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Kosovo's Burdensome Path to Economic Development and Interethnic Coexistence

FAST Risk Profile Kosovo

Christopher Tütsch

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Publisher: **swisspeace**

Design: Leib&Gut, Visuelle Gestaltung, Bern

Print: CopyQuick Printing Center, Bern

Copies: 300

Ordering information: **swisspeace**, Sonnenbergstrasse 17, PO Box, 3000 Bern 7, Switzerland

www.swisspeace.org

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ISBN 3-908230-61-6

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August 2005

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Abstract/Zusammenfassung/Résumé

2005 and 2006 could prove to be decisive years for Kosovo's political future. In general, there are great expectations towards negotiations on the country's future political status being taken up by the end of 2005. In principle, everything depends on the progress in fulfilling democratic standards. However, it seems that – as a result of pragmatic considerations – the international community has departed increasingly from this premise and wishes to initiate negotiations despite the insufficient implementation of standards. Independent of this decision, Kosovo will further be confronted with serious problems significantly influencing stability: Among other issues of concern, the socio-economic situation remains precarious and is characterized by a very high unemployment rate. Especially, unemployment of the young, increasing annually due to a very young population structure, has reached worrisome dimensions. There are no prospects for speedy improvement, as economic structures as well as growth rates are not capable of absorbing this development. Furthermore, interethnic relations have not improved substantially during the six years following the violent conflict. Overall security as well as freedom of movement for Kosovo's minorities are still unsatisfactory and a repetition of violent unrests as in March 2004 cannot be ruled out entirely, especially if status negotiations are further delayed or result in an undesired outcome for the Kosovo Albanian side. In the light of the various grievances, which will prevail after possible status negotiations, the further presence of the international community remains indispensable. Together with the local political actors (authorities) the implementation of standards must be given the highest priority in order to lay the further ground for lasting peace, peaceful multiethnic coexistence, and sustainable development.

2005 und 2006 können sich als entscheidende Jahre für die politische Zukunft des Kosovo erweisen. Allgemein sind die Erwartungen gross, dass bis Ende 2005 die Verhandlungen über den zukünftigen politischen Status Kosovos beginnen werden. Grundsätzlich soll dies jedoch davon abhängen, inwieweit die demokratischen und rechtsstaatlichen Standards erfüllt worden sind. Allerdings scheint die internationale Gemeinschaft aufgrund von pragmatischen Überlegungen mehr und mehr von dieser Prämisse abzurücken und zur Überzeugung gekommen zu sein, mit den Verhandlungen zu beginnen, auch wenn die Standards nur unzureichend erfüllt sind. Wie auch immer die Entscheidung ausfallen wird, Kosovo wird weiterhin mit schwerwiegenden Problemen, welche zu einem massgeblichen Teil auch die Stabilität beeinflussen, konfrontiert sein: Unter anderem ist die sozio-ökonomische Lage äusserst prekär und von einer sehr hohen Arbeitslosigkeit geprägt. Speziell die Jugendarbeitslosigkeit, welche jährlich aufgrund einer sehr jungen Bevölkerungsstruktur wächst, nimmt bedenkliche Dimensionen an. Mit einer baldigen Besserung ist kaum zu rechnen, da die wirtschaftlichen Strukturen sowie das Wachstum momentan nicht in der Lage sind, diese Entwicklung aufzufangen. Ferner haben sich die interethnischen Beziehungen während den vergangenen sechs Jahren nach dem gewaltsamen Konflikt kaum verbessert. Noch ist die allgemeine Sicherheitslage sowie die Bewegungsfreiheit für die im Kosovo lebenden Minderheiten nicht zufriedenstellend und eine Wiederholung der gewaltsamen Unruhen vom März 2004 ist vor allem bei einer weiteren Verzögerung oder einem unerwünschten Ausgang der Statusverhandlungen für die Mehrheitsbevölkerung der Kosovo Albaner, nicht gänzlich auszuschliessen. Angesichts der verschiedenen Missstände, welche auch nach den möglichen Statusverhandlungen weiterhin bestehen werden, wird eine weitere Präsenz der internationalen Gemeinschaft unabdingbar sein. Zusammen mit den lokalen politischen Akteuren muss der Implementierung der Standards höchste Priorität zugeordnet werden, um weitere Grundlagen für dauerhaften Frieden, friedliches multiethnisches Zusammenleben und nachhaltige Entwicklung zu schaffen.

2005 et 2006 pourraient devenir des années décisives pour l'avenir du Kosovo. En général, les attentes sont élevées que les négociations sur le futur statut politique commenceront avant la fin de 2005. En principe ceci dépend du progrès d'atteinte des standards démocratiques. Néanmoins, comme résultat des considérations pragmatiques, il paraît que la communauté internationale s'éloigne de plus en plus de cette prémisse, et semble disposée à initier des négociations, même si les standards ne sont pas suffisamment exécutés. Indépendamment de cette décision, Kosovo sera encore confronté par des problèmes sérieux qui influencent la stabilité à un degré significatif. Parmi d'autres issues inquiétants la situation socio-économique reste précaire et caractérisée par un très

haut niveau de chômage. Surtout le chômage des jeunes qui augmente annuellement dû à la structure d'une très jeune population, atteint des dimensions inquiétantes. Il n'y a pas de perspectives dans un avenir proche, car les structures économiques de même que le cours de croissance ne sont pas capables d'absorber ce développement. En plus, les relations interethniques ne se sont pas améliorées substantiellement six ans après le conflit violent. La situation générale de sécurité, de même que la liberté de mouvement pour les minorités du Kosovo, ne sont pas encore satisfaisantes, et une répétition des agitations violentes, comme celles en mars 2004, ne peut pas être totalement écartée, surtout si les négociations de statut sont encore retardées, ou résultent dans un dénouement pas désiré pour les Kosovo albanais. Eu l'égard aux griefs divers qui continueront après d'éventuelles négociations de statut, une présence plus longue de la communauté internationale sera indispensable. Avec les acteurs politiques locaux on devrait donner la plus haute priorité à l'exécution des standards, pour installer un fond prolongé pour une paix durable, une coexistence paisible et un développement durable.

1 Preface

The present report is part of a series of working papers published by FAST International, the Early Warning Program of swisspeace.

FAST's core task consists in the early warning of violent conflicts with the aim of initiating early action or response in order to prevent crisis situations from aggravating. Moreover, FAST also attempts to identify "windows of opportunity" to ensure peacebuilding. Several tools are applied in the combined methodology used by FAST in order to analyze developments in the countries of concern. The core issues that influence the development of the country are analyzed by looking at root and proximate causes as well as intervening factors. This risk profile therefore pursues this task by providing an in-depth study of the situation in Kosovo and closely investigating selected core issues that shape the degree of conflict.

The underlying tool for this analysis is the analytical framework¹, which points out the individual factors that cause the outbreak of a conflict and/or influence a conflictive situation. By applying this tool, FAST analysts continuously update the status of developments in the countries monitored. The analytical framework, hence, provides up-to-date information on the key issues that are critical for the further development of the country.

Because FAST International strives to link early warning with early action, this paper shall emphasize the discussion of strategic options. These options are directed particularly at end-users of FAST products and shall hopefully be incorporated into the ongoing decision-making process.

The author and the FAST team hope that this paper will provide readers with food for thought on the further developments and the necessary steps to be taken in order to resolve current problems and crises in Kosovo by peaceful means.

¹ For further information on the analytical framework and the definition of root causes, proximate causes and intervening factors, please refer to <http://www.swisspeace.org/fast/2analytical.htm>. For information on the analytical framework, please refer to the document "FAST Analytical Framework", <http://www.swisspeace.org/uploads/FAST/AF/AnalyticalFramework.pdf>.

2 Introduction²

After the end of the war in Kosovo, in June 1999, the international community (IC) began to tackle its ambitious program to reconstruct Kosovo and to promote the idea of a peaceful multi-ethnic entity based on democratic principles, according to United Nations Security Council Resolution 1244. As the post-war period was characterized by reluctance on the part of the IC to deal seriously with the delicate status issue, the political status of Kosovo has remained undetermined to this day. After the intervention of the NATO in 1999, Kosovo became an UN administered protectorate under the auspices of the United Nations Interim Administration Mission in Kosovo (UNMIK). Today, the province of the former Yugoslav Republic is de facto separated from Serbia-Montenegro; de jure, however, continues to be a part of it. The Kosovo Albanians, the majority population, seek independence; while the vast majority of Kosovo Serbs as well as the Serbian government still consider Kosovo to be an integral part of Serbia, thus rejecting the idea of full independence.

In the past, the IC has applied the principle of "Standards before Status", based on the document "Standards for Kosovo", according to which Kosovo has to fulfill a number of basic requirements before the question of Kosovo's future status can be addressed.³ These standards cover eight primary areas of democratization: The establishment and functioning of democratic institutions; rule of law; economic development and stability; clarification of property rights; freedom of movement; sustainable return of refugees and the rights of communities and their members; establishment of a civil emergency response corps; as well as a dialogue between the governments of Belgrade and Pristina on all levels. However, the IC's policy in regard to the status began to change in the light of the devastating March riots in 2004: UNMIK as well as KFOR had been caught off guard and failed to prevent the violence committed throughout Kosovo by Kosovo Albanian mobs against Serb and other minority settlements as well as UNMIK. In hindsight, this event can be considered a brutal wake-up call: the international community began to realize that the status quo was unsatisfactory for all parties. As a result, the need to reinforce efforts to solve the open question of Kosovo's status before the situation in Kosovo worsens became more apparent than ever. In a critical UN report in the wake of the March 2004 riots, Norway's ambassador to the NATO, Kai Eide, warned the UN Secretary-General that the situation in the UN administered province was characterized by growing dissatisfaction and frustration, because overall progress, particularly on the economic situation and unemployment, remains poor and prolonging Kosovo's uncertain status was not a viable option.

As a consequence of these developments, Kosovo returned to the agenda of the international community. Activities and efforts undertaken by international actors such as the UN, the European Union, the Contact Group (comprising Britain, France, Germany, Italy, Russia, and the United States) as well as from the Serbian and Kosovo governments have been stepped up in order to prepare the ground for the resolution of the future status of Kosovo. Furthermore, influential think tanks presented their proposals for a solution to the status issue. On the basis of the latest UN report on Kosovo, which suggests that despite some ongoing problems and deficiencies, increased efforts have produced positive results, in late May 2005, the UN Security Council gave the green light for a comprehensive review of Kosovo's progress in implementing the standards to be conducted this summer (2005). Depending on the outcome, talks are scheduled to begin in autumn 2005. Although further progress can be expected in the following months, presumably none of the ambitious internationally-set standards will be fully met by then. However, as time is passing and expectations as well as impatience on the Kosovo Albanian side towards an early definition of the final status (i.e. independence) are high, international actors are disposed to finding a solution to this prolonged

² The views expressed in this report are those of the author and do not necessarily reflect those of FAST International/swisspeace.

³ For information on "Standards for Kosovo", please refer to the following websites:
<http://www.unmikonline.org/standards/priorities.htm> and/or
<http://www.reliefweb.int/rw/rwb.nsf/AllDocsByUNID/d1f49ce8361de1cb85256df8007a2ef2>.

process which cannot afford further delay. Hence, even if the suggested standards are not met by then, it is highly probable that status negotiations will begin, unless there is a serious setback caused by a substantially deteriorating situation in Kosovo. This process reflects a priority shift within the international community's policy with regard to the adherence to standards. The original provision of "Standards before Status" has been replaced by "Standards and Status", a move towards pragmatism in favor of an early solution to Kosovo status issue.

During the past six years, the general situation in Kosovo has improved substantially. The transformation process, administered by the UNMIK, brought about some positive results: The basic reconstruction process has almost been completed, the overall security conditions have improved despite the March riots in 2004, which have so far been the worst outbreak of violence since the end of the war in 1999. Remarkably, since then, ethnically-motivated violence has decreased significantly. Fair and democratic elections have been conducted and further competencies and responsibilities have been transferred from the UNMIK to the Provisional Institutions of Self-Government (PISG). The new Kosovo government has shown increased commitment to implement the standards, thereby demonstrating dynamic efforts to achieve the institutional and governance reforms necessary to advance the political and security environment. In particular, in March 2005, the government managed a highly delicate situation with a certain degree of maturity and without any disorder or instability, when former Prime Minister Ramush Haradinaj resigned voluntarily to face a war crimes indictment at the UN International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague. Prior to Haradinaj's indictment, concerns were expressed that the situation could trigger unrest within Kosovo society. However, Haradinaj's appeal to the population to remain calm and peaceful contributed to the subsequent absence of violent protests. Furthermore, although opposition parties called for a review of the government coalition after the resignation of Haradinaj, the government managed to retain its current coalition constellation with newly appointed Prime Minister Bajram Kosumi.

However, even if progress has been achieved, Kosovo is still not a safe haven: a considerable level of overall instability remains, with a number of factors contributing to potential destabilization.⁴ During the months of March and April as well as at the beginning of July 2005, for instance, security was challenged by various extremist acts of violence against installations of the UNMIK, the OSCE, parliament, political figures, and party facilities.⁵ Rising tension between Kosovo Albanian parties, especially among the government party LDK (Democratic Union of Kosovo) and the opposition party PDK (Democratic Party of Kosovo) could also contribute to instability and hamper sustainable democratic institution-building. The opposition party has criticized the new government for weak performance in fulfilling its duties as well as for corrupt behavior. After the failed bomb attack against President Ibrahim Rugova on 15 March 2005, the parties began to accuse and denounce each other of allegedly maintaining illegal party-controlled security and intelligence services within LDK and PDK structures, suspected of involvement in organized crime.⁶ Moreover, widespread corruption continues to prevail in government and municipal institutions as well as in courts. Organized crime and criminal economic activities remain prominent as rule of law and law enforcement bodies have failed to tackle these issues systematically to date. Further postponement

⁴ Bieber, Florian 2005: FAST Update Kosovo. Semi-annual Risk Assessment, November 2004 to April 2005. Bern: swisspeace. 3. See: http://www.swisspeace.org/uploads/FAST/updates/FAST_Update_Kosovo_1_05.pdf.

⁵ For example, on 2 July 2005 bomb attacks occurred in front of UNMIK and OSCE headquarters as well as the parliament in Pristina. Two days later, on 4 July 2005, the offices of a newly founded Kosovo Serb party were hit by another bomb (in Zubin Potok, near Mitrovica).

⁶ Riinvest 2005: Early Warning Report Kosovo, Report #9 (January- March). 14. See: <http://www.kosovo.undp.org/publications/ews9/ewr9eng.pdf>.

or an unsatisfactory outcome of status negotiations could bear a high potential for civil unrest, especially as more radicalized/extremist groups may take up violence to stress their demand for unconditional independence.

Further causes of great concern, which feed the potential for conflict and are crucial for Kosovo's future development, are the poor socio-economic conditions as well as the ongoing tense situation with regard to inter-ethnic relations. Regardless of the outcome of Kosovo's final status, these two issues are of utmost importance for the current and future stability and sustainable development of Kosovo – which explains why they are the main subjects of this report. This paper is intended to provide readers with a concise analysis of the current socio-economic and inter-ethnic situation in Kosovo. It examines how issues such as the slow privatization process, the unresolved final status, or high unemployment have an impact on the socio-economic environment and the overall stability of Kosovo, and how for example deficient rule of law and minority participation affect current inter-ethnic relations.

The author is aware of the fact that the potential for conflict in Kosovo cannot be entirely covered by these two issues alone. Many other issues must be taken into consideration in order to achieve an overall assessment. Topics such as the final status, democratization and institution-building, rule of law, corruption or organized crime are not covered in-depth within the scope of this paper. Some reference will, however, be made to them within the course of discussion. For an overview of other relevant topics, please refer to the FAST Analytical Framework on Kosovo in the appendix.

3 Economic and Social Situation at a Glance

3.1 Introduction

As mentioned in the general introduction, there are several causes and factors contributing to the instable and fragile situation in Kosovo. One fundamental issue of high relevance to all post-conflict and transitional countries and regions, is the level of economic development and its impact on conflict-torn societies. Substantial economic progress is a precondition and a key issue for the successful and sustainable transformation from, e.g. an authoritarian style and communist economic policy towards democratic structures and a sound free market economy.

In research, socio-economic factors are widely recognized as a major contributing factor to social and political tension in developing countries. There is broad consensus that economic growth, poverty, and economic policies can play a significant role in determining the likelihood of conflict.⁷ In this context, economic decline can even act as an accelerating factor, leading to the escalation of disputes that in turn lead to violent conflict.⁸ According to econometric evidence there is a direct relationship between the wealth of a country and its chances of sliding into potential conflict.⁹ In particular, these views can be applied in the case of Kosovo, where socio-economic conditions represent a major challenge to stability and – combined with other structural risk factors – could lead to the eruption of violent conflict. The current economic situation of the international protectorate is extremely delicate. After the war in 1999, Kosovo experienced strong growth during the first two years (2000 and 2001), which can be attributed to reconstruction efforts, substantial financial support from the international community and remittances from expatriate Kosovars. Expectations were high. However, the picture Kosovo presents today is different. The reconstruction process has almost been completed. Consequently, reconstruction aid as well as general financial aid are decreasing and the flow of remittances has decreased with the repatriation of many Kosovo Albanians. Furthermore, the overall investment climate has not improved up to date, so that much needed and substantial direct foreign investments cannot be expected to be made in Kosovo in the foreseeable future. Thus, the overall economic situation has not improved substantially in comparison to previous years. In fact, Kosovo is confronted with depressing socio-economic conditions showing little economic growth, generating Europe's highest level of unemployment, high poverty, and a flourishing informal and often criminal economy. Disappointment and frustration among the population are widespread and – together with the political uncertainties (final status) – create a volatile as well as fragile situation.

This chapter will focus on the socio-economic situation in Kosovo. It is probably the most pressing and challenging issue for Kosovo's stability and future development. First, for better comprehension, a historic review will be provided before discussing the current socio-economic situation with all its challenges and obstacles.

3.2 Economic Legacy of the Past

To understand the present economic dilemma of Kosovo, it is insufficient to reflect solely upon the developments of the past six years, as many past economic and political developments shape and influence the economic and social circumstances of Kosovo today.

⁷ Humphreys, Macartan 2003: Economics and Violent Conflict. Cambridge: Harvard University. 1ff.

⁸ OECD 2001: The DAC Guidelines. Helping Prevent Violent Conflict. Paris. 86ff.

⁹ Ibid. 6. Countries with a very modest Gross Domestic Product (GDP) per person, e.g. 250US\$, are much more prone to violent conflict than countries with a higher GDP. For example, the probability of violent conflict drops by half with a GDP of only 600US\$.

Traditionally, Kosovo depended mainly on two basic economic branches, i.e. agriculture and mining. Later on, the energy sector also gained a certain degree of importance. Exploitation of lead, silver and zinc reserves in Northern Kosovo can be backtracked to the period of the Roman Empire and lasts with limitations until today. In comparison to mining, agriculture remains a vital economic sector. Under the rule of the Ottoman Empire, Kosovo was important for its meat and cereal production. During Royalist Yugoslavia, there were attempts to broaden agricultural production by increasing fruit and vine cultivation. However, the economic development during the late Ottoman reign as well as throughout the Royalist Yugoslavian period was predominantly weak. Kosovo was mainly seen as a supplier of cheap raw materials and foodstuffs which were processed and sold or sold for consumption elsewhere, mostly in the northern parts of former Yugoslavia. Unfortunately, the corresponding revenues did not flow back into the province - neither in form of remuneration nor investments.

After World War II, Kosovo's underdevelopment was recognized by the newly installed communist regime under Tito's leadership. In the regime's opinion, the economic imbalance could be revised by means of a well-designed industrialization plan. Hence after 1945, the first five-year plan was largely dedicated to the development of industrial output in Kosovo. Over the course of the years, investments were made, e.g. in increased mining, metallurgy and related manufacturing enterprises, particularly centered on the Trepca mine complex.¹⁰ Furthermore, the Tito regime attempted to install cooperatives and collectivization in order to improve the output in the agrarian sector.¹¹ However, collectivization was only briefly attempted prior to being reversed. In lieu, a certain number of voluntary cooperatives were pursued, but success was limited in most of the areas, with agricultural business remaining in the hands of small family farms, as it had always been.¹² Although Kosovo reached a considerable degree of industrialization during the communist period and the manufacturing industry developed to become an important economic sector, the fundamental structural dependency, in comparison to the rest of former Yugoslavia, i.e. as a cheap producer and supplier of energy, raw materials and foodstuffs, continued.¹³ Thus, no autonomous accumulation and developmental process could unfold in the province and investments in infrastructure, industry and agriculture remained below the average level of the Socialist Federal Republic of Yugoslavia (SFRY).¹⁴

In economic terms, the SFRY during Titoist times was characterized by a distribution conflict between the republics and the autonomous provinces. The northern and northwestern parts of the country (Slovenia, Croatia, and Vojvodina) enjoyed a considerably higher development standard than their counterparts in the South (Bosnia-Herzegovina, Macedonia, and Kosovo). The diverging interests of the "rich" and "poor" republics as well as the lack of mutual understanding continuously caused distribution conflicts of distribution along with national tension, a constellation already been present during Royalist Yugoslavia.

¹⁰ The output of the Trepca mining resulted in losses, because raw materials were sold to the Socialist Federal Republic of Yugoslavia (SFRY) under world market prices. See: Reuter, Jens 1982: *Die Albaner in Jugoslawien*. München. 68ff.

¹¹ Pettifer, James 2000: *Wirtschaft und Gesellschaft in Kosovo von 1945 bis heute*. In: Reuter, Jens and Clewing, Konrad (eds.): *Der Kosovo Konflikt*. 93.

¹² Under socio-economic perspectives, agriculture in Kosovo was mainly and remains based on subsistence agriculture. By definition, subsistence agriculture is an economic method according to which households (peasant families) primarily produce foodstuffs in small plots and for their own needs rather than for the open market.

¹³ The energy sector in particular, experienced exploitation: With the discovery of lignite reserves near Pristina, large power plants were built. Although Kosovo benefited from these new energy sources, most of the energy was supplied to South Serbia free of charge up until 1999.

¹⁴ An industrial modernization process as seen in the seventies and eighties in the West hardly took place in the SFRY and least of all in Kosovo.

After Tito's death in 1980, the SFRY experienced a serious economic decline. The crisis was characterized by high inflation, pressing foreign indebtedness and a negative trade balance that led to a decrease of the living standard and increasing poverty among the population. Mismanagement and corruption contributed to the negative development. Especially Kosovo was affected by the economic crisis: the socio-economic situation in the province deteriorated further and the Yugoslav government in Belgrade was not greatly committed towards improving the conditions. Kosovo's backwardness had many faces, e.g. infrastructure was relatively poorly developed and especially rural areas were neglected in terms of transportation – a fact that can still be observed today. This affected the course of daily business. The quality of the education system, well below that of the rest of former Yugoslavia, also proved to be counterproductive for the economic situation in the province. The overall employment situation further aggravated the economic dilemma. High unemployment forced Kosovo Albanians as well as Kosovo Serbs to search for other means to secure their daily life. Opportunities included subsistence agriculture, informal economy, searching for employment in other parts of the SFRY, or emigration. The migration of Serbs from Kosovo during the seventies and eighties can be partly attributed to economic motives as well as to political and social discrimination by which the Serb population felt menaced.¹⁵

The precarious socio-economic situation in Kosovo was additionally challenged by the political rise of Milosevic in 1986. The province was confronted with increasing Serb nationalism, which, in 1989, led to Belgrade's effective abrogation of the autonomy status Kosovo was guaranteed in the 1974 constitution. As a consequence, this led to a decade of systematic Serbian discrimination and oppression of Kosovo Albanians, transforming the province into a virtual apartheid state. Due to discriminatory acts, over 140,000 Kosovo Albanians were dismissed from civil administration, education and health services, from public as well as socially owned economic enterprises. In addition, the Albanian language underwent discriminatory measures, such as the closure of Albanian language newspapers, radio and television. As a reaction to the systematic discrimination and exclusion, the Kosovo Albanians established a shadow republic with a parallel government, education and health care system.

The dire situation in Kosovo was further aggravated by the Balkan wars in the beginning of the nineties. The economic system of Yugoslavia broke down and the economic exchange between the republics and the provinces dissolved. Moreover, important public transfers to Kosovo were reduced, because the federal budget was simply overtaxed due to the economic crisis, the fall out of the more wealthy republics (Croatia and Slovenia), and war costs. All of this had serious consequences for Kosovo. Parallel to the exclusion from administrative and economic life, unemployment among the Kosovo Albanian population increased dramatically, and given the lack of any political or socio-economic improvement or employment perspectives, approx. 300,000 to 400,000 Kosovo Albanians left their homeland during the first half of the nineties or sought alternative sources of income. For many, the informal sector became an attractive alternative. During the nineties, the emergence and development of a sophisticated informal – and often criminal – economy as well as diaspora remittances became the backbone for Kosovo Albanians' parallel state structures and households.¹⁶ Furthermore, with the continuing erosion of formal state institutions and rules and the aggravating political and economic crisis, the well established informal as well as criminal economy laid the ground for what is referred to as a war economy. Illegal activities such as the smuggling of arms, oil,

¹⁵ Petritsch, Wolfgang and Pichler, Robert 2004: Kosovo-Kosova. Der lange Weg zum Frieden. Klagenfurt. 44-57.

¹⁶ The Kosovo Albanian shadow republic depended greatly upon informal sources of revenue for its overall functioning as well as to provide social, health, and education services. Thus, an income tax of three percent was levied for Albanians remaining in Kosovo as well as for Albanians living in the diaspora. See: Yannis, Alexandros 2003: Kosovo. The Political Economy of Conflict and Peacebuilding. In: Ballentine, Karen and Sherman, Jake (eds): The Political Economy of Armed Conflict. Beyond Greed and Grievance. Boulder. 174.

drugs, cars, etc. were widespread and remain to have a serious impact on Kosovo's sustainable development up until today.¹⁷

After the violent conflict between the Serb security forces and the UCK and following the intervention of the NATO in 1999, Kosovo found itself in a desolate state: The administrative and civil infrastructure in Kosovo as well as the public sector had all broken down. To a great extent, commerce and production had become inexistent and even subsistence agriculture had been partially destroyed and farmers found themselves no longer able to produce.

3.3 Current Socio-economic Situation and Challenges

Six years after the Kosovo war, despite the installation of an international administration and extensive reconstruction efforts as well as a substantial transfer of power and economic policy to the local authorities (PISG), the political and economic legacies of the past as described above prevail and continue to influence the development of Kosovo. Experiences made in other transitional countries as well as research show that it would be more than surprising if the situation were any different. After all, transformation processes require time as well as long-term efforts by all actors.

How does the socio-economic situation of Kosovo several years after the war look like? The UN administered protectorate has remained one of the poorest and most underdeveloped regions in Europe. The UNMIK administration inherited an economy near to collapse. There were practically no administrative structures upon which to build: The economy had suffered too greatly in the past from poor economic policies (communist legacy), international sanctions of the SFRY during the nineties, lack of investment, ethnic conflict, destruction from war, and due to the new attendant circumstances of system transformation. All of this has led Kosovo into a deep crisis.

The internationally financed **reconstruction process** that began after the conflict in 1999 has proved to be fairly successful to date, because the physical infrastructure destroyed in the conflict was rebuilt to a large degree. Money was spent primarily on the reestablishment of the energy sector and water supply as well as the rebuilding of houses, roads, and bridges. Furthermore, basic infrastructure for health and education services is largely in place throughout Kosovo. However, the region continues to suffer from electricity deficiencies, causing frequent and unscheduled power cuts and is therefore unable to supply energy 24 hours a day – a fact which additionally hampers business development (industrial production).¹⁸ The overall communication conditions have improved. International postal service is operational, and the telephone network (including mobile phones) has been expanded.¹⁹ Transport is improving, and a plan to overhaul and reorganize the public transportation system is currently being worked out. A freight railway system also took up operation, and Pristina airport has been technically upgraded. Nevertheless, the transportation system (roads, railway and air) must be developed further in order to lay the grounds for continued economic development as well as to remove Kosovo from its isolated position.

¹⁷ See: Yannis 2003: Kosovo. 172.

¹⁸ See: World Bank 2004: Kosovo Economic Memorandum. 44.

¹⁹ In late May 2005, a new system of postal codes was adopted for Kosovo in order to speed up mail delivery. In the future, the capital city Pristina will use 10000 as its new code instead of the former Yugoslav code of 38000. Since the 1998-99 war, Kosovo post has been routed through Switzerland or Albania, often involving long delays. Such initiatives are criticized by Serb officials, because this would suggest that Kosovo is a completely separate entity. See: Southeast European Times 2005: Kosovo Adopts New Postal Codes (1 June). See: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/newsbriefs/setimes/newsbriefs/2005/06/01/nb-05.

Kosovo currently counts approx. 45.000 formal businesses as well as a sizable number of enterprises in the informal sector. The main economic actors are **micro-, small- and medium-sized enterprises** (MSMEs) accounting for 90 percent of all formal businesses.²⁰ Their activities are predominantly (60 percent) situated in (retail) trade and the service sector that are in turn greatly dependent on donor assistance and remittances. In particular foreign financial support contributed to a boom in the construction sector with the reconstruction of Kosovo being a priority during the postwar period. The widespread presence of international and non-governmental organizations with their highly paid staff continues to stimulate the service and retail sector and could be considered to be a secondary category of international support.

Very few formal businesses (1,5 percent) operate in the primary sector and only 9 percent are active in the manufacturing sector. Consequently, the overall performance of MSMEs in Kosovo remains weak, with little manufacturing and a significant generation of added value.²¹ Although the banking sector has improved and credits are increasingly being lent to businesses a large number of businesses still have difficulties obtaining credit, mainly due to the high interest rates. In early 2004, the IMF stated "according to banks and the business community, activity in most sectors has stagnated, given flat or even declining incomes and the lack of progress in addressing impediments to export competitiveness and access to neighboring markets".²² According to Kosovo's business community, additional factors such as insufficient power supply (power outages), unfair competition due to the sizeable informal business sector, regulatory policy uncertainty, high level of corruption and crime as well as transportation costs and customs and trade regulations are further hampering economic development.²³

Furthermore, authorities in Kosovo encounter difficulties in reviving and restructuring large enterprises, primarily situated in the **energy and mining sector**. Due to its rich lignite resources, Kosovo would have the potential to become a major energy exporter in the region. However, although international institutions have invested large sums of money in Kosovo's power infrastructure, Kosovo is still unable to guarantee sufficient power supply to factories and homes to date.²⁴ Kosovo still relies on expensive energy imports during the winter season. This situation can mainly be led back to outdated technology, partly damaged infrastructure, inefficient management (low productivity), and poor revenues as many citizens do not pay their consumption or draw electricity on an illegal basis. In order to enhance economic growth and to improve investors' confidence in Kosovo's economy, further increase in reliable energy production is indispensable.

In general, the mining sector is considered to be a potential source of wealth. In addition to the rich lignite deposits, Kosovo has further natural resources such as zinc, lead, nickel, chrome, and silver. These natural resources were once a source of relatively high industrial activity and earnings as well as creating a large number of jobs. The exact dimension of the deposits remains unclear, with Kosovo currently not in the position to make profit from them, because most former production installations suffered from a lack of investments during past decades and/or were damaged during the war. However, the international administration, together with the newly established independent International Commission for Mines and Minerals (ICMM), which monitors the allocation of mining rights in Kosovo, are confident that Kosovo's covert richness offers a high

²⁰ World Bank 2005: Kosovo Monthly Economic Briefing (31 May).

²¹ Ibid.

²² IMF 2004, Staff Visit to Kosovo Aide-Mémoire (10-19 March).

²³ World Bank 2005: Kosovo Monthly Economic Briefing (31 May).

²⁴ To date, the World Bank and the European Agency for Reconstruction have invested one billion Euro in Kosovo's power and mining projects. IWPR 2005: Kosovars spy salvation in mineral wealth. In: Balkan Crisis Report 557 (25 May), at http://www.iwpr.net/index.pl?archive/bcr3/bcr3_200505_557_2_eng.txt.

potential for general economic development. But first, enormous sums have to be invested before new jobs in the estimated dimension of 35.000 may be created.²⁵

Moreover, the question of Kosovo's final status is linked to unclear ownership relationships, with Serbian claims further complicating the progress of mining natural resources. For as long as Kosovo is formally a part of Serbia, Belgrade will continue to insist on its right to be involved in any decisions. Especially, as Serbia's own lignite deposits will be exhausted in the foreseeable future, claims on Kosovo's natural resources might be a vital and contentious issue of the looming status negotiations.

After the end of the violent conflict, the situation in the **agricultural sector** was similar. Most of the machinery and livestock were destroyed. Thanks to financial aid from the international community as well as remittances from the Kosovo Albanian diaspora the sector could be revitalized: Livestock inventory was restored, machinery repaired or new machines provided. Since then, agricultural production has shown signs of recovery and expansion. In contrast, the agricultural cooperatives (established during the communist era) mostly broke down, or, if still in operation are producing inefficiently with low output. Private farmers own the vast majority of agricultural land. Small farms using simple production technology and producing primarily for home consumption (subsistence agriculture) continue to characterize overall agricultural production in Kosovo. Although Kosovo is endowed with favorable basic requirements for agricultural production, a rapid increase in agricultural productivity and profits cannot be expected at the moment.²⁶ Obstacles to growth are, amongst others, the high number of small size-farms with limited basic production knowledge, lack of access to technological expertise, limited access to financial credits, and Kosovo's relatively fast growing population a fact further reducing available agricultural land.²⁷ Furthermore, many farms are situated in remote areas with inopportune transportation, further complicating the farmer's access to local markets. All of these circumstances make it difficult for the agricultural sector to be competitive in the local as well as the regional markets.

Consequently, the new liberal economy of Kosovo continues to suffer from structural problems. As common in various post-conflict environments, the UN administered protectorate knew vigorous growth rates during the first two years following the end of the violent conflict in 1999. In 2001, the annual gross domestic product (GDP) of Kosovo reached 21 percent and GDP per capita rose from approximately 400 Euros (2000) to approximately 700 Euros (first quarter of 2004).²⁸ However, the initial high GDP growth rate began to stagnate after 2001, dropping to approximately 4 percent in 2002 and 2003.²⁹ According to the Ministry of Economy and Finance (MEF), Kosovo's economy knew a growth rate of 3.2 percent in 2004.³⁰ For 2005, according to estimates made by the International Monetary Fund, Kosovo faces zero or even declining economic growth as well as a further reduction of financial aid from foreign donor nations.³¹ Thus, the massive boost during the first two years following the conflict can be attributed to extensive financial aid from the international community as well as substantial remittances from the Kosovo Albanian diaspora living abroad. Particularly the

²⁵ See: Kosovos verborgener Reichtum. In: Neue Zürcher Zeitung (15 Februar 2005).

²⁶ Kosovo can rely on fertile land and a temperate climate suitable for agricultural production.

²⁷ See: World Bank 2004: Kosovo Economic Memorandum. 58ff.

²⁸ Compare the following sources: World Bank 2004: Kosovo Economic Memorandum. Report No. 28023-KOS (18 May). 7; and Riinvest 2004: Early Warning Report Kosovo 6 (January-April). 11.

²⁹ Ibid. 7.

³⁰ Economic Initiative for Kosova News (ECIKS) March 2005: In 2004 Economic Growth in Kosovo was 32%. See: http://www.eciks.org/english/lajme.php?action=total_news&main_id=166.

³¹ Economic Initiative for Kosova News (ECIKS) July 2005: Kosovo expects no economic growth in 2005. See: http://www.eciks.org/english/lajme.php?action=total_news&main_id=204.

trade and retail sector, public administration and, above all, the reconstruction sector benefited from these forms of aid. Great sums were spent on infrastructure, public buildings and housing. Nevertheless, considering today's economic situation, this phase of prosperity was short-lived, with financial contributions beginning to drop as early as in 2001. While donations reached 975.7 million Euros in 2000; they dropped to 120.2 million Euros in 2003.³²

Six years after the conflict, it is obvious that the massive financial aid had no sustainable impact on Kosovo's overall economic development. The initially high GDP growth rate was not a result of a lasting increase in Kosovo's own productivity but was mainly driven by external financial aid. Thus, it is not surprising that the drop in financial aid has a massive adverse impact on Kosovo's general economic situation. The initial artificial growth during the reconstruction period disguised the true structural problems from which Kosovo is still suffering today. Additional resources that could compensate for this loss of financial support and would be fundamental for sustainable development are not foreseeable in the near future. Kosovo has increasingly vanished from the priority list of the international donor community, a factor further contributing to the aggravation of uncertainties.

A further indicator of Kosovo's economic crisis is the enormously biased trade balance. In 2003, Kosovo wrote a huge trade deficit. Imports amounted to 968.5 million Euros; whereas exports were very low at only 36.2 million Euros.³³ Kosovo's main trade partners are the European Union (as well as Switzerland), Serbia-Montenegro, and Macedonia.³⁴ Goods exported from Kosovo include agricultural products, textiles, metals and some electrical equipment.³⁵ This severe trade imbalance reflects the unsustainable condition of the economy: manufacturing capacities of local producers are more or less inexistent, antiquated and not sufficiently competitive. This constellation is confirmed by the fact that most imports are consumer goods rather than industrial goods for further processing or machinery for production facilities. Higher import rates of the latter products would signify that domestic demand is increasing, which in turn would lead to higher production and to the creation of new jobs.

This negative trend is reflected by public opinion. According to an opinion poll conducted in spring 2004, economic pessimism as well as subjective welfare pessimism have increased. Correspondingly, expectations towards an improvement of the situation were fairly low. One year later, this trend has been affirmed. An opinion poll carried out in March 2005 shows that the level of dissatisfaction with the current economic situation remains unchanged and high.³⁶ In addition, the spring 2004 poll also showed that the majority of respondents considered the UNMIK administration to be mainly responsible for the prevailing socio-economic conditions in Kosovo. This corresponded to the general deterioration of relations between the UNMIK and Kosovo's society, as manifested during the March 2004 riots when – in addition to minorities, UNMIK staff and infrastructure were attacked. PISG and the business community were considered to be less responsible for the miserable economic situation.³⁷

³² Riinvest 2004: Early Warning Report Kosovo No. 6 (January-April). 10. See: http://www.kosovo.undp.org/publications/ews6/final_undp_ewr6.pdf.

³³ Statistical Office of Kosovo 2004: Kosovo in Figures 2004. 39. See: http://www.sok-kosovo.org/pdf/general/Kosovo_in_figures_2004.pdf.

³⁴ Ibid. In 2003, imports from EU (as well as Switzerland), Serbia-Montenegro and Macedonia accounted for 57 percent of all imports. Exports to these countries amounted to 76 percent of all exports.

³⁵ World Bank 2004: Kosovo Economic Memorandum. 24. See: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/06/15/000160016_20040615115934/Rendered/PDF/280230KOS.pdf.

³⁶ Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 18. See: <http://www.kosovo.undp.org/publications/ews9/ewr9eng.pdf>.

³⁷ Ibid. 18ff.

In general, the UNMIK's EU-led Pillar IV, in charge of reconstruction and economic development, has a difficult standing: to a certain extent, the Kosovars consider it to be an international administration body incapable or unwilling to implement economic reforms and development. Especially the past suspension and the following delay of the privatization process led by the Kosovo Trust Agency (see 3.5) added fuel to the bad reputation and increased "the impression of an international administration that is a hollow shell".³⁸ However, despite certain failures of the international community, it would give a distorted picture to blame them exclusively for the economic plight in Kosovo. To a certain extent, local institutions are also responsible for the miserable situation. According to an International Crisis Group Report on Kosovo published in April 2004, the performance of the Provisional Institutions of Self-Government showed similar shortcomings.³⁹ The incoherence of various government ministries, led by different parties and characterized by political factionalism, corruption and scarcity of skills and vision, hampered the government in carrying out its tasks and assuming an active and leading role in economic planning.⁴⁰ However, since the newly elected government took up office in late 2004, relations and cooperation between the UNMIK and the PISG have improved. Further economic competences have been transferred to the local government and the new government, under the short auspices of former Prime Minister Ramush Haradinaj, showed greater commitment towards implementing standards. Within Kosovo's society, this development seemed to have a positive impact on the degree of satisfaction with the UNMIK's work.⁴¹

Furthermore, to reach macroeconomic stability, a sound fiscal policy is crucial. Since 2000, government revenues have been increasing, but this trend is not at all sustainable. Kosovo's tax revenues are mainly based on the collection of customs and excise duties at the borders, given the fact that 90 percent of widely used products (consumer goods) are imported from neighboring states or the EU. Only a small share of revenues result from domestic direct and indirect taxes, as the majority of individuals and businesses (including the informal sector) fail to pay their utility bills and consumer taxes. An immense loss in revenues also results from prosperous black market activities, e.g. trading cigarettes, coffee, oil, and gasoline.⁴² Revenues and budget stability are under general pressure, given that foreign assistance is declining and overall economic performance remains poor.

3.4 Informal and Criminal Economic Sector

In the aftermath of the violent conflict in 1999, the informal and to some extent criminal economy, inherited from the nineties, was rapidly in place again. Since then, the existence of a dominant informal sector and criminal economic structures present an ongoing heavy burden to Kosovo's development of a sustainable political and economic environment as well as for the attraction of foreign investments. According to World Bank estimates, Kosovo's informal economy is considerable, "representing a significant barrier for those firms that do operate legally, as informal

³⁸ International Crisis Group 2004: Collapse in Kosovo. Report No. 155 (22 April). 37. See: <http://www.crisisgroup.org/home/index.cfm?id=2627&l=1>.

³⁹ By the end of 2003, a wide range of economic competencies had been transferred to the PISG, situated in the Ministry of Economy and Finance (MEF), Ministry of Trade and Industry (MTI), Ministry of Transport and Communications (MTC), Ministry of Agriculture (MAFRED), and Statistical Office of Kosovo (SOK).

⁴⁰ International Crisis Group 2004: Collapse in Kosovo. Report No. 155 (22 April). 37.

⁴¹ Riinvest 2005: Early Warning Report Kosovo No. 9 (January- March). 12.

⁴² Der Spiegel online 2004: Welcome to Columbia. At: <http://service.spiegel.de/cache/international/spiegel/0,1518,323632,00.html>.

firms often have a competitive advantage through tax avoidance and lower compliance costs with the authorities.”⁴³ Thus, as a result of its dimension, the informal sector contributes substantially to massive losses in Kosovo’s national accounts. Furthermore, the situation is further worsened by the high level of criminal activities, as conducted by organized crime networks. These criminal groups were and to some extent remain heavily engaged in the smuggling and trafficking of arms, drugs, oil, and human beings. Moreover, after the war, they rapidly gained control over various economic assets such as petrol stations, hotels and other commercial premises as well as real estate. These groups have to date been able to operate with considerable impunity, as they are suspected to enjoy close links to members of Kosovo’s political establishment. Although there is no proof for this, assumptions have been made that even key political parties are linked to and partly financed by Kosovo’s economic criminal world.⁴⁴ Consequently, to date, these networks have not been very anxious about law enforcement: They can rely on weak state structures or even on criminal elements within administrative structures, open to bribery and corruption. Moreover, to a certain degree, these crime networks influence the investment climate in Kosovo: As these networks have an interest to secure their lucrative assets as well as their dominant position within Kosovo’s economic landscape, potential business competitors, e.g. Kosovo Albanian businesspersons returning from abroad, have received physical threats to discourage them from investing and setting up businesses in Kosovo.⁴⁵ Given these circumstances, security remains a key factor for potential investors.

3.5 Privatization

Another factor that challenges the economic development, the tense political and social situation as well as overall stability in Kosovo, is the continued slow pace of privatization. The legal basis for privatization was established in 2003. Since then, the Kosovo Trust Agency (KTA) has been the leading institution in the privatization process of approximately 500 socially-owned enterprises (SOEs) and in the administration of publicly-owned enterprises (POEs), such as the airport of Pristina or the Kosovo Electricity Cooperation.⁴⁶ Until now, four privatization tender rounds have taken place, with a fifth and a sixth launched in May and June 2005 respectively.⁴⁷ Approximately 30 out of the 500 socially-owned enterprises have been sold to date.⁴⁸

The privatization process is a complex and sensitive issue, mainly because of the unclear status of Kosovo. After two tender rounds, privatization was suspended in October 2003, when concerns were raised about sales procedures, property rights, and potential legal claims. On the one hand, officials stated that the sell-off procedures were open to abuse, such as collusions between bidders. On the other hand, from the outset, the Serb government challenged the program. Belgrade considers the

⁴³ World Bank 2005: Kosovo Monthly Economic Briefing (31 May). 2.

⁴⁴ Yannis 2003: Kosovo. 180ff.

⁴⁵ Xharra, Arbana 2005: Gangs and Red Tape Deter Kosovo Investors. Institute for War and Peace Reporting. Balkan Crisis Report No. 550 (06 April). See: http://www.iwpr.net/index.pl?archive/bcr3/bcr3_200504_550_3_eng.txt. An example for the unsafe business environment happened for example on 9 November 2004, when a car equipped with explosives crashed into a large department store in Ferizaj/Urosevac. This attack caused huge damage as well as financial losses for the investor.

⁴⁶ Kosovo Trust Agency 2004: Draft Strategy of the Privatization Department of the Kosovo Trust Agency, <http://www.esiweb.org/bridges/kosovo/11/1.pdf>. The term “socially-owned enterprise” is used for firms owned by workers and managers and represents a unique model set up during old socialist Yugoslavia.

⁴⁷ For an overview of privatizations rounds, including the listing of companies up for sale, see: www.kta-kosovo.org.

⁴⁸ Reuters 2005: Privatization. 64 Mio USD for Kosovo’s Ferronikeli (11 May). See: http://www.eciks.org/english/lajme.php?action=total_news&main_id=182.

privatization process to be illegal, because Serbia invested in Kosovo business enterprises during the past decades and because property rights remain to be resolved.⁴⁹ Serbia has even gone as far as to threaten officials involved in the privatization process with personal lawsuits. As a consequence, the UN headquarters in New York intervened and raised concerns about the legal basis for privatization. All these difficulties brought the process of privatization to a stalemate and the international administration decided to revise the procedures, causing further delay in the slow process. In the meantime, the KTA and UNMIK were heavily criticized by local politicians, business executives, and the media for not completing the sell-offs in adequate time and manner, thereby further prolonging the privatization process. It was considered to be the UNMIK's failure that Kosovo's economy could not be revived. This led to further frustration in the independence-seeking Kosovo Albanian community.⁵⁰ In summer 2004, after the privatization procedures had been modified to a certain extent, the international authorities resumed the process, launching further tender rounds.⁵¹ The UNMIK administration is aware of the fact that this process must continue. Privatization is vital for the revitalization of Kosovo's economy and for the creation of new jobs by getting private investment into former communist-era enterprises suffering from decades of under-investment. It is important to acknowledge that slow privatization hinders effective economic reforms and a sustainable socio-economic development. In the light of these facts, the UN administration again modified KTA's privatization procedures in April 2005 in order to avoid bureaucratic obstacles and to speed up the overall process, enabling the KTA to launch more privatization rounds at shorter time intervals. Previously, the agency had to undergo the lengthy process of determining the owner and status of each socially-owned enterprise before privatization could take place. Now, the KTA is able to sell Kosovo's socially-owned enterprises before ownership has been determined. More precisely, businesses can be sold while the ownership question is solved parallel or even at a later date. Sales revenues are paid into escrow accounts and paid out to the owners, once identified.⁵²

3.6 Final Status

Closely linked to the issue of privatization is the unsolved issue of Kosovo's final status. Many Kosovo Albanians as well as some international experts believe and argue that independence would be a significant step to promote a better investment climate and influence economic growth. Indeed, the continuing ambiguity makes it difficult for investors to risk investing in Kosovo for as long as it remains uncertain which laws and regulations might change. However, there are many other investment constraints, defined as minimum requirements in what is known as "Standards for Kosovo", e.g. functioning democratic institutions, rule of law, a competitive market economy, and the fair enforcement of clear property rights.⁵³ The security issue, for example, remains a major obstacle and especially the March 2004 riots proved that the situation is volatile and discouraging for foreign investors. Furthermore, the absence of a reliable legal system and widespread corruption contribute to the unfavorable investment climate, and Kosovo is still confronted with structural

⁴⁹ In addition, the Serbian government argues that the KTA, under the authorization of the UNMIK, has no right to sell state-controlled assets. UN Security Council Resolution 1244 explicitly excludes selling state-owned enterprises in Kosovo.

⁵⁰ Financial Times 2004: Kosovo resumes sell-off programme (19 July).

⁵¹ European Union, Pillar of UNMIK 2004: KTA launches third wave of privatization tenders (14 July). See: <http://www.euinkosovo.org/pNewsDev.asp?id=151&Lang=2>. In addition, a complete list of the third wave privatization tenders can be found at www.kta-kosovo.org.

⁵² Deutsche Welle 2005: Die Privatisierung im Kosovo kommt voran (14 April). See: <http://www.dw-world.de/dw/article/0,1564,1552376,00.html>.

⁵³ United Nations Mission in Kosovo 2004: Kosovo Standards Implementation Plan. See: http://www.unmikonline.org/pub/misc/ksip_eng.pdf.

deficiencies inherited from the socialist central planning. Due to budget restrictions, institutions are unable to offer economic incentives for potential investors, e.g. tax and custom benefits. In addition, the labor force is not the cheapest in the region and often lacks formal education. In short, although privatization may be a feasible method of attracting foreign investors, there is a lack of incentives for them. Solving the final status issue would not necessarily improve the situation, as much insecurity prevails and general standards – a precondition for investments – are still lacking. However, it also must be mentioned that the unresolved final status poses further development obstacles. As Kosovo is not recognized as a state, there are considerable restrictions for international financial institutions, making access to funds and the working out of bilateral agreements difficult.⁵⁴ In addition, the absence of sovereignty reduces Kosovo's chances to acquire the necessary infrastructure licenses.⁵⁵

3.7 Unemployment

As a result of the economic problems described above, Kosovo is confronted with a serious unemployment and income crisis, affecting large parts of society and presenting an obstacle to modernization and development.

The unemployment rate is alarmingly high, with rates of between 50 and as much as 60 percent and youth unemployment even reaching a level of 70 percent.⁵⁶ Since 2000, the number of registered job seekers has increased steadily every year by approximately 10 percent. In January 2005, the number of registered job seekers reached 303,095 persons.⁵⁷ According to estimates, Kosovo's labor force amounts to approximately one million persons (16 to 64 years of age). Out of these, 150,000 persons are officially employed, i.e. registered as income tax payers.

Together with the number of unofficially employed persons working in subsistence agriculture, in the informal market (an estimated 180,000 persons), the amount of gainfully employed persons in Kosovo only amounts to 330,000 persons.⁵⁸ This figure shows that less than a third of the total labor force is actually employed in one way or another. The remaining 670,000 persons have no jobs or carry out seasonal, casual and often improvised work or depend on the income of other family members. A relatively fast growing population further aggravates the disastrous situation of Kosovo's employment market. Although birth rates have declined, Kosovo has the youngest population in Europe. Almost one third of the population is younger than 15 and 42 percent are younger than 19. Every year, more than 30,000 young Kosovars join the working age group, adding pressure to the already tense labor market situation. It is estimated that over the course of the next five years, approximately 200,000 young persons will enter the labor market; whereas only approximately 60,000 will reach the age of retirement.⁵⁹

⁵⁴ Lately, a positive development regarding the acquisition of foreign financial assistance has been an reached agreement with the European Investment Bank, which allows for allocation of loans before the status question is resolved. See: Deutsche Welle 2005: Kosovo darf auf dem Weg nach Europa nicht unnütz Zeit verlieren (25 May). See: <http://www.dw-world.de/dw/article/0,1564,1595833,00.html>.

⁵⁵ For its communication sector, Kosovo had to rent a mobile phone code from Monaco and borrow an airport identity from Iceland.

⁵⁶ Riinvest 2003: Labor market and unemployment in Kosova. See: <http://www.esiweb.org/bridges/kosovo/5/7.pdf>.

⁵⁷ Riinvest 2005: Early Warning Report Kosovo No. 9. 21.

⁵⁸ UNMIK European Union Pillar 2004: Kosovo Outlook 2004. 11. See: <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN018214.pdf>.

⁵⁹ Ibid. p.11.

Considering the current situation, low economic growth rates, and the overall bleak prospects for Kosovo's economy, the labor market will simply not have the capacity to absorb all these newcomers. This dilemma is reinforced by declining international transfers to Kosovo's main business sectors, which will be obliged to cut down further on employment. Moreover, public authorities do not have the means to create more jobs in the public sector nor to pursue public investments, as the budget situation will remain tight.⁶⁰ In the past, massive underemployment and the high birth rate were encountered by extensive emigration. Today, however, this possibility is no longer feasible because of rigid entry conditions (mainly the EU countries and Switzerland). Thus, young Kosovars have practically no chance to escape from unemployment and remain without perspectives and confronted with acute poverty. Additionally, the province must deal with the increasing repatriation of Kosovars who left during the nineties. Now, these repatriations will inevitably increase pressure on the dire economic situation and the tense employment market. Furthermore, this will have an impact on the already weak households in Kosovo by diminishing the much-needed income from family members working abroad. Job emigration was and remains a substantial and important source of existence for a large number of Kosovo families.

Hence, Kosovo is facing a huge unemployment crisis with a high potential for deterioration. This situation constitutes a main destabilizing factor. The large number of unemployed not only suffers from little or no income and poverty, but also from powerlessness, insecurity, and exclusion. Frustration and a lack of perspectives are widespread, generating a critical mass that could easily be instrumentalized for potential violence by radical elements, especially amongst the younger generation.

Closely linked to the large-scale unemployment is Kosovo's prevalent poverty. Kosovo continues to be one of the poorest regions in Europe. According to a World Bank report, in 2002, 36 percent of Kosovo's population lived below the poverty line of 1.65 USD/adult per day, and 15 percent of Kosovars live below the extreme poverty line (2.100 calories/adult per day).⁶¹ The latest Human Development Report on Kosovo (2004) suggests similar figures, indicating an increase of extreme poverty from 11,9 percent in 2001 to 13 percent in 2003.⁶² Furthermore, it can be said that there are correlations between extreme poverty and aspects such as low education, landlessness, gender, a high number of children, and ethnicity.

⁶⁰ Except for a certain number of jobs created in the public sector (civil service) in 2003, overall employment has most likely stagnated.

⁶¹ The World Bank1004: Report No. 28006-KOS (13 April). 5. See: <http://www.seerecon.org/kosovo/wb/index.html>.

⁶² This is also based on the measurement by the fraction of the population living without the means to consume 2,100 calories per day per adult. See: United Nations Development Programme 2004: Human Development Report Kosovo 2004. 18. See: <http://www.kosovo.undp.org/hdr-new/index.html>.

4 Interethnic Coexistence in Kosovo: An Illusion?

4.1 Introduction

One of the main goals and key priorities of the international community consists in achieving a secure and sustainable multi-ethnic society in Kosovo, as stated in the demanding Kosovo Standards Implementation Plan: "All people in Kosovo are able to travel, work and live in safety and without threat of fear of attack, harassment or intimidation, regardless of their ethnic background", and "they are able to use their own language freely anywhere in Kosovo, including in public places, and enjoy unimpeded access to places of employment, markets, public and social services and utilities".⁶³ Furthermore, the standards imply that the members of all communities "must be able to participate fully in the economic, political and social life of Kosovo, and must not face threats to their security and well-being based on their ethnicity. This also includes "all refugees and displaced persons who wish to return to Kosovo must be able to do so in safety and dignity".⁶⁴

Six years after the intervention of the international community, Kosovo has still not met adequately these standards, and the viability of peaceful multiethnic coexistence remains to be questioned. Although the overall human security situation improved significantly after the violent conflict in 1998/99, the various ethnic communities in Kosovo continue to live to some extent in an unstable and insecure environment. In particular, the violent outbreak in March 2004 proved, once more, how fragile the security situation and how difficult the formation of a multiethnic society in Kosovo is. The UN administered protectorate was shaken by the worst violent excesses since the presence of the international community. The main targets of these riots were Kosovo Serb, Roma, Ashkali, and Egyptian (RAE) communities, but also the international community, especially the UNMIK, were not spared from attacks. The riots left 19 people dead, approximately 1,000 injured, some 4,100 displaced, and hundreds of homes and centuries-old Serbian cultural sites damaged, plundered, or burned. Since then, the actions against members of minority communities have decreased. However, this development clearly shows that the situation is far from satisfactory and that the idea or concept of multiethnic coexistence is generally far from having been established. It reveals how thin the basis of coexistence and how explosive the underlying hatred and distrust continue to be. The danger of renewed ethnic riots and clashes in Kosovo persists, endangering internal as well as regional stability in sensible fragmented countries such as neighbouring Macedonia, Serbia-Montenegro, or even Bosnia-Herzegovina. As minorities in Kosovo continue to face problems regarding security, fundamental rights of freedom and the exertion of a normalized political and social life, the implementation of the above-mentioned standard remains indispensable, as does the presence of international security forces.

This section of the paper aims at highlighting the still delicate situation of inter-ethnic relations in Kosovo. Firstly, it shall provide a brief review of the historical and political components or root causes which led to and continue to shape today's animus relationship, principally between the main ethnic protagonists, i.e. the Kosovo Albanians and the Kosovo Serbs. Secondly, an overview of Kosovo's ethnic diversity shall be provided, prior to describing the current situation of the affected ethnic minorities living in Kosovo. In the following, further factors hampering peaceful coexistence will be discussed.

⁶³ Kosovo Standards Implementation Plan (31 March 2004). 45. See: http://www.unmikonline.org/pub/misc/ksip_eng.pdf.

⁶⁴ Ibid. 51.

4.2 Shadow of the Past – Historical and Political Background

In the course of the decline of the Ottoman Empire, Kosovo was first incorporated into the Serbian (1912) and later into the first Yugoslav state (1918). The new states that emerged out of the Ottoman multinational heritage during this period legitimized themselves on the basis of their right to national self-determination. New territorial claims were justified on the right of self-determination or on historical rights dating back to empires of the Middle Age or Antiquity. These two principles of legitimization collided particularly in Kosovo: Because the Serb population was outnumbered, they appealed to their historic right to this region, as according to which Kosovo is considered to be the center of the medieval Serbian Empire and the cradle of their nation. Contrary to this, Albanian claims are based on majority conditions and the national right of self-determination.⁶⁵

The Serb incorporation of Kosovo was accompanied by heavy excesses against the Muslim population, leading to expulsions and mass-migration. This led to a deterioration of interethnic relations in general and an aggravation of the relationship between the Muslim majority and Orthodox Christians in particular. Measures such as attempts of "Serbianizing" (assimilation) of the province led to the active discrimination of Albanians, and colonization plans aiming at changing the majority proportion further aggravated the situation. As a consequence, the Albanian population grew increasingly hostile towards the Yugoslavian state.

During World War II, the balance of power reversed in Kosovo. Under Italian and German influence, the Albanian population received increased political acknowledgement, as large parts of Albanian settlement areas (in Albania, Macedonia, and Kosovo) were connected and given far-reaching self-determination rights as well as being relieved of Serb repression. As a result, the Serb population found themselves in an inferior position and exposed to discrimination. In the aftermath of the war, the Yugoslavian communist party attempted to create a sustainable basis for the integration of Kosovo into the Yugoslavian state by granting minority rights and territorial autonomy. However, the falling-out between Stalin and Tito in 1948 resulted in the disintegration of the initial cooperation efforts undertaken between Tirana and Belgrade, and Kosovo Albanians were suspected of counterrevolutionary agitation and conspiracy with Albania. This led to a period of strong surveillance by the Yugoslavian secret service, under the auspices of powerful former Yugoslav Vice-President Rankovic, targeting great parts of the Kosovo Albanian population. After the era of Rankovic the province experienced a period of constitutional, political and social progress. In 1974, the new Yugoslav constitution granted comprehensive autonomous rights to the Serb province that almost reached the same status as the other former Yugoslav republics. However, the Kosovo Albanian demands for full recognition as a republic was refused by Tito. The Kosovo Albanians benefited from these circumstances and experienced a period of political, social and cultural emancipation. In the province, this development was perceived as being discriminatory by the Kosovo Serb minority as an "Albanization" of institutions took place. Furthermore, Serbs were afraid to be demographically marginalized by the fast-growing Kosovo Albanian population. However, in part, this was no more than simple Serb nationalist rhetoric: the real reason for the decline of Serbs in Kosovo was a result of their ongoing migration to Serbia or other parts of former Yugoslavia. Thus, the much needed process of confidence-building or even reconciliation among Serbs and Albanians could not be achieved.

In the course of Milosevic's rise to power during the eighties, and given his aim to reconstitute the unity of Serbia by playing the nationalist card, he abrogated Kosovo's autonomy and discouraged

⁶⁵ Gromes, Thorsten, Moltmann, Bernhard and Bruno Schoch 2004: Demokratie-Experimente in Nachbürgerkriegsgesellschaften. Bosnien und Herzegowina, Nordirland und Kosovo im Vergleich. HSFK Report 9/2004. See: <http://www.hsfk.de/downloads/report0904.pdf>.

Albanian as an official language. This led to the end of a nearly 20-year long phase of political equality for Kosovo Albanians and was followed by a campaign of "Serbianization". Important posts in the administration, economy, media, education, and health service were reshuffled or taken away from Albanians. Parallel to this, in order to combat the demographic dominance of Albanians in the province, a renewed colonization program was introduced but with little success.

As a reaction to this, the Kosovo Albanians proclaimed a declaration of independence implying a detachment from Serbia but not from Yugoslavia. In addition to this, in 1990, they also adopted a new constitution. The claim for independence only came about when Slovenia and Croatia declared their independence in 1991, leading to the de facto dissolution of the former Yugoslavia. Furthermore, the Albanians reacted to this form of apartheid system by establishing parallel structures. Unchallenged by the Serb authorities, the Kosovo Albanians created their own political and social structures, including a widespread informal economy, supported by significant diaspora remittances. Thus, two separate social systems that coexisted next to each other independently to a large degree were established.

The Kosovo Albanians adhered to a non-violent resistance (led by Ibrahim Rugova) to the new apartheid-like system for about seven years but without reaching an amelioration of their situation. Acceptance for this non-violent opposition was severely strained by the fact that a solution of the Kosovo issue at the Dayton negotiations in 1995 did not find its inclusion. During the following years, support for the peaceful strategy promoted by Ibrahim Rugova dropped increasingly among the Kosovo Albanian population. As Serb repression prevailed, Kosovo Albanian radicals grew increasingly frustrated, which led to the formation of the clandestine Kosovo Liberation Army (KLA/UCK).⁶⁶ In 1998, nine years after the abolition of Kosovo's autonomy, the Kosovo Liberation Army, now supported by an increasing number of ethnic Albanians, openly rebelled against Serbian rule. The escalation of violent conflict, led to the displacement of approximately 300,000 Kosovo Albanians by the end of 1998. In order to prevent and curb ethnic cleansing as experienced during the Balkan wars, the West intervened. On 24 March 1999, the NATO entered into the conflict. During NATO air strikes, the Yugoslav army and police retaliated with mass expulsions of the Albanian population to neighboring Macedonia and Albania. In general, the military success of the NATO air strikes was moderate, but the ongoing destruction of Serbia's infrastructure and to a much larger degree, Russia's intervention finally forced Milosevic to give up. On 10 June 1999, the NATO ceased its actions and NATO's Kosovo Force entered into the province. The UN assumed responsibility for the province in compliance with Security Council Resolution 1244. In the aftermath of the war, ethnic Albanians returned to the province and Kosovo Serbs suffered retribution. Many Serbs and other ethnic minorities, regarded as collaborators of the Serb regime, became victims of Albanian atrocities and many fled the province.

Considering the above-mentioned short outline and facts, Kosovo has not experienced a harmonious twentieth century of interethnic coexistence and exchange. The opposed claims from both sides, Serbs and Albanians, regarding history and ethno-demographic distribution to justify exclusive rights to this multiethnic territory can be regarded as a basic factor for the Kosovo conflict. Structural factors, such as political developments, combined with oppression and exclusion as well as poor socio-economic conditions (see previous section), gave further ground to conflict. Furthermore, nationalism abused for political aims (especially during the eighties and nineties) increased mutual distrust, ethnic prejudice, and hostility between Kosovo's Serbs and Albanians. Moreover, both sides witnessed several periods of massive ethnic atrocities during the past century: For the last time, during and shortly after the war in 1998/99, this caused traumatic experiences and unforgettable

⁶⁶ Witte, Eric A. 2000: *Reconstructing Kosovo. The Ethnic Dimension*. In: Spillmann, Kurt R. and Krause, Joachim (eds.): *Kosovo. Lessons Learned for International Cooperative Security*. Bern. 85ff.

marks (deep wounds) to the collective memory. Such memories and experiences are difficult for people to overcome and inevitably lead to hatred and distrust. Moreover, they continue to influence the current situation in Kosovo. The degree of influence on interethnic relations, security, and stability in Kosovo today, shall be described on the following pages.

4.3 Kosovo's Ethnic Diversity Today

Today, Kosovo is a region predominantly populated by ethnic Albanians, followed by ethnic Serbs, and other minorities.⁶⁷ Overall estimates on Kosovo's present population vary, as no accurate official population figures are available at the moment.⁶⁸ According to different statistics, Kosovo's population amounts to approximately 2 million persons and 350,000 to 400,000 Kosovars living abroad.⁶⁹ The same statistical problems prevail with regard to measuring the ethnic distribution. Of the approximately 2 million inhabitants, approximately 88 percent are ethnic Albanians, followed by 7 percent ethnic Serbs, and 5 percent other ethnic minorities, e.g. Roma, Ashkali, Egyptians, Gorani, Turks, Croats, Montenegrins, and Bosniak communities.⁷⁰ Consequently, ethnic Albanians represent the dominant population group in most of the territory, but can also be found living in isolated enclaves/areas north of the Ibar River where ethnic Serbs form the majority. According to more recent estimates of the European Stability Initiative (ESI), almost 130,000 Serbs have remained in Kosovo. In contrast to the Serbian Kosovo Coordination Centre (CCK) in Belgrade that assumes that most of the Serbs live north of the Ibar River, the ESI suggests that only one third of the ethnic Serbs live in the northern municipalities of Leposavic, North Mitrovica, Zubin Potok, and Zvečan. The remaining two thirds live in the Albanian-majority south.⁷¹ They are concentrated in the rural enclave of Strpce, near the Macedonian border, in the southeastern municipalities of Viti, Gnjilane, Kamenica, and Novo Brdo as well as in the municipalities of Lipjan, Kosovo Polje, and Obilić, near Pristina.⁷² In contrast, other minority populations are predominantly located in different specific regions of Kosovo.⁷³ The Bosniak population center is mainly situated in the area of Prizren and to a certain degree, in Mitrovica and Pristina. The Gorani can be found within the Dragash municipality in

⁶⁷ More detailed information on Kosovo's minority groups, their areas of residence, estimated figures and characteristics can be found in the UNMIK's report on the protection of national minorities in Kosovo (30 May 2005). See: [http://www.coe.int/t/e/human_rights/Minorities/2. FRAMEWORK CONVENTION %28MONITORING%29/2. Monitoring_mechanism/3. State Reports and UNMIK Kosovo Report/3. UNMIK Kosovo Report/UNMIK Kosovo Report_gen.asp#TopOfPage](http://www.coe.int/t/e/human_rights/Minorities/2._FRAMEWORK_CONVENTION_%28MONITORING%29/2. Monitoring_mechanism/3. State_Reports_and_UNMIK_Kosovo_Report/3. UNMIK_Kosovo_Report/UNMIK_Kosovo_Report_gen.asp#TopOfPage).

⁶⁸ A new census aiming at supplying data on the demographics and housing situation in Kosovo shall be carried out in early 2005. The last official census was conducted in 1991. Southeast European Times 2004: UNMIK Chief Signs Census Legislation (22 December). See: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/document/setimes/newsbriefs/2004/12/22/nb-05.

⁶⁹ According to the last census (1991), Kosovo had a population of 1,956,000 million. An estimation undertaken by the UNMIK Department for Local Administration in 2000 presented a figure of around 2 million persons living in Kosovo. Another statistic from the Living Standards Measurement Study by the World Bank in 2000 estimated a figure of 1,970,000 persons. See: Statistical Office of Kosovo: Kosovo and its Population. See: <http://www.sok-kosovo.org/index.htm>.

⁷⁰ Living Standard Measurement Survey 2000 – Kosovo. Cited in Statistical Office of Kosovo 2003: Kosovo and its Population (revised version). See: http://www.sok-kosovo.org/pdf/population/Kosovo_and_its_population.pdf.

⁷¹ European Stability Initiative 2004: The Lausanne Principle, Multiethnicity, Territory and the Future of Kosovo's Serbs. Berlin/Pristina. 6ff. See: http://www.esiweb.org/pdf/esi_document_id_53.pdf.

⁷² Matveeva, Anna and Paes, Wolf-Christian 2003: The Kosovo Serbs. An ethnic minority between collaboration and defiance. Bonn International Center for Conversion, Friedrich Naumann Foundation and Saferworld. 20. See: http://www.fnst.de/webcom/show_article.php/ c-831/i.html.

⁷³ The exact population figures of the other ethnic minorities will not be illustrated further, as reliable data is not available and contentious and is not of relevance for this report.

the Gora region (south-west of Kosovo) and some smaller communities in Pristina and Mitrovica; whereas the majority of Turks live in Prizren. No clear population centers can be defined for the Roma, Ashkali and Egyptian⁷⁴ communities still remaining in Kosovo.⁷⁵

4.4 Current State of Interethnic Relations

Today, six years after the intervention of the NATO and the establishment of an UN protectorate, the situation of interethnic relations has improved but remains unsatisfactory. Although in general, interethnic violence has declined since the presence of the international community, the March 2004 riots have shown how volatile interethnic coexistence and the safety of minority communities, especially for the Kosovo Serbs, Roma, Ashkali, and Egyptians remains. Since the violent outbreak in March, the overall day-to-day situation in the UN administered protectorate has stabilized and interethnic violence is once again declining. The seriousness of ethnic-related incidents has diminished substantially but ethnically motivated harassment and intimidation as well as violence against minorities sporadically crops up and is often not reported. This fairly positive trend has also been stated in recent assessments, indicating an improvement of the inter-ethnic relations between Kosovo Albanians and Kosovo Serbs, freedom of movement, and an increasing perception of safety.⁷⁶ However, these developments do not imply that inter-ethnic relations in Kosovo have reached a sustainable level, guaranteeing the peaceful coexistence between the different ethnic communities, especially not between Albanians and Serbs. By far it would be premature and negligent to consider the current achievements to be sufficient: The situation remains volatile and members of minority communities continue to suffer from limitations in their freedom of movement, their overall perception of security and personal safety as well as their integration into Kosovo's society. Thus, more effort must be made until the UN set standards may be declared as fulfilled. A more precise picture of the situation of affected minorities shall be provided in the following.

Kosovo Serbs

As a result of the historical and political developments of the past, the Kosovo Serb community remains the main target of possible interethnic violence. During the period from mid-summer 2003 to the March riots in 2004, the Serbs increasingly suffered from ethnically motivated criminal acts. They were confronted by physical assaults with firearms and grenades, and of incendiaries. Violence against Serbs culminated during the March 2004 clashes, when ethnic Albanian crowds systematically attacked them. They were assaulted in their houses and expelled before their homes were set on fire. Furthermore, they became the victims of lootings. Eight Kosovo Serbs died, hundreds were injured, and the majority of destroyed homes and buildings belonged to the Serb population. In addition, Serb cultural sites such as churches, monasteries, and public buildings were destroyed and approximately 4,000 Serbs were displaced. These conditions and developments as well as the ongoing volatile security situation create an atmosphere of permanent fear among Serbs in many parts of Kosovo. According to an opinion poll from July 2004, Kosovo Serbs considered their

⁷⁴ In this report, the Roma, Ashkali and Egyptian communities are generally categorized together, although differences between these three groups can be made out. However, Albanians do not per se perceive the differences between the three groups, more often viewing Roma, Ashkaelia and Egyptians as one group. See: UNHCR/OSCE 2002: Ninth Assessment of the Situation of Ethnic Minorities in Kosovo (Period covering September 2001 to April 2002). 58. See: http://www.osce.org/documents/mik/2002/05/1110_en.pdf.

⁷⁵ Matveeva and Paes 2003: The Kosovo Serbs. 20.

⁷⁶ United Nations 2005: Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo (23 May). 11. See: <http://daccessdds.un.org/doc/UNDOC/GEN/N05/339/18/PDF/N0533918.pdf?OpenElement> and Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 25.

public and personal security to be the most serious problem in Kosovo. Furthermore, 94,5 percent perceived their situation on the street as being very unsafe to somewhat unsafe, as compared to 33,3 percent before the March riots. Only 5,5 percent felt somewhat safe to very safe.⁷⁷ Today, one year later, according to a recently conducted opinion poll, Kosovo Serbs still consider public and personal security to be the gravest problem they are facing in Kosovo. However, considering the decrease of inter-ethnic incidents against Serbs, their perception of the security situation has improved in comparison to 2004.⁷⁸

To a certain degree, the improved sense of security can also be led back to the measures undertaken by the KFOR security forces, UNMIK Civpol, and the Kosovo Police Service to protect minority enclaves. After March 2004, security measures were reinforced in many areas. Especially the increased presence of KFOR troops reassured the minority population to a certain extent. This confidence in a relatively secure environment, however, decreases as security measures have been diminished once again. In Mitrovica, for example, in January 2005, the KFOR removed barricades that had been set up in the wake of the ethnic riots in March 2004 on the main bridge across the Ibar River, separating the Northern Serbian part from the Southern Albanian part of town. The bridge is now patrolled by local and international police forces.⁷⁹ Representatives of the Serb community expressed their concern on this decision, feeling it could destabilize the safety situation for ethnic Serbs and other minorities.⁸⁰

Although freedom of movement has improved over the past months, the Roma and Kosovo Serbs in particular, may still sporadically victims of obstruction and harassment while traveling outside their enclaves. However, this problem seems to differ from region to region. According to the Fifth Annual Report of the Ombudsperson Institution in Kosovo (July 2005), in western Kosovo, school buses for Serb and Roma children still have to be escorted by security forces (UNMIK Police and Kosovo Police Service), when traveling through certain Albanian-dominated areas. Furthermore, local inhabitants of certain Serb villages feel afraid to move outside their villages without KFOR or KPS escorts. In contrast, in central Kosovo, Serbs are able to travel freely in their own automobiles with Kosovo license plates.⁸¹ This situation is also reflected in an UNMIK survey which indicates that large percentages of minority community members are now traveling by private or public transports and only a far smaller percentage however, still relies on escorts and transportation provided by the international administration and the KFOR.⁸² Thus, in general, fewer escorts were necessary.

⁷⁷ Riinvest 2004: Early Warning Report Kosovo No. 7 (May-July). 31. See: http://www.kosovo.undp.org/publications/ews7/ewr_7engl.pdf.

⁷⁸ Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 29 and 34.

⁷⁹ Southeast European Times 2005: KFOR Removes Barricades on Bridge Dividing Mitrovica (24 January). See: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/newsbriefs/setimes/newsbriefs/2005/01/24/nb-05.

⁸⁰ In mid-June 2005, the UN police began to open the bridge for civilian traffic and allow civilian cars to cross between the Serb and Albanian sides of Mitrovica. On the very first day of this experiment, several hundred Kosovo Serbs blocked the bridge because they feared that if security measures were relaxed, they might be attacked by Kosovo Albanians. However, the UN plans to proceed with the operation in order to promote freedom of movement. See: Reuters AlertNet 2005: Kosovo Serbs block opening of flashpoint bridge (13 June). See: <http://www.alertnet.org/thenews/newsdesk/L13677870.htm>.

⁸¹ Ombudsperson Institution in Kosovo 2005: Fifth Annual Report 2004 – 2005 addressed to the Special Representative of the Secretary General of the United Nations (July). 29. See: <http://www.ombudspersonkosovo.org/doc/Annual%20Reports/English/ANNUAL%20REPORT%20FINAL%20FINALa%202004-2005.doc>.

⁸² According to a UN report published in November 2004, more than 300 police escorts still had to be provided each month for Kosovo Serbs wishing to attend religious and cultural events, visit internally displaced persons (IDPs), and commute to work and education facilities. Despite KFOR and police escorts, there were still some stone-throwing incidents. See: United Nations 2004: Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo. 11. See: <http://daccessdds.un.org/doc/UNDOC/GEN/N04/606/87/PDF/N0460687.pdf?OpenElement>.

However, this should not belie the fact that the freedom of movement as well as the living environment of minority communities continue to be restricted, as the situation in Kosovo does not change for the better within such a short period of time. According to the latest report of Kosovo's Ombudsperson, "there are still many areas where isolated villages inhabited by Serbs and Roma are only accessible through KFOR checkpoints", and Serb cultural sites such as monasteries continue to be guarded by heavily armed KFOR units.⁸³ In addition, ongoing limited freedom of movement implicates serious consequences for Serbs, as access to basic services, including healthcare, schools, and public administration is restricted. Likewise, Serbs are affected in their economic development as they face difficulties in working their land, if it is not located in the immediate surrounding of their houses for security reasons and are unable to offer and sell their goods in public markets. Moreover, they must deal with offences against property rights, such as the illegal occupation of agricultural land and commercial property.⁸⁴

Roma, Ashkali and Egyptians (RAE)

According to a UNHCR report on the situation of minorities in Kosovo, these three communities have also been exposed to harassments, physical assaults, grenade attacks, and other forms of discrimination during the past years. To some degree, these groups were also a target of the March riots. However, according to the report, security aspects have improved continuously for the RAE communities, as have freedom of movement and access to basic services.⁸⁵ This development, however, is inconsistent and cannot be generalized for all three communities, because regional differences and language skills must also be taken into account. Serbian-speaking Roma communities often live in the immediate proximity of Kosovo Serbs or are perceived as being closer to the Kosovo Serbs and therefore often have to deal with similar security situations. In contrast, it seems as if the Albanian-speaking Ashkali and Egyptian communities enjoy greater tolerance and consequently, better security. In general, the situation of the RAE communities in Kosovo varies according to their perception by the majority population. Much also depends on location and language issues.

Another important issue of the situation of the RAE communities is their immanent marginalization. According to the UNDP's Human Development Report, poverty is highest among these communities. For almost 80 percent, daily income amounts to less than 2 US\$. Furthermore, in comparison to other ethnic communities, these communities are characterized by a high unemployment rate, a relatively low degree of education and unsatisfactory access to basic services and economic assets (land and livestock).⁸⁶ In particular, many members of the Roma community live in facilities (very often camps) with poor or no basic sanitary infrastructure, and in areas sometimes heavily affected by environmental pollution posing a serious health risk.

Bosniaks and Gorani

The Bosniak and Gorani communities are closely associated with Serbs. As a result, in the aftermath of the Kosovo war, they were exposed to violent attacks, harassment, and discrimination. However, the security situation for Bosniaks and Gorani appears to be less dramatic. According to a UNHCR report published in August 2004, no serious incidents were reported, even though cases of

⁸³ Ombudsperson Institution in Kosovo 2005: Fifth Annual Report 2004 – 2005 addressed to the Special Representative of the Secretary General of the United Nations (July). 29. See: <http://www.ombudspersonkosovo.org/doc/Annual%20Reports/English/ANNUAL%20REPORT%20FINAL%20FINALa%202004-2005.doc>.

⁸⁴ Ibid. 29.

⁸⁵ UNHCR Kosovo 2004: Update on the Kosovo Roma, Ashkaelia, Egyptian, Serb, Bosniak, Gorani and Albanian communities in a minority situation. Kosovo (June). 8. See: <http://www.unhcr.ch/cgi-bin/texis/vtx/home/opendoc.pdf?tbl=SUBSITES&id=412b0b674>.

⁸⁶ UNDP 2004: Human Development Report Kosovo 2004. Pristina. 81.

intimidation and discrimination may occasionally still occur. The risk of mistakenly being identified as belonging to the Serb community when using their language still restricts freedom of movement and impedes equal access to social services and economic development.⁸⁷ During the March riots, no direct actions against Bosniaks and Gorani were reported; the riots did, however, lead to an increased sense of insecurity and alertness. Individual Bosniaks and Gorani may still fear acts of violence due to their de facto or presumed involvement with the Serb regime or their present association with the Serb community.⁸⁸

Kosovo Albanians

Although the Kosovo Albanian population represents the vast majority in Kosovo, with almost 90 percent, in some areas they are confronted with similar minority problems as those suffered by other ethnic minorities. This is especially true of the northern region of Kosovo, which is dominated by ethnic Serbs and where ethnic Albanians constitute a minority. In the past, ethnic Albanians were exposed to physical assault and harassment, predominantly occurring in the divided town of Mitrovica, which then culminated in the March riots.⁸⁹ As a consequence, approximately 90 Kosovo Albanians temporarily fled from North Mitrovica. Today, the situation in the divided city remains volatile and according to the Ombudsperson's report of July 2005, ethnic Albanians wishing to visit Northern Mitrovica rely on UN transport services.⁹⁰ The mono-ethnic villages in the northern communities were not affected by violence and destruction, but their access to basic services was interrupted for a certain period. In the meantime, Kosovo Albanians in a minority position enjoy the same relative levels of security again as they did before March 2004. Nevertheless, it can be assumed that their overall situation as well as their perception of security has only improved slightly. Therefore, a strong presence of international security forces still must be provided.

It is important to point out that the situation of ethnic minorities varies considerably throughout Kosovo. In some areas, relations continue to be heavily disrupted and almost no interaction between the communities takes place (this is the case in Mitrovica). There are, however, regions in Kosovo experiencing less animus levels of coexistence. Sometimes, this is based on a long tradition of mutual acceptance among the different communities. These areas do not represent the stereotypical image of Kosovo's segregated society. In fact, they are characterized by ethnically mixed working environments and villages in which Serbs and Albanians cultivate social relationships. This is especially true of the southeastern region of Kosovo where some areas have a 30 percent non-Albanian population and are therefore far more ethnically mixed than the rest of the province.⁹¹ Such constellations depend strongly on the quality of relations between the communities as well as the situation in a particular area before and during the war. Normally, fewer war atrocities or killings took place in those areas during the war. In some areas, the majority community (Albanians) protected Serb property against the Albanian mob during the March riots, thus enabling Serbs to return after the unrest without requiring static KFOR or other security protection.⁹²

⁸⁷ UNHCR 2004: UNHCR Position on the Continued International Protection Needs of Individuals from Kosovo (August). 5. See: <http://www.unhcr.ch/cgi-bin/texis/vtx/home/opendoc.pdf?tbl=SUBSITES&id=412b0b124>.

⁸⁸ Ibid. 5.

⁸⁹ UNHCR Kosovo 2004: List of security incidents involving minorities Jan. 2003-April 2004 (June). 48ff.

⁹⁰ Ombudsperson Institution in Kosovo 2005: Fifth Annual Report 2004-2005 addressed to the Special Representative of the Secretary General of the United Nations (July). 30. See: <http://www.ombudspersonkosovo.org/doc/Annual%20Reports/English/ANNUAL%20REPORT%20FINAL%20FINALa%202004-2005.doc>

⁹¹ Berisha, Lumniye, Bekteshi, Dardan and Antic, Srdjan 2004: Ethnic Divide Bridged in South-East Kosovo. Balkan Crisis Report No. 520. Institute for War and Peace Reporting (08 October). See: http://www.iwpr.net/index.pl?archive/bcr3/bcr3_200410_520_2_eng.txt

⁹² UNHCR Kosovo 2004: Update on the Kosovo Roma, Ashkali, Egyptian, Serb, Bosniak, Gorani, and Albanian communities in a minority situation. Kosovo (June). 43.

4.5 Further Factors Hampering Interethnic Coexistence

The situation of ethnic communities in Kosovo as described above makes it clear that the aspired standards for a secure and sustainable multi-ethnic society are only sparsely in place, even though the general situation has temporarily improved during the past months.⁹³ The different ethnic minorities, including Albanians in northern Kosovo, continue to perceive their environment to a certain extent as inhospitable, affecting their day-to-day life. These circumstances are further influenced by the following factors:

Antagonistic Agendas and the Weight of the Past

Interethnic coexistence and trust continue to be influenced heavily by the outstanding solution of the final status and by the reluctance to deal with the past. For almost all Kosovo Albanians there is only one solution, i.e. full independence. A return to Serb structures is unthinkable for Kosovo's Albanian majority population. According to an opinion poll carried out in March 2005, 94,4 percent of the Albanians are in favor of independence for Kosovo within its current borders. Some 5,2 percent are in favor of a union with Albania, and a very small percentage of the persons surveyed could imagine a partition or maintaining the current status of a de facto international protectorate. In contrast, 92,5 percent of Kosovo Serbs would like to see their future in an autonomous province within Serbia, while only 3 percent are in favor of a division of Kosovo, with 4,5 percent able to contemplate the concept of a confederation with Serbia similar to the situation with Montenegro.⁹⁴ These figures clearly indicate the highly antagonistic approach towards a final status of Kosovo. As many promises were made by Kosovo Albanian politicians regarding independence, there is a risk of increasing frustration among the Albanian community, if this goal were to be postponed further or proved to be impossible to reach. This could lead to a new outbreak of violence primarily targeting Serbs as the perceived core of the problem as well as the international community for further delaying status negotiations.

Furthermore, ethnic relations continue to be overshadowed by the experiences suffered throughout the twentieth century as well as by the ethnic motivated violence, harassment and discrimination of the past years and the latest climax of ethnic turmoil (March 2004), which keeps the smoldering fire of ethnic tension and polarization alive. Thus, even now, six years after the war, for many Kosovars, yesterday's violence does not belong to the past but remains an open wound, with signs of reconciliation and coming to terms with the past being practically inexistent. In order to ensure peaceful multiethnic coexistence, a vital factor for Kosovo's future stability, efforts to deal with the past must be pursued seriously. According to findings in the discipline of "dealing with the past", "direct and positive interaction between a society's endeavors to address its past and its capacity to develop a lasting peace" can be affirmed.⁹⁵ It goes without saying that truth and justice play a central role: The acknowledgment of truth and the implementation of justice are crucial for successful conflict transformation. In this context, the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague is an important instrument in providing victims with a sense of

⁹³ In his latest report, Kosovo's Ombudsperson reiterated that "the general level of human rights protection is still below minimum international standards" and "a great deal must be done to strengthen the mechanisms for such protection." See: Ombudsperson Institution in Kosovo 2005: Fifth Annual Report 2004-2005 addressed to the Special Representative of the Secretary General of the United Nations (July 2005). 3. See: <http://www.ombudspersonkosovo.org/doc/Annual%20Reports/English/ANNUAL%20REPORT%20FINAL%20FINALa%202004-2005.doc>.

⁹⁴ Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 35.

⁹⁵ Bleeker Massard, Mô 2004: Dealing with the Past, Constructing Memory, and Conflict Transformation: A Holistic Approach. In: Bleeker Massard, Mô and Sisson Jonathan (eds.): Dealing with the Past. Critical Issues, Lessons Learned, and Challenges for Future Swiss Policy. KOFF Series, swisspeace Working Paper 2/2004. 5. See: http://www.swisspeace.org/publications/wp/KOFF_DealingWithThePast.pdf.

justice, holding individuals accountable and dismantling the tradition of impunity for war crimes and other serious violations of international law. Another instrument in dealing with the past is the joint Working Group on Missing Persons, allowing officials from Belgrade and Pristina to deal with the issue of missing persons, bringing clarification to the whereabouts of dependents from the conflict parties.

Such measures can pave the way for the reconciliation process within war-torn societies such as Kosovo. However, in order to achieve sustainable reconciliation in such a divided society, other components must also be taken into account. It is, for example, essential to determine the facts of the past, their official acknowledgement and their communication to the public. In addition, the majority of society as well as society leaders must approve of and support efforts to deal with the past. Consequently, it is crucial that the Kosovo Albanians agree to a constructive coexistence with their Serb neighbors and vice versa. Solid and functioning institutions are a further prerequisite and remain to be developed and put in place in a manner to serve the entire population. Accountability and transparency must be guaranteed as well as the equality of all citizens before the law. Thus, existing and future efforts to meet the defined standards must be pursued, so that prevailing distrust in Kosovo's institutions can be rectified to a certain degree, especially among the minorities.

Return of Refugees and IDPs

The whole process of the return of refugees and internally displaced persons, one of the key standards to be fulfilled, continues to proceed very slowly and suffered a tremendous set-back due to the March 2004 riots.⁹⁶ Fearing Kosovo Albanian retaliation, a contentious number of members of the minority communities left for Serbia-Montenegro and Macedonia during and mainly after the violent conflict in 1999. There are uncertainties regarding the exact number of refugees and IDPs. According to Serbian government figures from 2000, 141,396 Kosovo Serbs live in Serbia. In 2003, the Serbian Kosovo Coordination Centre stated that there were approximately 110,000 Kosovo Serbs; whereas according to the European Stability Initiative, there are approximately 65,000 Kosovo Serbs.⁹⁷ To date, only a small percentage has returned. According to UNHCR data, the total number of returnees during the period between 2000 and 2005 amounts to approximately 12,400.⁹⁸ Although the current situation in the protectorate seems to be improving as mentioned earlier and Kosovo government officials called upon Serbs and other minorities to return to Kosovo during the first six months of 2005, vital progress in the return process can be ruled out in the short-term, because of the security situation and to an even larger degree, the perception of the latter by the refugees and the IDPs makes them not very willing to return. In addition, dire socio-economic conditions and perspectives provide few incentives for resettlement. On the contrary, minorities affected by the overall difficult situation may be even more convinced of the necessity to leave Kosovo and to definitely sell their goods and chattel. The departure of minorities will, today and in future, depend heavily on the overall progress in implementing the standards as well as the outcome of the status negotiations.

Moreover, it is unknown how many of the refugees and IDPs from neighboring countries are actually willing to return to Kosovo. If all refugees and IDPs wish to return, this on the one hand, would not have a serious impact on the overall ethnic distribution in Kosovo. The Albanians would remain in their majority position. On the other hand, a substantial return and resettlement process could provoke new tension, as it would, to some extent, collide with the returning of property. Kosovo

⁹⁶ In principle, "all refugees and displaced persons from Kosovo shall have the right to return to their homes and to recover their property and personal possessions." See: UNMIK Regulation 2001/9, Chapter 3.4.

⁹⁷ European Stability Initiative 2004: The Lausanne Principle: Multiethnicity, Territory and the Future of Kosovo's Serbs. Berlin/Pristina (June). 18ff. See: http://www.esiweb.org/pdf/esi_document_id_53.pdf.

⁹⁸ Riinvest 2005: Selected Indicators. In: Early Warning Report Kosovo No. 9 (January- March).

Albanians could be faced with eviction from houses, apartments, and land that they occupied in the aftermath of the war. Furthermore, increasing return would further aggravate the socio-economic situation and stress the employment situation. Such measures could lead to dissatisfaction and create further potential for conflict based on interethnic relations. This dilemma is and will be further aggravated by the compulsory repatriation of approximately 200,000 Kosovars (minorities as well as Kosovo Albanians) from several European countries during the next years.⁹⁹ Repatriation into an area where revenue perspectives are as good as zero, the unemployment rate is the highest within Europe, and the housing situation is insufficient, could be a source for further destabilization. These measures have already been criticized by international human rights organizations as people are repatriated to a region where in particular members of ethnic minorities are confronted with a difficult human rights situation.¹⁰⁰

Minority Participation

According to the internationally imposed Constitutional Framework of 2001, Kosovo presents an elaborate system for the participation of ethnic communities in parliament, government, and public administration. The numerical representation of the Kosovo Assembly is as follows: A total of 120 seats; thereof, 100 multiethnic seats for all political subjects directly voted; 10 seats set aside for representatives of the Serb community; and 10 seats for representatives of other communities (4 seats for the RAE, 3 seats for the Bosniaks, 2 seats for the Turks, and 1 seat for the Gorani).¹⁰¹

Until now, parliamentary elections (17 November 2001 and 23 October 2004) in Kosovo were carried out without any major irregularities. However, the latest elections were overshadowed by the boycott from the Serb community. Turnout among the Kosovo Serbs was less than 1 percent. The majority of the voters followed a call from Serbian Prime Minister Kostunica and leaders of the Serbian Orthodox Church to boycott the election, while Serbian President Tadic called on Serbs to participate.¹⁰² Such signals hamper trust and integration, because a significant ethnic minority (Kosovo Serbs) excludes itself from participating in a joint political process. On the one hand, this weakens their own position as well as reducing the legitimacy for co-determination and decision-making in Kosovo. On the other hand, it points to the high degree of Belgrade's influence on the Kosovo Serb community and the success of Belgrade in giving order which are not necessarily advantageous for the Kosovo Serb population. In addition, Belgrade continues to exert influence on the Kosovo Serb community by maintaining and financing what are referred to as "parallel structures" and criticized and rejected by both the international community and the Kosovo Albanians. These structures continue to provide substantial services for the Kosovo Serbs in education, health care, judiciary and security, thus contributing to ethnic separation in Kosovo. Such circumstances have the potential to increase the distrust and fear among Kosovo Albanians with regard to Kosovo's future: They completely reject any renewed links with Serbia and are not willing

⁹⁹ Deutsche Welle 2005: Kosovo: Abschiebungen bringen nur weitere Destabilisierung (16 June). See: <http://www.dw-world.de/dw/article/0,1564,1618401,00.html>.

¹⁰⁰ Deutsche Welle 2005: Amnesty Report Damns Global Powers (25 May). See: <http://www.dw-world.de/dw/article/0,1564,1595132,00.html>. Moreover, regarding the situation on the ground, the UNHCR recommends avoiding the return of minorities (including ethnic Albanians from areas where they constitute a minority) able to benefit from international protection in countries of asylum. Return should only take place on a voluntary basis. UNHCR 2004: UNHCR position on the Continued International Protection Needs of Individuals from Kosovo (August). 2.

¹⁰¹ UNMIK 2001: Constitutional Framework for Provisional Self-Government, UNMIK/REG/2001/9 - 15 May 2001. See: <http://www.unmikonline.org/constframework.htm#93>.

¹⁰² Following the falling out between President Tadic and Prime Minister Kostunica prior to the elections, it now seems that in the light of status negotiations, both seek increased coordination in order to pursue a joint policy (strategy) in Kosovo.

to accept anything less than independence. Belgrade's ongoing reiteration of opposing independence for Kosovo simply aggravates the tense situation.¹⁰³

A further factor exacerbating interethnic relations and integration concerns minority employment within the structures of the Provisional Institutions of Self-Government (PISG), which reflects an uneven and unsustainable situation. Here, in general, the situation continues to show a relatively low level of minority employment and goals remain unmet. According to a report of the Secretary-General on the United Nations Interim Administration mission in Kosovo published in May 2005, the minority occupation in central ministries only reaches approximately 10,2 percent of total posts, instead of the minimal standard of 16,6 percent.¹⁰⁴ Reasons for this deficit can be explained partly by the following factors: Either the minority community candidates are simply unavailable or not sufficiently qualified to fulfill the posts. In addition, the PISG is not undertaking sufficient efforts to employ members from the minority communities. Another problem involves equal access to employment, given the fact that freedom of movement, especially for Kosovo Serbs, is limited because of the overall security situation. A similar lack of minority employment in the public sector can be observed in municipal community offices, mainly in municipalities where Kosovo Albanians constitute the majority.¹⁰⁵ However, although initially criticized by some Kosovo Serb politicians, a positive sign of renewed cooperation and rapprochement between Kosovo Albanians and Kosovo Serbs could be the decision of Slavisa Petkovic (leader of the Serb Civic Initiative) to join the PISG structures as the new minister in charge of the return of refugees and communities in January 2005.¹⁰⁶ This indicates a more cooperative approach adopted by certain Kosovo Serb political leaders. Lately, there have been increasing appeals for participation in Kosovo's institutions, indicating that further abstinence will not be beneficial to interests of the Kosovo Serbs. Consequently, the perception is growing that in order to be actively involved in the further development of Kosovo, participation within the given political structures is indispensable. However, reluctance prevails as, e.g. the dominant Serbian List for Kosovo and Metohija (SLKM), led by Oliver Ivanovic, is still not fully committed towards returning to the institutions (parliament), as benevolent signals from Belgrade for a Kosovo Serb participation are still missing.¹⁰⁷

Rule of Law

Another important issue regarding the improvement of the interethnic situation and personal as well as public security concerns the efficiency of the judiciary system and of the law enforcement bodies (police). Progress with regard to the establishment of a functioning justice system was made over the past years and new criminal codes (Provisional Criminal Code and Provisional Criminal Procedure Code) entered into force after the March 2004 riots, bringing the law in Kosovo into greater conformity with European standards and ensuring consistency with the principles of international law, in particular international human rights law.¹⁰⁸ However, due to many obstacles in practice, rule of law lacks implementation. The justice system suffers from a shortage of local and international

¹⁰³ During a two-day visit of Serbian President Tadic in Kosovo (mid February 2005), the President reiterated Belgrade's opposition to independence for the province, *Southeast European Times* 2005: Serbian President Visits Kosovo (14 February). See: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2005/02/14/feature-02.

¹⁰⁴ United Nations 2005: Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo (23 May). 8.

¹⁰⁵ United Nations 2004: Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo (17 November). 8.

¹⁰⁶ *Southeast European Times* (25 January 2005). See: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/newsbriefs/setimes/newsbriefs/2005/01/25/nb-03

¹⁰⁷ Bieber, Florian 2005: FAST Update Kosovo, November 2004 to April 2005. 5.

¹⁰⁸ UN News 2005: Kosovo: new criminal codes come into force in UN-administered province (6 April). See: <http://www.un.org/apps/news/storyAr.asp?NewsID=10321&Cr=Kosovo&Cr1>

judges who could deal adequately with the overload of cases, leading to extensive delays in court rulings. According to a report, there is an increasing number of unfinished criminal and civil cases dealing with human rights and property rights issues.¹⁰⁹ Sometimes, the system is additionally confronted with poorly trained staff (judges, investigators, and prosecutors) lacking qualifications and experience. Furthermore, there are still concerns about corruption and ethnic bias among judges and prosecutors, although the UNMIK considers ethnic bias to not play a prominent role within the judicial system. However, according to UNMIK figures, Kosovo Serb judicial staff remains underrepresented.¹¹⁰ Another factor of concern is the poor mechanism of witness protection. Many witnesses and even victims of ethnically motivated crime are still afraid to testify in interethnic crime cases out of fear of intimidation and revenge. All these shortcomings demonstrate the inefficiency of the judiciary system that causes a sense of insecurity and low confidence in Kosovo's justice system and also affects interethnic relations.¹¹¹

With regard to the prosecution of war crimes committed in 1998/99 as well as post-war interethnic violence, only little has been achieved to date. However, cooperation between Kosovo's government and the International Criminal Tribunal for the Former Yugoslavia (ICTY) has been successful: When former Prime Minister Haradinaj received his indictment, for instance, he immediately resigned and surrendered voluntarily to The Hague. The persecution of those responsible for the March riots has been considerable successful: More than 270 persons were arrested and over 100 cases were closed by the end of November 2004. Convictions and punishment went from fines and reprimands to several years of imprisonment.¹¹² Although progress was achieved, the Human Rights Watch criticizes the lack of efficiency in the adjudication of minor ethnic crime cases as well as more serious cases of which only approximately a third were dealt with in court by the end of October 2004.¹¹³

Moreover, trust in Kosovo's security forces (the KFOR, the multiethnic Kosovo Police Service/KPS, and the UNMIK police) has suffered from their poor performance during the March riots when they were overwhelmed by the massive violence and unable to respond adequately and protect the ethnic minorities. In this regard, according to an opinion poll, satisfaction with the performance of the KFOR has declined somewhat within the Kosovo Albanian and Serb population. Overall dissatisfaction is shown towards the UNMIK police from both communities and acceptance of the KPS forces remains low within the Kosovo Serb community.¹¹⁴ Allegations of complicity of KPS personnel during the March riots contribute to this negative perception. Lately, satisfaction, especially with the UNMIK police and the KPS has increased again.

As long as the judicial and the law enforcement system are not functioning accordingly and deficits in resolving ethnically motivated crimes continue, mistrust against the system and its bodies as well as the perception of impunity will persist, hampering justice and reconciliation efforts.

¹⁰⁹ Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 32.

¹¹⁰ To date, only approx. 10 percent of judges and approx. 9 percent of prosecutors come from minority communities. See: United Nations Security Council (2005): Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo (23 May). 9.

¹¹¹ In general, dissatisfaction of Kosovo's citizens with the performance of the courts is high. According to an opinion poll, Serb respondents answered with an almost 100 percent rate of dissatisfaction and with Albanian respondents, the rate was approximately 60 percent. See: statistics Riinvest 2005: Early Warning Report Kosovo No. 9 (January-March). 32.

¹¹² United Nations 2004: Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo (17 November). 10.

¹¹³ Human Rights Watch 2005: World Report 2005. 420. See: <http://www.hrw.org/wr2k5/wr2005.pdf>.

¹¹⁴ Riinvest 2004: Early Warning System Kosovo, Report 7 (May-August). 31.

5 Conclusions

Kosovo faces several severe challenges and as the analysis has shown, in particular in socio-economic terms and inter-ethnic relations. On the socio-economic level, the main question is whether Kosovo will manage to escape from economic depression or if the state of the economy, to which many other crucial issues are closely linked, will prove to be a potential source for destabilization.

As mentioned, it is evident that, on the one hand, Kosovo's desolate socio-economic situation is a result of the political process and economic underdevelopment experienced during the past century. Within the former Socialist Federal Republic of Yugoslavia, the province suffered from structural dependency as a cheap producer and supplier of energy, raw materials, and foodstuffs. Investments in industry, agriculture, and infrastructure lagged behind the average level within the SFRY. Additionally, Kosovo was heavily affected by the overall economic decline of the SFRY during the eighties as well as the by collapse of former Yugoslavia's economic system because of the Balkan wars at the beginning of the nineties that also led to a massive drop in public investments in Kosovo. Thus, the province never managed to overcome its deficient economic structures in order to establish a sustainable economy. Kosovo was further weakened by the violent conflict in 1998-99 causing additional destruction. Hence, it would have been illusive, given the experiences made in other transitional countries, to achieve immediate recovery from such a legacy within a couple of years only.

On the other hand, Kosovo today is also trapped by several factors hindering its political and socio-economic transformation process: The unsettled final status as well as the overall security situation hampering partially much needed foreign investment; the slow privatization; the influential informal and to some extent criminal economy; the decline of foreign subsidies and diaspora remittances; and the lack of coherent economic policy planning. Additionally, low economic growth rates cannot absorb the crushing unemployment. The initial phase of growth and prosperity, decisively encouraged by massive foreign financial aid, proved to be deceptive and unsustainable. The substantial reduction of foreign aid brought to light the inherent socio-economic weaknesses and problems. In the primary sector, Kosovo is still strongly characterized by uncompetitive subsistence agriculture. Similarities can be observed in the secondary sector, in which only the construction industry experienced an initial boom; whereas the energy sector, the manufacturing industry, and mining remain outdated and barely competitive. However, thanks to Kosovo's rich natural resources, there is a real chance for revitalization. The tertiary sector (trade and commerce) has improved but still depends tremendously on the presence of expatriates from the international community as well as on diaspora remittances. All in all, despite the significant amount of international support – which is often not the case in other post-conflict countries and regions – Kosovo has not yet been able to establish self-sustaining, competitive economic structures in the regional and international markets. This shows how difficult it is to achieve a turnaround of post-conflict constellations.

The solution of Kosovo's final status, regardless of its outcome, will most probably have a positive effect on economic development. The legal environment, especially interesting for foreign investment, could finally be fully determined, which would most probably solve ongoing disputes with Serbia regarding property rights. In addition, this would simplify access to foreign or international financial funds. This could also promote and enhance the privatization process, so vital for the modernization of enterprises and reforming Kosovo's economy in general. Further delays, however, could compromise cooperation and the climate between the internationals (the UNMIK and the KTA) and the Kosovo government. Moreover, a privatization process that processes poorly could have a deterrent effect on potential investors. However, Kosovo's economic development does not depend solely on the resolution of the final status and the rapid success of the privatization process. There are more fundamental standards to be fulfilled in order to create the basic conditions for a functioning and sustainable market economy, e.g. solid democratic structures, a functioning legal system, and overall security. Otherwise, incentives to attract much needed foreign investment will remain poor. Furthermore, privatization is not the only key instrument to economic success. Although it is widely recognized as an adequate and necessary measure to reform economic

structures and promote economic development, seen realistically, in several cases privatization also entails a reduction of jobs, which in turn generates higher unemployment and greater dissatisfaction. The poor economic performance of Kosovo's economy as well as the declining financial inflow (including remittances) will further aggravate the budget situation. The revenue base is already narrow and reliant on taxes on imports. A further reduction of purchasing power within the Kosovar society would lead to lower consumption and result in lower tax revenues for the government. In addition, a general economic decline could cause even higher unemployment and aggravate poverty. Such a negative development would be difficult to absorb for Kosovo's institutions, because the government budget would be increasingly limited. Hence, authorities in Kosovo must strive to determine a healthy and well-balanced financial policy. Budget stability needs to be ensured and strengthened as international financial contributions as well as remittances from abroad are declining. Furthermore, it will be important to reduce the size of the informal sector and of damaging and widespread "institutionalized" criminal economic activities. With regard to the informal sector, this could be achieved by strengthening enforcement regulations. The criminal economy must be tackled consequently by effective law enforcement measures. These procedures would most likely contribute to achieving the much-needed higher tax revenues as well as to improving the investment climate.

A highly worrisome factor is Kosovo's massive unemployment rate, especially among the young generation. The current economic situation will not improve in the near future and cannot provide any perspectives. Moreover, job migration possibilities are practically inexistent. Thus, widespread discontent, lack of perspectives, and frustration among the unemployed, combined with unfulfilled political hopes for an independent Kosovo could favour social tensions and the likelihood of violent unrest, especially if instrumentalized by radical/extremist groups. In order to prevent such a scenario – a possible repetition of the March 2004 riots or even worse – all actors involved must commit themselves to improving the situation as soon as possible. To combat unemployment, promoting start-up businesses, especially small and medium-sized enterprises, could contribute significantly to creating new jobs. Moreover, easy access to credits for SMEs and agricultural enterprises should be provided. Investments should be made in human resources, especially in the field of education and further vocational training of the unemployed, in particular for the young generation entering into the labour market in great numbers every year. All of this would help to ease socio-economic stress. In general, the international community will have to secure further substantial financial contributions and provide technical and advisory assistance. Likewise, the Kosovo government and its institutions have the responsibility to reinforce their efforts. The major task and largest challenge for Kosovo's politicians is to combat the economic misery and the high unemployment rate in order to improve social and economic conditions in general and security and stability in particular.

In terms of interethnic relations, since the March 2004 riots, the situation in Kosovo has improved and no serious ethnically motivated violence has occurred during the past months. However, it would be premature to consider this development sustainable – Kosovo is far from being a peaceful multiethnic paradise. As mentioned earlier in this report, interethnic tensions remain omnipresent. Members of minority communities continue (or at least perceive) to live in a hostile and unsafe environment. Their ability to travel, work, and live in safety, without threat or fear of attack, harassment or intimidation regardless of their ethnic background, as defined in the "Standards for Kosovo", is still not guaranteed. This also applies to their possibility to participate in the economic, political and social life: many members of ethnic minorities living in enclaves still rely on protection provided by the international security forces.

Based on these circumstances, is the concept of multiethnic coexistence in Kosovo, as defined by the international community, an illusion? Multiethnic coexistence in Kosovo is a major challenge but not an impossible mission. Academic research suggests that there is no evidence to prove that ethnic identities and cultural differences inevitably lead to conflict or impede peaceful coexistence. However, some conflicts are especially difficult to resolve. In particular, this applies to Kosovo,

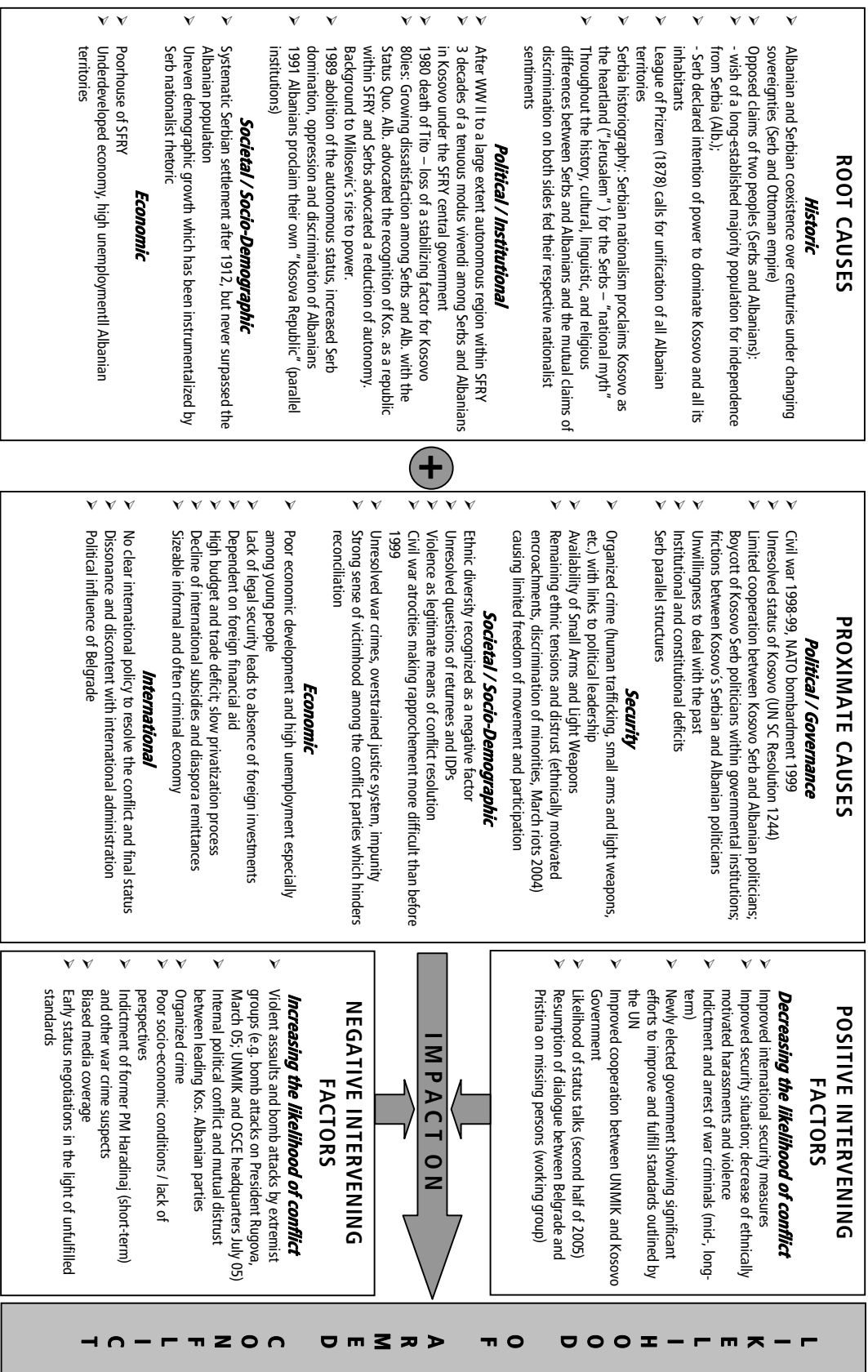
where past mutual oppression, discrimination, violent conflict and war atrocities aggravated interethnic rifts and continue to be a heavy burden and medium for ethnic hatred and distrust. This is further aggravated by the dominant antagonistic agenda of both Kosovo Albanians and Kosovo Serbs (including Belgrade's influence) regarding the final status, which seriously hampers relations and acceptance on both sides. In addition to this, present shortcomings in the legal system and law enforcement; lack of equal participation and freedom of movement; counterproductive Serb parallel structures as well as modest efforts to build confidence and achieve reconciliation provide additional fuel for interethnic tensions.

The overall critical socio-economic situation as well as the uncertain outcome of the final status have created a high level of frustration among Kosovo's citizens and contribute to the tense interethnic relations. Thus, the situation in the UN protectorate remains complex and fragile, and the sustainable security of minority communities continues to be of great concern. A repetition or increase of ethnic violence cannot be ruled out for the future. The hostile climate between Albanians and Serbs poses a realistic threat to destabilization and possible incidences of interethnic violence could have a renewed trigger effect (in particular if instrumentalized and exploited by extremist groups) causing mass violence that would spread throughout Kosovo, as was the case in March 2004. Such an event would be a serious setback, widening the existing rift most probably resulting in a delay of settling the final status. In the interest of the international community and its goal to realize the concept of a multiethnic society, such violence must be prevented under all circumstances. Therefore, effective security measures must remain in place and efforts promoting dialogue and cooperation between the main protagonists (Kosovo Albanians and Serbs) as well as the implementation of the standards must be pushed further. In fact, a reoccurrence of interethnic clashes could, in the short-term, not be in the interest of most Kosovo Albanians, as this would inevitably lead to new negative headlines and jeopardize their ultimate goal of independence. Therefore, in the short term, Kosovo Albanian politicians should currently have an incentive to control their community. In the long-term, if the final status remains unresolved, violence could once again become an appropriate mean to push for independence. In contrast, Belgrade could profit from new anti-Serb riots, because such would delay the final status negotiations and weaken the position of the Kosovo Albanians in the negotiations.

Currently, as mentioned in the introduction, a comprehensive review of Kosovo's progress in implementing standards is being conducted. Based upon the outcome of this assessment, the international community will decide whether to initiate final status negotiations or to opt for postponement. However, as international actors have changed their political agenda in favour of pragmatism, now basically adhering to the principle of "Standards and Status" instead of "Standards before Status", much indicates a swift solution of the status question. Therefore, negotiations are likely to be taken up in autumn 2005, even if standards will not have been fully met by then, unless massive violence reoccurs, which would have a major destabilizing effect. However, one should be aware of the fact that such rapid proceeding clearly holds the hazard that deficient standards, e.g. with regard to the functioning of democratic institutions, rule of law, minority rights, and freedom of movement; or negative structures such as organized crime could be transferred automatically to the new setting of Kosovo. This could significantly undermine and influence Kosovo's further development towards a stable and sustainable entity. In this respect, it will be of utmost importance – regardless of the final status and government structures after the status negotiations will be in effect – that all actors, i.e. the government of Kosovo and the international community, continue to proceed with great commitment in the implementation of the set standards. This demands further and combined efforts by Kosovo's government and political parties. Furthermore, the international community, including its security forces, will have to remain present instead of possibly considering exit strategies. The IC should operate as an advisory and supervisory body in order to guarantee sustainable development in all sectors (standards), security, and overall stability as Kosovo's transition process, particularly regarding economic development and interethnic relations/coexistence, will likely not be completed in the foreseeable future.

Appendix

FAST Analytical Framework Kosovo



Map of Kosovo



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