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FROM THE AMERICAN PEOPLE



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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 “Reinvest” and independent Kosovo analysts.

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

SELECTED INDICATORS

	Jan-Apr 2004	May-Aug 2004	Sep-Dec 2004	Jan-Mar 2005	Trend
GDP growth rate (annual), %	5.0 ¹			5.0 ¹	↔
Inflation rate (annual), %	1.5 ¹			-	-
Bank deposits, million €	541.4 (Feb)	615.6 (Jul)	638.0 (Oct)	704.8 (Feb)	↗
Commercial bank loans, million €	252.8 (Feb)	327.9 (Jul)	353.1 (Dec)	356.5 (Feb)	↗
Trade balance, million €	-370.5 ¹ (Jan-Mar)			-219.1 ¹ (Jan-Mar)	↘
Registered job-seekers	287,265 (Feb)	298,036 (Jul)	300,697 (Nov)	303,095 (Jan)	↗
Consumer Price Index, % (compared to May 2002)	103.5 (Mar)	99.9 (Jul)	99.7 (Sep)	100.8 (Feb)	↘ ²
Basic pensions (per month), €	40	40	40	40	↔
Political pessimism, % ("Not satisfied" or "not satisfied at all" with current political trends)	45.4	46.6	38.7	38.6	↔
Economic pessimism, % ("Not satisfied" or "not satisfied at all" with current economic trends)	75.3	70.7	67.7	71.1	↗
Subjective welfare pessimism, % (Economic situation in the family equal or worse than six months ago)	91.8	90.6	87.0	84.7	↘
Satisfaction with UNMIK's performance*, %	24.7	20.7	24.1	29.7	↗
Satisfaction with SRSG's performance, %	32.4	-	69.9	81.2	↗
Satisfaction with Government's performance, %	73.4	71.9	72.2	81.2	↗
Satisfaction with Assembly's performance, %	64.3	59.1	64.5	73.7	↗
Satisfaction with KFOR's performance, %	83.0	81.0	85.7	81.0	↘
Return of refugees, number of returnees	12,398				
Personal security, % ("Somewhat safe" or "very safe" while outdoors)	56.6	56.2	48.9	62.0	↗

¹ - IMF estimates of November 2004

² - Compared to February 2004

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

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

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LIST OF ACRONYMS AND ABBREVIATIONS

AAK	Aleanca për Ardhmërinë e Kosovës/ Democratic Alliance of Kosovo
BPK	Bank and Payment of Kosovo
CPI	Consumer Price Index
EU	European Union
EWR	Early Warning Report
EWS	Early Warning System
GDP	Gross Domestic Product
ICTY	International Criminal Tribunal for the Former Yugoslavia
IDP	Internally Displaced Persons
IMF	International Monetary Fund
KEK	Korporata Energjetike e Kosovës/ Kosovo Energy Corporation
KFOR	Kosovo Forces
KPS	Kosovo Police Service
LDK	Lidhja Demokratike e Kosovës/ Democratic Union of Kosovo
MP	Member of Parliament
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
PDK	Partia Demokratike e Kosovës/ Democratic Party of Kosovo
PISG	Provisional Institution of Self-Government
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
UN	United Nations
UNDP	United Nations Development Programme
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
UNHCR	United Nations High Commissariat for Refugees
VAT	Value Added Tax

Executive Summary

1. The general situation during the period January-March 2005 in Kosovo was characterized by: a) Government's intensive engagement towards the fulfillment of the "Standards for Kosovo" and the resignation of Prime Minister Ramush Haradinaj and his voluntary surrender to the ICTY; b) the decision of the LDK and the AAK to retain the current coalition Government; c) selection of pilot municipalities for the decentralization project and tensions between the Government and the opposition. Macroeconomic trends did not change significantly, whereas inter-ethnic relations and the public and personal security marked certain improvements.

a) For the major part of January-March 2005, efforts have been made by the PISG to implement the "Standards for Kosovo". These efforts, are positively reflected in the satisfaction level of respondents with the performance of some institutions and political figures.

Numerous analysts warned that the indictment of Prime Minister Ramush Haradinaj by the ICTY could trigger serious unrest. However, his immediate resignation following the indictment, his voluntary surrender, and his call as well as calls of other relevant political figures on the population to remain peaceful, contributed to averting a potential crisis.

b) In the aftermath of the resignation of Prime Minister Ramush Haradinaj, opposition parties called for a review of the LDK-AAK coalition government, pretending creation of a broader coalition. However, the LDK and the AAK decided to retain the current coalition government, thereby avoiding a crisis within the government. Opposition parties accuse the current government administration with a lack of competence to govern.

c) In February 2005, the Government of Kosovo published the "Final Project for the Decentralization of Kosovo", considering the fulfillment of standards as its priority task. This project anticipates the establishment of at least six pilot municipality units. The main Kosovo opposition parties have called this project unacceptable since, according to them, it is not based on the Constitutional Framework and as such is illegal.

2. This Report identified the following factors that may influence the general stability in Kosovo:

- a) Serious confrontations between the opposition and the Government should be expected in the forthcoming phases of the implementation of the pilot projects drafted in the "Final Project for the Decentralization of Kosovo";
- b) Kosovans are poorly informed about decentralization and the priorities of this process, including the pilot projects. Over 70% of respondents from all nationalities were "not so much" or "not at all" informed about the decentralization process or did not give any response related to this issue.
- c) The Government's document on decentralization also does not clearly address the dissolution of parallel structures.

- d) Additional expenditures for the employment of personnel in the new municipalities would go against the recommendations made by international financial institutions about the necessity of reduction in budgetary consumption and in the recruitment of additional personnel in government agencies.
- e) The current pilot units are for the most part economically underdeveloped, thus having only modest self-financing capacities for their functioning.
- f) Respondents of all nationalities remain unsatisfied with the economic situation. 70.3% of Albanians and 95.1% of Serbs are “unsatisfied” or “very unsatisfied” with the current economic situation in Kosovo.
- g) Some unfavorable economic trends from the previous period continued, while some new emerged: i) a large trade deficit; ii) a steady increase of registered number of unemployed; iii) a low level of payment of electricity bills by consumers, as well as low level of production of electrical energy. In addition, Kosovo is entering into a deflationary trend for the first time.
- h) Kosovo businesses are facing barriers of institutional nature (there is a lack of law enforcement, unfavorable taxation policies, and complicated and inefficient administrative procedures).
- i) The opinions of Albanian and Serb regarding issues essential for the future of Kosovo and coexistence within it still remain almost opposite to each other. While 94.4% of Albanian respondents think that the best solution for the final status of Kosovo is independence, 92.5% of Serb respondents are in favor of Kosovo remaining an autonomous province within Serbia.
- j) The public’s perception of security can be affected by the failure to identify the perpetrators of various explosions, vandalism against UN vehicles, and attacks on political figures and political party premises registered recently.
- k) The ability of Kosovo courts to process criminal, civil and other cases is insufficient due to the enormous increase of cases to handle and the inadequate number of judicial officials.

Decentralization - achievements and challenges

Decentralization – an important factor of democratization

3. Decentralization represents one of the main challenges which Kosovo faces in the implementation of the “Standards for Kosovo”.¹ On April 30, 2004 the UN Security Council addressed the issue of decentralization and called on the relevant authorities in Kosovo for more effective local governance by transferring non-reserved central competencies to the local government. As a result, the Working Group for Local Government drafted a document called the “Draft Framework for the Reform of Local Government in Kosovo”. This document was endorsed by the Government of Kosovo on July 19, 2004 and welcomed by all relevant domestic and international structures, including the Contact Group. This document emphasizes the fact that the reform improves services at the local level and thus contributes to:

- the providing of sustainable governing and better living conditions for all citizens in Kosovo;
- the integration of all communities in the democratic structures in Kosovo;
- the establishment and consolidation of functional democratic institutions in Kosovo.

In the meeting held in Pristina on December 16, 2004 the Contact Group emphasized the importance of the decentralization process as one of the priorities in the context of the implementation of the “Standards for Kosovo”. The Contact Group particularly emphasized the prompt implementation of pilot projects, as well as a timely adoption of relevant legislation.

4. In the continuing efforts for the implementation of standards, the Government of Kosovo, in February 2005, published the “Final Project for the Decentralization of Kosovo”, considering the fulfillment of Standards as its priority task.² This document stipulates that the implementation of local government reform must be completed by 2008. In contrast to the July 2004 “Draft Framework for the Reform of Local Government in Kosovo” document, the Final Project has not been well-received by the current opposition in Kosovo. Hence, the decentralization process is being implemented under pressure from the international community to be carried out as soon as possible, on the one hand, and with the strong disagreement of the opposition on the other. It should be emphasized that Belgrade has not expressed itself in favor of the Final Project, as Serbia has proposed its own version of decentralization last year, which has been opposed by all relevant authorities in Kosovo.³

¹ In essence, the issue is about the reform of local government, but in the media and for both the nationals and the internationals, the term decentralization seems to be preferred, although the two terms are not synonymous.

² “What contains the Final Project for the Decentralization in Kosovo”, *Zëri*, February 21, 2005.

³ For more detail about the reactions from Kosovo, see Kosovo EWR #7.

Differences in opinion regarding the municipal pilot projects

5. The Final Project anticipates the establishment of at least six pilot municipality projects within the framework of the decentralization project.⁴ The main Kosovo opposition parties have called this project unacceptable since, according to them, it is not based on the Constitutional Framework and as such is illegal. According to these parties, the project on decentralization legalizes the “enclavization” and the partitioning of Kosovo on an ethnic basis.⁵ The opposition parties PDK and ORA requested the opening of a debate about decentralization in the Assembly and the subsequent adoption of a Law on Local Government in Kosovo.⁶ Also, an LDK Member of Parliament demanded that the beginning of any project on decentralization be preceded by a debate and approval in the Assembly.⁷

6. Despite current objections against decentralization voiced by the leadership of the PDK, it should be mentioned that its leadership played a key role in drafting the Draft Framework for the Reform of the Local Government in Kosovo,⁸ which is to a great extent compatible with the Government’s document on decentralization, especially on the concept of pilot municipalities.⁹ On the other hand, the opposition has not presented an alternative decentralization proposal, thereby suggesting that its current objections and disagreements constitute more of a political power struggle than a genuine involvement in the enhancement of the decentralization process in Kosovo. As a result, additional serious confrontations between the opposition and the Government should be expected in the forthcoming phases of the implementation of the pilot projects. It should be noted that continuous clashes in opinion by political parties in the Assembly could deter citizens from accepting the establishment of pilot municipalities, which would cause a delay of the entire decentralization project.

7. In order to ensure the support of a majority of Kosovans for the implementation of pilot projects, it is necessary that an agreement be reached between the main Kosovo Albanian political leaderships about the decentralization modalities. This has also been discussed in a meeting between the SRSG, Mr. Søren Jessen-Petersen, and the leaders of the main Kosovo Albanian political parties.¹⁰ Mr. Petersen has appealed to the opposition to join the process in order to overcome disagreements between the major political parties and to collectively

⁴ The Final Project for the Decentralization of Kosovo would establish the following pilot municipalities: Graçanica/ Gracanica (Pristina), Junik (Deçan/ Decani), Partesh/ Partes or Zhegra/ Zegra (Gjilan/ Gnjilane), Mamusha/ Mamusa or Reçan/ Recan (Prizren), Vitomirica (Peja/ Pec) and Hani i Elezit/ Djeneral Jankovic (Kaçanik/ Kacanik).

⁵ Jakup Krasniqi, a PDK Member of Parliament, in an Assembly session held on February 23, 2005, stated that the Final Project approved by the Government was illegal.

⁶ The PDK walked out of an Assembly session held on February 23, 2005 in reaction to the disregard of their demand that decentralization be debated in the Assembly.

⁷ Sabri Hamiti, member of the LDK, in his speech to the Assembly delivered on March 23, 2005.

⁸ The Draft Framework was drafted in July 2004, at the time when the PDK was part of the then-coalition government.

⁹ In Annex II of the “Pilot Projects” of the Draft Framework for the Reform of the Local Government in Kosovo of July 18, 2004, it is stated: “They [the pilot projects] should be implemented quickly without waiting for the full completion of the legislative process and the completion of the reform of the local government. This implies that they be started before the adoption of the Law on Local Government. Legally, this could be done through an Administrative Decree of the SRSG. This Administrative Decree or Directive would be issued after the agreement of the Government is obtained and after consultations with the concerned municipalities and interested parties.”

¹⁰ In the meeting with Mr. Søren Jessen-Petersen, the leaders of the LDK, PDK and ORA agreed that regarding major issues such as status, standards and decentralization, a consensus was needed.

move, with the government and other parties, towards the establishment of the pilot municipalities. President Ibrahim Rugova also met with the leaders of the PDK and ORA at the end of March 2005, and he appealed to the opposition to assume a constructive role in the achievement of a consensus on capital issues such as the implementation of priority standards, status talks and decentralization.¹¹

Citizens not well-informed

8. Although the decentralization process is of great importance for the future of Kosovo, it should be noted that its citizens are poorly informed about decentralization and the priorities of this process, including the pilot projects.

Table 1.1. The extent to which respondents are informed about decentralization in Kosovo (%)

	Albanians	Serbs	Others
Not at all	27.8	41.7	38.5
Not so much	44.8	39.2	31.1
Much	16.0	6.9	20.0
Very much	2.8	1.5	3.7
No answer	8.7	10.8	6.7
Total	100.0	100.0	100.0

Source: Riinvest opinion poll – March 2005

According to the opinion poll carried out in March 2005, only 18.8% of Albanian respondents and 8.4% of Serbian respondents have declared to have been “much” or “very much” informed about the decentralization process in Kosovo. Over 70% of respondents from all nationalities were “not so much” or “not at all” informed about the decentralization process or did not give any response related to this issue – see Table 1.1. For those respondents who consider themselves informed about the decentralization process, the main source of information has been the electronic media (television, radio, and Internet). Around 80% of the Albanian respondents, 64% of the Serbian respondents and 84% of the non-Serbian minority respondents have been informed by electronic media, while the rest from daily newspapers (see Table A1.1 in the Annex).

This data indicates that the engagement of relevant actors (institutions, political parties, political leaders and civil society) with the public has been insufficient in explaining the issue of decentralization and its importance to the future of Kosovo. From the opinion poll, it can be inferred that the printed media generally has not shown sufficient engagement concerning decentralization and that the daily Serbian language press could have played a greater role in informing the Serb population about the decentralization project.¹²

9. The insufficient level of information about decentralization available to respondents in Kosovo has also been demonstrated by the lack of response concerning the survey question about the necessity of further decentralization. Almost every third Albanian and non-Serbian minority respondent, as well as every

¹¹ All daily media on March 24, 2005.

¹² The Albanian version of the Final Project for the Decentralization of Kosovo, published in daily newspapers in Kosovo, does not seem to be easily understandable by the mainstream reader. The document is not followed by additional explanations which would make the concept of pilot projects easily understandable for citizens.

second Serbian respondent, have not answered this question – see Table A1.2 in the Annex. Nonetheless, it is encouraging that the majority of respondents considered decentralization as a necessary process, which will bring the government closer to the population.

10. Some political party representatives have stated that the Kosovo Government's project for the establishment of pilot municipalities will lead to the legalization of Serbian enclaves and eventually to the partitioning of Kosovo along ethnic lines. Such statements have influenced the Kosovo Albanian population's attitudes towards the pilot projects. As to other questions regarding decentralization, almost one-half of the respondents, irrespective of their ethnic affiliation, have not responded to the question related to the government plan about pilot municipalities (see Table 1.2). However, from those who have responded to this question, every second Albanian respondent and every third non-Serbian minority respondent have stated that the pilot municipalities plan leads to the legalization of enclaves. However, only every sixth Serbian respondent has had such an opinion.

Table 1.2. Opinions on government's plan regarding pilot municipality units (%)

	Albanians	Serbs	Others
This plan will help drafting a genuine final decentralization project of Kosovo	27.3	41.2	36.5
This plan will lead to legalization of enclaves	25.0	7.2	17.6
No answer	47.7	51.5	45.9
Total	100.0	100.0	100.0

Source: Riinvest opinion poll – March 2005

11. It is important that the pilot municipalities project gains the support of Kosovo Serbs, especially in those localities expected to be among the pilot municipalities. According to the opinion poll carried out in March 2005, around 86% of the Serbs who have responded to the question about the influence of decentralization on the integration of Serbs consider that the pilot projects would help their integration into Kosovan institutions. This indicates that the Serbian population is moving in the direction of recognizing the Kosovan institutions. It is also encouraging that Oliver Ivanovic, Head of the Serb List for Kosovo party, made a statement in favor of the participation of Serbs in the Working Group for Reform of the Local Government.¹³ Likewise, in an interview published in the OSCE magazine "Details", he expressed a favorable opinion towards the pilot municipalities project, emphasizing that it is completely understandable that Serbs demand that Graçanica/ Gracanica becomes a municipality, but this would not mean that this municipality would be mono-ethnic.¹⁴

It should be emphasized that 49% of Serbian respondents did not respond to the question of whether decentralization could influence the integration of Serbs into Kosovan society – see Table 1.3. With this regard outreach activities for gaining the support of Kosovo Serbs for decentralization process would be beneficial in its own sake.

¹³ *Radio B 92*, April 9, 2005.

¹⁴ *Details*, OSCE publication, 5th edition, April 1, 2005.

Table 1.3. Opinions on the extent to which decentralization would influence integration of Serbs in Kosovo society (%)

	Albanians	Serbs	Others
Decentralization would block integration	10.8	1.0	2.7
Decentralization would not influence integration	13.5	6.2	4.1
Decentralization would help integration	24.5	44.3	36.5
Don't know	42.0	29.9	47.3
No answer	9.3	18.6	9.5
Total	100.0	100.0	100.0

Source: Riinvest Opinion poll – March 2005

12. In the Government's document on decentralization in Kosovo, it is not made a clear distinction between the notions of pilot municipal units and pilot municipalities. These notions in some parts of the document are mistakenly and interchangeably used, possibly creating confusion in the public's understanding of the pilot municipalities. Citizens should be clearly informed whether what is being spoken about is new municipal units, new municipalities with full authority, or sub-municipal units. If the aim of the pilot project is to establish new municipalities with full authority like the existing ones, then the public needs to be informed that this means the establishment of a new territorial organization, which implies that a change will need to be made in the actual borders of the pilot municipalities.

13. The Government's document on decentralization also does not clearly address the dissolution of parallel structures, thus leaving open for interpretation that those structures could continue to function after the implementation of the pilot projects.¹⁵

Financial Difficulties

14. The project on decentralization of the local government in Kosovo includes the gradual transfer of some competencies to the local self-government, including fiscal ones, as well as the required administrative capacity building. It is estimated that in order for six pilot municipalities to function properly, additional budgetary resources of at least seven million euros are needed.¹⁶ This estimate only takes into consideration the expenditures related to personnel salaries as well as those related to goods and services. It does not factor in the investment costs for the long-term performance of the new municipalities. Additional expenditures for the employment of personnel in the new municipalities would go against the recommendations made by international financial institutions about the necessity of reduction in budgetary consumption and in the recruitment of additional personnel in government agencies,¹⁷ in circumstances when the Kosovo Consolidated Budget is threatened with further increase of the budgetary deficit.¹⁸

¹⁵ The Final Project for the Decentralization of Kosovo, article 3.1, paragraph 7, states: "The objective of the pilot project is to test the creation of new units of local self-government. At the same time, where feasible, pilot-projects will enhance the dissolution of parallel structures and full integration of all institutions in the institutional framework of Kosovo."

¹⁶ From the discussion held with the Kosovo Minister of Local Government, Mr. Lutfi Haziri, on March 29, 2005. Where and with whom this discussion was made?

¹⁷ IMF Report, November 2004.

¹⁸ It is estimated that the budgetary deficit for 2004 has reached around 8% of the GDP, or about 19% of the Kosovo Consolidated Budget. For 2005, it is anticipated that the budgetary deficit will reach 4% of the GDP, without taking into account the additional expenditures for pilot municipalities.

15. The current source of funding for municipalities is generally based on grants from budgetary resources of the central government, while the investment of local resources is very low. The participation of municipalities in budgetary consumption is anticipated to be 27%, while participation of the income generated by local governments in the general budgetary consumption is only 4.7%. Although it is anticipated that property tax would be the principal source of funding of the municipalities, major delays are already evident in collection of these revenues. On the other hand, the current pilot units are for the most part economically underdeveloped, thus having only modest self-financing capacities for their functioning.

Box 1.1. Decentralization in Slovenia

A municipality in Slovenia generally has at least five thousand inhabitants. Slovenia's administrative structure is currently comprised of 192 municipalities, eleven of which are urban municipalities. The municipality with the largest number of inhabitants is the urban municipality of Ljubljana (276,313 inhabitants), and the smallest municipality is Hodoš with 371 inhabitants.

The Constitution of the Republic of Slovenia specifies that the municipality may raise its own revenues. Municipalities that are unable to meet all required expenditures in performing their duties due to poor economic development are eligible for additional financial assistance from the state.

Local government finances are highly centralized in Slovenia. The central government determines almost all local revenues; only ten percent of all public revenues are allocated to municipalities. The types of taxes that local authorities may impose include gift and inheritance taxes, tax on gambling machines, tax on the use of goods, and property tax. Local authorities are not entitled to introduce any new taxes, and rates are determined by the central government, with the exception of property tax.

Source: Open Society Institute (2000), "Decentralization: Experiments and Reforms", Chapter 9, *LGI Books, Local Governments in Central and Eastern Europe, Volume 1, Budapest*.

16. Experiences in other transition countries show that decentralization of central government can face a series of difficulties. Some of the challenges experienced by other countries, which can be expected in Kosovo, have shown that:¹⁹

- Decentralization has manifested a potential for creation of a greater economic efficiency, but at the same time has represented a risk for creating development differences and macroeconomic instability;
- Administrative capacities of local government are identified as a determinant of positive or negative effects of decentralization. The absence of a modern tax administration has negatively influenced the collection of income in many transition countries;
- Decentralization has resulted in an increase of general governmental expenditures, especially in the increase of the participation of municipalities in capital expenditures;

¹⁹ Lindaman, K. and Thurmaier, K. (2002), "Beyond Efficiency and Economy: An Examination of Basic Needs and Fiscal Decentralization", *Economic Development and Cultural Change*, Vol. 50, No. 4, pp. 915-934.

Brueckner, J. K. (2000), "Fiscal Decentralization in Developing Countries: The Effects of Local Corruption and Tax Evasion", *Annals of Economics and Finance*, Vol. 1, No. 4, pp. 1-18.

Bryson, P. J. and Cornia, G. C. (2000), "Fiscal Decentralization in Economic Transformation: The Czech and Slovak Cases", *East-Asia Studies*, Vol. 52, No. 3, pp. 507-522.

Bahl, R. (1999), *Implementation Rules for Fiscal Decentralization*, World Bank, Washington, D.C.

- Local governments can experience difficulty in promoting budgetary transparency and fiscal policies generally, so that expenditures correspond with income at the local level. For this reason, fiscal decentralization has made fiscal balance more difficult, and has negatively affected the overall macroeconomic stability;
- Loss of important tax instruments or control of the largest part of public expenditures considerably limits the ability of the central government to operate tax policies or reduce expenditures, and to accomplish the country's macroeconomic policies by means of the budget;
- In some countries that have experienced fiscal crisis central authorities have practiced 'delegating down' the responsibility for expenditures without transferring the necessary resources for fulfillment of this responsibility.

17. Despite these deficiencies, the transfer of responsibilities to the local government can result in the increase of efficiency of public services and in the reduction of transaction costs accompanying public goods and services. The efficiency of decentralization would increase if accountability and transparency at all levels of government were provided in view of the following issues:

- Requirement for clear roles and accountability at various levels of government. Clarity, transparency, stability and clearly defined regulations are preconditions for the achievement of the accountability required for an efficient decentralization;
- Impact of decentralization on local government on both expenditures and income, so that the benefits and other influences in the macroeconomic stability can be evaluated;
- Efficiency as a precondition for a successful decentralization. This requires that additional expenditures for new municipalities result in the observance of democratic rights of citizens, and that the decentralization is not accompanied by new tax levels that could not be met by citizens and the local economy.

Political and Institutional Stability

Political situation

18. The political situation during the period of January-March 2005 in Kosovo has been characterized by the following events:

- Intensive work on the fulfillment of the “Standards for Kosovo”;
- Prevaingly positive assessment of the progress towards achieving the Standards by international community;
- Resignation of Prime Minister Ramush Haradinaj and his voluntary surrender to the International Criminal Tribunal for the Former Yugoslavia (ICTY);
- Appointment of a new Prime Minister;
- Selection of pilot municipalities for the decentralization project;
- Tension between the Government and the opposition.

This period has also been marked by a more constructive political stance of Belgrade towards Kosovo.

Albanian respondents continue to express increased satisfaction with the political situation in Kosovo. This upward trend started after the March 2004 events, during which their satisfaction was recorded at its lowest level.

19. For the major part of January-March 2005, efforts have been made by the Provisional Institutions of Self-Government (PISG) to prove their commitment to the further stabilization of the security situation and the implementation of the “Standards for Kosovo”. Ramush Haradinaj’s government had quickly mobilized efforts to work towards the fulfillment of the Standards before the deadlines.²⁰ Decentralization of the Government has been identified as one of the most important Standard to be implemented, and has been given the highest priority by the Government, which has worked diligently towards the fulfillment of this standard. For their dedication, the Government has received the support and acknowledgment from the UNMIK leadership as well as some European and US diplomatic offices.

20. The exceptional involvement of the Government in the implementation of the “Standards for Kosovo” and the results it achieved, in addition to the current cooperativeness of UNMIK with domestic institutions, are positively reflected in the satisfaction level of respondents with the performance of some institutions and political figures. The main results of the opinion poll carried out in March 2005 were as follows:

²⁰ “The Prime Minister Ramush Haradinaj commits himself to the fulfillment of standards even before the pre-set terms”, *Koha Ditore*, January 27, 2005.

- Satisfaction of Albanian respondents with the performance of the SRSG, Mr. Søren Jessen-Petersen, and that of the former Prime Minister Ramush Haradinaj has shown a considerable increase, reaching the highest values in the opinion polls ever conducted for the Early Warning Report. 87.8% of respondents were “satisfied” or “very satisfied” with the performance of Mr. Søren Jessen-Petersen, while 98% of respondents were “satisfied” or “very satisfied” with Mr. Haradinaj’s performance – see Table A2.1 in the Annex.
- Satisfaction of Albanian respondents with the current political situation in Kosovo has increased. In March 2005, approximately 21.3% of Albanian respondents have declared themselves “satisfied” or “very satisfied” with the political situation – see Table 2.1. This is an improvement compared to March and July 2004 when the lowest levels of satisfaction were recorded.

Table 2.1. Satisfaction and dissatisfaction of respondents with the political situation in Kosovo (%)

		Jul 2003	Nov 2003	Mar 2004	Jul 2004	Nov 2004	Mar 2005
Albanians	Unsatisfied*	34.7	45.4	42.7	44.0	35.1	35.5
	Satisfied**	26.1	17.8	14.3	13.8	17.2	21.3
Serbs	Unsatisfied	83.1	93.2	94.2	99.5	98.0	97.1
	Satisfied	3.5	0.0	0.0	0.0	0.0	0.0
Others	Unsatisfied	29.4	38.9	34.7	31.1	33.0	25.7
	Satisfied	37.2	24.9	38.1	25.0	27.2	27.3

Source: Riinvest Opinion polls – Jul 2003 to March 2005

* Unsatisfied – “unsatisfied” or “very unsatisfied” respondents

** Satisfied – “satisfied” or “very satisfied” respondents

- After a steady decline of respondents’ satisfaction with the work of UNMIK and, to a considerable extent, with that of the Government and the Assembly, March 2005 poll results show an approximately 10% increase in respondents’ satisfaction rates compared to November 2004 - see Fig. 2.1 and Table A2.2 in the Annex.

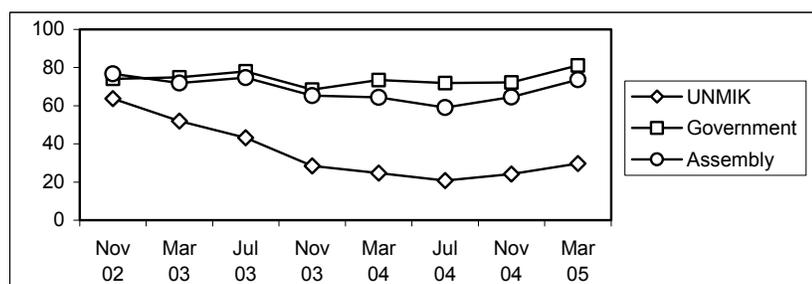


Fig. 2.1. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (%)

- Readiness of respondents to protest against the prevailing political situation is relatively high (47.4% of Albanians, 67.6% of Serbs and 46.7 % of non-Serb minorities); however, it is lower than the readiness to protest against the poor economic situation – see Tables A2.3 and A3.1 in the Annex.

21. The Government continued to work towards the fulfillment of the standards despite the pressure arising from the possible indictment of Prime Minister Ramush Haradinaj by the ICTY. It was not until March 8, 2005 that the Tribunal confirmed the indictment of the Prime Minister for alleged war crimes committed during the 1998-99 Kosovo conflict.

22. Numerous analysts warned that the indictment could trigger serious unrest, not unlike that seen in March 2004.²¹ However, the immediate resignation of Prime Minister Ramush Haradinaj following the indictment by the ICTY, his voluntary surrender, and his televised address, which called on the population to remain peaceful, contributed to averting a potential crisis.²² Furthermore, even a crisis within the Government – common when a prime minister resigns – was avoided. In the aftermath of the resignation, opposition parties called for a review of the LDK-AAK coalition government in order to assess whether the creation of a broader coalition government was needed.²³ However, the LDK and the AAK decided to retain the current coalition government, thereby ensuring full continuity with the former Prime Minister's political program.²⁴

23. Another significant factor, which contributed to averting a potential crisis in the aftermath of Haradinaj's indictment, has been the call by international actors for more decisive steps and measures towards resolving problems in Kosovo, including that of Kosovo's final status. International actors (EU, US) and other influential independent organizations have emphasized the need to respect the will of the majority of the population, and the importance of considering the options for Kosovo's final status. The EU issued a statement on February 20, 2005 in support of three major principles: no return of Kosovo to the pre-1999 status, no territorial partitioning of Kosovo, and no unification of Kosovo with other country. These principles were well received by politicians in Kosovo.²⁵

The question of Kosovo's final status is met with many different opinions: Serbia continues to oppose any talks on the independence of Kosovo,²⁶ and international actors still doubt that an effective solution to the question of Kosovo's status could be found within a short period of time.²⁷ Nevertheless, prevails the opinion that talks on the final status should start this year.²⁸ It should be emphasized that the issue regarding Kosovo's status has gained more importance among Albanian respondents in comparison to previous opinion polls. According to the opinion poll conducted in March 2005, almost every second Albanian respondent (49.2%) considered that Kosovo's unresolved status was the greatest problem facing the country – see Table A2.4 in the Annex. 44.2% of non-Serb minority respondents

²¹ See the Early Warning Report #8, Kosovo, September-December 2004.

²² "My going to the Hague will not turn Kosovo back", *Epoka e Re*, March 9, 2005.

²³ "The new government should be broad-based", *Koha ditore*, March 17, 2005.

²⁴ Bajram Kosumi, the second-in-command of the AAK, has been appointed Prime Minister, as suggested by Haradinaj himself. "Ibrahim Rugova nominates Bajram Kosumi, Jessen-Petersen congratulates", *Koha Ditore*, March 19, 2005.

²⁵ Hashim Thaqi, "The final status will be a free Kosovo, and not a Great Albania or Great Kosovo", *Koha Ditore*, February 19, 2005.

²⁶ "Kosovo is part of Serbia" states the president of Serbia during a visit to Kosovo on February 13, 2005; all media, February 14, 2005.

²⁷ Friedhelm Frischenschläger, former Austrian Minister of Defense, sees the independence of Kosovo as an interim solution. He emphasizes that the status issue can not be solved now, as this would lead to a partitioning of Kosovo due to the fact that Serbia actually controls the north of Kosovo; *Koha Ditore*, January 7, 2005.

²⁸ "It is an illusion that the issue of Kosovo would be solved in 2005 or 2006"; statement from a meeting of experts in Vienna; *Koha Ditore*, January 14, 2005.

agreed that status was the greatest problem facing Kosovo, whereas Serb respondents do not rank this issue among the top three major problems.

24. When Mr. Haradinaj was Prime Minister, officials from Belgrade used to refuse any high-level meeting with Kosovo officials. Leaders of the Serbian community and Belgrade made their participation and support for the decentralization of Kosovo conditional to Mr. Haradinaj's surrender to the ICTY.

By the end of March, a relative improvement of the political relations between Albanian and Serbian leaders had started within Kosovo, as well as between officials from Belgrade and Pristina. Kosovo Serb political parties are resuming their participation in Kosovo institutions,²⁹ and an agreement has been reached between the governments of Belgrade and Pristina to continue diplomatic discussions about missing persons, return of refugees and displaced persons, energy issues, etc. The Ministries of Culture in Kosovo and Serbia have also worked towards improving their relationship and have started corresponding with each other.³⁰ Nevertheless, despite these initial steps in a positive direction, a general improvement of relations between Serbia and Kosovo cannot be guaranteed.

Tensions increases in Government relations with the opposition

25. The tense relations between the Government and the opposition are a factor that could cause instability in Kosovo. The opposition accuses the current Government administration with a lack of competence to perform its duties and with corruption. Deputy Prime Minister Adem Salihaj and a few other ministers of the Government are the target of these accusations.³¹ After the failed assassination attempt against President Ibrahim Rugova on March 15, tensions between the political parties in Kosovo have increased and a new campaign of accusations and denunciations has been launched, including the alleged existence of illegal party-controlled secret services (LDK, PDK)³² that are mutually suspected of being sources of organized crime in Kosovo.³³

26. In fact, even before Mr. Haradinaj's indictment by the ICTY, there was no lack of criticism from the opposition against the Government. Primarily, the opposition was focusing on the "danger for the future of Kosovo" that, according to them, was posed by the premature decision of the Government to accelerate the process of decentralization through the implementation of ethnically-based municipality pilot projects, like in the predominantly Serbian municipality of Graçanica/Graçanica.³⁴ Opposition circles consider decentralization and other measures proposed by the Government as a concession or a consequence of pressure put on by The Hague and other diplomatic centers "holding the Government as a blackmailed hostage".³⁵

27. On several occasions, the criticism espoused by the opposition and the media caused considerable tension. Such tension was observed when Prime Minister Haradinaj was whistled-out by a Pristina stadium crowd gathered to celebrate the 6th

²⁹ *Koha Ditore*, March 25, 2005.

³⁰ *Express*, February 14, 2005.

³¹ "The Bingo minister" – Armond Morina, *Koha Ditore*, February 1, 2005; "I accuse!", *Express*, February 10, 2005; "Adem Salihu puts pressure on the public prosecutor", *Express*, March 25, 2005.

³² "The assassination attempt was recorded", *Express*, March 25, 2005.

³³ "All in the Homeland Security", *Express*, April 5, 2005; "Salihaj-gate", *Express*, April 7, 2005; "Organized Crime", *Express*, April 8, 2005.

³⁴ "Dangers of decentralization", *Express*, April 26, 2005.

³⁵ *Koha Ditore*, February 26, 2005.

anniversary of the 1999 conflict.³⁶ In addition, some media outlets have treated him as if he were somewhat of a traitor.³⁷ However, after the ICTY finally made the indictment against Haradinaj and two of his comrades-in-arms public, the criticism of the opposition parties and their staunch supporters against the Government became less pronounced.

28. Because the PDK and ORA did not manage to provoke a change in the coalition Government and therefore to secure their inclusion in a broad-based government, it should be expected that their criticism towards the coalition government will become increasingly uncompromising. The opposition has engaged in activities that show their dissatisfaction with the current Government. They have walked out of Assembly sessions, and the largest opposition party, the PDK, has even formed a shadow government. The PDK shadow government is still without a clear structure and political program.³⁸

³⁶ *Express*, March 7, 2005.

³⁷ *Epoka e Re*, March 6, 2005; *Express*, March 5-6, 2005; *Koha Ditore*, March 6, 2005.

³⁸ "Alternative government of the PDK", *Koha Ditore*, March 21, 2005. The other opposition party ORA has not supported this initiative; see article of the President of ORA, Vetton Surroi: "Shadow", *Koha ditore*, March 22, 2005.

Economic and Social Stability

General economic situation

29. General economic trends from January-March 2005 do not differ significantly from the trends marked in 2004. In the macroeconomic context, questions that should attract the attention of decision-makers and economic policy-makers in Kosovo are as follows:

- How to stimulate economic growth which will generate new jobs;
- How to manage the budget deficit as well as the trade deficit;
- How to deal with deflation noted since October 2004;
- How to improve the business environment for entrepreneurs by successfully addressing the obstacles they face in the private sector;
- How to stabilize the energy sector.

30. The Prime Minister's resignation in March and subsequent changes in the government have shifted the focus from socio-economic issues to political matters. Nevertheless, despite the attention given to recent political events, noteworthy socio-economic activities have been undertaken, which may have a positive impact on future developments. These include:

- The approval of Kosovo's budget by the Assembly;
- Signing of the Memorandum of Understanding between UNMIK and the European Bank for Reconstruction and Development providing new credit possibilities for enterprises in Kosovo;
- The implementation of the regulation on long-term allocation of socially-owned immovable property managed by municipalities,³⁹ enabling them to rent their land for up to 99 years;
- Changes in the tax policy regarding the abolition of excise on car imports as well as on the crude oil used as input for production.

31. Respondents of all nationalities remain unsatisfied with the economic situation. According to the March 2005 opinion poll conducted for this report, more than 70% of respondents in general (70.3% of Albanians and 95.1% of Serbs) are "unsatisfied" or "very unsatisfied" with the current economic situation in Kosovo – see Table 3.1. The high level of dissatisfaction of respondents corresponds with the unsatisfactory economic growth marked in recent times in Kosovo. It must be stressed that this dissatisfaction is higher than in November 2004.

32. The high level of dissatisfaction among respondents regarding the economic situation becomes even more pronounced with the readiness of respondents to protest against the current economic situation. About 62% of Albanians, 74% of

³⁹ Regulation No. 2005/13.

Serbs, and 59% of non-Serb minorities have expressed such readiness to protest (see Table A3.1 in the Annex). It should be stressed that this level of readiness is much higher than the level of readiness to protest for political reasons.

Table 3.1. Percentages of respondents “unsatisfied” or “very unsatisfied” with the current economic situation (%)

	March 2003	July 2003	Nov 2003	March 2004	July 2004	Nov 2004	March 2005
Albanians	66.8	64.8	71.8	75.4	69.0	65.4	70.3
Serbs	85.7	76.4	84.9	81.8	95.5	93.1	95.1
Others	62.6	56.8	59.5	66.7	71.4	75.2	58.2
Total	67.7	65.0	71.8	75.3	70.7	67.7	71.1

Source: Riinvest opinion polls – March 2003 to March 2005

33. All ethnic groups surveyed expressed an increasing dissatisfaction regarding the economic situation of their household compared to that of six months earlier. About 27% of Albanians, 18% of Serbs, and 30% of non-Serb minorities consider that the economic situation of their household is “worse” or “much worse” than six months earlier – see Table A3.2 in the Annex.

Difficulties in achieving the projected GDP growth

34. An estimate of the GDP for 2005 was given in the last IMF report, drafted during an IMF mission to Kosovo in November 2004. According to this estimate, the nominal annual GDP growth for 2005 is predicted to reach 5%, while GDP per capita will be approximately €1,000.

The IMF estimate regarding the GDP growth of 5% is conditional to the ratio of total investments going from 25% to 27% of the GDP. According to this scenario, such an increase would raise employment by 3%, which would be insufficient to counter the large influx of new entrants into the Kosovo labor market. Hence, it is unlikely that the problem of unemployment, a serious socio-economic problem in Kosovo, will be mitigated in the next few years. In addition, recent trends in investments indicate that a 25-27% investment-to-GDP ratio may be difficult to achieve. Based on available data, private investments have shown a significant decrease, and it appears that both private and public investments in Kosovo would not be sufficient to reach such an investment ratio. The IMF suggests that this scenario can be mediated by relying on foreign borrowing to fill the gap. However, this suggestion has to be carefully considered, bearing in mind that Kosovo will face borrowing difficulties in the short-term period. Although the Assembly of Kosovo passed the Law on Foreign Borrowings, so far its implementation has not been considered. Hence, during 2005, the investments continue from the traditional sources – such as entrepreneurs’ own capital, Kosovo’s Consolidated Budget, and donations – more than from foreign sources.

35. Kosovo’s GDP in 2005 will continue to be driven from consumption and investments, whereas the contribution of net exports will be almost negligible. In the near future, no significant change is foreseen for the trade balance: imports will dominate Kosovo’s market, whereas exports will be minimal, albeit marked by a small increase. As a result, the negative trade balance for the year 2005 will be at 61% of the GDP, 7.5% lower than in the previous year (see Table 3.2).

Table 3.2. Trends of some macroeconomic indicators (in million €)

	2001	2002	2003	2004	2005
GDP	1,625	1,735	1,797	1,895	1,999
GDP per capita	870	913	930	964	1,000
Remittances	217	241	241	244	244
Foreign assistance	1,144	902	732	624	518
Trade balance, % of GDP	-103.7	-86.0	-76.8	-68.5	-61.0

Source: IMF Report, November 2004

In the analysis of a macroeconomic system characterized by great imbalances, the benefits of remittances are frequently considered. Data from the opinion poll conducted as a part of this project confirmed that the percentage of families receiving remittances in cash has fallen from 31% in August 1999⁴⁰ to about 17% in 2005 (18.3% in Albanian families, 0.5% in Serb families, and 8.1% in families of non-Serb minorities). Adding to this the decrease of the Consumer Price Index since October, then prediction and expectations regarding nominal GDP growth may be rather optimistic.

Actual trends

36. Budget deficit. Discussions concerning the problems related to the budget deficit continued in the first few months of 2005. Officially, it is estimated that the government deficit at the end of 2004 was approximately €140 million. This amount was repaid with the accumulated budget surplus from previous years. If the trend of expenditures is similar to that of the previous year, the expenditures will overtake revenues at the end of the year, thus becoming a serious problem. The forecasted deficit for 2005 is €90 million, or approximately 5% of the GDP (including around €22 million pledged to KEK and the “Pristina Airport”), and again will be repaid with the accumulated surplus. The greatest challenges are expected in 2006, in which the government will enter with only €50 million in reserve.

37. As a solution to this crisis, the IMF suggests an governmental intervention in the wage bill or undertaking of measures that would decrease the number of employees in the administration. Both these solutions would further raise social tensions, considering the high unemployment figures and general social conditions in Kosovo. A complementary measure which needs to be considered as soon as possible is the reexamination of the budget structure of spending agencies in order to rationalize the spending on goods and services. Another measure that could be undertaken would be the increase of domestic tax collection (VAT on domestic products, payroll tax, property tax, etc.).

38. Prices and inflation/deflation. Based on recent publications from the Statistical Office of Kosovo (SOK)⁴¹ and the World Bank,⁴² it appears that since October 2004 the Consumer Price Index (CPI), on which inflation is measured, has fallen and that Kosovo is entering into a deflationary zone for the first time. The CPI had fallen an average of 3% in February 2005 compared to that of February 2004 (see Fig. 3.1). According to SOK, this fall was affected by falling prices of food and beverages, rent, public services and especially, the fall of bread and apparel prices by 10%. The deflation phenomenon in Kosovo has to be analyzed

⁴⁰ Survey of 3,500 households, Riinvest, 1999.

⁴¹ Enti i Statistikës i Kosovës, mars 2005.

⁴² World Bank: Kosovo Monthly Economic Briefing, March 1, 2005.

comprehensively because it reflects various macroeconomic instabilities, including the fall in the demand or purchasing power of consumers.

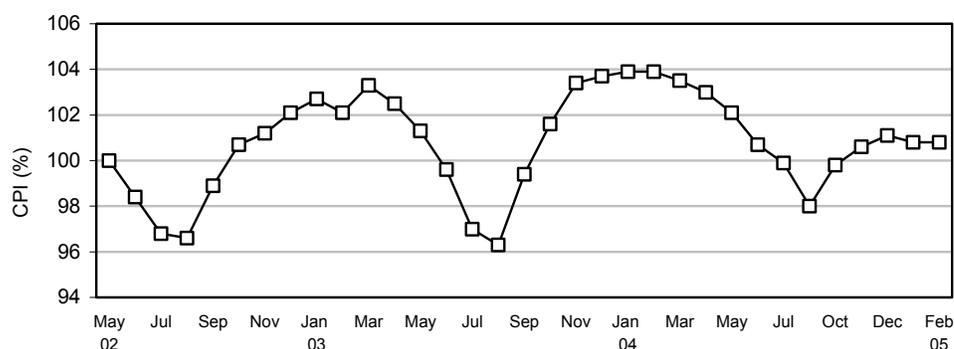


Fig. 3.1. Consumer Price Index (May 2002=100);
Source: Statistical Office of Kosovo. March 2005

39. Imports and Exports. Import and export discrepancies remained rather large in 2004. Compared to 2003, imports in 2004 have risen by 90 million Euros, or 9.2% (Table 3.3). This increase in imports contributed to the progression of the trade balance deficit. Most part of this increase came from growing imports from EU countries. EU share of Kosovo imports increased from 26% in 2003 to 36% in 2004. By comparing previous imports, it has been noted that there is an increase in demand for mineral products, leather, plastic, wood, electrical and other equipment.

Table 3.3. Dynamics of exports and imports (million €)

	2003	2004	January- March 2004	January- March 2005	Index March 2005/ March 2004
Exports	35.6	56.5	17.3	12.2	70.5%
Imports	973.1	1,063.2	387.8	231.3	69.3%
Trade balance	-937.5	-1,006.7	-370.5	-219.1	59.1%

Source: IMF Report, November 2004

Kosovo still suffers from an inadequate export structure in which scrap metal accounts 25 % from the total amount of exports. Kosovo's trade exchange in 2004 was further hampered by ongoing trade imbalances with its neighbors, especially Serbia and Montenegro, and Macedonia. Macedonia appears to have no interest to foster signing of the Free Trade Agreement with Kosovo.

In the first quarter of 2005, Kosovo's trade volume appears to have decreased, both in terms of exports and imports. The foreign trade of goods and services has marked a decrease by 30%, compared to the first quarter of 2004. With the state of the current fiscal regime, a further decrease of imports will affect budgetary revenues.⁴³

⁴³ A further decline in donor commitments was reported in 2004 according to Donor Coordination Sector in Ministry of Finance and Economy (MFE) from Euro 203.6 million in 2003 to Euro 137.6 million in 2004 and 87 percent decline since 2000. This decline raises further questions about the external financing of Kosovo's trade deficit.

40. Deposits and Crediting. Deposits and loans are continuing to increase. A significant new development has been observed, namely that there has been an increase in medium-term financing. During the period between June 2004 and January 2005 the provision of consumer loans has increased to 29.3% in the credit market. Although growing trends in the credit market have been observed, the interest rate remains almost the same. This may indicate the lack of real competition in the credit market, and may show that banks feel comfortable in the current conditions. On the other hand, there are a limited number of economic policies regarding the credit market which would help promote healthy competition between banks.

41. Deposits increased by 12.5 million Euros, or 1.8%, in February 2005 in comparison to December 2004. In addition, deposit increased by €167 million (31%) if it is compared the period February 2004 to February 2005 (see Table 3.4). Share of time deposits has also increased during the same time period - from 44.2% in February 2004 to 60.0% in February 2005. This may indicate the improvement of clients' confidence levels in commercial banks.

Table 3.4. Indicators of deposits and loans (million €)

	Feb 2004	Dec 2004	Feb 2005	Index Feb 2005/ Feb 2004
Deposits	541,4	696,3	708,8	130,9
Time deposits	239,5	413,5	422,7	176,5
Loans	252,8	353,1	356,5	141,0
Loans/ deposits	47%	50,7%	50,6%	

Source: BPK, Monthly Statistics Bulletin, January 2004 & 2005

42. During the period February 2004 – February 2005 loans have increased by 41%, being given predominately to trade and service enterprises, and less to industry and agriculture. Although no changes of lending conditions for periods one to three years were registered, the conditions for short-term lending became worse. According to BPK reports, the interest rates for lending from 3 to 12 months slightly increased. The lack of published official data on the share of bad loans in the total amount of disbursed loans still remains the most sensitive issue concerning the banking system. As a result, the public and especially the press have formulated their own opinions on the scope of this problem. Therefore, it would be beneficial and important for the BPK to present data about this issue in its statistical reports.

43. Unemployment. The number of registered jobseekers during the January-April period of 2005 continues to increase. This is consistent with the lack of employment opportunities and the limited progress in creating new jobs in the labor market.

The number of registered jobseekers in December 2004, compared to December 2003, has increased by 19,677 people, or 7% - see Table 3.5. The total number of registered jobseekers at the end of January 2005 accounted for 303,095 people, representing an increase of approximately 19,000 jobseekers, or 6.7%, in comparison to January 2004. From a total number of registered jobseekers, 46% are female. It has been observed that the growth rate of female unemployment is larger (7.7%) than the growth rate male unemployment (7.0%).

The number of new jobseekers registered at employment offices during 2004 accounted for 30,395 people. During the same year, 11,476 persons were employed or have changed their employment status.

Table 3.5. Number of registered jobseekers

	Dec 2000	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Jan 2005
Number	208.074	237.958	257.505	282.305	301.982	303.095

Source: Ministry of Labor and Social Welfare, 2005

Business environment

44. Until recently, the numerous efforts made to build basic legislation and develop economic policies resulted in no significant improvement within the business environment. Businesses continue to face almost the same barriers each year and it has been noted that some of the obstacles facing businesses are increasing (see Table 3.6). In Riinvest's surveys, business owners have described their perceptions on the business environment and investment climate, as well as on their business expectations for the next six-month period. The business survey data⁴⁴ suggests that only 26% of enterprises judged 2004 more productive than the previous year. On the other hand, about 45% of businesses expect that 2005 will be associated with better business results, one third of them do not expect changes, while about 20% expect further deterioration of the business environment. According to the opinion poll carried out on March 2005 for this report, about 42% of Albanian respondents, 91% of Serb respondents and 49% of non-Serb minorities consider that conditions for businesses during the next six month period will be unfavorable – see Table A3.3 in the Annex.

Table 3.6. Barriers in the business environment according to surveys with 600 SMEs in Kosovo during the last four years; 100 is the maximum intensity

	2001	2002	2003	2004
Unfair competition	74.7	74.9	72.4	78.6
Corruption	37.7	42.5	49.0	67.4
Strong competition	57.7	63.1	64.9	66.2
High taxes	57.4	58.6	68.3	63.9
Administrative procedures	39.5	44.8	55.1	55.4
Law enforcement	75.9	67.4	51.8	55.1
Delays in payments	38.9	44.8	56.0	54.0
Approach to credits	51.8	54.1	52.3	49.9

Source: Riinvest, various years

Intensities of barriers are calculated based on respondents' judgments according to the 1-5 scale, 1- being the largest barrier and 5 - being no barrier at all

Note: Unfair competition in the survey is divided into three components: informal economy, corruption, and fiscal evasion.

The main barriers Kosovo businesses are facing are of an institutional nature and have their source in the lack of law enforcement, in existing taxation policies, or in complicated and inefficient administrative procedures (Table 3.6). Some of the problems that businesses are facing are a consequence of harsh competition that is present in the Kosovo market. This competition is a result of lack of reciprocity in trade relationships with other countries, particularly with those in the region.

⁴⁴ SME Survey, Riinvest, January 2005.

Energy problems continue

45. One of the main problems Kosovo has been faced with during the last six years is the lack of a reliable power supply, which has remained unsettled despite large investments in this sector.

Table 3.7. Production and losses of electric power

	Unit	January 2005	February 2005	Index Feb 2005/ Feb 2004
Produced	GWh	413.5	375.8	-9.12
Available	GWh	481.4	444.7	-7.6
Consumed	GWh	201.6	202.1	0.2
Technical and commercial losses	%	58.1	54.6	

Source: KEK Reports

The biggest problems that the energy sector is still facing are:

- insufficient electric power production to cover consumption needs with frequent energy supply cuts;
- high degree of technical and commercial losses – see Table 3.7;
- large discrepancy between billing and bill payments as a consequence of low level of bill payments for the consumed energy; – see Table 3.8 and Figure 3.2.

Table 3.8. Indicators of billing and bill payments (million €)

	March 2004	January 2005	February 2005	March 2005	Index March 2005/ March 2004
Billing	13.3	12.1	12.6	13.4	100.7
Bill payments	6.9	5.6	6.7	7.9	114.5
Billing/ Bill payment	51.9	46.3	52.0	59.4	

Source: KEK Reports

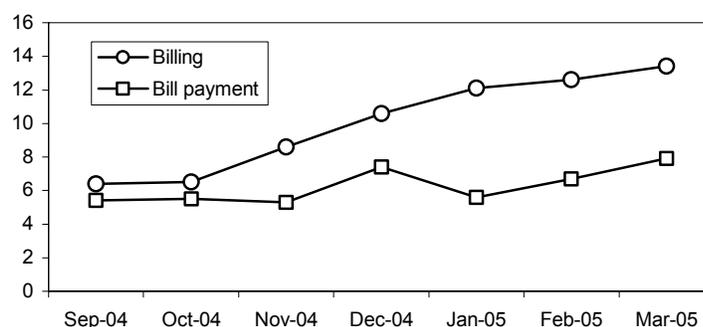


Fig. 3.2. Dynamics of billing and bill payments of electric power

Source: KEK Reports

Inter-ethnic Relations

Inter-ethnic relations and public opinions

46. In January-March 2005, no serious inter-ethnic incident was observed in Kosovo.⁴⁵ This is similar to the previous reporting period of September-December 2004. During the current reporting period, some encouraging signs were observed concerning inter-ethnic relations and the inclusion of Serbs in Kosovo institutions:

- The rebuilding of Serb houses destroyed during the March 2004 events is almost complete. According to UNMIK and Government figures, out of 897 houses destroyed and registered by the commissions, 853 were reconstructed by February 2005, and another 19 houses are about to be completed.⁴⁶
- The Minister of Culture, Astrit Haraçia, has signed an Memorandum of Agreement with the Serb Orthodox Church for the reconstruction of Serb churches damaged in the riots of March 2004.⁴⁷
- The Government and the municipalities have started to dismantle the Roma minority camps in Plemetin and Mitrovica and have begun to allocate proper housing to them.⁴⁸
- Slavisa Petkovic, leader of the Serbia Civic Initiative, was appointed as the Minister of Returns and Communities.
- There have been appeals by some Kosovo Serb leaders for participation in Kosovo institutions.⁴⁹

47. In March 2005, Albanian and Serb respondents have expressed increasingly positive opinions regarding inter-ethnic relations between Albanians and Serbs in Kosovo, then in previous opinion polls conducted for the Early Warning Report. Table 4.1 concludes that a lower percentage of Serb respondents consider that “relations are and will continue to be tense”. It is also encouraging to observe that the percentage of Serb respondents which noted that “some improvements have recently occurred”, has considerably increased - from 1.5% in November 2004 to 13.4% in March 2005.

⁴⁵ An exception to this occurred on March 28, 2005: an old Serbian couple was savagely assaulted in the village of Crkolez, near Istog/ Istok. This case was widely exploited in Serbia's media to demonstrate that Serbs in Kosovo are extremely unsafe. In a meeting with IDPs in Serbia held on March 30th, SRSG Søren Jessen-Petersen dismissed claims that Albanians attacked an elderly Serb couple: “Let me state very clearly that what you hear from the Serbian media is a lot of the time, not true. Yesterday there was a case that the Serbian media reported of an older married couple who was brutally beaten in Crkolez. There were claims that the attack was ethnically motivated and perpetrated by Albanians. I can tell you that this is not the truth”; *Beta*, March 31.

⁴⁶ “UNMIK and Government figures deny Serb accusations”, *Koha Ditore*, March 21, 2005.

⁴⁷ All dailies, March 25, 2005. Unfortunately, the Serb Orthodox Church later withdrew its signature from this memorandum.

⁴⁸ All dailies, February 2, 2005.

⁴⁹ Kosovo Serb leader Oliver Ivanovic told *Deutsche Welle* that the Serb community has realized that they cannot solve their problems by withdrawing from Kosovo institutions; *Express*, February 28, 2005.

The opinions of Albanian respondents, regarding inter-ethnic relations, have also improved. Only every fifth Albanian respondent has answered that inter-ethnic relations “are and will continue to be tense”, while almost every third respondent has noted that “some improvements have recently occurred”.

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

	March 2004		July 2004		November 2004		March 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Relations are and will continue to be tense	36.0	83.7	34.6	96.0	28.8	98	21.2	81.3
Relations are tense, but some improvements have recently occurred	36.6	8.2	32.1	3.5	28.3	1.5	32.2	13.4
Relations are tense, but considerable improvements have been marked	9.6	7.5	14.6	0.5	18.1	0.0	19.9	4.8
Relations are not so tense	10.7	0.7	12.6	0.0	14.8	0.0	13.1	0.5
Relations are not tense at all	7.3	0.0	6.1	0.0	10.0	0.5	13.5	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion surveys – March 2004 to March 2005

48. The readiness of Albanians to support the return of displaced persons and refugees is essential for the further fulfillment of the “Standards for Kosovo”. There has been an increase in the percentage of Albanian respondents ready to support the return of displaced persons and refugees, as surveyed in March 2005, which is an encouraging sign for the future development of Kosovo. The support for returns by Albanian respondents should be used by the leadership in Kosovo to take positive steps in this direction. According to the March 2005 opinion poll, only every fourth Albanian respondent is now not ready to support the return of displaced people and refugees – see Table 4.2. Moreover, about 30% of Albanian respondents have shown readiness to cooperate with the returnees, and about 41% of Albanian respondents will try to make contact with them (Table A4.1 in the Annex).

Table 4.2. Respondents' readiness to support the return of displaced persons and refugees to Kosovo (%)

	March 2004		July 2004		November 2004		March 2005	
	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs	Albanians	Serbs
Support their return to Kosovo	61.1	98.1	67.0	100.0	61.6	98.0	75.3	99.0
Do not support their return	38.9	1.9	33.0	0.0	38.4	2.0	24.7	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion surveys – March 2004 to March 2005

49. However, this does not mean that inter-ethnic relations between Albanians and Serbians in Kosovo have reached such a degree of mutual tolerance that would ensure the peaceful coexistence of these two ethnicities in the future, and the integration of Serbs in Kosovan society. The opinions of these two ethnicities regarding issues essential for the future of Kosovo and coexistence within it still remain almost opposite to each other.

- ➔ While 94.4% of Albanian respondents think that the best solution for the final status of Kosovo is independence, 92.5% of Serb respondents are in favor of Kosovo remaining an autonomous province within Serbia – see

Table A4.2 in the Annex. The percentage of Albanian respondents that are in favor of independence has increased in comparison with the percentage marked in Early Warning Report #8;

- 47.3% of Serb respondents see public and personal security as the biggest problem facing Kosovo; however Albanian respondents see uncertainty about the final status of Kosovo as the biggest problem (Table A2.4 in the Annex);
- Albanian respondents continue to think that Belgrade's influence and the lack of readiness by Serbs for integration into Kosovan society are the main factors which cause tense relations between Albanians and Serbs, whereas Serb respondents see insufficient efforts by Albanians to help integrate the Serbians and the attitude of Albanian leaders towards integration, as the main factors which cause tense relations between the two ethnicities – see Table A4.3 in the Annex.

Return of Internally Displaced Persons (IDPs)

50. The return of IDPs is essential for the future development of Kosovo. According to the UNHCR office in Pristina, 12,396 displaced people were returned to Kosovo during 2000-2005. In the first quarter of 2005 some positive developments were observed regarding this issue:

- The first Serb two-member family returned to Klina after a period of six years.⁵⁰ “This is neither an organized nor a non-organized return but it is well-coordinated by UNMIK and Municipal Assembly of Klina,” said UNMIK's representative in Klina, Ismail Yilmaz;
- The Kosovo Government has called on all IDPs to return to their homes.⁵¹
- Slavisa Petkovic who was appointed as a Minister for Returns and Communities has also called on all IDPs to return to their homes. “In one month, 85 families have returned to Kosovo. That's more than Nebojsa Covic achieved in five years,” he said;⁵²
- The Municipal Group for the Return of IDPs in Bablak, Ferizaj/ Urosevac, has announced that the final stage of reconstruction of 48 houses has successfully ended, and that 15 Serb families were expected to return to the village on 10 March 2005.⁵³

51. The returns process is not progressing evenly throughout Kosovo. Many difficulties have been encountered in regions that suffered greatly during the 1999 conflict. The following two examples illustrate the disparities between returns of IDPs to certain regions:

- According to UNHCR figures, 2,296 IDPs have returned to the Gjilan/ Gnjilane region since 1999, out of which 1,389 are Serbs, 364 are Roma, 128 are Ashkali and Egyptians, and 415 are Albanians.⁵⁴ This region did not suffer greatly during the 1999 conflict, however;
- Local officials in Deçan/ Decane claim that the municipality has no strategy for the return of IDPs and cannot foresee having one in the near future.⁵⁵

⁵⁰ “First Serb family returns to Klina after six years”, *Koha Ditore*, March 1, 2005.

⁵¹ “Government with concrete plans for the return of IDPs”, *Zëri*, March 4, 2005.

⁵² “Petkovic calls Kosovo Serbs to return”, *B92/Beta*, March 5, 2005.

⁵³ “Reconstruction of Serb houses in Bablak concludes”, *Lajm*, January 11, 2005.

⁵⁴ “Return of IDPs continues in Gjilan region”, *Zëri*, January 24, 2005.

⁵⁵ “Strategy on returns for 2005 puts Deçan to a test”, *Koha Ditore*, February 1.

According to these officials, one of the main difficulties in implementing the 2005 strategy on returns is the lack of communication between the local officials and IDPs. “We don’t know how many minority members are displaced. We don’t know their gender or their age”, these officials say.⁵⁶ The Decan region suffered greatly during the 1999 conflict.

52. Although the return of 12,396 IDPs seems significant, it represents only a small percentage of the total number of IDPs, mainly Kosovo Serbs and members of the Roma community.⁵⁷ For a more successful return of displaced persons, more activities and efforts have to be undertaken from both Kosovan and Serbian sides:

- Kosovo Albanian political leaders should continue visiting IDPs in Montenegro, Serbia and the Former Yugoslav Republic of Macedonia in order to explain possibilities for their return to Kosovo;
- Officials from Kosovo and Serbia should agree on the exact number of currently displaced people and make lists detailing where these IDPs are currently being accommodated, together with other pertinent information;
- Kosovo Albanian political leaders should be more active in explaining to the Kosovo Albanian population the importance of the returns process for the future development of Kosovo;
- The Albanian language media in Kosovo should dedicate more time in illustrating positive examples of inter-ethnic relations, and to multi-ethnicity in general;⁵⁸
- Serbian officials should stop using the issue of IDPs with the purpose of fulfilling political goals.

⁵⁶ *Idem.*

⁵⁷ There is a huge discrepancy between the numbers that Serbian and Kosovan officials quote on the total number of IDPs; the figures that Serbian officials quote are twice as high as of Kosovan officials.

⁵⁸ The role of television is especially important in this context. According to surveys carried out by Index Kosova, almost 90% of Kosovo inhabitants get their information by watching television.

Public and Personal Security

Security situation

53. The security situation in Kosovo at the beginning of 2005 can be divided into two phases:

- i) relatively stable situation until the first half of March; and
- ii) deterioration of certain aspects of the security situation in the second half of March and especially in the beginning of April.

54. On the first anniversary of the violent March 2004 events, it was expected that the security situation in Kosovo could worsen, or even that the unrest could be repeated. However, in March 2005, this did not happen. Even after the indictment by the ICTY of then Prime Minister Ramush Haradinaj, there was no unrest, despite the fact that in the opinion poll carried out for the Early Warning Report in November 2004, Albanian respondents expressed a high degree of readiness to protest in the event of further indictment by the ICTY.

Although there is no conclusive indicator that would suggest why civil unrest did not break out, it is probable that the non-escalation of the situation in March can be attributed to the following factors: 1) the population's awareness of the major political setback and property damage caused by the unrest of March 2004; 2) lessons learned from the unrest in March 2004, and the subsequent readiness of KFOR, UNMIK and the KPS to prevent an escalation in the security situation; 3) greater satisfaction of respondents with political developments, the performance of UNMIK, and especially with the performance of the SRSG, Mr. Søren Jessen-Petersen, and the former Prime Minister Haradinaj.

55. The opinion poll carried out for the purpose of this report in March 2005, immediately after the voluntary surrender of Mr. Haradinaj to the ICTY, has shown favorable opinions on many factors related to public and personal security.

- 1) Respondents of all ethnicities consider that the security situation in 2005 has improved in comparison with 2004, and a lower percentage of respondents believe that the security situation has worsened – see Table 5.1. Similar trends were observed in relation to respondents' perception of the security situation in their neighborhoods (Table A5.1 in the Annex).

Table 5.1. Opinions regarding the security situation in Kosovo compared to one year ago (%)

	November 2004			March 2005		
	Albanians	Serbs	Others	Albanians	Serbs	Others
The situation is worsened	5.8	44.5	7.9	4.3	12.9	1.5
The situation remained the same	51.3	55.0	53.2	30.9	76.7	30.3
The situation is improved	43.0	0.5	38.9	64.8	10.4	68.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion polls – November 2004 and March 2005

- 2) In comparison with the assessments of respondents made in November 2004 and earlier, in March 2005 an increase was observed in the number of respondents of all ethnicities who felt “somewhat safe” and “very safe” while on the street: 63.9% of Albanians, 23% of Serbs, and 73.1% of other non-Serb minorities felt “somewhat safe” and “very safe”, in comparison to the November 2004 opinion poll where 50% of Albanians, 20.6% of Serbs and 61.3% of other non-Serb minorities felt “somewhat safe” and “very safe” – see Table A5.2 in the Annex.
- 3) The satisfaction with the institutions responsible for security (KFOR, UNMIK and the KPS) is still high. In addition to the satisfaction of Albanian respondents with the work of KFOR, which continues to remain at July and November 2004 levels, there is an increase in the satisfaction of Albanian and also Serb respondents with the performance of all these institutions – see Table 5.2. The increasing trend in the satisfaction of Serb respondents with the performance of UNMIK Policeis to be emphasized.

Table 5.2. Percentages of respondents “satisfied” or “very satisfied” with the performance of security institutions

	Albanians					
	Jul-03	Nov-03	Mar-04	July-04	Nov-04	Mar-05
KFOR	85.1	81.4	88.4	85.6	85.7	84.9
UNMIK Police	65.5	53.5	57.1	44.2	41.6	54.7
KPS	89.9	89.7	90.5	89.9	88.2	92.7
	Serbs					
	Jul-03	Nov-03	Mar-04	July-04	Nov-04	Mar-05
KFOR	26.4	16.4	11.4	10.7	10.6	14.7
UNMIK Police	11.3	13.4	3.7	3.7	4.8	6.1
KPS	4.6	14.3	3.0	1.8	0.5	4.0

Source: Riinvest opinion polls – July 2003 to March 2005

- 4) Opinions on community-police relations have marked an improvement in comparison with November 2004 – see Table 5.3. Approximately 63% of Albanian respondents, 25% of Serb respondents, and 80% of the non-Serb minorities now consider that these relations are “good” or “very good”.

Table 5.3. Respondents’ opinions of the community – police relations (%)

	November 2004			March 2005		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Very bad	2.7	7.0	3.4	2.9	8.2	0.0
Bad	4.7	30.7	22.4	5.0	23.5	6.3
Neither good or bad	34.1	46.2	16.4	25.1	43.7	13.4
Good	49.3	15.6	49.1	51.3	24.6	64.3
Very good	9.2	0.5	8.6	15.7	0.0	16.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion polls – November 2004 and March 2005

56. The worsening of certain aspects of the security situation in the second half of March, and especially in the beginning of April 2005, was caused by various explosions, vandalism against UN vehicles, and attacks on political figures and party premises:

- On January 1st, a United Nations police officer in Kosovo was killed in a bomb explosion;
- On February 10th, an explosive went off under the car of Mr. Oliver Ivanovic, one of Kosovo's Serb leaders, in front of his home;
- On March 10th, two hand grenades exploded in the vicinity of UNMIK headquarters in Pristina, injuring a 15-year old boy and damaging two vehicles;
- On March 15th in Pristina, an assassination attempt against President Rugova was carried out during which two by-passers were wounded;
- On April 9th in Pristina, three UNMIK vehicles were either set on fire or vandalized;
- On April 15th, Enver Haradinaj, the brother of former Prime Minister Ramush Haradinaj, was killed near Peja/Pec;
- On April 17th, a strong explosion caused major damage to the headquarters of Veton Surroi's opposition party ORA.

Of special concern is the fact that in the majority of these and previous incidents, the acts of violence were carried out in a sophisticated manner. This indicates that their perpetrators are well-organized professionals whose objective is to cause panic and intimidate important political figures. The public's perception of security can be affected by the failure to identify the perpetrators of these and other serious crimes, thereby resulting in a lack of trust in the police and judiciary.

57. In the future, the security situation can also be affected by the accusations that the opposition party, the PDK, raised against the Deputy Prime Minister and some Government ministers, alleging their involvement in crimes such as murder, threats, blackmail, financial crimes, and other illegal activities.⁵⁹ These accusations, whether true or not, can cause insecurity, a lack of trust in the judiciary and Kosovo institutions, and consequently, create a sense of insecurity in the population.

Inefficiency of the judiciary

58. The public and personal security situation depends on the independent function of the judiciary and their efficiency. The courts and the Office of the Public Prosecutor in Kosovo do not have the necessary independence or the full authorization for their own budget, administration and management.

59. The ability of Kosovo courts to process criminal, civil and other cases is insufficient due to the enormous increase of cases to handle and the inadequate number of judicial officials. This assertion is illustrated by the following indicators:⁶⁰

- 24 courts, with 100 employed judges, have completed 118,875 misdemeanor cases in 2002, or an average of 1,200 cases per judge annually. They represent 82% of the total number of cases filed in these courts during this period. The number of cases has increased by 40% in 2003 and 2004, whereas the percentage of the completed cases in the period has decreased;

⁵⁹ The PDK has filed a demand in the Assembly of Kosovo for the establishment of an investigative parliamentary commission that would investigate the organized crime that some members of the Kosovo Government are allegedly involved in. Among other things, it was proposed that the commission investigate the allegations against some Government ministers' involvement in an earlier terrorist act in the Ben-Af shopping center in Ferizaj/Urosevac, and to investigate their possible connections with the assassination attempt against President Rugova; *Epoka e Re*, April 12, 2005.

⁶⁰ Statistical data about the judiciary and judicial personnel have been provided by the Department of Justice (UNMIK), and was prepared in 2005 for the reconstruction of the Kosovo judicial system.

- Municipal courts, with 124 judges in 22 courts, have processed 127,913 cases in 2002 from an overall number of 156,545 cases filed during that year. This represents 67.2% of all cases to be processed in these courts during this period. The number of cases per judge was also very high – about 1,030 completed cases per judge. In 2004 and 2005 the situation changed, more cases were filed and fewer cases were completed.
 - In district courts, 38 judges have completed 8,554 cases from an overall number of 11,534 cases filed during 2002.
- 60.** Criminal cases constituted 20% of the caseload processed by the district courts in 2002, whereas in the beginning of 2003, criminal cases represented 36% of all uncompleted cases in these courts. In 2004, the situation has become even less encouraging. The increase in the number of uncompleted criminal and civil cases dealing with human rights, property and other rights, becomes a factor leading to insecurity and lack of trust in the judiciary.
- 61.** The inadequate number of judges is also a factor that influences the lack of efficiency of the courts. On the average, in municipal and district courts as well as in the Office of the Public Prosecutor, about 40%-50% of available judicial personnel positions remain vacant.
- 62.** These elements have made respondents more dissatisfied with the performance of the courts – see Table 5.4. At almost 100%, the dissatisfaction of Serb respondents is at the highest level of dissatisfaction. However, the dissatisfaction level among Albanian respondents is also very high – around 58% of them are “dissatisfied” or “very dissatisfied” with the performance of the courts in general.

Table 5.4. Satisfaction of respondents with the performance of the courts (%)

	November 2004			March 2005		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Very dissatisfied	12.9	76.6	11.1	14.5	68.2	2.4
Dissatisfied	47.0	22.8	44.4	43.7	30.2	33.3
Satisfied	37.7	0.5	42.0	40.8	1.6	59.5
Very satisfied	2.4	0.0	2.5	1.0	0.0	4.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Riinvest opinion polls – November 2004 and March 2005

ANNEX 1. Selected results of the opinion poll

Note. The opinion poll for this Report was conducted in March 2005, by the “Rinvest” 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 1,272 respondents: 933 Albanians, 204 Serbs, and 135 respondents from other minorities (45 Bosnians, 10 Goranis, 34 Turks, 1 Roma, 23 Ashkalis and 21 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.

Table A1.1. The main sources of information of respondents about decentralization in Kosovo (%)

	Albanians	Serbs	Others
Electronic media (TV, Radio, Internet)	79.9	63.9	83.8
Newspapers	11.8	25.8	12.2
Discussions with relatives/friends	5.6	9.3	1.4
No answer	2.7	1.0	2.7
Total	100.0	100.0	100.0

Table A1.2. Opinions on the needs for further decentralization in Kosovo (%)

	Albanians	Serbs	Others
There is no need for decentralization - the present structures are fine	25.5	0.0	5.4
There is a need for decentralization to bring government closer to the people	44.0	52.6	64.9
No answer	30.5	47.4	29.7
Total	100.0	100.0	100.0

Table A2.1. Satisfaction of respondents with the performance of some political personalities (%)

	Albanians	Serbs	Others
SRSG	87.8	0.5	76.9
President Rugova	76.4	0.0	90.3
Prime Minister Haradinaj	97.6	0.0	92.8
Speaker of the Assembly Daci	84.8	0.0	92.9

Table A2.2. Satisfaction of respondents with the performance of various institutions – “satisfied” or “very satisfied” respondents (weighted %)

	UNMIK-u	Government	Assembly
November-02	63,8	74,1	76,7
March-03	51,9	74,9	71,9
July-03	43,1	78,1	74,7
November-03	28,4	68,5	65,3
March-04	24,7	73,4	64,3
July-04	20,7	71,9	59,1
November-04	24,1	72,2	64,5
March-05	29,7	81,2	73,7

Table A2.3. Respondents’ readiness to join protests that could be organized due to the current political situation (%)

	Albanians	Serbs	Others
Yes	47.4	67.6	46.7
No	38.2	6.4	36.3
Does not answer	14.5	26.0	17.0
Total	100.0	100.0	100.0

Source: Opinion poll – March 2005

Table A2.4. Opinions on the biggest problems faced by Kosovo (%)

	Albanians	Serbs	Others
Infrastructure (roads)	1.2	1.5	0.0
Power supply	4.0	1.0	4.4
Urban problems (unregulated building)	0.3	0.0	0.0
Environment	0.2	0.5	0.0
Poverty	10.1	3.4	17.8
Prices	0.5	0.0	0.0
Healthcare services	0.2	0.0	0.0
Public and personal security	0.2	47.3	0.7
Education	0.4	0.0	0.0
Interethnic relations	0.1	11.8	3.0
Unemployment	26.0	16.3	25.2
Uncertainty about the final status of Kosovo	49.2	6.4	44.4
Social problems	0.4	0.0	3.7
The fate of the missing	4.8	0.5	0.0
Organized crime	0.2	2.0	0.0
Unsolved killings and murders	0.5	0.0	0.0
Corruption	1.0	1.0	0.0
Unsocial behavior (prostitution, drugs)	0.2	0.0	0.0
Something else	0.2	8.4	0.7
Total	100.0	100.0	100.0

Table A3.1. Respondents' readiness to join protests that could be organized due to the current economic situation (%)

	Albanians	Serbs	Others
Yes	62.4	74.0	58.5
No	26.6	6.4	25.9
Does not answer	11.0	19.6	15.6
Total	100.0	100.0	100.0

Table A3.2. Economic situation of respondents' households compared to six months ago (%)

	Albanians	Serbs	Others
Much worse	3.4	3.0	3.7
Somehow worse	23.6	14.6	26.1
The same	56.0	79.8	60.4
Somehow better	15.2	2.0	6.7
Much better	1.9	0.5	3.0
Total	100.0	100.0	100.0

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

	Albanians	Serbs	Others
Unfavorable	41.8	90.7	49.4
Neither favorable nor unfavorable	41.9	8.2	47.0
Favorable	16.3	1.1	3.6
Total	100.0	100.0	100.0

Table A4.1. Respondents' possible reaction toward the return to the respondents' environment, community or neighborhood (%)

	Albanians	Serbs	Others
I would ignore them	30.0	0.0	7.2
I would try to make contact with them	40.6	16.3	67.6
I would cooperate with them	29.4	83.7	25.2
Total	100.0	100.0	100.0

Table A4.2. Opinions on the best solution for the future final status of Kosovo (%)

	Albanians	Serbs	Others
Independence of Kosovo in the present borders	94.4	0.0	99.1
Partition of Kosovo	0.2	3.0	0.0
Unification with Albania	5.2	0.0	0.9
Confederal state within Serbia, such as Montenegro	0.1	4.5	0.0
Autonomous province within Serbia	0.1	92.5	0.0
Total	100.0	100.0	100.0

ANNEX 2. Events during the period January-March 2005

January

- **5 January 2005** - The Penal Management Division within UNMIK's Department of Justice graduated the third generation of Kosovo Correctional Service's prison directors. The group of 15 new deputy directors include ten Kosovo Albanians, four women among them, and five Kosovo Serbs.
- **10 January** - The Municipal Group for the Return of IDPs, has announced that the final stage of reconstruction of 48 houses in Bablak, Ferizaj has successfully drawn to a conclusion. 15 Serb families are expected to return to the village on 10 March 2005.
- **21 January** - UNMIK has finished its second technical assessment of the "Standards for Kosovo". "So far we have received good, positive comments from various sides. This is a process of good co-operation between the PISG and UNMIK," declared UNMIK spokesman Jeff Bielej.
- **26 January** - The Kosovo Assembly has adopted the request of Prime Minister Haradinaj to appoint Slavisa Petkovic, leader of the Serbia Civic Initiative, as Minister of Returns and Communities. On behalf of the PDK, Gani Koci, a PDK Member of Parliament, objected the proposal.

February

- **1 February** – The United Nations handed over the complete management of detention centers in Kosovo to the local officials as it continues to prepare for final status talks on Kosovo.
- **2 February** - The Contact Group Plus has welcomed the progress in the issue of decentralization and has called for pilot projects to be finalized. Representatives of the opposition said they were against the plans for this process.
- **7 February** - The IMF representative, Mark Auboin, said that he is disappointed with the ways the Kosovo Consolidated Budget is being spent. 'What happened at the end of last year when over 160 million Euros were spent, and when surplus turned into deficit, must not be repeated', he said.
- **13 February** – Serbia's President Boris Tadic began a two-day visit to Kosovo. This is the first visit of a Serbian President to Kosovo since 1999.
- **23 February** - The Kosovo President Ibrahim Rugova handed his resignation to the position of leader of the LDK, the largest Albanian party in Kosovo he has lead since its foundation 15 years ago.
- **23 February** – The PDK walked out of an Assembly session held on February 23, 2005 in reaction to the disregard of its demand that decentralization be debated in the Assembly.

March

- **3 March** – International police in Kosovo stated they had arrested 13 people on suspicion of human trafficking. According to the police statement, special operations officers of the UNMIK police have saved four women from traffickers.
- **8 March** – Kosovo's Prime Minister Ramush Haradinaj resigned after having received the indictment from the Hague Tribunal.
- **15 March** - An assassination attempt against President Rugova was carried out in downtown Pristina.
- **23 March** - Kosovo's Assembly elected Bajram Kosumi (AAK) as a new Prime Minister of Kosovo. Kosumi Government got 71 votes from the government coalition members, while 37 MPs voted against.
- **25 March** - Minister of Culture with Kosovo Government Astrit Haraçia has signed a memorandum of understanding with Serb Orthodox Church, thus paving the way for reconstruction of Serb churches damages in riots of last March.
- **25 March** - In the meeting between SRSG Søren Jessen-Petersen and newly appointed Kosovo Prime Minister Bajram Kosumi, Jessen-Petersen announced that more competencies in the field of justice and police are to be handed over to Kosovo authorities. 'We, at UNMIK, are working on a draft for transfer of competencies in justice and police and we expect to present this plan to the Government by April', declared Jessen-Petersen. 'This is the last part of the most important fields where competencies should be transferred', added UNMIK chief.

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