

**Kosovo**  
**Annual programme 2004**  
**Cost: €49 million**

<b>1</b>	<b>Good governance &amp; institution building</b>	
1.1	Public administration reform	€7.0 million
1.2	Justice & home affairs	€6.5 million
<b>2</b>	<b>Economic reconstruction, regeneration &amp; reform</b>	
2.1	Energy	€8.0 million
2.2	Environment	€2.5 million
2.3	Economic development - Enterprise	€16.5 million
2.4	Economic development - Rural economy	€4.0 million
<b>3</b>	<b>Social development &amp; civil society</b>	
3.1	University education, vocational education, training & human resource development	€2.0 million
3.2	Support to civil society	€1.0 million
<b>4</b>	<b>Other</b>	
4.1	General technical assistance & programme reserve	€1.5 million
	<b>Total</b>	<b>€49 million</b>

The 2004 Action Programme for Kosovo focuses on institution building, promoting good governance and economic development in order to further prepare UN administered Kosovo for transition to a market economy and closer integration within both regional and wider European contexts - in line with the Stabilisation and Association process (SAP). The programme was planned and will be implemented in cooperation with other donors - particularly the EU Member States, Kosovo's Provisional Institutions of Self-Government (PISG) and UNMIK, including its EU Pillar. The programme will be implemented in conjunction with the regional and other national CARDS programmes. This Action Programme reflects the relevant CSP and MIP referred to in section 1 above. Taking the priority sectors of the MIP as headings, the Action Programme may be summarised as follows:

*Good governance & institution building (approx. €13.5 million)*

The programme will assist the PISG to more effectively perform their governance roles - in line with EU best practice approaches, and to strengthen the rule of law. Priority interventions focus on: building the institutional capacity of the Assembly of Kosovo and all ministries, particularly the Office of the Prime Minister and the Ministry of Economy and Finance; strengthening the PISG's participation in the SAP process, including reinforced engagement in both the Kosovo SAP Tracking Mechanism, and UNMIK-PISG 'Standards' implementation plans; further developing customs and taxation systems; increasing the effectiveness of the courts, the judiciary and legal aid systems; and combating financial crime and corruption.

*Economic reconstruction, regeneration & reform (approx. €31 million)*

The programme aims to promote sustainable economic development for all of Kosovo's communities. Support will be provided to strengthen the financial viability and development of the energy sector - a prerequisite for economic growth. The capacity of the Ministries of Environment and Agriculture to implement necessary reforms will be further strengthened. Assistance will be provided to restructure Kosovo's publicly owned companies, improve the management and competitiveness of Kosovo's enterprises, increase the effectiveness of commercial banking services, and to establish an effective food safety control system. The programme will also further assist the economic and social development and re-integration of minority communities, and the development of a sustainable returns process.

*Social development & civil society (approx. €3.0 million)*

Addressing the high levels of unemployment is critical for social and political stability, while civil society has the potential to play a greater role in building a democratic society. The proposed interventions will further develop a modern vocational education and training system, enhance higher level education, and strengthen the capacity and effectiveness of civil society

organisations.

*Other (GTAF & programme reserve) (approx. €1.5 million)*

The General Technical Assistance Facility (GTAF) allows project preparation and the planning of future programmes to proceed in a quick and effective manner. The Programme Reserve will be used to cover 2004 programme related priorities and expenditures that are currently unforeseeable.

## **Kosovo update**

### *Political*

In June 1999 the United Nations Security Council passed Resolution N° 1244, establishing the United Nations Interim Administration Mission in Kosovo (UNMIK). The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government' (PISG), and the division of responsibilities between UNMIK and the PISG.

Following the first general election for the Assembly of Kosovo in November 2001, a broad-based coalition government was formed in March 2002. The next general election is scheduled for autumn 2004. Under the Constitutional Framework, many administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to the SRSG. The reserved powers include foreign policy, protection of the rights of minority communities, oversight of the judiciary and the police, and the administration of publicly and socially owned enterprises. The SRSG retains final say on all issues in order to safeguard UNSCR 1244 and the Constitutional Framework. UNMIK is now nearing the completion of the transfer of competencies in non-reserved areas to the PISG. The challenge for the PISG is to build the institutional capacity to perform the new responsibilities with the necessary technical competence. Meanwhile Kosovo Albanian leaders continue to advocate for the transfer of UNMIK's 'reserved' powers.

Democracy, the rule of law, human rights and security are gradually improving across most of Kosovo. The administrative skills of the new PISG ministries are steadily increasing; two local elections have been successfully undertaken and some powers have been decentralised to local government; the Kosovo Police Service now numbering 6,000 is increasingly qualified to handle more advanced police tasks; and the judiciary is also being increasingly staffed and run by local residents. The challenges include further strengthening the institutional capacity of the Assembly, along with that of central and local government; maintaining close cooperation between UNMIK and the PISG; the implementation of the Government's ambitious legislative agenda; reforming local self-government; the further engagement of civil society; and combating organised crime and corruption.

The situation for ethnic minorities in Kosovo remains very difficult, while a number of tragic incidents of violence against minorities discourage many of the displaced from returning. Recent ICRC figures indicate that 85% of all IDPs in Serbia and Montenegro are still without permanent solutions and many of these may wish to return to Kosovo. In July 2003, Kosovo Albanian leaders made an open appeal to refugees and displaced people in Serbia, Montenegro and FYR Macedonia to return. The PISG agreed to the allocation of €7 million from the Kosovo budget to support returns projects. The UNMIK Office of Returns and Communities (ORC) continues to implement its strategy to support returns and minority protection issues. However, further efforts are needed to stop inter-ethnic violence, enable minority communities to fully participate in socio-economic development, and to increase minority participation in public administration, and thereby create a favourable climate for returns.

Kosovo, is included in the EU's Stabilisation and Association process (SAP) for the Western Balkans, and is therefore required to meet the political and economic reform conditions mandated by the process. The PISG and UNMIK are expected to approximate Kosovo's legislation and policies to European standards, so that Kosovo keeps up with the rest of the

region. The Kosovo SAP Tracking Mechanism (STM) is a technical working group designed to assist the PISG and UNMIK to drive the wider reform and institution building process in Kosovo in an EU compatible manner, and to increase understanding on EU policies and standards. In this context, the European Commission assesses progress, formulates recommendations for UNMIK and the PISG, and where necessary, refines the targeting of EC assistance. The European Office within the Pillar IV of UNMIK is the key interlocutor in the STM process between Kosovo and the European Institutions.

The SRSB has developed a set of standards to measure progress towards the achievement of a multi-ethnic, tolerant and secure Kosovo. The standards are prerequisites for talks on final status. UNMIK and the PISG are currently developing an implementation plan to operationalise the eight standards. Strengthening the EU dimension within this process and its linkage to the STM will further strengthen Kosovo's progress towards European standards in the context of the SAP.

At the June 2003 EU-Western Balkans Summit in Thessaloniki, both Belgrade and Pristina made a political commitment to a dialogue process – one of the 'standards'. The dialogue was subsequently launched in Vienna in October, and four working groups are currently being established for further technical talks.

### **Socio-economic**

Gradual economic progress has been made in Kosovo since 1999 as a result of the interventions of the international community, together with the efforts of the entrepreneurial local population and the PISG. GDP has risen from under €1.2 billion in 2001 to almost €1.3 (projected) billion in 2003. Modern taxation, customs, banking and pension systems are being gradually put in place. A significant amount of enabling legislation for a modern market economy has already been established. A Free Trade Agreement (FTA) is in operation between Kosovo and Albania - the first such agreement for Kosovo. Kosovo has significant natural resources (including vast lignite coal deposits), close regional and EU markets, and most importantly a large young population with a strong desire to build a successful future. However, the Kosovo economy remains underdeveloped. Half of the population lives in poverty, with around 12% living in extreme poverty. Unemployment is estimated at 30-60% (depending on how the labour force is defined). International assistance and workers' remittances to Kosovo are declining - contributing to a significant economic slowdown since 2002. The privatisation process has been hampered due to the need for legal clarification on the process. Foreign investor confidence is weak. The level of industrialisation remains low with the bulk of Kosovo's enterprises involved in the reconstruction, trade and services sectors. The economy also has a substantial trade deficit reflecting the current low capacity to export. Critical elements for the emergence of a modern business sector include: a successful privatisation process; the restructuring of public enterprises and ensuring their financial sustainability through improved revenue collection; enforcement of newly established legal frameworks; more long-term lending capital for businesses; and enhancing regional integration to promote exports.

Kosovo's need for capital investment remains high. As a result of declining donor funds, there is an increasing pressure for access to International Financial Institutions (IFIs), including the European Investment Bank, and additional private capital. Given Kosovo's limited budget resources, Kosovo requires a coherent investment strategy to ensure sustainable economic development.

### **Past EC assistance**

Between 1998-2003, the EC committed over €1.2 billion to Kosovo. These funds were used for humanitarian, reconstruction and development activities and for exceptional financial contributions to the Kosovo Consolidated Budget, made up as follows:

- Reconstruction and Development assistance (including

CARDS/Obnova funding for Kosovo managed by the EAR)	958 million <sup>[1]</sup>
• Exceptional financial assistance	65 million
• Humanitarian assistance (through ECHO)	157 million <sup>[2]</sup>
• Funding of EU Pillar of UNMIK	66 million
<b>Total</b>	<b>1,246 million<sup>[3]</sup></b>

Kosovo received international donor commitments totalling some €2.3 billion for the period 1999-2003. The European Union (EC and Member States) have donated over 65% of the overall funds<sup>[4]</sup> committed to Kosovo for this period.

As of 16 December 2003, the Agency's global rate of contracting for combined EC 1998-2002 programme funds for Kosovo, totalling €828.6 million, was 96% of commitments, with a payment rate of 87% of commitments; while the corresponding percentages for 2003 programme funds (€46 million, available since July 2003) were 44% contracted and 9% paid, as of the same date.

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[1] Includes cumulative programme funds managed by the European Agency for Reconstruction and also those managed directly by the European Commission (customs & taxation; Tempus higher education programme), and the Agency's cumulative administrative expenditures. Excludes funds from other donors under EAR management, and recycled 'counterpart' programme funds.

[2] This figure is the emergency and non-emergency assistance provided by ECHO *inside* Kosovo for the period 1999-2002. The figure includes €112 million from ECHO's overall 1999 emergency assistance funding of €378 million across several Balkan countries, provided in response to the 1999 Kosovo crisis. ECHO's regional contributions to the Red Cross and UN agencies, as well as support to IDPs and refugees in the region, are not included in these figures.

[3] All figures are rounded to the nearest € million.

[4] These funds exclude additional EU core funding contributions to the UN, OSCE and other international organisations, and to EU Civil Police and KFOR.

**Kosovo**  
**Annual Programme 2005**  
**Cost: €54 million**

**Identification****Budget heading:**

19 07 03 Aid for the Reconstruction of Kosovo

**Total cost:**

EC contribution: €54 million

**Legal basis:**

Council Regulation 2666/2000 as amended by Council Regulation (EC) 2415/2001 (CARDS)

**Annual programming/ implementation:**European Agency for Reconstruction €51.5 million;  
Commission headquarters (Tempus and Customs) €2.5 million

<b>Priority Sectors</b>	€ million (+/-20%)
	1
<b>1 DEMOCRATIC STABILISATION</b>	
1.1. Minority rights & returns	€5.0 million
1.2. Civil society & media	€1.0 million
<b>2 GOOD GOVERNANCE AND INSTITUTION BUILDING</b>	
2.1. Justice and Home Affairs	€5.6 million
2.2. Integrated Border Management	€1.5 million
2.3. Public administration reform 1 & 2	€11.0 million
2.4. Customs and Taxation (Commission Managed)	€1.5 million
<b>3 ECONOMIC AND SOCIAL DEVELOPMENT</b>	
3.1. Economic Strategy & Enterprise development	€11.7 million
3.2. Rural economy	€5.2 million
3.3. Energy	€4.0 million
3.4. Environment	€3.0 million
3.5. Higher Education (Commission Managed)	€1.0 million
3.6. Vocational Education and Training	€2.0 million
<b>4 OTHER</b>	
4.1. General Technical Assistance Facility and Programme Reserve	€1.5 million
<b>TOTAL</b>	<b>€54 million</b>

1 Individual financial allocations are subject to fluctuations of up to  $\pm 20\%$  over the programme's lifetime

## Republic (country and regional) update

In June 1999 the United Nations Security Council passed Resolution N°1244, establishing the United Nations Interim Administration Mission in Kosovo (UNMIK). The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government' (PISG), and the division of responsibilities between UNMIK and the PISG.

Many administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to UNMIK. The SRSG retains final say on all issues in order to safeguard UNSCR 1244. Further competencies are expected to be transferred to the PISG, and in November 2004 the SRSG announced the creation of new ministries in the areas of energy, local self-government, and returns and communities. The challenge for the PISG is to build the institutional capacity to perform the new responsibilities with the necessary technical competence.

In March, Kosovo suffered the worst period of unrest since NATO's intervention in 1999. The widespread violence led by Kosovo Albanian extremists was a serious setback to the creation of a secure democratic and multi-ethnic Kosovo. Continued efforts, particularly by PISG leaders, are needed to stop inter-ethnic violence, enable minority communities to fully participate in socio-economic development, to increase minority participation in public administration, and thereby create a favourable climate for sustainable returns.

With a view to prepare for the future settlement of the status of Kosovo, the SRSG together with the Prime Minister launched the *Kosovo Standards Implementation Plan* (KSIP) in early 2004, detailing the concrete actions to be undertaken by the PISG and the UNMIK to achieve the priorities defined in the '*Standards for Kosovo*' that were endorsed by the UN Security Council in 2003. A review of the Standards Implementation is foreseen for mid-2005. EC assistance to Kosovo already includes actions (totalling over €120 million) that are supporting Kosovo institutions to implement the Standards.

The European Council at Thessaloniki in June 2003 adopted the *Thessaloniki Agenda* confirming the Stabilisation and Association process (SAP) as the policy framework for advancing the EU perspective of the Western Balkans. The Agenda provided, inter alia, for the adoption of European Partnerships, which set out the priorities to move closer to the European Union. The European Partnership covering Kosovo was approved by the EU Council of Ministers in June 2004. The Commission's Multi-Annual Indicative Programme 2005-2006 (MIP) for Kosovo reflects the European Partnership and sets the overall strategic programming framework for CARDS assistance, including that which is described in this Action Programme 2005 for Kosovo.

The Kosovo SAP Tracking Mechanism (STM) is designed to assist the PISG and UNMIK to drive the wider reform and institution building process in Kosovo in an EU compatible manner, and to increase understanding on EU policies and standards. The European Partnership covering Kosovo places the implementation of the '*Standards for Kosovo*' as the main priority, thereby enhancing the mutually reinforcing character of the SAP/STM and the Standards. Kosovo is required to meet the political and economic reform conditions mandated by the SAP and is expected to approximate Kosovo's legislation and policies to European standards, so that Kosovo keeps up with the rest of the region.

Some economic progress has been made in Kosovo since 1999 as a result of the interventions of the international community, together with the efforts of the entrepreneurial local population and the PISG. However, the economic situation remains a major cause for concern. The

economy remains underdeveloped, half of the population lives in poverty, industrialisation remains low, and unemployment is estimated at 30-60%, while foreign aid and workers' remittances are in decline. Foreign investor confidence is weak and the economy has a substantial trade deficit reflecting the current low capacity to export. Critical elements for economic growth and employment generation include: PISG and UNMIK commitment to an agreed economic development strategy for Kosovo; tackling corruption, fraud and financial crime; effective public spending within a sound Medium-Term Expenditure Framework; a successful privatisation process; the development of competitive industrial and agricultural enterprises; enforcement of new legislation; ensuring the financial viability of public utilities; and enhanced regional integration.

### **Summary of the Action Programme**

The 2005 Action Programme for Kosovo focuses on institution building, promoting good governance and economic development – for all of Kosovo's communities - in order to further advance UN administered Kosovo's transition to a market economy and closer integration within both regional and wider European contexts, in line with the Stabilisation and Association process (SAP). The programme was planned and will be implemented in cooperation with other donors, particularly the EU Member States, PISG and UNMIK. The programme will be implemented in conjunction with the regional and other national CARDS programmes. This Action Programme reflects the priorities of the European Partnership, as reflected in the Multi-Annual Indicative Programme 2005-2006 (MIP) for Kosovo. Cross-cutting development issues, particularly the promotion of gender equality and the participation of women, will be mainstreamed in the design, implementation and monitoring of the actions described in this annual action programme. Taking the priority sectors of the MIP as headings, the Action Programme is summarised as follows. Further details are available in a separate set of Project Fiches.

#### **• Democratic Stabilisation (approx. € 6 million)**

The programme will assist the PISG (particularly the new ministry covering returns and communities) and UNMIK (including the Office of Returns and Communities) in the economic and social development and re-integration of minority communities, and the development of a sustainable returns process. The capacity and effectiveness of civil society organisations including in policy dialogue with the PISG at local and central levels will be further strengthened.

#### **• Good Governance and Institution Building (approx. € 19.6 million)**

The programme will build the capacity of the PISG to more effectively perform their governance roles and to strengthen the rule of law, in line with European Partnership priorities and EU best practice approaches, and in the context of the transfer of additional competencies from UNMIK. Priority interventions focus on: further institution building assistance to PISG ministries, including the Office of the Prime Minister and new Ministry of Local Government; supporting local government reforms and the delivery of public services; reforming the public procurement system; further developing customs and taxation systems; building Kosovan capacity in the areas of police and justice; combating corruption and financial crime; and strengthening border and boundary management.

#### **• Economic and Social Development (approx. € 26.9 million)**

The programme aims to promote sustainable economic development for all of Kosovo's communities. Assistance will be provided to advance privatisation, enforce land and commercial property rights, strengthen the SME sector, develop coherent economic strategies – including in preparation for IFI loans, and improve the financial viability of public water and waste utilities. The development of the rural economy will be supported through promoting land reform, and raising the performance of the livestock and agri-business sectors. The further development of the energy sector and Kosovo's participation in the Regional Energy Market will be strengthened, including through support for the new Ministry of Energy and Mining. The proposed interventions will further develop a modern vocational education and training system for Kosovo, and enhance higher level education.

• **Other, (GTAF, Programme Reserve...) (approx. € 1.5 million)**

The General Technical Assistance Facility (GTAF) allows project preparation and the planning of future programmes to proceed in a quick and effective manner. The Programme Reserve will be used to cover 2005 programme related priorities and expenditures that are currently unforeseeable.

Past EC assistance and lessons learnt

Between 1998-2004, the EC committed just over €1.3 billion to Kosovo. These funds were used for humanitarian, reconstruction and development activities and for exceptional financial contributions to the Kosovo Consolidated Budget, made up as follows:

• Development and reconstruction assistance (including CARDS funding for Kosovo managed by the EAR)	€1,026 million <sup>2</sup>
• Exceptional financial assistance	€65 million
• Humanitarian assistance (through ECHO for the period 1999-2002)	€157 million <sup>3</sup>
• Funding of Pillar IV of UNMIK	€78 million
<b>Total</b>	<b>€1,326 million<sup>4</sup></b>

As of 19 January 2005, the Agency's global rate of contracting for combined EC 1998-2004 programme funds for Kosovo, totalling €940 million, was 94% of commitments, with a payment rate of 87% of commitments; while the corresponding percentages for 2004 programme funds (€49 million, available since June 2004, but excluding the additional EC €23.9 million funds added to the programme in December 2004) were 55% contracted and 23% paid, as of the same date.

<sup>2</sup> Includes cumulative programme funds managed by the European Agency for Reconstruction and also those managed directly by the European Commission, and the Agency's cumulative administrative expenditures. Excludes funds from the Kosovo Consolidated Budget/UNMIK under EAR management, and recycled 'counterpart' programme funds. Total includes the €23.9 million of additional funds for Kosovo approved in December 2004 as an addendum to the 2004 Annual Programme for Kosovo.

<sup>3</sup> This figure is the emergency and non-emergency assistance provided by ECHO *inside* Kosovo for the period 1999-2002. The figure includes €112 million from ECHO's overall 1999 emergency assistance funding of €378 million across several Balkan countries, provided in response to the 1999 Kosovo crisis. ECHO's regional contributions to the Red Cross and UN agencies, as well as support to IDPs and refugees in the region, are not included in these figures.

<sup>4</sup> All figures are rounded to the nearest € million.

### Lessons Learnt

Some of the more important lessons learned from EC and other donor programmes in Kosovo and applied to the 2005 programme, are as follows:

- Absorption capacity is frequently a constraint in programme implementation; low capacity also reduces local ownership and threatens the sustainability of results. Therefore, increasing and reinforcing the absorption capacity of the PISG is a common objective of many institution building projects within the 2005 programme, including strengthening the capacity of PISG institutions to more effectively manage the additional transferred competencies from UNMIK. Additionally, the development of the 2005 programme began in February 2004 so as to allow the necessary time for design studies, proper appraisal of viability, risk and sustainability issues in preparing the contents of the programme, and dialogue to ensure the ownership of PISG partners to the agreed project objectives and actions.
- Donor coordination is essential to avoiding recipients becoming overwhelmed and fatigued, and maximising the impact and sustainability of all assistance. Therefore, focused and regular coordination with all other stakeholders from the project design stage onwards is essential. In this context, earlier drafts of the 2005 programmes have been discussed with donors, including the EU Member States representatives, USAID, World



Bank and the IMF, to ensure effective coordination in common areas of interest. In particular, effective donor coordination and information sharing in the areas of institution capacity building, sustainable returns, rural economy and SME development are essential to ensure the success of the action programme.

- Rather than stand-alone projects, many of the 2005 projects must be seen as either follow-on programme phases to previous EC assistance, or an initial phase with a second phase foreseen for inclusion in future annual programmes. For example, the further institution building assistance within the PISG ministries for the formulation and enforcement of EU compatible legislation, as proposed in this 2005 programme, will consolidate closely related EC assistance previously delivered under the 2002, 2003 and 2004 annual programmes. This type of project structured across annual programmes ensures that EC assistance better responds to changing circumstances and developments in the targeted institutions – including the level of absorption capacity. Such logical sequencing of EC assistance is designed to build-on, consolidate and render sustainable previous assistance. New phases of assistance generally begin implementation once previous assistance has attained specific performance outputs.

### **Complementary actions**

The EC 2005 Action Programme for Kosovo builds on the results of previous EC assistance programmes to Kosovo and is complementary to components of the EC Action Programmes for Serbia, Montenegro and the former Yugoslav Republic of Macedonia. The 2005 programme is also complementary to programmes under the EC's Regional Strategy 2002-2006, particularly the CARDS Regional Programmes, and initiatives of the Stability Pact. The Agency's own guidelines on social inclusion and gender mainstreaming have also informed the design and implementation plans of the proposed 2005 Action Programme.