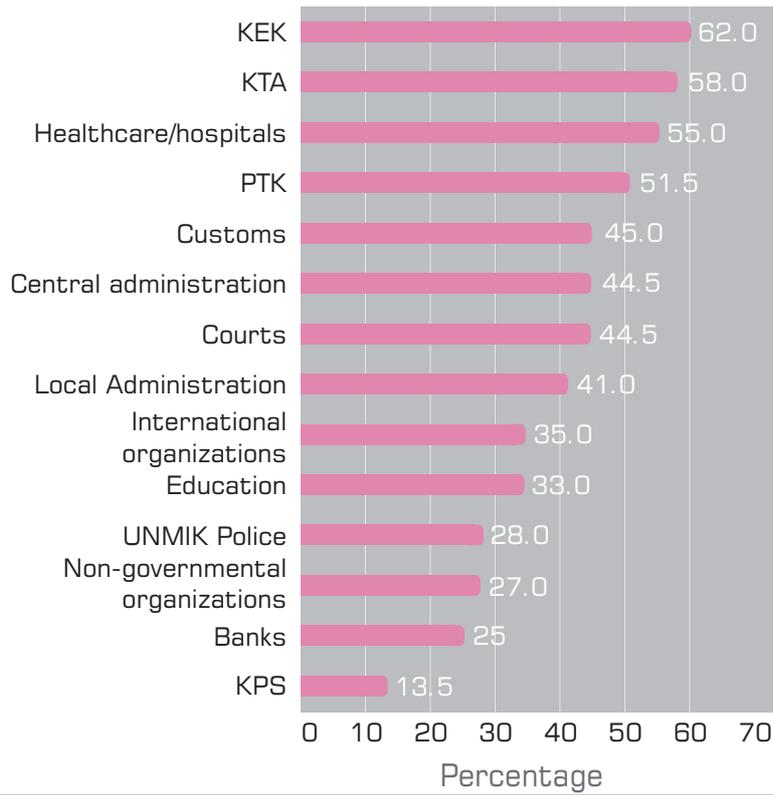


Figure A3: Does corruption exist and how much is it present in these institutions?

ANNEX 2

Events during the period January-June 2006

January 2006

9 January - KFOR removes an explosive device from a vehicle in front of IHSOP offices in Prishtinë/Priština. IHSOP is widely reported to be the intelligence-gathering arm of the LDK.

11 January - Belgrade makes public its platform in Kosovo's status negotiations, by which it seeks the creation of new Serb-dominated municipalities in Kosovo tied to Belgrade and with a high level of autonomy from Prishtinë/Priština.

12 January - After a meeting with Parliamentary Speaker Nexhat Daci, UNMIK SRSG Søren Jessen-Petersen states his opposition to the creation of a separate Serb entity in Kosovo, but urges Kosovo Albanians to be prepared to offer compromises on the issue of decentralization. Kosovo political leaders declare their disapproval for Belgrade's plan.

16 January - UN Status Envoy Martti Ahtisaari and UNMIK SRSG Jessen-Petersen meet with Contact Group members behind closed doors in Vienna. Prishtinë/Priština announces the finalization of its "principles for decentralization" document, laying out its position on the form and modalities of decentralization in Kosovo in the status talks.

20 January - Koha Ditore reports that the governing coalition partners LDK and AAK have reached an agreement on dividing the two new ministries expected to be formed, that of the Interior and of Justice, between them. According to the paper, the LDK has ceded control of the Ministry of Justice to the AAK.

21 January - President Ibrahim Rugova dies after a four-month long battle with lung cancer.

23 January - The first round of meetings between, Prishtinë/Priština and Belgrade delegations in Vienna on Kosovo status talks, which had been planned for today, is postponed due to the death of President Rugova.

26 January - President Rugova buried in Prishtinë/Priština with high honors and the presence of high-level diplomats and international officials. Speculation and uncertainty continues over Rugova's successor and the fate of the Kosovo Negotiating Team, which had been chaired by Rugova. In addition, controversy arises over Rugova's burial site, which is in a memorial park adjacent to the burial site of KLA fighters. Former KLA vet-

erans oppose the location of Rugova's burial next to the fighters.

31 January - Meeting between Ahtisaari and Contact Group ministers in London, after which the Contact Group issues a formal statement.

Locally, anger rises over the Kosovo power company KEK's new power distribution plan that discriminates against regions that are late in electricity bill payments or do not pay, leading to the destruction of a high-voltage power transmitter in Drenica by protesters.

February 2006

3 February - KEK and Ministry of Energy officials visit Drenica to discuss the energy crisis with the local population. The Minister of Energy Ethem Çeku tries to enlist the support of the family of famed KLA commander Adem Jashari in ensuring cooperation with KEK's energy distribution policy.

7 February - LDK formally nominates Fatmir Sejdiu as candidate for President of Kosovo, though rumors of Sejdiu's candidacy had become public days earlier.

10 February - Kosovo Assembly elects Fatmir Sejdiu as Kosovo's new President. The opposition votes against, though the LDK candidate receives enough votes to become elected on the third round. The original session to elect the new President had been scheduled for 9 February, but was postponed due to the unexpected absence of PDK leader Hashim Thaçi.

11 February - President Sejdiu convenes and chairs the meeting of Kosovo's Negotiating Team. Assembly Speaker Nexhat Daci is absent from the meeting.

15 February - UN Security Council holds session on Kosovo, with the presence of Kosovo Prime Minister Bajram Kosumi as observer. Kosumi is the first Kosovo PM to be present at such a high level UN meeting on Kosovo.

18 February - Newspapers report that there are continuing disagreements over who will chair the Kosovo delegation at the Vienna talks. Papers report that high-ranking PDK official Jakup Krasniqi has refused to co-chair the delegation with Local Government Minister Lutfi Haziri, calling the existence of two co-chairmen "unserious." Haziri also states his opposition to the formula of two co-chairmen.

20 February - First meeting between Prishtinë/Priština and Belgrade delegations in Vienna on Kosovo status talks. The first round of negotiations focuses on decentralization. The Kosovo delegation is chaired by Lutfi Haziri. Koha Ditore calls the meeting "surprisingly constructive," though this and other papers report that the

atmosphere between the two parties is far from warm. In a separate interview for a Western paper, UN Deputy Status Envoy Albert Rohan, says that the return of Kosovo to Serbian rule is "unrealistic."

22 February - Though no agreement is reached, the Kosovo delegation returns to Prishtinë/Priština with an optimistic outlook on the negotiations, claiming they will result in Kosovo's independence.

March 2006

1 March - In an unexpected shake-up of Kosovo's leading institutions, Prime Minister Bajram Kosumi resigns and the LDK announces the replacement of Assembly Speaker Nexhat Daci. The political changes are believed to be orchestrated by behind-the-scenes diplomatic pressure due to dissatisfaction with the government's performance and Daci's uncooperative and at times inflammatory attitude with the opposition. Papers report that KPC commander General Agim Çeku is the new candidate for PM, while LDK vice-chairman Kolë Berisha is the party's nomination for Assembly Speaker. UN Status Envoy Martti Ahtisaari, who is in Prishtinë/Priština for meetings, states that leadership changes will not affect the ongoing status negotiations.

2 March - President Sejdiu formally nominates Agim Çeku for Prime Minister. Belgrade protests Çeku's nomination, calling him a "war criminal" due to his involvement both as a KLA commander and as a high-ranking member of the Croatian military during the conflict in Croatia. In another development, Daci refuses to step down, citing procedural irregularities in the LDK's decision to replace him.

4 March - After a meeting with President Sejdiu, US Head of Office Philip Goldberg denies Daci's accusations of American involvement in the LDK's decision to remove him.

8 March - UN Status Envoy Ahtisaari praises both sides during his report at the UN Security Council meeting and reiterates that "practical issues" such as decentralization, minority rights, and returns will be tackled before the status.

10 March - Kosovo Assembly votes new Cabinet headed by Çeku, who gives an acceptance speech in Albanian, Serbian, and English. The Cabinet retains the ministers of the Kosumi government, igniting accusations of corruption by the opposition PDK and ORA. Berisha is elected as Assembly Speaker, replacing Daci.

12 March - Kosovo dailies report the death of former Serbian president Slobodan Milosevic at the detention

center in The Hague. The papers report disappointment among many Kosovans that his death robbed victims of the opportunity to see Milosevic punished by The Hague War Crimes Tribunal.

17 March - Second round of decentralization talks in Vienna between Prishtinë/Priština and Belgrade. The Prishtinë/Priština delegation is headed by opposition leader Hashim Thaçi. The talks produce no final agreement on decentralization, though newspapers report some progress in finding common ground between the two parties.

23 March - Opposition leader Hashim Thaçi launches a series of harsh critiques against the government, calling it corrupt, dysfunctional and politically ineffective.

25 March - KPC commander and former KLA fighter Daut Haradinaj, brother of former Kosovo PM Ramush Haradinaj, is released from a Kosovo prison, after serving four of his five-year sentence for war crimes.

April 2006

3 April - Third round of talks on decentralization in Vienna. Talks proceed on the basis of a common document presented earlier to the parties by UN Deputy Status Envoy Albert Rohan. Kosovo delegation leader Lutfi Haziri says that no agreement will be signed before a full agreement on the status is achieved. While no agreement is reached on decentralization, the Kosovo delegation continues to maintain its optimism that the negotiations will end with Kosovo becoming independent.

6 April - Athens meeting of Contact Group ministers results in a statement saying that the resolution of Kosovo's status must, among others, take into account the will of the people of Kosovo. Kosovo media interpret this statement as the Contact Group edging towards full support for Kosovo's independence.

7 April - The director of Kosovo's largest human rights organization, the Council for the Defense of Human Rights and Freedoms, states in an interview that half of the members of the government should be in prison for corruption.

9 April - Kosovo dailies report that the United Nations Office of Internal Oversight has blamed UNMIK SRSG Jessen-Petersen for turning a blind eye to corruption at Prishtinë/Priština Airport. Jessen-Petersen calls the accusations groundless. Kosovo politicians and analysts commented that the report is indicative of far-reaching corruption within UNMIK.

13-15 April - The Vetëvendosje (Self-Determination) movement together with a group of local organizations staged a protest in Deçan/Decani against

UNMIK's decision to keep the area around the Deçan/Decani monastery a protected zone. Vetëvendosje calls the move a step towards giving the monastery extraterritorial status. The protected zone includes homes and private property owned by inhabitants of surrounding villages, who are barred from engaging in any construction or other work within the protected zone. Kosovo media reported that many villagers took part in the protest. Protestors blocked the entrance to the old municipal headquarters and took down the UN flag.

18 April - PM Çeku stated that his government will have zero tolerance against corruption, and announced that steps are being taken to establish the Assembly-mandated Anti-Corruption Agency.

22 April - The deputy mayor of Shtime/Stimlje municipality and another person were shot and killed during a property dispute involving a house formerly owned by a K-Serb. Nine arrests were made by the police. The suspects were believed to be Kosovo Albanians who occupied the home illegally.

24 April - The Vetëvendosje (Self-Determination) movement dumped a pile of hay in front of UNMIK Headquarters in Prishtinë/Priština claiming it is from the fields around the Deçan/Decani monastery. Hay cutting is one of the few activities that is permitted to the villagers of the protected zone without special permission.

26 April - The Contact Group met in Vienna in a meeting hosted by NATO to discuss the future of international presence in Kosovo. UN Status Envoy Ahtisaari briefed the participants. In Prishtinë/Priština, Jessen-Petersen extended the status of special protected zone to the Deçan/Decani monastery in spite of protests. While in Belgrade, a special prosecutor charged eight Serbian policemen with the murder of 48 members of a single family during the war of 1999.

May 2006

4 May - The fourth and last round of talks on decentralization took place in Vienna. The highly contentious issue of the ethnically divided city of Mitrovicë/Mitrovica was discussed at this round of meetings. Belgrade demanded the division of Mitrovicë/Mitrovica into separate Serb and Albanian municipalities, while the Kosovo plan presented at the talks seeks to subdivide Mitrovicë/Mitrovica into two municipal subunits while maintaining a single municipality. Differences between the parties were also exhibited in the demands for new municipalities. Belgrade proposed the establishment of 17 new Serb-dominated municipalities, while Prishtinë/Priština offered to establish only four new municipalities. No progress was reported on the negotiations.

On the same day, PM Çeku in Skopje met his FYROM counterpart Vlado Buckovski to discuss demarcation issues between Kosovo and FYROM. Newspapers report that diplomatic pressure has eased tension over this issue, which will reportedly be resolved together with Kosovo's status. After their meeting, Çeku and Buckovski declared that no immediate steps to address the demarcation issue would be taken. Before departing to Skopje, PM Çeku apologized to the Kosovo media for his spokesperson's accusations. His spokesperson had accused the Kosovo media of carrying out a systematic campaign against the government.

In Prishtinë/Priština, UNMIK declared that the government has made progress on Standards implementation, while students of the University of Prishtinë/Priština protested against the division of Mitrovicë/Mitrovica and demanded a referendum for Kosovo's future.

5 May - A large number of Vetëvendosje (Self-Determination) movement activists were arrested and forcibly removed from the entrance of UNMIK Headquarters in Prishtinë/Priština by police during a protest demanding UNMIK's departure from Kosovo. A number of protestors were reportedly beaten by police at Prishtinë/Priština main police station, though the police denied the allegations.

10 May - KLA veterans' organizations expressed outrage against modifications made by UNMIK to the law on martyrs, invalids, and veterans of the war of 1998-1999, adopted by the Assembly of Kosovo earlier in the month. The KLA veterans in particular were angered by the replacement of the term "war" with the term "armed conflict," considering it a denial of their struggle the status of a war of liberation. The organizations threaten to organize street protests if the original contents of the law are not restored.

20 May - AAK holds its fourth convention, which reelects Ramush Haradinaj as party leader.

21 May - Montenegro holds a referendum on its future, in which a slight majority votes in favor of the Republic's independence.

23 May - Prishtinë/Priština and Belgrade delegations meet in Vienna to discuss cultural heritage, in another step towards resolving Kosovo's status through UN-mediated negotiations. The talks are reportedly much more productive than those on decentralization. Both Prishtinë/Priština and UNOSEK reportedly refused Belgrade's insistence that cultural heritage be discussed together with decentralization. The Kosovo party reportedly agreed to protect the status of the

Serbian Orthodox Church in Kosovo and to pass a series of laws that guarantee freedom of religion and protection for minority religious sites. In turn, Belgrade agreed to return to Kosovo a large number of archeological objects it seized during the 1999 conflict.

25 May - President Fatmir Sejdiu submitted an official resignation from his post as Secretary General of the LDK, bringing him in line with the Constitutional Framework that prohibits the President from holding party posts.

26 May - Prime Minister Agim Çeku met his Albanian counterpart Sali Berisha in Tirana. Berisha stated that Albania favors self-determination for Kosovo.

29 May - Koha Ditore reports that the LDK leadership is the process of convening its General Council, which has authority to elect the party chairman. The paper reports that competition for the party post, vacant for some time now, is stiff and gives the following names as the main frontrunners: Fatmir Sejdiu, Nexhat Daci, Lutfi Haziri, Alush Gashi, and Ali Lajçi. Bitter rivalries between contenders for the post have increasingly become public in recent weeks.

June 2006

1 June - Delegations from Prishtinë/Priština and Belgrade meet for a sixth time in Vienna, this time to discuss economic issues. While no agreement is reached by the two sides, according to Kosovo press reports, the Kosovo side has in principle accepted responsibility for Kosovo's portion of foreign debts from the period of the former Yugoslavia while demanding reparations for the economic damages caused by Belgrade's rule in Kosovo during the 1990s and the war of 1999. From its side, Belgrade demanded that UNMIK bring to an immediate halt the process of privatization in Kosovo. UNOSEK officials declare that no more high level meetings on technical issues are planned, and that the issues discussed thus far will be negotiated together with the status.

2 June - The intervention of Assembly member and PDK senior leader Fatmir Limaj, staves off a protest announced by KLA veteran organizations in opposition to UNMIK's modifications on the law on war veterans and invalids.

6 June - Kosovo media report that Kosovo's northern Serb-dominated municipalities declare a "state of emergency" and cut all ties with the Kosovo government in response to the recent unresolved murder of a Serb resident. UNMIK Police and KPS reportedly send reinforcements to the north while KFOR had previously announced the reopening of a recently closed base in northern Kosovo.

In other developments, UNMIK and the representatives of the governments in Prishtinë/Priština and Belgrade sign a "Protocol on Voluntary and Sustainable Return," allowing the return of displaced Kosovo Serbs to their homes or to voluntarily settle into other parts of Kosovo.

8 June - After an investigation, UNMIK publicly admits it committed an error of judgment in planning an unannounced visit of Serbs alleged to have been involved in war crimes to the village of Krusha e Vogël/Mala Krusa, sparking the anger of local villagers and violent clashes with police. Krusha e Vogël/Mala Krusa was one of the sites of the most gruesome acts of violence during the conflict of 1999, in which hundreds of Albanian boys and men were rounded up and the fate of many is still unknown to their families.

9 June - Nearly 100 protestors were arrested by police in riot gear in front of UNMIK Headquarters in Prishtinë/Priština. The protest was organized by Vetëvendosje and is the movement's largest ever, demanding UNMIK's departure and self-determination for Kosovo. After a large protest with over 1,000 participants on the day of 8 June, a smaller group of protestors had camped in front of UNMIK HQ with the intention of blocking movement in and out of the building. The protestors were forcibly removed by police during the night of 8 and 9 June. The protestors were promptly sentenced to 10-day prison sentences for disturbing public order. The protest is strongly criticized by SRSJ Jessen-Petersen and by PM Çeku.

In other developments, the Contact Group delivers a 13-point plan to the Kosovo authorities, listing a specific set of demands in the fields of security, rule of law, the return of minorities and the reconstruction of homes and other sites damaged during the violent events of March 2004. The Contact Group also called on Belgrade to encourage Kosovo Serbs to participate in Kosovo's institutions and to return to Kosovo cadastral documents seized during the war of 1999.

13 June - UNMIK SRSJ Jessen-Petersen announces his intention to leave UNMIK after his contract expires at the end of June. In an interview for Koha Ditore, he states that "Kosovo's dream" will become reality during this year.

15 June - The daily Express reports that Kosovo's northernmost municipality of Leposaviq/Leposavic, inhabited almost exclusively by K-Serbs, is taking steps towards separating from Kosovo and joining Serbia. Express quotes the deputy mayor of Leposaviq/Leposavic in his statement that Leposaviq/Leposavic is patrolled by police from the Serbian Ministry of Interior, though without uniform.

17 June - The SRSG signs a regulation postponing Kosovo's municipal elections, scheduled for this year, due to status talks. The elections will be held no later than 12 months after the status agreement is reached.

20 June - UNMIK SRSG Jessen-Petersen reports "good progress" in Kosovo at a session of the UN Security Council in New York. Kosovo PM Çeku is present at the meeting as a guest..

28 June - Serbian Prime Minister Vojislav Kostunica pays a visit to Serbian Orthodox sites in Kosovo in celebration of a religious holiday, in which he tells participants that Kosovo will remain part of Serbia. Kostunica's visit was permitted by UNMIK, while Kosovo leaders called it a "private visit."