



USAID MISSION IN KOSOVO

STRATEGIC PLAN 2004–2008



JULY 2003



U.S. OFFICE PRISTINA

Office of the Chief of Mission

Dragodan, N. Hikmet 30

Pristina, Kosovo

July 1, 2003

Dr. Kent R. Hill
Assistant Administrator
Bureau for Europe and Eurasia
U.S. Agency for International Development

Dear Dr. Hill:

I am very pleased to endorse the new five-year USAID Strategic Plan for Kosovo. The USAID program continues to provide critical assistance to Kosovo as it develops the underpinnings of a market-oriented democracy. Four years after a wrenching conflict, Kosovo still is in need of significant donor assistance. The receptivity of this assistance by our Kosovar counterparts has been an important element of our current success and will undoubtedly contribute substantially to the depth and durability of our future achievements.

The strategy presented in this document supports areas of vital interest to the United States Government. Support for a strong economy and an accountable democracy is critical for Kosovo's stability as well as its ability to become an integral part of Europe. I am especially pleased that the strategy strongly incorporates the broader issues of conflict prevention and reconciliation, youth and education. These are important themes for the long-term recovery of Kosovo. In addition, the emphasis on capacity building and Kosovarization will ensure that our programs properly focus on what we leave behind as well as how we get there.

The reality of scarce foreign assistance resources has meant that we have had to make some difficult choices in selecting areas to assist. For example, note what we could do for the pressing issue of returns with additional resources. By involving a broad spectrum of international advisors and local experts in the development of this strategy, we have increased coordination and cooperation with donors and counterparts, assuring that the selected programs have strategic priority and fit within overall assistance programs in Kosovo. I strongly support the programs outlined in this strategy and am confident that their successful implementation will give Kosovo the fundamentals of a market economy and democracy that it so richly deserves.

Sincerely,

Reno L. Harnish, III
Chief of Mission

TABLE OF CONTENTS

PART I: Summary of Rationale and Overall Environment for Assistance	1
A. Overview	1
B. U.S. Foreign Policy Interests	3
C. USAID Assistance to Date	4
D. Overview of the Strategic Context	5
1. The Economy	5
2. Democracy and Governance	8
E. Cross-Cutting Factors Influencing Strategy	10
1. Conflict	10
<i>Returns and Reintegration</i>	10
2. Corruption.....	12
3. Youth.....	13
4. Gender	14
5. Human Capacity Development.....	14
F. Strategic Priorities and Program Directions.....	15
1. Goal.....	15
2. Focus.....	16
<i>Economic Development</i>	16
<i>Democracy and Governance</i>	17
<i>Special Objectives</i>	17
<i>Program Support Objective</i>	17
3. Roads not Taken.....	18
4. Basic Assumptions for Success.....	18
5. Sustainability.....	19
<i>Graduation</i>	19
6. Development Partners	20
 PART II: Strategic Objectives and Program Plans.....	 21
 Strategic Objective 1.2: Improved Policy and Institutional Climate for	 21
Productive Investment	
A. Statement of Strategic Objective.....	21
B. Problem Analysis.....	21
C. Results Framework.....	22
1. Causal Linkages.....	22
2. Critical Assumptions.....	23
D. Progress to Date.....	23
E. Program Approaches.....	24
1. Illustrative Activities.....	24
2. Linkages.....	25
F. Sustainability.....	25
 Strategic Objective 1.3: Accelerated Growth of the Private Sector.....	 26
A. Statement of Strategic Objective.....	26
B. Problem Analysis.....	26

C. Results Framework.....	27
1. Causal Linkages.....	27
2. Critical Assumptions.....	28
D. Progress to Date.....	28
E. Program Approaches.....	29
1. Illustrative Activities.....	29
2. Linkages.....	29
F. Sustainability.....	30
Strategic Objective 2.1: Civil Society and Government are more Effective.....	31
Partners in Achieving Good Governance	
A. Statement of Strategic Objective.....	31
B. Problem Analysis.....	31
C. Results Framework.....	32
1. Causal Linkages.....	32
2. Critical Assumptions.....	33
D. Progress to Date.....	33
E. Program Approaches.....	34
1. Illustrative Activities.....	34
2. Linkages.....	35
F. Sustainability	35
Strategic Objective 2.2: More Open and Responsive Government Acting.....	36
According to the Rule of Law	
A. Statement of Strategic Objective.....	36
B. Problem Analysis.....	36
C. Results Framework.....	37
1. Causal Linkages.....	38
2. Critical Assumptions.....	38
D. Progress to Date.....	38
E. Program Approaches.....	39
1. Illustrative Activities.....	39
2. Linkages.....	39
F. Sustainability.....	40
Special Objectives.....	41
SpO 4.11 Anti-Trafficking.....	41
SpO 4.12 Energy.....	42
Program Support Objective:	44
SO 4.2 Cross-cutting Programs	44

ANNEXES

Strategy Development Methodology

USAID Activities Addressing Corruption

USAID Activities Addressing Conflict Mitigation

Summary of Local Governance Assessment

Summary of Labor Market Assessment

Summary of Corruption Assessment

Summary of Returns and Reconciliation Assessment

Summary of Youth Research

Summary of Biodiversity Assessment

ACRONYMS

AID/W	Agency for International Development/Washington
AKA	Alliance of Kosovar Agribusiness
BPK	Banking and Payment Authority of Kosovo
CEC	Central Elections Commission
CFA	Central Fiscal Authority
CIVPOL	Civil Police
EU	European Union
EWS	Early Warning System
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
IFI	International Finance Institution
IDP	Internally Displaced Persons
IDRA	International Disaster Recovery Association
IMF	International Monetary Fund
IR	Intermediate Result
KEK	Kosovo Electric Corporation
KFOR	Kosovo Forces
KTA	Kosovo Trust Agency
MEC	Municipal Elections Commission
MFE	Ministry of Finance and Economy
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
OFDA	Office for Disaster Assistance
PISG	Provisional Institutions of Self Government
POE	Public Owned Enterprise
SCAAK	Society of Certified Accountants and Auditors of Kosovo
SEED	Support for South East European Democracy
SME	Small and/or Medium Enterprise
SO	Strategic Objective
SOE	Socially Owned Enterprise
SRSG	Special Representative of the Secretary General
START	Strategic Technical Assistance for Results through Training
UNSCR	United Nations Security Council Resolution
UNMIK	United Nations Mission in Kosovo
UNDP	United Nations Development Program
UNIFEM	United Nations Development Fund for Women
UN	United Nations
USAID	United States Agency for International Development
USG	United States Government

A PROFILE OF KOSOVO



Geography

Land area: 10,908 km² (smaller than New Jersey)

Terrain: Low flood plains throughout central Kosovo, surrounded by mountains to the North, West and Southwest.

Highest elevation: Gjeravica 2,856m

Land Use: 52% agriculture, 39.1% forests

Capital City: Pristina - pop. 400,000

Population Description

Population: Approximately 1.8 million people. 42% urban / 58% rural

Population in Diaspora: 400,000 – 700,000 people living abroad. Remittances – estimated at 500 million dollars per year.

Religion: Predominately Muslim. Also Eastern Orthodox and Roman Catholic

Ethnicity: Albanian Kosovar 90%, Serbian Kosovar 8%, Other 2%

Languages: Albanian, English, Serbian

Government

United Nations Mission in Kosovo Interim government (UMMIK est. 1999)

SRSG: Michael Steiner

Provisional Institutions of Self-Government (PISG est. 2002)

Pillar I: Police and Justice

Pillar II: Civil Administration

Pillar III: Democratization and Institution Building

Pillar IV: Reconstruction and Economic Development

President: Dr. Ibrahim Rugova

Prime Minister: Bajram Rexhepi

Speaker of the Assembly: Nexhat Daci

Local Government is represented by 30 municipalities

Economic Description

Currency: EURO (as of Jan. 1, 2002)

GDP2002: €1,990 million

Per capita: €1,051

Employment:

Private Enterprise 23%

Farming 15%

Employment in Diaspora 24%

Extreme poverty: 12%

PART I: SUMMARY OF RATIONALE AND OVERALL ENVIRONMENT FOR ASSISTANCE

A. OVERVIEW

It is thirteen years since the abrogation of Kosovo's autonomy by Yugoslavia that began the long slide into ethnic conflict and the destruction of the fabric of the economy and society. It is four years since war swept through Kosovo, dislocating over half of the population and devastating the economy. The reconstitution of a functioning economic, political, and cultural space is well under way. Having benefited from the liberation of the area by NATO and the provision of humanitarian and recovery assistance by nations from around the world, Kosovars are engaged in rebuilding the institutions and the foundations of their society. The United States has been, and continues to be, a major contributor to this recovery.

The rebuilding of Kosovo has occurred under the aegis of the United Nations. U.N. Security Council Resolution (UNSCR) 1244 of June 1999 assigned the United Nations Mission in Kosovo (UNMIK) and the Special Representative of the Secretary General (SRSG) a broad mandate for bringing Kosovo out of crisis and toward a functioning and stable entity. They were joined by the NATO-led Kosovo Force (KFOR), a multinational force charged with ensuring security. The highest priorities at the end of the conflict were to provide emergency assistance and establish a secure environment. Led by UNHCR under UNMIK's pillar for humanitarian affairs, the international community quickly responded and stabilized the enormous humanitarian crisis. Although far from ideal, the security situation has improved sufficiently that KFOR numbers have been reduced and much of the responsibility for civil order has been turned over to UNMIK's civilian police force (CIVPOL) working in tandem with the Kosovo Police Service.

Having addressed the most immediate needs following the end of the conflict, the focus turned from one of containment to building the elements of a democracy, the institutions for running a government, and the basis for a sound economy. Working through UNMIK's four major pillars¹, the international community has partnered with Kosovar leaders to bring Kosovo out of a decade of neglect and a period of armed conflict. Although there is still much work to be done, substantial, albeit uneven, progress has been made on all fronts.

On the political front Kosovo has made key advances towards self-government. A major milestone was achieved in May 2001 with the adoption of the Constitutional Framework, which established the Provisional Institutions of Self-Government (PISG) and includes the Presidency, the Assembly, and the Government. To date three elections (municipal in 2000 and 2002 and central in 2001) have been qualified as free and fair by local and

¹ The humanitarian crisis was officially declared contained and the pillar for humanitarian affairs was closed in June 2000. The four current pillars, each led by an international organization, are: I – Police and Justice (UN), II - Civil Administration (UN); III – Democratization and Institution Building (OSCE); and IV – Reconstruction and Economic Development (EU).

international observers. Although many powers still are retained by UNMIK, the transfer of competencies to the PISG is underway. (See Annex 3)

This transition does not come free of friction or debate. The coexistence of UNMIK and the PISG is at times fragile, at times poorly defined, and at times contentious. Certain authorities have been retained by UNMIK that, in the view of many observers, should legitimately be turned over to the PISG. A prominent view amongst Balkan experts is that UNMIK has proceeded at a slower than optimal pace in turning over authority to the PISG. Countering this is the view that in some areas, such as municipal governance, authorities are being transferred too quickly, which has the potential to lead to inefficiency at best and corruption and failure at worst. What is certain is that the rules for exercising some of the transferred powers are unclear and are thus a source of discord and disagreement. The result is that decision making is slow and uncertain. It is unlikely that there will ever be unanimity on the priorities or pace of the transition. However, what is clearly needed is a more transparent, accountable, and efficient system that defines the transition and clarifies and gives meaning to the transferred competencies.

A key political issue facing Kosovo today is that of its final status. At present, Kosovo is a political space best defined as a protectorate of the UN and administered by the SRSG. UNSCR 1244 calls for “substantial autonomy and self-governance,” but falls short of defining what form this would take. Options range from reintegration with Serbia to independence. Although the majority of the international community has tried to avoid or defer the issue of final status (for some very good reasons), withholding a decision also carries heavy economic and social risks. The ambiguity of Kosovo’s final status is a major deterrent to trade and investment. Further, it precludes international financial institutions, such as the World Bank and IMF, from lending to Kosovo, hindering its ability to finance needed capital improvements. While discussions over final status could escalate tensions between the two main ethnic groups, ignoring the issue is neither realistic nor conducive to reconciliation. Rather, continuing efforts by Belgrade to assert its authority in contravention of Resolution 1244 is counterproductive to reconciliation efforts. Most Serbian Kosovars still look to Belgrade for their future. Belgrade continues to support parallel structures for Serbian Kosovars, including education, health, and police. Although undoubtedly an important source of revenue and employment for the Serbian communities in Kosovo, the existence of these parallel structures hinders efforts to extend Kosovar assistance to these communities and provides a financial incentive for the Serbs within Kosovo to support Belgrade’s institutional influence.

As a prelude to final status discussions, last year the SRSG introduced the concept of “standards before status” -- an attempt to define, through the establishment of benchmarks, internationally acceptable levels or degrees of performance and institutional capacity that must be met before opening the status issue for discussion.² Unfortunately, this approach suffers from some serious flaws. The benchmarks lack clear definition,

² The current benchmarks involve the establishing of Functioning Democratic Institutions, Rule of Law, Freedom of Movement, Returns and Reintegration, Economy, Property Rights, Dialogue with Belgrade and the Kosovo Protection Corps.

both in terms of what is to be achieved and who is responsible. Moreover, the benchmarks were developed by UNMIK with no direct input from the PISG or Kosovar society on the process or the content, which has resulted in a lack of ownership in their achievement. This approach has thus far only succeeded in creating more controversy as the benchmarks have been used as threats rather than guidelines. UNMIK appears to have recognized the flaws in its approach and there are current efforts underway to correct these inconsistencies. Expectations are that the revised process will produce some clear and logical steps that Kosovo can follow on its path to meaningful autonomy.

The international community has perhaps only one opportunity to get it right in Kosovo – and this opportunity is rich with the potential for success. It is a place where there exists a favorable set of conditions not found in most countries. Old structures in the public and private sectors have largely been swept away and our Kosovar interlocutors are highly receptive to assistance efforts. There is a unique chance to “green-field” a government, a democracy, and a market economy that can serve as important examples in a problematic region and beyond. Institutions, though in their infancy, have been cleaned of the vestiges of their communist past. Government institutions, while employees are underpaid and under-skilled, are not yet bloated and for the most part do not exhibit signs of predatory behavior. But this opportunity comes at a cost. It requires that we – the U.S., the EU, and other donors – stay the course and provide sufficient resources and adequate time to do the job. Other emergencies may exist or arise, but these should not distract us from what may be our best opportunity in the Balkans to help create a stable democracy and functional economy in a reasonable timeframe. Kosovo’s final status remains unclear, but irrespective of that eventual outcome, it must be prepared to govern and function with whatever autonomy it eventually gains.

B. U.S. FOREIGN POLICY INTERESTS

Stability in the Balkans is of paramount importance to both the United States and Europe. The world has seen too often the results of instability in this region. There are close interrelationships between all parts of the region and disruptions in one can influence the others. An unstable Kosovo will contribute to an unstable region. As Kosovo is part of the Balkans, so is it part of Europe and its integration into the European economy is a key priority for the United States Government. Kosovo is a unique situation for the U.S. It is a moderate, predominantly Muslim entity in Europe where the population feels a special bond with America. The majority of Kosovars see the United States as the main actor in the drama that freed them from the oppressive regime of Slobodan Milosevic and look to the U.S. as a prime source of guidance and help. Additionally, a large and active Albanian diaspora community exists in the U.S. While the EU is the major source of both economic and security assistance, American opinion and advice is also greatly valued.

“The overriding U.S. interest is for all countries of South Central Europe to be a part of a Europe whole, free and at peace.”

United States Mission to Kosovo, MPP 2005

The US Mission to Kosovo’s mission performance plan for FY 2005 identifies five goals, the achievement of which will contribute to the realization of our foreign policy interests.

USAID has a principal role in the efforts of three of these goals: *Economic Growth*, which aims to develop and to integrate the economy more fully into the regional, European and world economy; *Rule of Law*, which seeks to establish and enhance the rule of law; and a *Democratic System* that strives to foster the establishment of effective, responsive, and uncorrupt governmental institutions, selected through and managed on democratic principles. These efforts are considered essential for the economic and political health of Kosovo and stability of the region.

The strategy that USAID intends to follow in contributing to the achievement of these interests is informed and guided by the USAID vision for Europe and Eurasia. The three essential elements of Bureau for Europe and Eurasia assistance include “helping to establish full democracies rooted in the rule of law, nurturing vibrant market economies, and supporting the emergence of a responsive social net to meet the needs of the people, especially those disadvantaged during difficult times of transition.” These goals will be achieved in a manner that affirms and nurtures the values of human dignity, an especially important concept for Kosovo.

C. USAID ASSISTANCE TO DATE

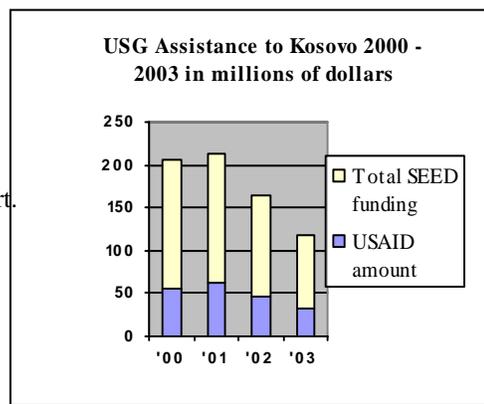
U.S. assistance to Kosovo started in mid-1999 at the conclusion of the conflict that expelled Milosevic’s regime from Kosovo. At the end of this conflict 38% of the housing stock was completely destroyed and another 20% was severely damaged.³ Most of the population had been forced to flee their homes and the economy and institutions were in shambles. Per capita income had plunged from \$1000 per year in 1989 to \$400 in 1999, industrial output had collapsed, and agriculture and livestock production had been decimated.

During and immediately after the conflict large amounts of humanitarian assistance were provided to house, feed and tend to the basic needs of an enormous number of displaced and newly impoverished Kosovars. This was followed by a program to start the restoration of civil and economic life in Kosovo.

In the three-year period, September 1999 through September 2002, over \$174 million of USAID assistance was committed to the reconstruction of Kosovo, in addition to the large amount of emergency assistance provided through OFDA funds. USAID’s assistance established a program to rebuild Kosovo’s vitality by supporting UNMIK, and later the PISG, and by helping the private sector develop, encouraging the formation of democratic institutions, and rebuilding community infrastructure, both physical and human. Vulnerable groups such as children and women were given special attention.

The effectiveness of the recovery has been stunning. In three years the per capita income increased to approximately \$875. Great strides have been made in putting in place a new set of economic and fiscal policies, setting the stage for a transition from a command to a market

³ International Management Group, July 1999, Survey Report.



economy. Budget and tax systems are functioning well, a modern banking system has been established and a comprehensive pension system has been initiated. Extensive work was completed in rehabilitating and rebuilding community infrastructure, such as schools, health clinics, water systems, and roads. Free and fair national and municipal elections were held, a free and open media environment was created, and civil society was given a fresh start.

The U.S. has not been alone in contributing to this success, and many partners in the recovery endeavor remain committed to creating conditions in Kosovo that can provide its citizens with a full measure of freedom and economic opportunity. The success of the international community's efforts has brought Kosovo to the point where the humanitarian and recovery stage is virtually over. The remaining humanitarian problem is the return of displaced persons, mainly non-Albanians, to their homes of origin or location of choice. The economy is on the cusp of normal development. This, however, does not mean that there is need for a totally new approach. Rather the problems faced during the initial strategy period have been successfully treated to the point that work on establishing a self-sustaining process in important areas can proceed. Fewer assets than were initially provided will be needed to build on the successes to date. However, a steady, long-term approach will be needed to ensure that the changes undertaken become embedded in the society and economy so that regardless of the decision on final status, the people of Kosovo will prosper.

D. OVERVIEW OF THE STRATEGIC CONTEXT

1. THE ECONOMY

Over the last four years, the combination of accelerated institution building and sound economic policies has resulted in impressive results in the economic sphere. The economy of Kosovo is recovering and is characterized by stability. The official currency is the euro, which has enabled rapid macroeconomic stabilization after years of inflation. The Kosovar culture of entrepreneurship, combined with donor funds and large scale remittances from the Albanian diaspora (estimated at 500 million euros per year), has provided the stimulus for a vibrant private sector.

While the lack of official and reliable economic statistics makes it difficult to present an accurate picture of the Kosovo economy⁴, the most recent analysis provided by the Kosovo Ministry of Finance and Economy indicates that GDP is approximately 1.4 billion euros per year, equating to a per capita GDP of approximately 800 euros. However, after adding in all sources of revenue, including remittances from abroad and in-kind income, total disposable income is estimated at about 1,200 euros per person.

The establishment of a sound tax regime has allowed Kosovo to be weaned off of donor financing in three years – in 2002 ninety-five percent of recurrent expenditures of the Kosovo Consolidated Budget was financed from domestically collected tax revenues.

⁴ Accurate data collection systems are currently being developed. Much of the data contained in this report was gathered from the Ministry of Finance and Economy.

Moreover, because Kosovo is unable to access financing from IFIs, Kosovo has no sovereign debt – although final status negotiations undoubtedly will affirm whether Kosovo is liable for repayment of FRY loans previously used in Kosovo.

While there are many positive aspects of the Kosovo economy that make it seem strong on the surface, a deeper analysis reveals weaknesses and aberrations that make the economy vulnerable. First, compared to countries in the Balkans and in the rest of Europe, Kosovo illustrates several extremes. For example, it has the lowest total GDP, the largest percentage of population living at a subsistence level, and partly because privatization has been slow, Kosovo remains the most “socialist” economy, in that the private sector accounts for only 28% of the official economy. In relative terms, the public sector in Kosovo is the largest in Europe when activities financed by donor organizations are included. The development of the banking sector has been remarkable⁵; nevertheless, financial intermediation, a significant indicator of a sophisticated economy, remains the lowest in Europe.

Kosovo's economy is to a certain extent artificial and unsustainable, as it is largely driven and supported by the international and donor community, and diaspora funds. Private sector activity⁶ is based more on trade, services, and construction than it is on production.

Reconstruction needs following the conflict, along with the presence of a large international community demanding quality imports, resulted in a large trade imbalance with exports representing only three percent of imports. As the international community shrinks, imports will decrease; however, many businesses will suffer from a reduced demand for their goods and services. The emergence of this economic phenomenon was a logical and predictable result of the post-conflict reconstruction efforts and the unique legal structure under UNSCR 1244 that constrains economic activity beyond Kosovo. The challenge now is to monitor and ease the contraction of the economy over the next few years through fiscal measures, as well as by facilitating increased productive output and the growth of both domestic and regional markets.

A continued gradual reduction in donor budget support will force the central government to finance a larger proportion of the Kosovo Consolidated Budget. While the government is now meeting its recurrent expenditures, donors have been financing virtually all capital expenditures. Donor financing of capital spending was 38% of GDP in 2000 and 34% of GDP in 2001, largely expenditures for the electricity sector. This is projected to decline

⁵ Beginning in 1999 with no banks, Kosovo's financial sector has expanded to 7 banks (2 international) and more than 140 branches throughout Kosovo (not counting micro-finance organizations). More than 437 million euros is on deposit in these institutions which presently carry a combined loan portfolio of 146 million euros.

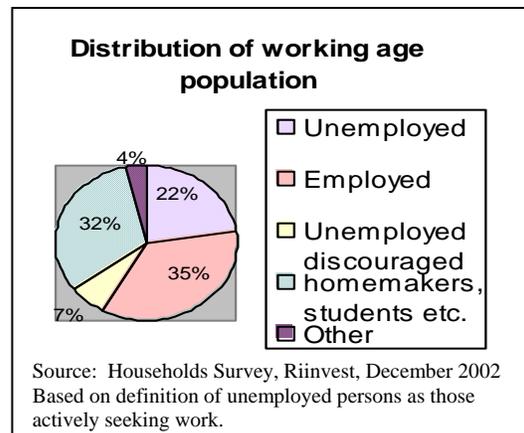
⁶ The private sector is predominantly family-run small businesses with very few large-scale firms. Industry's share of the private sector is less than 10%. While agriculture represents about 20% of GDP (with agriculture and agribusiness comprising about 25% of GDP), about 80% of food produced represents subsistence farming. Only a small amount is delivered to the market for sale. Sixty percent of the population lives in rural areas.

to 8% by 2005 and any gap will have to be assumed by domestic revenues. Further, because the tax system relies heavily on import tariffs, tax revenues will decline as imports drop.

Privatization was delayed and is only now beginning; in May 2003 the first six tenders were issued. Progress was limited initially because UNMIK’s conservative interpretation of its mandate to administer socially-owned and publicly-owned enterprises (SOEs and POEs) effectively precluded progress in privatization. In mid-2002 UNMIK approved a comprehensive legal framework for privatization and established the Kosovo Trust Agency (KTA) to administer all POEs and SOEs. Recently-enacted land use legislation clarifies and ensures appropriate land use and transfer rights for investors. This delay in transforming SOEs into commercially viable enterprises has slowed economic development in several ways. The continued existence of inefficient SOEs not only operates as a drain on the budget but also prevents the productive use of extant facilities and vast tracts of associated land. Further, without productive enterprises, jobs were not created in any significant numbers. With privatization beginning, economic growth should accelerate.

A major economic problem facing Kosovo is unemployment, especially youth unemployment. Statistics reporting unemployment levels are among the most variable in Kosovo and, depending on how unemployment is defined, these estimates can range from 35% to 60%. What is certain, however, is that the unemployment rate in Kosovo is one of the highest in southeast Europe. This is partly explained by the lack of productive enterprises along with a lack of marketable skills in the workforce.

Last, but certainly not least, are two major conditions impeding economic development: the lack of stable electricity supply, and the status issue. First, the lack of 24-hour electricity is a significant deterrent for those seeking to establish and invest in businesses in Kosovo, especially any involved in production. Second, Kosovo’s undetermined status adds additional risk to investment decisions and complicates entrepreneurial activity. The status issue creates ambiguity in basic considerations such as the nature of property rights, some of which are contested based on sovereignty issues. Numerous other factors, including issues surrounding passports and visas, and even the inability to use a credit card in Kosovo, are tied up with the status issue and complicate business activity.



2. DEMOCRACY AND GOVERNANCE

Significant progress has been made toward establishing democratic institutions and good governance. Two rounds of municipal elections and elections for the Kosovo Assembly have been conducted freely and fairly. A range of political parties have participated in the elections and civil society has helped to educate voters and monitor administration of the elections. The Assembly has begun to draft, debate and adopt legislation, and Assembly committees with members representing multiple parties and ethnicities are established and functioning. Municipal assemblies promulgate local policies and regulations. Municipal governments provide services to citizens within the limitations of the current regulations, collect own-source revenues, and (with the exception of one municipality) now have complete decision-making authority over how to spend their municipal budgets.

Civil society has proven to be a dynamic and influential element of Kosovo's democratic governance. NGOs and informal citizens' groups have successfully advocated for laws and regulations, influenced policy decisions, participated in public hearings, and demanded accountability of government institutions and officials. Private media produce professional news and information programs, conduct investigative journalism, and provide objective coverage of political and economic affairs.

Despite remarkable progress, Kosovo's democratic culture and institutions, not surprisingly, remain weak and at risk from a host of external variables. The Government and Assembly expend much time and energy on the issue of final status, while the situation surrounding ethnic reintegration and reconciliation remains fragile. Serbian participation in central and municipal institutions is heavily influenced by Belgrade, which continues to support parallel structures in Serbian-majority areas. UNMIK retains reserved powers in many areas, creating confusion over the competencies of Kosovar institutions, as well as conflict between UNMIK and PISG.

Civic and political leaders are generally untested and inexperienced, as most of those that ran the autonomous region of Kosovo prior to 1989 and during the 1990s have departed. Many of the new politicians have not had comparable political responsibilities before and are uncertain of how to proceed. Citizens have little experience with a democratic culture and are often unsure of their rights and their responsibilities, as well as those of their elected officials.

The basic legislative framework is still in its infancy, with key laws and codes yet to be adopted, and often being drafted with limited input from Kosovars. For example, a

Public Opinion in Kosovo September 2002 – April 2003		
Indicator	Sep – Dec 2002	Jan – Apr 2003
Satisfied with UNMIK's performance	57.8%	51.9%
Satisfied with SRSG's performance	67.3%	64.4%
Satisfied with Government's performance	69.1%	74.9%
Satisfied with Assembly's performance	73.1%	71.9%
Optimistic about economic welfare of their family	66.0%	48.5%
Source: Public Opinion Survey EWR, UNDP		

number of new election-related laws are needed. UNMIK still claims elections to be a reserved power, and many citizens are worried about the lack of Kosovar ownership of the drafting process. Although previous elections were free and fair, the electoral framework of Kosovo is in need of reform to ensure better representation of constituent needs and political parties that are more accountable. As in other transitional societies, political parties are often personal rather than platform based and lack transparency and accountability to the people. This undermines their legitimacy and affects the quality of the democratic process.

Although significant progress has been made in reforming the justice system, another UNMIK reserved power, significant problems remain. According to the UNDP, a majority of Kosovars is dissatisfied with the courts. A 2003 survey conducted by Index Kosovo showed that the judiciary, out of 28 institutions, is perceived to be the tenth most corrupt institution. Low salaries, lack of access to legislation, inefficient court administration and low public trust all undermine the integrity and efficiency of the justice system.

At the local level, municipal governments have been granted more control over their budgets but are severely constrained in fulfilling many functions typically undertaken by local governments. Some basic services, such as police and security, are UNMIK reserved powers; the Kosovo Trust Agency and other UNMIK bodies retain control over public utilities, socially-owned enterprises, and municipal properties; and the regulations and legislation pertaining to municipal government competencies are often vague or confusing. Nonetheless, even where municipal competencies are clearly defined, municipal officials often lack the skills and resources to do their jobs effectively. Although municipalities are collecting own-source revenues, their ability to meet the financial needs of municipalities is threatened by the poor economy, high unemployment, lack of investment, and an unfavorable environment for local economic development. Further, as more competencies are handed over to municipal officials, stronger mechanisms will be needed to ensure transparency and accountability and to minimize opportunities for corruption.

The delays in successfully addressing Kosovo's economic problems also undermine the development of Kosovo's media and civil society. Public and private media depend largely on international donors for financial survival, raising concerns about their ability to maintain editorial independence in the long-run. New legislation is needed to protect the independence and viability of media and to ensure proper regulation of the sector. Journalists and media still need to improve their professionalism and media organizations require assistance in business management. NGOs and citizens' groups have had success in influencing policy decisions, but still lack basic skills necessary to act as effective watchdogs and to engage government on a more sophisticated level.

"Kosovars need to be more involved in political issues in general in order to help their leaders...They have to make sure that our institutions are listening. We cannot have democracy if the people do not exercise their rights, and if the ones appointed to serve the people do not act according to their will. This is a simple but a necessary formula for Kosovo"
Bajram Rexhepi, Prime Minister of Kosovo. March 2003

E. CROSS-CUTTING FACTORS INFLUENCING STRATEGY

1. Conflict

Kosovo is only four years into its recovery from violent ethnic-based conflict that featured the mass movement of civilian populations and the destruction of infrastructure. Progress from chaos to conditions now approaching normalcy has been achieved, but there is still room for concern. Although the renewal of armed conflict is considered highly unlikely, day-to-day intimidation and isolated incidents of violence continue. Ethnic tensions still dwell below a shallow surface; as many as 200,000 individuals remain displaced from their homes; freedom of movement for the minority population is improving, but must still be considered restricted; unemployment is endemic and the economy is artificially buoyed by international organizations and remittances from Albanian diaspora groups; and regional crime syndicates are active. Security is provided by KFOR, CIVPOL, and increasingly by the Kosovo Police Service. While steadily improving, the security situation is considered fragile by much of the population, especially the minorities.

As a means of monitoring and tracking this myriad of potential sources of conflict, the UNDP, with USAID assistance, introduced an early warning system (EWS) for Kosovo, based in part on similar systems implemented in neighboring countries. Surveys are conducted approximately every four months.

17 potential problem areas are continually monitored, reflecting the perceived potential of each of the areas to provoke conflict. The EWS is receiving ever-wider attention and its findings are increasingly being used as a source for discussion and analysis. The UNDP has introduced well-attended roundtable sessions where a variety of representatives from the international and Kosovar communities discuss the findings and recommendations. The EWS will continue through 2005, providing useful information on major triggers of conflict and will serve as a continuing source of reference for USAID activities. (See Annex 4.3)

Opinion Polls on Ethnic Relations November 2002 / March 2003 (%)			
	Albanians	Serbs	Others
Relations are tense; will remain so	34/42	69/73	35/14
Relations tense, but recent improvements	36/37	18/18	37/62
Relations tense, but substantial improvement	17/10	10/7	24/16
Relations not that tense	10/7	2/1	4/8
Relations not tense	3/5	1/0	0/0
Early Warning Report, April 2003			

Returns and Reintegration

One of the most palpable triggers of conflict is the multifaceted issue of minority returns and reintegration. The exact number of displaced people is elusive.⁷ However, UNHCR estimates that there are approximately 22,000 IDPs⁸ in Kosovo and 235,000 outside of Kosovo (mainly in Serbia and Montenegro); mostly Serbian but also other minorities and Albanian IDPs. The number of net returns to Kosovo has been small over the past three

⁷The exact number of currently displaced persons is in dispute as numbers can be subject to political manipulation and there has been no comprehensive mechanism for collecting accurate data.

⁸UNHCR defines IDPs as those citizens who have been forced to leave their homes as a result of, or to avoid, armed conflict, violence, human rights violations, or natural or man-made disaster, yet have not crossed an internationally recognized border. This definition refers to the displaced populations of Kosovo that are residing in Serbia or Montenegro, as well as those residing within the boundaries of Kosovo.

years, with inflows almost balanced by outflows. Approximately 2700 returns were recorded in 2002, marking the first year with a net inflow.⁹

Numerous studies have addressed returns. The Mission recently conducted its own assessment of the problem (see Annex 5.4). The study concluded that many IDPs expressed a desire to return, but were deterred by the realities of returning to destroyed houses and socio-economic hardships such as lack of employment and/or lack of appropriate medical and educational services. Even though often deplorable living conditions in locations of displacement were reason enough to return, the principle reason for the slow pace of returns was the lack of jobs and economic opportunities.

Additional factors potentially stalling returns include lack of engagement of municipal officials in the returns process, lack of receptivity by the majority in return communities, unreliable accounts of conditions and attitudes often broadcasted by Serbian media that frighten displaced people, lack of a coherent legal framework to resolve property disputes, and cumbersome processes installed by the international community to engage in the facilitation of returns. While security was cited as an important factor by many IDPs, the team concluded that the perception of the security situation is worse than the reality, and gave high marks to the Kosovo Police Service and KFOR.

The assessment concluded that USAID can contribute best to the prospects for sustainable returns and reintegration through emphasizing programs that strengthen local institutions, promote democratic governance and citizen participation, and build a sustainable economy with improved employment opportunities. In addition, offering infrastructure projects to communities that encourage returns and facilitate reintegration is an important element in creating a favorable environment for returns. The creation of conditions that foster employment, assistance to media to create a more open system, development of a coherent legal system, and increased engagement of municipal officials in the process are basic to and will help accelerate the return and reintegration process.

However, notwithstanding all the good will on earth, the sense of the assessment is that the conflict is so recent and the animosities so profound that it will be many years before meaningful resolution between ethnic groups can hope to be achieved. The uncertainty over Kosovo's final status is most certainly a disincentive for reconciliation on the part of the Serb minority. Reintegration is a day-to-day effort made of small steps across all levels and aspects of society. In the sectors where USAID works, it is imperative to ensure that these steps are identified and implemented. We can, for example, ensure that the multi-ethnic Assembly is given the tools to function effectively, that minorities are given a voice in local government, and that information is free and unbiased. We can also continue to support municipalities in meeting requirements for Fair Share Financing, UNMIK-sponsored legislation that requires each municipality to spend of percentage of its budget on programs that directly benefit its non-majority population. We must make these efforts to create positive conditions for reintegration, unleashing momentum for further steps to be taken by the Kosovars themselves.

⁹ UNHCR estimates. This number may be significantly higher as not all returnees were registered.

2. Corruption

An assessment of corruption in Kosovo, completed in May 2003, surveyed the depth of the problem and identified key vulnerabilities and the capacities of institutions to control the problem. Areas reviewed included public administration and public services, legislature, the justice system and law enforcement, civil society, private sector, media and municipalities.

The assessment concluded that while corruption exists, it seemingly has not yet undermined the ability to govern nor is it as widespread or disruptive as opined by casual observers of Balkan society. In a recent survey by Index Kosova, Kosovo scored lower than all eight of its Balkan neighbors on six out of eight corruption indices, and was comparable to the other countries on the other two indices.

Corruption Index Values (based on index levels 1 – 10)							
Corruption Index Values (based on index levels 1 – 10)	Acceptability in Principle	Susceptibility to Corruption	Involvement in Corrupt Practices	Corruption Pressure	Spread of Corruption	Practical Efficiency of Corruption	Corruption Expectations
Albania	2.4	4.5	2.0	3.4	7.0	6.6	5.5
Bosnia and Herzegovina	2.0	2.9	1.5	2.5	6.0	5.9	5.0
Bulgaria	1.3	2.7	0.3	1.0	6.4	6.9	5.8
Macedonia	2.4	3.0	1.6	2.3	6.8	6.1	6.1
Romania	1.9	3.7	1.1	1.9	6.9	7.1	6.2
Croatia	2.2	2.6	0.6	1.4	5.3	5.8	4.8
Serbia	2.0	2.7	1.4	2.2	6.0	6.5	5.1
Montenegro	1.5	2.6	1.0	1.8	6.0	6.7	4.5
Kosovo	2.1	2.8	0.7	1.1	4.9	3.9	3.8

10 = very serious, blatant corruption 0 = "corruption free" society Kosovo Corruption Survey: IDRA
(Data for Kosovo and Bulgaria are from 2003; all other data is from 2002)

Considerable potential exists for corruption to become a significant influence in Kosovo if steps are not taken to address some of the weakness in the economic, civil, and rule of law segments of society, especially as UNMIK transfers greater competencies to the PISG. Potentially troublesome areas are privatization of socially-owned and publicly-owned enterprises, tax collection, and land registration. Some of the large new administrative systems that have been installed by donors, such as Customs, will be effective only if their proper implementation is ensured by continued donor assistance.

The Mission has concluded that while not a priority for the citizenry at present, the potential for difficulties is sufficiently strong that addressing corruption through activities across the portfolio is justified. Consequently, while not a freestanding activity, each strategic objective will contain elements associated with efforts to address corruption – transparency and accountability will be threads woven throughout the strategy. For example, assistance in the economic sector will target the creation of compliance mechanisms to ensure that systems being installed can be audited and checked by independent bodies. Democracy and governance programs will include activities that increase the consistency, transparency, and effectiveness of rule of law and governance procedures, strengthen the independence of the judiciary, and increase capacity of civil society and media to serve as watchdogs of corruption. (See Annex 4.2)

Overlaying the entire strategy will be the principle that training which occurs in pursuit of objectives will sensitize new managers, either public or private, to the principles, values, and ethics that must be present to counter corruption in everyday transactions. The goal, therefore, will be to institutionalize best practices of good governance and prevent corruption that could undermine Kosovo’s democratic and economic progress.

3. Youth

The large population of youth in Kosovo presents many problems for the future that need to be dealt with today. Approximately 60% of the current population is under age 25, and one-third of the population is under 15, with the rural population being slightly younger than the urban population due to higher birth rates. By contrast, individuals 65 years and over account for only 5.5% of the population.¹⁰ This unique demographic makes the “youth factor” very important in ensuring the success of all development efforts.

Youth is in need of better education and improved skills to deal with economic and social pressures, and to be able to take a proactive stance in addressing the obstacles to its growth and social involvement. Social, educational, and economic networks and institutions for youth require significant assistance to become fully functional.

On the positive side, there is a considerable degree of optimism among Kosovo youth. According to the December 2002 PRONI youth research report, 39% of youth in Kosovo expect that their life will be good in the future and 24% think that it will be excellent in spite of present hardships. Young people in Kosovo do not plan to leave in mass numbers in search of better opportunities, as has occurred elsewhere in the region. A big exception is the on-going migration from villages to cities – 63% of Kosovo youth believe that cities offer better living conditions. Finally, Kosovo youth has a relatively high trust in PISG bodies, such as the President (45.7%) and the Government of Kosovo (42.7%). It is imperative to build on the existing positive trends and aim at engaging youth in meaningful ways through social, political, and economic programs.

“I always thought that leadership didn’t have anything to do with me, that only self interested politicians were leaders. Now I understand that leadership is all about citizenship - taking responsibility and initiative and bringing into my community and workplace new ways of seeing and doing things that are for the good of all the people.”

Myesere Hoxha, Class 3 Hope Fellow

Youth must be given a voice in shaping their future and the opportunity to develop the social values and skills needed to contribute effectively to civic life. To ignore the potential negative impact of a large number of idle and economically unmarketable young people would be a folly at best. As a cross-cutting theme, treating youth as both partners and beneficiaries of USAID-programs, youth can be incorporated into a wide range of programs – from addressing the training needs that improve their access to economic opportunities, to providing activities that give them access to policy discussions and leadership positions in political parties, civil society, and business associations.

¹⁰ PRONI – Institute for Social Education. December 2002

4. Gender

Kosovo, similar to many countries, is dominated by a patriarchal culture in which women have traditionally been marginalized and suffered discrimination. This is especially true in rural areas. In recent years, however, much attention has been focused on reducing this discrimination and creating greater opportunities for women.

Significant progress toward gender equity has been made in the political arena, as both UNMIK and PISG have devoted offices exclusively to gender matters. The Kosovo Constitution makes the "Convention for Elimination of All Forms of Discrimination against Women" (CEDAW) applicable in Kosovo. The CEDAW is now being used and provides a powerful legal tool supportive of the advancement of women's interests. OSCE has defined a gender quota of 30% for women in the closed-list electoral system. With a significant movement to reform the electoral system, the issue of preserving a high percentage of women in elected posts was identified as one of the main objectives in a recent Gender Equality Action Plan, which was drafted by Kosovar experts with assistance from USAID and UNIFEM. The Mission will continue to maintain focus on enhancing the growing role of women through its work in promoting democratic institutions, vibrant civil society, and better local governance. Although gender will be treated as a cross-cutting theme throughout the portfolio, the Mission will continue its stand-alone activities focused on women's leadership training and NGO development.

Progress in the economic area is less apparent. More young women are unemployed than young men. Women also tend to enter the labor market later and less well prepared. Only 6% of the 50,000 businesses are registered by women and only 6% of real estate is owned by women. These figures may mask, however, the more powerful role of women entrepreneurs working within family enterprises. There is clearly room for improvement. Mission activities in the private sector will address both unemployment and lack of managerial skills, which will in turn result in more women prepared for and engaged in economically productive activities.

Finally, Kosovo is a transit point for trafficking in women. While records show that few trafficked women originate in Kosovo, the small number is apparently growing. While this trend could be a reflection of more women willing to seek help, it is not the time to be complacent. As there are laws on the books providing for strict penalties to those exploiting women, USAID's work with central and local governments will enable them to better work toward elimination of external trafficking as well as address the acknowledged issue of internally-trafficked women and victims of forced prostitution.

5. Human Capacity Development

Kosovars are currently poorly positioned either to initiate or to sustain substantial economic growth. While an enabling environment can be put in place, there remains the fact that the majority of citizens lack the necessary education or training to be the entrepreneurs, managers, and drivers of robust economic growth. With the loss of autonomy in 1989, the ethnic Albanian majority was forced out of public service jobs and many of the better educated left to find employment opportunities outside of Kosovo.

Many young Albanian Kosovars left the formal education system and began to participate in an under-funded and overcrowded parallel system of education. Although adult literacy is estimated at over 93%, there are significant pockets of inequality, especially in rural areas and among (non-Serb) minority groups and women. While females are equally represented with males at the primary school level, there is a significant drop in attendance at the secondary school level by Albanian females. Of the non-Serb groups, today's 16-25 year old cohort has less education than their older counterparts aged 26-45. It is estimated that only 17% go on to higher education.¹¹

Human capacity development is needed in all sectors and at all levels. The transition of Kosovo from the poorest province in the former Yugoslavia to a viable and fully functioning market-driven democracy is dependent on the capacity of Kosovars to both lead and sustain the transformation. Training and education thus forms an important cross-cutting theme and forms the core of many of the assistance efforts to be undertaken.

F. STRATEGIC PRIORITIES AND PROGRAM DIRECTIONS

1. Goal

USAID's overall goal for Kosovo is a democratic, self-governing, economically sustainable entity, in which all citizens have equal opportunities and rights. In the recent decade of neglect and destruction virtually no element of society remained untouched. The structural and human capacity deterioration caused by the conflict, when combined with the demands of market and social transition which affect all countries in the region, creates a massive development need in Kosovo. As one of many donors, USAID has made difficult choices on where it could interact most effectively in order to help change the environment. The decision, based on extensive analysis, consultation with a wide variety of concerned parties, and experience over the past four years of engagement in Kosovo, has led to concentration on two broad areas – Economic Development and Democracy and Governance.

The economic development objectives of USAID are to stimulate economic growth by promoting integration of the economy into the region and encouraging productive investment into Kosovo, creating new sustainable employment opportunities. There are two broad preconditions that must be met if these objectives are to be achieved. The first is to set in place institutions, practices, and policies that encourage and reward investment. The second is to work directly and intensively with businesses to create a dynamic, competitive and expanding private sector. Statistics indicate that poverty is widespread but not deep, with approximately 50% of Kosovars living below the poverty line, 12% in extreme poverty¹². Therefore, USAID Kosovo will not implement projects specifically geared toward alleviating poverty, but rather, aim to stimulate economic growth that will provide greater opportunity and income potential to Kosovars.

¹² Survey conducted September – December 2001

In the area of democracy and governance, the overall USAID goal is to have more capable and responsive government officials acting according to the rule of law, representing the interests of citizens and providing transparent, accountable, fair, and effective governance based on input from citizens, communities, and the media. As with economic development, there are two broad preconditions that must be met for the goal to be achieved. First, government must be accessible and transparent to the public, responsive to their needs and acting in accordance with the rule of law in a predictable fashion. Secondly, there needs to be a synergistic partnership between a well informed and active civil society and a capable and accountable government. The two strategic objectives in this area will work toward achievement of improved and stable democratic systems of governance, based on a vibrant civil society.

2. Focus

The Mission will concentrate on the pursuit of four strategic objectives, two special objectives, and one program support objective over the strategy period. Given positive movement from the broad assumptions outlined and continued involvement of the donor community, it is the Mission's judgment that all of the stated results can be achieved during the five year strategic plan period.

Economic Development:

The current three-year transitional strategy for Kosovo focuses on creating the basic structures needed for economic development. [*SO1.3 – Establishment of an Economic Policy and Institutional Framework that Facilitates the Recovery and Expansion of the Private Sector-Led Economy*]. In four years substantial progress has been made in establishing that framework. In addition to completing the policy reforms, the task now turns to implementation and institutionalization. The focus in the economic objectives thus turns to the “Kosovarization” of key economic policy institutions and the implementation of the policies, laws, and reforms put in place. The broad-based support that was provided to the private sector will be narrowed somewhat so that more intense assistance can be provided in key sectors.

S.O. 1.2 – Improved policy and institutional climate for productive investment is the broadest and most fundamental of the economic objectives. Achievement of this objective will provide the framework for market-based economic growth that will permit self-sufficiency and enable Kosovo to achieve its economic aspirations in a free market environment. Under this strategic objective the policy and legal environment will be set in place, export barriers diminished, work will be completed on modern budget, tax and financial systems, and socially-owned assets will be privatized. Legal underpinnings needed for commercial activity and adjudication of disputes will also be put in place.

S.O. 1.3 – Accelerated growth of the private sector focuses Mission resources on improving agricultural efficiency, enterprise capacity, and business operating conditions as avenues to employment generation and economic efficiency and growth. USAID assistance will focus on technology, international product standards, and improved business plans as ways to improve management, rationalize operations, and attract investment capital on an efficient scale (both domestic and foreign). A second focus will

be support to business associations and other organizations by enhancing their ability to provide meaningful input in the development of economic policy and law. This effort will help to ensure an operating environment that supports business creation, market expansion, and rational investment.

Democracy and Governance:

As in the economic area, assistance to date under the democracy and governance programs has focused on establishing the fundamental structures of democratic reform and institutions. [SO2.1 Accountable and Transparent Governance] There is now the need to consolidate the gains made, specifically in elections and media. Transitioning out of direct assistance to community infrastructure [SO3.1 Restored Normalcy in Living Standards and Opportunities] and capitalizing on the progress made in decentralization, the principal new area of focus of the governance programs will be building capacity at the local level and mobilizing effective partnerships among local constituencies.

S.O. 2.1 – A civil society and government that are more effective partners in achieving good governance is the first strategic objective supporting the Mission's overall democracy and governance goal. Areas of concentration will seek to engender better informed citizens with a commensurate increased influence on public policy. This objective will also seek to create conditions in which local governments are more accountable and transparent in their activities. Furthermore, with increased devolution of responsibilities, activities will be focused on assisting the municipalities to fulfill their key functions more efficiently.

S.O. 2.2 – A more capable, transparent and responsive government acting according to the rule of law will be the focus of activity in the Mission's efforts to engender a viable democracy in Kosovo. To do this the Mission will provide assistance that will create conditions for locally-administered free, fair, and more representative elections. It will also work on the administration of justice by helping create a basic legal framework that supports democratic institutions, as well as provide resources and techniques that will lead to the fair and transparent administration of justice.

Special Objectives

Two special initiatives will cover areas of importance that fall outside of the core strategy – anti-trafficking and energy. The anti-trafficking effort will target both the elimination of trafficking and the protection and rehabilitation of trafficked persons. The energy activity will provide discrete assistance to the PISG and the Kosovo Electric Company.

Program Support Objective

Cross-cutting programs will be implemented under a program support objective. These activities will address capacity building efforts that will support all of the strategic objectives. Training will include the women's leadership and other women-oriented activities. A new education initiative consisting of graduate fellowships and seminars will be undertaken through the establishment of a new public/private partnership.

3. Roads not Taken

In developing the next phase of USAID assistance to Kosovo, the Mission, with a proposed budget half of what it was three years ago, was forced to make some difficult choices and set its priorities carefully. A determination was made at the outset, confirmed in the pre-strategy consultations in Washington in September, that the Mission needed to concentrate in areas where it already had established expertise and a proven record of assistance. Therefore, several areas that were identified as being of high priority at the strategy retreat held in October 2002 will not be addressed. These areas are environment, formal education, and health.

Environment

USAID has not provided any direct assistance to the environment sector. However, the Biodiversity Assessment, carried out in April 2003 (see Annex 5.6), contained some meaningful and useful recommendations for incorporating environmental measures within existing and planned programs. The Mission will use this assessment to guide our activities, especially in the agribusiness area. In addition, the assessment will be shared with other donors and local institutions engaged in environmental issues.

Education

Restructuring and development of the formal education sector has been and will continue to be within the purview of other donors. However, considering the urgent need for improved education levels, the Mission will underwrite targeted training and education initiatives under its Program Support Objective.

Health

To date USAID has only provided minimal assistance to targeted health initiatives, and even these minimal efforts cannot be supported with our reduced funding levels. To the extent that USAID/Washington is prepared to fully fund an intervention in the health sector, the Mission is amenable to hosting such an effort.

4. Basic Assumptions for Success

A number of conditions lie beyond USAID's direct control, although perhaps not beyond our influence. Backsliding or failure in any of these areas would most certainly slow the pace of reform and impact negatively the depth and durability of progress achieved. Underlying all of the assumptions is the predication that the final status of Kosovo will indeed be some form of "meaningful autonomy" as declared in UNSCR 1244, and that such autonomy would require the development of the institutions, enabling environment, and human capacity embodied in USAID's programs. Assumptions tied to a specific objective are outlined in Part II. General assumptions that apply across the strategy include:

- Significant progress will be made in resolving the final status of Kosovo.
- The transfer of authority from UNMIK to PISG will continue at an optimum pace.
- Decentralization from central to local government will go forward as planned.

- The integration of the Kosovo economy with Europe and international trade systems will continue to be a high priority for Kosovo and international partners.
- Donor resources will diminish at a graduated rate that does not create an economic shock and that permits continued progress toward economic and political health.
- No major regional conflict or crisis will occur.
- The energy sector will provide 24-hour electricity to Kosovo in the short-term and will identify and begin to implement long-term solutions to its problems.

5. Sustainability

Assuring that sustainable progress is made in the activities undertaken in the next five years is the top priority for USAID Kosovo. The lack of sustainability in any of the activities will negatively impact progress in the others. The Mission intends to work with counterparts and implementers to assure that interventions are tailored to the abilities of the society to absorb and use them productively.

The issue of sustainability is not an afterthought, but is embedded in the strategy itself. Underlying the programs presented in this strategy and fundamental to their success are two basic themes that will be pursued – capacity building and accountability. These elements are the cornerstones of our sustainability strategy. Capacity building has two aspects – (1) institutional/organizational strengthening and (2) the ability of individuals to guide these bodies. Kosovo needs both. Capacity at the institutional level is still in the formative stages; leaders, managers, and professionals still lack sufficient training and experience to secure a sustainable future. Integral to capacity building is the concept of accountability – accountability of government institutions to the citizenry, businesses to the consumer, and individuals to one another.

Graduation

The Mission agrees with the E&E Bureau's conclusion that within this strategy period the Mission need not anticipate close-out or phase down. At the conclusion of its first four years of assistance, Kosovo is far from able to function without significant donor support. A recent IMF mission to Kosovo concluded that Kosovo is set to remain institutionally and financially dependent for some years to come. Neither the economic nor the institutional bases are as strong as in neighboring Balkan countries. Consistent with the U.S. Government's priorities for the region, USAID's programs are designed and structured to assist Kosovo in becoming an integral part of Europe. Therefore, graduation from assistance should be assessed against Kosovo's ability to meet the criteria required by entry into the European Union. The work undertaken within the strategic objectives will be guided by the standards and requirements needed to reach that point.

Even though graduation may be years away, the Mission is keenly aware that USAID's program of assistance must be mindful of an exit strategy. To that end, the Mission is developing its first legacy mechanism – an educational foundation that will provide much needed graduate and undergraduate degree training. The foundation is being designed as

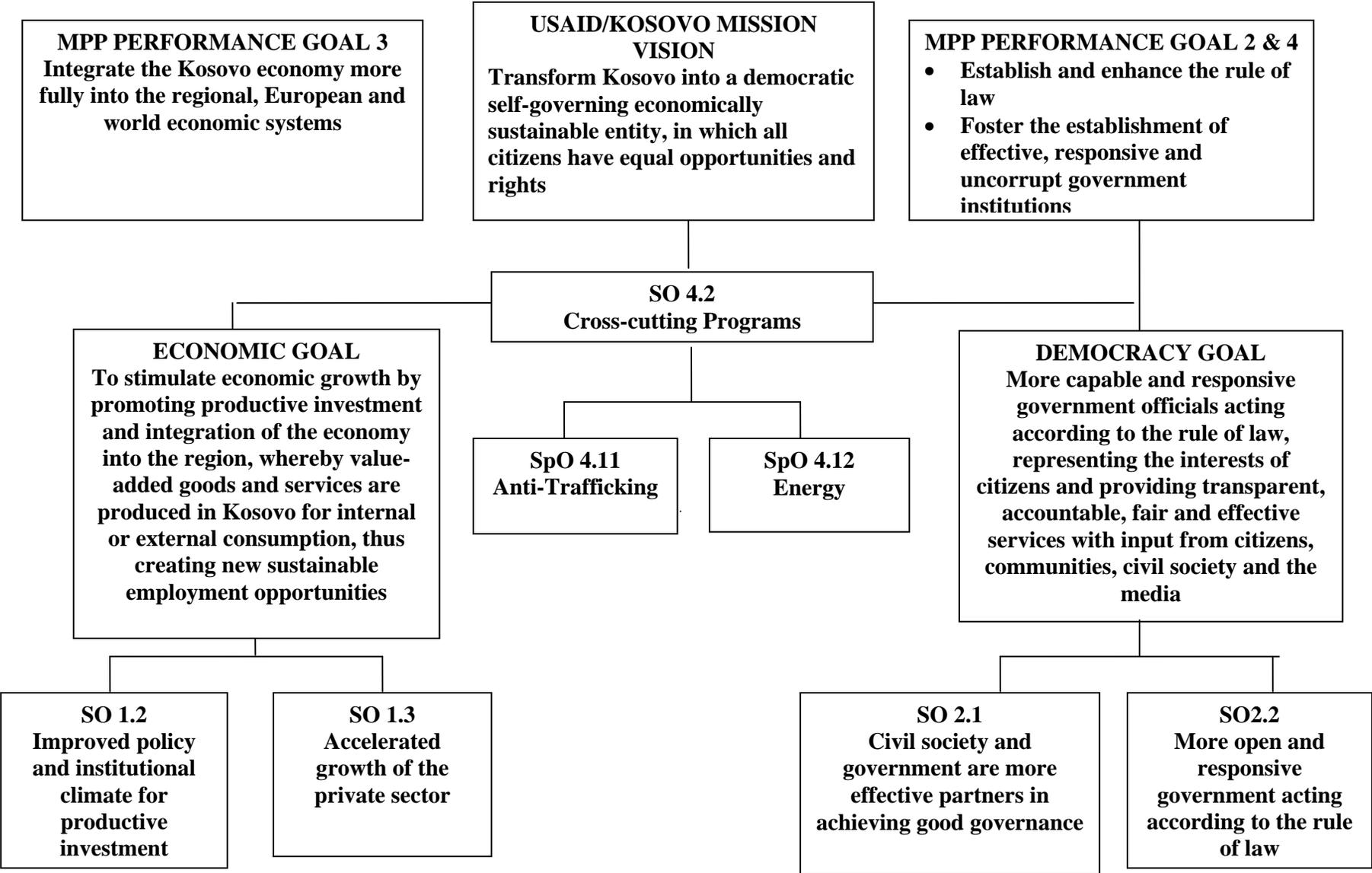
a collaborative effort with the private and non-governmental sectors. It will be a public-private alliance that will continue to provide quality education to qualified Kosovars well beyond USAID's tenure in Kosovo.

6. Development Partners

As no one donor, including USAID, has the resources to do everything, coordination with the donor community is critical. In Kosovo, donor coordination is especially important given the special role of the UN and the size of the international community. Many reforms depend on approval by the SRSG and the authorities in UNMIK's four pillars. Further, since Kosovo is part of Europe and European laws and standards apply, a close working relationship with EU counterparts is critical. In all areas, as capacity is developed, USAID will promote the transfer of powers to the PISG. This will require intense work with Kosovar counterparts to fully institutionalize and implement the reforms needed to support a sound policy and institutional climate for investment.

By both necessity and preference, the Mission places a premium on cooperation and views itself as a very collaborative partner in Kosovo. One of the early precepts for development of this strategic plan was that it would be inclusive and participatory. From an early strategy retreat in October 2002 through roundtables and focus groups in the months that followed, the involvement of our development partners – government counterparts, other donors, civil society, the private sector, and our implementers – has been actively solicited. Their response has been both gratifying and valuable. Their participation has resulted in not only a more fully informed strategy, it has also opened up additional avenues of dialogue. We intend to capitalize on the momentum. USAID is in the process of initiating a more extensive team management approach. As it strengthens and broadens its strategic objective teams, the Mission intends to build on the linkages it has formed with our partners and continue to involve them in the process of implementation. The success of our programs depends on this active collaboration.

STRATEGIC FRAMEWORK



PART II: STRATEGIC OBJECTIVES AND PROGRAM PLANS**STRATEGIC OBJECTIVE 1.2: IMPROVED POLICY AND INSTITUTIONAL CLIMATE FOR PRODUCTIVE INVESTMENT****A. STATEMENT OF STRATEGIC OBJECTIVE**

The focus of this objective will improve the institutional, policy and legal environment for productive investment, with a main focus on Kosovarization – training and turning responsibilities over to Kosovars and Kosovar institutions. Along with continued work in fiscal and financial institution building, a comprehensive body of commercial legislation will be completed, with an emphasis on training the legal community to implement laws properly. USAID will also promote full and complete privatization and the integration of Kosovo into regional trade. The objective aims to create a stable economy with strong institutions and an environment that encourages private sector growth and productive investment that is sustainable and well-functioning without donor support.

B. PROBLEM ANALYSIS

Private investment in Kosovo is very small – estimated at less than 150 million euros in 2002. Increased levels of private investment, and particularly productive investment, from both foreign and domestic sources are vital to create rapid and sustained economic growth. To attract such investment, Kosovo must be viewed as economically stable and supportive of its businesses. Much has been accomplished in this regard. USAID has put significant resources into building financial regulatory and fiscal institutions and has helped to develop policies and legislation. Major USAID assistance was provided to the CFA, now the Ministry of Finance and Economy, and to the Banking and Payments Authority of Kosovo (BPK).

These efforts are widely-regarded as successful; however, a great deal of work remains. Building strong institutions from “scratch” takes more than three years. Institutions are still nascent, procedures are new, and much capacity building remains to be done. The PISG has been in existence for less than two years and subsequently lacks the capacity to administer its functions fully and effectively; hence the need for additional capacity building cannot be overstated. Further, some core competencies have not yet been transferred to the PISG.

A legal environment that supports investment and entrepreneurial activity is one of the most important conditions for economic growth. While USAID has supported the development of priority commercial legislation, this regime is not yet complete. Widespread lack of understanding of and inability to implement laws impede good governance and economic growth. Much work remains, including completion of remaining legislation and, importantly, training for the legal community.

Two other areas need special attention for real economic growth in Kosovo to occur -- privatization and trade integration. Although progress in these areas has lagged, the timing is right for USAID efforts to intensify.

Privatization is only now beginning in Kosovo, with the first tenders issued in May 2003. There are 478 SOEs and POEs to be privatized, with a legal mandate requiring privatization by the end of 2005. Neither significant productive investment nor economic growth will occur until this process is well underway. Further, it is imperative that the central budget stop subsidizing these SOEs and POEs.

Kosovo is not well integrated into regional trade regimes. The status issue has complicated Kosovo's inclusion into free trade arrangements that have recently been concluded between Serbia and Montenegro and countries in the region. Further, Kosovo continues to face discriminatory trade practices from neighboring countries. Since trade integration is fundamental to Kosovo's economic growth, a main focus of future assistance will be toward its facilitation.

Acceleration of productive investment to expand Kosovo's small and nascent private sector will occur only under favorable economic conditions. Thus, the need to strengthen policies, institutions and legislation remains a priority. If progress in these key areas is delayed or founders, the negative effect on the environment will slow economic growth. To avoid this, USAID must capitalize on the current momentum for creating this supportive environment.

C. RESULTS FRAMEWORK

Productive investment cannot take place in the absence of a stable macroeconomic environment and supportive legal environment. This requires Kosovo to have sound fiscal policies capably implemented and a comprehensive and supportive financial and legal environment. Accelerated economic growth also requires the completion of privatization as well as integration into regional trade. Thus, USAID assistance will concentrate on the five areas listed below.

1. Causal Linkages

IR 1.2.1 Budget and tax systems fully developed and institutionalized

To create a stable macroeconomic environment, assistance will ensure full and complete institutionalization of sound fiscal functions at MFE and the tax administration. Emphasis will be on macroeconomic policy and analysis, improved budget planning and execution, improved tax policy and tax administration, as well as development of debt management, procurement and internal audit units. Fiscal decentralization, while well under way, will require much additional work at the local level to ensure that revenue is adequate and budget processes are transparent and efficient. By the end of the strategy period, the MFE will be the strong institution that Kosovo needs, asserting its central position, able to take the lead in strategic planning for Kosovo, and having excellent capacity to manage the government's fiscal responsibilities. Municipal governments will have the capacity to administer fiscal functions responsibly.

IR 1.2.2 Improved financial regulatory system

A strong and well-regulated financial sector is a critical element of economic growth. Assistance will strengthen the financial supervision functions of the BPK and will ensure that the Kosovo Pension Savings Trust is properly administering Tier II of the pension system.

IR 1.2.3 Improved public policy and legal environment

Technical assistance will support the enactment of commercial laws. While promulgation of commercial laws will soon be completed, support to the legal environment will emphasize assistance in the full and effective implementation and enforcement of legislation through a better trained legal community and implementation mechanisms. Additionally, USAID initiatives will aim to increase the quality and level of public-private policy dialogue between Kosovo's policy makers and its private sector leadership

IR 1.2.4 Increased integration into regional trade

Assistance to fully integrate Kosovo into regional trade will continue through the strategy period. This will involve assisting with bi-lateral trade agreements, possibly facilitating the inclusion of Kosovo within the regional free trade system and harmonizing Kosovo's trade regime with the rest of the region. At the same time, efforts will intensify to ensure that existing agreements between Kosovo and its neighbors are honored and enforced. Assistance will also include work with the relevant ministries to assist Kosovo in meeting European and international standards.

IR 1.2.5 Government assets privatized or commercialized

USAID efforts will aim to accelerate privatization, as well as promote procedures which ensure a transparent and competitive process, such as assistance with competitive tenders and orderly liquidation procedures. As privatization occurs, USAID assistance will encourage good corporate governance at the firm level through legislation and training.

2. Critical Assumptions

- Privatization efforts will accelerate
- Delays in the legislative process will be resolved, accelerating enactment of legislation

D. PROGRESS TO DATE

Since 1999, progress in building institutions and a sound policy and legal framework for Kosovo is nothing short of remarkable. With USAID help, the MFE is developing into a strong institution, able to responsibly perform its role as central finance ministry and developing competence in all of its functions. Fiscal decentralization is well underway through a system of intergovernmental finance that decentralizes tax, budget and treasury functions to municipalities, including full implementation of a property tax.

In the financial sphere, USAID has helped to rebuild Kosovo's banking system, a major challenge which required developing the system from the ground up. One significant focus was support to the Banking and Payments Authority of Kosovo (BPK) in its regulatory responsibilities for banking, insurance and pension systems. USAID assistance has also strengthened BPK's accounting procedures and has developed a state-of-the-art electronic inter-bank clearing and settlement system. BPK financial supervision capacity is widely regarded as a success. This is reflected, for example, in a sound commercial banking sector consisting of seven banks and

fifteen micro-finance institutions, with confidence in the banking system evidenced by the more than 400 million euros on deposit.

One of the most significant and far-reaching achievements has been the establishment of a completely new three-tier pension system in Kosovo. Tier I provides an indexed minimum pension benefit (currently 35 euros per month) to any Kosovar aged 65 and over. Tier II, still under development, is a mandatory self-financing defined contribution plan. Under a phased approach, by the end of 2003 all employees and self-employed will be required to make Tier II contributions. Tier III allows employers to offer voluntary private pension plans.

USAID proposals helped create the strategy to advance privatization and provided a much needed impetus to allow the process to begin. In addition, USAID developed legislation critical to privatization, including a land use law that clarifies and ensures appropriate land use and transfer rights for investors.

E. PROGRAM APPROACHES

USAID assistance will build upon the already laid groundwork to ensure that institutions and reforms are durable. Thus, assistance will be concentrated in areas where USAID has achieved success, completing the remaining elements, as well as ensuring that policies, laws and procedures are actually implemented in a sustainable manner. The unifying theme for all assistance under this strategic objective is Kosovarization – building sustainable institutions that are staffed with trained personnel implementing sound policies and procedures.

1. Illustrative Activities

Budget and Tax Systems: Further development of sound fiscal policies and procedures will require full-time technical assistance to the MFE. Emphasis will be on Kosovarization and capacity-building to strengthen institutional capacity of the MFE. As decentralization progresses, USAID will continue to provide training to local governments in sound revenue and budgeting policies and procedures.

Improved Financial Regulatory System: These functions will be strengthened by short-term technical assistance to the BPK banking, insurance and pension supervision departments. In addition, substantial training, both inside and outside of Kosovo, will build further capacity and broaden knowledge for handling specific problems that may arise. It will expose Kosovars to financial regulatory institutions that are more advanced than the BPK, as well as help develop relationships with counterparts in the region.

Policy and Legal Environment: While assistance in drafting remaining commercial laws will be a priority, USAID will also emphasize the implementation and enforcement of these laws. Thus, intensive training for the legal community is envisioned, requiring close coordination with judicial and other legal reform efforts. At the policy level, USAID will continue to promote the capacity for dynamic and informed public policy dialog through continued engagement with and support to local think tanks.

Increased Integration into Regional Trade. USAID will support the Ministry of Trade and Industry in developing regional trade agreements, introducing the use of product codes, and laws and regulations that are compliant with the World Trade Organization. Assistance will also be provided in the establishment of an agency to monitor compliance with trade laws and agreements.

Government Assets Privatized or Commercialized. In conjunction with ensuring transparent and competitive processes for privatization transactions, USAID will pursue enactment of a company law with corporate governance provisions that will regulate new business owners and managers.

2. Linkages

Cross-cutting factors: USAID assistance will continue to include preventive as well as enforcement measures to keep corruption from infiltrating institutions. These measures will include establishment of transparent procedures, procurement laws and processes, internal audit units, codes of ethics, as well as provisions for sanctions and enforcement measures when violations occur. Capacity building will also be integral to all aspects of the SO. As productive investment grows, so will employment opportunities for the youth population. All institution building and training programs will promote gender equality.

Across Strategic Objectives: This objective has close ties to SO 1.3 in accelerating the growth of the private sector, including clear linkages in developing commercial legislation, as well as work with the private sector in trade integration. Fiscal decentralization activities under this objective will be coordinated closely with Local Governance activities under SO 2.1. Commercial law training to the legal community will work with assistance to the judiciary under SO 2.2.

F. SUSTAINABILITY

All areas of assistance should be well-developed by the end of the five-year strategy, allowing USAID to phase out over the strategy period and focus on discrete targeted support. MFE will be a strong institution and able to carry out its functions responsibly. The BPK, already widely regarded as a success, will be provided with only targeted assistance during the first two years of this strategy period. After two additional years of assistance, Kosovo Pension Savings Trust will be able to efficiently administer Tier II of the pension system. A commercial law framework should be complete within the first 18 months, allowing by the end of the strategy period, capacity for the legal community to properly enforce legislation. Privatization and assistance regarding regional trade integration should also be completed.

USAID/KOSOVO ECONOMIC DEVELOPMENT SO 1.2

USAID/Kosovo Economic Program Goal: To stimulate economic growth by promoting productive investment and integration of the economy into the region, whereby value added goods and services are produced in Kosovo for internal or external consumption, thus creating new sustainable employment opportunities.

SO 1.2: Improved policy and institutional climate for productive investment

Indicator: Private investment increases by 20% per year

Timeframe: 2004-2008

IR1.2.1: Fully developed and institutionalized budget and tax systems

Indicators:

Tax: Progress against tax benchmarks

Budget: Progress against budget benchmarks

Increase in municipal property tax revenue

Time Frame:
2004- 2008

Development partners: EU, IMF, WB, EAR, SIGMA (OECD), Ministry of Finance and Economy

IR1.2.2: Improved financial regulatory system

Indicator:

Increase in bank deposits

Time Frame:
2004-2005

Development partners: IMF, EU, UNMIK, Ministry of Finance and Economy

IR1.2.3: Improved public policy and legal environment

Indicator:

Targeted commercial laws enacted

Progress against legislative benchmarks

Time Frame:
2004-2008

Development partners: EAR, RIINVEST, UNMIK office of legal affairs, Prime Ministries office, Dept of judicial affairs

IR1.2.4: Increased integration into regional trade

Indicator:

Increase in exports

Time Frame:
2004-2008

Development partners: EAR, Kosovo Exporters Association, Ministry of Trade and Industry

IR1.2.5: Complete privatization of Government assets

Indicator:

SOEs and POEs privatized, commercialized or liquidated.

Time Frame:
2004-2005

Development partners: EU, EAR, KTA/UNMIK, Kosovo Trade Union, Ministry of Trade and Industry, Special Chamber of Supreme Court

STRATEGIC OBJECTIVE 1.3: ACCELERATED GROWTH OF THE PRIVATE SECTOR**A. STATEMENT OF STRATEGIC OBJECTIVE**

In accelerating the growth of the private sector, this objective will support the development and expansion of competitive industries, promote growth in local and regional market share, and create options for market-driven allocations of capital assets. This objective will work directly with enterprises and trade associations to improve the competitiveness of Kosovo enterprises and industries. It will specifically target agribusiness to improve standards and processes to meet domestic demand. It will help to increase exports in selected industries that have demonstrated potential to compete regionally. This SO will also assist business community members in becoming effective advocates for the creation of a positive and regulatory environment for business.

B. PROBLEM ANALYSIS

While overall progress in developing a market economy has been considerable, the private sector is not yet dynamic or competitive. The great need in this regard is to help Kosovo develop competitive industries producing goods that are marketable domestically as well as regionally. However, building these competitive industries will face many challenges.

Local agricultural and manufacturing enterprises have not attained production or industry standards that are acceptable for export, or for substituting their goods for the enormous volume of imports. A dearth of advanced knowledge and technology, fueled by insufficient credit for capital assets, contributes to this lack of competitiveness.

There is a widespread lack of essential business skills, such as the ability to perform strategic planning and financial analysis. Likewise, there is little capacity for organizational and operational management. These capacities are unusually scarce due to the fact that the majority of Kosovars were largely deprived of formal business training and educational opportunities throughout the last decade. Because large scale and sophisticated investments require capable managers, there is an acute need to develop a skilled professional and managerial class.

Effective professional and trade associations are still in their infancy and are not yet strong advocates for the private sector. Advocacy organizations, self-regulatory organizations, and other professional associations must be further developed to encourage and strengthen public-private dialogue and policy debates, in order to promote a supportive and enabling environment for investment. Presently, business associations lack the ability to actively and positively affect the business environment.

Access to credit is restricted, often because of a perceived high level of market risk and high collateral requirements for short-term credit to finance purchases of inventory and raw materials. In addition, although banks are liquid, long-term finance for capital assets is almost non-existent. This is a result of such factors as short credit histories, weak rule of law, informal employment arrangements, and a lack of experience among banks in collecting on securitized collateral. This is exacerbated

by the inability of most enterprises to independently produce coherent business plans, market research, financial forecasts, and other analyses required by potential lenders.

Access to current market information, industry trends, buyer and supplier networks, and accepted standards are vital to creating and managing competitive businesses. However, Kosovar managers and entrepreneurs often do not have access to available information or the skills required to do research directly applicable to their business. This is partly a result of language barriers and low internet use, as well as lack of training in market research.

Initiatives designed to increase competitiveness in agribusiness industries must address several major needs and facilitate not only increased production, but also enhanced product quality, improved processing, efficient use of resources, and expanded market opportunities. Gains in agricultural efficiency will also lead to increased import substitution and create internal pressure for improvements in the trade regime to exploit export opportunities. Significant improvements in agricultural efficiency will also require more appropriate credit structures.

C. RESULTS FRAMEWORK

To have a sustainable economy, Kosovo must be able to compete domestically and regionally to decrease imports and increase exports. To be competitive, private enterprises must have the capacity to meet local and regional demand for goods and services at the standards required by the local population and regional buyers. Because agriculture supports a significant portion of the population and has special needs related to production, the agriculture sector requires targeted assistance.

1. Causal Linkages

IR 1.3.1: Increased competitiveness of the agriculture sector

This IR will specifically address Kosovo's low level of agricultural production, quality, and handling standards that inhibit product sales. On an industry level, efforts will focus on creating efficiencies in the production chain and promote cooperation among producers, processors, distributors, veterinarians, importers, exporters, and regulators to improve product quality while containing costs. This IR will also help develop new financing structures for agriculture, needed to accelerate the introduction of capital-intensive production technologies.

IR 1.3.2: Improved capacity of private enterprises

This IR will focus on the immediate need to increase the capacity of local enterprises to manufacture and produce products that can satisfy local and foreign markets on a sustainable basis. This will involve development of such business skills as strategic planning, managerial proficiency and access to market information. Increases in local production will also depend on the adoption and implementation of international industry standards and quality controls so that Kosovar products will be accepted in foreign as well as domestic markets.

IR 1.3.3: Improved business operating conditions

This IR will encourage the private sector in working with government authorities to create a conducive business environment in Kosovo. Working collectively and with public officials, businesses and associations will lobby for appropriate laws and regulations, seek clarity in existing legislative language, and ensure that the laws make sense for both business and society.

This IR will also improve access to private finance by helping establish a credit information agency, and by helping profitable businesses demonstrate through business plans and financial statements that they are worthy of credit.

2. Critical Assumptions

- The PISG will continue to support and move toward regional and international trade integration
- Potential trading partners negotiate and enforce trade agreements with Kosovo

D. PROGRESS TO DATE

USAID technical assistance and training to high-potential SMEs in management, strategic business planning, marketing and financial accounting resulted in improved performance and profitability of many Kosovar companies. More than 100 client companies have doubled their sales and profitability.

Efforts to promote Kosovo's incorporation into the regional trading system created more than \$8 million in trade linkages through a series of business-to-business roundtables and regional trade fairs. Some of these trade and investment promotional events brought together inter-ethnic groups, as a result of which old business ties were re-established and new ones formed. Further, the Kosovo Exporters Association (KEA) carried out several "export trials" by shipping goods across borders to demonstrate non-tariff barriers to trade. These "export trials" highlighted and documented abuses by customs officials in neighboring countries, resulting in the reduction of some of these trade barriers.

Recognizing that businesses must begin using modern accounting standards, USAID established the Society of Certified Accountants and Auditors of Kosovo (SCAAK), and implemented a comprehensive International Accounting Standards (IAS) compliant accounting/audit training program. This independent association, while nascent, is working toward developing a modern accounting profession in Kosovo.

More recently, USAID is focusing its technical assistance in targeted sectors in both agribusiness and non-agribusiness, working simultaneously at the enterprise and industry level to achieve competitiveness in domestic and regional markets. USAID is focusing on eight industries, working with clusters to improve quality of production, both for purposes of import substitution and for expanding exports. Use of a cluster-based model has ensured the consistent delivery of high quality inputs to the processors.

In agribusiness, USAID helped establish the Alliance of Kosovar Agribusinesses (AKA), comprising five associations that encompass the majority of agricultural input

dealers, producers and processors in Kosovo. Assistance included training and association development and management and support for development a policy advocacy agenda for agribusiness. Analysis provided to the government by AKA resulted in the reduction of tariff distortions affecting the agriculture sector.

USAID has had major success in increasing access of credit to the private sector. Funding is now available to microenterprises through FINCA/Kosovo, a self-sustaining organization started with USAID assistance. Access to funding for SMEs was increased significantly through the establishment and use of the American Bank of Kosovo. The bank was recently sold to Raiffeisen Bank of Austria after only eighteen months of successful operation.

E. PROGRAM APPROACHES

During the strategy period USAID assistance will further progress already made in the area of improved business and agricultural performance. By focusing on creating competitive industry sectors and agricultural production, and combining those efforts with initiatives to streamline the overall business environment, this strategic objective will deliver an integrated and targeted approach to broaden the private sector's participation in and contribution to the economy of Kosovo.

1. Illustrative Activities

Enterprise and Production Level Assistance: Program efforts will focus on strengthening the business and financial skills of the private sector, both at the enterprise and farm levels, to achieve competitiveness domestically and regionally. USAID projects will emphasize improved quality of goods, as well as efficiency in production and distribution. USAID will work with enterprises in sectors with high potential to compete domestically and regionally, including agribusiness. Efforts will be carried out at the industry level to facilitate efficiencies among integrated actors within the production, distribution, and regulation systems. These efficiencies may be technology, capital, education, or information based.

Operating Environment: Assistance will emphasize improvements to the business environment through advocacy by strong trade associations. Activities will also increase access to credit by improving and expanding the current credit information environment and by improving the ability of enterprises to prepare strategic business plans and financial statements based on international standards. It will broaden credit mechanisms, especially for the agricultural sector.

2. Linkages

Cross Cutting Factors: This SO will address the cross-cutting theme of corruption through creation of a more conducive business operating environment that will include a more transparent and open system of laws and their enforcement, reducing the opportunities for corruption. Additionally, growth in the private sector will have an impact on unemployment and under employment, reducing those figures at least marginally in the short term. By enhancing employment opportunities this SO will mitigate potential conflict by reducing economic and social tensions. Further reintegration will be supported by regional business linkages. These will include business-to-business roundtables and trade fairs that bring together business people of

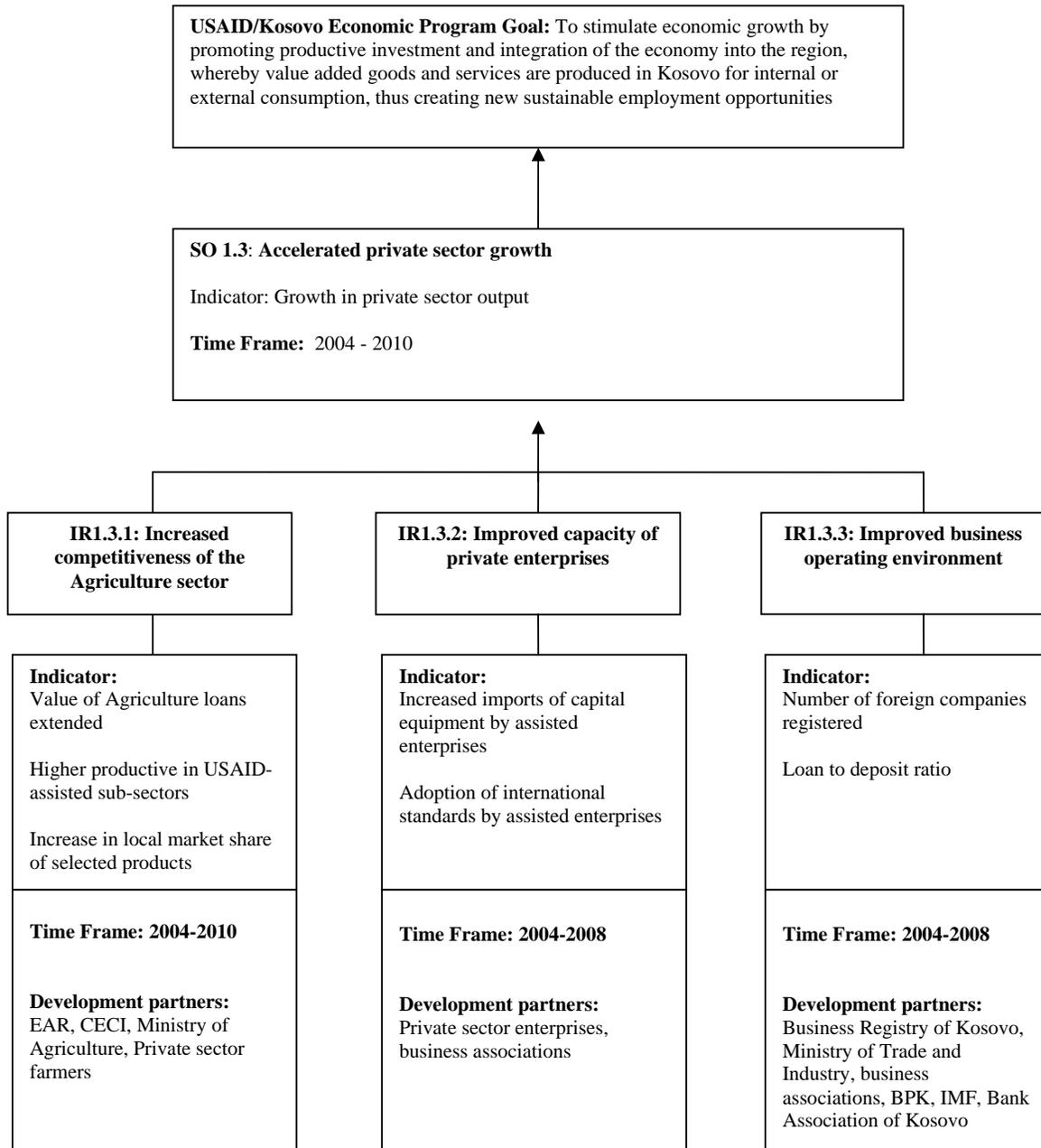
different ethnicities. This will contribute an increased focus on the commonalities among these ethnic groups, rather than their differences.

Across Strategic Objectives: This objective converges with SO2.1 by supporting and furthering the creation of civil society institutions in Kosovo and focusing on the improvement of business associations as facilitators of positive improvements in the business environment. This objective will also enhance local economic development, assisting in the efforts to improve the ability of municipalities to function effectively. Work under this objective has strong linkages with SO 1.2 which will work on the business environment from the perspective of the government, while this SO will work on the business environment from the perspective of the private sector. Strengthening both will result in a better overall understanding of the types of policies and laws required for a competitive private sector.

F. SUSTAINABILITY

There are fundamental problems in the private sector preventing enterprises from being competitive in either the domestic or regional markets. Building the fundamental capacity of businesses to operate in a market environment is a requisite that can and must be addressed in the short term. Beyond that the viability of the private sector as an engine of economic growth for Kosovo depends on a variety of factors, including the completion of privatization, effective implementation of key laws yet to be passed, and clarification of the final status of Kosovo. Substantial progress should be made in these areas within the first two years of the strategy. At that point the Mission will conduct an assessment of the economic and business development environment of Kosovo. Work under this SO will be evaluated in light of the findings and if necessary the Mission will submit an amendment of this strategic objective. While the objective, Accelerated Growth of the Private Sector will not change, the approach to implementation may warrant new intermediate results.

USAID/KOSOVO ECONOMIC DEVELOPMENT SO 1.3



STRATEGIC OBJECTIVE 2.1: CIVIL SOCIETY AND GOVERNMENT ARE MORE EFFECTIVE PARTNERS IN ACHIEVING GOOD GOVERNANCE**A. STATEMENT OF STRATEGIC OBJECTIVE**

Assistance under this strategic objective aims to develop and strengthen the relationship between civil society and local governments so that they act as partners in furthering democratic processes. USAID will work with both citizens and local governments to develop this relationship. At the citizen level, there is a need to improve public information about individual rights and responsibilities, facilitate understanding of political, economic, and social reforms, and promote citizen participation. These efforts will include work with the media, NGOs, and informal citizens' groups. Assistance to local governments will ensure that they are fulfilling their key functions effectively, and that local government operations are transparent and accountable to their constituencies.

B. PROBLEM ANALYSIS

As UNMIK increasingly turns over competencies to the PISG, and particularly to municipal governments, Kosovar citizens and officials alike are struggling to understand their roles, rights, and responsibilities. Vague, incomplete, and contradictory laws and regulations mean that municipal governments lack clear authority to carry out many basic governance functions. This inhibits the potential effectiveness of municipal governments, causes unnecessary conflict with UNMIK and central level authorities, and contributes to public cynicism about the value of local governance.

Most Kosovars are not fully aware of their rights and responsibilities in a democratic system and have confused expectations of government. Citizens do not have sufficient information and skills to participate in the policymaking and public oversight necessary to overcome the legacy of an inefficient and oppressive system of governance. Most civil society organizations still lack the expertise and skills necessary to represent the views of citizens and successfully advocate on their behalf. Weaker still is the ability of civil society organizations and media to effectively fulfill a watchdog role over government.

Kosovo's media sector is relatively well developed, especially considering the extent to which independent media and media infrastructure suffered during and preceding the conflict. Nonetheless, media professionals lack skills in key areas, the legal and regulatory framework for media is incomplete, and supporting institutions, such as journalist associations and an Independent Media Commission (IMC), are new or not yet formed. Delays in the adoption of key laws and administrative directives, such as those concerning the IMC or the public broadcasting fee, threaten the financial sustainability of television stations and slows further development of the media sector. Many media, especially at the local level, continue to exhibit low levels of professionalism, ignore copyright rules, produce unsubstantiated news, and rely on municipal governments or political parties for support. There is some investigative journalism, but its impact has been nominal due to lack of skills and experience, limited resources, and insufficient laws to allow access to public information and to protect journalists and their sources.

UNMIK regulation 2000/45 set up a basic framework for self-government at the municipal level, but new laws and regulations are needed to establish procedures and clarify competencies. Municipal officials lack basic skills, experience and resources to carry out their duties and face a host of problems, many of which are outside of their authority to address. Unemployment, illegal construction, poor public service delivery, urban migration, unchecked urban development, low economic investment, and ethnic issues are just a few of the daunting problems facing municipal governments. Complicating the situation are debates within, and between, PISG and UNMIK over potentially major changes to the current system of local government, including plans for “decentralization” that have ramifications for the ethnic composition of units of local government. Municipal governments have shown remarkable openness to the concepts of public participation, but nepotism, corruption, and inadequate oversight mechanisms undermine the development of good governance practices.

C. RESULTS FRAMEWORK

As UNMIK continues to transfer greater competencies to the PISG, including municipal governments, it is becoming increasingly important to improve the effectiveness of civil society and local governments in achieving good governance. Most of the important problems facing Kosovo in the near term will have to be tackled, at least in part, at the local level. Unless significant progress is made to promote good local governance, there is a credible risk that corrupt and inefficient practices will become rooted, citizens will lose confidence in participatory democracy, and the array of problems threatening Kosovo's stability will not be properly addressed. Citizens need access to clear and accurate information as well as to have appropriate avenues to interact with local government and provide oversight. Local governments need to become more transparent and accountable, and officials need skills and capacity to do their jobs properly. Not only do municipal officials and citizens recognize the need for donor assistance to improve good local governance, they are eager to accept advice and make necessary changes to make it happen. The timing and context for donor support of interventions that promote partnerships for good governance in Kosovo are at the moment uniquely favorable.

1. Causal Linkages

IR 2.1.1: Better informed citizens

Effective citizen participation and interaction with the government require citizens to be sufficiently informed about their rights and responsibilities, and aware of important political, economic, and social reforms. The level of citizen awareness in Kosovo today, however, is quite low. Better informed citizens are more likely to become engaged in the political process, understand and support key reforms and policies, and demand government accountability.

IR 2.1.2: Increased citizen influence on public policy

As Kosovars build new institutions of self-governance, citizen influence on public policies will help ensure that new systems are sufficiently transparent and accountable, and that policy priorities reflect the interests of more than just a political elite. Given the lack of expertise and capacity within the government, civil society

input will contribute to the development of more informed and representative policy making processes.

IR 2.1.3: Local government is more accountable and transparent

Kosovo lacks experience with democratic practices, the concept of public service is weak, nepotism is widely practiced, corruption undermines political and economic development, oversight mechanisms are inadequate, and the potential exists for a significant increase in corrupt practices. Improving accountability and transparency, therefore, is essential to achieving good governance, especially at the local level.

IR. 2.1.4: Municipalities fulfill key functions more efficiently

Local governments are increasingly responsible for addressing Kosovo's most pressing problems, including economic development, service delivery, infrastructure repair and maintenance, social services and health care. They are drastically unprepared, however, to properly address these issues due to unresolved legal and regulatory issues, insufficient skills and resources, and lack of experience. Improving the ability of municipal governments to fulfill key functions efficiently will help address many of the problems that continue to threaten Kosovo's political stability and economic development.

2. Critical Assumptions

- There will be no backsliding in the devolution of authority to PISG and municipal governments
- The timely adoption of key elements of a legal and regulatory framework will occur.

D. PROGRESS TO DATE

USAID programs have contributed to significant progress in the development of civil society, citizen participation, independent media, and government accountability. Civil society organizations and informal citizens groups have played an important role in the post-conflict reconstruction, and are beginning to take on more complex and challenging initiatives. Infrastructure programs placed a high priority on citizen participation, requiring citizen input in determining priority projects, citizen involvement in decision-making by the municipal governments, and citizen oversight of the expenditure of infrastructure funds. USAID supported the formation of hundreds of community groups that have actively engaged municipal officials in solving pressing social, health, and economic problems. Such efforts served as excellent models for citizen participation and cooperation with local governments, and also demonstrated that citizens and public officials could work successfully in multi-ethnic areas. Building on these early models, subsequent USAID programs have supported civic initiatives by informal citizens groups to successfully advocate for local level policy changes and action by municipal officials.

Similarly, USAID's NGO advocacy program has contributed to successful advocacy by NGOs at both the local and central level. For example, as a result of NGO advocacy, some municipal governments have adopted new regulations, invited special interest groups to make recommendations on municipal budgets, and used collaborative approaches with citizens and NGOs in setting policy priorities. NGO

think tanks are contributing to key policy debates, by providing donors and the Assembly with policy papers on electoral reform, lobbying for new laws, and attracting media attention to important legislative initiatives such as the draft freedom of information law. NGOs have served as domestic election monitors, advocates for protection of rights (e.g. human, consumer, environmental, women's), and are beginning to play a watchdog role, for example by monitoring public tenders at the local level. Two coalitions -- the Kosovar Women's Network and the "Femisphera" network, have successfully educated the public on issues of domestic violence and unequal participation of women in the economy.

After the devastating damage during the conflict, USAID helped rebuild transmission towers and other important elements of media infrastructure, resulting in rapid establishment of sources of reliable news and information. USAID contributed to the establishment of professional media associations, the creation of a professional news agency, and the success of private printing presses, two private independent Kosovo-wide television stations, and scores of local radio and TV stations. Journalists, editors and managers from newspapers and radio and TV stations have benefited from training in basic journalism, investigative reporting, advertising, business management, and ethics. Despite the problems threatening the sustainability and growth of the media sector, Kosovo today enjoys pluralism of information sources and a high level of press freedom.

E. PROGRAM APPROACHES

In the next five years, programs under SO 2.1 will build on previous work with civil society and media to develop effective cooperation between civil society and government. A new initiative will improve the effectiveness of local governments to act as better service providers. Assistance will focus on creating partnerships at the local level, giving all local stakeholders an opportunity to come together to identify and solve priority issues.

1. Illustrative Activities

Civil Society and Media: USAID will continue to build the capacity of civil society organizations and citizens' groups to be effective advocates, promote the development of local expertise in policymaking, and strengthen the ability of civil society and media to perform a watchdog role. Efforts will continue to build the professionalism of independent media, ensure its financial sustainability, and protect its editorial independence. Activities will also promote the free flow of information in society by supporting efforts to inform citizens of their rights and responsibilities, and encourage citizen participation in governance.

Local Governance: USAID will integrate its civil society and media activities with a new local governance program that will select several municipalities for pilot projects, and then apply lessons learned across Kosovo. The new program will address broad policy issues concerning municipal competencies and decentralization, as well as practical hands-on assistance at the local level. Activities at the local level will likely include on-the-job training and assistance to improve municipal management and leadership, increase local government transparency and accountability, and help municipal officials stimulate local economic development. Assistance might also

address urban planning, financial management, public outreach, and other priorities. Activities will be complemented by civil society and media activities that will ensure public participation, and oversight by NGOs and media.

2. Linkages

Cross-Cutting Factors: Activities supporting this objective will address all four cross-cutting factors. The main purpose of many of the activities is to increase transparency and accountability, and therefore reduce opportunities for corruption. Local governance activities in particular will help foster an environment that is conducive to returns and reintegration, and mitigating root causes of conflict. Civil society activities will continue to support youth and gender initiatives and assist NGOs that advocate on behalf of youth and women.

Across Strategic Objectives: Activities under this objective will link most closely with SO 2.2. NGO advocacy and free flow of information are essential to central level reforms in the judiciary, executive, and legislative branches, and will be closely coordinated with elections activities. Local governance activities to promote local economic development will also link closely with activities under SO1.3. In enhancing local government transparency, this objective will work with and complement fiscal decentralization under SO 1.2 which is installing transparent tax and budget systems at the local level.

F. SUSTAINABILITY

USAID expects that by the end of the strategy period, citizen participation at all levels of governance in Kosovo will increase, both in terms of numbers of politically active citizens and groups, as well as in terms of the scope of their engagement and influence. Sustainability will be addressed by developing the ability of NGOs to tap into sources of funding, other than international donors. Citizens will be able and eager to participate in public forums and meetings, demanding and ensuring that the government upholds their rights. NGO groups will be able to attract media attention to key issues and provide oversight to local policy-making and policy implementation. Media assistance, specifically, will be coming to an end. If there is sustainable economic growth, pluralistic, private and public media should be able to become self-supporting over time and maintain professionalism and pluralism.

Significant progress will be achieved in creating more efficient, transparent, and accountable government that has clear functions and responsibilities vis-à-vis the central level government and citizens, and the ability to fulfill them. A new legal and regulatory framework, reflecting needed structural changes, will be implemented with the assistance of the international community in its entirety. Basic service delivery will be improved and ensured through various mechanisms.

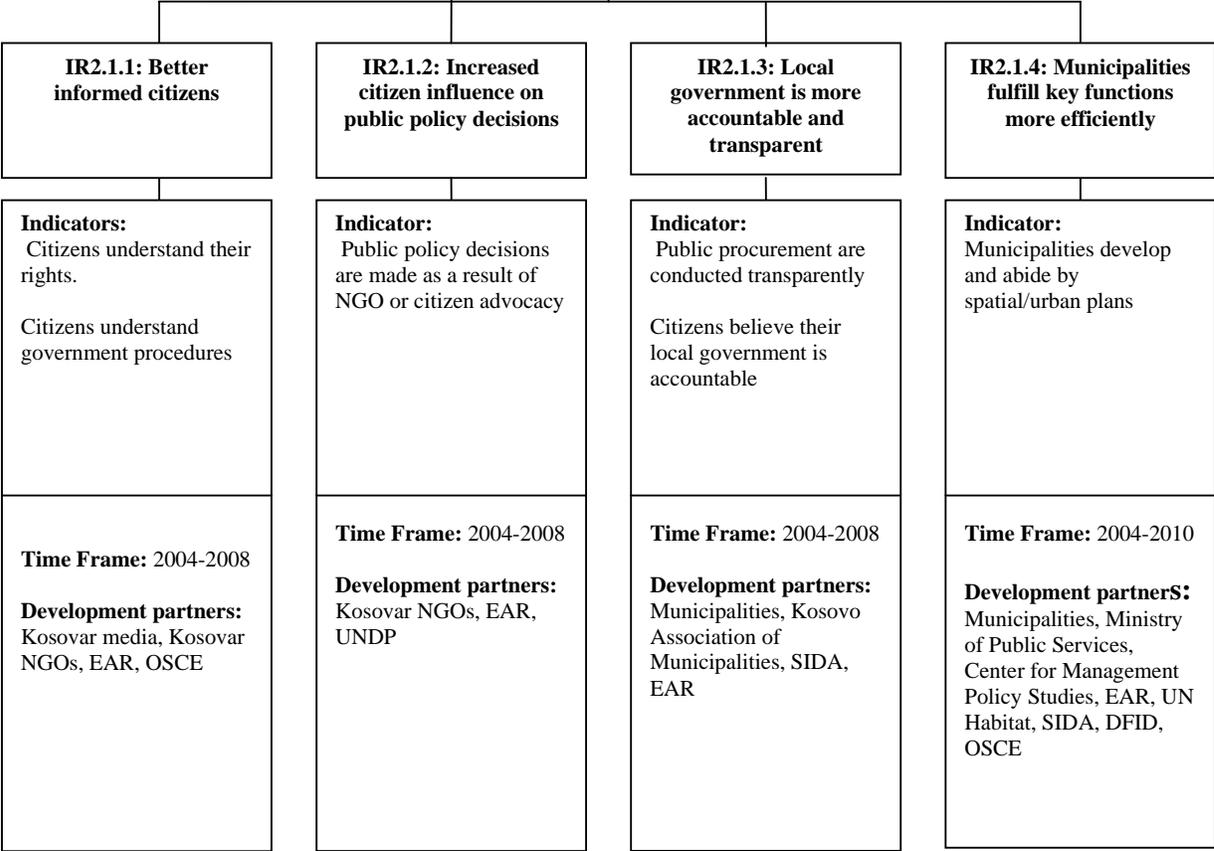
USAID/KOSOVO DEMOCRACY AND GOVERNANCE SO 2.1

USAID/Kosovo Democracy Program Goal: More capable and responsive government officials acting according to the rule of law, representing the interests of citizens and providing transparent, accountable, fair and effective services with input from citizens, communities, civil society and the media

SO 2.1: Civil society and government are more effective partners in achieving good governance.

Indicators:
Citizens and municipal governments cooperate in determining budget priorities.
Public-private initiatives exist.

Timeframe: 2003-2010



STRATEGIC OBJECTIVE 2.2: MORE OPEN AND RESPONSIVE GOVERNMENT ACTING ACCORDING TO THE RULE OF LAW**A. STATEMENT OF STRATEGIC OBJECTIVE**

This SO will support Kosovo's transformation to self-government by strengthening recently-created democratic institutions and helping Kosovars take complete ownership of these bodies. USAID's democratization approach to date has focused on promoting transparency and accountability during the transitional phase of international administration. This approach will expand to include the creation of a truly representative electoral system, responsive political parties, a legislature that exercises effective oversight, an independent judiciary staffed by competent legal professionals, efficient court administration, and increased access to justice for all Kosovars. Strengthening these key institutions will help the Mission achieve its goal of helping Kosovo become democratic and self-governing, providing equal opportunities and rights for all citizens.

B. PROBLEM ANALYSIS

One of the principle aims of UNSCR resolution 1244 is the establishment of democratic institutions of self-government. Efforts to date have focused on simply establishing these nascent institutions; true self-government has yet to be achieved. For Kosovo to become democratic and economically sustainable, the government must be open and responsive to its people and function according to the rule of law. This is a dramatic change for Kosovo, requiring many reforms. Significant reforms include a new electoral system that allows Kosovars to hold politicians directly accountable, a broad legal framework providing checks and balances, and an impartial and transparent judicial system upholding the rule of law.

Beginning in 1989, a system of apartheid was forced on Kosovo by the Milosevic regime. Ethnic Albanians were fired from their jobs, forced out of secondary and tertiary schools, and had almost all government services withheld based simply on their ethnicity. Albanians set up parallel structures for the most rudimentary services and turned to NGOs to meet other basic needs. Four years after the end of apartheid, public wariness of government and politicians persists, and there is little acceptance of the concept of working within and respecting the system. Along with other parts of the former Yugoslavia, the experience, tradition, and culture of democratic self-governance, both among citizens and officials, is not well understood.

Pressured by the international community to hold elections quickly, UNMIK approved an electoral system that did not require constituencies, thereby avoiding a costly and time-consuming census of the population. Kosovars are now operating under this closed-list electoral system that reinforces the disconnect between citizen and government and concentrates power at the very top of the political parties. As a result, junior party leaders can run for office only if they secure a slot on the closed list, a process controlled by the party elite, and citizens are denied the opportunity to hold individual politicians accountable because they cannot vote for individual candidates. This system has also "homogenized" the major parties, reinforcing their campaign tendency to emphasize only the issue of Kosovo's status while neglecting issues of more immediate concern to voters.

Apartheid not only separated citizens from politics, it also denied Albanian Kosovar leaders a decade of governmental experience. Kosovars have never run their own elections, and there is a paucity of experience in all concerned elements of the body politic. This problem is further complicated by the lack of clarity of PISG responsibilities versus those of UNMIK, the slow transition of authority to PISG structures, and uncertainty over Kosovo's final status, all of which do little to build citizen confidence in their democratic institutions.

Under the current framework, Kosovars lack a key function of democratic self-government – that of checks and balances among branches of government. For example, the Assembly cannot effectively exercise oversight of the executive branch because it lacks the power to force ministers or civil servants to testify before their committees, and has very little budgetary discretion to use as leverage, as the budget falls under the control of UNMIK. International legal experts representing the UNMIK portion of the dual executive branch dominate the nascent judiciary, and there is a paucity of good governance legislation.

At the end of the conflict in 1999, the justice system was ill-equipped to operate effectively, and thus could not handle the lingering inter-ethnic tension, score settling and human rights abuses. Citizens feared reprisal attacks if they bore witness to the police or testified in court, and also had a general lack of trust in the justice system and a sense that their rights would not be protected. Serbian Kosovar judges and prosecutors had fled, and the Albanian Kosovar legal professionals who were brought back into the reconstituted judicial system not only lacked a decade of experience, they also exhibited a legacy of the socialist system, defined by a judiciary that was controlled by the party and executive branch. Although some progress has been made since the end of the conflict, most of these issues remain to be addressed.

C. RESULTS FRAMEWORK

Regardless of its final status, Kosovo's economic development and eventual integration into European structures depends on its ability to establish democratic institutions and practices now. The legacy of a communist system, a decade of apartheid, and the vestiges of ethnic conflict have left Kosovo far behind every other part of Central and Eastern Europe in beginning to deal with its own post-communist future. Efforts to support and strengthen nascent PISG institutions (including the Assembly, Government and courts) will help Kosovo meet the benchmarks established by UNMIK to measure progress towards the standards for final status. Assistance will also contribute to strengthening the foundations of democratic institutions and the rule of law, while ensuring adequate Kosovar ownership in the process of developing its laws and governing institutions, thus contributing to a much smoother transition of power from UNMIK. A more representative electoral system designed and accepted by Kosovars, a legal framework that supports and safeguards democratic institutions, principles and practices, and improvements in the administration of justice are cornerstones for Kosovo's sustained democratic development.

1. Causal Linkages

IR 2.2.1: More representative elections administered by Kosovars

This IR will respond to the pressing need to hold politicians and political parties more directly accountable to citizens, and to build the capacity of Kosovars to administer free and fair elections without support from international organizations. A new electoral framework will eventually need to be adopted by the Assembly, government bodies and civic organizations will need to assume full responsibility for elections administration and oversight, and political parties will need to become more responsive to citizen interests.

IR 2.2.2: Legal framework ensures checks and balances

The lead role played by UNMIK and the international community in drafting the constitutional framework and establishing the PISG has meant that Kosovars have had limited ownership in the process, and there has been little need to establish and clarify relationships among various institutions and branches of government. As UNMIK continues to transfer powers to Kosovars, it will be essential that a sound legal framework exists that ensures checks and balances, independence of the judiciary, and comprehensive and consistent laws and regulations with the imprimatur of Kosovars.

IR 2.2.3: Fair and transparent administration of justice

This IR will assist judges, lawyers and prosecutors in obtaining the skills to carry out their responsibilities. Justice system reforms will be enacted and court administration will be improved. Finally, this IR will ensure that citizens have access to the information they need to understand the new justice system and develop faith in it.

2. Critical Assumptions

- There will be no backsliding of the transfer of OSCE elections administration to Kosovars.
- Public sector wages will remain at a decent living rate, ensuring that legal professionals can afford to stay in the civil service long enough to develop their capacity and improve the efficiency of the justice system.

D. PROGRESS TO DATE

Since the end of the conflict in 1999, USAID and many other international donors have provided extensive training and technical assistance to the major political parties, working primarily with their leadership to set up basic structures for these nascent organizations. USAID assistance helped improve the ability of the parties to conduct coherent campaigns and improve internal democratic practices. Another important USAID contribution was to help establish Kosovo's first ever registry of voters and elections administration through the Joint Registration Task Force (JRT). Smooth and efficient processes set up by the JRT allowed Kosovo's first three elections to be judged free and fair by local and international monitors.

With USAID assistance NGOs have begun to promote good governance by advocating for legislation such as Freedom of Information and Sunshine Laws. The Assembly, established following elections in 2001, has adopted rules of procedures,

formed committees that debate draft legislation, and overcome ethnic tensions and disagreements with UNMIK to adopt legislation and represent citizen interests.

The Chamber of Advocates has emerged as a vibrant organization and advocate for legal reform, and an Association of Judges has formed to represent the interests of its members. USAID has supported programs to provide legal professionals and citizens with access to legal databases, and to train all existing judges and prosecutors to achieve a minimally acceptable level of competence in practical skills related to their jobs. Court administration has been improved through training and development of management and automation systems, such as fee and fine collection software.

E. PROGRAM APPROACHES

Technical assistance and training will strengthen Kosovo's most important democratic institutions of governance: political parties, the central assembly and the justice system. Assistance will also improve the legal framework that establishes and regulates democratic processes through development of good governance legislation, a new electoral system, and improved administration of justice.

1. Illustrative Activities

Political Process: USAID will provide technical assistance to help establish direct election of politicians, and encourage political parties to better represent citizen interests. This will entail securing public feedback on alternative electoral systems, and supporting enactment of an improved electoral framework. Technical assistance and intensive training will also prepare Kosovar election administrators in the Central Elections Commission (CEC) and Municipal Elections Commissions (MECs) to eventually administer their own elections.

Legal Framework: USAID will support efforts to improve the effectiveness of PISG institutions while ensuring proper checks and balances. Two key areas include introducing the right of interpolation to Assembly committees, so Ministers and other senior civil servants cannot refuse to testify, and giving the Assembly the "power of the purse" -- budgetary discretion that provides the legislative branch with a great degree of leverage over the executive branch. USAID will continue assistance to the Assembly to improve its capacity to draft and debate legislation, and, in cooperation with NGOs and the Office of Prime Minister, support the drafting and enactment of good governance legislation, helping PISG meet the UNMIK benchmark standards.

Administration of Justice: USAID will assist with the transfer of judicial management from UNMIK to the Ministry of Justice, and with restructuring management functions so they fall under the control of a body managed only by judges and their subordinate functionaries. USAID will collaborate with UNMIK Department of Justice in finalizing and implementing a comprehensive justice reform strategy for the next several years. Improvements to the justice system will involve training to increase the capacity of legal professionals, enhanced court administration and better citizen access to justice. Extensive training programs will improve the professionalism and ethics of judges, prosecutors, defense attorneys, and court administrators. More effective and efficient court administration will occur through extensive on-site technical assistance to each of Kosovo's 55 courts at the municipal and district level. Increasing citizen access to justice will involve public information

efforts to promote the public's understanding of how the justice system works as well as its rights and responsibilities.

2. Linkages

Cross-Cutting Factors: Activities supporting this objective will most directly address the cross-cutting factor of corruption. More transparent and representative elections, better oversight mechanisms within and among branches of government, adoption and implementation of good governance legislation, and improved access to justice will all contribute to reducing corruption. Activities under this objective will also contribute to addressing the other three cross-cutting factors. For example, youth and women will be targeted in political process activities that provide training for political parties and local leaders. Activities under this objective will contribute to mitigating conflict by ensuring equal access to justice, adherence to the rule of law, and representation of minority interests in democratic institutions.

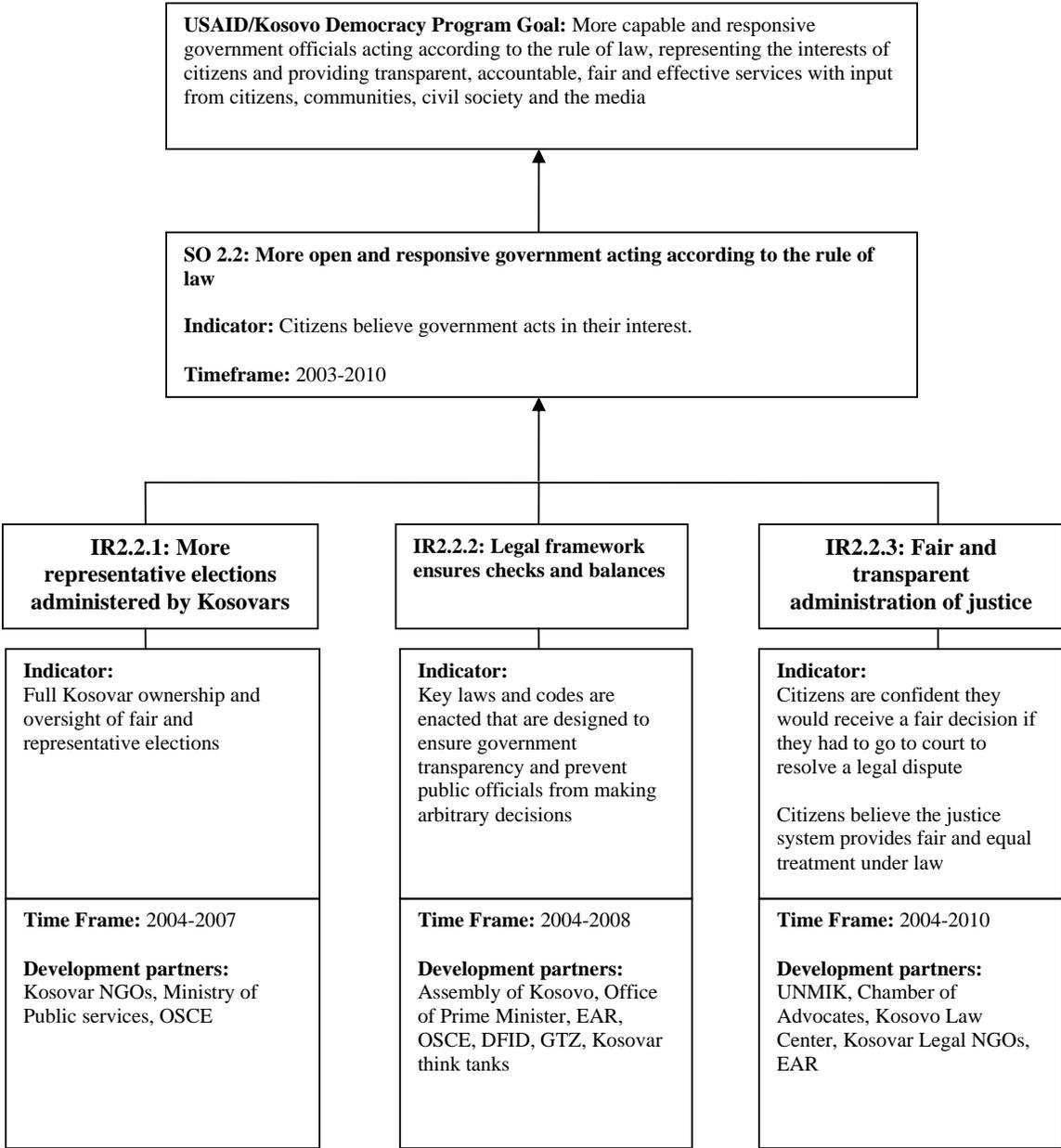
Across Strategic Objectives: Activities under this objective will link most closely with SO 2.1. Success in SO 2.2 will depend in part on the effectiveness of media and civil society to influence public policies and demand accountability of the Assembly and Government. At the same time, an improved justice system and legal framework will improve the capacity of civil society, media and local officials to attain improvements at the local level. Finally, activities to strengthen the judicial system will contribute to SOs 1.2 and 1.3 by strengthening the rule of law, an essential prerequisite for sustained investment and economic growth.

F. SUSTAINABILITY

USAID expects important reforms to Kosovar political processes by 2005. A coalition of organizations is already pursuing changes in the electoral system, including an initial study of legislation that would change assembly representation from a closed list to a constituent-based system and advocacy for complete Kosovarization of election administration. Political parties will be forced to adjust to the new reality of a more decentralized power base, with individual assembly members able to exercise more independence from party leadership. Targeted support will not only solidify the electoral reform effort, it will also help political parties to adapt to the new realities; that is, party leadership will find it much more difficult to control not only individual assembly members, but party functionaries as well. Political parties will need to compromise with their rank and file, and do a better job of reaching out to their constituents, better representing citizen interests.

The sustainability of the legal framework and judicial reforms is more difficult to predict. Reordering the current legal framework depends not only upon domestic political will, but also requires the cooperation of SRSG and UNMIK – and it remains unclear how enthusiastic international administrators will be on the question of reopening thorny constitutional issues that often bring up questions of final status. Good governance legislation is certainly on the horizon, but its passage remains an open question as long as international administrators refuse to apply it to the UNMIK pillar structures. Within the strategy period, meaningful legal and judicial reforms will have been introduced, but complete reform of the judiciary and its supporting institutions will likely require another decade of effort.

USAID/KOSOVO DEMOCRACY AND GOVERNANCE SO 2.2



SPECIAL OBJECTIVES

Two important activities will be implemented as special objectives. Both are vitally important to the development of Kosovo, but fall outside of USAID core objectives. Additionally both are very limited in scope and are implemented as part of a larger donor effort.

SpO 4.11: Anti-Trafficking

A. STATEMENT OF OBJECTIVE

This special objective will contribute to on-going global efforts to prevent and combat trafficking in women and children. The activity will provide assistance and protection to the victims of trafficking, with specific attention to the reintegration of Kosovar victims. It will further the understanding of the trafficking phenomenon and build capacity of local organizations to provide needed and appropriate interventions.

B. PROBLEM ANALYSIS

Trafficking in persons is an abhorrent human rights violation that has grown in severity and magnitude. Every year thousands of persons, mainly women, are trafficked from, to, or through the countries of Southeastern Europe and held in conditions amounting to slavery. Kosovo has become increasingly attractive for trafficking as it is perceived to offer a favorable combination of factors: post-conflict situation, newly-established democratic institutions, inadequate rule of law, and porous borders. These factors and others have been thoroughly exploited by traffickers and organized criminal groups.

Kosovo is primarily a destination and transit country for trafficking. Although little is known about internal trafficking or the trafficking of women and children out of Kosovo, many experts fear that Kosovo could become a major sending country. Cases in the last two years indicate that internal trafficking (forced prostitution) is a growing problem in Kosovo, and that trafficking of Kosovars to other regions is likely increasing also. In addition to trying to prevent trafficking altogether, systems and mechanisms to help identify, support, protect, and assist in the repatriation and reintegration of these trafficked individuals have yet to be established. While there is a coordinated and fully operational referral system for foreign victims of trafficking, no such assistance exists for local victims. The involvement of the government and local NGOs in this assistance is limited by capacity as well as a lack of awareness and information on the real nature of trafficking. The cultural and social misperception of the phenomenon and the community stigmatization given to any victim currently hinder the ability to provide effective assistance to local victims, especially over the longer term.

C. PROGRAM APPROACH

Anti-trafficking measures must assist both potential and actual victims, and therefore, must include *prevention* and *protection* activities. USAID's program is one component of a larger anti-trafficking effort implemented by International Organization for Migration. Other donors to this effort include the Governments of Sweden, Finland, and Italy, as well as NGOs. By combining our efforts with other donors under one implementing organization, a more comprehensive and coordinated effort is being launched to counteract both the causes and effects of trafficking.

Other donors are covering activities that assist foreign victims of trafficking brought to Kosovo, including shelter and repatriation assistance. A large regional public awareness campaign is also funded by other donors. USAID/Kosovo's assistance will focus on working with local institutions and will be targeted at:

Training government officials: Training efforts will target those officials responsible for stopping trafficking and sensitizing municipal officials to the damage, both human and economic, caused by the practice. As well, judges will be trained to administer justice in a sensitive and supportive manner that in turn will help repair the lives shattered by the practice of trafficking.

Reintegration of Kosovar victims: A quick response referral system will be created where Kosovar victims of trafficking can seek assistance. This will be accomplished through setting up a series of local NGO support groups. Medical, psychological, and legal counseling will be provided along with job skill training to assist sustainable reintegration into the community. As a part of this effort, public awareness campaigns will be directed to the most vulnerable groups and general campaigns will be conducted to dispel the myth that "it can't happen in this society."

D. RESULTS

It is expected that as a result of the broader activity, Kosovo will have in place a functioning support system for victims and will make major progress in stemming trafficking through both early intervention and more effective prosecution. Although currently implemented as a two-year program, the Mission assumes that the issue of trafficking will warrant continued support through the life of this strategy.

SpO 4.12: Energy

A. STATEMENT OF OBJECTIVE

This activity will support Kosovo's transformation towards self-government and a market economy by assisting in the process of transforming the publicly-owned enterprise, Kosovo Electric Corporation (KEK), into a commercialized profitable company.

B. PROBLEM ANALYSIS

As Kosovo's sole provider of power and its largest employer, KEK's failure to provide a reliable supply of electricity and its continual drain on scarce budget resources affects all aspects of life. It disrupts economic activity by adding costs to the conduct of business, affects the ability children to study, and creates social unrest among its dissatisfied customers. Despite three years of intensive efforts by donors using an estimated 611 million euros in international donor and Kosovo Consolidated Budget resources to make KEK a functioning business, it is considered a bankrupt enterprise unable to provide enough power for consumers and unable to collect more than minimal payment for the power it does provide, including power that is stolen or lost.

As economic reconstruction remains one of the principle aims of UN Security Council Resolution 1244, transforming KEK is critical. This requires a multi-faceted approach involving major donors, UNMIK and the PISG. Recent agreements call for

the introduction of “turn-around” management with full powers to take whatever actions are necessary to allow KEK to produce or procure enough power to provide full time electricity. Such management will be charged with restructuring KEK internally, addressing infrastructure repair needs, training technical and managerial staff and implementing a distribution and collection system to ensure revenues to pay for operations.

C. PROGRAM APPROACH

USAID’s ongoing assistance to KEK’s distribution system, where a computerized billing and collection system has been installed, will be continued with the objective of keeping customer payment levels commensurate with that of a modern electric utility. It is expected that this can be completed within six to twelve months into the strategy period. Concurrently, in light of its current weakness, new legislation supporting payment policies will need to be developed. Policy support and limited technical assistance will also be provided in collaboration with other donors and the Kosovo Trust Agency to install a turn-around management team free of any outside interference. This limited effort should conclude in the second year of the strategy.

Ancillary to above, USAID intends to guide a process of securing consensus and putting in place all necessary steps to secure interest by private investors in “green-fielding” a new generation facility on Kosovo’s lignite fields (Europe’s largest and highest quality). Southeast Europe is an energy-deficit area interconnected by transmission lines that allow for the regional marketing of electricity, for which an agreement has been signed by all countries and Kosovo. Kosovo has the resources and the location to become a major supplier to the region. Private investment is the only feasible approach to develop this potential, given the current structures on IFI lending. The resources and market potential should attract private capital. Taking this step now also anticipates the limited life of Kosovo’s current generation capacity at KEK. Investment of new generating capacity also will have a generally stimulative effect on the economy and offer job opportunities for the many unemployed, including the excess workers who have to be let go from KEK.

D. RESULTS

As a result of this assistance it is expected that KEK will be providing uninterrupted electricity that is paid for by consumers.

STRATEGIC OBJECTIVE 4.2: CROSS-CUTTING PROGRAMS

A. STATEMENT OF OBJECTIVE

Activities funded under this objective are cross-cutting in nature and will support the achievement of all strategic objectives. There are two major components in this objective; Training and Education Programs and (2) Administrative/Technical Support.

B. TRAINING AND EDUCATION PROGRAMS

To address the shortfall in human capacity that hinders Kosovo's ability to develop mature economic and democratic systems, a significant effort must be made to upgrade the technical, analytical, and managerial skills of the population. The need is especially great among the sizeable youth population, many of whom have been deprived of quality secondary and university educations. The problems stemming from an inadequate education base is a recurrent issue throughout the strategy; identifying and engaging in responsive interventions is, therefore, a key element in the success of the Mission's core objectives. The Mission will implement a three-pronged approach to address the human development aspect of capacity building. This approach will cover: (1) leadership training; (2) long-term degree training; and (3) short-term technical training and study.

1. Leadership Training

Purpose: Provide an executive leadership program for mid-level managers who are identified as emerging leaders in Kosovar institutions.

Program Approach: The need for new leadership definitions, knowledge, and skills is prevalent throughout Kosovar society. This is especially true among professionals responsible for leading ministries, agencies, and departments of the new and emerging central and local governments. Such professionals need to gain experience in creating and running the kinds of offices they are now being asked to lead.

The Leadership Training program follows on the current Hope Fellowship program, implemented by the National Albanian American Council, which provides a 3-month U.S. internship for emerging women leaders. The new program will offer a teaching-learning approach for building capacity, providing training in Kosovo over an extended period. Focus will be on mid-level managers in emerging economic and democratic institutions. Training will center on practical application, using pedagogical techniques based on adult education principles and participatory methods. The training is project-focused, requiring participants to develop and apply leadership initiatives in their work places. The program also includes strengthening the network of graduates to become activists in: (1) leading civil society change through advocacy; (2) designing programs for emerging youth leaders; and (3) hosting public seminars to stimulate new ideas and expand dialogue and models of new leadership throughout Kosovo.

2. Education Foundation

Purpose: Increase the capacity for long-term development of Kosovo by creating a cadre of well-educated and trained individuals who can effectively manage and lead both the public and private sectors of Kosovo.

Program Approach: The Kosovo Education Foundation is currently being developed as a public-private partnership to provide degree training in the United States. The USAID contribution to the program is an outgrowth of the Kosovo Employment Generation program implemented under the current strategy. Under this program, business skills and knowledge have been increased, marketing opportunities have been enhanced, and access to financing through commercial banks has increased.

However, these measures alone are not sufficient to redress the economic and social issues facing Kosovo. The unemployment issue will only be addressed if the capacity of the Kosovars, especially the youth, is upgraded to a level that will allow them to develop viable economic entities that can contribute significantly to domestic production and be competitive in regional and world markets. These same capacity issues are found in the public sector where administrators and leaders must have the skills and knowledge to direct and manage Kosovo on a growth-oriented economic course. The type and quality of higher education that is needed to develop managerial, administrative, and entrepreneurial skills is not available in Kosovo at this time. It is imperative, therefore, that sufficient numbers of the population receive this training abroad.

There are additional advantages in providing the educational opportunities in the United States. Kosovo represents a moderate Muslim society with a very pro-Western orientation. Most Kosovars are very receptive to American ideas and ideals. A long-term academic experience in the United States will provide further exposure to American values, forge lasting ties, and create invaluable and practical networking opportunities.

USAID funds will provide scholarships for undergraduate and graduate study in fields that would support economic growth and investment in Kosovo, such as economics, finance, management, business, law, public administration, and sector/industry-specific training. Private sector partners may direct their contribution to other academic areas.

3. Participant Training

Purpose: To provide a responsive and flexible mechanism that will provide targeted, short-term training and study opportunities which complement and supplement all the strategic objectives. In addition, it will permit training support on the cross-cutting issues of corruption, conflict and reconciliation, gender, and youth.

Program Approach: This activity utilizes the Agency's Strategic Technical Assistance for Results through Training (START) contract and will be managed by a Training Committee composed of representatives from each strategic objective. Oversight will be provided by the Program Office. The Training Committee will be responsible for establishing an annual training plan and setting priorities. The strategic objective team sponsoring a training event will be responsible for ensuring the training plans are complete and comprehensive, that participants are fairly selected, and that follow-up monitoring ensures that the training is being utilized.