

## DEVELOPMENT IN POST-CONFLICT KOSOVO

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### **Abstract**

In this paper we assess the situation with regard to post-conflict development and the perspectives in the province of Kosovo. In order to better comprehend the current political and economic situation that sustains in the region, we attempt a presentation of the historical background. Then, we present specific macro-economic and political indicators. The macro-economic indicators may provide us with a complete picture of the economic situation in the province. The political ones may explain the external and political environment as well as its prospects. We conclude with the factors and the means that will be important in sustaining development and political stability in the said geographical region.

**JEL Classification:** O11, O15, O19

**Keywords:** Post-conflict, Development, Complexity, Kosovo

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## Acronyms

EAR	European Agency for Reconstruction
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDPs	Internally Displaced Persons
KFOR	Kosovo Force
KLA	Kosovo Liberation Army
MFE	Ministry of Economy and Finance
NGO	Non Governmental Organizations
RAE	Roma, Ashkali and Egyptian communities
SANU	Serbian Academy of Sciences and Arts
SAP	Stabilization and Association Process
UNMIK	United Nations Mission in Kosovo

## Introduction

In this article we assess the current situation in post conflict Kosovo by presenting the structural elements that constitute the social, economic and political realities during post conflict period while taking into consideration the conditions for a sustainable development process. Firstly, we attempt a presentation of its historical background aiming at bringing to the surface the structural issues and sequence of events that have been prevailing in the region, enabling us comprehend the current political and economic complexity. Secondly, we attempt a macro-economic analysis of the present situation (Chesapeake Associates, 2001). Thirdly, we approach the current political conditions by using basic political indicators and finally, we propose those elements and factors that should be embedded in the present economic and political environment. As the final status of the province is still unresolved, we believe that this paper will contribute to the understanding of the situation, where a new conflict is still a possibility.

### 1. The Historical background of Kosovo

We claim that the current, post-conflict situation in Kosovo has a long-standing historical perspective that has very much influenced the sequence of events. The intensified ethnic conflict of the late '90s and the subsequent external intervention leading to NATO invasion in 1999 cannot be understood unless we have a clear understanding of the historical dimension of the situation. Ignoring the historical sequence of events, which is very often the case, leads us to unqualified remarks and conclusions about the future prospects of the region. The evolution of Kosovo from this point of view completes the puzzle of the present situation in Kosovo. Eventually, in this part of the paper we will briefly present the region of Kosovo since the end of World War II.

The Province of Kosovo gained its autonomy within the People's Republic of Serbia in 1945 (Mertus, 1999). This autonomous region had an Albanian majority and was a member of the Federal People's Republic of Yugoslavia under the leadership of Josip Broz Tito. This autonomy however was not real. Kosovo gained inner autonomy after Yugoslavia was named the Socialist Federal Republic of Yugoslavia in 1953.

The constitution of 1974 gave higher powers to the Socialist Autonomous Province of Kosovo's government. It also gave higher governmental titles such as President and Premier (Hooper, 1999). Kosovo, moreover, received a seat in the Federal Presidency. Kosovo was a *de facto* Socialist Republic within the Federation. It also remained a Socialist Autonomous Province within the Socialist Republic of Serbia. The official language in Kosovo was both Albanian and Serbo-Croatian. However, demands for further autonomy were present even then. More precisely, an Albanian nationalist movement demanded a full recognition of Kosovo within the Federation as another Republic. There were also requests for full-scale independence. Tito's regime gave a temporary solution by granting additional powers to local institutions, thus avoiding further tendencies.

However, the evolution of the ethnic balance in Kosovo created an unstable environment (Malcolm, 1998). The Kosovar Albanian part of the population rose from 65% to 80% while at the same time the Kosovo Serb population decreased from 25% to 10%. At this historical point Yugoslavia was recognised as a powerful state by the International Community. Eventually, there was no room for external pressure concerning the policy of Tito in Kosovo (Malcolm, 1998).

In March 1981 Albanian students organized protests to demand that Kosovo become a republic within Yugoslavia. Almost 20,000 people in six cities were involved in these protests, which were suppressed violently by the Yugoslav government. These protests continued during the 1980's (Roberston, 1999).

The Serbian Academy of Arts and Sciences (SANU) in 1986 was preparing a document on the future of the then Yugoslavia. This document, named the 'SANU Memorandum', warned both the Serbian President and the Assembly that a crisis was looming and of the impact it would have on the region (O' Neill, 2002). This document criticized the position of the state of Yugoslavia in respect of the Former Yugoslav Republic of Macedonia (FYROM) and Kosovo. The document emphasized that only Serbia was contributing to the development of these two poorest territories of the Federation. According to the SANU document the Yugoslav economy was separated in different territories and sectors and it was this fact that could threaten the union of the confederation. It is believed that Slobodan Milosevic used this document to accomplish his own political goals. Slobodan Milosevic proposed at the end of the 1980's that the autonomy of Kosovo and Vojvodina be suspended (Buckley, 2000).

The speech that Milosevic delivered on June 28, 1989 gave him the key to power in Yugoslavia. In front of 1,000,000 Serbs at the celebration of the 600th anniversary

of the Battle of Kosovo at Gazimenstan, Milosevic was sent to pacify the Serbs in Kosovo. During his speech he criticised the national divisions and gave Yugoslavia the characterization of a multinational community. In 1990 the Assembly reduced the autonomy of Kosovo (Kushner, 1999). The Albanians reacted by organizing a separatist movement. The elections and the institutions of the state were boycotted. They also established parallel political institutions and schools. The Albanians pushed the situation to the limit. Kosovo was declared an independent country by an unconstitutional parliament based in Kosovo, on July 2, 1990. However, the official Government and the international community did not recognize it. The Constitution of the Republic of Kosovo was adopted by the parliament of Kosovo that met secretly in Kacanik in September of 1990. In 1992 the unofficial parliament organized a referendum which was not recognized internationally but was observed by international organizations. The result of the referendum was 98% in favour of independence for Kosovo. The turn-out was 80% (Leurdijk and Zandee, 2000).

During the war in Yugoslavia the Serb Government relocated the refugees from Bosnia and Croatia to Serbia and Kosovo, with the objective of altering the composition of the population. Kosovar Albanians organized the Kosovo Liberation Army (KLA) in 1995 after the Dayton Agreement. By 1999, the ethnic conflict had escalated, with clear human rights abuses as a consequence. A large number of civilians were also victims during this conflict with 10,000-12,000 ethnic Albanians and 3,000 Serbs believed to have lost their lives mainly due to the conflicts between the Yugoslav military, Serbian police and the Serbian paramilitary forces on the one hand and the KLA on the other. Even to this day, 400 Serbs, 100 Roma and 2,500 Albanians are still missing. It was at this point that the international community began to take an interest in what was happening in the region and Serbia was forced to sign a partial retreat and a unilateral cease-fire. However the cease-fire agreement was systematically broken by both sides. The bodies of 45 Albanian civilians were found in the town of Racak on 16 January, 1999. These events at Racak increased the pressure on Serbia at the conference of Rambouillet. No agreement was reached because the Yugoslav side refused a clause that said that NATO forces would have access to all of Yugoslavia in case of conflict (Weymouth and Heing, 2001). This refusal started the NATO bombings of Yugoslavia, which lasted 78 days. At first, only military targets were destroyed but this was quickly extended to power stations, hospitals, broadcasting stations, factories, bridges, post offices, government buildings even to homes of innocent civilians. The results of the conflict were disastrous for the region, especially considering the obligatory human resettlement and the very bad economic situation of the hosting countries in the region. It is characteristic that from March 23 to June 9, 1999 almost 700,000 Kosovar Albanians fled Kosovo for FYROM and Albania (45.7% of the Kosovar Albanian population). Since the arrival of NATO almost all of this refugee population has returned. However, it was time for the Serb part of the population to leave the province. Almost 250,000 Kosovo Serbs are currently living

in Serbia as Internally Displaced Persons (IDPs). The Serbs are still afraid to return to their homes in Kosovo, 900 of which were burned in 2004. Until today, the Serbs are confined to enclaves and are concentrated in the North of Kosovo (UNHCR, 2002). Finally, in Kosovo we had a religious conflict between the Christian Serbs and the Muslim Albanians. It is estimated that before the war there were 500 mosques in use. After the war 200 of them were completely desecrated or destroyed. These elements show the cultural conflict that took place in Kosovo parallel with the ethnic war of the two ethnic groups. The interdependence between religion and nation presents a complex environment that the international community should understand before deciding on intervention. The two ethnic groups seem to have lack of trust and lack of communication.

The historical environment we presented gives us a picture of the ethnic, social, religious and cultural complexities of the region. It is more than clear that a dividing line exists between the two main ethnic groups, thus creating an unbalanced social and ethnic environment. This background is also the base for adopting hard line approaches with regard to the stance of the Kosovar representative political bodies in the framework of the negotiations with the international community and Belgrade on the future status. It also reduces the chances for regional cooperation, both in economic and political terms. The notion of a common regional approach has almost vanished. The solution based on economic and social questions is seen more as an individual issue rather than a field of collective action.

Additionally, the fact that a large number of refugees and IDPs are still living in Serbia, further exacerbates the social and economic conditions of the country, which does not contribute to stability in the region. Additionally, this group of people is always a source of pressure on the Serbian government to adopt a non flexible position in respect of the future status of Kosovo. Those elements should be taken seriously into consideration when analyzing the development prospects in post-conflict Kosovo (Sklias, 2001). We will now proceed with the analysis of basic macroeconomic indicators.

## **2. A macroeconomic analysis of the present situation in Kosovo**

In this part of our paper we present the macro-economic situation in Kosovo. This presentation will employ certain key indicators: foreign direct investment (FDI), income and distribution of income, level of business development, imports and exports of Kosovo as well as its trade relations with other state partners, the phenomenon of corruption and its impact on Kosovo economy and finally the indicators related to the labor force factor in Kosovo (EBRD, 2000). We believe that by analyzing the above mentioned indicators we will be able to assess the main factors which shape the macro-economic environment in Kosovo.

Before analysing these indicators, we bring to the surface some of the very basic elements of the post-war economy in Kosovo, which also demonstrate the complexity of the situation. Firstly, the main sector on which the economic boom was based, that is reconstruction, has been short-lived. Housing and infrastructure reconstruction is now almost over, which means that only a small part of these businesses are still in operation. Secondly, the private sector that has emerged has been dominated by small-scale, low capital-intensive ventures in trade and construction, without any real local manufacturing. Moreover, the fact that economic growth has been transfer-driven, especially by transfers from the international donor community and the Kosovar diaspora, means that the withdrawal of those actors and the reduction of external funding automatically indicate the lack of capacity of the Kosovar government to contract. Indicative of the situation is the fact that according to sources of the Ministry of Economy and Finance (MFE), the average Kosovar household has received more cash income from relatives abroad than they did from working in Kosovo. Furthermore, as the Kosovar budget is heavily dependent on taxing imports at the border, a potential decrease in imports, due to the diminishing development of the post-war reconstruction sector, will automatically lead to the reduction of those income sources as well.

Tables 1 and 2 clearly demonstrate the dependence of the Kosovar economy and mainly its public expenditure on external sources of income, mainly the international community of donors.

**Table 1.** Evolution of Public Expenditure in million Euros

Source	2000	2001	2002	2003
Kosovo General Budget – domestic revenues	43	167	337	413
Kosovo General Budget – donor grants	161	84	39	25
UNMIK Budget	413	449	388	368
Reconstruction Assistance by NGOs	635	541	292	270
KFOR	5,000	4,000	3,000	2,000
Public Enterprises (fixed capital formation)	10	10	10	10
TOTAL	6,262	5,251	4,066	3,086

Source: Kosovo Ministry of Finance and Economy, 2004.

A remark that can be made from observing Table 1 is that the process of stabilization in Kosovo gives the capability to Kosovo institutions to even partially finance public expenditure from the Kosovo General Budget year by year. We notice a reduction of funding of the public expenditure from international institutions and Non Governmental Organizations. KFOR, although its role is diminishing, still remains the main contributor for public expenditure finance. The conclusion is that Kosovo is heavily dependent on the international community.

We also observe that the overall reduction of public expenditure from 2000 to 2003, as a result of the related reduction of contributions from the international donor community, has not been replaced by other sources of finance. This means that external contributions have been vital and that Kosovo institutions still cannot confront economic reality without the assistance of international institutions.

**Table 2.** Revenue, Expenditure and net financing capacity of the Kosovo General Government, 2002

Subject Matter	Million Euros
<i>Current Revenue</i>	702,3
<i>Current taxes on income and wealth</i> of which:	56,0
Paid by households	19,2
Paid by enterprises	36,8
<i>Taxes on production and imports</i> of which:	401,5
Taxes on products	396,6
Other taxes on production	4,9
Social contributions	0,0
<i>Other current transfers</i> of which:	218,0
Donor grants from the rest of the world	205,6
Other	12,4
Interest Income	3,7
Sales	23,2
Capital Revenue	196,8
Capital taxes	0,0
Investment Grants	137,4
Other capital transfers	59,4
p.m. total donor revenue, of which:	402,4
- Public investment program	363,5
- Other	38,9

<i>Total Revenue</i>	899,2
<i>Current Expenditure</i> of which:	557,5
Compensation of employees	131,3
Intermediate consumption	315,1
Current transfers to households	59,0
Subsidies	52,1
<i>Capital Expenditure</i> of which,	234,7
Gross Fixed Capital Formation	153,3
Investment Grants	81,4
<i>Total Expenditure</i>	792,2
<i>Net Financing Capacity</i> of which:	106,9
Central Government	94,3
Local Government	12,6

*Source:* SOK, the 2002 Kosovo government account

Table 2 shows that the main revenue for 2002 came from taxes on production and imports (401,5 million euros out of 702,3 in total). However, production counts for only a small part, namely 4,9 million euros out of the 401,5 million, while the rest comes from imports. The second more important source of income is donor grants which account for 205,6 million euros out of the 218 million. This is also one of the reasons why the Kosovar economy is a “transfer economy”.

The capacity to attract foreign direct investment is also an important macroeconomic factor for assessing economic development perspectives. In the case of Kosovo we can observe a series of factors that formulate the overall environment for FDIs, though, in our opinion the trends seem to be negative. According to enterprises that are active in Kosovo the main barriers to FDI are corruption and the lack of investment guarantees (Riinvest, 2002 and European Commission, 2002). Secondly, high taxes are also considered to be an important element that hinders the attraction of FDIs into the province. It is characteristic that according to the reports of the Ministry of Economics and Finance, less than 50% of active enterprises carry out their tax obligations. Readiness to pay taxes is also very low with only 8.2% of entrepreneurs being ready to pay. The reasons behind such attitudes are based on the high tax rates, the lack of effective control as well as the lack of taxpaying culture. Thirdly, in Kosovo with a population of around 2 million we have a limited market. Besides, the



limited access of national minorities to the local markets and services further diminishes the general market, which makes the overall endeavour even less attractive for foreign investors.

Likewise, Kosovo is a politically unstable environment which is very much related to the undefined political status of the province. The transition authorities of the UN, acting in parallel with the elected local administration authorities and the government structures, create a complex political environment, in which competences are very often confused and contradictory. The national interests, being represented by the government bodies, are usually opposed to the will of the international authorities and the donor community, as well as the minorities' representative bodies, thus resulting in political confusion and a complex decision making process with a lot of delays and uncertainties, which is not welcome to potential investors.

In this framework, inter-ethnic relations have not normalised, thus resulting in extreme actions and the creation of a risky environment. Characteristically, the riots of March 14, 2003 have resulted in a further disappointment from the side of the main ethnic minority in Kosovo, namely the Serbs, as well as the need for a re-appraisal of the whole political system in the region. In addition, Kosovo has a weak telecommunication network, problems with electricity and water supply. The fact that even the capital of the province, Pristina, faces extended water and electricity shortages is a deterring factor for investments and proper business activity.

Another negative element for the FDI in the area of Kosovo is the lack of a satisfactory regulatory framework for investments as well as a properly functioning legal system. (Riinvest, 2002). The lack of such a framework does not help the formation of policies that promote and enhance investment opportunities, on the one hand, and on the other, does not create the necessary attitudes to encourage such policies.

However, there are several factors that make the overall situation concerning the attraction of FDIs more balanced. It is characteristic that in Kosovo we can identify certain factors that give to the province a competitive advantage in relation to other countries (Boeri and Terrel, 2002). We can, first of all, notice the combined efforts made by the international donor community to establish an attractive FDI environment, as a prerequisite for the development of Kosovo as well as regional stability and prosperity. The Government, USAID-KBS, Euro- Info Centre, Swiss contact, Kosovo Chamber of Commerce and the offices of foreign countries are working to create a positive environment for new FDI (Riinvest, 2002). According to Riinvest, a leading consulting firm, an institutional campaign for new FDI in Kosovo should begin. This campaign should focus on the advantages of Kosovo as an investment opportunity in relation to Balkans and Central Europe. These advantages are: central geographic location, abundance of natural resources at competitive prices, European hinterland, links with many European countries and the US through the diaspora, relatively high-level of educated young population, good technical skills, motivated

workforce, relatively cheap and abundant workforce available, low internal taxation, stable currency (Euro) and low inflation, export exempted from VAT and custom duties, free trade with the EU for almost all goods under the Stabilization and Association Process and, finally, high purchasing power through remittances.

From the above analysis, we can conclude that the FDI environment of Kosovo has certain specificities. But these specificities do not only have a negative role for new FDI (Sok, 2004). The above elements create the picture of an environment that has the means to attract new FDI but it needs to solve a number of issues in order to be an FDI environment with low risk.

Another important indicator for comprehending the macro-economic situation in Kosovo is the level and the structure of the income of private households. This is important because it demonstrates the capacity to consume as well as the individual standard of living (Sok, 2004).

**Table 3.** Average monthly income of private households (In euros)  
(June 2002 – May 2003)

Type of income	Residence		Kosovo	%
	Urban	Rural		
Cash wages and salaries net of tax	201,23	175,13	192,68 euro	60%
Pensions	13,51	23,56	19,82	6%
Social welfare benefits	6,50	5,16	5,38	2%
Wages in kind	2,35	13,68	9,85	3%
Rent, dividends, interests	5,64	0,00	2,50	1%
Cash remittances from Kosovo	9,26	5,12	6,44	2%
Cash remittances from abroad	34,43	58,83	48,91	15%
Other income	29,48	42,64	36,27	11%
Total	302,40	324,12	321,85	100%

Source: Household Budget Survey 2002/2003 (Sok)

From the table above we can draw useful conclusions. The main part of the average Kosovo private household income (60%) is derived from salaries, while the rest is derived from pensions, benefits and remittances from domestic and external sources, which demonstrates the role of the Kosovar diaspora in the formulation of the family income in Kosovo. This is also the second reason, besides the dependence of the Kosovar economy on external donor assistance, why the Kosovar economy is a “remittance economy”. For the purposes of assessing the importance of the private household income and its impact on consumption, it is important to mention the level of this income in numerical terms. From the statistics of Table 3 we can see that the average salary in Kosovo for the economic year of 2002 was 192,68 euros, which makes it one of the lowest in Europe. Eventually, we can anticipate a high poverty level in Kosovo. Furthermore, another important macro-economic indicator is the level of business development and the number of employees. At this point we have to stress that the lack of adequate statistical data is a serious drawback in examining such information. However, the table that follows is indicative of the situation in the province.

**Table 4.** Number of registered businesses by economic activity and number of employees, 31.12.200

Economic activity	Total	Number of Employees	
		1-4	≥5
Agriculture, Hunting and Forestry	743	533	210
Fishing	10	8	2
Mining and Quarrying	326	220	106
Electricity, Gas and Water Supply	28	3	25
Construction	3.617	2.206	1.411
Wholesale and Retail Trade, Repair of Motor vehicles, Motorcycles and Personal and Household Goods	27.805	26.867	938
Hotels and Restaurants	4.699	4.324	375
Transport, Storage and Communication	7.120	6.429	691
Financial Intermediaries	93	60	33
Real Estate, Renting and Business Activities	1383	1.223	160
Education	476	400	76
Health and Social work	582	502	80
Other Community, Social and Personal Service Activities	2.325	2.153	172
Total	54.412	49.084	5.328

Source: SOK, Statistical Overview of Registered Business in Kosovo, December 2002

From the Table above we can see that the Kosovar business community is very much based on very small businesses, which dominate the economy. It is characteristic that we can observe a very small number of businesses with more than 5 employees. As we can see from the numbers at the end of 2002 there were 54,412 registered businesses. Of these, only 5,328 had more than 5 employees. The large number of small scale – individual enterprises in the field of services and retailing also demonstrate the fragile structure of the Kosovar enterprises and the weak economic environment.

The conclusion that can be drawn from the above is that businesses that are active in the area of Kosovo are small enterprises with low turnover. Moreover, the economic sector of construction seems to prevail as the most important economic activity. As can be seen from the statistical data, construction is the only sector with an important number of enterprises employing more than 5 employees. This element demonstrates that in Kosovo we are seeing a boom in construction, which is very much connected with the post-war activity and the housing reconstruction that took place, as a result of the extensive damage during the conflict era as well as the neglect of public infrastructure by the Milosevic regime. We now turn to an additional macroeconomic indicator, which is the trade tendency of Kosovo.

**Table 5.** Imports and exports by trading partner, 2003

Trading partner	Imports		Exports	
	1.000 Euro	Per cent	1.000 Euro	Per cent
Albania	7.600	1%	1.900	5%
Bulgaria	41.300	4%	200	0%
Bosnia & Herzegovina, Croatia	54.400	6%	2.700	8%
EU and Switzerland	250.700	26%	13.900	38%
FYROM	141.800	15%	6.900	16%
Montenegro	11.100	1%	1.000	3%
Serbia	142.100	15%	6.000	16%
Turkey	92.300	10%	1.700	5%
Other Partners	227.200	23%	1.900	5%
Total	968.500	100%	36.200	100%

*Source:* United Nations Interim Mission in Kosovo (UNMIK) Customs Service / Monthly Macroeconomic Monitor, January 2004

Table 5 demonstrates the dependence of the Kosovar economy and society on the imports of goods and services from abroad. It is characteristic from the data that the value of imports is almost 30 times more than that of exports. This creates a significant trade deficit with serious implications for the government budget. Additionally, it shows the weak economic structures of the Kosovar economy and the lack of local production sources.

With regard to trade structures and trade links, we can mention the important share of the EU member states. More precisely, imports from the EU-15 are about 26% of total imports into Kosovo. On the other hand, exports to the EU-15 were about 38% of total exports in 2003 (Sok, 2004). This shows a high level of dependency of Kosovo's exports on the EU. Another notable element is the very low level of trade relations with neighbouring Albania. Despite the fact that in Kosovo the majority of the population is Albanian, Kosovo has very low trade relations with Albania. From table 5, we see that the imports of Kosovo are only 1% of the total and the exports to Albania only 5%. The lack of infrastructure, the limited road connections as well as the lack of any complementarity between the two economies, can explain the limited trade relations and the lack of economic ties with Albania.

On the other hand, it is quite interesting to evaluate the trade relations with Serbia and FYROM. It is characteristic that the trade relations with Serbia are better than those with Albania. Fifteen per cent (15%) of the total volume of imports derive from Serbia while the figure for exports rises to 16%. This can be explained by the traditional trade links of the past as well as the fact that the natural trade route of Kosovo is via Serbia. The same picture is also evident in the trade relations between Kosovo and FYROM, with volumes of trade being almost similar to those with Serbia. Again, good transport conditions as well as the very intensified links between the Kosovar Albanians and those of FYROM living in the Western part of the country can explain the situation.

An additional macro-economic factor is corruption. Public perception is certainly an important indicator for measuring the impact of corruption on the Kosovar economy and economic behaviour. Twenty per cent (20%) of the public and 25% of surveyed managers believe that the lack of institutional mechanisms of control is a source of corruption. By contrast, the lack of ethics is for both groups a relatively unimportant factor compared to other factors affecting the spread of corruption (Riinvest 2003). Corruption has negative effects on business development. Corruption mostly is regarded as an informal obligation (tax) that needs to be paid. Moreover, corruption decreases the efficiency of investments. This takes place because money is spent to overcome difficulties imposed by public officials, instead of financing business needs. Corruption also increases production costs and the enterprises' expenditure in general, decreasing in the meantime the businesses' competitiveness in the market (Riinvest, 2003). Perceptions of the impact of corruption are indicated in Table 6.

**Table 6.** Consequences of Corruption

Supports unfair competition	25.0%
Creates an improper environment for business and new investments	22.4%
Increases business expenditure due to the requested bribes	20.9%
Imposes obstacles for activities due to the poor quality of public services.	15.9%
Imposes obstacles for activities due to artificial and bureaucratic delays	15.7%

*Source:* SME Survey, Riinvest, December 2002

As we see from Table 6, the surveyed managers believe that the main consequence of corruption is that it harms fair competition. Twenty five per cent (25%) share this opinion. Twenty per cent (20%) consider corruption as a reason for increasing business expenditure (because of the payment of bribes). A little more than twenty two per cent (22.4%) believe that it creates an inappropriate environment for business and new investment (Riinvest, 2003). Finally, it sustains a negative correlation between competitiveness and corruption. Corruption destroys the capacity of the country to produce and sustain competition (Riinvest, 2003).

Another indicator that helps us to create a complete picture of the macroeconomic situation in Kosovo is the labour force of the population.

**Table 7.** Labour force of the population (15- 64 years) and employment 2002

Subject	Sex		Kosovo
	Male	Female	
Labour force of which:	64%	33%	48%
-Employed	35%	8%	22%
-Unemployed	29%	24%	27%
Not belonging to the labour force	36%	67%	52%
Unemployment rate	45%	74%	55%

*Source:* Labour Force Survey 2002 (Sok)

From Table 7 we see that Kosovo has a very high unemployment rate of 55%. This reveals a problematic situation as the majority of the people living in Kosovo do not work (Sok, 2004). Moreover 52% of the population of Kosovo does not belong to the labour force. The population of Kosovo is around 2 million. Considering that 52% does not belong to the labor force (which is also explained by the high birth rate among the Albanian population) and out of the remaining 48% only 45% is working, the result is a state of affairs in which a quarter of the population works for the other three-quarters of the population (Sveinar, 2002). This is a disappointing conclusion for the labour force of Kosovo but also for the productivity level in the area of Kosovo.

The above macro-economic analysis yields a picture of a market economy with structural problems and deficiencies that explain an imperfect competition environment. Foreign direct investments in Kosovo are still limited, which is due to the fact that there is a lack of an adequate regulatory environment, high political and economic risk as well as lack of incentives and relevant market attitudes on the part of stakeholders. Household income is very donor driven as well as remittance driven, which demonstrates a very high dependency from abroad. Level income is also very limited, which shows that consumer power is very limited. The level of business development is very low considering that the vast majority of the sector is made up of very small businesses with fewer than 5 workers. The dominant sector is construction, but this is diminishing due to the fact that the post-conflict reconstruction period is nearly over. The imports and exports structure of Kosovo is very much dependent on the relations with the EU-15. The significant trade volume with Serbia and FYROM is more related to the traditional trade links as well as the transport infrastructure. Corruption has a negative impact on the Kosovar economy with businessmen being very concerned about the situation. Finally the indicators related to the labor force factor in Kosovo show that unemployment is very high with no serious potential for recovery, due to the lack of a sustainable business community in the province. These elements show us that the realization of sustainable economic development in the area of Kosovo is still far away.

### **3. Political situation in Kosovo**

In this section of our article we present the main elements that constitute the political environment of Kosovo. Firstly, we refer to the functioning of the institutions in the area of Kosovo, especially with regard to security. We will also look at the perception of the public with regard to the overall performance of the institutions as well as the factors that may jeopardize stability in Kosovo. We also describe the political system in Kosovo and the main prevailing elements.

We start our analysis by presenting the institutional situation in Kosovo, which remains unstable. The three main institutions that have authority in Kosovo are the

Government, the Assembly and UNMIK (Riinvest, 2004). It is true that the violent events of March 17 and 18 of 2004 created a political and security crisis. But these incidents are also the result of the uncertain status quo of the area (Riinvest, 2004) as well as the functioning of extremist actors, beyond the control of the government and traditional Kosovar political forces. In our opinion, UNMIK and KFOR have the power to ensure a secure environment in Kosovo, although their mandate concerning the level of intervention has to be reconsidered.

The perceptions of people on a series of important issues demonstrate among other things the way that a community sees its future development. This is why we present below certain tables in order to see the perception of crucial issues by K- Albanians and K- Serbs.

**Table 8.** Satisfaction of Respondents with the Performance of Various Institutions-“Satisfied” or “Very Satisfied” Respondents (weighted %)

	UNMIK	Government	Assembly
March 2003	51.9	74.9	71.9
July 2003	43.1	78.1	74.7
November 2003	28.4	68.5	65.3
March 2003	24.7	73.4	64.3
July 2004	20.7	71.9	59.1

*Source:* (Riinvest, 2004)

From Table 7 we see that the citizens of Kosovo believe that their Government is the most reliable institution on which they can count. On the other hand, the citizens of Kosovo have a different opinion in relation to the most powerful institution. The citizens of Kosovo do not trust UNMIK, which is the ruling interim authority in the province (Riinvest, 2004). This is very much connected, and can be explained as such, with the strong desire of the Kosovar Albanians for an independent Kosovo which simultaneously increases their distrust of the international community and the international institutions active in Kosovo. It is characteristic that the farther we move from 1999, the year of NATO invasion, the more distrust we see from the people of Kosovo towards the international organizations and their presence in the province. And the overall environment is proven by the gradual decrease of trust towards UNMIK from 2003 to 2004. We can expect that as long as the status issue is not resolved this percentage will become even lower.



**Table 9.** Opinions on Circumstances Which Threaten the Stability of Kosovo (%)

	K- Albanians	K- Serbs	Others
Further aggravation of interethnic relations	6.7	77.3	12.2
Current social and economic problems	25.1	0.0	42.9
Deterioration of relations with neighbouring counties	0.7	0.0	5.1
Deterioration of relations with the international community	4.6	1.0	7.7
Unresolved issue of the status of Kosovo	52.5	3.6	21.2
Lack of rule of law	6.5	18.0	10.3
Corruption and mismanagement	3.8	0.0	0.6
Total	100.0	100.0	100.0

*Source:* (Riinvest, 2004)

From Table 8 we understand that the two ethnic communities have different anxieties and perceptions about security. For the K –Serbs the most important factor that can create instability in the area is the further aggravation of interethnic relations (77.3%) and the inadequate functioning of the rule of law in the province. On the other hand, the K- Albanians believe that the main factor that can bring instability is the unresolved status of Kosovo (Riinvest, 2004) as well as the high level of unemployment and, overall, the aggravated social and economic problems. It is also interesting to see that the “others” consider the status and the social and economic problems as the most important issue to be resolved. Considering that the “others” mainly relate to Roma, Ashkali and Egyptian populations (RAE), whose vast majority lives in Kosovo with limited inter-ethnic problems – compared to the ones that the Serbs are facing – then we understand why inter-ethnic relations do not really matter to them. It is more than obvious that Kosovars are now looking forward to their own economic future and the need to face their poverty problems.

We now turn to the assessment of the basic characteristics of the party system in Kosovo. In Kosovo, the political structure is made up of four major political parties, belonging to the Albanian majority, these being the LDK (Democratic League of Kosovo), PDK (Democratic Party of Kosovo), AAK (Alliance for the Future of Kosovo) and ORA (OSCE, 2006). At the latest parliamentary elections in October 2004, they took 93 out of 120 total seats in the Assembly. Adding 5 seats taken by 4 smaller Albanian political entities, the Albanian side secured 98 out of 120 seats in total. This situation reveals the strong influence that the K-Albanians exert in the province of Kosovo on the one hand, and on the other, the limited influence of the K-Serbs. However, minorities are also politically represented in the Kosovar Parliament. The Serbians, represented by the Serbian List for Kosovo and Metohija and the Citizens Initiative Serbia, received 8 and 2 seats respectively. The Bosniak entity also got 3 seats, with Vakrat (2 seats) and SDA (1 seat). The Turkish Minority Party of KDTP won three seats. Meanwhile, the Roma, Ashkali and Egyptians won 4 seats, distributed among four parties. Tables 10 and 11 present the overall picture of the latest electoral results.

**Table 10.** 2004 Elections in Kosovo

Party	Seats	%
LDK	47	45.4%
PDK	30	28.9%
AAK	9	8.4%
ORA	7	6.2%
Others	27	11.1%
Total	120	100.0%

*Source:* Organization for Security and Co-operation in Europe Certified results of 2004 elections

**Table 11.** The Electorate in Kosovo

Subject	Number	%
Electorate	1.297.975	100,0%
Voter turnout	695.285	53.57%
Valid ballots	685.879	98.65%

*Source:* Organization for Security and Co-operation in Europe Certified results 2004

Thirty-three political entities participated in the elections of October 2004. The existence of such a large number of smaller parties represented in the election process demonstrates the pluralistic political environment. On the other hand, this situation shows the lack of political maturity and political culture. These parties are mainly personalized structures without a clear political program. Thus, the sustainability of those structures is almost zero (OSCE, 2006). The representation of the ethnic minorities both in the government and the parliament is also an asset for the new democracy. It is characteristic that the newly established Ministry of Returns is headed by a K-Serb.

Low participation in elections can be justified by two factors: a) the very low turnout of the Serbian minority which does not recognize and does not legitimize the present political situation in Kosovo and b) the distrust of the Kosovar electorate towards their own political leaders, although they believe that their government has the potential to resolve the problems that Kosovo is facing, unlike UNMIK.

The presentation of the political situation of Kosovo brings to the surface the unresolved final status quo. The role of international institutions and the lack of confidence felt by the residents of Kosovo in these institutions create a picture of a region without powerful administration. Kosovo needs an administration firstly that would be acceptable to its people and secondly with the capacity to ensure political stability and security.

From the above analysis it can be seen that the conditions for the development of local institutions are emerging in the province, however security and the rule of law are still under question. On the other hand the international institutions have not that level of legitimization from the local community. It is not an uncommon opinion of the Kosovars that international institutions are responsible for crises (European Commission, 2002). The international community with the reliance of the local institutions and mainly with the Government should finalise the final status quo of the area. From that time onwards the local institutions with the support of international institutions can find the mechanisms to create the necessary stability.

## **Conclusions**

In this article we attempted to assess the economic and political reality in the province of Kosovo as well as to elaborate on its prospects for sustainable development. We considered the historical perspective as being crucial to the formation of the current complexity in the province. The sequence of events which finally led to the NATO invasion in 1999 also determine some of the basic elements of the Kosovar society, prevailing till today. Therefore, determining, to a certain extent of course, the progress of the discussions about the final status quo of Kosovo seems to be quite important.

The path towards a sustainable situation in Kosovo involves the development of radical social and economic reforms. At the same time, the macroeconomic tool of the free market can create more stable relations between Kosovo and its neighbourhoods. Regional cooperation and networking, quite limited at present, may be the way to overcome dependency on international donor assistance and remittances from abroad. The creation of a friendly regulatory environment for FDIs as well as the fight against corruption may create the necessary background for the establishment and functioning of SMEs and the reduction of unemployment.

Political stability and the improvement of interethnic relations are also big challenges for the Kosovar political elite and society. Confidence building and mutual trust among the K-Albanian and the K-Serb community is a prerequisite for stability in the province, the existence of low risk and the creation of an environment that may bring forward important economic reforms and improvements.

The case of Kosovo seems complex because the international community has not decided on the final status quo of Kosovo, which in our opinion has to be resolved as soon as possible. The current situation creates tensions. Economic performance may not be substantially improved unless political stability is secured through the proper functioning of institutions. However, security, rule of law and respect for the human rights of the minority population have to be guaranteed by the international community, within the framework of the future status of the province.

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