

Germana Citarella

SUSTAINABLE DEVELOPMENT PLANNING IN KOSOVO



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**SUSTAINABLE DEVELOPMENT
PLANNING IN KOSOVO**

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SERIE ANALISI OPSAT
OSSERVATORIO PER LA PROGRAMMAZIONE DELLO SVILUPPO SOSTENIBILE
E L'ASSETTO DEL TERRITORIO, UNIVERSITÀ DEGLI STUDI DI SALERNO

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1. *Historical development.*

Over the centuries, the land called Kosovo has been home to many peoples. Now viewed by the Serbs as the cradle of their nation, keeping Kosovo as part of Serbia has become a cornerstone of nationalist and ultranationalist appeals and a predominant issue in Serbia's politics following the break up of Yugoslavia.

The drive towards nationalism was determined by two factors. The first related to the difficulties provoked by authoritarian regimes, the second by cultural and religious gaps deriving from varying interpretations of social relations by the mixed races residing there.

Tito's regime had decreed a state in which a power quota was acknowledged to the different races together with a polis in which populations could identify themselves. However, his death and the collapse of communism stirred up conflicts between peoples again.

The situation worsened dramatically after Slobodan Milosevic's rise to power in 1987: Kosovo lost its autonomy and came under direct control of Belgrade while the population saw their rights and cultures progressively denied. Although Serbia exercised political control over Kosovo following the abrogating of its autonomy on 8 September 1989, Kosovo Serbs then made up only about 10 per cent of the population. While the Serbs had formal control over the administrative structures, Kosovo Albanians (under Ibrahim Rugova, the present Prime Minister of Kosovo) set up an elected parallel government to ensure education and medical care to the Albanian people. However, this peaceful opposition failed and resistance was organised under the aegis of the Kosovo Liberation Army (KLA). The rise of armed resistance justified the Serbs in further repression and violence and the international community was aware that this potentially explosive situation could easily spread to the rest of the Balkan region.

NATO ministers convened all parties, in an attempt to resolve the situation without military intervention, however, all diplomatic efforts did not have the hoped for results¹. In the meantime, NATO had given President Milosevic clear

¹ In the autumn of 1998, a series of diplomatic initiatives were taken, including visits to Belgrade by NATO's Secretary General, Javier Solana, US Special Envoy Richard Holbrooke, the Chairman of NATO's Military Committee, General Klaus Naumann and

warning of what would happen if the demands of the international community were ignored, playing on the theory that the essence of coercive diplomacy is that a threat of force, in order to be credible, must be backed by real force if necessary. NATO was not bluffing².

the Supreme Allied Commander Europe General Wesley Clark. In the same period Resolution n. 1199 was passed, expressing international community concern about the excessive use of force by the Serb security forces. Milosevic consequently, actually reduced the number of military units and weapons. He also accepted an observer mission of OSCE (Kosovo Verification Mission - KVM). In December 1998, the OSCE Office for Democratic Institution and Human Rights (ODIHR) reported violence and repression carried on by both parties against each other that did not allow for fostering any peaceful resolution. On February 6, 1999, the Contact Group on the former Yugoslavia (France, Italy, Germany, Russia, USA and UK), met in Rambouillet, near Paris, with the intent of discussing the possibility of a peace agreement. The 17 days of talks led to the Rambouillet Accords, wherein «the Serbs were asked to concede autonomy, but not sovereignty, with Kosovo's ultimate status left open. The Kosovo Albanians were offered considerable autonomy, ensured by the NATO-led force, but no independence» (Robertson Lord of Port Ellen, 2000). While the Kosovo Albanian delegation signed the agreement, the Yugoslav delegation did not.

²In early April 1999, details were revealed of a covert Serb plan (Operation Horseshoe) to forcibly expel Kosovar Albanians from Kosovo, that had been drawn up months beforehand. On 12 April, by when it was clear that the Yugoslav government had embarked on a policy of mass forced expulsion of Kosovan Albanians, the North Atlantic Council confirmed the political justification for its decision as follows: “The unrestrained assault by Yugoslav military, police and paramilitary forces, under the direction of President Milosevic, on Kosovar civilians has created a massive humanitarian catastrophe, which also threatens to destabilise the surrounding region. Hundreds of thousands of people have been expelled ruthlessly from Kosovo by the Federal Republic of Yugoslavia (FRY) authorities. We condemn these appalling violations of human rights and the indiscriminate use of force by the Yugoslav government. These extreme and criminally irresponsible policies, which cannot be defended on any grounds, have made necessary and justify the military action by NATO. NATO's military action against the FRY supports the political aims of the international community: a peaceful, multi-ethnic and democratic Kosovo in which all its people can live in security and enjoy universal human rights and freedom on an equal basis”. The OSCE/ODIHR report confirms that the expulsions by the Yugoslav and Serb forces were carried out “with evident strategic planning and in clear violation of the laws and customs of war”, and that “the violations inflicted on the Kosovo Albanian population after 20 March were a continuation of actions by Yugoslav and Serbian military forces that were well rehearsed, insofar as they were already taking place in many locations in Kosovo well before 20 March”. NATO made clear what was expected of President Milosevic (and his regime) to deter NATO intervention. This included:

- a. credible assurance of a stop to all military action and the immediate ending of violence and repression;
- b. assurance of military, police and para-military forces withdrawal from Kosovo;

At the end of 78 days of bombing, in the spring of 1999, Kosovo was faced with destroyed infrastructure, and a state of uncertainty due to the fleeing of the entire local Serb authorities.

The difficulties experienced by the International Community in resolving the post war situation were evident. One of the principal problems was that their efforts in terms of commitment and solidarity suffered from a lack of intra and inter-co-ordination between the principal components (both civil and military) which, combined with insufficient integration on a strategic and planning scale, meant that the reconstruction process would necessarily take some time, and would need to be accomplished multilaterally, taking into account regional imbalance and delays³.

Following the crisis that affected every sector of life in Kosovo and demanded committed solutions, resources and skills, on 10 June 1999, the United Nations Security Council passed Resolution 1244 authorizing the United Nations Interim Administration Mission in Kosovo (UNMIK) to begin the long process of peace building, democracy, stability and self-government in the shattered region⁴. UNMIK acting as the provisional administration for the region worked closely with Kosovo leaders and citizens to implement essential bureaucratic functions and services such as health and education, banking and finance, post and telecommunications, law and order. Besides performing basic administrative functions, UNMIK was expected basically to:

- ▶ promote autonomy and self-government in Kosovo;
- ▶ facilitate a political process to determine Kosovo's future status;

-
- c. agreement to the stationing in Kosovo of an international military presence;
 - d. agreement to the unconditional and safe return of all refugees and displaced persons and unhindered access to them by humanitarian aid organisations;
 - e. provision of credible assurance of his willingness to work on the basis of the Rambouillet Accords in establishing a political framework agreement for Kosovo in conformity with international law and the Charter of the United Nations.

When these conditions were met by President Milosevic, the North Atlantic Council, through the Secretary General, agreed to suspend air operations.

³Observations by Gen. Fabio Mini during the Round Table on "Gli interventi di Nation Building", held at Turin on 17 November 2003 and organized by the "Istituto per gli Studi di Politica Internazionale" (ISPI).

⁴In a first-ever operation of its kind, UNMIK initially brought together four "pillars" under United Nations leadership:

- Humanitarian assistance led by the Office of the High Commissioner for Refugees (UNHCR).
- Civil Administration, under the United Nations.
- Democratization and Institution Building, led by the Organization for Security and Co-operation in Europe (OSCE).
- Reconstruction and Economic Development, managed by the European Union (EU).

- ▶ coordinate humanitarian and disaster relief from all international agencies;
- ▶ support the reconstruction of key infrastructure;
- ▶ maintain civil law and order;
- ▶ promote human rights and assure the safe and unimpeded return of all refugees and displaced persons to their homes in Kosovo.

As a contingent stabilising measure in the post-conflict scenario, UNMIK's first pressing task was to re-establish and deliver central and municipal administrative services. This enabled full involvement of minority groups in the decision-making processes, especially those concerned with preparations for elections.

The first phase of civil registration was completed throughout Kosovo in mid-July 2000, forming the basis of an electoral roll for municipal elections held, successfully, on 28 October, together with a Kosovo-wide election that paved the way for self-government. By end-2000, elected Municipal Assemblies with Presidents, Deputies, Chief Executive Officers and mandatory committees on Policy and Finance, Communities, and Mediation were in place in most municipalities. The civilian executive powers come from the UN Security Council which also authorized an international military presence, KOSOVO FORCE (KFOR), with the UN Security Council Resolution 1244 which sets out the responsibilities of the international community during the interim administration of Kosovo. This Resolution, together with the Military Technical Agreement on the withdrawal of Yugoslav forces and NATO's own operational plan (OPLAN 10413, Operation Joint Guardian), form the basis for KFOR's responsibilities:

- ▶ establish and maintain a secure environment in Kosovo, including public safety and order;
- ▶ monitor, verify and, when necessary, enforce compliance with the conditions of the Military Technical Agreement and the KLA undertaking;
- ▶ provide assistance to the UNMIK, including core civil functions.

The promulgation of the Constitutional Framework for Provisional of Interim Self-Government (PISG) in May 2001, drawn up by international and local experts, was a crucial step towards establishing autonomous self-government. The Constitutional Framework was to establish Provisional Institutions of Self-Government in Kosovo through free and fair elections. Accordingly, elections for members of a new Kosovo Legislative Assembly, comprising 120 seats⁵, were held in November 2001. The 2001 Assembly

⁵ Out of these, 100 seats belong to certified political entities, with another 20 seats "set aside" to ensure the representation of minority communities in Kosovo. Ten of the

elections were considered both one of the most important political events in Kosovo for that year and the first ever genuinely free and democratic election. A total of 16 Kosovo Albanian political parties, 3 independent Kosovo Albanian candidates, and 7 minority-based political parties took part in the elections. The participation of Kosovo Serbs, in particular, marked an important event for the future development of democracy in Kosovo⁶, considering that, in 2000, Kosovo Serbs had boycotted local elections.

Since the Assembly elections and appointment of the new Government, and in accordance with Resolution 1244, there has been a gradual transfer of power from the international administration to the Kosovo people. The government to date is formed on the basis of a wide coalition representing most of the parties present in the Assembly⁷.

The full transfer of central government responsibilities to the Kosovo people, however, will not take place until the completion of the international mission in Kosovo. Some responsibilities have already been transferred and include education, health, culture, agriculture, and public services. Other competencies and responsibilities are still reserved for the Special Representative of the Secretary General for Kosovo (SRSG) who is the head of UNMIK. The creation of the Constitutional Framework and successful elections for the Assembly extend opportunities for choice and participation in Kosovo's political processes and ensure sound legislation consistent with the needs of Kosovo society. However, until the final political status of Kosovo is resolved, it will not be possible for Kosovo to enjoy the full legislative and governing freedom found elsewhere. Until such a time, effective implementation and further development of legislation will require close cooperation with the international community to ensure a complementary union of internationally accepted democratic principles and Kosovo values.

In April 2002, Michael Steiner⁸ presented to the Security Council a series of

seats are reserved for political parties representing Kosovo Serbs, with the remaining ten seats reserved for representatives of other Kosovo minorities.

⁶An international observer, speaking on behalf of the observers of the OSCE Parliamentary Assembly in 2001, commented that: "the elections... were held according to the highest standards, not only in comparison to democracies recently emerged, but also to older democracies, with long histories... the observers of the elections, the staff and the people should feel very proud".

⁷Assembly elections took place in Kosovo on 23 October 2004 – According to the Council of Europe Congress the Elections were "well organised, a successful transfer of substantial responsibilities for election organisation to Kosovo institutions and conducted in a peaceable and friendly atmosphere". There was, however, disappointment at the "low Serb turnout".

⁸The present Special Representative of the Secretary General is Søren Jessen Petersen.

benchmarks⁹ or standards for institutions to attain prior to beginning the political process to determine Kosovo's future status. The standards were drawn up at a

⁹UNMIK further elaborated the eight standards in its following releases (January 2003 and, the latest, December 2003):

- ▶ I. WORKING DEMOCRATIC INSTITUTIONS: the Provisional Institutions of Self-Government (PISG) are freely, fairly and democratically elected. The PISG governs in an impartial, transparent and accountable manner, consistent with UNSCR 1244 and the Constitutional Framework. The interests and needs of all Kosovo communities are fully and fairly represented in all branches and institutions of government. The communities participate fully in government. The laws and functions of the PISG approach European standards. The PISG provides services for all peoples of Kosovo throughout the territory of Kosovo; parallel structures have been dismantled.
- ▶ II. RULE OF LAW: there exists a sound legal framework and effective law enforcement, compliant with European standards. Police, judicial and penal systems act impartially and fully respect human rights. There is equal access to justice and no one is above the law: there is no impunity for violators. There are strong measures in place to fight ethnically-motivated crime, as well as economic and financial crime.
- ▶ III. FREEDOM OF MOVEMENT: all people in Kosovo are able to travel, work and live in safety and without threat or fear of attack, harassment or intimidation, regardless of their ethnic background. 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.
- ▶ IV. SUSTAINABLE RETURNS AND THE RIGHTS OF COMMUNITIES AND THEIR MEMBERS: 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. All refugees and displaced persons who wish to return to Kosovo must be able to do so in safety and dignity.
- ▶ V. ECONOMY: the legal framework for a sustainable, competitive market economy is in place and implemented. The minimum essential conditions are a legal and institutional base which act without discrimination against any individual or company; a regulatory system conducive to business that is capable of holding governmental officials and the private sector accountable; a tax regime that sustains the essential functions of government and an infrastructure that provides basic services and facilitates investment. The goal is to move Kosovo towards the achievement of European standards.
- ▶ VI. PROPERTY RIGHTS: the fair enforcement of property rights is essential to encourage returns and the treatment of all ethnic communities. This requires that there is effective legislation in place, that there are effective property dispute resolution mechanisms; that rightful owners of residential, commercial and agricultural lands are able to take effective possession of their property and that there is an accurate system for transfer, encumbrance and registration of property as well as the prevention of coerced property sales.

retreat in Dubrovnik, attended only by international UNMIK staff, and were launched without consulting the newly formed government. After endorsement of the benchmarks by the Security Council, they were accepted by the Prime Minister and his government, but their usefulness has recently been questioned. Up to now, little has been done to make them operational. They remain a vague pronouncement of UNMIK, rather than tangible, realistic objectives for the provisional institutions to work towards. Moreover, almost all the standards touch on the area of reserved UNMIK powers and therefore require close and careful collaboration between the PISG and UNMIK which, however, is undermined by ongoing friction. The Security Council mission to Kosovo in December 2002 found that UNMIK had not developed an implementation plan for the benchmarks. Its report stated: “The Mission looks forward to the next report on UNMIK with a further detailing of the benchmarks so as to measure progress. The Mission hopes that the benchmarks can be worked out with local authorities in Kosovo to build local ownership of them”¹⁰ and the head of the delegation warned: “The people of Kosovo have much to do to achieve these standards. Verbal support is not enough. Real efforts must be made on the ground to make the standards a reality and Kosovo is still a long way from having truly working democratic institutions and a society in which minorities can fully participate. UNMIK has by now reached the stage of transferring responsibility to Kosovo’s provisional institutions; the more the institutions demonstrate they can carry out the responsibilities they already have, the more they will be given”¹¹.

2. An assessment of socio-economic conditions from the beginning of the reconstruction process up to the present time.

Kosovo went through great changes starting from the period of international administration beginning in 1999, with much reconstruction, and many

- ▶ VII. DIALOGUE: there is a constructive and continuing dialogue between the PISG and their counterparts in Belgrade over practical issues. Kosovo’s cooperation within the region is developed.
- ▶ VIII. KOSOVO PROTECTION CORPS: the Kosovo Protection Corps (KPC) thoroughly complies with its mandate, as stated in the Constitutional Framework, as “a civilian emergency organization, which carries out in Kosovo rapid disaster response tasks for public safety in times of emergency and humanitarian assistance.” The KPC operates in a transparent, accountable, disciplined, and professional manner and is representative of the entire population of Kosovo. The KPC is capable of enforcing discipline and is fully funded in a transparent way.

¹⁰United Nations Security Council, “Report of the Security Council Mission to Kosovo and Belgrade”, Federal Republic of Yugoslavia, 2002.

¹¹Remarks made by Ambassador Ole Peter Kolby, Head of Security Council Mission to Kosovo and Belgrade, 14 December 2002.

improvements in the daily lives of individuals and families. Some of these changes can be traced through the calculation and analysis of human development indicators¹².

The limited available data on health suggest that Kosovo ranks lowest in Europe on virtually every health indicator. Infant mortality, maternal health, and the decline in immunization coverage are areas of particular concern together with life expectancy at birth¹³, a basic indicator for measuring human development levels.

It is reasonable to assume that the unfavourable overall conditions directly leading up to and immediately after the period of conflict have had a negative impact. These conditions include higher levels of income poverty, lower levels of nutrition¹⁴, lack of adequate shelter and access to safe drinking water and sanitary conditions, limited access to health services¹⁵.

Given achievements made in the post-1999 period, in terms of improved living and economic conditions, it can be assumed that the downward trend in life expectancy has since been reversed, possibly even approaching levels

¹²Since 2000, Kosovo has recorded considerable Gross Domestic Product (GDP) growth mainly because of increased donor assistance towards reconstruction and remittances, rather than domestic value-added output. With a Human Development Index (HDI) of 0.734, Kosovo stands at the lower end of the medium level of the human development spectrum (United Nations Human Development Programme, 2004, p. 14).

¹³Because there are no reliable data for these sub-indicators, it is difficult even to estimate the degree of impact they have had on life expectancy. Furthermore, due in part to significant internal and external migration during the same period, there are no accurate data even on the total population of Kosovo.

¹⁴In 2000, a World Bank's Poverty Assessment found that over half of the population was living below the poverty line of US\$1.65 per adult per day at the end of 2000. For many of the poor, poverty was relatively shallow, and an annual amount of US\$190 per person would have been sufficient to bring a poor household out of poverty. Nevertheless, the World Bank's report suggests that around 12 percent of the population live below the extreme (food) poverty line of US\$0.88 per adult per day. Just over 47% of the population lives in poverty while in 2003 the number of people living in extreme poverty increased to 13% (United Nations Human Development Programme, 2004, p. 18).

¹⁵These poor health indicators appear to be mainly related to the quality of health care received rather than to access barriers (World Bank, 2002a, p. 4). The effects of the conflict highlighted the underlying problems caused by over 10 years of neglect and weak management not to mention chronic under-investment in maintenance of physical infrastructure and equipment and staff development. Much of the equipment installed in hospitals is either obsolete or does not work because of poor maintenance, is unused due to lack of consumables, or is underutilized for shortage of personnel. Since the conflict ended, considerable work has been done on assessing the condition of health care facilities in Kosovo.

estimated for 1995-1996¹⁶. Increase in life expectancy was also more marked for females than for males¹⁷. Thus, while life expectancy at birth of females in the 1950s was lower at 45.29 years than that of males, by the 1990s female life expectancy at birth exceeded that of males by 5.19 years (United Nations Development Programme, 2002a, pp. 19-20).

Despite the fact that life expectancy of females has increased faster than that of males over recent decades, there are still no equal rights for women in Kosovo society: all other indices show greater empowerment of males than of females. Improving opportunities for women in social, political, educational and economic sectors is an area of particular priority for the future human development of Kosovo.

Another set of basic indicators used to compare relative levels of development, both within and across regions involves education. According to data, adult literacy rates and gross enrolment ratios did not change significantly during the 1999-2000 and 2000-2001 school years. However, enrolment rates in Kosovo have generally improved since, especially, as concerns secondary school (United Nations Development Programme, 2004, p. 16). This is fundamental as the long-term development of Kosovo, as elsewhere in the world, is directly dependent on the quality and breadth of the education of its youth. This is especially true for Kosovo given that it has one of the youngest populations in Europe. It must be noted, however, that in the area of educational attainment, inequality is significant across income, ethnic group and gender. Additional reforms are needed, as well as further research to explore the causes and identify eventual solutions for current imbalances in levels of basic education between boys and girls and to produce more accurate statistical data. Net secondary education enrolment rates for non-Albanian non-Serb ethnic groups are less than 55%. The cost of private education is identified as the main reason for non-enrolment (World Bank, 2002a, p. 4). Two of the most important education indicators include average literacy rates and enrolment rates in primary education. Education developed most rapidly in Kosovo between the 1960s and the 1980s when its network of primary and secondary schools expanded and a University was founded. During the 1990s, the educational system faced a number of challenges particularly during the conflict period. However, Kosovo's

¹⁶ During the 1990s, life expectancy for Kosovo grew to about 30 years longer on average than levels in the 1950s. This value is approximately the same as that for such developed countries as Denmark, Ireland and Slovenia, as well as for other countries in the South-East European region. Additional data are needed however, to produce more reliable, estimates.

¹⁷ Life expectancy at birth in 2003/2004 was: 68.8 years (67.8 for men and 69.9 for women) (United Nations Human Development Programme, 2004, p. 15).

illiteracy rates¹⁸ have decreased steadily over the past decades the potential of which in terms of human resources enables the promotion of overall human development in Kosovo.

An outstanding issue concerns ethnic minority communities. As early as July 1999, OSCE and UNHCR reported that some minority communities faced daily intimidation "which has completely restricted their freedom of movement". Despite the efforts of KFOR to provide security for members of minority communities and UNMIK's attempts to restore the rule of law in Kosovo, OSCE and UNHCR continued to report that "freedom of movement remained the fundamental issue affecting the ability of minorities to live a normal life". The denial of this right appeared to be both a practical and psychological problem, and to operate on both an individual and community level. In effect, denial of freedom of movement prevents (or hinders) minority individuals from gaining access to basic rights and services, including justice, education, work, land, housing, health and social welfare. Access to such rights (where minorities gain sufficient freedom of movement to access the relevant institutions) is often further compounded by direct or indirect discrimination in the provision of services. In such circumstances, even one negative experience is likely to prevent them from attempting to access the services again. On a psychological level, the fear of travelling outside defined boundaries contributed to feelings of imprisonment, isolation, exclusion and despair for the future.

Numerous individuals appeared to have constructed their own personal boundaries (which often varied within families or households) venturing beyond which they felt that the risk to their lives was too great. In some enclaves, the boundaries were physical (constructed by KFOR) and many individuals never moved outside them. Even in communities which had not experienced attacks, such as the small community of Serbs who had returned to the isolated village of Osojan, near Istok, in 2001 (guarded continuously by KFOR troops) returnees expressed frustration and a sense of isolation that was sometimes overwhelming.

Yet despite overall improvements in escorted transport services, freedom of movement in Kosovo is limited, conditional, not always available and in effect, much of the freedom of movement which members of minority groups in Kosovo are now able to "enjoy" has been facilitated only through the continued

¹⁸ The Federal Statistical Office reported illiteracy rates of 11.9% in 1999. According to a household survey conducted by UNFPA and IOM, overall illiteracy rates in Kosovo had dropped to 6.5% by 2000. Other sources, including the Kosovo Education Center (a Kosovo NGO), estimate higher levels of illiteracy. This, however, may be due in part to differing definitions of functional or instrumental literacy. According to United Nations Development Programme (2004, p. 133) the illiteracy rate was 6% (circa 3% for males and 9% for females) in 2004.

provision of static security points and guaranteed by KFOR, UNMIK and Police Security escorts along specific routes¹⁹ through Kosovo.

In short, an analysis of the individual components of Kosovo's HDI reveals slightly uneven levels of human development in Kosovo. While the life expectancy at birth index and the educational attainment index have relatively high values, the gross enrolment value and adjusted GDP per capita index have relatively low values. This analysis is useful in efforts to formulate and revise policies in Kosovo that aim at more balanced human development and increased opportunities for Kosovo people. In addition, Kosovo's HDI value(s) can be used to compare its development levels with countries in the region, as well as with countries elsewhere in the world²⁰.

Even on the basis of an economic, political and institutional analysis of the situation, it is evident that Kosovo has the characteristics peculiar of a country in transition from a centrally planned economy to an open market system.

The economy is small with a GDP of € 1,640 million in 2004; GDP per capita is estimated to be in the range of € 848<, Gross National Product (GNP) per capita is significantly higher (above € 1,021) thanks to traditionally high workers' remittances equal to 42.5% GDP in 2004. Values for GDP per capita, as reported by the Central Fiscal Authority, have increased by 23% since 2000. Kosovo has a simple trade regime with low tariffs and exports of goods increased from 0,5% GDP in 2000 to 21.7% GDP in 2004 (World Bank, 2004, p. 19). In 2003, imports, equal to € 968.5 million, mainly originated from the EU and Switzerland (25.9%), Serbia (14.7%) and Federal Yugoslav Republic and Macedonia (14.6%) (World Bank, 2004, p. 36). The current trade deficit, which is not expected to decrease in the near future, is a real source of instability, with a

¹⁹ These include the "Freedom of movement" train, which runs through Serb enclaves, KFOR-escorted alternative bus services (in conjunction with UNHCR, UNMIK and various NGOs) and civil services bus-lines to bring minorities working for UNMIK into Pristina, as well as escorts for individuals, and for emergencies.

²⁰ Countries with a Human Development Index of between 0.5 and 0.8 are normally considered to be at a medium level of development. Kosovo's Human Development Index of either 0.671 or 0.733, depending on the value of GDP per capita used, falls somewhere in the middle ranking of these countries. If Kosovo's HDI is calculated using the lower index value for GDP per capita, Kosovo would fall between the 102nd and 103rd ranking of countries based on the corresponding human development indices for the year 1999, immediately after Vietnam and Indonesia, and before Tajikistan, Bolivia and Egypt. At the same time, it would be ranked below most other South East European (SEE) countries. If, on the contrary, the higher estimated value of GDP per capita PPP (Purchasing Power Parity) is used to calculate HDI, Kosovo would be ranked between 82nd and 83rd positions, immediately after Turkey and preceding Turkmenistan and, consequently, ranked much closer to the other countries in the South East European region.

negative impact on other macroeconomic indicators, and whose main problem is the level of exports.

The trade balance deficit corresponded almost to GDP and the deficit of goods and services was still at 125% of GDP in 2003. Most of the exports recorded in the trade balance (IMF data and methodology) relate to the expenditure and consumption of expatriate staff and not to exports of goods. Foreign assistance, albeit declining, and workers' remittances continued to be important contributors partly compensating for the trade deficit but highlighting the high dependence of the economy on external financing flows. The deficit of the 2003 balance after grants was approximately at the level of 2002 (33% of GDP).

Following the post-conflict and reconstruction driven boom, Kosovo suffered declining growth rates²¹ and predicted 6.5% in 2004, caused by the reduced number of international presences and external donor assistance. This is also likely to be the main factor for rising unemployment since manufacturing and export activities remain subdued. CPI inflation declined from double digit figures (11.7% in 2001), 3.6% in 2002 to zero in 2003, reflecting the combination of improved distribution channels and lower margins in the face of weak consumer demand. Private sector activities continued to be dominated by reconstruction, trade and service-related businesses which are more exposed to the actual reduced number of international presences and external donor assistance.

Economic sectors such as agriculture, trade, health and education, construction and transport and communication constitute the sectors where most employment is concentrated. On the other hand, employment according to gender shows that females²² in a much less favourable position make up only about 26% of total employment. The stable increase in unemployment and its relative long-term persistence remains the greatest destabilizing factor in post-conflict Kosovo. An increase in the number of registered unemployed continued and increased by 7% from December 2002 to July 2003 (257,505 to 276,781). During March-July 2003 alone, registered unemployment increased by 3%.

The informal sector²³ in Kosovo has various implications for the economy of

²¹ Growth rates fell from 21.2% in 2000 to 3.9% in 2002, rising again to about 6.5% in 2004 (World Bank, 2004, p. 8).

²² Females are mainly employed in the public sector (42.4%) in health and educational institutions, other services and in agriculture. Employment of males is more evenly spread across the economic sector; 54.3% are employed in the private sector more than one-third of employment (37%) is concentrated in small enterprises. Young women represent 45% of the total number of job seekers, while the share of the 16-24 age group in the total number of unemployed is 26%.

²³ The causes can be traced to shortcomings in legislation, the rate and dispersion of taxes and other factors. For example, a considerable number of entrepreneurs do not pay taxes for their employees (34.3%), many employees do not have contracts with their

a country and comprises an important part of the economy as a whole. Its impact on social policy and the labour market is of particular importance providing as it does, an extremely important source of income and employment, especially in countries where in the official sector employment is limited and a system of social security is lacking, all features that characterise Kosovo as a region. Conversely, political pressures and instability (especially the recent war), have influenced the labour force during the past decade. Owing to reduced opportunities of finding jobs in Kosovo, many people of working age have emigrated. It can be concluded therefore, that the two opposing forces that influence the unemployment rate in Kosovo are large labour inflows and emigration.

Since the inception of UNMIK, the work of re-establishing a functioning payment system has passed through several stages. The commercial banking sector is governed by the Banking and Payment Authority of Kosovo (BPK)²⁴. At the end of 1999, no banks²⁵ actually operated in Kosovo.

During the first half of 2003 bank deposits increased from € 427.5 million in the first quarter (January-March) to € 452.5 million in the second quarter (April-June), an increase of 5.8%. Term deposits, an important source of lending to enterprises, experienced a slight increase – from € 146.0 million in

employer, but rather a contractual relationship based on a verbal agreement, or even no agreement at all (13.4%). Besides the tax rate, the burden and distribution of taxes have had a great impact on the extent of the informal economy, especially on informal employment (the extent of informal employment in Kosovo ranges from between 15-22%) added to which complicated regulations and bureaucracy are also a cause, as well as the high rate of unemployment characterised as it is by very large labour inflows mostly toward the unemployment pool and considerable labour outflows mainly from unemployment to inactivity.

²⁴ A consolidated and professional supervisory department was built up in 2002 and 2003 in the BPK. Seven banks were licensed with 139 offices operating (September 2003) in the region and providing basic financial products. In addition, there are 15 micro financial institutions with 41 offices operating, which provide small loans to the non-bankable sector. An inter-bank payments system has been established. Overall, financial intermediation through the banking sector has improved. Outstanding loans as of September 2003 more than doubled relative to end 2002.

²⁵ At the present time however, there are two foreign banks Raiffeisen and the Micro Enterprise Bank (MEB) and five locally owned banks operating in Kosovo. The Micro-Enterprise Bank of Kosovo (MEB-Kosovo), with EBRD and IFC being equity participants, received approval to commence operations in January 2000. Another financial institution (technically a “non-bank”), the Grameen-Mission AMF, also obtained a license to operate as a micro-finance institution, although it was not active as of the second quarter of 2000. Preliminary licenses were approved by the licensing and supervisory authority in Spring 2000 for four banks with a history of operations in Kosovo, but it is uncertain whether these banks qualify for permanent licenses.

the first quarter to € 149.4 million in the second quarter. Lending also showed positive trends, with an increase from € 115.7 million in the first quarter to € 162.7 million in the second quarter, an increase of 40.6%. This influenced the increase in the share of credits in total banking deposits from 27.0% to 36.0%. Share of credits in term deposits increased as well, from 79.2% to 108.9%. Strategic planning for the development²⁶ of the banking sector is therefore, crucial.

However, the foundations for a sound financial sector have been laid. At the present time, loans still only correspond to some 38% of deposits and also hide an uneven situation. MEB has so far only shown modest interest to expand lending (10% lending relative to deposits) while accounting for almost 60% of total deposits. The rapid credit expansion of the other banks has to be monitored closely even though there are no indications yet on possible problems with the portfolios. Due to the short-term nature of deposits, loans of a medium and long-term maturity are currently not being offered but discussions are underway with a donor to provide appropriate refinancing.

There are numerous risks connected to establishing the kind of environment and framework required for stable banking and sufficient levels of financial intermediation in Kosovo. Key among these are political risks and the potential market size. Others are related to the lack of public confidence in formal banking institutions, and the time required to build up a new all-embracing structure with incentives for encouraging viable competitive market-based finance.

Kosovo benefits from rich natural resources²⁷ and fertile agricultural land. Its economy consists of three basic components²⁸; state owned enterprises; privately owned enterprises, and the substantial parallel segment consisting of grey market activities²⁹ in trade and services on a small scale.

²⁶ Lack of payment and banking services combine to restrict private sector activity to areas requiring relatively modest up-front investment. In addition, businesses do not benefit from more advanced cash management or the use of alternative payment methods, such as checks or credit/debit cards. Being almost exclusively a cash economy, Kosovo has all the inherent limits and dangers, and the near-total absence of financial intermediation is a severely constraining factor to private sector growth.

²⁷ For the last 20 years, economic activity has centred on mining industries, production of raw materials, and semi-finished products (lead, coal, zinc and textiles), as well as agriculture. Economic policy and regulatory environment was shaped by Yugoslav-style socialism. Heavy industry was mainly state owned. In contrast, agriculture was almost totally privately held. Significantly, more than sixty per cent of the pre-conflict population lived in rural areas.

²⁸ State owned enterprises generally speaking, were formerly in poor condition, engaged in all sectors of the economy, but predominately in the industrial sector. The privately owned enterprises were engaged mostly in trade and services.

²⁹ The dividing line between the formal and informal sector is not clear-cut, given the

All sectors exist today in institutionally and economically non-friendly conditions:

1. Kosovo's emerging private sector does not include any significant ongoing industrial production or processing activities;
2. the FRY's legal and regulatory regime applies today to state and privately owned enterprises as well as to the parallel economic segment.

With the exception of the customs, sales, and excise tax regime, introduced by UNMIK September 3, 1999, plus the Banking Law (Regulation 1999/21), there are currently no other elements of a regulatory framework for the registration of private business. The benefits of such an extremely liberal regime are clearly reflected in the robustness of private sector activity. Unfortunately, this is accompanied by troubling reports about the increase in organized crime.

New shops, restaurants, and small trading "companies" began operating literally within days of the arrival of KFOR and the rest of the large international community in Kosovo. Very quickly, these operations became more sophisticated as goods began to flow into Kosovo and owners responded to a rapidly increasing demand for services. Most major towns had a strong retail and services sector offering a remarkably diverse supply of goods³⁰ and services. Even during the difficult winter months, the sector continued to expand.

The Kosovo Trust Agency (KTA), established in June 2002, exerts control over socially owned and public enterprises via supervisory boards. Restructuring plans for public enterprises were prepared in 2002 and 2003 and are currently being implemented. However, the process is still at a very early stage. Nearly one year after the Regulation on the Establishment of the KTA was enforced, the first tenders for privatization of six socially-owned enterprises (SOEs) were published in May 2003.

Although privatization is in an initial phase so far, there are some elements that may become a source of concern and tension:

absence of a legal and regulatory framework, shortcomings in company registration procedures, and the strong incentives obtained on the part of ethnic Albanians during the pre-conflict decade in divorcing their activities from the formal sector.

³⁰According to data from the Statistical Office of Kosovo, prices constantly decreased in the period March-June 2003. However, prices in June 2003 were 1.2% higher compared to June 2002. In addition to the decline caused by the seasonal effect of spring, the fall in prices during March-June 2003 should be put in correlation with the fall of purchasing power of the population during this period, compared to the first 2-3 years after the conflict, when consumer demand was higher on account of international donations and a higher level of remittances.

- ▶ the lack of interest from buyers³¹;
- ▶ prices received for the companies that were sold³²;
- ▶ the lack of transparency and social cohesion;
- ▶ the relationship between the KTA and municipalities about ownership issues;
- ▶ differences in the interpretation of the existing legislation between Trade Unions and the KTA staff;
- ▶ the use of privatization funds.

3. *Programmes and projects for the reconstruction of Kosovo.*

It is not easy to calculate the total quantity of resources invested in the whole of Kosovo (the territory of the Kosovo region is just slightly larger than the Umbria region), and, if dimensions and parameters of co-operation for development are compared, the quantity of investments it has absorbed is, without doubt, considerable, especially if funds arriving from so many different sources both to develop projects and to implement procedures dating back to the beginning of the post-war period are taken into account. The number operating during the Kosovo crisis and the variety of projects implemented made their inclusion in the framework created by the UN mission a far from easy process. In many cases the NGOs had planned their operations independently or, at least,

³¹ The reason may be that most of the potential buyers still do not thoroughly understand the rules of the game and the procedures involved. In addition, the Kosovo people lack experience when it comes to competing in the privatization process. However, improvements in the business environment will promote greater competition in the privatization of SOEs. This implies the creation of a more favourable investment climate and the encouraging of a greater number of domestic and foreign investors to participate in privatization tenders. In this respect, changing the current customs tariffs for the import of equipment and raw materials not being produced in Kosovo would certainly encourage potential investors.

³² Prices of the companies sold were considered exceptionally discounted. This caused reactions from the trade unions and the workers and became a source of dissatisfaction in some of the companies sold. The workers' negative perceptions are a consequence of the lack of a comprehensive information campaign by the KTA and other institutions to explain the privatization process, its advantages and disadvantages, and the long-term benefits to key stakeholders, especially regarding the contribution of privatization to economic growth and job creation in later phases. The prices of SOEs sold are the result of the tender conditions offered and the interest shown by buyers, as well as of the existing economic environment. These prices were to be expected taking into consideration current economic policies (fiscal policies and the trade regime), as well as the existing business environment and negative investment climate. All these elements should be viewed from the perspective of implementing functional policies.

without prior verification procedures. This approach to financing NGO activities consolidates a tendency characteristic of many other organizations. The criticism from various areas is directed at the overlapping between both Governing and Non Governing Organisations, created on the basis of different operating schemes, with a similarity of purpose that is more than evident. This gap between the planning stage and the lack of co-ordination concerning the management and destination of the resources can easily justify the difficulties experienced above all in the phases of co-ordination and rationalisation of aid distributed from the different sources.

The European Union (the Member States and the European Commission) plays a prominent role in Kosovo and is by far the largest single donor in the province. The European Union's presence in Kosovo takes three major forms.

The Humanitarian Aid Office³³ (ECHO), which is the EU's humanitarian branch providing emergency assistance to the people in need. The main areas of ECHO's activity in Kosovo are support of collective accommodation for returnees/displaced persons; emergency rehabilitation and equipment of 200 primary and secondary schools; water and sanitation; provision of medical supplies and emergency health care; complementary food and small-scale agricultural assistance (including distribution of seeds) and income-generation projects in favour of targeted sectors of the population.

The EU pillar of the UNMIK is in charge of revitalising economic activity in Kosovo, rebuilding what has been damaged by the war and creating the conditions for a modern, open market economy. In the immediate post-conflict phase, this very much meant a focusing of efforts on the repair and rebuilding of basic infrastructure. With a large part of the major reconstruction work complete, the development of a free trade economy and of an appropriate regulatory framework for the development of modern enterprises has become an area of increasing attention. The aim being to establish a sustainable private sector, for creating employment as the main engine for growth. The long-term perspective, in the EU pillar's activities is to provide solid foundations for a viable market economy and to bring Kosovo's legislative and administrative frameworks closer to European standards.

The European Agency for Reconstruction³⁴ has financed and managed

³³In 1999, ECHO donated a total of € 378 million to the region affected by the Kosovo crisis. Of that amount, € 112 million was spent on projects in Kosovo in 1999 and 2000. ECHO has allocated (from the 2000 and 2001 budget) to date a further € 41 million to the province. In general, ECHO works closely with the European Agency for Reconstruction and UNMIK in all these sectors in order to define a smooth transition process between humanitarian aid and reconstruction and recovery assistance.

³⁴The European Commission adopted a decision in December 2003 to provide Kosovo with an additional € 16 million of assistance to be implemented by the European

sustainable reconstruction and development programmes in Kosovo under the political guidance of the European Commission. In 2003, the Agency's priorities shifted, from addressing the most important needs of the population, towards public administration reform at central and municipal levels as well as support to the police and judiciary. Economic stabilisation and employment regeneration were further key focal areas, together with environmental issues and support to civil society. A key external relations' priority for the EU is to promote stability and peace in the Western Balkans, not only on humanitarian grounds but also because the region's conflicts are at odds with the wider objectives of security and prosperity across the continent of Europe. In particular, in 2000 aid to the region was streamlined through a new programme called CARDS (Community Assistance for Reconstruction, Development and Stabilization) adopted with the Council Regulation (EC) N. 2666/2000 of December 2000. The CARDS Regulation focuses on supporting the participation of Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia in the Stabilization and Association Process (SAP) which is the cornerstone of the EU's policy in the region³⁵.

The Regional Strategy Paper focused on promoting closer relations and

Agency for Reconstruction in Pristina. These extra funds provided further EU support to the UNMIK and PISG for the implementation of the Kosovo "Standards Work Plans". Over € 11 million was earmarked for economic and social infrastructure in Kosovo's municipalities, showing the highest level of engagement in the implementation of the strategy for returns, full integration of all communities and achievement of the multi-ethnic Kosovo benchmarks of the "Standards before Status" policy. Furthermore, approximately € 5 million was dedicated to the development of an initial sewage treatment and disposal programme to improve the environment and public health and well-being of the people of Kosovo. This supplementary assistance brought the quantity of the CARDS programme (in 2003) to a total amount of over € 76 million devoted mostly to the support of institution building and socio-economic development of Kosovo. This direct assistance was complemented by the participation of Kosovo in the 2003 CARDS Regional programme which allocated € 31.5 million for the Western Balkans as a whole, offered by the European Union to boost regional co-operation in South East Europe.

³⁵ To this end, € 4,65 billion was allocated for the period 2000 to 2006 for investment, institution-building and other measures in order to achieve four major objectives:

1. reconstruction, democratic stabilization, reconciliation and the return of refugees;
2. institutional and legislative development, including harmonisation with EU norms and approaches, to underpin democracy and the rule of law, human rights, civil society and the media, and the operation of a free market economy;
3. sustainable economic and social development, including structural reform;
4. promotion of closer relations and regional cooperation among SAP countries and in particular, the EU and the candidate countries of Central Europe.

regional cooperation, totalling € 197 million in the period 2002-2004. Some 10% of the available funds were to support the promotion of closer relations and regional co-operation as a complement to the five CARDS Country Strategy Papers that focus on the problems the countries face on a national scale. In particular, the proposed Annual Action Programme 2003 for Kosovo continued the emphasis on institutional capacity building, public administration reform and economic development in order to further prepare UN administered Kosovo for transition to a market economy and closer integration in both a regional and wider European context – in line with the Stabilization and Association Process.

The programme also consolidated the substantial reconstruction and international development assistance committed to Kosovo since 1999 with a view to ensuring, in particular, the sustainability of past EC investments. The programme, together with the regional and other CARDS programmes, was to be implemented in co-ordination with other donors, particularly the EU Member States.

The CARDS regional programme has obviously not only ensured a complementary focus with CARDS national support but also with other Community support in the areas of democracy (i.e. with the European Initiative for Democracy and Human Rights), justice and home affairs (e.g. on-going initiatives such as through the Council), and with cross border cooperation (i.e. with the EU Structural Funds INTERREG Programme).

Subsequent to the conflict, the World Bank adopted a Transitional Support Strategy (TSS) totalling USD 60 million in grant assistance through a Trust Fund for Kosovo financed from the World Bank's net income. A second 18-month TSS was adopted in July 2002 making available USD 15 million, which had to be fully committed by the end of 2003.

The European Bank for Reconstruction and Development (EBRD) was already active in Kosovo through an equity fund and exploring possible engagements in infrastructure projects. The proposed programme of assistance was discussed with representatives of UNMIK and the new Kosovo authorities, taking into account the activities of other donors. It concerned three areas: economic growth, poverty alleviation and human development and fiscal sustainability and good governance.

United Nations Development Programme (UNDP) assistance since mid-1999 had been largely in the field of emergency reconstruction and rehabilitation³⁶. In 2002, UNDP attention shifted to longer-term development

³⁶ More than US\$50 million in assistance was provided to the housing sector, quick employment generation, electrification, TV and radio, community development and municipal administrations. Some US\$12 million of these programmes remained ongoing in 2002.

challenges, as part of the UN's wider peace-building strategy for Kosovo. UNDP's programme was informed by the broader aims of the UN in Kosovo, the priorities of the then newly elected Provisional Institutions of Self-Government and UNDP's experience in peace building processes around the world. The principal aim of the Kosovo programme was above all, to restore confidence:

- between Kosovo and the international community, to lead to acceleration in the hand-over of functions under international oversight and an increased reliance on locally-derived solutions to current problems;
- between the government and its electors in Kosovo, to lead to an enhanced sense of community and to translate into increased investment by the people of Kosovo themselves in the future of Kosovo;
- between civil society and the institutions of law and order, to lead to an increased sense of security at household and community level, and, for example, a reduction in illegally-held small arms and light weapons in the community;
- between the different communities inside Kosovo, to lead to an increasing number of minority returns;
- between Pristina and Belgrade and other neighbours to see a better integration of Kosovo in the region;
- between foreign investors and Kosovo to see increased investment and the creation of much needed jobs.

UNDP's³⁷ contribution lies, in particular, in its development approach to

³⁷In particular:

- Information technology for development interventions, that harness the power of new technologies in support of the development process.
- Human Development data collection and analysis will remain a central service provided by UNDP to the Government and development community in Kosovo. Kosovo's first Human Development Report which established a baseline for this issue in Kosovo was published in mid-2002. A series of "Early Warning Reports" were launched in May 2002, providing quarterly updates.
- Civil society outreach & partnership services, were expanded, institutionalizing UNDP's successful collaboration with the Kosovo Youth Network and piloting new approaches to partnerships with civil society.
- Advocacy and communications remained a key tool in UNDP's transition strategy, aimed at generating public debate on key human development issues, and strengthening UNDP's constituency for its work in employment, security and local development.
- Support to UN system coordination is a natural extension of UNDP's dual role as manager of the UN Coordination System. All of UNDP's programmatic interventions aimed to assist in ensuring a coherent system-wide response to development challenges in Kosovo.

conflict prevention. UNDP operations in the transition period focused on three flagship programmes: security, job-creation, local development. The latter flag-ship programme aimed at encompassing UNDP's turn-key investments at the central level (such as the establishment of the Kosovo Institute of Public Administration), following on existing engagements with Municipal planners and administrators and a new community-leadership programme at village level. UNDP's traditional development services were also brought to bear in support of the three flagship programmes.

Despite the commitment on the part of numerous international institutions, Kosovo is facing problems related not to the lack of funds but rather to an inefficient use of them both by the State, heavily dependent on foreign donors, who have not always been neutral, and by the international organizations operating there. Resources have been used without any precise planning, or organised strategies, and intervention haphazard and lacking in co-ordination.

The scarce results obtained from international aid, however, cannot be ascribed only to bureaucratic inefficiency, but also depend on what initiatives the Kosovans themselves have implemented or proposed. Manpower is available but there is no work, wealth is available but there is no capacity for enhancement. This explains why in Kosovo, planning, guidance and control of the process of reconstruction is still needed (Mini, 2003, pp. 210-249).

If the nature of the obstacles that delay reconstruction are analysed in depth, interdependence between the possible options of development would appear difficult to accomplish but imperative. In this respect, specific guide lines for the elaboration of an operative plan for Kosovo have been devised to guarantee rational management of the resources (financial included) in terms of sustainability, a fundamental policy if the disparities of the forces in the field and challenges such as European integration and regionalization are considered. Sector strategies that have made an impact on endogenous development and will continue to influence the prospect of stronger local economies in the future, should also be taken into account.

The implications of global trends of socio-economic development have been examined to identify the proper policies to adopt and actions and initiatives to privilege, not neglecting programmes and strategies in which Kosovo in a wider sense, is included (in particular, specific European Union strategies in South East Europe). At the same time, the important role the Regions must play, has also been emphasised.

4. *Kosovo in a process of regionalization and local development.*

The Stability Pact³⁸ was the first serious attempt by the International Community to replace the previous reactive crisis intervention policy in South East Europe with a comprehensive long-term conflict prevention strategy.

Nonetheless, democracy conflict prevention and sustainable peace building can be successful only if they start on a parallel scale in three key sectors:

1. the promotion of sustainable democratic systems;
2. the creation of a secure environment;
3. the promotion of economic and social well-being.

The structure and working methods³⁹ of the Pact are modelled on the Conference on Security and Co-operation in the Europe process (CSCE now OCSE – Organisation for Security and Co-operation in Europe). A special feature is that at Regional and Working Tables, representatives of South East European countries are, for the first time, on an equal footing with those of international organisations and financial institutions in advising on the future of their region and in setting priorities concerning the content of all three working areas.

³⁸The idea for the Pact dates back to the end of 1998 and NATO intervention in 1999 acted as a catalyst in strengthening international political will for co-ordinated and preventive action in the region. The Pact is a political declaration of commitment and a framework agreement on international co-operation to develop a common partner strategy for stability and growth in South East Europe. It is not a new international institute/organisation nor does it have any independent financial resources or implementing structures but rather, is based on experiences and lessons from worldwide international crisis management.

³⁹In terms of organisation, the Stability Pact relies on the Special Co-ordinator, Erhard Busek, and his some 30-member team. Their basic task is to bring the participants' political strategies in line with one another and to co-ordinate existing and new initiatives in the region. The headquarters of the Special Co-ordinator and his office are in Brussels. The Special Co-ordinator chairs the most important political instrument of the Stability Pact, the Regional Table. Under the Regional Table three Working Tables operate:

- ▶ Democratisation and Human Rights.
- ▶ Economic Reconstruction, Co-operation and Development.
- ▶ Security Issues (with two Sub-Tables: Security and Defence, and Justice and Home Affairs).

The European Commission and World Bank were appointed to co-ordinate the economic assistance measures for the region. They jointly chair a High-Level Steering Group in which the finance ministers of the G8 countries and the country holding the EU presidency, work together with the representatives of international financial institutions and organisations and the Special Co-ordinator.

Since its inception in May 1999 the Stabilisation and Association Process (SAP) has aimed at providing the countries of the Western Balkans with the means, based on European practice and standards, to maintain stable democratic institutions, to ensure the rule of law prevails and to sustain open, prosperous economies on a par with the countries of Central and Eastern Europe before beginning negotiations on accession to the EU. The process is both bilateral and regional, and creates strong links between each country and the EU. It also encourages regional co-operation between the countries involved and their neighbours in the region. The EU's own experience of the benefits of regional co-operation confirm that the Western Balkans will benefit from closer co-operation, preliminary to European integration.

In December 2002, the Copenhagen Council confirmed European prospects for the five countries of the Western Balkans and emphasised, once again, the European Union's determination to support their efforts – as potential candidates – to move closer to the European Union. The Stabilisation and Association Process remains the policy framework to help the countries along the way and is recognised and supported by the whole of the international community and by the countries of the region. The process is an entry strategy, introducing European values, principles and standards in the region, prior to their becoming part of the European Union. The process in act and the perspectives are an anchor for reform in the Western Balkans as was the accession process in Central and Eastern Europe, offering help to the countries of the region with their transition and flexible enough to adjust to the needs and scale of development of the individual countries. The process itself cannot do the job single-handed but should rather, be seen as a “contract” between the European Union and the countries; on their way towards European integration. An increased effort on the part of the Union has to be accompanied by an equally strong political commitment on the part of the countries involved to implement the necessary reforms. The agenda for European integration has obviously to be a common one.

The European Union is ultimately a union of values. The governments of the region must, and increasingly seem to, embrace these values related to democracy, the rule of law, respect for human rights, protection of minorities and a free market economy. To do so is in their own interest and the people deserve no less. Values do not change overnight, however, and countries have to be given the time they need a long-term policy to obtain sustainable results.

While the process has been successful in helping individual countries launch their wide ranging transition programmes, it has not solved many of the region's pressing political, economic and social problems. The region faces a number of common challenges which require determined action on the domestic front and in the context of regional co-operation, to lay the

foundations of modern, well governed states enjoying good neighbourly relations. The process alone cannot solve these problems for the countries, but it can make a substantial contribution in aiding countries to help themselves. Besides, the process can be bolstered in certain areas (e.g. regional co-operation) where to date, it has had an extremely limited role. The success of the process as a policy will be gauged by the extent to which the countries progressively shed their dependency on external sources of military, administrative and financial support. The broader international community has to continually review its presence and activity in the region with a view to disengaging in certain areas when the countries are sufficiently prepared to take on the obligations of nationhood themselves. The commitment of the EU and the countries of the region in the Stabilisation and Association Process undoubtedly will facilitate this. Kosovo is included in the process and benefits from the various instruments of this policy framework, i.e. trade preferences and EC assistance as well as reform monitoring and recommendations.

Beside, on 1 May 2004 an historical landmark was reached for the European Union which, enlarged by 25 countries⁴⁰ numbering over 450 million inhabitants

⁴⁰ Beyond the frontiers of the EU, enlargement will give a new impetus to the political and economic relations of the EU with the rest of the world. The arrival of the new Member Countries will oblige the Union further to cement relations with the new neighbours and the capacity of the Union to guarantee its citizens security, stability and sustainable development will depend on the efficacy of this process.

Enlargement will also bring the European Union physically closer, indeed to the very doorstep of the Western Balkans. Due to this close proximity in geographical terms, an enlarged EU and its new neighbours will have mutual interests in common in promoting trans-national exchanges and investment flows, collaboration in the fight against trans-border threats (such as terrorism, atmospheric pollution). The Western Balkans is one of the gateways to the European Union for criminal activities, illegal immigration and other risks/threats and reinforces the need for widespread law enforcement co-operation in the region. Working with neighbouring candidate countries, seeking to implement the EU *acquis*, will benefit the Balkan countries in developing new practice and skills. Neighbouring countries are fundamental for the EU in order to increase reciprocal production, economic growth and foreign trade, to create a vaster zone characterised by political stability and by a State whose laws function and which favours exchange of human capital, knowledge and culture. In this respect, the EU must promote co-operation and integration on a regional and sub-regional level, imperative for political stability, economic development and the reduction of poverty and social inequality in our common environment. However, to meet this challenge, the EU will have to review all its policies (external relations, security, trade, development, environment and so on) above all in the South of Italy, and do its part in creating, in the Balkans, areas of prosperity and proximity for fostering peaceful relations and close collaboration, not least because of interests in common. In more specific terms, geographical vicinity highlights the importance of a series of issues connected, but not limited, to the management of future

and a GDP of nearly 10,000 billion euros, clearly means superior political, geographical and economic relevance on a European scale.

The importance of infrastructure and telecommunications is destined to increase with the expansion of trade and investments. Proximity, furthermore, pinpoints trans-border cultural ties especially between those peoples with similar ethnic and cultural values. Global approaches are needed to combat the factors that put reciprocal security at risk⁴¹.

An increase in energy efficiency must coincide with the development of environmental policies. To encourage economic activity and production and to accelerate economic growth, functional legislation regulated by efficient authorities together with an independent legal system capable of protecting property rights is needed. In short, a clear approach is fundamental in order to intensify and render the relations with European Union neighbours more coherent in the medium and long term period.

The EU should reinforce and uniform its policy as regards the Balkans establishing two global objectives for the next ten years:

- collaboration with partners to reduce poverty and to create an area of prosperity and common values based on greater economic integration, more intense political and cultural relations, greater trans-border co-operation and combined measures of conflict prevention between the EU and neighbouring countries;

new external border and trans-border flows. Collaborating, on a bilateral and regional level would be convenient for the EU and neighbouring countries, so that the people and goods can cross the borders for legitimate purposes without being impeded by emigration policies and customs controls.

Besides countries which will be joining the European Union in the year 2007, other candidates for that year are also in line, while Albania, Bosnia-Herzegovina, Macedonia, and Serbia Montenegro will have to postpone joining the European Union to the following five year period.

⁴¹For example the trans-border dimension of environmental and nuclear risks, the transmission of illnesses, illegal immigration, illegal trafficking, organized crime and terrorist networks. As far as prosperity and poverty are concerned the new EU policy regarding neighbouring countries must go beyond the border regions to create a common area of prosperity and stability, the EU must integrate its policy of proximity with measures to eliminate the principal factors of political instability and economic vulnerability, not to mention institutional shortcomings, conflicts and poverty and social exclusion. Democracy and investments are fundamental for favouring economic growth and employment. So that sectors of society can benefit from this economic growth, effective measures are needed to promote social inclusion by means of complementary economic, employment and social policies. Furthermore, sectors such as education, health, professional training and housing are paramount.

- subordination of the EU offer of effective advantages and preferential relations in terms of differentiation based on a scale of the progress made by partner countries in the context of political and economic reforms. In other words, the neighbouring countries should be offered participation on the domestic market of the European Union as well as further integration and liberalization to favour the free movement of people, goods, services and capital in exchange for progress achieved in political and economic reform.

South East Europe is, in specific terms, the European region that has to complete its process of transformation from a centrally planned economy to a free market. The way each country moves in this direction means that, at the present time, individual national economies find themselves at different stages in terms of approach in the process of globalisation and standardisation.

The most significant advantage deriving from regional integration and areas of free trade, lies in the creation of a global market which is the result of the sum of the markets of the countries that adhere. All the countries in the Balkan area, with the sole exception of Romania, display, as far as international trade is concerned, small country characteristics:

- ▶ a modest domestic market;
- ▶ strong dependence on imports from outside;
- ▶ they are subject to rules and prices established elsewhere, with limited opportunities of significant reactions.

For such areas, the creation of committed forms of regional integration⁴² is

⁴² Besides national economies, specific economic systems (Kosovo and the Republic of Srpska) exist, whose entry in the nation of origin (Serbia, Montenegro and Bosnia-Herzegovina, respectively) in the framework of a free trade area in constitution can bring nothing but benefits, both because of the greater differentiation of eventual or potential partners (in the case of the Republic of Srpska) and for the elimination and attenuation of lines of separation (the case of Kosovo compared to all the neighbouring countries) which should allow economic revival of the more underprivileged areas, in Kosovo per capita income is, at the present time, 1/5 of that prior to the break up of the Federal Republic of Yugoslavia

On the other hand, future possibilities of choosing partners different from the present ones might result in a lower propensity towards intra-area trade exchanges. This negative possibility, however, is tempered by the existence of a different rate of development in the different countries, which should favour productive specialisation. Also the fact that the two present entities of Bosnia-Herzegovina (Croat Muslim Confederation and the Republic of Srpska) could loosen their respective ties with Zagabria and Belgrade, would be an element of growth of exchange inside the area within the framework of a future free trade area, a further factor of growth should come from a value greater than that at present evident in the bilateral relations between bordering or neighbouring countries, i.e.

essential, in that, in terms of trade dialectics, they are solid instruments of development and defence. In conclusion, the benefits of an area of free trade, are in short:

- ▶ the security deriving from participation in a great economic area and from the increased possibility of receiving substantial investments on the part of advanced industrialised countries;
- ▶ the greater credibility which comes from having an economic policy anchored to the provisions of international and multilateral agreements;
- ▶ the knowledge that even the countries economically dominant in the area, previously self-regulating, are themselves bound by the supra-national agreements they have underwritten, and therefore, less free to decide on unilateral economic restrictions.

Besides, the scale economies that a wider market allows the productive system in which it participates and the likely increase of trade exchanges both inside the area and with other countries are the signs of more rapid economic growth, more equilibrated economic and political relations with partners and in the specific case of the Balkan countries, the opportunity to consider participation in the area a sort of apprenticeship for joining the European Union in the future.

At the present time, the principal factor of development in the Balkans is, and will remain, the extent and degree of exchange with the European Union, taking into account the assets and goods exchanged (capital, instrumental goods, commodities - European Union towards the Balkans – high intensity of manpower or goods with a high quantity of raw material content – the Balkans towards the European Union) a complementary process which has been decisive for the evident success of other areas as, for example, North American Free Trade Agreement (NAFTA).

The passage to an “effective” free trade area will mean greater opportunities of economic co-operation, which presumably, will tend to reconstruct the more efficient part of the relationship both between vertical producers of similar lines, as well as between enterprises (networks) already in existence (for example in the context of countries that once made up the Federal Republic of Yugoslavia).

In the case of the Balkans and the complex process of transition they are at present undergoing, the prevalent forms of analysis emerging are confined to specific compartments which tend to separate the issue of local development⁴³

between Croatia and Serbia Montenegro and between Romania and Bulgaria.

⁴³ As regards national and international policies, gaps are evident between economic development and local development: the former an area for structural macro-reforms and investment flows, the latter for supporting intervention towards governance and administrative reinforcement. However, an approach that can integrate measures and

from most of the negotiations. It is interesting to note how in international and, occasionally, in national documents of strategic planning, the concept of local development is totally absent.

The complexity of the economic process of transition has rendered instability and external intervention a chronic process, a scenario associated to an economic policy often (in particular in the case of Serbia) contradictory and changeable in meeting the challenges of the transition phases and in accounting for economic and social costs (the so-called “stop and go” first phase of transition in conflicts). On various occasions, an irrational mixture of measures “borrowed” from two systems (planned economy and market economy) simply aggravated the situation, reducing efficiency in the use of the meagre resources available and stunting expected progress. The State maintains a strong (even though inefficient) top-down administrative policy, in a tight framework of economy and power, old school tie relations and semi-monopoly regimes in various sectors of the economy; raising barriers as regards external relations as well as protectionism, scarcely supported by policies of re-launching of real domestic supply capacity. This, translated in terms of inflationary monetary policies, is an artificial and unsustainable compression of real expenditure, an undue accumulating of arrears, incapacity in imposing and consolidating budget conditions (keeping up on the contrary, a soft budget constraints regime by means of benefits and public financing deficits of banks and enterprises, in particular in the public sector).

In this context, creating favourable conditions for enterprise growth is therefore, one of the fundamental pillars of the economic structural reform process in the area. Given the undoubted necessity of economic reforms which are at the heart of transition policies, the impression lingers of a dearth in the design and implementing of “active” policies for enterprise development on a local scale.

The following observations form the basis of an in-depth analysis:

- the fragmenting of socio-economic and institutional relations is a heavy legacy from the war. Promotion of local development founded on mutual commitment for the enhancement of resources and values shared by communities identified by territory could start processes of cohesion the beneficial impact of which, if only in strictly economic terms, is widely ascertained;
- inhibiting factors and those of more prevalent risk for the development of private economic initiatives in the Balkan area are the so-called and long-

initiatives for local development with policies for structural reform, could help to balance contextual limits and bypass ‘bottlenecks’ which slow down development in the private sector and loosen the fabric of small and medium enterprises SMEs.

- lasting “uneven playing field” elements (a strongly deviated competitive context, monopolistic revenues, privileges in access to markets and capital, greedy and corrupted behaviour on the part of public officials), and from the uncertainty of the context of legal-administrative and financial transactions. Local development envisages induces and consolidates a form of cohesion in relations at different levels (so-called social capital). Besides a general sense of belonging (which by itself consolidates conformity and respect for regulations, control, etc.) social capital applied to the economic realm facilitates practice typical of local economic development (for example, strategic alliances between enterprises and between public and private actors) thus helping to contrast the distorting effects of such practice;
- a strategy of growth based on exports is an unavoidable priority for economies in transition on a small scale. Post reconstruction processes, small firms which, following reconstruction processes or separation from large industrial units constitute most of the productive framework, may encounter obstacles in gaining access to international markets. Policies to facilitate the constitution of clusters of firms, introducing scale economies and strategies of cost sharing, can lower the incumbent costs of the process of internationalization;
 - privatisation is a crucial link in the transition process, and not simply a potential problem of mere accountancy. The transformation of large inefficient industrial structures into viable economies may require a capacity of reception and support on the part of the surrounding territory in question, in terms of services, complementary economic activity, institutional and commercial interlocutors. The existence of development strategies and territory redevelopment integrated with the planning and restructuring methods of these industries constitute in this respect, a further strategic element;
 - local development could be envisaged as an element that organizes the relation between labour market, development of enterprises and informal sector.

The gradual legalisation of informal firms is another inevitable phase for the economy of the area. It would extend the basic tax area on the one hand and open up negotiating advantages for entrepreneurs or the self-employed (from social guarantees to services of financial and non-financial support in favour of enterprises, to the protection of trade agreements) on the other. For these firms to emerge can be a difficult and complex process, implicating considerable costs. On the other hand, the process of development of the private sector is not confined to the privatising and restructuring of state or social enterprises or in the creation of new enterprises, but also involves the vast panorama of small or medium enterprises (SMEs) pre-existent or at least, having their origins in the framework of the shifting dynamics of the last decade of instability.

Informality and dispersion which characterise SMEs in the region are clearly bound to these dynamics. Many, above all among the small and very small units which constitute, in terms of quality and quantity, a very relevant factor for the economy of the area, belong to this extensive area of “grey economy”⁴⁴.

The dispersion of SMEs is tied traditionally to the prevalent differences in terms of function and type. SMEs are rarely grouped around productive chains, each firm tends to have its own space for survival and independent access to the market. SMEs have been and, to a certain extent remain, difficult to identify in terms of uniform criteria and characteristics of small and medium sized private enterprise. The difference in size, origin, degree of proximity to the power constructed is an important discriminating factor in terms of their effective features. In short, the sector of the small and medium enterprises seems to present scarce connotations in terms of “system”, i.e. limited integration, dispersion and relative invisibility of the dynamics of development of the sector, fragmentation of social and institutional ties, and a competitive environment which is not always uniform. Contiguity on different levels which is the basis of the construction of the fabric of SMEs, as well as to a large extent, their aggregate impact potential in terms of output and employment can on the whole, be assumed as an objective (or at least as a prospect) of development rather than as a starting point.

Furthermore, an absolute priority in terms of re-launching the private sector is identified in the attracting of investments to strategically important macro-areas, in consequence of a reformed context of general regulations, the premise of which is growth orientated to an increase in exports.

In the light of the above considerations, to examine ulterior aspects in terms

⁴⁴ On the one hand, informality is the result of an economic context hardly favourable to enterprises, where, combined with the low continuity of regulations reform, the introduction of discouraging or repressive measures (coinciding for example in Serbia, with phases of return of the equation between monopoly of power and access to economic initiative), have all inhibited investments and favoured disproportionate growth of submerged economies. In this perspective, SMEs constitute an important resource, a parallel channel, relatively dynamic especially in re-absorbing in self-employment, portions of a vast labour force in excess, that the restructuring and closing down processes of no longer profitable state companies had produced. On the other hand, informality and non regulation have been a fertile ground for a framework of distorted competition which still constitutes one of the most critical factors for the process of transition and for the re-launching of productive capacity.

Many small and medium sized firms, for example, have been set up for speculation purposes as a vehicle for the fraudulent privatising of patrimony, benefits, profits from positions resulting from corruption and old school tie relations where powerful subjects and economic elites have controlled and taken advantage of the process of transition in its more marked phases of instability.

of limits and perspectives for local development in the region, the reference to a “further” dimension and to a series of instruments and experiences whose strategic common denominator lies in terms of external relations, is fundamental. In short, in a medium term perspective, sustainable growth of the Balkan countries’ economies depends on their capacity to implement internationalisation, in other words, to interact in a mutually profitable manner with economic systems and subject to other countries and territories. The gradual process of European integration along the lines of stabilisation and association, will obviously induce acceleration in this direction and the opportunity remains for a series of measures and initiatives with the purpose of anticipating and extending the terms and presuppositions of integration. Opportunities and benefits from the internationalising of what is “local”⁴⁵ can mean the anticipation of and a valid premise for future European integration on the one hand, and a partial “compensation” for the missing link in terms of local development, on the other. A central element consists in the development potential of integrated networks that processes of local development usually generate; initial opportunities centred on the enhancement of territorial contiguity and of the consequent potential of economic interdependence, in reference to processes of integration and inter-regional co-operation between Balkan area countries. Essential conditions for attracting external investments in Balkan countries consist in their capacity for being perceived and their functioning as a single macro region. Despite recent progress in the direction of free trade inside the area, obstacles that face trans-border business remain consistent both in terms of bureaucratic barriers and infrastructure networks.

⁴⁵The link with the dimension of local development is evident where potential and interest identified and articulated on a local scale, find strength and expression in exchanges and interaction in networks with needs and economic opportunities complementary to those on the domestic front of territorial situations elsewhere. In these terms, local development, above all, in its dimension of internationalised territorial partnership, becomes a vehicle of integration and the initial phase of a virtuous sequence of social and institutional economic development thanks to specific characteristics that constitute similar “comparative advantages” for the implementing of internationalisation processes of local scenarios. The mechanisms and the vitality of decentralised co-operation and the variety of actors that take part in the process, the organisation and widespread distribution of SMEs in productive districts having strong territorial connotations, the traditional vocation in favour of trade exchanges between trans-national areas that are geographically and culturally contiguous, constitute an extremely interesting workshop in terms of perspectives, concerning economic co-operation between local systems and in particular, with the Balkan area. This is not simply a question of transferring models, the exporting capacity of which has yet to be proved, but rather to enhance good practice and experience gained, to devise ways to meet the challenges of local development in the Balkans.

The process of regional integration furthermore, appears complicated and hardly encouraging to the political leaders of the region. One possibility is that the drive towards regional integration and co-operation processes implicit in achieving the same (from the regionalising of infrastructure and inherent problems, to adequate regulations and the promotion of joint ventures) will come from entrepreneurs themselves. The encouraging of ties between economic communities, in a hinge capacity of promoting trade relations and relations of mutual interest between economic subjects belonging to different places and territories, is considered in some quarters a fundamental and strategic approach to guarantee bottom up integration, stability and security in the region.

A series of further opportunities are fundamental to processes of economic co-operation, in terms of a process capable of leading to the internationalisation of enterprises, in particular in the direction of the Balkans area together with “social” co-operation of the traditional kind. Internationalisation of enterprises besides being a process of spontaneous interaction between economic agents, is an expression of more structured integration between the territories themselves and the public and private institutions, which operate in them. By means of trade alliances/consortiums, investments, transfer of know how and technology, of administrative practice and ways of strengthening the fabric of enterprises, interlocutors can be identified and ties can be forged which offer supplementary tools for national policies and projects of development.

The areas opened up by the direction the European Commission is taking, in terms of proximity policies, are an opportunity for (re)-launching the concept and practice of international territorial partnerships. The South East area of Europe representing a zone of primary interest in terms of foreign policy and co-operation, is a privileged scenario for the expansion on an international scale, of local territorial systems.

The passage from implementing strategic policies relating to a Wider Europe to the construction of an articulated policy of proximity is not simply an operative or technical issue, but implies the contribution and active participation at various institutional levels, in particular of sub-national governments and the key actors of civilian life.

At the basis of this concept is the process of glo-localisation i.e. the inter-dependency of global and local phenomena, a vehicle of new international ties between territories: growing trans-national social relations (social organisations, migrants), transformation of the historical conditions of local economic development (processes of territorial internationalisation, the passage from short networks to long networks), sharing of responsibility for global public patrimonies, inter-cultural relations.

The concept of territorial partnerships in the multiple sense of the term,

means decentralised co-operation within the context of the European Union, providing at the same time, ways of co-operation, a recognizable identity and a clearer role in the institutional dialogue between community agencies, international organisations and national governments.

Territorial partnerships are not a form of government-government co-operation on a lower institutional scale, and local governments are not minor foreign offices, on the contrary, territorial partnerships are a way of bottom-up co-operation, much more structured and systematic than non-governing co-operation and co-operation between similar agencies on a horizontal scale.

Within the framework of the objectives indicated by the numerous international organisations involved in the development of the area, the following are an indication of specific proposals on priority issues relative to territorial partnerships:

1. there is an imperative need both to intensify trade relations and investments, and to increase in terms of sustainability, productive and infra-structural collaboration, in order to construct common economic areas;
2. one of the priority aims of the economic agenda: local development, (in particular the promotion of local productive systems based on small and medium sized enterprises) has become an important part of the economic policy of many countries as witnessed by the growing importance attributed to processes of territorial innovation and regional clusters in terms of inter-dependent business combinations inside the same or similar industrial sector in a specific small geographical area.

The concept of territorial partnerships in the field of local economic development takes on, fundamentally, a twofold dimension. On the one hand, the necessity of verifying effective and potential partnership relations in terms of collaboration/competition in the different sectors and in the various productive compartments. And in particular, how and to what extent, processes of internationalisation of the regional clusters of the European Union⁴⁶ can be

⁴⁶Up to now, European Union considerations on local development have been concentrated mainly on the capacity to innovate on the part of cluster regions, and on the policies and instruments necessary for the achievement by local productive systems, of successful processes of globalisation. For bordering/neighbouring EU countries, on the contrary, local economic development is presented as one of the main routes to advancement in political transition and to overcoming the economic exclusion of many territories and peoples.

Hence, the practice of promoting a sort of ‘‘open’’ regionalism could become one of the most interesting and incisive elements of proximity policies. This course of action demands, as a priority condition, a search for complementary elements between the processes of internationalisation of cluster regions of the EU and the development of

compatible with the demands of development, restructuring and innovation of local productive systems of neighbouring countries. On the other hand, it is imperative to verify the effective conditions of economic partnerships (i.e. the involvement, maturity, vocation and willingness on the part of the principal actors who are obliged to interact) of local economic development.

The “local” dimension of international migration is of decisive importance. Both as regards country of origin and host country, as a consequence, sub-national areas are where the impact of migration is measured more directly and more uniformly. Yet, local authorities who must face and deal with the impact in the first instance, remain at the margins of emergent systems of migratory governance.

This is evident in host countries, where societies and sub-national political systems undergo the effects, to a greater extent, of specific decisions whether of a liberal nature (as in the case of mass regulation) or of a restrictive nature – implemented on a national and supra-national scale. But this happens even in emissary countries of migratory flows, where important decisions of economic policy and development strategies (exogenous strategies, supported by international aid included) are still elaborated and implemented without sufficient attention being addressed to local contexts, including the weight that migratory dynamics bears.

Reversing this tendency is fundamental if effective control of migratory processes is to be recovered and the positive impact of trans-national (or rather “trans-local”) mobility is to be optimised, both in terms of areas of origin and host areas. A greater and more systematic involvement of sub-national governments in the elaboration of migratory policies would certainly be opportune both in countries of origin and in host countries. Naturally, this involvement should be ordered and controlled inside clear institutional and regulating frameworks. On the contrary, the decentralising of migratory policy risks emphasizing disintegrating drives instead of supporting integrating tendencies, would be the case. Furthermore, besides taking over specific activities from nations, sub-national governments of countries of emigration, of immigration and countries of transit, should “invent” and implement independently – through talks and direct confrontation – new and integrated models of migratory governance. Despite the evident complexity of such a strategic objective, attention and debate (not only in a European context) should concern the constitution of trans-local territorial partnerships for co-development through mobility, which link civil societies and sub-national governments of the areas of origin, transit and host areas of migratory flows.

local productive systems of bordering countries in a framework characterised by principles of free trade.

In the partnership framework, the sub-national authorities play a strategic role in assisting projects of voluntary return and socio-economic re-integration of displaced persons, ensuring respect of rights and fundamental needs, including those of a psychological and existential nature.

In particular, sub-national agencies are advised to direct attention to the choosing and training of candidates for work purposes (or instrumental) emigration, in a direction functional to the demands of the economy of the host area, but without depriving (i.e. brains/skill shortage) the area of origin of economic development potential. In this respect it is essential that the institutions promote programmes of training and selection in loco, and work, in terms of social responsibility, on an effective trans-national scale. They would be advised, for example, to implement similar initiatives to produce positive effects on the development of the countries of origin's labour market: projects should support programmatically and systematically, training of the workforce and professional figures both for the local labour market and for that of the host country.

In short, the most important role of territorial partnerships consists in catalysing and supporting social and productive forces; creating complex and integrated relations between communities, towards dynamics and on practices of strong impact for trans-local social and economic integration. In this context, co-operation between subjects harmonised by their respective local authorities is reflected in terms of added value for the strengthening of institutions and the improvement of the capacity of the partners of co-operating countries, support for democracy processes and the governing of processes of change, in order to promote and intensify political and institutional relations between local communities.

Democratic governance has been the object in recent years, of a growing number of reforms both in European Union countries and neighbouring countries through programmes of co-operation, considering the relevant contribution derived in terms of promoting human development, freedom and fundamental rights of man. In particular, democratic governance consents political stability by means of checks and balance mechanisms, guarantees a constitutional state, and what is more important, acknowledges the enjoyment of political freedom and the participation of citizens in the *res publica*, and therefore, greater satisfaction of needs of a social and economic kind.

Despite marked commitment in this direction, there is still much to be done, and necessarily, the issue of reinforcing decentralising processes and democratic governance is a foundation issue of territorial partnerships for the purpose of integration and stabilisation. In the political dialogue between the European Union and neighbouring countries, the issue of subsidiarity should not be neglected and eventual instruments for achieving this type of objective, i.e.

decentralising and democratic governance can be considered qualifying transversal issues on a par with respect for the environment and equal opportunities.

Within the specific framework of proximity policies three fundamental areas of intervention are identified in which territorial partnerships play a crucial role:

- SUPPORT FOR THE PROCESS OF ADMINISTRATIVE DECENTRALISING. Implementation of support programmes for institution building and processes of reform in the direction of decentralisation, to implement through specific projects for training and the transfer of know-how. As a demonstration of the potential of effective involvement on the part of local authorities, the validity of programme twinning should be considered. Accordingly, action could be undertaken to ensure the capacity for replication and the extension of this kind of programme, defining two phases: a phase of support for institution building and a second phase aimed at favouring the construction of territorial partnerships. In this perspective, territorial partnerships are committed to promoting political dialogue and the devolution process;
- SUPPORT FOR FISCAL DEVOLUTION. In consideration of the implications in terms of national institutional systems of proximity policies, the financial and managerial reinforcement of sub-national governments would seem particularly relevant, and even in this case, the implementation of programmes of technical and training assistance can be envisaged. This area is fundamental for the construction and consolidation of democracy as well as for local development;
- SUPPORT FOR THE EMERGENCE OF A CULTURE OF SELF-GOVERNMENT AND THE ESTABLISHING OF A RELATIONSHIP OF TRUST BETWEEN THE CITIZENS AND THE LOCAL PUBLIC ADMINISTRATION. Just as important is the envisaging of programmes finalised to citizen participation, and the involvement of local communities in public management. In neighbouring countries which have been, and are the object of traumatic political and social events, programmes on non-violent management practices and “conflict elaboration” are fundamental.

Basically, criminal interests persist in many areas of intervention concerning territorial partnerships that involve local authorities, such as territorial planning and environment protection, the management of services and the exploitation of local resources.

Furthermore, high levels of corruption weaken efforts in institution building that are directed at partner subjects, and a rooted criminal presence mortifies prospects of local economic development, attraction of foreign investments and the establishing of new productive activity. Besides being an element of awareness of the context, the rule of law issue emerging as a new and specific field of intervention of territorial partnerships, can and does represent a valid contribution to the local economies of the European Union in the construction of

proximity policies. In this context the following proposals are particularly pertinent:

- above all, initiatives which tend to reinforce social citizenship, such as the creation of efficient and sustainable local welfare should be consolidated to contrast the role of criminal powers as providers of protection, services and employment in alternative to state powers;
- secondly, the insertion of programmes and specific activity against corruption in the initiatives of institution and capacity building should be implemented, and addressed to the local authorities of partner territories, in favour of transparency and responsibility in Public Administration. In the same way, the promotion of local economic development and different formulas of micro-credit within partnerships could be accompanied by anti-usury and anti-racket initiatives borrowed from more advanced experiences in this context on an international scale;
- thirdly, the emerging role of territorial partnerships as areas of integrated and concerted management of migratory flows, and therefore, the creation of areas of free movement, to be strengthened and enhanced to limit illegal emigration, and to contrast criminal interests in this field;
- fourthly, protection schemes by associations that are socially relevant and supported by local institutions for victims of illegal trade, could be flanked by specific initiatives of development and the creation of enterprises for social groups in specific geographical areas of origin of the victims. In this way, territorial partnerships could constitute an effective anti-illegal trade cycle, ranging from protection of the victims to prevention.

In conclusion, sub-national governments that have supported participatory and bottom-up forms of contrasting illegal practice and crime on their territory, such as using for the public weal confiscated property, as well as attempting to educate people to strive for a law-abiding mentality, could enhance this experience in the context of territorial partnerships, a re-interpretation in terms of the effective situations of territorial partners.

The creation of an area of peace, stability and development, bordering the European Union will undoubtedly have favourable repercussions both on Member Countries of the European Union, and on neighbouring countries. However, a vision excessively centred on economic and political aspects will not be able to guarantee full co-operation together with integration of the relative populations. The European Union must aim in the direction of a model inspired by principles such as sustainable development, social and territorial cohesion, protection of bio-diversity. By definition, the kinds of development modelled on the notion of sustainability imply the integration of environmental issues in every great development process (industrial production, energy production, transport, tourism, agricultural production). Furthermore, this can only happen with an effective probability of success by taking on a sub-national and regional

territorial dimension of planning and monitoring of policies intrinsic of environmental background and polluting phenomena. Added to which, the question of environmental impact on human activity⁴⁷ holds great importance in specific terms, within the general context of environmental assessment of the effects of war⁴⁸.

In substance, environmental impact from human activity has never been particularly relevant and is not a priority issue. However, clearly, humanitarian initiatives have created added pressure on a system of society/natural resources relations that are already quite critical. Consequently, priorities and resources must be concentrated on the system itself: recovery of polluted areas, organization of a waste and sewage management system, the consolidation of institutions responsible for environment management.

In this context, what must be emphasized are the by now dominant issues of desertification, control of water resources, and energy strategies (issues of no less strategic importance today, if compared to the predominant issue of sources and oil routes), the redevelopment of contaminated areas, the improvement of the quality of air in urban and industrial areas.

⁴⁷The deteriorating of resources such as water, ground, and forests is the most typical element/outcome of activity co-related to humanitarian aid, which is often accompanied by biological impoverishment. As regards impacts on areas of natural-environmental value, characterised by a high degree of bio-diversity and homes to habitats and rare species, the damage is often irreversible and accordingly, prevention and mitigation of impact is essential. The impoverishment of natural resources in proximity of the area threatens long-term food security and adds negative impacts on the health of above all, senior citizens and children, scarcity of wood which induces eating foods cooked for only a short-time, chemical and biological contamination of water, dust and smoke, provoked by the use of new, low quality wood, often causing breathing illnesses. Host populations suffer the same environmental impacts as populations that take refuge there. Competition between local populations and refugee populations for the meagre resources (wood for burning, pastures, water, etc.) can create conflicts and resentment. In some cases, refugee flows have led to the collapse of local sustainable resource management systems. Finally, refugee influx is felt even on a local market level. While small groups of the local population can benefit, the local poor are often hit by the increase in prices. Deforestation and deterioration of the area and water resources, constitute an economic cost for local populations in terms of a diminished supply of building materials, medicines and game provided by the nearby forests. The consequences of environmental deterioration in the vicinity of refugee camps can have far-reaching effects: erosion of the ground, shortened life term of artificial basins, with related problems of floods and infrastructure destruction.

⁴⁸In Kosovo eventual risks from any remaining Depleted Uranium (DU) contamination of ground, water and from solid pieces of DU (i.e. intact or fragmented penetrators) still in the environment, already dealt with in the context of the United Nations Environment Programme (2001) should not be underestimated.

It is of fundamental importance that the challenge, in terms of environmental quality (of territories, productive processes and products) is acknowledged as a decisive factor of competition on the world market⁴⁹. Even in terms of Wider Europe strategies, the management of this challenge implies a course of action that is well known even if only in part⁵⁰. If discussions in

⁴⁹In this perspective, the commitment of the Ministry of Environment and Spatial Planning to create and implement policies in the following spheres of responsibility: protection of the environment, spatial planning, housing, construction and waters, the four main Ministry supporting pillars. The Ministry has classified priorities on the basis of demands, necessities and times of implementation (short-term, medium-term and long-term). As regards the protection of the environment in the short-term, instructions of an administrative nature and based on laws regulating the definitions of environment malpractice and consequent fines, was considered a temporary solution. Later, the “Declaration of the Environment situation in Kosovo” was presented and equipment for air, water and land surveillance was bought. As regards medium and long-term priorities the Ministry took into consideration the review and approval by the Kosovo Assembly of the Environmental Protection Law, a law now approved by all parties concerned; the establishment of the Kosovo Agency for Environmental Protection which is in the final phase of establishment: the setting up of support mechanisms for municipal environment inspection departments; definition of essential environment needs for the 2003-2005 budgets as well as the continued participation in the Programme of Stability Pact for the countries of South East Europe. As far as spatial planning is concerned, short-term priorities considered urgent were: the establishment of a legal framework for acceleration of municipal urban development and new urban area planning, re-allocation, expropriation and land compensation, as well as financial infrastructure, establishment of legal frameworks on control of abusive constructions. In this context, four reviewing opportunities have been foreseen: 1) inspection and control procedure; 2) fines; 3) confiscation; 4) destruction. As regards medium and long-term priorities the drawing up of a code of construction practice in Kosovo has been considered, intercommunication with the European System of Spatial Planning and Development of Kosovo Spatial Plan, with perspectives until the year 2020. Short-term priorities on housing and construction; increase of donor funds for the reconstruction of homes of families most affected by the war; coordination of fund allocation for Reconstruction Programmes for this year; reaching agreement for social housing pilot projects, one of which is already being implemented in the municipalities of De Cani and Skenderaj. As regards medium-term and long-term priorities in this area the following have been foreseen; setting up of private housing programme and housing credit scheme; formulating sustainable social housing policies, drawing up of the Law on Housing and the Law on Construction, already in progress; further development of pilot projects on housing modernization and environment approval and drawing up of instructions on housing modernization.

⁵⁰Recourse to Environment Assessment Strategies in terms of prevention, plans and programmes; promotion of prevention of emissions in the environment from anthropological activity, through development and wider use of cleaner technology and products; recovery and enhancement, with the necessary innovative grafting, of material

terms of “alternative tourism” have gone on for a long time, in recent years the range of proposals for a kind of tourism that is less pressing, sustainable, and embraces solidarity and cultural curiosity, is wide in the Balkans, in particular in those areas, affected by even more recent conflicts, tourism has remained an unexplored myth, seen as a possible source of income, but expected rather as famous “foreign investments” were once expected, to set the stumbling Balkan economies back on their feet. Investments that, like tourists, in terms of great numbers, never arrived. This is not necessarily true for specific countries, such as Croatia, Montenegro and Bulgaria, even though clear guidelines have not yet been delineated as to what kind of tourist development to decide on. However, as regards Kosovo, it is certainly premature to start speaking in terms of tourism.

A mix of different cultures, the encounter of three great religions, monuments which bear the fresh scars of the war, people who, even though still alive, have already become legendary. Marvellous natural landscapes, play their part in the political dynamics of the area. They contribute to developing awareness concerning the attraction of tourist presences that enhance local resources, are well integrated with the territory, and are a link with the bordering geographical scenario.

Because of the recent conflicts of the region and with the break up of Yugoslavia, infrastructure, once appreciated, is now neglected and at times abandoned, many hotels are dilapidated and some western facilities, such as automatic services (i.e. cash points), are badly supplied and not easy to find.

Kosovo’s artistic patrimony was at first devastated by the ethnic cleansing of military and para-military Serbs and then, even if only in part, destroyed by members of the Albanian resistance forces when Serb authorities were obliged to abandon the region. Notwithstanding this, particular monuments and localities which deserve enhancement still remain intact. Above all, if we consider that

cultures and settlement procedures deep rooted over the centuries in areas of limited resources; promotion of recovery and recycling of material and energy from biomass and human activity waste, paying particular attention to organic fractions, to combat processes of aridity and energy, to avoid recourse to fossil sources; national management. Integrated and sober use of surface water resources. Overcoming the pre-announced failures of immense cementing processes of the past, and of energy resources, paying particular attention to renewable sources and rational usage; re-development of deserted areas, industrial and port, present along the coasts of the basin and their progressive upgrading; spreading of procedures of certifications of environmental territory quality productive processes, products and services; new economic instruments, starting from environmental rigour.

tourism holds an important stake in the present phase of the globalisation process and can impart dynamism to the inter-population socio-economic relations network, such considerations justify the growing attention directed at tourism in this paper. An analysis of official statistics on tourist supply and demand for the Balkans confirms the relevance of this tendency. With geographical, historical-cultural and environmental differences and with the presence of tourist attractions, a potential “niche” of the tourism market could be developed, and directed at travellers who are keen and curious to discover “something different”.

In this direction, “spontaneous” territorial partnerships, the importance of the tourist industry in the regional economy and the contribution tourism can offer to the cementing of policies of cohesion, convergence and integration within the area itself and in other countries cannot be underestimated:

- conditions to ensure tourist development, above all for small and medium sized firms; will have to be created;
- measures to improve and to harmonize working conditions, training of professional staff involved in activities in the tourist field in order to extend the range of future perspectives and to re-launch employment levels will have to be adopted;
- co-operation and co-ordination of European Union instruments and services will have to be promoted.

European regions then must provide skills, motivation and adequate advice, organise initiatives to disseminate business mentalities and general knowledge of the economy at primary, secondary and university education level, ensure a greater correspondence of qualifications to the needs of enterprises, new forms of entrepreneurial activity for young people, efficient services of information and co-operation as well as networks of support that concur in guaranteeing conditions of improvement.

Discovering and exchanging best practice and pilot experiences, the search for common solutions, support for and integration of the operators who are responsible for political decisions (those responsible for the management of the resorts, quality controls, the suppliers of tourist products, commercial intermediaries, training staff, the host community), and connections to tourist destinations, are the principal needs identified, the instrument for achieving effective progress in competitiveness, which for the tourist sector, obviously involves territory. The impact of the process of globalisation on local economies exists, and on the one hand, creates the need to assess local specificity and area vocation (considered in terms of strategic assets), as well as forming part of a network with other consolidated tourist areas with which

to compare and co-operate. On the other hand globalization creates the need to define policies for achieving competitive advantages which range from public and private investments for the strengthening of material networks of communication and transport and integration support, to the enhancing of attraction factors, including the field of redevelopment of areas through territorial planning in environmental terms. Local tourist systems and the areas (regions, provinces and cities) that best know how to respond on these issues are those that will succeed in placing themselves satisfactorily in the world tourism economy sphere.

5. *A development plan for Kosovo.*

Subsequent to the considerable progress achieved, although characterised by fragility and unevenness, in coherence with the Thessaloniki Agenda the EU⁵¹

⁵¹ Six core objectives and the overarching security issue were endorsed by the Thessaloniki Regional Table as the SP's main working platform:

- ▶ **MEDIA:** enhancing independent media and standards of journalism in SEE by bringing legislation in line with EU standards; produce 30 hours of quality programming; fostering local institutions for journalism training.
- ▶ **LOCAL DEMOCRACY & CROSS-BORDER COOPERATION:** increase systematic co-operation of local governmental, civic and business actors, also across national borders; establish and strengthen EURO regions in SEE following agreed standards, legislation and training.
- ▶ **INTER-REGIONAL TRADE/INVESTMENT COMPACT:** further development of a liberal business environment, promoting business opportunities including implementation of a free trade area, identify and progressively reduce key non-tariff barriers; open all negotiations with Moldova (associated to the free trade process); integrate UNMIK/Kosovo into Trade Working Group; meet critical time bound targets for investment enhancement in each country, and organise major business promotion events.
- ▶ **REGIONAL INFRASTRUCTURE/ENERGY:** extend existing regional approach to developing infrastructure in transport (roads, rail, air), to energy and telecommunications. By end of 2003, 15 more regional projects had to be under construction; several new projects added to the list on the basis of agreed methodology. Launch regional gas initiative; implement electricity MoU signed in Athens 15 November 2002; secure agreed framework to determine priority electricity infrastructure investments.
- ▶ **ORGANISED CRIME (SPOC):** making the Regional Centre for Organized Crime in Bucharest operational, training (to Europol standards) of the centre's crime experts, increasing exchanges with Europol. London Conference follow-up: tackle problem of stolen vehicles; formalise relations between Europol & Bucharest Crime Fighting Centre.
- ▶ **MIGRATION & ASYLUM/REFUGEES:** managing population movements (asylum, legal and illegal migration, border management and incorporate solely humanitarian activities of displacement issues into long-term development) implement a

has to continue to work closely with, democracy, the rule of law, and respect for human and minority rights. Inviolability of international borders, peaceful resolution of conflicts and regional co-operation are principles of the highest importance.

Terrorism, violence and extremism, be they ethnically, politically or criminally motivated, must be unequivocally condemned. A feasible strategy, articulated in four points, would include:

- a. rendering operative the “standards before status” policy, transforming it from a slogan into an action plan with clearly defined objectives and deadlines;
- b. gradual transfer of responsibility from UNMIK to the provisional self governing authorities;
- c. offering a European perspective to that part of the Region, to avoid Kosovo being penalised in terms of advancing towards European standards and by the non-forthcoming definition of final status;
- d. beginning talks between Pristina and Belgrade as soon as possible, on practical issues of mutual interest without touching on that of final status⁵², but dealing with technical issues which touch on every day life.

In this direction, it is necessary to accelerate a decentralisation process and establish an effective Judicial System. Given the institutional and administrative structure now operating in the region, the Council of Europe established, on February 10th 2003, the “Council of Europe Decentralization Mission” (CoEDM). In December, the Final Recommendation paper was issued in order to illustrate how specific administrative, political, financial and other arrangements can be organised in order to meet Council of Europe criteria with due regard to the conditions specific to Kosovo.

comprehensive approach to manage and stabilise population movement; housing; refugee and displaced persons issues, including a regional exchange of property information.

⁵²The beginning of the dialogue (at the end of 2003) between the most important representatives of Belgrade and Pristina on the question of Kosovo did not succeed in bringing the incompatible positions of the Serbs and Albanian Kosovars together, as regards the question of resolving the future status of the region. Despite the fact that in international contexts the meeting was considered a step forward – because the representatives of Pristina and Belgrade were meeting officially for the first time after the war in Kosovo in 1999 – it was an extremely formal occasion during which the participants did not even officially shake hands. The delegations’ misunderstanding on most of the issues showed that the future status of Kosovo will most likely, not be the result of political negotiations, but rather, will depend on the discreet intervention of the international community.

There are various possible models for the reform of local self-government and public administration in Kosovo. The CoEDM has been considering several strategic options for the territorial administrative structure, which is the key element of any local government reform⁵³.

⁵³The following scenarios, in particular, have been considered:

- ▶ Maintaining the existing number of municipalities whilst strengthening their position by giving them additional powers and responsibilities. The sub-municipal units would continue to play a minimal role under this option. No structural changes. This option would be the easiest because it entails minimal costs and minimal changes. The principles of the European Charter, however, require smaller units of local self-government than the ones recently created (which cover a population of over 100,000 in several cases). The lack of territorial representation is another objection. This option would not be politically acceptable because of insufficient representation of local (which also means ethnic) communities.
- ▶ Establishment of new municipalities inside present large ones. No new arrangements regarding the sub-municipal level. Municipalities would continue to act as the main units of local self-government. The success of the option would depend on the number of new municipalities. If the number were high, i.e. if a large number of new self-government units (with, say, 20,000 citizens per municipality) were set up, this option would be acceptable from the point of view of democratic principles. In that case, however, the reform would hardly be feasible in financial and organisational terms. If a small number of new municipalities were set up, the principles of the Charter would not be respected. Such a solution would also be politically problematic because of the likelihood of disputes over ethnic issues (there would, for instance, be allegations that ethnically speaking, “clean” municipalities were being created).
- ▶ The sharing of responsibilities and decision-making powers between the municipal and the sub-municipal levels through the establishment of democratically elected local councils (i.e. a new tier of local government), with their gradually being empowered to manage local affairs. The existing municipalities would continue to be the key units of public administration, but their powers would be shared with the sub-municipal units. Some special powers and responsibilities would be delegated by higher-tier authorities to lower-tier units (by central government to some municipalities, by municipalities to some sub-municipal units). This option complies with the basic principles of the Charter (subsidiarity being achieved through the sub-municipal units). From the point of view of financial and organisational sustainability, this option is not the best one, but it is acceptable. The only burden is the establishment of new sub-municipal units, but they would be limited in size. Wherever possible, the sub-municipal units would use existing capacity. This solution could also be considered an acceptable compromise between the main political groups (Kosovo Albanians and Kosovo Serbs): the establishment of a sub-municipal tier of government would make for enhanced self-government of the ethnic communities, but with due regard for the territorial integrity of Kosovo, and the communities would clearly be integrated into Kosovo’s political and territorial structures.
- ▶ Establishment of a regional level of self-government and a limited number of new

There is obviously a wide range of alternate options⁵⁴. In the course of the Mission's work, local partners came to the CoEDM with their ideas or proposals. The government (Ministry of Public Services) and the Prime Minister's Office communicated their view of the reform, based largely on the establishment of a regional tier of self-government.

CoEDM expressed misgivings about this approach, because not in keeping

municipalities. There would be regional assemblies (in the seven largest towns) deciding on some affairs that are important on a broader-than-municipal scale. Some administrative services which are now the responsibility of central government would be transferred to the regional centres. No new arrangements regarding the sub-municipal level. This option would be neither expensive nor complicated from the point of view of organisational sustainability. It is considered, however, that it is insufficiently acceptable, because it fails to comply with the democratic principles set out in the Charter (the units of local self-government would be too large). We also object to the establishment of a regional tier of self-government on the grounds that it would not have many decisions to take and would therefore be useless in a place the size of Kosovo. The regions would not correspond to the usual European concept of regions. We also imagine that the ethnic communities would protest. This option would not make for improvements in local self-government.

- ▶ Establishment of a regional tier of self-government centred on the five to seven largest towns in Kosovo. This would establish a new tier between the central and the municipal level. New municipalities could be established under this option and sub-municipal units would be set up. This option would provide the most comprehensive solution. The establishment of a sub-municipal tier of government would meet the requirements of subsidiarity. The regional tier of self-government and administration would provide a number of services. Such a solution would, however, be extremely complicated (there would be three statutory tiers of self-government as well as the unofficial village tier) and extremely expensive. It would obviously provide the best quality of public services, and we would expect it to be reasonably politically acceptable.

⁵⁴ The possibility of setting up sub-municipal units in each village is also considered. A democratic solution that would also respect the natural tendency towards self-organisation and self-government in the smallest compact units (villages and neighbourhoods). However, the establishment of thousands of such units (Kosovo has 3,000 villages!) would not be at all sustainable in economic and organisational terms. Instead, the setting up of sub-municipal units in clusters of villages and the provision of villages with other means of organising themselves would be advisable. Another option would be a complete change in the structure of local administration in Kosovo, involving the establishment of new regions, new municipalities and a new sub-municipal level. This would probably be the most democratic solution and it might provide the best quality in terms of administrative and public services. However, the costs of the option would be enormous. Moreover, it would not be feasible in organisational terms (as it would involve setting up and relocating offices, selecting and training staff, establishing new links and channels for reporting and for the flow of information, etc.).

with the principle of subsidiarity, i.e. does not bring decision-making power and public services closer to the people and does not meet the real need for governance at a level intermediate to municipal and central levels. Neither the Prime Minister's Office nor the Ministry of Public Services, however, has submitted any detailed, specific proposals for a decentralisation reform. A proposal from the Serb government was received ("The basis of the political platform...", the so-called "Civic proposal"), which was quite concrete and detailed, but completely at variance with the idea of a multi-ethnic Kosovo. The proposal envisaged completely separate administration for the Kosovar Serb community, with strong links with the Serbian authorities which is not compatible with a multi-ethnic approach.

Some of the most important components of a democratic system which improve opportunities for individual growth and empowerment and allow for greater civic participation, involve the creation of "intermediary structures" of civil society. Such structures can include unions and associations for the defence or advancement of certain interests, charities, foundations, and other types of non-governmental organisations (NGOs) and community-based organisations (CBOs). In addition to human rights and humanitarian aid, these NGOs⁵⁵ have to focus on such issues as psychological-social aid, education, economic aid, citizen education, and political lobbying. Their target groups must include youth, women, the disabled, ethnic groups and the business community.

The initial 1999 post-conflict period was characterized by the existence of a judicial system unable to punish offenders or to offer Kosovans the stability afforded by a system adhering to rule-of-law principles. The legal system lacked a constitutional basis, and was difficult to implement. Since then, the international community has made strong efforts to re-establish and reform the judicial system in Kosovo. This process has not occurred without difficulty, because of the lack of experience of many judges and prosecutors who have not held judicial office since 1989 and a parallel judicial system created within certain Kosovan Serb enclaves. Therefore, there are still many areas that need to

⁵⁵ Most Kosovan NGOs have not yet reached their full potential in terms of supporting fully developed democratic societies and supporting efforts to solve the needs of the communities in which they work. In particular, some of the areas in which NGOs could be strengthened include: increased inter-NGO networking and co-operation; more concretely defined mission statements and development objectives; and self-financing capacities. At the same time, additional work is needed to educate Kosovan officials in the role that NGOs can play in co-operation with government institutions to support a range of development activities at both central and local levels. By working more directly and purposefully with both governmental counterparts and the community beneficiaries they serve, Kosovan NGOs can contribute significantly to improving the effectiveness of democratic governance by increasing levels of civic participation.

be addressed to establish an effective judicial system, a pillar supporting the broader goals of democratic governance and human development essential for ensuring the equal rights of one and all in front of the law, regardless of religion, sex, beliefs or ethnicity⁵⁶.

Organised crime and corruption are real obstacles to democratic stability, sound and accountable institutions, the rule of law, and economic development in the Western Balkans and a source of grave concern to the EU. Combating them must constitute a key priority for the governments of the region. Particular focus should be placed upon fighting all forms of trafficking, particularly of human beings, drugs and arms, as well as smuggling of goods. Although the SAP countries have made some progress, continued efforts at all levels will be crucial to contrast further organised crime. Commitment must be sustained through effective implementation of all instruments necessary in this struggle, including recognised administrative and judicial capacity. Continuous political support in each country is equally essential.

In order to speed up the process of development reconstruction, renovation and economic reform must be encouraged. To this aim banks should focus on policies that attract long-term savings, so as to improve the environment for the increased availability of medium and long-term loans⁵⁷. Strategic goals and objectives for banking sector development⁵⁸ depend on support for a wide range

⁵⁶ Some of these areas include: a more contemporary structuring of the judicial system and effort to ensure its full independence, a speeding up of the promotion of new judges and lawyers, including minority representatives, ongoing professional training to ensure compliance with international judicial standards, support to higher education to develop new professionals in the legal field, full integration of the judicial system across the entire territory of Kosovo.

⁵⁷ Borrowers have proved to be disciplined in paying back loans, despite difficulties in implementing guarantee instruments. According to the estimates of RIINVEST Institute, in March 2003 bad loans were present in only 1.0-1.5% of the total number of loans approved, a very low percentage compared to other countries. However, our interviews with commercial banks carried out during July and August indicate an increase in the percentage/share of bad loans to the extent of 2.0-2.5% during the latter months of the year. More attention should be paid to the problem of bad loans in order to maintain the present stability in the banking sector in Kosovo. The rise in the share of bad loans could be taken as a signal of the real difficulties pressing business activities, such as: the non-regulated market, unfair competition and inappropriate terms and conditions for financing, the outcome of which may be a lower level of cash liquidity among businesses.

⁵⁸ As elsewhere, success in developing a viable banking sector depends on a number of factors identified by Poverty Reduction and Economic Management Unit in the year 2001. They include a sound legal and institutional framework to ensure incentives are in place for adequate resource mobilization; proper risk management guidelines and practices; and public confidence. To rebuild the banking system in Kosovo the following

of structural reforms. Several medium-term challenges persist, based on the needs and risks of the banking sectors. The success or failure of efforts to

will need to be achieved:

- **FOCUS ON RESTORING SUSTAINABLE FINANCIAL INTERMEDIATION.** This will mean restoring confidence in a banking system so that meaningful resource mobilization and financial intermediation can be had.
- **REBUILD THE BANKING SYSTEM BASED ON EMERGING GLOBAL STANDARDS.** This will depend on establishing a modern banking system and economy for Kosovo based on a suitable regulatory and institution framework for market-based competition and incentives for sound management and governance – from foreign as well as local sources.
- **DESIGN DONOR-SUPPORTED PROJECTS TO BE CONSISTENT WITH MARKET-BASED PRINCIPLES.** Donor assistance in providing needed intermediation and related services (through loan funds, technical assistance, and training) will achieve better results if project design is harmonized, and if commercial fundamentals are applied by enterprises and banks in accordance with prevailing prudential regulations. Such an approach would also contribute to a meaningful and well-coordinated rejuvenation of the formal Kosovo economy, which would support the long-term goal of developing a viable and competitive private sector in a well-managed and increasingly diversified economy.
- **INCLUDE EXPLICIT EXIT STRATEGIES IN DONOR-SUPPORTED PROJECTS.** Donor assistance in helping to rebuild the banking system should consider the current weakness of the formal financial sector as an aberration. There is no guarantee that private banks, domestic or foreign, will invest in the near future and play their proper role in restoring financial intermediation. Nevertheless, attracting legitimate private investment and professional management in this sector should be the main objectives, with donor programs serving as a bridge. Consequently, donor projects in the banking sector should be designed with an exit strategy. This strategy could be revised if adequate levels of investment and professionalizing fail to materialize.
- **DEVELOPMENT OF HUMAN CAPITAL.** The well-known weakness of the Yugoslav banking system, the low level of banking activities in Kosovo over a decade and the exclusion of the majority ethnic population in the formal banking industry have resulted in a massive denuding of human capital in this sector. Training in modern standards of efficient and sound banking is urgently required. This will need to be provided through intensive, hands-on technical assistance to bankers and bank supervisors over a period of some years. Experience suggests that such investment in training has a high pay-off; indeed, however fine regulations, rules and manuals may be, critical to effectiveness is human skill, motivation and honesty. The entry of foreign banks will greatly contribute to human capital training, but management contracts and twinning arrangements with nascent local banks should also be considered.
- **RULES AND REGULATIONS SEVERAL YEARS WILL BE NEEDED TO RESOLVE THE PROBLEMS FACING KOSOVO.** This is because of the political division of the region, and the associated political risks that could unfavourably impact developments in the economy and banking sector. Key challenges for banking sector modernization include improving prospects for foreign investment, making the management of formal financial sector institutions and resources more professional, and developing accountable and

introduce lasting reforms hinges on the effectiveness of donor coordination, efficiency of resource use, and ability to attract private direct investment into banking and enterprise sectors⁵⁹.

Progress also depends on an interrelated programme for development of responsive civil institutions:

- expanding institutional capacity for effective implementation of reforms;
- unifying the payment system;
- creating a virtuous circle to restore public confidence;
- utilizing changing incentives for management purposes;
- strengthening credit and overall asset management;

credible civil institutions that inspire confidence and are fiscally sustainable. All three are interdependent, and combined represent the necessary conditions to place the banking sector on the path of long-term commercial viability. Moreover, as deposits are mobilized and the banking system begins to make loans, interest rates will emerge and should be determined in as a market process.

- MUCH HAS BEEN ACCOMPLISHED IN SOME OF THESE AREAS, PRINCIPALLY THE ESTABLISHMENT OF AN EFFECTIVE SUPERVISION SYSTEM SUPPORTED BY MODERN LAWS REGULATIONS AND PROGRESS IS UNDERWAY IN SOME OF THE OTHER AREAS. The introduction of three key regulations that establish new guidelines for market-based banking, unify the payments system, and call for basic banking supervision capacity represents a start. Time, experience, and investment will be required to meet the long-term challenge of constructing a viable institutional framework and a conducive environment for market-based banking.

⁵⁹ Building blocks for development of a stable banking sector include:

- introducing incentives in the banking system to “formalize” the economy so as to increase savings mobilization and prudently managed lending;
- developing standards for better information and disclosure, including improved accounting standards, strengthened internal audit functions, and adequate management information systems;
- providing legal incentives for banks to take prudent financial risk by providing a better framework for secured transactions, contract enforcement, out-of-court arbitration, and timely dispute resolution based on clear, straightforward, transparent guidelines;
- strengthening the role of banking supervision according to market-based and risk-based models;
- developing banks’ general capacity for risk management, portfolio management, and asset-liability management – all of which are directly linked to improved governance and internal oversight;
- adapting banking practices to international standards that address connected (party related) lending, loan concentration and exposure, and new loan classification standards (both in the aggregate, and on a loan-by-loan basis);
- introducing timely loan-loss provisioning (factored on a pre-tax basis) and write-offs accompanied by suspension/reversal of accrued interest income;
- improving loan monitoring and administration, including better credit files and documentation for systematic follow-up;
- developing a fully functioning payments system.

- developing modern asset-liability management capacity;
- clarifying the role of non-bank financial institutions.

The economic situation is not in a condition to develop sectors to absorb the labour force. The unsuccessful development of the private sector⁶⁰ is seen as the principal cause. Accordingly, in the medium-to-long-term period the priority objective is to increase the role of the private sector in the region. In particular, SMEs should receive financing and benefits so as to satisfy their investment needs. Existing enterprises, above all SMEs, are not in a position to meet growing international competition and will have to invest heavily to increase their productivity. New entrepreneurs have difficulty in entering the market; the inadequate legal framework creates uncertainty and does not favour investments, and difficulties experienced in finding long-term financing creates imbalance between demand and supply⁶¹.

⁶⁰The success of the programme of economic development and reconstruction of Kosovo hinges to a large extent on the degree to which the private sector can be empowered quickly to generate growth. While the difficult political and legal issues in Kosovo are being addressed, the existing private sector will need to provide stimulus for economic growth. In addition to the rapidly growing retail and services areas, short-term growth can be expected to come largely from agriculture. Agro-processing, and construction, which are mostly private, should be encouraged to follow the lead of the development of small and medium-sized enterprises (SMEs) in the retail and services sector. To develop the private sector, Kosovo will need to pursue three strategic paths concurrently. First, promote the growth and development of privately owned enterprises already in the formal economy. Second, embrace the parallel economy and bring it into the formal economy through a combination of incentives and requirements. And third, expand the private sector's composition by transferring the potentially viable public enterprises to private ownership or divest productive assets from public enterprises to private hands.

UNMIK will need to establish a minimal structure to deal with the limited number of potentially viable enterprises quickly, and which least involves the privatization institution in protracted administration. The regulatory framework should be (i) simple, clear, and enforceable; (ii) facilitate compliance; (iii) allow as little discretionary authority as possible to minimize scope for corruption; (iv) eliminate any duplication of existing FRY regulations; and (v) remove all discriminatory aspects of the existing FRY system. Privatization cannot be successful if it is considered as an isolated process, and if it is not supported by economic reforms, the strengthening of institutions and the implementation of favourable policies towards investors. The KTA should make an effort to overcome its current isolation and start to promote an alliance with relevant key actors. The present choice of privatization methods in Kosovo is promoted in the absence of consensus between the key subjects/actors in the present transition phase: the Government, Trade Unions, and UNMIK.

⁶¹The framework also should include the following elements:

- an effective and simple business registration system;

Sixty percent of Kosovo's population live in rural areas, and agriculture and forestry form important segments of economic activity in Kosovo. For a large part of the population, agricultural production is an important source of household income. But productivity is still low. For most of the rural population, the small amount of agricultural land only generates food for subsistence and not for the market.

The main challenge facing the Government is to enable substantial changes to take place in the rural economy and to develop a legal economic framework and institutions to support growth, generation of income and employment in rural areas, to contribute to reducing the poverty rate.

Focusing attention on increasing productivity in agriculture is necessary but not sufficient. A wider approach is required in the rural sector that balances public investments and private investments in non-agricultural rural activities. This includes the vertical integration of production (production, marketing, processing), the development of small and medium enterprises and the improvement of physical infrastructure. This can be achieved by creating institutions that will enable the development of a dynamic rural economy⁶².

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- an enterprise regulation;
 - an appropriate property rights legal framework, including collateral and bankruptcy legislation;
 - basic business law and contractual rights legal framework supportive of private business formation and operation;
 - a practical legal mechanism for resolving property disputes;
 - a competition law for the privatization of socially- and state-owned property;
 - a law covering concession of state owned real property and natural resources;
 - a law on labour relations and workplace rights and obligations;
 - a foreign investment law which enshrines the basic principles of any sound foreign investment climate: protection of investors' rights, non-discriminatory treatment for foreigners and locals, and access to fair arbitration;
 - a comprehensive accounting legal and regulatory framework that promotes the application of International Accounting Standards for financial and tax accounting purposes.

⁶²To ensure investment and sustainable results in this sector and to overcome the afore-mentioned obstacles to growth the following measures are required:

- development of regulations for the creation of physical and institutional infrastructure in agriculture that will help to increase domestic production in food products and the capacity of producers to export to the Balkan market and other international markets. A legal regime facilitating an open market will encourage investment in areas in which we have a comparative advantage and which have the potential for employment and revenue generation. A review is to be suggested of the current system of customs, taxes and marketing to ensure fair competition in the Kosovar market, especially for milk, fruit and vegetable products; development of an appropriate legal and economic framework supporting agricultural activities. The Government will promote private investment while playing a key regulatory role for

Initiatives and activities that aim at reconciling for the future, through overcoming legacies of the past which impede normalisation and democratic development, must be high priority. In this respect, the role of education, social development and culture is essential for changing mentalities, promoting tolerance, ensuring ethnic religious co-existence and shaping modern democratic societies.

Although the very status of Kosovo from a political perspective remains unresolved, efforts to increase the standard of living, knowledge and opportunities for all Kosovans to lead fuller, more empowered lives should be maintained as part of long-term efforts to bring Kosovo closer to the standards enjoyed elsewhere in the greater European region. Despite recent difficulties, as well as the challenges that still exist, now is the time to look forward, to plan and to work together with all stakeholders to develop a better future for Kosovo and its inhabitants.

Alleviating income poverty presents one of the most important challenges for Kosovo society as it looks towards the future. For many of the poor living near the poverty line, broad-based and labour-intensive economic growth should help to boost income levels and thereby reduce the incidence of poverty. However, economic growth by itself is unlikely to lift the extreme poor out of poverty, and specific anti-poverty intervention will be required. In this context, it will be critical to further improve the targeting of the current social assistance system. In education, poverty alleviation strategies will need to focus on issues such as access to education (i) whether poor families can afford schooling and gender empowerment (ii) promoting the enrolment of certain groups, including girls. In health, the quality of and the access to care needs to be improved, especially in the areas of child and maternal health.

One of the main issues Kosovo must face is how to finance health care services. Currently the sector is reliant on donor funding, which is a major problem for all the social services in Kosovo, not just health. The uncertainty of donor funds makes planning extremely difficult.

A human resources strategy is under preparation that will take into account issues of standards of care as well as the impact on the Kosovo economy and population. More efficiency can be expected as staff are reassigned to match the

the purpose of creating an appropriate environment. Laws will be drafted and approved by the Assembly, especially those concerning: forestry; phyto-sanitary standards; seed quality and diversity; production and trade of agro-chemicals; water use management and soil conservation. The regulatory policy will be elaborated on the basis of international and European standards;

- development of an appropriate legal and economic framework supporting agricultural activities. The Government will promote private investment while playing a key regulatory role for the purpose of creating an appropriate environment.

change in the clinical profile of the system, as primary health care is introduced and hospital services are restructured. Emphasis should be put on assessing the existing level of staff/skills in preparation for the development of the human resources plan before any organizational restructuring is done.

As the emergency situation subsides, responsibility for pharmaceutical management is shifting from humanitarian agencies to UNMIK, and the agencies in question are in turn preparing for a Kosovo-owned system⁶³.

In addition to such measures, human development⁶⁴ depends on participation of the people because participation can raise the quality of democracy through enhancing peoples, liberties and opportunities for a better life.

Participation is not a new concept for Kosovo. In the past, voluntary work

⁶³ Considering that the problems in this sector are multiple and deserve more space than that reserved in this paper the attention has been focalised on some recommendations to implement in the short-medium term:

- prioritize tax collection, doing everything possible to strengthen the overall capacity to raise general revenue, some of which in the short-term will be needed to finance health care, continuing to press for an exception for the income tax exemption of UN employees; begin to monitor the financial flows and impact of the recently introduced co-payment system;
- decide on the main principles of rationing health services and implement them as soon as possible;
- develop integrated health care restructuring plans, with participation and commitment of donors, health care providers, and communities, to begin to introduce key changes to remove existing inefficiencies and waste. Use purchase of equipment and refurbishments, particularly at hospitals, to leverage some of these changes;
- initiate and sustain training in family medicine;
- create a Registration and Licensing Body for Medical Graduates with the aim of retraining (as necessary) and integrating the parallel medical graduates;
- design future financing system (i.e., considering such issues as whether to proceed with a health insurance fund, how to pay providers, which services to offer, and governance structures), and begin implementation (to be supported by Bank financed project);
- upgrade a rationalized network of health centres and dispensaries to provide modern primary health care/family medicine;
- gain commitment of health care providers and the population for the reform of the health care system through strong communication programs.

⁶⁴ Sustainable levels of human development cannot be achieved without further action taken to improve the security situation in Kosovo. These actions include:

- a speeding up in the shift of responsibility for enforcement of law;
- increased police effectiveness through training;
- nurturing of a culture that denounces crime and respects the work of police;
- ongoing efforts to curb corruption at all levels;
- ongoing regional cooperation to address organised crime.

and civic participation were commonplace and it is important that such practices are not forgotten. It is essential to ascertain what Kosovans today understand by, and expect of, participation⁶⁵ and representation. Some things are changing in Kosovo at the present time and there is greater participation in the democracy process. However, the success of the process of democratization and development will depend on the extent to which people feel ownership of their governing institutions and the degree to which they feel they can influence decision-making within those institutions. The ongoing processes of institution formation, privatization, and the creation of a legal framework, are crucially dependent on the support of the general public in Kosovo. However, due to the poor level of information sharing and communication between government structures and society, there are many shortcomings in citizen participation in relation to these processes.

From the international communities' perspective, the massive investments made in Kosovo over recent years will be judged, to a considerable extent, on the quality of the democratic culture left behind. Their efforts must be capitalized upon. Furthermore, Kosovo must take greater advantage of its own resources; in particular, its people. Participation is the key to exploiting the potential of a young, dynamic population eager to learn and look to the future. It is time to rethink the role of participation in development and the benefits of this, bearing in mind that Kosovo will experience many challenges such as:

- the further downsizing of the United Nations Interim Administration in Kosovo;

⁶⁵ At the moment, public participation does not extend much beyond voting and even then, the turnout for the 2002 Municipal elections, for example, was poor (insert note Kosovo elections 2004). It is believed that people are not sufficiently included in the decision making process. That government policies are drafted with insufficient public debate or dialogue. Even at the municipal level in relation to service provision, there is relatively little involvement of local people or civil society in decision-making processes. There may be several reasons why this is so. Kosovo institutions are still in their development-stage and have yet to develop fully. Civil society organizations, though abundant, are not sufficiently engaged in terms of advocacy and their influence in decision-making is thus very limited. Kosovo's governance inheritance from Yugoslav days is also a heavily centralized, top-down representation. The process in relation to the transfer of powers and competencies from internationals to nationals has also led to some confusion as to who exactly is responsible for what. This in turn has created a sense of powerlessness among people who feel that they are without the ability to influence major decisions. It is hardly surprising then that there is room for improvement in terms of establishing "trust" and a greater sense of accountability between elector and elected in Kosovo. The absence of participation inevitably leads to a lack of legitimacy and trust with wider implications for society at large. The highly politicized environment in Kosovo undoubtedly has a negative effect on the level of participation.

- the consolidation of an accelerated transfer of competencies and responsibilities to Kosovo institutions;
- the fact that the process of decentralization will begin to take shape or even be finalized;
- the holding of the second Assembly elections⁶⁶.

It is essential that Kosovo institutions be prepared for these challenges: the best way to ensure that institutions function well is to promote civic/public access thereby promoting accountability, legitimacy and ensuring the sustainability of the democratic process.

The perspectives for social development depend on trend unemployment rate and its structure. As the unemployment rate in Kosovo is mainly a consequence of the inherited level of economic development, a key issue is to build a sound macroeconomic policy to provide a framework and conditions for operation on a national Labour Market, to preserve existing jobs and especially create new ones. Labour market policies cannot be developed successfully if they ignore the employment/unemployment situation. A job creation policy – i.e. increasing the possibilities of Kosovars to find productive work – should be targeted by the strategy of economic and social development, the lack of which is a serious obstacle to building a more logical correlation between economic policy, employment policy and social policy, which should lead to a more employment friendly climate and sustainable employment increasing trends. Labour market policies should expand the opportunities for individuals to be employed and increase the labour demand⁶⁷.

⁶⁶ Assembly Elections were held on 23 October 2004.

⁶⁷ The integration and coordination of the activities of different actors and policy measures is the main issue to be discussed and developed. Some of the issues inside respective policy areas that should be adjusted towards employment policy and labour market needs are indicated briefly:

- Tax policy. This should become more friendly for investors and job creation; imports of capital goods and agricultural inputs should enjoy tax incentives; although this might create some difficulties in tax administration, the current level of unemployment should prevail in favour of this recommendation. The tax policy also should discourage an informal labour market. Instead of increasing current taxes on wages at this stage, it would probably be more preferable to increase the level of tax collection. Taxes on wages are only paid for around 80,000 employees;
- Credit policy. The current credit market is not yet suitable for investments in job creation. Credits are short-term (mainly one year), with high interest rates (12-14% annually). Long-term savings are not stimulated by banks (very low interest rates), which creates difficulties for banks in providing long-term lending;
- Trade relations and export opportunities. Kosovo importers and exporters are still facing different obstacles, asymmetric trade relations, and a lack of reciprocity (trade regimes and custom duties are not applied to neighbouring countries);

The key target is job creation, which is more related to other policies and the macroeconomic framework. In this specific situation and with the existing budget constraints, labour market institutions and policies should stimulate the mobility of the labour force, modern education, and a lower tax burden on wages.

Some labour policies must respond to conditions created by the labour market and are focused to provide benefits for unemployed people. The introduction of unemployment benefits must be integrated with active labour market policies and carefully weighted and designed, bearing in mind budget limitations and the adverse effects of increasing taxes on wages, for contributions for unemployed people are likely to increase significantly, i.e. many female workers might decide to enter/re-enter the labour force.

Unemployed people should be encouraged to register at Employment Offices since this is the only way to find out the real structure of the unemployed. This is important in terms of addressing them with appropriate policies such as training programmes for qualification and re-qualification and for providing schemes for financial assistance and employment generation. Employers are to be encouraged to report their vacancies to Employment Offices. They should see that it is in their interests to report the vacancies in terms of finding the appropriate employees for these vacancies. This could be improved through better cooperation between Employment Offices⁶⁸ and business associations – the latter can accurately identify the employers' needs for workers.

Measures for reducing the informal labour market should be handled as part of the overall efforts in improving governance and increasing transparency of the informal economy. The tax policy should be weighted to discourage an informal market. The enforcement of labour market instruments such as a minimum established wage and severance payments should also take into account the labour market specifics in Kosovo, labour costs, the impact on job creation and

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- A foreign direct investment (FDI) friendly environment is still absent. There is no adequate promotional strategy associated with coordinated activities. Because of policy inadequacies, primarily in the three above-mentioned areas, as well as security considerations, the attractiveness of Kosovo for FDI is not yet at the necessary level;
 - SME development, agricultural development and family business are expected to be generators of new jobs. Overall and sector strategies and policies should be built upon this fact.

⁶⁸ Employment Offices should act as real and meaningful intermediaries between the unemployed and employers. Though most of the officials serving in Employment Offices have undergone some kind of training, additional training is necessary to allow them to offer better training to unemployed people. Employment Offices lack necessary staff, who need to be hired and trained.

the reducing of the informal labour market. Current Labour Law should be sounded to see it is able to provide minimal protection against unlawful dismissal but also provide enough flexibility and mobility for employers and new employment. Other labour market policies are aimed at improving offers of work and creating conditions for the necessary adjustments between workers and the labour market. In this area the main issues for consideration are: (1) improving the education system (2) better organisation of training and (3) policy support for self-employment.

The education system should provide opportunities for new inflows into the labour force, equipped with the modern knowledge and skills required by new technologies. Given the limited absorptive capacities of labour demand in the Kosovo labour market, the education system should also provide possibilities for competitiveness and employment in the EU zone. Attention must be paid to ensure that during the process of designing training programmes for the unemployed, the needs of the labour market/employers are considered. Indeed, skills required by employers have to underpin the training programmes.

Any training programme has to target youth and female unemployment, since these two groups are the hardest hit, and it also has to target the long-term unemployed. Many unemployed have not worked since the massive lay-off of 1989-1991. The human capital of these workers is now almost unusable and until they go through an adequate re-training programme, it is very unlikely they will find jobs. The education system and training network should stimulate life long learning in accordance with technical changes and labour market needs.

Self-employment measures need to be designed as an integral part of private sector development policies, bearing in mind the limited possibilities of support from budget funds. It is necessary to create specific schemes for cooperation with donors and credit lines that would support job creation.

Approximately 70 percent of secondary school students are estimated to be enrolled in specialized technical and vocational programmes throughout Kosovo, including courses which award specialized qualifications for waiters, cooks, shop assistant, nurses and tailors. However, due to the constraints of the “parallel” system and the recent destruction of facilities and equipment and loss of books and materials, many specialized schools will undoubtedly succeed in organizing only general core subjects and theory-based courses in the coming school year. When operating normally, specialized technical and vocational programmes are often expensive to operate – due to low student/teacher ratios and equipment needs and externally inefficient – qualified students are trained in narrow, occupational specializations for which there is currently, debateable labour market demand.

As it is at present designed, the secondary system in Kosovo is out of alignment with the emerging market economy’s need for broad-based skills,

labour flexibility and permanent education. It is crucially important for donors not to rush into the re-establishment of the present secondary system until local authorities have developed a strategy for secondary reform. Focus should then be put on the medium term objective of developing new broad-based programmes and on an extensive re-training programme for the existing secondary teaching force⁶⁹. A reform of secondary technical/vocational education will also necessitate commensurate reforms in the field of adult training and two-year higher education technical/professional programmes. The goals are to develop a network of training suppliers (public university, private-for-profit, semi-public, NGOs, etc.), to bring social and private sector partners into governance of adult training, to complement government funding with cost recovery, and to facilitate the availability of labour market information. In this context, there is an urgent need to provide remedial training for the specific skills needed to ensure an effective operation of public sector resources and utilities.

Unlike integrated universities in Western Europe and North America, the University of Pristina operates as a loose association of faculties each with a legally autonomous status and management structure. This dispersal of authority in what should be a single institution has led to a redundancy of programmes, personnel, and facilities across faculties which diverts resources from improving the quality of teaching and learning.

The weakness of the university chancellorship also hinders establishing effective programmes priorities in the face of a changing economic and social environment and allows autonomous faculties to resist systemic reforms aimed at

⁶⁹ Most teachers in Kosovo have been isolated from professional innovation and professional skills upgrading over the past nine years. A further constraint in the system is that pre-services teacher training faculties and academies in Kosovo and the former Yugoslavia did not traditionally emphasize child-centred or inter-active teaching methodologies, nor the need to use learning evaluation techniques to improve their effectiveness. There is, therefore, complete agreement among education authorities in Kosovo that top priority should be given to upgrading the teaching skills of nearly all the estimated 22,000 primary and secondary school teachers currently serving the system. Local authorities and donors should balance support between the need to re-define pre-service teacher training Local authorities and donors should balance support between the need to re-define pre-service teacher training curriculum and re-structure delivery mechanisms for in-service training – reform initiatives which should start soon – with the need to provide at least some remedial training to existing teachers with a degree of urgency over the next year or two. Donors and NGOs should play a major role in helping to organize both medium-term teacher training reform and offering urgent skills training to teachers in the short-term. A number of interesting and successful pilot or experimental schools projects are ongoing throughout the region (particularly in Albania, Bosnia and Herzegovina, and FYR Macedonia), and these interventions could offer a starting point for authorities in Kosovo to learn about innovation and opportunities.

investing efficiency gains in improving the quality of programmes. As the university is re-established and new legislation is drafted over the coming months/years, authorities in Kosovo should not miss the opportunity to make their university compatible with European standards in university governance and management. Along with new legislation, there is a need for strategies aimed at developing academic and institutional accreditation within Europe in the medium-term.

For student funding formulas for various programmes should also be developed for higher education as a way to instil transparency of funding and provide incentives for increased efficiency. The potential for a gradual institution of fee charges for various high demand programmes should also be closely examined as a way to focus more resources on qualitative improvement, in combination with the development of student loan schemes and fellowships targeted on need. Cost recovery should be re-instituted as soon as possible in terms of requiring increased student contributions to previously subsidized dormitories, food and transport costs.

Because governance and finance issues in higher education are fundamentally important to ensuring the long term pay-off of investments, major investment in the university should be aimed at supporting governance and finance reforms prior to, or at least concurrent with, committing direct investments to improving the quality of programmes in individual faculties. The key will be not to allow direct investments in single faculties to re-enforce the inefficiency and redundancy of the current governance structures. Apart from support for university refurbishing, specific higher education programmes, which respond to particular development needs or skills shortages – such as the development of programmes – should be a priority in terms of programme development support.

In this sector particular attention should be addressed to the professional training of Public Administration officials (to which aim co-operation in terms of a qualified contribution could be made by the “Scuola Superiore della Pubblica Amministrazione” of the Prime Minister’s Office of the Italian Government) in support of the process of democratic reconstruction in Kosovo.

The dangers originating from religious and cultural intolerance, from terrorism and internal conflicts in terms of ethnicity and identity; by the lack of protection of human rights; by organized crime and illegal trafficking; by non regulated consistent migration, can certainly be mitigated by training courses and educational campaigns in favour of multi-ethnicity, respect of diversity, peace and solidarity, on a general scale, but above all in terms of training high profile professional figures operating in the sectors of decentralised co-operation and institution and capacity building. In many cases, it would seem, on the contrary, that planning capacity is still insufficient on the part of officials and

executives who should be able to evaluate and guide planning and should have a specific geographical knowledge of contexts in which the projects are implemented. Regional and local authorities personnel need to be trained in terms of multi-dimensional professional capacities and expertise. Another key component of human development and democratic systems, closely related to the issue of security, involves human rights, rights of minorities and gender equality. Respect for and the protection of basic human and minority rights are important issues influencing long-term development in Kosovo. In order to advance democracy further, Kosovo society needs to be committed to the principles of human rights by respecting minority communities, in particular promoting full integration of ethnic minorities in all aspects of society; defence of diversity of all ethnic groups; encouragement and creation of conditions for the return of those who have left Kosovo; unprompted condemnation by holders of public office of obstruction of justice and violence; active advocacy by political and community leaders for returns and reintegration policies approved and implemented by the PISG to promote freedom of movement publicly; holders of public office to refrain from extremist statements in public; sustained efforts by the PISG to promote values of rule-of-law; active endorsement by public office holders of greater minority participation in the KPS.

In order to lessen levels of discrimination against women and create an environment that provides equal opportunities for development for both men and women, several measures should be taken in co-operation with both the international community and Kosovo society. These include: education campaigns to promote the concept of gender equality and raise awareness of latent and overt forms of discrimination against women; training designed to mainstream gender equality principles into institutional capacity building; gender review of all major policy and planning documents; additional affirmative action programmes, such as ongoing recruitment of women into the local police force and a minimum 33% quota for women representation in local and parliamentary election; introduction of policies designed to increase the involvement of women in all fields and levels of educational, technological, and cultural endeavour; professional training for women to assume positions of leadership and management. At the same time, however, the power of mass media to positively influence Kosovo is tapped. Mass media should be used more actively to promote a democratic culture of multi-ethnic tolerance essential for human development in Kosovo. Despite achievements attained, much still remains to be done to develop a more democratic society in Kosovo, especially in the area of continuing and strengthening democratic processes already begun. At the same time, as part of forward-looking efforts to create a better future for Kosovo, diverse areas still require the attention of policy-makers and other stakeholders.

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Within the framework of co-operation established between AFSOUTH and DiSAT (OPSAT) and in consideration of the significant commitment of the NATO in the Balkans, the Kosovo FORCE (Headquarters KFOR), in June 2003 invited the University of Salerno Advanced Research Team (USART) to visit Kosovo for the purpose of carrying out interdisciplinary studies and researches concerning the complex problematical social, economic and security issues of the Region.

The experience gained and the planning skills acquired have consented the drawing up of an analysis, preliminary to the elaboration of a feasibility study, aimed at consolidating the process of peace and of development.

The main purpose of this analysis is to provide a comprehensive picture of the Kosovo Region. The access to a wide spectrum of sources consented attention being directed towards many different factors: historical development, macroeconomic indicators, human development, institution building, peace and security enforcement, human rights and minorities situation and inter-ethnic relationships.

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