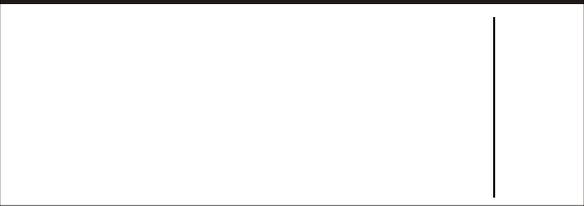




Early Warning Report Kosovo

Report #5

September-December 2003



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

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

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

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

SELECTED INDICATORS

	Sep-Dec 2002	Jan-Apr 2003	May-Aug 2003	Sep-Dec 2003	Trend
GDP growth rate (annual), %	13.9 ¹ 10.8 ²		8.7 ¹ 0.8 ²		↘
Inflation rate (annual), %	-		4-5 ²		↔
Bank deposits, million of Euros	419	436 (Jan-March)	458 (Apr-June)	508 (October)	↗
Commercial bank loans, million of Euros	-	116 (Jan-March)	163 (Apr-June)	205 (October)	↗
Trade balance, million of Euros	-	-247	-178	-95	↘
Registered job-seekers	257,505 (December)	268,440 (March)	276,781 (July)	280,923 (November)	↗
Consumer Price Index, % (Compared to May 2002)	102.1 (December)	102.5 (March)	99.6 (June)	103.4 (November)	↗
Basic pensions (per month), Euros	28	35	35	35	↔
Political pessimism, % ("Not satisfied" or "not satisfied at all" with current political trends)	31.8	41.7	37.3	47.9	↗
Economic pessimism, % ("Not satisfied" or "not satisfied at all" with current economic trends)	58.0	67.7	65.0	71.8	↗
Subjective welfare pessimism, % (Economic situation in the family equal or worse than last year)	72.2	80.9	87.9	86.5	↔
Satisfaction with UNMIK's performance*, %	63.8	51.9	43.1	28.4	↘
Satisfaction with SRSG's performance, %	73.1	64.1	71.4	43.1	↘
Satisfaction with Government's performance, %	74.1	74.9	78.1	68.5	↘
Satisfaction with Assembly's performance, %	76.7	71.9	74.7	65.3	↘
Satisfaction with KFOR's performance, %	87.6	85.4	81.4	77.6	↘
Return of refugees, number of returnees	-	182 (Until February)	1,416 (Until the end of June)	3,370** (Until the end of Nov)	↗
Personal security, % ("Somewhat safe" or "very safe" while outdoors)	58.9	52.9	59.6	51.5	↘

1 - Earlier assessments

2 - IMF assessments

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

** - According to UNHCR data, the total number of returnees during the period 2000-2003 is 9,485

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LIST OF ACRONYMS AND ABBREVIATIONS

AAK	Aleanca për Ardhmerinë e Kosovës/ Alliance for the Future of Kosovo
CIVPOL	Civil Police
CPI	Consumer Price Index
EU	European Union
EWS	Early Warning System
EWB	Early Warning Report
GDP	Gross Domestic Product
ICG	International Crisis Group
IMF	International Monetary Fund
KFOR	Kosovo Forces
KPS	Kosovo Police Service
KTA	Kosovo Trust Agency
LDK	Lidhja Demokratike e Kosovës/ Democratic League of Kosovo
MEF	Ministry of Economy and Finances
MLSW	Ministry of Labor and Social Welfare
MP	Member of Parliament
OSCE	Organization for Security and Cooperation in Europe
PISG	Provisional Institution of Self-Government
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
UK	United Kingdom
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissariat for Refugees
UNMIK	United Nations Interim Administration Mission in Kosovo
UNSC	United Nations Security Council
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

Political and institutional stability. The period September - December 2003 is characterized by efforts by the international community to accelerate inter-related political processes, including: i) the start of the dialogue between Pristina and Belgrade; ii) the continued transfer of remaining non-reserved competencies of the SRSG to Kosovo institutions and iii) the establishment of a deadline and operational plans for the “Standards for Kosovo” process, as well as procedures and methods for their evaluation. These developments were not welcomed by all political factions in Kosovo and abroad however. This has polarized positions amongst relevant parties. Kosovo Albanian leaders welcomed them, with some reservations, while Kosovo Serb leaders and Serbia’s officials opposed both the accelerated processes of the transfer of power to local institutions and the “Standards for Kosovo” process. These divisions could deepen in the future and negatively affect the fulfillment of the “Standards for Kosovo”. The international community should increase pressure on Kosovo Albanian authorities to implement the Standards, and not just to support them rhetorically. At the same time Serb authorities both in Kosovo and Serbia should be persuaded not to obstruct the incentives offered by the international community, especially in view of the “Standards for Kosovo”.

During this period, disputes related to the transfer of competencies, the interruption of the privatization process, the dialogue between Pristina and Belgrade, and the existence of parallel institutions in some parts of Kosovo continued, resulting in a deterioration in public opinion in November 2003, with regard to political trends, compared to opinions expressed in July 2003. During a one year period (November 2002 – November 2003) political pessimism steadily increased to over 10%. Of special concern is the decrease in satisfaction with the performance of UNMIK, which halved by November 2003 in comparison to November 2002.

Economic and social stability. The main features of economic and social stability during the period September - December 2003 are: (i) continued unfavorable trends in some key macroeconomic indicators (especially GDP, employment, and exports, with only 3.7% coverage of imports by exports); (ii) stagnation in the implementation of privatization and (iii) a further increase in negative perceptions towards the current economic situation. This period is also characterized by recent estimations of the IMF on GDP and other macroeconomic aggregates of Kosovo, which show that earlier estimates are significantly higher than the latest ones: for the year 2003 the projections of GDP growth were around 70% higher than the recent one. These new estimates emphasize the necessity to reconsider the validity of existing economic policies. In addition, the large budget surplus in 2003 and some contradictions in budget projections for 2004 need to be critically reviewed.

The findings of the EWS opinion polls indicate that the economic pessimism of the respondents, regardless of their ethnic background, is high and growing: the economic pessimism of the respondents of all ethnicities in November 2003 is around 10% higher than in November 2002. Serb respondents are 15% more unsatisfied than Albanian respondents. More than 80% of respondents from all ethnicities estimate the current conditions for employment as unfavorable, which

corresponds with the increasing number of registered jobseekers. The expectations of respondents that conditions will improve in the future are low.

Inter-ethnic relations. Relations between Albanians and Serbs have not shown any significant change compared to the last reported period (May-August 2003). Although no serious incidents have taken place during the period September – December 2003, some incidents did occur thus preventing inter-ethnic relations from improving. Based on this Report's recent opinion poll, other factors hampering the return of refugees and co-existence and integration of Serbs into Kosovo society are: i) the low level of readiness (41.5%) of the Kosovo Albanian population to agree with the return of refugees and displaced people in Kosovo and ii) totally opposed opinions of Kosovo Albanians and Kosovo Serbs regarding the future political status of Kosovo: the Albanian respondents are still in favor of Kosovo's independence (86.1%), while Serb respondents are mainly in favor of the status of an autonomous province within Serbia (81.9%). Kosovo Albanian authorities, at both central and local level, should be more active in the media and have more contact with the population, in order to emphasize the importance of the process of the return.

The continued existence of parallel structures in the Serb enclaves, the lack of support by Belgrade and the Kosovo Serb leaders for the so-called "Standards for Kosovo", and the unilateral acts of predetermining the status of Kosovo, may further deteriorate inter-ethnic relations and integration.

Public and personal security. Based on the official statistics for September – December 2003, the situation with regard to public and personal security is characterized by a continuous decrease in the number of major offences, apart from arson. In spite of an evident improvement in relation to certain major offences, the public and personal security situation during the last four months of 2003 was jeopardized by: i) various explosions in many Kosovo localities and ii) attacks on security and other Kosovo institutions, or their members. Remaining unresolved, these attacks encourage new attacks against officers of the police, judicial staff and members of other bodies in Kosovo, which has a direct impact on the destabilization of public and personal security.

The overall improvement in the security situation has seen a commensurate improvement in public opinion in this respect. However, while Albanian respondents and respondents of non-Serb minorities do not view public and personal security as one of the biggest problems facing Kosovo today, Serb respondents (40.2%) rank this issue as the greatest problem. Serb respondents feel less safe than Albanians both on the streets and at home: only 12.4% feel "safe" or "very safe" on the street, whereas 23.2% feel so at home. Of special concern is the unfavorable opinion of respondents on the performance of judicial institutions and also the deterioration in respondents' opinions with regard to the performance of CIVPOL.

POLITICAL AND INSTITUTIONAL STABILITY

General situation

1. The period September - December 2003 saw improved stability in the political and institutional life of Kosovo. The SRSG noted that Kosovo in general has made “enormous progress”¹. This period is characterized by attempts to energize and speed up the political processes, in contrast with the impression created in 2002 and earlier to preserve the status quo.

A key role in this respect was played by the new SRSG, Harri Holkeri, appointed in August 2003. SRSG Holkeri spent the first two months clarifying the UNMIK mandate in Kosovo, by undertaking numerous consultations at UN headquarters in New York and in other decision-making centers. The aim of these consultations was the review and further profiling of the strategy and plans of UNMIK and other international institutions and organizations in Kosovo for the accomplishment of the next stage in their mandate - the transfer of power to local democratic institutions and the launching of the process of determining the final status of Kosovo, although status itself is not currently on the agenda². Thus, during this period the following dynamic political processes were undertaken by the international community and UNMIK:

- The beginning of the dialogue between Kosovo institutions and those of Serbia, starting on 15 October 2003 in Vienna;
- The transfer of all remaining non-reserved competencies of the SRSG to Kosovo institutions, made official in December 2003;
- The setting of the deadline on “Standards for Kosovo”, as well as procedures and methods for their evaluation³. The deadline set is mid-2005, when the achievements on fulfilling the “Standards” will be evaluated, and the next stage of dealing with and deciding on the final status of Kosovo will be discussed⁴.

2. The above plans to advance the political processes did not enjoy unreserved support from all political factions acting either in or outside of Kosovo, causing a polarization of positions amongst relevant parties on these issues. Aside from this, the disagreements on the transfer of competencies, the interruption of the privatization process, the dialogue between Pristina and Belgrade, and the existence of parallel institutions in some parts of Kosovo continued negatively impacting public opinion towards political trends.

¹ “Kosovo has made enormous progress over the last four years. It is a more peaceful place; there is less violence.” SRSG Harri Holkeri on launching “Standards for Kosovo”; UNMIK Press Release, 10 December 2003.

² Some analysts think that this issue cannot be prolonged much longer; see the paper of analyst Morton Abramowitz: “A Tale of Two Protectorates”, *Wall Street Journal*, November 13, 2003.

³ This renovation has not touched on the content of the “Standards”, formulated in spring 2002 by previous administrator Michael Steiner.

⁴ “The Council notes that, depending on progress made as assessed during the periodical review, a first opportunity for such a comprehensive review should occur around mid-2005”; *Security Council 4880th meeting Presidential statement*.

Polarization within the political processes

3. The current acceleration of political processes by international institutions in Kosovo represents the start of an exit strategy. Apart from redirecting strategic interests from the Balkans to other locations of crises, the transfer of competencies to Kosovo institutions by international parties are also guided by pragmatic reasons (budget reduction, the need to place deadlines on UNMIK's stay in Kosovo, the stabilization of Kosovo and the region through internal dialogue rather than the imposition of solutions etc.). The current tempo of the political processes has made the policies of the relevant parties and actors in Kosovo and Serbia more dynamic, accompanied by polarized assessments and pronouncements from both sides.

4. The polarization, the reservations and biased interpretations regarding the current acceleration of the political processes are mainly motivated by the fear that they will bring hasty, deficient and unfavorable results for Kosovo or for Serbia, depending on which party is interpreting them.

- i) Kosovo Albanians welcome the announcement of an exit strategy for UNMIK and wish to see a faster transfer of power and responsibilities to locals, but fear that this will lead to a compromise, by imposing the re-establishment of the links with Serbia, which would hamper the independence of Kosovo. In addition, they show some reservations towards the speeding-up of processes if, in the meantime, UNMIK does not manage to eliminate the parallel governance structures in the northern part of Kosovo and in the Serb enclaves, which would otherwise lead to the legalization of the ethnic division of Kosovo.
- ii) On the other hand, the Serbs in Kosovo and the official position of Serbia are not only opposed to the changes and accelerated processes of the transfer of power to local institutions, but also against the "Standards for Kosovo" process, since they do not see them linked to the return of Belgrade's sovereignty over Kosovo. Serbs think that the current processes lead towards the independence of Kosovo and the loss of privileges that Serbs enjoy in the north of Kosovo and in the enclaves. By prejudging to some extent the final outcome on Kosovo's status, Serb politics has reached a certain degree of unity on the necessity of the ethnic division of Kosovo, as their common "realistic" aim. The option of division is expressed in different ways: request for total division, application of the Bosnia model (Kosovo as a union of two fully equal state entities) and Kosovo as part of the confederation with Serbia and Montenegro⁵.

It is to be expected that divisions will deepen in the future and will negatively affect the fulfillment of the "Standards for Kosovo".

Opinions on the political situation and the performance of institutions

5. Despite positive evaluations from politicians and analysts, citizens are unsatisfied with political developments. The Report's public opinion survey conducted in November 2003 shows an increase in the level of dissatisfaction of respondents of all ethnicities with the current political situation, compared to the

⁵ This opinion is shared even by the most liberal and most moderate Serb politicians, such as Miroslav Labus of the G-17 Party. He also thinks that the solution for Kosovo is the creation of an entity where Kosovo as a compensation will gain a more independent status, but linked to the integrating European processes; Labus says that the solution for Kosovo is the creation of a Serb entity; daily "Zëri" (according to *Beta* agency), 1 October 2003.

opinion expressed in July 2003. Now, 45.4% of Albanian respondents, 93.2% of Serb respondents and 38.9% of others are “dissatisfied” or “very dissatisfied” compared to the respective percentages 34.7%, 83.1% and 29.4% expressed in July 2003 – see Table A.2 in the annex. It is important to note that during the one-year period (November 2002 – November 2003) political pessimism among survey respondents has shown an increase of over 10% - see Fig. 1.1, which correlates to

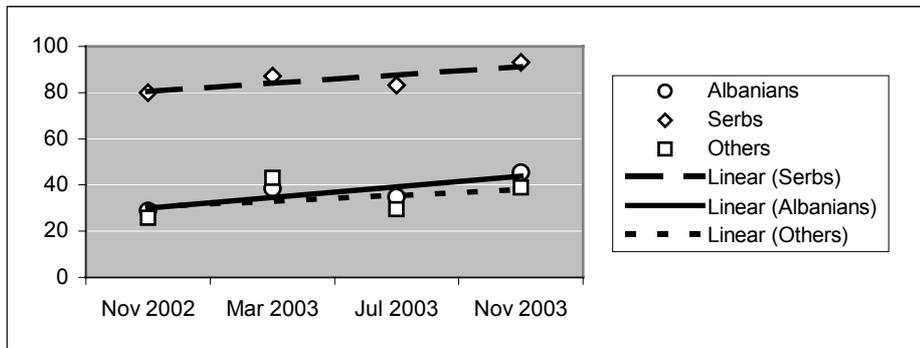


Fig. 1.1. The trend of political pessimism during the period November 2002 – November 2003: “dissatisfied” or “very dissatisfied” with the current political developments (%)

the trend in dissatisfaction with economic developments.

6. The November 2003 survey also shows a decrease in the satisfaction of respondents with key local and international institutions and personalities (UNMIK, the SRSG, the Government and Parliament). The one-year trend of respondents’ satisfaction with the work of these institutions expressed through weighted percentages for the entire population is illustrated in Fig. 1.2. Of special concern is the decrease in satisfaction with the performance of UNMIK, which in November 2003 is halved in comparison to November 2002 - see Table A.3 in the Annex. (A marked decrease in satisfaction with the performance of the SRSG was also registered, but it should be noted that between the surveys of July and November this year there was a change of SRSG; furthermore, the percentage of those who

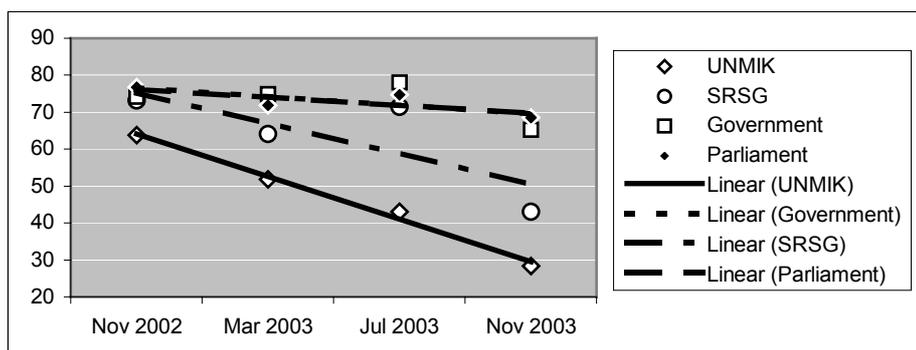


Fig. 1.2. The trend of respondents’ satisfaction with the work of some institutions and personalities during the period November 2002 – November 2003: “satisfied” or “very satisfied” with the performance of institutions (%)

did not respond on the issue of the new SRSG’s performance is quite high.)

Considerable differences exist between the opinions of Albanian and Serb respondents: Serb respondents are much more dissatisfied than Albanians, and their dissatisfaction is above 90% for all the above-mentioned institutions and

personalities. Detailed results of the survey of the opinion of respondents of all nationalities are presented in Table A.4 in the Annex, whereas those of the July 2003 survey are given in Kosovo Early Warning Report #4.

7. As in the July 2003 survey, respondents ascribe the greatest responsibility for the current political situation to UNMIK; 64.2% of Albanian respondents and 60.1% of Serb respondents hold UNMIK responsible – see Table A.5 in the Annex. When looking at these figures, it is important to bear in mind the diametrically opposed views of Albanians and Serbs in Kosovo on many vital issues, so although these percentages are almost similar, the reasons behind them are quite different. Kosovo Albanians welcomed the establishment of the UN mission in Kosovo, but EWS opinion polls reflect dissatisfaction with the results achieved to date. The negative perception of Kosovo Serbs on the performance of UNMIK most probably relate to the fact that Serbs never supported the establishment of the mission. It should be stressed that compared to the July 2003 survey, the percentage of Serb respondents who perceive the PISG as responsible for the current political situation has now increased by around 7%. Political parties, and especially civil society, are perceived to be less responsible for current political developments.

The transfer of power and share of competencies

8. Since the beginning of 2002, Kosovo has created its own democratic administrative institutions, but they still do not enjoy full competencies, as a number are held as reserved competences by UNMIK and the SRSG. The sharing of power between UNMIK and the Kosovo institutions has not always been clear and regulated by mutual agreement. This situation inevitably creates tensions between the two administrations, with Kosovans attempting to take on reserved competencies, whereas the UNMIK administration often disregards the Kosovans in areas where they enjoyed full competence. Tensions and conflicts have been exacerbated by poor communication and have created an environment of mutual accusations about irresponsibility and inefficient governance⁶.

9. The greatest polarization between the local factors and UNMIK is caused by the uncertainties relating to competencies in the field of the economy and finance. Privatization and the management of socially owned property are two of the highest profile fields for governance by Kosovans, since the local institutions consider that they are being administered inappropriately by the international administration⁷. The greatest disagreement in this respect has involved issues over the process of privatization, its interruption over several months which caused confusion and great uncertainty among investors, and a stagnation in economic development. After the interruption of the privatization process and suspension of contract signing for the purchasers of the second round, the Prime Minister of Kosovo threatened that if

⁶ A report of the International Crisis Group (ICG) published in September 2003 critically analyses the relation between UNMIK and the local administration. In this report it is said that instead of natural and productive attitudes in sharing the power, in identifying problems and solving them, the tense relations between the Steiner led administration and PISG have often attracted the attention of officials away from the endeavors of creating democratic institutions and have created unnecessary hostilities and an ill sentiment of one party against the other.

⁷ An illustration of this is the case of Malisheva/ Malisevo municipality, where one of the very successful entrepreneurs in Slovenia, originating from Malisheva/ Malisevo, has come forward with a project for the construction of an electrical supplies factory which would employ 250 workers and for which he had already secured a market in the Balkans. The municipal government had decided to give him the municipal land to use for this purpose without payment, but such a decision was blocked by the KTA.

the interruption continued and the process of privatization slowed down, the government would form its own mechanisms to carry out privatization.

The interruption of privatization has also resulted in disputes between the local institutions and the international ones with regard to the applicable law in Kosovo. The local and international institutions have challenged the validity of Serbia's laws (approved after 22 March 1989), that relate to Kosovo. In the session of the Kosovo Assembly held on 11 December 2003, the MPs approved, with a majority, a resolution that nullified those laws, whereas only hours later the SRSG declared that this resolution was invalid since the Kosovo Assembly lacked the competence to make such decisions.

The privatization process has continued in the meantime, yet problems and disagreements still remain relating to operational procedures, the signing of contracts on enterprises sold in the first two rounds of tenders, and the request of the Albanian members of the KTA Board for the resignation of the KTA director.

10. The transfer of competencies during 2003 was not accomplished according to the plan announced a year ago, when the previous SRSG, Michael Steiner, declared that the unreserved competencies would begin to be transferred at the start of 2003; their official transfer was only achieved at the end of 2003. This led to most of Albanian respondents (76.3%) in the November 2003 survey sharing the opinion that they are "dissatisfied" or "very dissatisfied" with the extent and the dynamics of the transfer of competencies – see Table A.6 in the Annex. On the other hand, more than half of the Serb respondents (53.8%) had no concrete stance or have refused to answer this question, whereas 97.8% of those who have answered responded that they are "dissatisfied" or "very dissatisfied" with the extent and the dynamics of the transfer of competencies. Having in mind the negative attitude of the Serb leaders in Kosovo towards the transfer of competencies, the reasons for the dissatisfaction of the Serb respondents with regard to this issue are opposite to those of the Albanian respondents. It is necessary to emphasize that both the Albanian and Serb respondents in the November 2003 survey (although in very small percentages) think that Kosovo leaders are utilizing their full competencies: Albanians 19.8%, Serbs 22.2% (see Table A.7 in the Annex).

11. Disputes between local institutional/ political actors and UNMIK are not only related to the unreserved competencies but also the reserved ones. During 2003, local institutions requested several times that UNMIK transfer some of the reserved competencies, consequently in late October, the Assembly of Kosovo initiated the procedure to change the Constitutional Framework, which Albanian experts

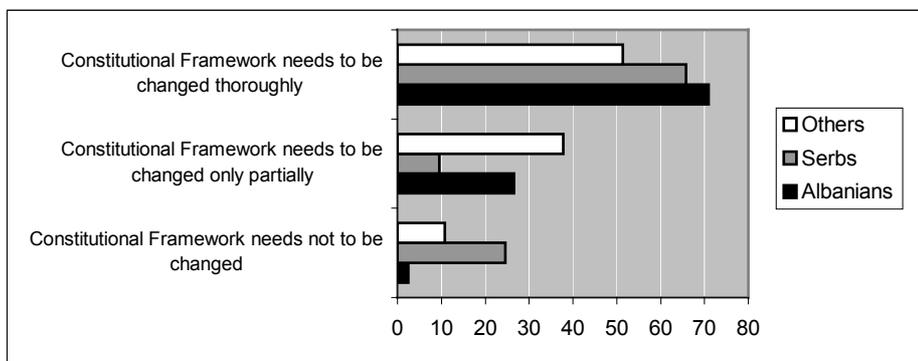


Fig. 1.3. The opinion of respondents about the changes in the constitutional Framework (%);
Source: Opinion poll, Nov. 2003

consider to be one of the main sources of problems and inefficiency of local administration. The Report's opinion survey conducted in November 2003 shows that most of the respondents (97.5% of Albanians, 75.3% of Serbs and 89.2% of others) favor partial or significant changes to the Constitutional Framework, whereas only 2.5% of Albanians, 24.6% of Serbs and 10.8% of others do not favor any changes – see Fig. 1.3 and Table A.8 in the Annex. This Report's opinion poll indicates that Kosovo Albanians perceive the Constitutional Framework as an obstacle for the independence of Kosovo, while Kosovo Serbs perceive it as an obstacle for Kosovo to become an autonomous province within Serbia.

12. Some political forces in Kosovo, among them the AAK (a partner in the governmental coalition), have toughened their stance against UNMIK, asking for a termination of the UN mission as soon as possible. They plead against a partial transfer of power, and favor the immediate transfer of all competencies to local institutions. UNMIK is viewed by these forces as a hindrance not only for the independence of Kosovo but also for the aims which have motivated the international community to intervene in Kosovo: the security and stability of Kosovo and the wider region⁸. Although the critical position of the AAK has been only verbal and inconsequential to the dual administration of Kosovo, within the upcoming period similar attitudes are to be expected, especially prior to the 2004 elections. The SRSG has expressed the opinion that the transfer should be done in compliance with the basic documents, 1244 Resolution of UNSC on Kosovo and the Constitutional Framework of Kosovo. According to the SRSG, there are certain reserved fields in chapter eight, which will not be transferred easily⁹ and that the reserved powers are not for the SRSG to decide, but the UNSC¹⁰.

Dialogue between Pristina and Belgrade

13. Dialogue between Pristina and Belgrade on practical issues presents one of the important “Standards for Kosovo” for Kosovo. Although it was foreseen that it would start earlier, the first meeting was held on 15 October 2003, after pressure from SRSG Holkeri. There were more tensions and problems in Kosovo than in Serbia regarding the start of the dialogue.

14. In Serbia reactions were faster and more coherent, since the Kosovo issue had once again become a factor of relatively strong consensus and also a unifying factor, especially after the Parliament of Serbia achieved an easy consensus and approved and supported the Declaration for Kosovo¹¹.

In Kosovo, Holkeri's initiative was supported in principle, but there were different objections and suggestions about not setting the date until some preconditions had been met. At the beginning of September Prime Minister Bajram Rexhepi warned

⁸ Bajram Kosumi: “UNMIK should end its mission”, daily “*Epoka e Re*”, 29 September 2003; Ramush Haradinaj: “UNMIK to end its mission in Kosova as soon as possible”, daily “*Koha ditore*”, 1 October 2003.

⁹ “There are competencies that can be easily transferred, not many of them have remained; however, there are some reserved areas, chapter eight, which is not so easy”. “*Koha ditore*” daily, 1 October 2003.

¹⁰ “Demands regarding reserved competencies will be discussed with the UNSC members, therefore our actions will derive from the UNSC decisions”, Isabella Karlowitz, daily “*Zëri*”, 30 August 2003.

¹¹ In the declaration the status of Kosovo is described as an autonomous unit of Serbia. The full implementation of 1244 UNSC Resolution, decentralization of the power in Kosovo in compliance with the proposals of European Council and full implementation of the Technical-Military Agreement of Kumanova (return of Serbia's Army in Kosova), Constitutional Framework of Kosovo and the Cooperation Agreement between UNMIK and FRY of 5 November 2001 are requested.

that the dialogue should have an acceptable agenda and not an imposed one¹². The main objection of Kosovo Albanians was that serious talks could not start, even about practical issues, until the Kosovo institutions have full competence and responsibility over the practical issues to be discussed. For this reason the talks were seen as hurried and premature¹³. Some politicians have proposed conditions for the start of the talks, such as the creation of several new ministries with more substantial competencies for governance of Kosovo. The harshest and the most determined was the condition suggested in the AAK proclamation of the independence of Kosovo in the Assembly as a precondition for the start of talks¹⁴. Some officials of the biggest party, the LDK, have also proposed similar conditions, although the head of this party had agreed to participation without conditions¹⁵.

Although the conditions and opposition were more of a tactical nature rather than strategic, conditions and polarization are to be expected in the upcoming periods of the dialogue, mainly for electoral purposes.

15. The Report's survey of November 2003 shows that the opinion of Kosovo citizens on the start of dialogue is divided, see Table A.9 in the Annex. About 50% of Albanian respondents think that the start was "successful" or "partly successful" and the same percentage think it was "unsuccessful" or do not have an opinion on this. The Serb minority respondents are largely of the opinion that the dialogue was unsuccessful (52.3%), whereas a large percentage (47.5%) of the other minorities have no opinion or refuse to answer.

Parallel Serb institutions

16. The parallel Serbian institutions in Kosovo are functioning without any difficulties, and they are even being strengthened¹⁶. UNMIK and the international community appear slow in dealing with these parallel Serbian institutions, in spite of the fact that these institutions have been functioning ever since the end of the conflict. The OSCE report of October 2003 shows that in Kosovo parallel structures exist in the security, judicial, educational and health sectors, as well as in the civil services. Harsh reactions to this reality included that of Mr. Jakup Krasniqi, Minister of Public Services, who declared that in "Kosovo above the Ibri/ Ibar river two governments coexist, that of Serbia and the other one of UNMIK, and the latter is legitimizing the former"¹⁷.

Further tolerance of the functioning of these two parallel structures of Serbia in Kosovo may become an obstacle for the fulfillment of "Standards" decided on by the international community. The Kosovo Serb citizens are arguably demotivated to help the process of achieving the "Standards in Kosovo".

¹² Bajram Rexhepi: "Agenda of talks should be acceptable, not imposed, daily *"Koha Ditore"*, 3 September 2003.

¹³ The comment of Veton Surroi; *"Koha ditore"* daily, 1 October 2003.

¹⁴ AAK leader Ramush Haradinaj: "Let us fulfill our obligations; let's declare independence in this assembly today, and tomorrow we will escort our delegation to the airport"; daily *"Kosova sot"*, 3 October 2003.

¹⁵ The head of the LDK parliamentary group Sabri Hamiti declares that the Government of Kosova and UNMIK must reach an agreement on the transfer of power before the dialogue starts"; *Koha ditore* daily, 3 October 2003.

¹⁶ From the SRSG Harry Holker reporting to the Permanent Council of OSCE in Vienna, 11 December 2003.

¹⁷ "How harmful are the parallel structures in Kosova"; *"Zërr"* daily, 17 December 2003.

17. In order for new political incentives undertaken by the international community and UNMIK to succeed, and in order to avoid further disputes between international and Kosovo institutions, it is recommended that:

- a) The international community put pressure on Kosovo Albanian authorities to work effectively on the implementation of “Standards”, and not just to support them rhetorically. It is equally important to pressurize the Serb authorities, both in Kosovo and Serbia, to stop parallel structures and not to obstruct any new incentives of the international community, especially in view of “Standards for Kosovo” and the transfer of competencies;
- b) UNMIK and Kosovo institutions create mechanisms for a meaningful transfer of the remaining unreserved competencies, and to refrain from making accusations of irresponsibility and inefficient governance.

ECONOMIC AND SOCIAL STABILITY

General trends

18. The main features of economic and social stability during the period September - December 2003 are:

- Ongoing unfavorable trends concerning some key macroeconomic indicators (especially GDP, employment, exports);
- Stagnation in the implementation of the privatization process;
- Continuation of the negative perceptions of respondents on the current economic situation.
- A budget surplus estimated at 12% of GDP in 2003¹⁸.

This period is also characterized by recent assessments by the IMF on GDP and other macroeconomic aggregates of Kosovo for the period 2000-2002, which to a large extent challenge the assessments made so far on the macroeconomic structure of Kosovo, and which impose the necessity to reconsider the validity of existing economic policies. In addition to the large budget surplus in 2003, some contradictions in budget projections for 2004 need to be taken into account.

Macroeconomic trends

19. Lack of statistical data, an analytical and reliable database and statistical capacities continue to be a serious problem in estimating macroeconomic trends in this quarter¹⁹. As was argued in previous Early Warning Reports, this deficiency makes it hard to draw relevant conclusions on the impact of economic policies, the progress of economic and social indicators and to address unfavorable and destabilizing trends.

In spite of the lack of reliable statistical data on current economic trends and differences in their estimation, based on the available data presented in table 2.1 current macroeconomic trends are characterized as follows:

- A considerable decline in the economic growth rate as measured by GDP,
- A large budget surplus,
- A low level of exports and a deepening of the trade deficit, with only 3.7% coverage of imports by exports,
- A further increase in the number of registered job-seekers,
- An increase in banking deposits and loans outstanding,
- An increase in the price of some products and CPI.

The estimated decline in the rate of economic growth is based on a recent assessment made by the IMF.

¹⁸ IMF: Staff Visit to Kosovo, Concluding Statement, 5-4 November, 2003.

¹⁹ Being aware of the lack of a sustainable statistical system in Kosovo, the international community (UNMIK) specified that, in terms of the "Standards for Kosovo" for Kosovo, the part relating to the economy should also comprise economic statistics as a special standard, including publications that would contain the data on GDP, inflation, trade and unemployment.

Table 2.1. Some macroeconomic indicators, 2000-2003 (in millions of Euros)

	2000	2001	2002	Jan-Apr 2003	May-Aug 2003	Sep -Dec 2003
GDP in nominal terms, million € ¹	769	1.154	1.279	1.289		
GDP growth (annual), %		50	10.8	0.8		
GDP per capita, in € ¹	405	608	674	680		
Inflation rate (annual), %		11	6.5	4-5 ²		
Bank deposits, million € ³	88.4	464.8	394.6	436.2 ⁴	457.5 ⁵	507.7 (Oct)
Commercial bank gross loans, million € ³				115.8 ⁴	162.7 ⁵	205.2 (Oct)
Interest rate (annual), %	14-22	14-22	12-18	15.96	15.15	
Trade balance, million € ¹	-968	-857	-1,000	-247.15	-177.79	-95.15
• Export, million € ¹	148	231	246	8.83 ⁶	6.54 ⁶ (May-Jun)	3.7 (Sep)
• Import, million € ¹	1116	1058	1246	255.98 ⁶	184.33 ⁶ (May- Jun)	98.85 (Sep)
Imports coverage by Exports (Exports/Imports*100)	13.3%	21.8%	19.7%	3.4%	3.5%	3.7% (Sep)
Registered job-seekers			257,505 (Dec)	268,440 (Mar)	276,781 (Jul)	280,923 (Nov)
Consumer Price Index, % (May 2002=100)			102.1 (Dec)	102.5 (April)	99.6 (June)	101.6 (Oct)

¹ – IMF assessments
² – IMF projected rates
³ – Banking and Payment Authority of Kosova
⁴ – Average for the period January– March 2003
⁵ – Average for the period April –June 2003
⁶ – Ministry of Economy and Finance

20. GDP trend. The initial trend of GDP growth recorded in the aftermath of the 1999 conflict, has in subsequent years, been reversed. However, assessments of GDP and its growth rate vary significantly, depending on which institution is making the assessments. According to the IMF, current assessments of economic growth differ from those made earlier by the MEF in August 2002²⁰. In Table 2.2, it can be observed that earlier estimations are significantly higher than the current ones: for the year 2003 they were around 70% higher. Such an estimation of the GDP growth until the end of 2003 indicates that the growth of Kosovo's economy is already in a slowing down phase and that elements of crisis are emerging, thus threatening the creation of conditions for long-term sustainable development. In previous Early Warning Reports, the need to compensate the reduction in donor assistance and remittances with the easing of access to international financial markets has been noted. More delays in this respect will further endanger Kosovo's economic sustainability, having in mind that this disproportion cannot be compensated by the current credit system alone.

The recent estimations with regard to economic growth in Kosovo, impose the need for a reassessment of the outcomes of economic policies in many sectors of Kosovo's economy such as: business development, credit and finance and fiscal policy.

²⁰ MEF, Quarterly Macroeconomic Monitor, August 2002.

	2000	2001	2002	2003
Earlier assessment*, in million of Euros	1.414	1.747	1.990	2.163
Recent assessment **, in million of Euros	746	1.154	1.279	1.289
Difference in amounts, in million of Euros	668	593	711	874
Ratio between earlier and recent assessment	1.90	1.51	1.56	1.68

* MEF, *Monthly Macroeconomic Monitor*, May 2003.
 ** IMF: *Staff Visit to Kosovo, Concluding Statement*, November 5-14, 2003.

21. Trade deficit. The ratio between exports and imports continues to be worrying, since the deficit in the trade balance continues to be very large. In the first quarter, the trade deficit was estimated to be €243 million, in the second quarter €366.37 million and in September alone €95.15 million²¹. These disproportions have long-term negative implications on economic sustainability and macroeconomic stability. In fact the disproportion in the trade balance of Kosovo is being covered by the remittances of Diaspora and international donations. However, the ongoing decline in revenues from donations²² will further worsen macroeconomic stability, if in the meantime, adequate economic policies, focused on the development of manufacturing businesses, export promotion and increasing competitiveness, are not undertaken to overcome this situation.

22. Privatization. Privatization represents a very important element for the future economic development of Kosovo, and for the fulfillment of “Standards for Kosovo”. Interruption of privatization over several months and its current stagnation are of concern both in an economic and in a political sense. Stagnation of privatization is causing a slow down of economic development; it is also causing tensions between bidders and the KTA, and confusion and great uncertainty among investors. Furthermore, the stagnation of privatization has created an inappropriate environment for privatization. It has also caused tensions and serious disputes between the Kosovo Government and the KTA international management. The tensions are centered on management of the KTA staff and especially on operational policies. It is to be expected that tensions over this issue will continue causing further deterioration in relations between local and international actors in Kosovo.

23. Unemployment. The trend in unemployment growth has continued during this period: from December 2002 to November 2003, the number of registered job-seekers increased by 9.25%, or from 257,505 to 281,330; from July – November 2003 the increase was 1.64%. Not all job seekers are registered due to the fact that there is no obligatory system for the unemployed to register, so the number of unemployed is in fact much higher than the number of those registered. Depending of the methodology used, the unemployment rate varies from 39% to 57 %²³. The structure of unemployment has remained basically the same: 45.3% of the job seekers are women, 8% are from minority groups and 26.5% are in the age group from 16 to 24²⁴. In September 2003, there were 49,733 registered families (with 190,465 members) receiving social assistance. In this respect, the most difficult

²¹ Source: MEF and the Customs Service.

²² Reduction in donor assistance is 25% of that provided annually during the period 1999-2002.

²³ See Early Warning Reports #3 and #4.

²⁴ Reports of MLSW 2003.

situation is in the Mitrovica region, where 15,384 families or 52,247 members receive social assistance²⁵.

This Report's opinion poll carried out during November 2003 indicates an unfavorable perception of respondents with regard to the current conditions for employment and their expectation in this regard. More than 80% of the respondents of all ethnicities estimate the current conditions for employment as unfavorable – see Table A.10 in the Annex. The expectations that these conditions will improve in the future are very low: over 60% of Albanians, 90% of Serbs and 40% of non-Serb minorities do not expect conditions will improve within the forthcoming six month period.

24. Banking system. The banking system continues to be functional, sustainable and increasingly reliable. Banking deposits have shown an increase of 11%, from €457.4 million at the end of June to €507.7 million in October 2003. Lending trends are also positive. Compared to June 2003, in November this year they have increased by 26.1%, from €162.7 million to €205.2 million, whereas the share of credits in total banking deposits increased from 36.0% to 40.4%. Nevertheless, lending is oriented mainly towards short-term business activities, and not to investments that could then generate structural changes and more visible growth in employment. In addition, the implementation of other alternative banking instruments of finance such as leasing, factoring and equity finance is still missing.

25. Consumer price index. Based on the data of the Statistical Office of Kosovo, from August-November 2003 the Consumer Price Index (CPI) has seen a slight increase compared to previous periods of this year - see Fig. 2.1. Taking as a base the value of the CPI in May 2002 (i.e. CPI = 100), and starting from March 2003, when the value of this index was 103.3, the CPI has continuously decreased until August 2003 when it reached 96.3. Starting from September 2003 prices have shown an upward trend, thus in November 2003 the value of the CPI reached

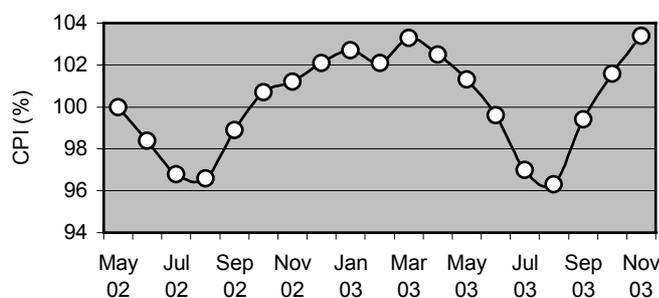


Fig. 2.1. Consumer Price Index (CPI) for the period May 2002 – October 2003; May 2002 = 100. [Source: Statistical Office of Kosovo, October 2003]

103.4, or 7.1% higher than in August 2003.

Consumption prices in November 2003 are 1.8% higher than in October, mainly due to an increase in the prices of vegetables (34.4%), milk, cheese and eggs (0.8%), tobacco (2.9%) and footwear (1.0%). On the other hand, during the same period, there has been a decrease in the price of bread and similar products (-3.5%) and some fruits (-5.0%).²⁶

²⁵ Statistical data on social welfare in Kosovo, SOK, November 2003.

²⁶ Statistical Office of Kosovo, Economic Statistics, CPI, November 2003.

Public opinion on the economic situation

26. In general, the public opinion polls carried out during the period July 2002 – November 2003 showed seasonal fluctuations in the respondents' satisfaction with the economic situation – see Table A.11 in the Annex and Fig. 2.2. In spite of this, the findings indicate that the economic pessimism of the respondents, regardless of their ethnic background, is high and growing. The linear trend of this growth during the period November 2002 to November 2003 is presented in Fig. 2.2. As can be seen from this figure, the economic pessimism of the respondents of all ethnicities in November 2003 is around 10% higher than in November 2002. Another characteristic is that Serb respondents are 15% more unsatisfied with the economic situation than Albanian respondents, while non-Serb minority respondents are around 10% more satisfied than Albanian respondents. The respondents' level of dissatisfaction (“unsatisfied” or “very unsatisfied”) in November 2003 has reached 71.8% amongst Albanians, 84.9% amongst Serbs and 59.5% for non-Serb minority respondents.

As in previous reports, the findings of the opinion poll carried out in November 2003 indicate a widely held perception that responsibility for the current economic situation falls mostly on UNMIK, and less on other institutions. About 70% of Albanian respondents and 56.5% of Serb respondents think that UNMIK is responsible for the current economic situation, while 22.4% of Albanians and 32.9% of Serbs see this responsibility as falling into the competencies of the Government of Kosovo – see Table A.12 in the Annex. The perceptions of the Serb respondents on the responsibility of the Government of Kosovo for the current economic situation has increased compared with the previous period. These perceptions correspond with the sharing of competencies and responsibilities between UNMIK and the Government of Kosovo, and are correlated with the decline in satisfaction of the respondents concerning the work of UNMIK's

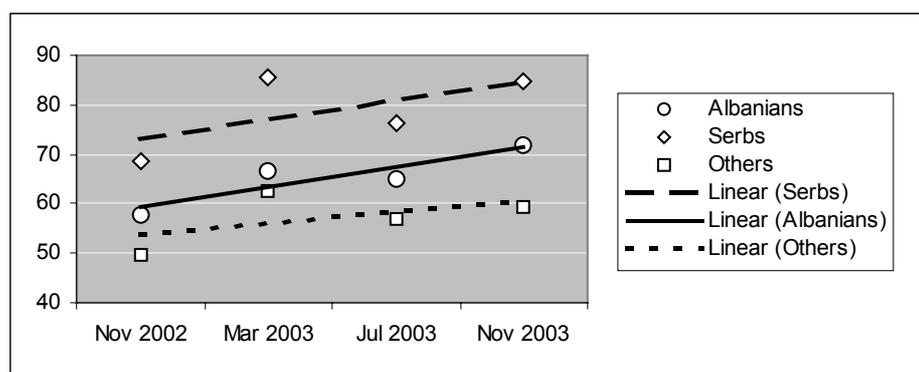


Fig. 2.2. Trend on economic pessimism during November 2002 - November 2003: “unsatisfied” or “very unsatisfied” on current economic trends

institutions.

Challenges for the Export Sector

27. The available data shows that during this year the economy of Kosovo is producing a very low level of exports - see Table 2.1. In September 2003 exports amounted to €3.7 million, while for the period January – September 2003 the value of exports reached only €24.69 million. The level of exports remains symbolic compared to the very high level of imports, (covered by just 3.5% of exports).

Much of the exports have gone to neighboring countries (Albania, Macedonia, Serbia and Montenegro – about 45%) and to the EU and Switzerland (about 37%)²⁷.

The export sector in Kosovo faces many challenges. Kosovo's socially-owned enterprises, which were the main exporters, faced huge problems during the 1990s, and in particular during the 1999 conflict, as a result of which their economic performance deteriorated sharply and their markets were lost. The delay in the privatization of SOEs has limited the chances for export revival in the post-conflict period.

However, there are many other circumstances that make exporting difficult for businesses in Kosovo. Unfavorable economic policies for manufacturing businesses and fiscal and credit policies are seen as the main problems by Kosovo experts²⁸.

According to the perceptions of the business community, lack of access to credit, customs duties with other countries, delays at border crossings, lack of personal documents and visas, and asymmetric trade relations with neighboring countries are the five major obstacles hampering exports²⁹. Until the recent free trade agreement with Albania entered into force, Kosovo had been excluded from the signing of agreements on free trade within the Stability Pact for Southeastern Europe. Poor electricity supplies, the high costs of running public utilities (power, water, telecommunications, etc.), difficulties in accessing information and foreign markets and complying with international standards on products³⁰ are also factors which, according to the surveyed businesses, make the level of competitiveness of Kosovo's businesses in foreign markets low³¹. The Kosovo institutions, together with UNMIK, should create, as soon as possible, an integrated policy to promote Kosovo's exports in order to increase the competitiveness of Kosovo businesses in foreign markets. Policies that support competitiveness of Kosovo businesses, as well institutional support for exporters are needed.

Contradictions in budget projections

28. Kosovo has made rapid progress in diminishing budget dependence from donors and passing into a self-financing budget. Excluding the program of capital investment which is still being supported by donors, it is expected that in the forthcoming year Government Expenditure will be entirely financed from domestic sources. This budget is expected to be about 20% higher than the budget projected for 2003³². On the other hand, the International Monetary Fund³³ predicts that GDP during this year will increase by 5% and, in 2004 by about 4%. The large difference between the domestic prediction on budget growth and the real economic growth rate predicted by the specialized international institutions imposes the necessity for careful analysis of the ratios between GDP and budget growth.

²⁷ The share of different goods exported was as follows: food 19%, mineral products 3%, chemical and wooden products 23.5%, textile 3.5%, construction material 2%, metals 32.5%, machinery parts 10.5% and, others 6%. *Source: MEF and the Customs Service.*

²⁸ Survey of export businesses, Riinvest, July 2003.

²⁹ *Ibid.*

³⁰ By not being a state, Kosovo does not have her own bar code, so Kosovo producers cannot fulfill this international standard. In the future, the measures to provide bar codes for Kosovo producers should be undertaken because of their importance in a more efficient penetration in foreign markets.

³¹ A more detailed analysis on exports can be found in the research report of Riinvest: "Trade Policies and Export Promotion of Kosovo".

³² Referring to the statements of public officials of the Government and the Parliament of Kosovo, the budget for 2004 has been prepared by domestic institutions.

³³ International Monetary Found: Staff Visit to Kosovo, Concluding Statement, June 4-16, 2003.

29. The basic problem in planning the real budget and in establishing a real relation between the budget and economic development is the lack of reliable basic macroeconomic indicators for Kosovo. Over the last four years, UNMIK and the domestic governing institutions have not yet managed to establish one domestic institution that would be in charge of collecting and comprehensively processing the data on macroeconomic indicators (national accounts), which are of key importance for making macroeconomic projections. Although the MFE, WB and IMF are working together to compile the best set of reliable macro indicators, differences in estimations of GDP remain. According to recent domestic projections the share of budget to GDP for 2004 will be 46.3%, and the share of taxes about 40%. Such a share of taxes is very high vis-à-vis transition countries and OECD countries, and nearly identical to European Union countries³⁴ in which the level of GDP per capita is 20 times higher than that in Kosovo. Based on the estimations of the World Bank (Priorities of Public Expenditures in Medium-term, October 2002), tax revenues should be about 23% of GDP by 2005.

The Government aims to broaden the taxation base through the application of excise taxes on several domestic products and by strengthening the tax administration to collect taxes more efficiently. However, further broadening of the taxation base should be accompanied by harmonization of the current tax rates and customs tariffs, which in the opinion of Kosovo businesses have become a very serious obstacle to their development. About 65% of the surveyed enterprises consider current customs duties and excise taxes to be very high, and a serious obstacle to their businesses. The Government is seriously considering some changes in tax policy, particularly reducing the customs tariffs for capital inputs and raw materials, in order to allow for more capital investments to be brought in Kosovo and thus to encourage domestic production.

30. The share of the taxes, fees and customs in GDP of about 40-50% in a post conflict economy with a very low level of development and declining economic growth rates, indicates a significant contradiction between the current economic policies and the economic reality of Kosovo. This is seen to be a heavy burden for the economy of Kosovo, given that Kosovo has not yet started to cover capital expenditure and write off foreign debts and, given that the budget surplus is very high. Such a budget policy could have negative effects on economic development, investment, consumption and employment. This in turn may lead to a distortion of budget resources and budget sustainability in the longer term. The heavy charge on the citizens with taxes along with the low level of salaries in the public sector can also negatively affect family and individual budgets, that will in turn have implications on lowering the purchasing power of the population, thus causing economic recession.

31. Budget sustainability is closely linked to the revenues collected within Kosovo and those collected at the border. The data shows that 80% of Kosovo's budget is generated from customs duties, VAT and excise taxes that are collected at the border. Consumption in Kosovo is still largely dependent on imports, because encouraging policies for the development of manufacturing activities and services are not yet in place. In this respect, the current fiscal policy is only sanctioning such a situation. This situation fits with short-term fiscal interests, because it is easier to collect revenue at 3-4 border points rather than collecting it from hundreds and thousands of entities dispersed within Kosovo. It is likely that this is one of the

³⁴ The share of budget to GDP in OECD countries is 42.9% and of taxes 36.6%; in the European Union the share of budget to GDP is 45.2% and of taxes 39.4%; the share of these categories in the countries of late transition 25.5% and 22.2% respectively. Source: *Tax Reform in Transition: Pradeep Mitra and Nicholas Stern, WB Policy Research Working Paper 2947, January 2003.*

reasons why the necessary policies to encourage domestic production and attract foreign direct investment have been very modest.

32. Whilst the exact numbers are still being debated, the existence of a significant budget surplus coming into 2004, suggests a worrying disconnection between budget policy and the economic realities of Kosovo. With high poverty rates, dramatic unemployment and low per capita GDP Kosovo can ill-afford to have resources de-linked from the economic function for which they were allocated. According to the IMF, budget year 2003 is expected to close with an accumulated cash balance of almost €330 million³⁵ made up of a mix of unspent commitments, non-allocated budget resources and non-pledged allocations. This balance has been accumulating for some time and equates to around 25% of GDP (with the real surplus component of this closer to 12%, although the numbers as noted above, are not apparently final). Valid questions are now arising as to whether this situation indicates taxpayers are paying more taxes than the budget planners and resource-managers are able to spend, or that budget entities such as the UNMIK, the Government and municipalities have overestimated their budget needs. The budget surplus question warrants a wider debate about how best to ensure Kosovo's taxpayers' meager resources are being used to best effect.

33. Based on an analysis of current economic trends, this Report recommends:
- a) To speed up the establishment of a sustainable statistical system in Kosovo and mobilize human and other resources for such a system;
 - b) To reconsider the validity of current economic policies in the light of new macroeconomic estimations;
 - c) The priorities for budget consumption should be based on a long-term development strategy and medium-term programs for public expenditure;
 - d) To provide an evaluation of budget consumption revenues and consumption from time to time and to adjust the budget, by taking into account economic trends in Kosovo.

³⁵ IMF: Staff Visit to Kosovo, Concluding Statement, 5-4 November, 2003.

INTER-ETHNIC RELATIONS

General situation and the public opinion survey

34. Relations between Albanians and Serbs have not shown any significant change compared to the last reported period (May-August 2003), in which the situation was aggravated, due in particular, to the as yet unsolved killings in Gorazhdec/ Gorazdevac and Obiliq/ Obilic. To a certain extent, the victory of the Radical party in Serbia and the voting of Kosovo Serbs in the recent Serbian elections will impact on future relations between Kosovo Albanians and Kosovo Serbs.

The results of the survey conducted in November 2003 show almost the same trend of Albanian and Serb perceptions with respect to inter-ethnic relations as in the past. The majority of Serb respondents (around 76%) think that interethnic relations between Albanians and Serbs are tense and will continue to remain so, while only half of this figure (around 35%) of Albanian respondents share the same opinion - see Table A.13 in the Annex.

35. The regression analysis³⁶ of the November 2003 survey findings shows that the respondents' perception of the factors influencing the relations between Albanians and Serbs depends upon the respondent's ethnic background. While Kosovo Albanian respondents who live in villages have a less favorable perception regarding these relations, the Kosovo Serb respondents who live in villages and who are dissatisfied with the political situation and the Government's performance have a less favorable opinion on these relations. Other factors (satisfaction with UNMIK's performance, gender, age, education, level of personal incomes) have not had any influence - see Table A.14 in the Annex.

36. Although no serious incidents have taken place during the period September – December 2003, some incidents of low inter-ethnic conflict continue and are preventing inter-ethnic relations from seeing more positive trends, necessary for creating preconditions for democratic standards in Kosovo. The most recent incidents include attacks against Serb churches, as those in Bërnica e Epërme/ Gornja Brnica on 26 November 2003, and in Ferizaj/ Urosevac on 12 December 2003, as well as attacks against groups of Serbs in Klina and Suhareka/ Suva Reka municipalities, while they were attempting to return to their homes.

Factors hampering co-existence and integration

37. Factors that hamper the return of refugees, co-existence and the integration of Serbs into Kosovo society are a consequence of the long history of antagonism between the Kosovo Albanians and the Belgrade regime. After the conflict, under the new circumstances that emerged with the intervention of the international community and the establishment of the international administration in Kosovo, some of these factors deepened. As a result, opinions of Albanians and Serbs are totally opposed on many aspects that influence co-existence and the integration of

³⁶ Regression analysis is the estimation of the linear relationship between a dependent variable and one or more independent variables (predictors).

Serbs into Kosovo society. Below are given some of these opinions, which either have not changed at all, or have only changed slightly during the entire period of this report's surveys of public opinions:

- i) This report's opinion surveys show that a considerable part of the Albanian population does not yet agree with the return of refugees and displaced people in Kosovo in general, and into their surroundings in particular. According to this report's opinion poll conducted in November 2003, 41.5% of Albanian respondents do not agree at all with the return of refugees and displaced people in Kosovo – see Table A.15 in the Annex. On the other hand, similar to past surveys³⁷, around 33% of Albanian respondents do not agree at all with the return of refugees to their surroundings – see Table A.16 in the Annex. It should be noted that this lack of readiness is not the same in all regions and is more prominent in the Peja/ Pec region, in which 65.5% of Albanian respondents do not agree with the return at all (Table 3.1).

	Pristina	Mitrovica	Prizren	Peja/ Pec	Ferizaj	Gjakova/ Djakovica	Gjilan/ Gnjilane
I agree with the return of refugees in Kosovo	53.1	81.9	69.1	34.5	61.8	64.0	52.7
I do not agree with the return of refugees in Kosovo	46.9	18.1	30.9	65.5	38.2	36.0	47.3
Total	100	100	100	100	100	100	100

- ii) Albanians and Serbs continue to have totally opposed opinions regarding the future political status of Kosovo. The majority of the Albanian respondents are still in favor of Kosovo's independence within the existing administrative borders (86.1% in November 2003), while the rest are in favor of a union with Albania, an opinion that has shown an upward trend – see Table A.17 in the Annex. Serb respondents are mainly in favor of the status of an autonomous province within Serbia (81.9% in November 2003), but a part also favors Kosovo's division. Opinions of Serb respondents on these two options have shown fluctuations over time. The option of a federal state with Serbia and Montenegro is attracting less and less Serb respondents.
- iii) This Report's survey in November 2003 indicates a change in the factors that are influencing tense interethnic relations. Nearly 60% of Serb respondents think that the stance of Albanian leaders represent a factor that influences these tense relations, compared to 37% of those who shared the same opinion in July 2003. The percentage of those who view as the main factor influencing relations "insufficient efforts" on the part of Albanians to integrate Serbs has declined to 38% in November 2003 compared to 67% in July 2003 (see Table A.18 in the Annex). On the other hand, more Albanian respondents tend to identify Belgrade as an influencing factor (nearly 49% in November 2003, compared to 42% in July 2003), while the Serbs' reluctance to integrate into Kosovo society is considered by less people to be an influencing factor – nearly 34% in November 2003, compared to 41% in July 2003.

³⁷ See Kosovo EWR #4.

38. The existence of parallel structures in the Serb enclaves³⁸ and their financial support by the Serbian Government continue to represent a key obstacle to Serb integration into Kosovo society and the PISG structures, as well as for exercising UNMIK and PISG authority over the entire territory of Kosovo. Perceptions of tolerance and the passive attitude on the part of UNMIK regarding the activities of Serb extremists within these enclaves are hampering the improvement of relations between Kosovo Serbs and Kosovo Albanians. Such a case was the attack by Serb extremists against the Prime Minister of Kosovo, Dr. Bajram Rexhepi, and members of a WB delegation in Northern Mitrovica on December 6, 2003. The Serb political leaders, both in Kosovo and Belgrade, did not condemn the attack³⁹.

39. The non-readiness of the Serb leadership to apologize for the events that occurred both before and during the conflict in Kosovo represents an additional element which, to a certain extent, is hampering the building up of more relaxed inter-ethnic relations. In this context, the lack of readiness from official Belgrade to respond positively to SRSG Harri Holkeri's call for an apology to Kosovo⁴⁰, (similar to the one addressed to Bosnia and Hercegovina), shows the lack of political will in Belgrade to take this important step toward reconciliation and to create conditions for more relaxed inter-ethnic relations.

Factors that may further deteriorate inter-ethnic relations and integration

40. Among the factors that may deteriorate inter-ethnic relations and the integration of Serbs into Kosovo society, whilst also putting at risk the success of the international mission in Kosovo itself, is the lack of support by official Belgrade and the Kosovo Serb leaders for the so-called "Standards for Kosovo" process, approved by UNMIK⁴¹ and supported by the Security Council of UN, as well as the EU. The Serb Leadership in Kosovo has not only left these "Standards" unsupported, but is also resisting their implementation. A case in point is the refusal of the Kosovo Serb Minister in the Kosovo Government to take part in working groups to elaborate the concrete measures necessary for the fulfillment of the "Standards". The return of refugees and displaced people represents one of the key "Standards for Kosovo" and that success in this regard is vital for Kosovo Serbs as well as for Kosovo in general. The continuous lack of support by official Belgrade and the Kosovo Serb leaders for, and resistance to, the "Standards" would undoubtedly result in the further deterioration of the relationship between Kosovo Albanians and Kosovo Serbs and to the integration of Serbs into Kosovo society.

41. Unilateral acts of predetermining the status of Kosovo⁴² has continued during the September-December 2003 period. They endanger stability and may cause further deterioration of interethnic relations in Kosovo. On 17 December 2003, the Union of Serb Municipalities of Kosovo in Northern Mitrovica, approved the "Saint Nicola Declaration" on the Serb Republic of Kosovo, which proclaimed the separation of Kosovo into two entities following the model of Bosnia and Herzegovina. The Government of Kosovo, as well as the Kosovo Albanian leaders, has reacted harshly against this. The Head of the ICG for the Serbia and Montenegro Union, Mr. James Lion, told the Serbian Agency Srna that "the idea of the separation of Kosovo into entities is rather dangerous, and may cause serious consequences for the Serb population living here, due to the fact that most of the

³⁸ OSCE Mission in Kosovo Report "Parallel structures in Kosovo", October 2003.

³⁹ The daily "Koha Ditore", 7 December 2003.

⁴⁰ www.b92.net "Kosovo governor says apology would help reconciliation", 1 December 2003.

⁴¹ www.unmikonline.org

⁴² For more details see Kosovo EWR #4 – section on inter-ethnic relations.

Serbs do not live in the North, but within the enclaves”, adding further that he is afraid of the reaction by Kosovo Albanians⁴³.

Unilateral acts of predetermining the status of Kosovo were also initiated by Kosovo Albanians. The People’s Movement of Kosovo (Lëvizja Popullore e Kosovës) gathered more than 40,000 signatures supporting the union of Kosovo with Albania. The signatures were submitted to the Kosovo Assembly.

42. Based on the current state of inter-ethnic relations, this Report recommends:

- a) The Working Group for the Return and other PISG’s structures at central and municipal level, both Kosovo Albanian and Serb, should be more active in the media and have more contact with the population. This would help emphasize the importance of the process of the return of refugees and displaced people especially in terms of achieving the “Standards” thereby benefiting everyone in Kosovo. Local leaders should take a leading role in this respect to ensure the sustainability of this process
- b) The international community, particularly the USA and the EU, should put more pressure on the leadership in Serbia to cut off support for the parallel structures in Kosovo. At the same time, they should encourage this leadership to stop obstructing the achievement of the “Standards for Kosovo”.

⁴³ “Koha ditore“ daily, 20 December 2003.

Public and Personal Security

Security situation

43. Based on the official statistics during the September – December 2003 period, the situation with regard to public and personal security is characterized by a continuous decrease in the number of major offences during 2003, as compared to previous years. As can be seen from Table 4.1, during the period 1 January to 30 September 2003, there was a reduction in almost all types of major offences, apart from arson attacks, which have marked and increase⁴⁴.

According to the same source, this trend has continued during recent months – see Table 4.2, which shows that in November only the number of robberies has increased, while the number of arson attacks has marked a decrease.

It should be mentioned that there is a lack of more detailed official statistics regarding offences disaggregated by ethnicities, regions and gender. This fact makes difficult the comprehensive analysis of all aspects of crimes in Kosovo.

44. In spite of improvement with regard to certain major offences, the public and personal security situation during the last four months of 2003 was jeopardized by: i) various explosions in a number of Kosovo localities and ii) attacks on security and other Kosovo institutions, or on their members:

i) During this four-month period a number of explosions occurred, some of which involved explosive devices placed within collective residential blocks, in the yards of individuals or in vehicles. The greatest number of explosions occurred in Pristina. These explosions created panic, fear and insecurity amongst citizens, especially since their perpetrators remain largely unidentified. The lack of success in identifying the perpetrators of these serious crimes, in some cases even labeled as acts of terrorism, only encourages certain individuals to undertake further actions of a similar nature.

Table 4.1. Crime statistics recorded during the period 1 January 2003 to 30 September 2003, and the statistics for the same period during 2001 and 2002

	2001	2002	2003
Murder	94	52	47
Kidnap	127	551	57
Rape	104	65	67
Assault	3,174	3,955	3,705
Arson	189	352	433
Robbery	408	364	255
Total	893	641	878

Source: UNMIK Police, Press Office.

Table 4.2. Crime statistics of major offences recorded during the period August – November 2003

	Aug 03	Sept 03	Oct 03	Nov 03
Murder	8	5	7	7
Attempted murder	13	14	12	7
Kidnapping	4	2	11	2
Rape and attempted rape	12	11	5	2
Grievous assault	56	47	40	3
Arson	69	36	36	21
Robbery	18	21	20	31

Source: UNMIK Police, Press Office.

⁴⁴ Based on statistics of the number of murders in 100,000 inhabitants, Kosovo is comparable with very safe countries. The number of murders in 100,000 inhabitants in Kosovo is 3.3 and higher than in Japan (1.1), UK (1.63) and Germany (3.23), but lower than in France (4.07), Canada (4.1), USA (5.61), Russia (22.43).

ii) Especially worrying are the attacks against security bodies and other Kosovo institutions, or those against their members, which have taken place lately:

- The incident in the Mushitisht/ Musitiste village of Suhareka/ Suva Reka, when on 15 November 2003 a convoy of KFOR, UNHCR and police was attacked, is of special concern. The incident occurred when some Albanians from this village attempted to prevent the visit of Kosovo Serbs to their previous homes in the village, which they had abandoned after the 1999 conflict.
- The bomb attack on December 8, 2003 in Pristina⁴⁵, targeting an official car of the Ministry of Transport and Telecommunications.
- In December 2003, a bomb was placed under an official vehicle of the international police.
- The murder of the police officer of the investigating unit of the KPS, Sebahate Tolaj, on November 24, 2003 in Raushiq/ Rausic village of Peja/ Pec and the wounding of two of her colleagues⁴⁶, one of whom died later in hospital.
- The incident in the north of Mitrovica, when the Serb extremists known as “Bridge-Watchers” attacked the Prime Minister, Mr. Bajram Rexhepi, and a number of Executive Directors from the Board of the World Bank. On this occasion, the Serb extremists verbally insulted the Prime Minister, chanted “this is Serbia here” and attempted to violently enter the premises where the Prime Minister and the directors were meeting⁴⁷.

The use of explosives and such attacks on institutions or their representatives are usually politically motivated or interrelated to organized crime. Combating such offences is of special importance to the society at large. If such attacks remain unresolved, it is probable that attacks against officers of the police, judicial staff and members of other bodies in Kosovo will continue.

Opinions on safety from crime and violence

45. The decrease in the number of serious crimes has made public opinion more favorable in this respect. However, even though Albanian respondents and respondents of non-Serb minorities do not view public and personal security as one of the biggest problems facing Kosovo (see Table A.1 in the Annex), Serb respondents continue to rank this issue as first (40.2%) among current problems. This speaks of the high feeling of insecurity within this in Kosovo.

46. Over the last four months public opinion has also become more favorable regarding personal security. According to our survey conducted in November 2003, around 54% of Albanian respondents and 61% of non-Serb minorities’ respondents feel “safe” or “very safe” on the street. Furthermore, 66.5% of Albanian respondents and 70.3% of non-Serb minorities’ respondents feel “safe” or “very safe” at home (see Tables A.19 and A.20 in the Annex). On the other hand, Serb minority respondents feel less safe both on the streets and at home: only 12.4% feel “safe” or “very safe” on the street, whereas 23.2% feel so at home.

⁴⁵ Daily “Koha ditore”, 10 December 2003.

⁴⁶ Briefing Notes from Deputy Police Commissioner Robbie Pedlow concerning attack on KPS-Officers, November 24, 2003.

⁴⁷ Daily “Bota sot”, 7 December 2003.

Fig. 4.1 below shows the trend from November 2002 – November 2004 concerning feelings of safety (‘safe’ or ‘very safe’). As can be seen from this figure, this trend amongst Albanian respondents and the respondents of non-Serb minorities is almost unchanged, whereas the feeling of the Serb respondents is characterized by a continual decline over the year. This trend has to be put in the context of a 4-year period of living in enclaves. The very low feeling of security in November 2003 is also most probably a result of the still-unsolved murders of members of the Serb community.

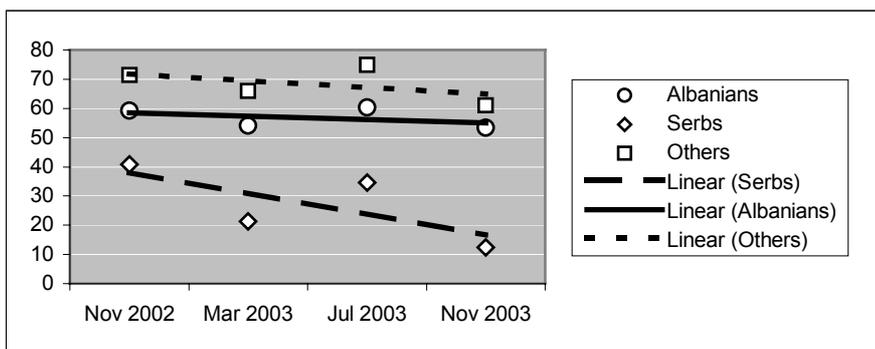


Fig. 4.1. The trend of respondents' percentages who feel "safe" or "very safe" on the street.

Opinion poll on the performance of judicial and security institutions

47. As with previous surveys, opinions on the performance of judicial and security institutions in the November 2003 survey reveals differences both in view of the institution concerned and the ethnicity of the respondents. The results of the opinions and their trends are presented in Table A.21 in the Annex. Regarding the performance of KFOR, 81.4% of Albanians are "satisfied" or "very satisfied". However, only 16.4% of Serb respondents are "satisfied" or "very satisfied". It ought to be stressed that the satisfaction of both Albanian and Serb respondents with the performance of KFOR has marked a slight drop compared to previous EWS opinion polls

The opinion of Albanian respondents regarding the performance of the KPS remains very positive, with 89.7% "satisfied" or "very satisfied". However, just 14.3% of Kosovo Serb respondents feel the same about the performance of the KPS.

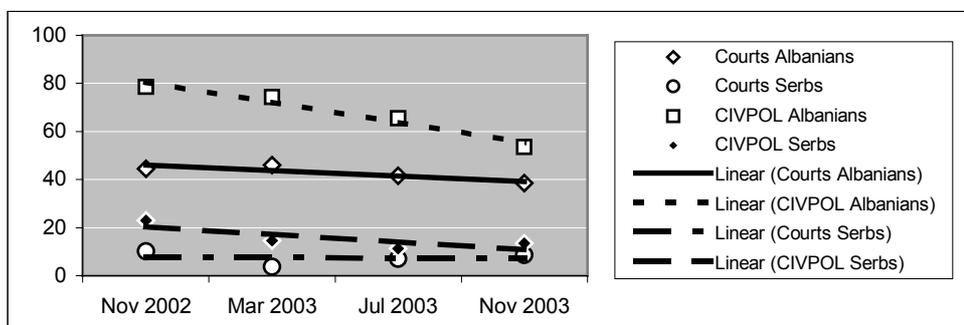


Fig. 4.2. The trend of percentages of respondents "satisfied" or "very satisfied" with the work of courts and CIVPOL.

48. The opinion of Albanian respondents on the performance of judicial institutions is less favorable. The same is true for CIVPOL (UNMIK police).

During the one-year period of EWS opinion polls (November 2002 – November 2003), only about 40% of Albanian respondents and less than 10% of Serb respondents were “satisfied” or “very satisfied” with the performance of the courts – see Table A.21 in Annex and Fig. 4.2. This table and Fig. 4.2 also show that satisfaction with the performance of the international police has also dropped noticeably, which in November 2003 reached 53.5% amongst Albanian respondents, 13.4% amongst Serb respondents and 68.1% amongst non-Serb minorities’ respondents. This data is of concern, since trust in the performance of the police represents one of the key indicators of public and personal security. Such a degree of dissatisfaction may also be seen in relation to the respondents’ opinions on the level of corruption in judicial institutions overall. According to this Report’s survey conducted in November 2003, only 11.4% of Albanian respondents, 22.2% non-Serb respondents, and 6.2% of Serb respondents think that corruption in judicial institutions is not present at all, whereas the remaining percentages think that corruption is present to a greater or lesser degree – see Table A.22 in the Annex. The opinion about CIVPOL is somewhat more favorable, yet not as favorable as for the KPS. Such an opinion about CIVPOL is in disproportion to the considerable improvement achieved in the security situation in Kosovo, where CIVPOL has played an important role. Reasons for this are perhaps a reflection of the general decrease in satisfaction with the performance of UNMIK.

Corruption and drug trafficking

49. The level of corruption and trafficking in drugs and human beings represents an important indicator of the level of public and personal security. EWS public opinion surveys show that respondents of all ethnicities think that these phenomena are present in Kosovo – more so than what is reflected in official reports and statistics. Furthermore, the EWS survey conducted in November 2003 shows that respondents of all ethnicities rank organized crime and corruption amongst the six biggest problems which Kosovo faces today – see Table A.1 in the Annex.

50. **Corruption.** EWS opinion polls indicate perceptions of a relatively high level of corruption in Kosovo. In the November 2003 survey, 12.6% of Albanian respondents, 10.7% of non-Serb and 17.3% of Serb respondents declared that within the previous one-year period, they found that the offering of public services was conditional upon the payment of money, gifts or services to public officials. According to the same survey, Albanian respondents are of the opinion that corruption is present on a large scale in the customs service (34.8%), healthcare services (29.2%) and international organizations (26.1%), whereas Serb respondents have a similar opinion about the UNMIK police (23.4%), the local police (22.8%), NGOs (22.8%) and international organizations (21.6%) – see Table A.23 in the Annex. The results of the survey indicate perceptions of a higher presence of corruption than the number of criminal cases that are currently being tried in the courts, suggesting that the detection and fight against corruption may not be being undertaken at a level equal to the level of occurrence of this phenomenon⁴⁸.

As seen from the above-mentioned data both Albanian and Serb respondents think that corruption is present at a high level in international organizations, which reflects the decrease in satisfaction of the respondents with the performance of UNMIK itself. To a certain degree, the perception of corruption is confirmed by

⁴⁸ Only recently, at the beginning of January 2004, the issue of corruption has been raised in the media, by political leaders and in the Kosovo Assembly.

the order to investigate corruption cases within UNMIK and Kosovo institutions⁴⁹ made by SRSG Holkeri on November 4, 2003.

51. Drugs. Although sufficient data is lacking, some of the available data indicates that drug trafficking, as a form of organized crime, is a heavy burden on the security services in Kosovo. According to this data, the regions notable in this respect are Prizren and Peja/ Pec. During the period January - September 2003, the anti-drugs and anti-prostitution units in the Prizren region discovered and arrested 270 people involved in drug usage and 29 people dealing with human trafficking. According to police reports, in the Peja/ Pec region, 41 cases of trafficking in narcotics were detected during 2003, while 52 suspects were arrested. Drugs are not only found on the black market, but also in public places, in cafés and on the streets. It is worth stressing that the respondents of this Report's survey see drug trafficking as being closely related to organized crime. Out of four optional domains listed in the EWS survey of November 2003, Albanian respondents think that in about 18% of cases organized crime is involved in drug smuggling, while 24% of Serb respondents and 16% of non-Serb respondents share the same opinion – see Table A.24 in the Annex. The huge amounts of drugs recently seized: 18 kg of heroin in July 2003 in Gjilan/ Gnjilane and 36 kg heroin in October 2003 in the Albania-Kosovo cross-border region⁵⁰ may well have influenced this opinion..

52. Although the level of public and personal security is showing signs of significant improvement, in order to further improve certain levels of security it is recommended that:

- The efficiency of detecting and bringing perpetrators of serious crimes to trial be improved, especially crimes against police officers and those suspected of having a political background, through improved training and increased involvement of the Kosovo police in this process;
- The detection and efficient fighting of organized crime and trafficking be intensified, as an important part of the enforcement of the law. Bearing in mind that majority of the Kosovo population is very satisfied with the performance of the KPS, and that local police can be very efficient in detecting organized crime, more involvement of the KPS in investigations regarding organized crime is of key importance for its fighting.

⁴⁹ Daily "Zëri", 5 November 2003.

⁵⁰ UNMIK Police, Press Release, 15 October 2003.

ANNEX 1. Selected results of the opinion poll

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

The survey was based on face-to-face interviews, and included 1,296 respondents: 983 Albanians, 195 Serbs, and 118 respondents from other minorities (Bosnians, Turks, Goranis, and Romas – Ashkalis and Egyptians). In order to increase the reliability of opinions of the minority groups, the number of respondents belonging to minorities was chosen to be higher than their percentage participation in the entire population of Kosovo.

The sample was stratified on the basis of geographic regions (7 regions – about 30% living in the Pristina region; percentage distribution in the other Kosovo regions is made according to appropriate percentages before the conflict), and urban to rural population ratio (1:1). The target population was over 18 years of age.

	Albanians	Serbs	Others
Infrastructure (roads)	0.6		
Power supply	7.3 (4)		6.9 (4)
Urban problems (wild building)	0.5	0.5	
Environment	0.1		
Poverty	16.8 (3)	3.6	22.4 (2)
Prices	1.4		2.6 (5)
Healthcare services	0.3		0.9
Public and personal security	0.4	40.2 (1)	2.6
Education	0.5		
Interethnic relations	0.1	22.2 (2)	1.7
Unemployment	29.2 (2)	5.2 (5)	46.6 (1)
Uncertainty about the final status of Kosovo	34.9 (1)	7.7 (4)	9.5 (3)
Social problems	1.1	2.1	1.7
The fate of the missing	4.4 (5)	8.8 (3)	1.7
Organized crime and corruption	2.0	3.6	2.6
Unsocial phenomena (prostitution, drugs)	0.2	1.5	0.9
Something else	0.1	4.6	
Total	100	100	100

* - Ranking of five biggest problems for each ethnic group is given in parenthesis

Table A.2. The percentage of respondents “unsatisfied” or “very unsatisfied” with the current political situation in Kosovo (valid %)

	November 2002	March 2003	July 2003	November 2003
Albanians	28.9	38.5	34.7	45.4
Serbs	79.9	87	83.1	93.2
Others	25.8	43	29.4	38.9
Total (weighted %)	31.8	41.7	37.3	47.9

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

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

	UNMIK	SRSG	Government	Parliament	Local governments
November 2002	63.8	73.1	74.1	76.7	52.0
March 2003	51.9	64.1	74.9	71.9	53.0
July 2003	43.1	71.4	78.1	74.7	51.2
November 2003	28.4	43.1	68.5	65.3	48.3

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

Table A.4. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (%) – November 2003

	Albanians	Serbs	Others
UNMIK	29.2	6.5	39.1
SRSG	44.6	7.2	56.3
Parliament	68.9	1.1	77.2
Government	72.7	0	75.7
Local governments	49.5	19.6	59.3

Table A.5. Opinions on entities responsible for the current political situation in Kosovo (%)

	July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs
UNMIK	65.4	64.8	64.2	60.1
PISG	18.0	17.3	18.2	24.9
Political parties	14.4	16.0	15.5	13.3
Civil society	2.3	1.9	2.1	1.7
Total	100	100	100	100

Table A.6. Opinions regarding the current extent and dynamics of transfer of competencies from UNMIK to Kosovo institutions (%)

	Albanians	Serbs	Others
Very dissatisfied	21.4	55.6	2.9
Dissatisfied	54.9	42.2	43.5
Satisfied	20.0	2.2	52.2
Very satisfied	3.8	0.0	1.4
Total	100	100	100

Table A.7. Opinions on how much are Kosovo leaders using their competences (%)

	Albanians	Serbs	Others
They don't know what are they competent for	20.4	62.6	17.5
They are not using them at all	14.3	6.1	8.8
They use only some of them	45.6	9.1	38.8
They are using all of them	19.8	22.2	35.0
Total	100	100	100

Table A.8. Opinions on Kosovo's Parliament initiative for changes in the Constitutional Framework (%)

	Albanians	Serbs	Others
Constitutional Framework needs not to be changed	2.5	24.6	10.8
Constitutional Framework needs to be changed partially	26.6	9.6	37.8
Constitutional Framework needs to be changed thoroughly	70.9	65.8	51.4
Total	100	100	100

Table A.9. Respondents' evaluation of the beginning of the dialogue (%)

	Albanians	Serbs	Others
The beginning was successful	14.0	4.6	16.1
The beginning was partially successful	35.7	20.0	25.4
The beginning was unsuccessful	35.7	52.3	11.0
Don't know	13.0	20.0	31.4
Does not answer	1.5	3.1	16.1
Total	100	100	100

Table A.10. Respondents' assessment of the current business conditions and their expectations regarding business conditions six months hence (%)

	Current conditions			Expectations		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Unfavorable	82.0	86.7	81.3	62.3	90.9	42.6
Neutral	12.4	11.6	15.0	22.8	7.4	41.0
Favorable	5.6	1.7	3.7	15.0	1.7	16.4
Total	100	100	100	100	100	100

Table A.11. Economic pessimism – the percentage of respondents “unsatisfied” or “very unsatisfied” with the current economic situation (valid %)*

	November 2002	March 2003	July 2003	November 2003
Albanians	57.8	66.8	64.8	71.8
Serbs	68.8	85.7	76.4	84.9
Others	49.6	62.6	56.8	59.5
Total (weighted %)**	58.0	67.7	65.0	71.8

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

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

	July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs
UNMIK	66.8	61.7	68.9	56.5
Kosovo Government	24.2	27.8	22.4	32.9
Local governments	4.0	4.3	5.0	2.4
Business community	5.0	6.2	3.8	8.2
Total	100	100	100	100

	November 2002		March 2003		July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Relations are tense and will continue to remain so	34.1	68.8	41.6	73.1	30.6	73.2	35.2	75.5
Relations are tense, but there have been some improvements lately	36.3	17.7	36.6	18.3	43.8	21.3	36.8	16.7
Relations are tense, but there are considerable improvements	16.7	10.2	9.7	7.4	13.9	3.8	15.4	7.3
Relations are not all that tense	10.0	2.2	6.9	1.1	5.6	1.6	8.2	0.5
Relations are not tense	2.9	1.1	5.1	0.0	6.1	0.0	4.3	0.0
Total	100	100	100	100	100	100	100	100

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

Predictors	Albanians		Serbs	
	Correlation coefficient	Standard error	Correlation coefficient	Standard error
Satisfaction with the political situation	0.019	0.634	0,228	0,008
Satisfaction with the economic situation	0.002	0.958	0,035	0,687
Satisfaction with UNMIK's performance	0.008	0.841	0,082	0,327
Satisfaction with Government's performance	0.045	0.229	0,169	0,033
Female	-0.029	0.454	-0,004	0,955
Age	-0.054	0.156	0,027	0,734
Education	-0.046	0.248	0,071	0,382
Personal incomes	-0.018	0.632	0,006	0,935
Living in the village	-0.087	0.020	-0,327	0,000
Adopted R ²	0.005		0.220	

⁵¹ Regression analysis is the estimation of the linear relationship between a dependent variable and one or more independent variables (predictors). The significance level of 0.05 ($p < 0.05$) means that the probability of the correlation not being statistically significant is below the 0.05 confidence level.

Table A.15. Readiness of respondents to agree with the return of refugees in Kosovo (%)

	Albanians	Serbs	Others
I agree with the return of refugees to Kosovo	58.5	99.5	90.3
I do not agree with the return of refugees to Kosovo	41.5	0.5	9.7
Total	100	100	100

Table A.16. Readiness of respondents to agree with the return of refugees in respondents' surroundings (%)

	November 2002		March 2003		July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
I agree with the return to their properties	37.6	75.7	36.8	24.1	45.9	59.8	44.8	91.2
I agree with the return to new settlements	3.1	13.8	1.6	10.3	4.6	11.6	2.6	8.8
I do not agree with the returns at all	30.2	3.2	38.0	49.4	28.3	26.5	32.8	-
Does not concern to me (there are not refugees in my surroundings)	29.1	7.4	23.6	16.1	21.1	2.1	19.8	-
Total	100	100	100	100	100	100	100	100

Table A.17. Opinions on the final status of Kosovo (%)

	November 2002		March 2003		July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Independence of Kosovo within current borders	84.3	0.0	88.5	1.1	87.9	2.9	86.1	0.5
Division of Kosovo	0.5	34.4	0.3	4.0	0.0	26.6	0.1	13.3
Current status (international protectorate)	5.2	2.2	0.9	1.1	0.5	0.0	0.1	0.0
Union with Albania	9.8	0.0	9.9	0.0	11.5	0.0	13.7	0.0
Confederation with Serbia, similar to Montenegro	0.0	2.7	0.0	12.5	0.1	7.6	0.0	4.3
Autonomous province within Serbia	0.1	60.8	0.3	81.3	0.0	62.9	0.0	81.9
Total	100	100	100	100	100	100	100	100

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

Table A.18. Public opinion on the factors influencing the relations between Albanians and Serbs to be tense (%)

	November 2002		March 2003		July 2003		November 2003	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Insufficient efforts by Albanians for integration of Serbs	5.0	46.4	5.7	87.7	3.5	57.0	4.4	38.0
Lack of readiness of Serbs for integration into Kosovo society	36.0	1.2	45.2	1.2	40.5	2.5	33.8	0.5
Stands of Albanian leaders	3.1	47.0	1.7	9.2	1.9	36.7	2.3	60.3
Stands of Serbian leaders	13.4	4.8	11.0	1.2	12.2	1.9	10.9	0.5
Belgrade's influence	42.5	0.6	36.4	0.6	41.9	1.9	48.7	0.5
Total	100	100	100	100	100	100	100	100

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

	June 2002	November 2002	March 2003	July 2003	November 2003
Albanians	56.1	59.3	54.2	60.3	53.5
Serbs	39.9	40.8	21.4	34.6	12.4
Others	49.4	71.5	66.0	74.9	61.0
Total (weighted %)	54.7	58.9	52.9	59.6	51.5

	June 2002	November 2002	March 2003	July 2003	November 2003
Albanians	68.8	56.1	66	64	66.5
Serbs	73.9	65.9	84.8	73.6	23.2
Others	69.2	48.3	60.7	54.7	70.3
Total (weighted %)	69.1	56.2	66.8	64.0	64.1

		November 2002	March 2003	July 2003	November 2003
Courts	Albanians	44.5	46.1	41.6	38.4
	Serbs	10.1	3.8	7.1	8.6
	Others	61.9	58.4	67.6	71.0
Prosecutor office	Albanians	49.0	51.4	42.9	39.2
	Serbs	3.0	2.5	4.9	6.2
	Others	63.9	64.5	64.6	69.2
KFOR	Albanians	91.7	89.5	85.1	81.4
	Serbs	27.4	19.2	26.4	16.4
	Others	87.4	90.4	81.5	83.1
CIVPOL	Albanians	78.5	74.3	65.5	53.5
	Serbs	22.9	14.7	11.3	13.4
	Others	90.0	80.5	77.1	68.1
KPS	Albanians	95.5	92.6	89.9	89.7
	Serbs	9.3	17.9	4.6	14.3
	Others	90.6	89.7	85.3	92.1

	Courts	CIVPOL	KPS
Albanians	11.4	18.7	62.0
Serbs	6.2	20.6	15.1
Others	22.2	51.0	74.0

	Albanians	Serbs	Others
Customs	34.8	20.2	11.2
Courts	17.8	14.2	18.5
Education	18.3	9.8	4.0
Local administration	10.9	10.7	8.4
Central administration	11.2	14.6	9.8
CIVPOL	18.8	23.4	18.4
KPS	2.7	22.6	4.0
Healthcare	29.2	7.4	13.5
International organizations	26.1	21.6	23.4
Non-governmental organizations	14.7	22.8	16.1

	Albanians	Serbs	Others
Trafficking of human beings and prostitution	25.1	17.8	25.0
Drug smuggling	18.0	24.3	16.2
Economic crime	27.1	15.7	18.8
Serious crimes	29.8	42.2	40.0
Total	100	100	100

ANNEX 2. Events during the period September-December 2003

September

- **1 September** – International authorities in Kosovo launched a month-long, province-wide weapons amnesty aiming at reducing the number of crimes committed with illegal weapons.
- **1 September** - About 20,000 teachers in elementary and secondary schools announced an open-ended strike for higher wages.
- **5 September** - Five Kosovo prisoners died in a fire and 16 more were hospitalized for burns and smoke inhalation after prisoners, rioting over general conditions, set their mattresses ablaze.
- **25 September** - A group of 50 displaced Serbs from Kosovo returned to the village of Osojane, escorted by members of the United Nations mission and the UNHCR.

October

- **8 October** - The European Union office in Pristina has suspended the privatization of state and public companies in Kosovo.
- **9 October** - Police seized almost 36 kilograms of a substance believed to be heroin. This is the largest seizure of heroin in the past four years and follows the successful interdiction of 18 kilograms of heroin valued at 800,000 Euros in Gjilan/ Gnjilane region on 27th July 2003.
- **14 October** – The first meeting between the Kosovo Provisional Institutions of Self-Government and the Government of Serbia and Montenegro on practical issues took place in Vienna, after pressure from SRSG Holkeri on the start of the dialogue.
- **16 October** - The remains of 40 ethnic Albanians killed by Serb forces during the Kosovo war and buried in mass graves in Serbia were returned to Kosovo for final burial.

November

- **4 November** - The United Nations is setting up a task force that will fight corruption both within its own ranks in Kosovo and in the local institutions. The task forces, set to begin work by mid-November, will be comprised of U.N. representatives and external auditors.
- **16 November** - 248 polling stations in Kosovo are open for elections in Serbia.
- **24 November** - Three Kosovo Police Service officers have been shot in an ambush this morning in Peja/ Pec region. One officer has died and two are in hospital with gunshot wounds. The officers were driving to work at Peja/ Pec Police Station when their car was attacked between Deçan/ Decani and Peja/ Pec.

December

- **3 December** - The head of the United Nations Interim Administration Mission in Kosovo (UNMIK) has ordered that 12 Kosovo Protection Corps officers be suspended for six months while a police investigation takes place into their role in the demolition of a railway bridge in the northern Kosovo town of Loziste in April.
- **6 December** – A group of Serb extremists known as “Bridge-Watchers” attacked the Prime Minister, Mr. Bajram Rexhepi, and the World Bank Board of Governors in Mitrovica.
- **10 December** - Senior United Nations and local officials launched a set of standards designed to prepare UN-administered Kosovo for final status, including free, fair and regular elections, free media and a sound and impartial legal system.
- **11 December** - The Kosovo Assembly approved a resolution which nullifies Serbia’s laws promulgated after March 1989; the SRSG declared that this resolution was invalid since the Kosovo Assembly lacks the competence to approve such decisions.
- **17 December** – The United Nations peacekeeping chief raised the prospect that Kosovo's progress towards reaching the standards of a normal society - necessary before its future status can be determined - could be reviewed by mid-2005.
- **17 December** - The Union of Serb Municipalities of Kosovo in Northern Mitrovica approved the “Saint Nicola Declaration” on the Serb Republic of Kosovo, which proclaimed the separation of Kosovo into two entities following the model of Bosnia and Herzegovina.
- **30 December** - The United Nations Mission in Kosovo has transferred a final set of responsibilities to local provisional institutions as part of its commitment to gradually introduce self-government to Kosovo.

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