

**United States Agency for International  
Development**

**Strategy for Kosovo  
2001-2003**

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## Acronyms Used in This Document

BPK	Banking and Payment Authority of Kosovo
CFA	Central Fiscal Authority
CIC	Community Improvement Council
CISP	Community Infrastructure and Services Program
CRS	Catholic Relief Services
DART	Disaster Assistance Response Team
DCOF	Displaced Children and Orphans Fund
DEG	German Development Agency
DFID	Department for International Development
DOW	Doctors of the World
ECHO	European Commission Humanitarian Organization
FRY	Federal Republic of Yugoslavia
GTZ	German Development Agency
HCIC	The Humanitarian Community Information Center
IAC	Interim Administration Council
IFES	International Foundation for Election Systems
IMF	International Monetary Fund
IR	Intermediate Result
IRC	International Rescue Committee
JIAS	Joint Interim Administration
JRT	Joint Registration Taskforce
KAP	Kosovo Assistance Program
KCSF	Kosovar Civil Society Foundation
KFOR	Kosovo Force
KFOS	Kosovo Foundation for an Open Society
KFW	German Development Agency
KLA	Kosovo Liberation Army
KTC	Kosovo Transition Council
KTI	Kosovo Transition Initiative
KWECC	Kosovo War and Ethnic Crimes Court
NDI	National Democratic Institute
NGO	Non Governmental Organization
OB/GYN	Obstetric/Gynecologic
OFDA	Office of Foreign Disaster Assistance
OSCE	Organization for Security and Cooperation in Europe
OSI	Soros Foundation's Open Society Institute
OTI	Office of Transition Initiatives
PVO	Private Voluntary Organization
ROL	Rule of Law
RTK	Radio Television Kosovo
SCF	Save the Children Fund
SEED	Support for Eastern European Democracy Act
SO	Strategic Objective
SRSG	Special Representative of the Secretary General
UNFPA	United Nations Fund for Population Activities
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNMIK	United Nations Mission in Kosovo

UNOCHA	United Nations Organization for Coordination in Humanitarian Assistance
UNOPS	United Nations Office for Project Services
UNSCR	United Nations Security Council Resolution
USAID	United States Agency for International Development
USOP	United States Office in Pristina
UXO	Unexploded Ordnance
WHO	World Health Organization

# **I. OVERVIEW**

## **A. Background**

Kosovo's response to the humanitarian catastrophe of 1999 has been remarkable. Less than a year after cessation of hostilities in the NATO conflict with the Federal Republic of Yugoslavia (FRY), the staggering challenge of reintegrating some 1.3 million refugees and internally displaced persons, and assuring their survival through the winter, has largely been met. USAID's humanitarian response, in feeding, housing and supporting refugees prior to and during the conflict, and in supporting their return with essential food, shelter winterization assistance, water and sanitation, health and agricultural assistance was critical to saving lives and reducing suffering. While major problems remain to recover incomes and living standards, Kosovars are moving beyond emergency recovery to achieving normalcy and overcoming the prior decade of exclusion from political and economic opportunity. The USAID assistance program is moving beyond crisis response to recovery, building economic and political systems that afford choices, opportunity, and responsibility.

The United States has compelling national interests in the political and economic stability of Kosovo and the region, and establishing a secure, democratic governing framework in which human rights are respected and ethnic conflict is contained, if not overcome. After a decade of military and civilian involvement seeking peace in the region, the U.S., NATO, the United Nations and the European community all have an enormous stake in building a peaceful Kosovo. Under current authoritarian political conditions in Serbia, and given continuing ethnic hatreds and desires for vengeance, the province currently remains a potential flash-point which, without the continued presence of NATO's Kosovo Implementation Force (KFOR), could erupt in renewed hostilities. Rebuilding economic, political and social structures which increase Kosovar citizens' control of their lives is one element which can increase their sense of security and help them over time to let go of past wrongs and focus on building their futures.

NATO intervention in March-June 1999 and U.N. Security Council Resolution (UNSCR) 1244 calling for "substantial autonomy and meaningful self-administration for Kosovo" brought a decade of suppression in Kosovo to an end.<sup>1</sup> The Serbs consider Kosovo to be their spiritual homeland, and control of the region has shifted over many centuries. In 1989, Serbian President Slobodan Milosevic stripped Kosovo of its autonomous status, dismantled its political structures, replaced ethnic Albanians with Serbs in most jobs, enabled Serb-owned firms to take over Albanian-owned companies, and forbade Albanians from purchasing or improving property. Education, health and other services became difficult to access; parallel, unofficial Albanian structures were set up to provide public services, financed by remittances from the diaspora and "taxes" levied locally. The region's economic crisis associated with conflicts in Bosnia and Croatia contributed to economic collapse. Thus even before the 1999 conflict, Kosovo was the poorest area of the FRY, much of its economy was underground, it was heavily dependent on Serbia for trade, and

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<sup>1</sup> Kosovo is a province of Serbia. The Republics of Serbia and Montenegro constitute the Federal Republic of Yugoslavia (FRY). U.N. Security Council Resolution 1244 calls for "substantial autonomy and meaningful self-administration for Kosovo" within the FRY.

unemployment was high. Many citizens had fled for greater opportunity or safety to Western Europe or elsewhere, creating a diaspora which remains financially important to events in Kosovo today.

## **B. Economic Profile**

The 1999 conflict took a heavy toll, with direct war and inter-ethnic damage compounding the prior decade of lack of maintenance of most systems. The conflict most severely affected housing, agriculture and telecommunications. About 31 percent of housing units were damaged or destroyed. Agricultural production and agro-processing, which contributed significantly to pre-conflict GDP and employment, suffered more than 50 percent loss of livestock and other assets, and at least two cropping seasons were lost. Key parts of the telecommunications system were destroyed. While reliable statistical information is limited, donor estimates are that per capita income has plummeted since 1989, from perhaps \$1,000 to \$400. Total population is estimated at about 1.8 million, largely ethnic Albanian with only 75,000-100,000 Serbs remaining (compared to 200,000 pre-conflict). Small enclaves of other ethnic minorities include Roma, Turks and Bosniaks.

Unemployment has been estimated at between 50 and 75 percent, but much underground economic activity is not captured in statistics. Industrial production is at a standstill and the potential industrial base is limited. Trade links with Serbia are largely cut off. Kosovo's population is young, with half estimated at under 20 years; and educated, with 75 percent literacy – but officially recognized university degrees have been unobtainable for most since 1989. With the departure of most Serbs from leadership positions in political and economic institutions, there is a need to create governmental and economic structures nearly from scratch, and to create a revenue base.

## **C. Political Profile**

Under UNSCR 1244, the United Nations Interim Administration Mission in Kosovo (UNMIK) has established a provisional administrative structure tasked with developing democratic self-governing institutions to return Kosovo quickly to economic, social and political stability. KFOR provides military security in the province. UNMIK operates through four “pillars” overseen by international organizations: I – humanitarian affairs (oversight - UNHCR); II – interim civil administration (UN Civil Affairs); III – institution building and democratization (OSCE); IV – reconstruction (European Union). Headed by a Special Representative of the Secretary General, (SRSG) Bernard Kouchner, UNMIK has broad powers to administer the province, to establish laws and regulations, create institutions, call elections and ensure public security.

During the initial post-conflict months, while UNMIK was establishing itself, the Kosovo Liberation Army (KLA) and other ethnic Albanian leaders moved into the vacuum to appoint mayors and establish a degree of local administration. Kosovar political and civic leaders—both Albanian and Serb—have said they are prepared to work with the international community to build a democratic Kosovo. To avoid a

dual and conflicting set of governing authorities and to ensure that Kosovars are brought in to decision-making at the earliest possible time, many of these Kosovar elements have been brought into joint participation with UNMIK bodies, and each UNMIK operational unit has a Kosovar co-head. An Interim Administrative Council (IAC), expanded Kosovo Transition Council (KTC), and an executive Joint Interim Administrative Structure (JIAS) were established December 15, 1999, bringing in leaders of the major Kosovar parties as full participants. It appears that these are the nascent structures of government which UNMIK will leave behind. The KTC is evolving into a parliament, and is already reviewing draft laws and regulations to be issued by UNMIK. Under the JIAS, Administrative Departments equivalent to Ministries have been established, with international and Kosovar co-heads, to carry out basic governmental functions. The JIAS is becoming an executive branch body, answerable to the KTC, and is expected to become fully “Kosovarized” over time. The KTC has the right of interpellation—to summon and question—the JIAS. Leaders of minority communities, including the Serbs, did not join all these units in December, but minority representatives are included in the KTC and Serb participation in some meetings began in early April. Analogous bodies are being established, and many are now functioning, at the municipal level.

Kosovo’s political situation remains highly fluid. Virtually all Albanian Kosovar political groups advocate full independence, whereas the U.N. mandate does not provide for this. How Serbs and other minorities might eventually be safely and effectively accommodated in the political system is as yet undetermined. Two major and numerous smaller parties have formed and will compete in municipal elections scheduled for fall 2000. A pilot registration process began in April. The parties have not yet articulated platforms that differentiate them, nor are the municipal council functions and authorities as yet defined by UNMIK. Nevertheless, there is a widespread view that early elections are imperative for several reasons: 1) to begin the process of restoring governance to Kosovars; 2) to assure their views and priorities are addressed at local levels, so that there will be local commitment and buy-in to the structures UNMIK is establishing; and 3) so that Kosovar citizens can begin to hold their own representatives accountable for local issues rather than looking to the international community, with the possible dependency that could create. Provincial-level parliamentary elections are expected in spring 2001.

#### **D. Constraints and Positive Factors Affecting Development**

Some factors unique to Kosovo present themselves as both constraints and opportunities.

- 1.** 1989-99 was a **decade of exclusion** for Albanian Kosovars from economic and political participation and even from basic governmental services. As Serbs fled after the conflict, little or no leadership or management capacity was left in most public bodies. This means that virtually all governmental structures have to be created from the ground up, a daunting task. The legal, regulatory and institutional structures supportive of a market economy and of democratic participation are generally absent. Citizens have not had full access to health, education and other public services and the Serbian managers of public service agencies have fled. Kosovars lack administrative experience, and often technical skills are 10 years out of date. Business opportunities

have been limited. Professionals may be well trained in old technology and may lack officially recognized credentials. For example, few lawyers have sat for the bar exam in the past decade. Absorptive capacity of Kosovar institutions is limited.

While this now requires a massive effort by UNMIK and the international community, it also means that there is little of the Communist structure left which must be dismantled. Kosovars are highly motivated, and learning quickly. The parallel public service structures provide a base from which to build, and since public subsidies were not available, issues of cost recovery should be less daunting than in many countries as new public sector entities begin operation.

**2. Kosovo's current legal status.** As a U.N. protectorate, UNMIK is developing laws and structures by decree for Kosovo that may not have full buy-in by Kosovars and might not fully stand the test of time when Kosovo's relationship within the FRY is decided and UNMIK's role ends. To minimize this risk, UNMIK is seeking to "Kosovarize" its administrative functions, and to hold elections as soon as possible. Rights established during FRY administration, for example, ownership of state- or socially-owned property, and often conflicting private property claims arising from that period, complicate efforts to privatize and put such property to productive use. Similarly, while Kosovo is under U.N. mandate, its ability to engage in normal trade and investment relations with its neighbors is potentially complicated by FRY rights. The extreme uncertainty of Kosovo's eventual status with regard to the FRY discourages investors and makes it difficult for individuals to make long term plans. Although the future status of Kosovo remains undefined, USAID seeks to create a self-standing and sustainable system of governance and viable economy, which can endure regardless of the ultimate legal outcome.

**3. Security.** The rule of law must be established quickly for normal life to resume. A professionalized Kosovo Police Service must be trained and operating in a manner widely perceived to be fair, and a judicial system which is ethnically blind must be effectively and fairly functioning for Kosovars to engage in economic and political life. New investment also depends on confidence that basic security can be assured.

**4. The Diaspora.** Some 500,000 Kosovars who migrated over past decades for greater economic opportunities and security in Europe or elsewhere represent a pool of individuals who have inculcated Western values of democracy, acquired modern technical skills, have an understanding of consumer needs, and may influence Kosovo's future direction, and finance needed investment. Their remittances are believed to approach half a billion dollars annually, much of which is now assisting in reconstruction. Some European countries are now pressing the more recent refugees and emigres to return to Kosovo, which has the potential of affecting remittance levels.

**5. Deteriorated physical infrastructure.** The decade of Serbian domination also meant little or no maintenance or improvement to much of the physical infrastructure. This, along with environmental degradation due to poor practices, war damage and ethnically-based property destruction requires major investment. Inadequate major infrastructure such as utilities will constrain the ability of the economy to expand. The European Union is leading this effort and USAID will concentrate on institutional reform rather than physical reconstruction. As a positive, Kosovars, having had to



deal with their own problems for so long, are not waiting for donor assistance but are investing their own—and Diaspora—resources in immediate repairs to housing, shops, trade and small businesses.

**6. Lack of a democratic culture and an environment of ethnic hatred.** While Kosovars have learned to make do for themselves, they do not have positive expectations from government, a tradition of public participation or tolerance of minority groups. Public activism has generally been to oppose the oppressive Serbian regime, and there is little experience in positive advocacy. Virtually all Albanian Kosovars are intent on eventual independence. Ethnic enmity makes the hope of a tolerant, multi-ethnic society a distant goal.

**7. Lack of a market-economy culture.** While Kosovars have been very entrepreneurial in maintaining trade and other small businesses during the decade in which many large enterprises were taken over by Serbian ownership or management, there is relatively little understanding of modern business practice in a free market environment.

**8. Ethnic homogeneity.** The forced departure of most Serbs and other minorities after the conflict means a largely homogeneous population, with minorities located in certain enclaves. This may simplify return to normalcy in most communities which are not forced to deal with multi-ethnic populations, but the long term objective of reaching multi-ethnic tolerance is not being addressed in daily life.

## **E. Assumptions**

**1. Resource levels will be constrained.** While the needs are great, the international community is fully engaged. Congressional and Administration interest in burden sharing will ensure that the U.S. does not provide more than about 15 to 20 percent of total assistance. Major infrastructure and housing repair will be undertaken by European donors and others, rather than the U.S. However, it is also assumed that any ceiling which may be imposed will not be written in a way which unduly constrains our ability to be responsive to changes on the ground or would remove our quick response capability, for example, by requiring proportional rates of implementation or disbursement by other donors. Levels at least approximately at the FY 2000 level of \$56 million will be realistic for USAID-managed programs during the strategy period.

**2. Other donors will fulfill their pledges in a timely manner.**

**3. UNMIK will continue its efforts to establish a governance structure that does not impede program implementation.** USAID and its implementers are able to work effectively within the existing structures and our assistance continues to improve the capacity of UNMIK bodies.

**4. While remittances are expected to decline due to the repatriation of expatriated Kosovar Albanians,** economic recovery effort will more than compensate.

**5. UNMIK and KFOR presence will continue,** providing a reasonably secure and stable operating environment, and sufficient progress will be made to maintain hope in the future of Kosovo.

**6. While ethnic tensions are likely to continue,** ethnic violence does not make impossible the achievement of program objectives. Ambitions of “greater Albania” do not challenge existing borders or provoke military conflict. Issues between Montenegro and Serbia do not provoke refugee flows or otherwise undermine stability in Kosovo.

**7. As agricultural outputs revive, humanitarian assistance in food aid will decline.**

**8. Adequate USAID staff will be provided.**

#### **F. Other Donor Support and Burden-Sharing**

In July 1999 international donors and organizations pledged \$2 billion for humanitarian relief and the initial reconstruction of Kosovo. The U.S. pledged up to \$500 million of funds already appropriated by Congress in the FY 99 supplemental appropriation. Most funds were for immediate humanitarian support for refugees and repatriation assistance. A second donors’ conference on November 17, 1999 resulted in pledges of another \$1.058 billion, with the U.S. share at 14.8 percent. Congress has directed that U.S. pledges not exceed 15 percent. Additional other donor pledges since November brought the U.S. share down to 13.9 percent by March 2000. Major donors include the European Union, European bilateral donors, and Japan. The World Bank has limited direct assistance but has been active in supporting donor conferences and participating in needs assessments. The IMF has been limited in its ability to provide assistance as Kosovo is not a member state, but it has provided technical assistance and advice to Pillar IV.

The U.N. was initially slow to establish administrative structures and continues to require cumbersome bureaucratic processes for vetting and issuing regulations, laws and administrative procedures. Important decrees must be cleared through U.N. New York before being issued by UNMIK. Initial disbursements by some donors lagged behind UNMIK cash requirements such as its budget for civil service salaries, and security costs to establish the Kosovo Police Service and the Kosovo Protection Corps. Deployment of police by member states to the U.N. International Police Force has lagged behind the pledged schedule. UNMIK faced a severe fiscal crisis for the costs of governance in January and February, which was alleviated in March by payments against prior pledges by the U.S., United Kingdom, France, European Union and Japan. The U.S. has placed considerable diplomatic effort on urging timely disbursement of pledges and performance is improving.

For UNMIK to reduce its dependence on international donations for the costs of governance and public security, an internal revenue capacity must be developed in tandem with building administrative and institutional capacity. Under Pillar IV, the creation in November 1999 of the Central Fiscal Authority (CFA) was a major accomplishment in laying the foundation for economic governance. The CFA is

responsible for the overall management of public finances, including budget preparation, treasury functions, revenue analysis, tax collection and customs administration. Initial tax sources have been established through customs, sales, and excise taxes; and planned taxes include hotel, food, and beverage taxes, and payroll, profit, and presumptive taxes. USAID has been instrumental in the effective creation and functioning of the CFA but much work remains to achieve a fully effective revenue function. Realistically, international support for some years to come is likely to be required.

## **G. Conflict Resolution and Program Vulnerabilities**

Less than a year after the cessation of hostilities between NATO and the FRY over Serbia's treatment of Kosovo, the physical and psychological wounds remain fresh. Virtually all the population was affected by major human rights abuses, mass murders and forced ethnic cleansing by Serbs of over one million Albanian Kosovars prior to and during the conflict, followed by retaliatory murders, human rights abuses and expulsion of half the Serbian population from their homes afterwards. Thousands of families have lost their male income earners and suffered mass property destruction, creating severe hardship for women and children. The status of the missing remains a raw issue. Estimates range around 6,000-7,000, with widespread popular belief that most are in Serbian prisons, although the ICRC has only been able to confirm about 1,200. Minorities, including Roma, Bosniaks, and Turks as well as Serbs, continue to live at risk of physical harm or possible expulsion, despite KFOR's best efforts at protection. While the goal of the international community and the U.S. Government continues to be the creation of a peaceful multi-ethnic society, most Albanian Kosovars aspire to independence and see no way that Albanians and Serbs can live together, particularly given the earlier history of Albanians' second class status under the Serb regime. Non-violent coexistence rather than reconciliation may be a more realistic intermediate goal.

Minority groups are located in a few separate enclaves, so the issue of daily contact and the need or indeed opportunity to work out local issues does not arise in most Kosovar communities. (Mitrovica is a notable exception where Albanian and Serbian communities occupy different sections and frequent physical confrontation occurs.) Yet, Kosovars still fear that history would repeat itself if the international forces were to depart, and their basic insecurity makes it difficult to think beyond the current situation to accepting the concept of the reintegration of minorities.

USAID programs seek to address the needs of the entire population of Kosovo including those of ethnic minorities. USAID-supported assistance for the registration of persons specifically incorporates all ethnic groups in Kosovo. Separate registration sites for minorities have been established so that they can feel secure when registering. The USAID-supported voter education campaign will work to reach out to targeted ethnic minorities in order to ensure that necessary information pertaining to the elections is disseminated appropriately. Other targeted assistance programs to minority groups include the establishment of a radio station in one of the Serb enclaves and legal education training of Serb judges and lawyers.

The entire international military and civilian effort is aimed at bringing stability and security to Kosovo, for minorities as well as for Albanian Kosovars. The UNMIK administrative structures seek to incorporate Kosovar participation from all communities, although to date Serbian participation is quite limited. Election plans include provision for minority registration and voting – a matter of concern to many Albanian Kosovars who believe Serbians will vote disproportionately through false identification provided by the Milosevic regime.

USAID's program is heavily focused on establishing economic and democratic governance capabilities; institution building, creation of basic laws and structures, and restoring a sense of normalcy. The rule of law effort seeks to create a fair and effective judicial capacity to address crime, including ethnic crime. USAID also seeks to create avenues for civic participation, promotes community-building and works directly on restarting economic activity and creating jobs. Implementation of such activities is not directly threatened by ethnic enmity, but to the extent that they do not reflect the views and interests of the whole community, their long-term sustainability may be questionable. If international and USAID assistance programs succeed in creating an improved sense of long term physical security, a reinvigorated economy with growing opportunity for jobs and incomes, and a predictable and fair judicial process, this should enable Kosovars to begin to think more of building their futures than dwelling on the past. Support for more open participation in public debate through civil society institutions, and improved, objective information flow through media development can lead to more openness and understanding between groups. It is clear that the issue of ethnic conflict will be with Kosovo for many generations, and that all assistance programs have to be sensitive to its impact.

## **H. Corruption**

Since governmental structures are just being put into place, and are controlled by the international community through UNMIK, the need regarding public sector corruption is more preventive than remedial. The development of transparent and accountable laws as well as systems and institutions to carry out economic and judicial functions is a critical means of addressing this. Equally important is ensuring that new laws, court rulings and procedural documents are distributed and understood by judges, defense and prosecuting attorneys, and other legal professionals from all ethnic communities. For example, establishing international best practices in the procurement regime, transparent budget processes, implementing a transparent and competitive privatization program, and implementing an EU-consistent business regulatory regime will reduce the opportunity for discretionary and corrupt behavior by public officials. Creation of an effective rule of law and independent judiciary will instill confidence that corrupt behavior will be checked. Strengthened independent media serving as watch dogs, and better access by grassroots organizations also serve as a check. The greater these institutional checks and balances during UNMIK's tenure, the less likely that successor Kosovar institutions will have broad-scale opportunities for corruption.

UNMIK's administrative structures are complex and its highly technical regulatory, institutional and policy work is not readily understood by most Kosovars. UNMIK is aware of the need for comprehensive public information and opportunity for public input regarding its decisions. To the extent that departmental procedures and policies

are not transparent, understandable and accepted, there may be opportunities for civil servants to engage in corrupt practices. Thus it is important that efforts to ensure transparency encompass all levels of administration.

## **I. Gender Considerations**

Kosovo is a patriarchal society in which women have traditionally had less opportunity for participation in local and provincial affairs. Urban women are more aware of their rights and more likely to participate in elections than are rural women. The conflict has worsened the social and economic situation for women, particularly those who have lost husbands, fathers and brothers, either to death or to Serbian prisons, and now head households with few income opportunities. Women raped during the conflict face community isolation and shame.

The strategy focuses on creating an environment for economic growth that includes developing opportunities for women in business, politics and civil society. While specific data on Kosovo is not available, in the region generally, 25 percent of small and micro business owners tend to be women. By explicitly targeting women in business development efforts, we can have even greater impact on private sector growth. Civil society efforts include grants to local NGOs, including women's groups, and a STAR/World Learning Women's Leadership Development Program. Planned education on voter rights in preparation for the fall municipal elections will reach out to women, who, in some rural areas, have not traditionally voted. STAR will also encourage political parties to field women candidates and help to develop their campaign skills. Humanitarian and social sector activities have included significant assistance to vulnerable groups, especially women and children. Activities include community mobilization, psychosocial training and support for women and children, maternal and infant health, and income generation.

## **J. Customer and Partner Participation**

USAID operates within the framework of the UNMIK-led, multi-donor program for the reconstruction and recovery of Kosovo. Kosovar participation in the administrative structures, which set policy and determine program direction, is assured through co-leadership of each organizational unit, at every level. "Kosovarization" is a key objective for UNMIK and for USAID to assure sustainability of the institutions that are being created.

While under the current crisis response situation the U.S. Office in Pristina (USOP) has not been required to prepare a Mission Performance Plan, USAID works closely with USOP. This strategy directly supports U.S. foreign policy objectives of increased security and stability in the region, and contributes to USAID goals in economic growth, democracy and good governance, and humanitarian and social transition.

Development of a stable and viable Kosovo is a precursor to its effective participation in the objectives of the Stability Pact. The Stability Pact aims to bring regional peace, stability and economic development to Southeast Europe with the goal of accelerated

integration of the region into Euro-Atlantic structures. USAID's program builds the necessary institutions and framework from which regional linkages may emerge. If stability and security in Kosovo is not achieved, it will remain a potential flashpoint in the region.

Within specific USAID programs, USAID has consulted closely with Kosovar community leaders, for example through a democracy and governance retreat held in November 1999, through contact with the Community Improvement Councils, and through intensive interaction between each assessment team and Kosovar counterparts. NGOs, grantees and contractors are closely consulted in planning and implementation. Monthly partner meetings serve to share lessons learned and to develop synergistic approaches. This strategy was shared with implementing partners, who assisted in defining planned results and indicators.

### **K. Environmental Factors**

Sections 118/119 of the Foreign Assistance Act require an analysis of (a) actions necessary in the cooperating country to conserve biological diversity and tropical forests, and (b) the extent to which USAID actions meet those needs. Kosovo does not contain tropical forests. No data is available on the status of endangered species in Kosovo.

As part of its Kosovo 2000 Investment Plan, the UNMIK Pillar II Environmental Office will: re-activate air, water, and food quality monitoring institutes, launch public campaigns on environmental issues, and conduct an environmental assessment of coal mining and combustion in Kosovo. USAID has assisted in developing a scope of work for an environmental assessment of the Trepca mining and industrial facility, the major industrial complex in the Province. Further work in this area is expected through a pooling of resources with other donors to provide for a complete assessment and clean-up. The U.N. Office for Project Services (UNOPS) is addressing land mine and UXO awareness and clearance needs with funding from various donors, including the U.S. At least 16 NGOs and contractors are engaged. Environmental priorities identified by a World Bank/European Commission "Program for Reconstruction and Recovery in Kosovo" focus on water supply, sewage and solid waste disposal.

All USAID programs that have potential environmental impacts, such as the small scale infrastructure community grants, follow standard USAID requirements for environmental examination and mitigation.

## **II. FACTORS IN PROGRAM SELECTION**

In the post-conflict environment vast needs exist for physical reconstruction, creation of basic governance capacity, provision of a wide range of public services, building democratic institutions, enabling participation through electoral processes and civil society, and supporting private sector development. International donors have pledged \$3 billion; USAID's programs are a tiny fraction, with, for example, an FY 2000 budget of \$56 million. Strategic choices have been made based on USAID's comparative advantage in providing crucial technical support in building the

environment for a market-driven economy and democratic governance, as well as our ability to address selected recovery needs in the social sector. With limited resources, USAID will focus first on establishing the fundamental economic policy and institutional framework that will facilitate recovery and expansion of the private sector, because this is the starting point for a vibrant economy that generates sustainable growth in incomes and employment. A growing economy is key to reducing Kosovo's dependence on the international community and its ability to address its own long term needs. With unemployment at 50 percent or more, income and job creation is a paramount concern. In democracy building, establishing the rule of law is key to citizens' security, to containing corruption, and to sustainable private sector-led growth. Social transition activities directly support our economic and democratic objectives, by encouraging community efforts to stimulate economic activity through participatory processes.

Other donors, notably the European Union, are in the lead in physical reconstruction of housing and major infrastructure. The European Commission Humanitarian Organization (ECHO) is providing assistance in education, water and sanitation, health and food. In the health sector, recent assessments indicate that health problems are not principally related to the conflict but to long-standing problems in quality of care. Numerous donors are active in health, including policy and institutional reform as well as service delivery. The World Health Organization (WHO), UN Fund for Population Activities (UNFPA), United Nations Children's Fund (UNICEF), the EU Agency for Reconstruction of Kosovo, bilateral donors such as Japan, Finland, Canada, Sweden, the UK and nearly 30 international NGOs support health activities. USAID's efforts in health are therefore limited and targeted.

USAID's vision is of a well-functioning, multi-ethnic society where there is reasonable expectation of an open and fair market economy coupled with a system of justice that is impartially administered and where there are opportunities for people to make informed choices and participate in their own social and economic recovery. The Mission thus seeks to build synergies across three strategic objectives: economic reform, democracy building and social transition. Creation of the legal and institutional framework for an open market economy and a system of justice, as well as opportunities for citizen participation, are themselves essential to restoring normalcy for individuals, communities and the province. Focussing on three key interdependent strategic sectors simultaneously will maximize the potential for long-term impact.

In SO 3.1, the program is directed towards assisting targeted communities to prioritize **their** needs through open fora, encouraging all citizens to participate democratically in making decisions that will better their standards of living. This has direct linkage to SO 2.1 whose efforts will build upon this community engagement in developing a broad-based civil society, promoting citizen participation in the electoral process through media and organized discussions on issues affecting the populace at large. SO 2.1's judicial reform efforts will also be key in building security and trust in the system. Underpinning this is a strong economy growing from the institutional, policy and legal infrastructure, and the strengthened private enterprise sector developed under SO 1.3.

### **III. Strategic Objective 1.3: Establishment of an Economic Policy and Institutional Framework**

#### **A. Statement of Objective**

For the three year period covered by this strategy, USAID/Kosovo's strategic objective in the area of economic reconstruction is the establishment of a policy and institutional framework which facilitates the recovery and expansion of a private sector-led economy, and generates sustainable growth in incomes and employment for the population of Kosovo. USAID/Kosovo will promote the full implementation of major reforms in fiscal and monetary policy management, financial markets, commercial law, privatization, and trade and investment policies. USAID/Kosovo also will develop the capacity of those institutions involved in the management, administration, and service delivery to the economy, as well as building the environment for small and medium-scale enterprises. Human capacity development figures as a prominent element of the strategic objective, as it is critical to the sustainability of sound policy and institutional operations.

#### **B. Problem Analysis**

Kosovo faces massive challenges in attempting to rebuild its economic infrastructure and institutions, and place the economy on a sound, medium-term economic growth trajectory. It has to recover from the significant reduction in living standards and employment associated with infrastructure damage, loss of productive assets, widespread displacement of the population and the disruption of economic activities caused by military and paramilitary hostilities. Moreover, the Kosovar economy has been subject to a policy of systematic decapitalization and marginalization over the past decade. Physical and social infrastructure facilities have deteriorated significantly, technology is outdated, the financial system is severely limited in its capacity to provide financial intermediation services, and the industrial sector, which was characterized by inefficient and, in some cases, environmentally hazardous publicly-owned enterprises, is at a standstill. Additionally, the local human capital is poorly skilled and ill equipped for the effective operations of economic institutions due to the decade-long exclusion from participation in management and technical positions and lack of access to know-how.

The context within which economic recovery and expansion will proceed in Kosovo is extremely challenging. At the moment, UNMIK and a joint interim administrative structure (JIAS), comprised of Kosovar counterparts represent the administration in Kosovo. Later, in October 2000, Kosovo will have completed a municipal election exercise and will have the initial pillar of a political framework in place. USAID efforts will need to work closely with these institutions, not only to comply with UN mandates, but also to ensure strong buy-in to and support for the type of economic policy and institutional reforms being pursued. Without this compliance and buy-in, the approach will not endure.

Over the medium term, the effective implementation and deepening of macro-economic and structural reforms begun in the immediate post-conflict period will



require a massive institution building effort. This will entail both the development and operationalization of systematic procedural systems within key public administration institutions involved in economic policy formulation and implementation. The development of enforcement mechanisms pertaining to market rights both within and outside the judicial branch, and a large-scale training effort will also be required.

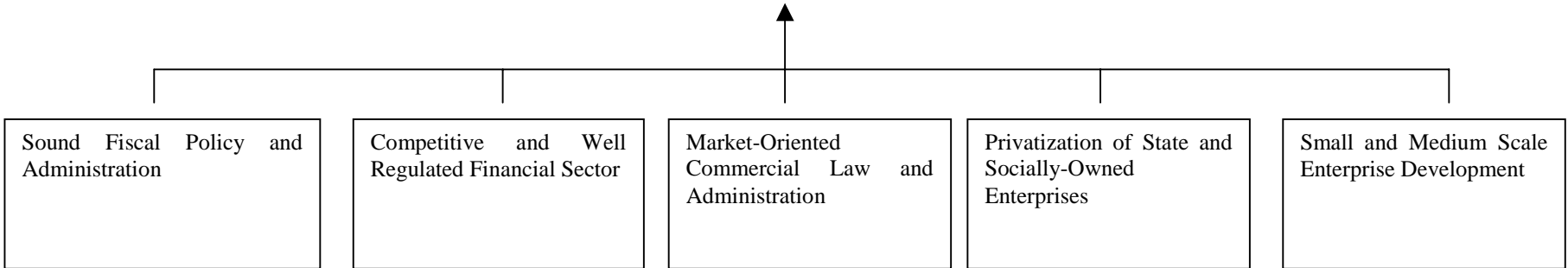
The basic challenge that UNMIK and the nascent Kosovar administration face in promoting economic recovery and expansion provides a tremendous opportunity for promoting rapid market-oriented policy and institutional change in the province. In particular, the economic policy-setting authority of UNMIK and the JIAS allows for the development of a macro-economic and structural policy framework that will support renewed private sector development.

The need to reconstruct the private economy provides the opportunity to build upon the entrepreneurial capabilities and informal trade and financing networks developed out of necessity by Kosovar Albanians over the past decade. This could facilitate a more rapid recovery of trade and market linkages and application of entrepreneurial energy in key growth sectors than was previously experienced in other transitional economies.

### **C. Results Framework**

USAID's medium-term economic restructuring support strategy for Kosovo will be based upon four fundamental precepts. First, the macroeconomic policy framework and administrative implementation system will require significant improvement, and in the case of the latter, professionalization. Second, privatization must be addressed to put resources to productive use. Complex ownership rights in state and socially owned enterprises from the FRY-administered period complicate privatization efforts and may limit them to long-term concessions and management leases. The legal authority for UNMIK to permanently dispose of these assets is under active review. Third, the institutional framework for implementing a market-friendly commercial law regime will need to be developed, including both administrative and judicial oversight institutions. Finally, the entrepreneurial capacity of the private sector will need to be harnessed, and the institutional constraints that limit its ability to respond to a non-discriminatory economic policy environment and stable economic conditions will need to be addressed.

**Strategic Objective 1.3**  
**Establishment of an Economic Policy and Institutional Framework that Facilitates the Recovery and Expansion of the Private Sector-Led Economy**



Five intermediate results and each of their respective sub-intermediate results are required to achieve Strategic Objective 1.3:

**IR 1.3.1 A Sound Fiscal Policy and Administration Regime Developed**

Establishment of administrative procedures and policies involving budget planning, tax collection, and procurement of services is critical to establishing a more open and transparent economic system. The achievement of this IR will fulfill the need to systematically rebuild and reinvigorate public administration institutions – almost from scratch – creating a dramatic opportunity to develop public policy and oversight institutions which operate in accordance with sound, efficient and transparent administrative principles. Moreover, the institutions’ employees will be systematically exposed to and trained in proper implementation of these principles.

**IR 1.3.2 A Competitive and Well Regulated Financial Sector**

USAID has been in the forefront of establishing the Banking and Payments Authority (BPK) which defines banking operational regulations, licensing and supervision provisions. Promoting financial sector stability through a transparent and well regulated banking system will ensure a Kosovar banking sector which responds to the needs of an expanding private sector.

**IR 1.3.3 A Commercial Law Regime Which Effectively Establishes and Protects Property, Contract, and Investor Rights**

USAID commercial law specialists have developed a prioritized set of business, legal and regulatory reforms required of private sector development, including laws on the company, contracts, secured transactions, land use and ownership and bankruptcy. This IR will set private sector parameters and guidelines, creating a fair and transparent system and subsequently stimulating private investment.

**IR 1.3.4 Privatization of State and Socially Owned Enterprises**

USAID will promote the transparent and competitive privatization (or placement under long-term lease/concession) of state-owned enterprises in Kosovo to increase the level and efficiency of productive investment. Additionally, the achievement of this IR will allow for non-viable enterprises to be dissolved and liquidated, lifting the financial burden on the public sector, allowing for scarce resources to be utilized in a more effective manner.

**IR 1.3.5 An Expanded Formal Small and Medium Enterprise Sector**

Achievement of this IR will increase the overall growth of the private sector by creating jobs, providing access to credit, generating income, expanding services and business skills, increasing tax revenues, and producing other economic benefits leading to a more stable and viable economic sector.

***Critical Assumptions***

The following critical assumptions are made in assessing this SO:

- Essential public administrative, operational and oversight capacity in each of the areas specified will need to be built up from an extremely shallow base, implying intensive on-the-job and formal training support.
- Despite the aforementioned development of informal networks over the past decade, considerable upgrading of business development and market linkage capabilities will undoubtedly be required. This requirement primarily results from a decade of forced withdrawal from key management and technical positions in the industrial and financial sectors.

#### **D. Progress to Date**

The intensive technical assistance and training program thus far carried out by USAID has been oriented primarily in the following areas:

- creation of a Central Fiscal Authority (CFA) with competence in the areas of taxation, budget and treasury;
- institution of an internal as well as World Trade Organization consistent procurement system;
- building of an operational banking and payments system;
- design and implementation of a privatization strategy, and the completion of a tendering process for a State owned cement factory;
- design of legal/regulatory reforms required for the operation of a market economy and review of legislation required for establishment of a cost-effective functioning civil service;
- training of new government staff in the implementation of fiscal, banking, privatization, and legal policy;
- creation of associations of producers, processors and commercial agents in the agricultural sector; and
- creation of “village bank” micro lending operations.

Significant initial progress on development of a sound basic macroeconomic and structural policy framework has been made since the effective startup of support activities in October 1999. The CFA was established in late October 1999. It has begun functioning as a full-fledged Ministry of Finance, with competence in the areas of budget, treasury, and taxation. USAID has facilitated the development of basic budget planning and tracking systems within the CFA. As a result, the 1999 budget was prepared and passed in late October, and detailed preparation of the 2000 budget was completed. In addition, USAID has supported development of a systematic regulatory framework for public procurement, along with a comprehensive set of forms and procedures designed to promote rigorously competitive procurement actions.

The Revenue Authority under the CFA has begun the difficult task of designing and implementing an efficient tax policy and administration system in Kosovo. Priority emphasis has been placed on the drafting of key tax policy regulations and tax administration guidelines. These include draft regulations establishing a wage withholding tax, a presumptive business income tax, and a service establishment sales

tax (all slated for implementation in early 2000). In addition, USAID advisory support has contributed significantly to the development of sales/excise tax and customs implementation guidelines, and to detailed planning for establishment of a taxpayer identification system.

In the financial regulatory area, the Banking and Payments Authority (BPK) has been established and operationalized. USAID support for the BPK has focused on finalization of enabling regulations and development of rigorous bank licensing and supervision provisions. Most notably, the BPK and commercial banking regulations were put into effect, establishing a rigorous bank licensing system and tight financial reporting and performance requirements, which will promote financial sector stability. This includes a strong regulatory framework for micro-finance institutions. To date, one bank and several micro-finance institutions have been approved for operations in the province, while several other banks are in the application process.

In the privatization area, a basic strategy for encouraging private sector investment in and management of public enterprises, based on the application of intermediate steps towards privatization, such as concessions/leasing agreements and management contracts, has been developed. With USAID assistance, the first such concession arrangement is near completion (Sharr Cement Plant) that will serve as a precedent for future concessions of State owned enterprises. In addition, the establishment of the Kosovo Public Property Agency has been agreed upon and preliminary steps taken to define its future activities.

Concurrently, USAID legal specialists continue to proactively dialogue with UNMIK colleagues on concrete strategies and legal justification for direct and deliberate movement toward full privatization of selected State enterprises, within the framework established by UNSCR 1244 and subsequent implementation guidelines. The UN headquarters in New York continues to hold to the view that UNMIK administration of State-owned assets does not include disposal rights, and dialogue on this core issue between UNMIK legal and economic policy officials and UN-New York continues.

USAID commercial law specialists have developed a prioritized set of business legal and regulatory reforms required for private sector development. Priority areas for improvements include the company law (including business registration provisions); contract law; secured transactions; land use/ownership; and bankruptcy regulations. As noted above, privatization legal strategy issues are the subject of ongoing intensive analysis and discussion. A draft concession regulation has been developed for discussion within UNMIK. Draft regulations covering contractual rights, company formation and organization, secured transactions, bankruptcy, and concessions/leasing arrangements have been developed.

More recently, USAID technical support efforts have focused on the identification and review of capital investment projects, and development of the first capital budget for the province. Sector budget specialists, working with UNMIK department heads (ministries) have spearheaded the process. The budget will require significant donor contributions, much of which already has been pledged in the Kosovo donors' conference in November 1999.

USAID also is providing critical business development support designed to improve the operation of key agricultural markets and improve investment and operating efficiency in selected agri-enterprises. This support is channeled through formalized associations of input dealers, poultry producers, feed processors, and wheat millers, which will expand to nascent associations of vegetable processors and seed producers. USAID also launched a micro-lending program to provide critically needed operating and investment credits to micro-enterprises.

## **E. Program Approaches**

The core programmatic approach to be taken in this strategic period with regard to policy and administrative reforms will be to support UNMIK, the major multilateral donors working with UNMIK, and local Kosovar co-administrators operating within the JIAC administrative framework, to fully implement and institutionalize a core set of prioritized macroeconomic and structural reform measures necessary to maintain a stable macroeconomic environment. This approach will serve to promote the effective and sustainable planning, financing and provision of key public services during a period of great potential hardship for the Kosovar people. The work will build upon an existing effort to establish a nascent set of key economic management institutions whose operation has facilitated initial formation and implementation of sound short-term economic management policies. In fact, the effective initial formation and operation of these institutions has helped lay the groundwork for the implementation of the more durable longer-term policy and institutional reforms which are envisaged under the strategy and which will be designed to place the Kosovar economy on a stable medium-term growth trajectory.

USAID's approach to be taken with respect to enterprise development activities will be to build local institutional capacity, through a substantial package of technical assistance and financial intermediation, providing business advisory, financial, and market access support to Kosovar entrepreneurs. A variety of channels will be used to provide financial intermediation to the small and medium enterprise sector including formal banking institutions, business to business linkages, and direct foreign investment. USAID will also target business development services for enterprises in key markets. In addition, critical economies of scale will be achieved through the formation and strengthening of associations, which efficiently serve their members with information on technology, business and product standards, marketing, financial intermediation, credit access, policy analysis, and advocacy.

## **F. Development Partners**

The challenge of establishing a sound policy framework and administration for the Kosovo economy is being addressed by several donors under the mandate of U.N. Resolution 1244. The efforts are being directed and coordinated by UNMIK Pillar IV - Reconstruction, whose overall leadership and several key management positions are supported by funding of the EU Agency for Reconstruction. As described in the Strategic Objective narrative, USAID is providing critical technical assistance to the reconstruction pillar leadership, the central fiscal and banking authorities, the legal department (for commercial law), and the privatization agency. Other major donors

include: KFOR civilian affairs units of Germany, France, Great Britain, and the U.S.; the German Development Agency – GTZ; the IMF; the World Bank; and the U.S. Treasury. In the area of private sector development, major donors include: the European Agency for Reconstruction, the European Development Bank, the World Bank, the German development agencies GTZ, KFW, and DEG, the Netherlands, and USAID. Regular donor coordination meetings are organized by UNMIK Pillar IV and by the major donors themselves, as well as by implementing organizations.

## **G. Sustainability**

Sustainability of this economic reform package will be dependent upon several factors, both economic and political. IR 1.3.1 encompasses the development of new fiscal and administrative structures designed to collect revenues through a transparent and efficient taxation process, and to develop and administer a sound fiscal budget responsive to the needs of the Kosovar people. The amount of revenues to be collected will be based on a thriving economy. Other interventions within this results framework will focus on jump starting the economy through enterprise development, greater access to business finance and the dissolution of fiscally burdensome State and socially owned assets. This process can be sustainable only if the systems and administrative structures are deemed credible by the new Kosovar political structure and the general Kosovar populace. An important element of our program will be to encourage our partners and other donors to be inclusive in their thinking and actively engage Kosovars.

## **IV. Strategic Objective 2.1: Accountable and Transparent Governance**

### **A. Statement of Objective**

**SO 2.1 Accountable and Transparent Governance** will be characterized by an independent and ethnically blind judiciary, a vigorous media providing balanced information in the language of the various ethnic groups, a level playing field for economic and political activity, a vibrant civil society enabling citizen participation, and an elected government that represents the people. USAID's activities will make significant inroads towards this objective in this three year strategy. However, serious obstacles could delay Kosovo's transition to democracy and undermine the recovery process. Many of these obstacles are tied to the political realities of the time, including the uncertainty regarding the future status of the province within the FRY, while others are more fundamentally tied to the lack of traditional democratic institutions and experience. USAID is addressing both the political and institutional constraints to democratic reform through a portfolio of programs focused on supporting free and fair elections, establishing the rule of law, strengthening independent media, and engaging grass-root organizations in democratic governance.

## **B. Problem Analysis**

The years of suppression and subsequent violence resulted in the complete dissolution of any semblance of respect for the FRY-controlled institutions in the province of Kosovo. A provisional administrative structure established by the UN Mission in Kosovo (UNMIK) is serving as an interim governmental body encompassing the judicial, legislative and executive processes. These principal democratic institutions and their functions are alien to the majority of the population.

The perception of a government as a beneficial entity whose purpose is to serve the will of its people is a concept not fully grasped, and there is a great deal of skepticism on the subject. During a decade of authoritarian rule, the Albanian Kosovar population developed a parallel infrastructure out of necessity, providing basic community services and advocating on behalf of the rights and interests of Albanian Kosovars against the Serb regime. Little if any tradition exists in Kosovo of a formal political system which is responsive to the needs of its constituency, but the skills of self-organization and self-government are present in an embryonic form.

The threat to independent media is a constant phenomenon in the Balkans. Media has served nationalists from all sides to promote hatred and instill fear in society. Recent media monitoring by OSCE illustrates that all media have a long way to go in attaining professional journalistic standards.

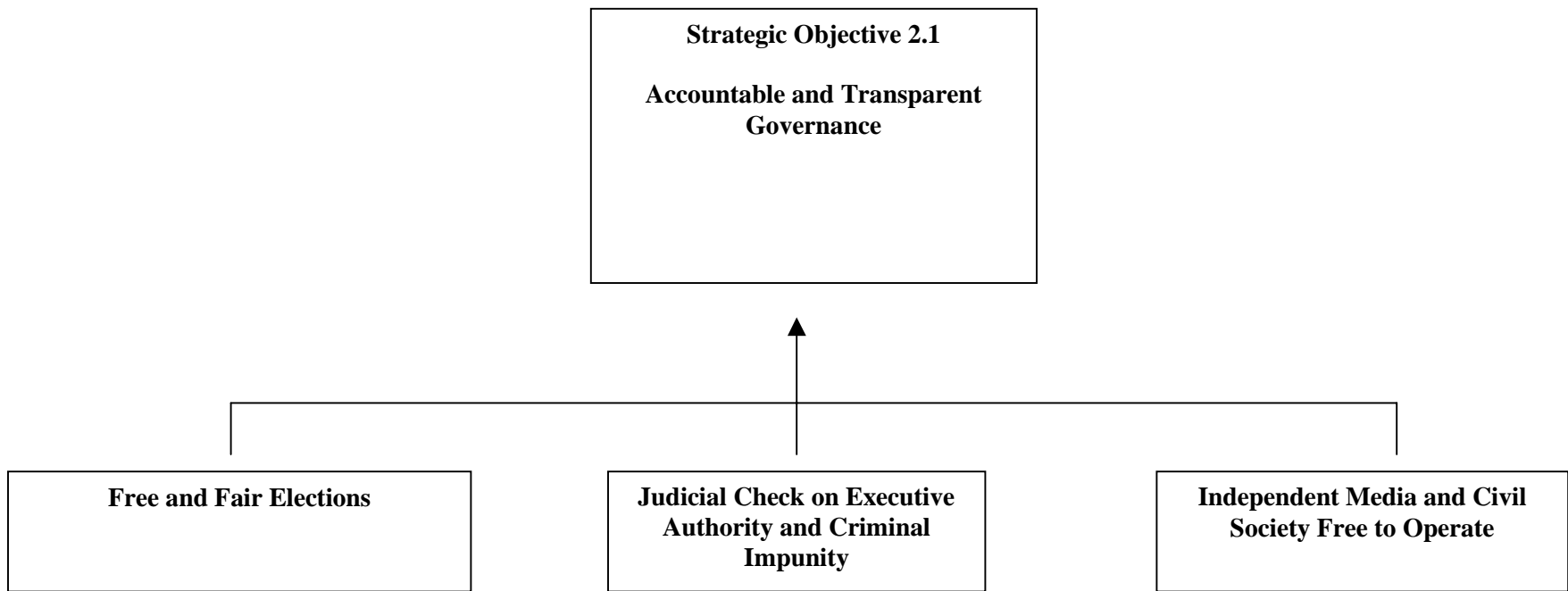
To a great number of ethnic Albanians, Rule of Law represents a legal system with laws put in place to discriminate against their ethnicity; or if ethnically neutral, the application of laws is seen to have been unequal. Legality was usually the legality of the oppressor, and was not necessarily valued as an element of social or political behavior. Many Kosovars had to resort to illegal practices to survive and feed their families. The Albanian Kosovar populace had been banned from practicing or studying law for over a decade, creating a void in the legal human resource base. The judicial system also needs to address minorities ensuring equal access to non-biased defense lawyers.

## **C. Results Framework**

**SO 2.1 Accountable and Transparent Governance** will be accomplished by using a three-pronged approach at all levels throughout the province. USAID will assist in developing a credible and transparent political environment with appropriate checks, both allowing and encouraging people to become engaged in democratic processes, subsequently demonstrating that they are indeed stakeholders in and therefore have a responsibility to this system.

The approach includes: 1) providing support for free and fair elections; 2) promoting a judicial check on executive authority and criminal impunity; and 3) helping independent media and civil society to operate freely and engage the populace in the democratic processes.





Three intermediate results and each of their respective sub-intermediate results are required to achieve Strategic Objective 2.1:

#### **IR 2.1.1 Free and Fair Elections are Held**

The result requires technical support and training to be provided to the municipal and province-wide elections to be held in fall, 2000 and spring, 2001, respectively. Establishment of popularly elected officials will provide the basis for establishing a responsive, accountable, and credible government, which is supportive of SO 2.1. In addition, training of elected officials in the basic functions of governance will strengthen their ability to undertake their new responsibilities.

#### **IR 2.1.2 Judicial Check on Executive Authority and Criminal Impunity**

This IR will focus on developing all the components of court administration and training of legal officials: judges, prosecutors, and defense attorneys. USAID-supported activities will also continue to provide advisory services to the various commissions involved in drafting new laws and in the selection of the judiciary, as well as support for the Bar Association, Association of Judges, and the Pristina University Law Faculty.

Achievement of this IR is necessary to the SO, because without a basic independent criminal justice system in operation, citizens will not feel safe engaging in ordinary civic and economic life, and there will be no clear check on the state with regard to the rights of citizens. In the absence of a credible system of rule of law, free and fair elections cannot be held and elected officials can rule with impunity.

#### **IR 2.1.3 Independent Media and Civil Society Free to Operate**

Citizens' and media groups working together to address public issues and make local and central governments accountable and responsive contribute to the success of this Strategic Objective. Civic advocacy groups which are allowed to operate without restrictions will be better equipped to encourage broad-based participation in the political process. A strong and competitive independent media with professional standards will help to disseminate objective and truthful information.

Civil Society development is also supported under Strategic Objective 3.1, in which local NGO development capacities are strengthened. Small grants provided through US NGOs are enabling local groups to expand operations in community building, women's issues, income generation, health education, parent-teacher associations, human rights counseling and psychosocial support, and maternal and infant care. Similarly, the community building activities of OTI's programs, described below under *progress to date*, significantly broaden the scope of overall civil society efforts. Under SO 1.3, associations of agricultural producers, processors and commercial agents also help empower and organize local groups. The cross-linkages to Strategic Objectives 3.1 and 1.3 are key in developing a full understanding of USAID/Kosovo's grassroots efforts.

### ***Critical Assumptions***

- Assumptions include progress on several critical factors: the ability of UNMIK to complete work on civil administration codes in a timely manner; OSCE's ability to train the civil service through its Public Administration Institute; OSCE remains committed to implementing a broadcast licensing regime; political support for the new government structure; and local participation and buy-in to the process.

### **D. Progress to Date**

USAID-supported programs have made significant progress in strengthening Kosovo's democratic institutions. The effort to register Kosovo's population began in April 2000 in preparation for the fall 2000 municipal election. Political parties are being trained in campaign techniques and strategy, while preparations are underway for this summer's civic and voter education programs. Great strides have been made in reestablishing Kosovo's judiciary, as hundreds of judges have been screened and nominated, and have received initial training. Kosovo's independent media has quickly recovered from the conflict, and dozens of new NGOs have formed in a new environment conducive to and supportive of civil society.

USAID developed an Election and Registration Plan for UNMIK that created the Joint Registration Taskforce (JRT), a body formed to carry out the registration and election mandates of Pillars II (UN Civil Affairs) and III (OSCE). In late January 2000, an agreement with UNMIK was brokered allowing USAID's grantee, International Foundation for Election Systems (IFES) to assume management and oversight responsibilities of the JRT, serving as both JRT head and the Director General of Elections. USAID funding enabled this program to be on the ground and functioning in less than two weeks.

USAID has played an extensive role in the training of political parties. The principal Kosovar political parties have participated in numerous seminars on the basics of party development, such as organizational strengthening, membership development, outreach, and platform and policy formulation.

The development of a broad-based civil society based on democratic principles has been an important focus of USAID democracy activities. Ensuring basic rights is a precondition for healthy democratic institutions such as a parliament, a judiciary, and an executive branch; and for the conduct of elections. Additionally, citizens must believe that being informed and participating in civic affairs, beyond simple voting, is worthwhile. Citizens must see this not only as a right or privilege, but rather a responsibility and obligation as members of a democratic society. This is the premise of USAID's approach to civil society. Program activities include local NGO training on basic organizational topics and regional internship and mentoring programs for leading Kosovar NGOs. A USAID-supported women's leadership development program has established training and working groups on political and economic empowerment. This

activity is also playing a key role in effectively reinforcing and guiding the use of the Department of State's Office of Population, Refugees, and Migration funds through the UNHCR-managed Kosovo Women's Initiative. Further civil society activities include the development of an association of judges, a bar association, a journalists' association, and an association of publishers and broadcasters.

The role of USAID/OTI's Kosovo Transition Initiative (KTI) in civil society programming has been to encourage Kosovars to recognize and demonstrate the benefits of citizen action for the improvement of their communities and creation of good governance in the early stages and succeeding years of Kosovo's democratic development. OTI has developed over 200 Community Improvement Councils (CICs) in literally hundreds of villages and towns around Kosovo. The CICs reflect the diversity in the communities they represent and play a catalytic role in prioritizing and addressing the needs of the community through consensus building, public outreach, and stressing the importance of local contribution. The program has drawn increasing numbers of Kosovars into the process of deciding their own futures and has leveraged \$4 million in other donor funds for priority projects. CICs are now focusing their attention on the upcoming elections, contemplating ways of ensuring that candidates are responsive to their local and practical concerns. A grassroots "Civic Forum" activity implemented by USAID grantee National Democratic Institute (NDI) complements OTI's ongoing civil society strengthening interventions.

USAID activities have provided invaluable assistance to OSCE for its judicial training program, and to UNMIK in helping to resolve the question of applicable law, and drafting interim regulations to solve critical problems not covered under current law. Further assistance played a critical role in the screening, selection, and training of the first 400 judges and prosecutors nominated by UNMIK's Special Representative of the Secretary General. USAID also assisted OSCE in establishing its legal training curriculum, and has played a key role in plans to develop the curriculum and library of the Pristina University Law School.

Through its ProMedia II program, USAID and its partners have made important contributions to the rapid recovery of Kosovo's thriving, competitive independent media sector. USAID has made key operational grants to important independent radio stations and newspapers, while media advisors provided crucial advice to several media outlets in the preparation of their business plans, ensuring the sustainability of multiple media outlets. Development of future activities are underway which will support both public and private media including: funds for a local news agency, a Kosovo-wide spectrum analysis and frequency plan, and legal consulting for OSCE that will create an independent media commission and media regulations which protect free speech while discouraging extremist voices of hate.

OTI's media activities have provided assistance to several professional media outlets in Kosovo since July 1999, the inception of OTI's Kosovo Transition Initiative. OTI has made a substantial contribution to the reestablishment of media institutions destroyed by the war and in restoring geographic coverage to the province.

## **E. Program Approaches**

USAID's program approach towards more accountable and transparent governance is to create the rule of law, support elections, and promote accountability and participation through the development of media and civil society.

With the Kosovo municipal elections drawing near, USAID has concentrated its efforts on the completion of an initial civil registration, which was completed July 15, 2000. The result of this will be a voter list to be drawn from the registry for the fall 2000 municipal elections. Later in the election cycle, further USAID support will expand this training to include such topics as campaign management, media relations, and voter turnout. Post election activities will involve capacity training of newly elected officials, providing them with the necessary tools to govern responsively and transparently.

Future USAID Rule of Law (ROL) activities will focus on local capacity for court administration so that the courts may manage their own affairs. Technical assistance, training and commodities will be offered at the central, district and municipal levels. The overarching objective is to create an administrative system that will allow for functionality and independence of the legal system. A further component of the ROL program will include training of judicial officials and other legal professors in law, administration and human rights standards.

A recent poll in the Kosovo Province determined that 73 percent of the population get their news and information from radio programs. USAID's continued efforts in media will focus primarily on the development of independent radio stations and to a lesser degree, print media outlets. OSCE will be maintaining and managing the state television and radio outlet, RTK, indefinitely. USAID has supported the launch of the first province-wide satellite broadcast of two independent, private television stations. Additionally, USAID is providing funding to the Kosovo Terrestrial Telecom Network (KTTN), which will include equipment, technical assistance and training, and a package of entertainment programming provided through the generosity of American television producers.

OTI is providing basic support for the creation of high quality news and information programming, coverage of public events, more comprehensive coverage of local news, successful citizen action, and other events that stress the importance of self-reliance of Kosovars. OTI will also engage in funding and carrying out, along with its local partners, public service and education campaigns on a variety of public interest issues, from "tolerance" to "improved trash and litter disposal" to "citizens' duties and rights."

## **F. Development Partners**

Of all the democracy and governance assistance areas, media has the highest degree of donor activity and coordination. On the public media side, this is largely thanks to the efforts of OSCE's Media Department to promote a reinvigorated RTK and the receptivity of European donors to this endeavor. OSCE also helps to coordinate assistance to independent media by hosting weekly meetings of the major donors. Besides USAID, the UK's Department for International Development (DFID), Soros' Open Society Institute (OSI) and their local chapter, Kosovo Foundation for an Open Society (KFOS), are the primary supporters of private and independent media in Kosovo.

In the civil society sector, there are also numerous donors. OSCE's Department of Democratization has the mandate to coordinate NGO and civil society development. A local NGO, the Kosovar Civil Society Foundation (KCSF), is playing a useful role. It has published an NGO directory, and has hosted a civil society donor coordination meeting in cooperation with the OSCE. OSCE is building on this effort and supporting KCSF with limited funding. This will hopefully result in better coordination and less duplication of efforts in civil society development.

There are fewer donors in the development of Kosovar political parties. OSCE is focusing their efforts on developing political party support centers throughout Kosovo. USAID's grantee, NDI, has taken the lead in coordinating the efforts of the three German political party foundations (*Stiftungen*) and the UK's Westminster Foundation. Thanks to NDI, there is very little overlap in these programs.

There are almost no legal reform donors other than the USG, and as such, there is little need for coordination outside of periodic meetings with UNMIK Legal Affairs and OSCE Rule of Law Department. USAID and the State Department's Bureau of Democracy, Human Rights and Labor assistance efforts are well coordinated. The French government is contemplating a limited court administration effort, and there will be international support for the newly formed Kosovo War and Ethnic Crimes Court. USAID coordination with the French is already established.

## **G. Sustainability**

While some progress in building sustainable democratic institutions can be expected within the timeframe of this strategy, the fact that these institutions are in their infancy suggests that growth of independent and self-sustaining governing bodies in the near term will be incremental. The judicial system, elections administration, and central and local governments will all depend upon some degree of international management and financial support to remain viable over the next three years. USAID's best strategy for promoting sustainability under these circumstances is to build demand on the Kosovar institutions, then bolster their capacity to respond to this demand. The resulting governing and judicial bodies will be much better prepared to take over from UNMIK administration.

The non-governmental sector provides perhaps the most promise for developing sustainability, but this depends in large measure on the strength of the Kosovar economy. Media sustainability will improve as the economy grows and provides more opportunities for marketing sales. Some newspapers are already turning a small profit, but this is on the basis of 80 percent of income from circulation as opposed to advertising, a ratio that would be reversed in a healthier economic environment. Broadcast media relies almost entirely on marketing revenue, so economic recovery is key to its sustainability. NGOs will also become more viable as the economy improves; contributions will increase along with a pool of volunteers.

## **V. Strategic Objective 3.1: Restored Normalcy in Living Standards and Opportunities**

### **A. Statement of Objective**

Operating on the premise that people themselves are agents of change and social and economic recovery, USAID will support efforts that help restore normalcy to a province that has been traumatized by events over the past decade. SO 1.3 and SO 2.1 primarily concentrate on the broader macro level issues of building a political, economic and institutional base for Kosovo to assume substantial autonomy. SO 3.1 is a grassroots initiative aimed at engaging individuals, groups, communities and community members in activities that promote and encourage self-determination and self-reliance. Under this objective, USAID will support programs that: 1) improve quality and access to basic services; 2) increase employment opportunities and job creation; 3) address stated community needs and priorities; and, 4) help create an environment for pluralistic decision making and advocacy. Activities under this SO will be driven by the needs of Kosovars, and will support sustainable long-term development and growth at the community level.

### **B. Problem Analysis**

For the last 10 years, Kosovo operated within dual systems of management, production and services whereby the province was centrally managed and controlled by Belgrade within an overarching framework of “separate and unequal” relations. In response, the Kosovars established and maintained informal parallel and complementary systems of management services. Community-based and supported, these systems and institutions assured the population of a degree of access to basic social services and created an environment for entrepreneurial activity to emerge.

Nevertheless, the local systems that emerged parallel to “Belgrade” managed systems were in large part reactive, rather than proactive, and a survival strategy, rather than a planned effort to capture the internal resourcefulness of the population and maximize its

social, economic and political potential. As a result, systems and institutions operated with limited resources and limited access to new information, technology, and skills upgrading.

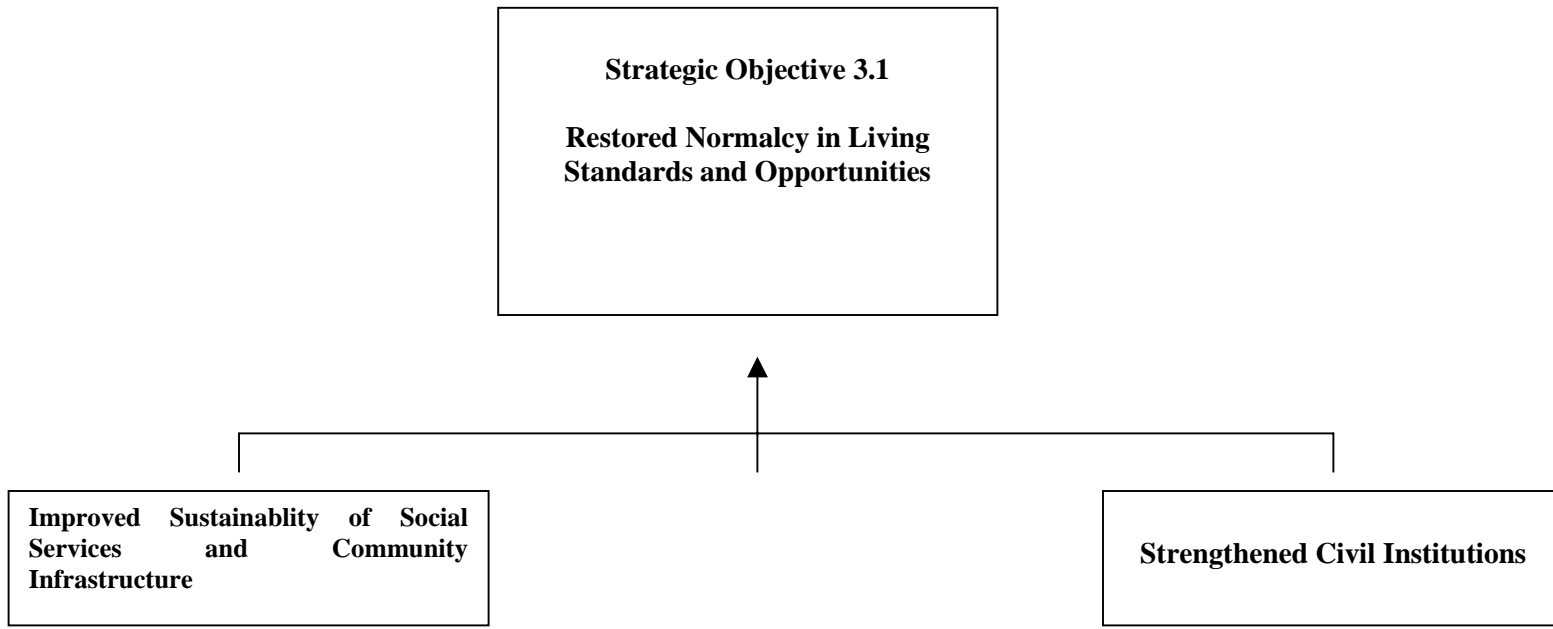
Brutal ethnic cleansing during the 1999 war exacerbated a decade of Serbian neglect and intentional marginalization. By June 1999, about 1.3 million Kosovars, almost half the population, had fled their homes. Kosovars returned to communities devastated by the conflict. About 31 percent of housing was destroyed or damaged, as much as 95 percent in some rural areas. Wells were poisoned, roads mined, equipment stolen, livestock killed, and crops destroyed. Community facilities such as schools, health clinics, municipal buildings, courts, markets, public utilities such as electric, water, and sewer systems, and other community infrastructure such as roads and bridges were either damaged or destroyed.

The majority of refugees and internally displaced persons have now returned to their homes in rural areas, though others are staying at least temporarily in the city of Pristina and other regional capitals, whose populations have swelled. Housing repair and reconstruction in the countryside has begun, rubble is being cleared, and small and micro-businesses are re-opening. Nevertheless, while the formal economy is beginning to show movement, unemployment is very high, and basic infrastructure and utilities essential to full economic and social recovery are functioning irregularly, or not at all. The effects of war, coupled with the legacy of ten years of oppressive rule, continue to be serious obstacles to the social and economic recovery of Kosovo.

### **C. Results Framework**

USAID's focus to achieve SO 3.1 will be to accelerate the process of social and economic recovery in Kosovo. In order for communities throughout Kosovo to return to a semblance of normalcy, their basic economic, social and infrastructure needs must be addressed.





Two intermediate results will be required to accomplish this strategic objective:

### **IR 3.1.1 Improved Sustainability of Social Services and Community Infrastructure**

The Kosovar determination to rebuild and revitalize is the basis for recovery from the suppressed opportunities of the past decade and the effects of the recent conflict. Clear opportunities for economic recovery exist, and as emergency humanitarian assistance declines, more focus will be aimed at employment creation and income generation through revitalization and rehabilitation of small- and medium-scale enterprises and public services.

Sustainable improvements in social services and infrastructure, in conjunction with a sound economic base, are essential to the promotion of community revitalization. Activities supported under this intermediate result will focus on increasing the quality and availability of social services and basic infrastructure, including but not limited to water supply and sanitation, utilities, education, and health. Communities themselves are viewed as the principal mechanism for targeting assistance. Sustainable improvement in social services and infrastructure activities will be encouraged in geographic areas where USAID-supported income generation projects are implemented. This complementary programming is viewed as a key means of maximizing impact and sustainability.

Achievement of this IR will empower the communities to make decisions and set priorities for their infrastructure needs. Utility companies will improve their operations and maintenance of systems as well as their ability to recover costs through user fees, ensuring the financial sustainability of services and increased capacity to finance capital investments.

### **IR 3.1.2 Strengthened Civil Institutions**

Key to the achievement of social and economic recovery is the presence of a dynamic civil sector. This suggests not only the creation of an enabling environment for pluralistic decision-making and governance, but also the creation of durable civil institutions that can advocate, promote on behalf of, and address the needs of specific constituencies. The achievement of this IR will be based on building capacity of the local Kosovo NGO sector and other grassroots organizations and groups by ensuring their access to training or workshops, and seed funds to support project activities consistent with the USAID program strategy.

#### ***Critical Assumptions***

USAID acknowledges the fluidity of the operating environment, particularly at a time when emergency assistance has peaked and efforts aimed at nearer and medium term recovery are underway. As a result, achievement of SO 3.1 is based on the following assumptions:

- Communities are willing to be engaged in revitalization activities.
- A regulatory framework is put in place to support economic and social recovery efforts.
- Community level input is balanced and arrived at in a pluralistic manner to avoid being corrupted by special interests and to assure the priorities of the communities are addressed.

## **D. Progress to Date**

During 1999, the refugee crisis and need for assistance to returning populations necessarily commanded the overwhelming immediate attention of the international community. USAID's assistance largely had a humanitarian focus, through OFDA's Disaster Assistance Response Team (DART), food aid, and NGO grantees such as Doctors of the World (DOW), Catholic Relief Services (CRS), and International Rescue Committee (IRC). OTI had also initiated community-building efforts. These NGOs, OTI, and DART were forced to evacuate during the conflict. In Macedonia, OFDA and USAID grantees DOW, CRS, and IRC focused their assistance on Kosovar refugee camps, and extended support to relieve the pressure on Macedonian families and communities hosting Kosovar refugees. Once the fighting ended, USAID and its implementing partners worked quickly to restart activities in Kosovo as the refugees rushed to return home.

OFDA's DART played a critical leadership role in saving lives and reducing the suffering of hundreds of thousands of people, both while refugees were displaced and as they returned to Kosovo. DART was instrumental in driving the humanitarian agenda among donors and the U.N., and in providing emergency supplies, shelter, water and sanitation, and agricultural rehabilitation support. OFDA funded 40 percent of the international community's emergency shelter effort, assisting over 290,000 people at a cost of only \$150 per person, and funded over 50 percent of the 1999 fall agricultural rehabilitation effort. Through the winter of 1999-2000, no Kosovars froze or starved to death due to lack of food or shelter. USAID's own support and its leadership role among humanitarian organizations and donors can take much credit. Most refugees and internally displaced persons have now returned to a stabilized situation, either in their homes in rural areas or temporarily housed in urban areas. OFDA-funded emergency assistance has given way to longer term, SEED-funded recovery efforts.

OTI, through its work in exile communities in Montenegro, Albania and particularly Macedonia made over \$1million available to relocated NGOs, media outlets, activists in refugee camps, and women's groups. Much work was done to maintain these groups and entities as viable and poised for return and a quick re-start.

Food support, provided by USAID's PL 480 Title II and the U.S. Department of Agriculture's section 416(b) programs, has been equally vital to the welfare of refugees and returnees, given the disruption of agricultural production from the conflict. As of March 2000, a beneficiary caseload of approximately 870,000 persons received food assistance from the USG through these programs. The U.S. is providing 85-95 percent of all food assistance distributed in Kosovo. The caseload was reduced to 300,000 by October 2000. UNMIK's social welfare program for vulnerable groups began accepting applications for assistance in June. In this first phase of the program, potential beneficiaries were to meet a strict set of criteria aimed at identifying Kosovo's most vulnerable residents: unsupported handicapped and elderly, and indigent single, typically female-headed households.

After two full registration and payment cycles, the number of Category I (most vulnerable) households stands at close to 37,000, 16,000 more than the maximum projections of the Department of Health and Social Services (DHSS). The DHSS budget for financial assistance is limited to 6,000,000 DM, enough to assist approximately 50,000 Category I and Category II, or able-bodied unemployed, families per month. Inflation in the number of

Category I beneficiaries will reduce the Department's ability to assist Category II beneficiaries in the next phase of the Department's Centers for Social Work (CSW) program.

IRC, working in seven municipalities, was able to strengthen the foundations of community self-reliance through training in joint problem-solving techniques, mobilization of communities in selection and implementation of small infrastructure projects and psychosocial activities for women. In 2000 the IRC program has been expanded to include all of Kosovo, both rural and urban.

CRS was able to help improve educational conditions and increase parent participation through the establishment of parent-teacher councils in several schools. In addition, CRS was able to make progress in trauma recovery through psychosocial training of parents and teachers in a school-based referral system for recognizing traumatic stress in children. In FY 2000, CRS is working to establish nine more parent-teacher councils and has expanded the geographical coverage of the CRS psychosocial and recovery work program.

DOW focused on improving maternal and infant health care by conducting women's health education seminars for Kosovar doctors, introducing a standardized training for midwives and nurses, and establishing protocols for risk identification of high-risk pregnancies. So far in 2000, DOW procured and delivered needed equipment and supplies for Kosovar birthing centers, established a resource center in Pristina Medical Center with Internet access for the association of OB/GYN doctors and the midwives association, and developed training programs in neonatal resuscitation, stabilization and transport in its effort to lower the infant mortality and morbidity rate.

At the end of 1999, USAID issued a three-year multi-sectoral program agreement to Save the Children Federation, Inc. (SCF), to serve as the Umbrella Grant Manager for the Kosovo Assistance Program portfolio, programming funds directly to international and local Non-Governmental Organizations (NGOs) and Private Voluntary Organizations (PVOs). In FY 2000, SCF has issued to date two RFAs: one for income generation and one targeted at assistance for children and youth. Four awards are expected, totaling approximately \$5,000,000.

Mission efforts in the Community Infrastructure and Services Program for the first two quarters of FY 2000 were focused on getting contractors in place to provide construction and advisory services. Twelve community based infrastructure projects in the U.S. KFOR sector were initiated in May to improve water, electricity, social, and transport services for over 50,000 people. Beginning in June, a labor-intensive infrastructure rehabilitation program was initiated in the troubled municipality of Mitrovica. Also, a province-wide community infrastructure rehabilitation program was awarded at the beginning of FY 2001.

## **E. Program Approaches**

USAID's interventions are now moving beyond humanitarian assistance response to recovery and normalization. SO 3.1 will encompass two components in its approach, Kosovo Assistance Program (KAP) and the Community Infrastructure and Services Program (CISP). KAP will be implemented through international and local NGOs and PVOs. The objective of KAP is to encourage recovery efforts aimed at stimulation of the economy, effective and sustainable social services and development of a vibrant civil society. This will be achieved

through complementary linkages with SO 1.3 and SO 2.1. Priority will be given to focused interventions with the highest potential for demonstrated short-term impact, while concurrently building a foundation for longer-term economic and social recovery. To promote a burgeoning civil society and increase the potential for social and economic recovery, KAP will support targeting of assistance that is imbedded in the notion that communities themselves are a platform whereby priority needs are identified and addressed. Further, that by simultaneously supporting their capacity to mobilize resources and be key societal actors in solving problems, communities and locally based organizations can become agents for change, advocacy and development. Under KAP, sub-grants will be given to international and local NGOs in support of income-generation activities, social sector support projects, and activities aimed at strengthening civil institutions.

The aim of CISP is to revive and reactivate the economy through rehabilitation of small-scale and some medium-sized infrastructure. The program will also include the institution building and sustainability of selected public utilities. Such an approach will contribute to Kosovar self reliance and foster economic recovery. The projects will be identified by USAID in close collaboration with Community Improvement Councils (CICs) and others, and designed and constructed by local contractors. Organized by USAID's Office of Transition Initiatives (OTI), the CICs are intended to reflect a diverse cross-section of the populace that understands the community's needs. Projects envisioned include electric distribution systems, street lighting, water and sewer systems, minor road repair, community markets, health clinics, municipal buildings, etc. Individual project costs would generally average \$100,000, although multi-community projects might require additional resources. About 300 such projects will be implemented under this program. Several medium-scale projects up to \$1 million apiece will be considered on an exceptional basis in the first two years of this activity. Though the beneficiaries of these projects will be mainly Albanian Kosovars, minority groups will also benefit from this assistance. Moreover, the concerns of the disabled, war-traumatized, and other victims will be considered in this program.

## **F. Development Partners**

The Humanitarian Community Information Center (HCIC) is a special initiative of the U.N. Deputy Special Representative of the Secretary General-Humanitarian Assistance. KAP will second one staff member to the Center. This individual will provide administrative and managerial oversight to the Center and support efforts to fine-tune the quality of and access to information for better donor coordination.

Overall planning and coordination of infrastructure rehabilitation and reconstruction is being directed by UNMIK Pillar IV-Reconstruction, whose leadership and several management positions in the departments of transport, water, and electricity are supported by the EU Agency for Reconstruction. All major bilateral donors are involved in infrastructure rehabilitation in one form or another: Canada, Denmark, France, Germany, Ireland, Japan, Norway, Spain, Switzerland, Sweden, and the U.K.

## **G. Sustainability**

As communities see results from activities promoting local income generation, health, education, and local social services under KAP, their commitment to work together, and in

forming their own community structures, will grow along with their ability to advocate for access to public services. Fees and user charges are a key element of sustainability. Utility institutional strengthening will focus on electric and water utility management and administration at the municipal level, where infrastructure rehabilitation activities are undertaken. Immediate needs include staff training, efficiency improvements such as water leak reduction and metering, and financial management training for staff in budgeting, payroll, billing and collections. Other needs include legal and regulatory reforms, generation expansion, user fee systems, and privatization plans, most of which will be addressed at the central level through other mechanisms. However, CISP assistance to decentralized utility operations will be provided in the context of these reforms, which will ensure the financial and operational sustainability of USAID's investment.