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Public Investment of the European Union in Kosovo

A Bachelor Thesis submitted for the degree of
“Bachelor of Arts in Law, Political Sciences and Diplomacy”
at the University for Business and Technology

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2009

Signature

“...stability in Kosovo as well as of the whole Balkan region is essential and remains a high priority for the European Union”¹

Javier Solana

¹ Javier Solana, EU High Representative for the CFSP, Brussels, 21 June 2008, remarks after the United Nations Security Council session on the reconfiguration of the UN mission in Kosovo (UNMIK).

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List of Acronyms and Abbreviations

1. CARDS Community Assistance for Reconstruction Development and Stabilisation
2. EAR European Agency for Reconstruction
3. EC European Commission
4. ECLLO European Commission Liaison Office
5. ESDP European Security and Defence Policy
6. EU European Union
7. EULex European Union Rule of Law Mission in Kosovo
8. EUSR European Union Special Representative
9. ICO International Civilian Office
10. IPA Instrument for Pre-Accession
11. KFOR Kosovo Forces
12. MIPD Multi-annual Indicative Planning Document
13. NGO Non-governmental Organisation
14. PISG Provisional Institutions of Self-Government
15. SSA Stabilisation Association Agreement
16. SATM Stabilisation Association Tracking Mechanism
17. UNMIK United Nations Mission in Kosovo
18. UNSC United Nations Security Council

Introduction

After the collapse of peace talks between then Yugoslav regime and Kosovo Albanians in Rambouillet, France, the Yugoslav troops were driven out of Kosovo by NATO bombing campaign. This set the foundations for the deployment of NATO peacekeepers and a UN civilian mission to run Kosovo which was then a Serbian province (after Serbia stripped Kosovo's autonomy in 1989). This air campaign was launched by the Alliance in March 1999 to halt and reverse the humanitarian catastrophe that was then unfolding.² Following a 78-day long NATO air campaign, Kosovo, in June 1999 came under the UN Administration known as the United Nations Mission in Kosovo (UNMIK) which was set by the UN Security Council Resolution 1244. The mandate was to provide Kosovo with a “transitional administration while establishing and overseeing the development of provisional democratic self-governing institutions to ensure conditions for a peaceful and normal life for all inhabitants of Kosovo.”³

Upon the establishment of the UN interim administration, the EU was given an important role to play in developing the post-war Kosovo economy, by leading the UNMIK Pillar IV (Economy). The EU has been present in Kosovo for over ten years and played an important role since the very beginning of the international effort to build a new future for Kosovo. Throughout this time, EU and its member states had a significant role, being one of the largest donors providing assistance to Kosovo at the forefront of the reconstruction effort. In 1999, the European Commission provided €378 million in emergency humanitarian assistance for the victims of the Kosovo crisis, and a further €127 million for reconstruction programmes that started immediately after the war.⁴ In 2000, the EU continued to support Kosovo with funds amounting up to €400 million;

² http://www.nato.int/cps/en/natolive/topics_48818.htm

³ UNSC Resolution 1244

⁴ http://www.southeasteurope.org/documents/assist_kosovo.pdf

some 36.000 soldiers from EU nations served as members of the Kosovo Force (KFOR), constituting around 80 per cent of the total force.⁵

In addition, to the contribution in peacekeeping efforts with KFOR, EU and its member states also provided a considerable assistance as well with policemen from EU member states who served in Kosovo. Moreover, around 100 NGOs of different EU member states have continued to offer valuable assistance by implementing various programs Kosovo wide.

Under the UNMIK umbrella, EU was part of pillar four which was responsible for the economic reconstruction. Mandated to facilitate economic development in Kosovo, the EU Pillar included the Central Banking Authority of Kosovo (CBAK), the Fiscal Affairs Office (FAO), the Kosovo Trust Agency (KTA) and the UNMIK Customs Service.⁶ The Humanitarian Agency of EU, ECHO, also offered humanitarian assistance for Kosovo after the war. Member states of EU also provided bilateral contribution to reconstruction efforts, through managing important assistance programs.

This unprecedented contribution that was given to Kosovo by EU through EAR, ECLO and so on is the main topic of this paper. The paper will go on to describe the political context within which those resources were allocated as well as instruments and partnership that guided relations between the European Union and Kosovo. In the end, the paper will elaborate current EU presence and support for Kosovo and its changing role in country. The data and findings of this paper may serve other students of the University to complement the knowledge acquired during the modules on European Union.

⁵ Ibid

⁶ <http://www.unmikonline.org/intro.htm>

Facts about Kosovo

Political profile

Table 3: Kosovo political profile⁷

Official name	Kosovo [...]
Population	2.473 million (2004)
Area	10.887 km ²
Density	227 inhabitants per km ²
Distribution	60% rural population, 40% urban population
Neighbours	former Yugoslav Republic of Macedonia, Albania, Republic of Montenegro and Republic of Serbia
Population profile	Albanian 88%, Serbian 7%, Other 5% (Bosniak [1.9%], Roma [1.7%], Turkish [1%], Ashkali, Egyptian, Gorani)
Languages	Albanian, Serbian and other minority languages
Religion	Muslim, Orthodox, Catholic
Life expectancy	69 years

The commitment expressed by the European Union in both, political and financial aspect is two-fold. EU has been continuously providing assistance to respond to the needs of institution-building and socio-economic development, and but it also provides a substantial contribution to the international presence in Kosovo.⁸

Kosovo, being in one of the poorest regions in Europe, with around 45% of its people living in poverty, and 15% reckoned to be extremely poor needs further assistance in contributions to the social and economic development, .⁹ EU member states demonstrated their commitment to Kosovo's future when European Commission organised a Donors' Conference in Brussels on 11 July 2008. This was a response to Council's request to use community instruments to promote Kosovo's economic and political development.

⁷ http://ec.europa.eu/enlargement/potential-candidate-countries/kosovo/political_profile_en.htm

⁸ http://ec.europa.eu/enlargement/potential-candidate-countries/kosovo/financial_en.htm

⁹ <http://www.dfid.gov.uk/Where-we-work/Europe/Kosovo/>

Kosovo Government has a rolling document called Mid-Term Expenditure Framework 2009-11 which was presented at the donors' conference and addressed the issue of a funding gap of €1.1 billion for socio-economic for the three coming years. The international community pledged around €1.2 billion. However, realization of these commitments is endangered due to current world economic recession, including those countries who pledged economic assistance to Kosovo.

The EC pledged €508 million, consolidating Instrument for pre-accession assistance (IPA) and Macro-Financial Assistance (MFA) allocations to be disbursed during this period. The EU Member States pledged a further €286 million from their bilateral assistance budgets.¹⁰ IPA assistance amounts up to €57 million under political criteria. The table below shows the financial allocation per component for the period 2007-2011.

Table 4: Financial allocation per component for the period 2007-2011 (in million Euros)¹¹

Component	2007	2008	2009	2010	2011	2012
Transition Assistance and Institution Building	68,3	184,7	103,3	64,4	65,8	67,0
Cross Border Cooperation	0	0	2,7	2,8	2,8	2,9
Total	68,3	184,7	106,1	67,3	68,7	70,0

¹⁰ Ibid

¹¹ Ibid

Political system

Resolution 1244 of UNSC authorised UN Mission in Kosovo in order to start the process of peace building, democracy, stability and self-governance and to assist with the future political status of Kosovo. In 2001, UNMIK promulgated a Constitutional Framework that provided for the establishment of Provisional Institutions of Self-Government (PISG). These institutions included: Assembly, President of Kosovo, Government, Courts and other bodies and institutions including the Ombudsperson.

Kosovo had in total 30 municipalities which formed the basic units for local self-governance with responsibilities provided by UNMIK regulation. PISG competencies were transferred from SRSG; however the SRSG retained some reserved competencies especially in foreign relations and rule of law, and was the highest authority in Kosovo.

On 17 February 2008, Kosovo declared its independence from Serbia. Kosovo Government committed to fulfilling the obligations under the Comprehensive Status Settlement Proposal for Kosovo (the Ahtisaari Plan), to embrace multi-ethnicity and to welcome a period of international supervision as stated in the declaration of independence.¹² As part of its commitment to the Ahtisaari Plan, the Government rapidly enacted laws on minority protection, decentralization, and special protection zones, local self-government, and municipal boundaries. The constitution was endorsed by the Assembly in April 2008 which entered into force on June 15, 2008.

Until this date, Kosovo has been recognized by a robust majority of European states, in total 22 member states, thus leaving five states that have not yet recognised Kosovo, a fact that has proven to create many problems in Kosovo's path towards EU.

On December 9, 2008, the EU rule of law mission, EULEX, reached initial operating capability by deploying over 1,000 police, judges, prosecutors, and customs officers

¹² http://www.assembly-kosova.org/common/docs/Dek_Pav_sh.pdf

throughout Kosovo. As EULEX ramped up, UNMIK ended its police role in Kosovo and scaled back its presence drastically, as directed by UN Secretary General Ban Ki-Moon.¹³ However, EULEX works under the general framework of United Nations Security Resolution 1244 and has a unified chain of command to Brussels.

Economic profile

Table 5: Kosovo economic profile¹⁴

GDP per capita	GDP per capita 1,100 EUR (2006)
Economic growth	-0.1% (2003), 3.3% (2004), 0.6% (2005), 3.8% (2006)
Inflation rate	2.0% (2002), 1.2% (2003), -1.1% (2004), -1.4% (2005), 0.6% (2006)
Unemployment rate	47.0% (2002), (49.7% (2003), 39.7% (2004) 42,2% (2005), 40.0% (2006) (1)
Currency	Euro, Dinar
Government budget balance as % of GDP	4.4% (2002), 2.5% (2003), -6.2%(2004), -2.6% (2005), 3.4% (2006)
Current a/c balance as % of GDP	-11.6% (2002), -15.8% (2003), -18,3% (2004), -18,5% (2005), -19,3% (2006)
Foreign debt	n/a
Trade with EU	Proportion of exports to EU: 38% (2005); 34% (2006) Proportion of imports from imports from EU: 38% (2005); 34% (2006)

Kosovo's economy is currently on the rise but at a slow pace. Security situation and Kosovo's slow recognition are hindering foreign investment and subsequent economic development. Average annual growth of GDP for years 2003 – 2005 was over 3%,

¹³ <http://www.state.gov/r/pa/ei/bgn/100931.htm>

¹⁴ http://ec.europa.eu/enlargement/potential-candidate-countries/kosovo/economic_profile_en.htm

whereas local resources have no possibility of compensating for the lost international assistance. Inflation is low while the budget, for the first time, marked a deficit in 2004. According to World Bank data for 2008, the average annual growth rate was 6% while 45% of the Kosovo labour force is unemployed; 35% of Kosovo's citizens live below the poverty line, and 15% live in extreme poverty. Kosovo has a high deficit in terms of foreign trade. On 2004, the deficit of goods and services reached 70% of GDP, despite the remittances from diaspora with 13% of the GDP and gross international assistance (although in continuous declining trend) with around 34% of the GDP.

Most of the economic development from 1999 was in trade, retail sales and industrial sector. Private sector which developed post 1999 is mainly small. While the number of businesses in Kosovo in 2000 was 29,564 by the end of 2008 the number increased up to 90,929 (SME – Support Agency of Kosova, 2008). In 2007, both Kosovo exports and imports of goods and services increased compared to 2006, representing respectively 11% and 52% of GDP. The main source of export revenues are base metals and base metal products. The EU is the main trading partner of Kosovo and also with reference to foreign direct investments, which in 2007 represented 10.0% of GDP. The EU27 accounted for more than half of total inflows.¹⁵ Largest incomes for the Kosovo Budget come from customs taxes and no trends in reduction of this dependency is noticed so far.

As far as IPA assistance within economic criteria is concerned, the funds amount over €104 million and includes the improvement of social and economic infrastructure in municipalities. This will go towards improving schools, health services, roads, and support to energy efficiency and transmission, support to education and employment and so on.

¹⁵ http://ec.europa.eu/enlargement/potential-candidate-countries/kosovo/eu_kosovo_relations_en.htm

Background

The European Agency for Reconstruction (EAR) managed the European Union's main assistance programmes on behalf of European Commission for Kosovo and its neighbouring countries (namely Serbia, Montenegro and the Former Yugoslav Republic of Macedonia). It was established in February 2000 as the EU's main reconstruction arm in war-damaged Kosovo and later expanded to Serbia, Montenegro and the Former Yugoslav Republic of Macedonia.¹⁶ The Agency initially had a five-year mandate (2000-2004) however its mandate was extended twice by Council Decisions and it was operational until the end of 2008. The initial focus was on assistance with rehabilitation of key infrastructure and public utilities, energy, housing, transport and water supplies.

By 2002, the emphasis gradually shifted to institutional capacity building and development of market economy. Although at a reduced level, the support for infrastructure needs still continued.¹⁷ In the subsequent years, the Agency's priorities moved towards public administration reform at central and municipal levels, support to the police and judiciary, economic stabilisation, job training, as well as environmental issues, support to civil society and promotion of good governance and the rule of law.¹⁸

EAR gradually moved towards assisting the institutions of Kosovo in capacity development for managing reforms according to the Stabilisation and Association Agreement process and the *acquis communautaire*. In addition, the assistance also focused on economic reform, reducing unemployment and support for the return and reintegration of minorities. Since 2007 EAR focused on better management at the border crossing points, greater economic development with an emphasis on the private sector development and strengthening the public administration. In its final year of operations one of the key priorities of EAR was the energy sector, such as an assessment of

¹⁶ <http://ec.europa.eu/enlargement/archives/ear/agency/agency.htm>

¹⁷ Ibid

¹⁸ Ibid

renewable energy sources, improving technical and management capacities.¹⁹ Following the closure of EAR at the end of 2008, all CARDS programmes and ongoing contracts were transferred to the European Commission Liaison Office (ECLO). Currently 150 contracts are still open and have been transferred to the ECLO.²⁰ The table below gives an overview of allocation and commitments from 1998 – 2007.

*Table 1: Key figures at a glance*²¹

Kosovo

	1998-2000	2001	2002	2003	2004	2005	2006	2007**	Total
Allocation* (€ million)	552	144.5	163	62	73	77	47	4.2	1122.7
Committed/Allocated	100%	99%	99%	94%	98%	98%	91%	72%	99%
Paid/Committed %	100%	100%	100%	93%	83%	68%	38%	15%	94%

CARDS

In the past years, the EU has provided support to Kosovo under a variety of financial instruments, including Community Assistance for Reconstruction, Development and Stabilisation (CARDS), macro-financial support and humanitarian aid.

The European Agency for Reconstruction managed a cumulative portfolio of some €1.11 billion in different projects and programmes across Kosovo, 99% of which has been contracted as of February 2008.²² Since 1999, over €1 billion were part of Community Assistance for Reconstruction Development and Stabilisation Assistance (CARDS), mostly implemented by the European Agency for Reconstruction. CARDS programme was established by the Council Regulation (EC) 2666/200024, with the aim of providing assistance to Western Balkan countries, including Kosovo.

¹⁹ Ibid

²⁰ Ibid

²¹ <http://ec.europa.eu/enlargement/archives/ear/kosovo/kosovo.htm>

²² <http://ec.europa.eu/enlargement/archives/ear/kosovo/kosovo.htm>

Under CARDS programme, more than € 5 billion have been allocated for Kosovo for the period 2000-2006. For the years 2005-2006, CARDS financial assistance covered the four potential candidate countries of the Western Balkans: Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia and Montenegro including Kosovo under UN Administration.²³

Instrument for Pre-accession

The system currently in place however is with the Instrument for Pre-accession which is designed in accordance with the strategic Multi-Annual Programming Documents (MIPDs) and came into force on 1 January 2007. IPA was adopted with a Council's regulation on 17 July 2006 in order to replace previous pre-accession instruments including CARDS which was being implemented in Kosovo. The MIPD for 2007 - 2009 is the key strategic planning document for assistance to Kosovo, which totals up to €199, 1 million for the years to come. Nevertheless, in order to achieve this, Kosovo needs to ensure that it has the Legislative and Institutional Framework as well as the Administrative Capacity because IPA funds' requirement is that the country has ownership over the programmes. In Kosovo, IPA is managed by the European Commission Liaison Office.

IPA components are the following:

1. The transition assistance and institution building
2. Cross-border cooperation
3. Regional development
4. Human resources development and
5. Rural development.

²³ <http://www.delmkd.ec.europa.eu/en/whatsnew/2005/12%20CARDS%202005%20Kosovo.htm>

The financial allocation for Kosovo for the period 2007-2012 is presented in the table below:

Table 2: Financial allocation for Kosovo for the period 2007-2012²⁴

	2007	2008	2009	2010	2011	2012	Total
	68.3	184.7	106.1	67.3	68.7	70.0	565.1
Implemented by ECLO	62.0	147.7	106.1				
Implemented by ELARG	6.3	37					

EU's current presence and role in Kosovo

In a report to the UN Security Council on 20 June 2008, the UN Secretary General acknowledged the need for the UN to reconfigure the international presence in Kosovo and the EU decision to deploy a European Security and Defence Policy (ESDP) rule of law mission.

While EU funds initially focused on emergency relief actions and reconstruction, it is now concentrated on fostering Kosovo's development of stable institutions and sustainable economic development and ensuring Kosovo's European future. In total 17 EU Member States maintain a representative office in Kosovo and several thousand soldiers from EU nations serve as members of the NATO led Kosovo Force (KFOR). Furthermore, numerous non governmental organisations from EU member states are active in Kosovo.

Ever since EU ceased to operate as pillar four under UNMIK and with the closing down of EAR office, the EU presence has changed considerably. The EU's presence in Kosovo

²⁴ <http://www.delprn.ec.europa.eu/?cid=2,94>

is made up of three components with the same overall objective: to support the Kosovo authorities at all levels to meet European standards²⁵.

- 1) A political entity in the European Union Special Representative (EUSR) that is supporting the Kosovo authorities to meet its obligations and promoting European values
- 2) An operational entity in the EULEX mission, that will support the Kosovo authorities in the wider area of Rule of Law;
- 3) A reform driving entity in the European Commission office that assists Kosovo in its long-term reform efforts, economic development, fosters Kosovo's regional integration and helps it realise its EU perspective.

EUSR/ICO The ICO provides international support for a European future for Kosovo and aims at ensuring full implementation of Kosovo's status settlement and to support Kosovo's European integration²⁶. The Kosovo Declaration of Independence invited an international civilian presence, as Comprehensive Proposal for the Kosovo Status Settlement which was presented by Mr. Marti Ahtisaari (Special Envoy of the UN Secretary-General for Kosovo). Following the Declaration of Independence and upon the request of Kosovo leaders, a group of States formed the International Steering Group (ISG) on 28 February 2008.

The International Civilian Office employs over 102 national and 64 international staff including staff from US and Switzerland and the number is continuously on the rise. The current International Civilian Representative is Mr. Pieter Feith, who also performs as the European Union Special Representative in Kosovo.

²⁵ http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/98770.pdf

²⁶ <http://www.ico-kos.org/?id=2>

EULEx is the Rule of Law Mission and it is one of the largest civilian missions ever launched under the ESDP. The central aim is to assist and support the Kosovo authorities in the rule of law area, specifically in the police, judiciary and customs areas. It is lead by Mr Yves de Kermabon with around 3,000 staff (1,900 international and 1,100 local).²⁷

The mission is a technical which will monitor, mentor and advise whilst retaining a number of limited executive powers. EULEX works under the general framework of United Nations Security Resolution 1244 and has a unified chain of command to Brussels. It is established pursuant to: the Council Joint Action of 4 February 2008 on the European Union Rule of Law Mission in Kosovo and to the Council Joint Action of 9 June 2009 amending previous one.²⁸

ECLO promotes closer ties between the European Union and Kosovo. It is currently headed by Mr. Renzo Daviddi with over 80 people working in Prishtina by the end of 2008. One of the key roles of the European Commission office in Kosovo is in implementing the EU policy through²⁹:

- a. Deploying all enlargement tools under the Stabilisation and Association Process, such as regular reporting and a European Partnership;
- b. A permanent technical and political dialogue with Kosovan authorities to provide sound policy advise and guidance to their reform efforts;
- c. The provision of substantial financial assistance (nearly EUR 2 billion to date) to build and improve Kosovo's institutions,
- d. Foster socio-economic development and further advance Kosovo's regional integration. The EU is already the largest donor to Kosovo, and it will allocate more resources to Kosovo on a per capita basis than to any other place in the world over the next three years. The EU has earmarked

²⁷ <http://www.eulex-kosovo.eu/?id=2>

²⁸ <http://www.eulex-kosovo.eu/?id=2>

²⁹ <http://www.delprn.ec.europa.eu/?cid=2,110>

around 550 million EUR of pre-accession assistance for Kosovo from 2007 to 2012.

- e. Fostering Kosovo's participation in regional and Europe-wide initiatives such as the Central and Eastern European Free Trade Agreement, the Energy Community Treaty, the European Common Aviation Area and the opening up of Community programmes;
- f. The European Commission's office accompanies Kosovo's reform efforts through the implementation of European Partnership recommendations and implements EU financial assistance.

The road towards Europe

The stabilisation and association process is the framework for EU negotiations with the Western Balkan countries, all the way to their eventual accession³⁰. The framework aims at bringing peace, stability and economic development to the region and to open the perspective of integration in the EU,³¹ by:

1. stabilising the countries and encouraging their swift transition to a market economy
2. promoting regional cooperation
3. eventual membership of the EU

The process helps the countries concerned build their capacity to adopt and implement EU law, as well as European and international standards. Each country moves step by step towards EU membership as it fulfils its commitments in the stabilisation and association process, as assessed in annual progress reports.

A key element in the EU efforts to rebuild Kosovo is this very inclusion in the SAP process for the Western Balkans, and in particular a European Partnership Action Plan

³⁰http://ec.europa.eu/enlargement/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/index_en.htm

³¹ http://www.fes-prishtina.org/pdf/FES-DW%20conference%20input%20paper%20_2_.pdf

adopted in 2006. Under the SAP, the EU works together with the Kosovo authorities to identify priorities and reforms which then form the framework for EU support. Importantly, the SAP and European Partnership mechanisms give a European perspective to the partner countries in the Western Balkans. Promoting economic development and establishing a functioning market economy is a key element of the Stabilisation and Association Process.

The negotiations on a Stabilisation Tracking Mechanism began in 2003 and are still ongoing. However, since Kosovo is not fully recognized by five remaining EU member states, the EU is still divided on how exactly to continue the SAP with Kosovo, as some of its members remain opposed to Kosovo's independence. As of 12 June 2009, there have been in total sixteen meetings of the Stabilisation Tracking Mechanism.

Key challenges towards EU membership

The main challenges for Kosovo on the way to EU membership lie in understanding the process and its consequences; having a full dedication and commitment from the government by placing European Integration as a top agenda; strong and sustainable institutions; administrative capability to prepare and implement coherent, consistent and well coordinated strategies and plans conducive to economic development and EU integration process (Hajrullahu, 2008).

Although Kosovo will in the first instance be only recipient of the components I and II under IPA, it should nevertheless prepare its future Decentralised Implementation System (DIS) for the managements of the components III, IV and V, as based on the experience of other countries, the process of preparing for DIS would take at minimum 2-3 years (Ibid).

For Kosovo, a real challenge will be to set one coherent, consistent and well coordinated plan for the adoption of EU policies and law, namely National Plan for Adoption of the *acquis communautaire* (NPAA). Consensus over NPAA needs to be reached in the

Kosovo Assembly and accepted by the government as legislative program. It must become a referent document for setting up and reorganizing institutions, setting budget priorities, programming of foreign assistance and formulation of negotiation positions. The role of the Parliamentary Commission for Integration is instrumental in monitoring the implementation of the NPAA.

The question of readiness to enter EU is not just about harmonisation of domestic law with the *acquis communautaire* but also general aspects of Kosovo's political and economic systems. One of the most important of these has been corruption, and the answer to the question may be that the most urgent need for preparation is within the EU itself.

Whereas the neighbouring countries have already started the process of liberalisation of visas thus enabling a free movement of citizens, the legal problems that are caused but non recognition by Spain, Slovakia, Romania, Cyprus and Greece are having a bad effect in Kosovo as it's risking of becoming isolated even in the pre-accession process.

According to Jan Marinus Wiersma, Member of the European Parliament, the EU should find a viable solution for Kosovo in order for it to be part of regional initiatives towards integration.³² Mr. Wiersma also believes European Union should be very smart to get out of this situation and it would not be right if all countries in the region are included in the feasibility study expect for Kosovo. The non recognition of Kosovo from five remaining states makes Kosovo's accession to EU more difficult. This has already affected Kosovo in a way that it has been excluded from the process of visa liberalisation.

Still, Kosovo's lack of recognition by and several countries in the European Union including Serbia, Russia and others, could also deter investment, hamper its ability to get loans, impede the European Union from signing trade and cooperation deals with it and place limitations on the travel of Kosovars. Kosovo also faces the threat of an economic embargo by Serbia. Economists say that would hurt Serbia more than Kosovo, because

³² <http://www.voanews.com/albanian/2009-06-20-voa3.cfm>

Serbia exports so many goods to Kosovo.³³ This was already seen with the blockade of Kosovo products being exported to Serbia and Bosnia and Herzegovina, despite the fact that Kosovo is part of the Central European Free Trade Agreement (CEFTA).

Nevertheless, Kosovo Government considers EU Integration as a strategic priority for Kosovo; Kosovo Government and all other institutions are fully engaged in intensifying the integration process pace and increasing the political and technical dialogue with the European Commission.³⁴

Conclusion

The EU signifies an important actor in economic development of post-war Kosovo. As described above, the EU was largely involved through different projects in restoring Kosovo economy and ensuring a smooth economic development from emergency phase to a more sustainable development to meet EU criteria. However, the economic development of Kosovo is hindered in many ways, and most importantly by the acute lack of power supply. Despite enormous investment by the EU in this sector, the situation still remains dire.

In addition, the EU led privatisation process did not result into concrete success. The objective of the privatization programme was to transfer, through market means, the assets of Socially Owned Enterprises from social ownership, to investor entrepreneur owners who would invest and develop, create wealth and provide employment thereby contributing to a viable market economy. The rationale was to quickly get assets and resources working via private entrepreneur investor ownership, thereby contributing to a viable Kosovo economy. However, the system proved not to be suitable for Kosovo, and furthermore, did not attract much or almost none international investment in this process, who would necessarily bring the know-how and accelerate the economic development.

³³ http://www.nytimes.com/2008/03/05/world/europe/05kosovo.html?pagewanted=1&_r=2

³⁴ Speech by Prime Minister Hashim Thaçi in the meeting of Inter-Ministerial Committee for EU Integration

Moreover, the strategy of keeping frozen the privatization fund outside of Kosovo is again proved to be wrong, especially taking into consideration the need of Kosovo's economy for immediate investment in public infrastructure, as it was already done in other former Yugoslav countries, and thus being left far behind the neighboring countries.

When it comes to the Kosovo's economic policies and bringing them closer to the EU standards, it is noticed that EU did not play its required role by advising the Kosovo institutions to reduce its dependence from custom taxes in filling the annual budget (find figures of how much the Kosovo budget is composed of customs – percentage). The issue becomes more serious knowing the fact that Kosovo will have to reduce this dependency as to meet EU standards, which requires that all EU internal trade is free of custom taxes.

A lot of work has been done in the past and is being done by the Kosovo Assembly, Government and EU Liaison Office for European Integration. Kosovo is now approximating the legislation that is being endorsed by Kosovo Government with the European Union *acquis*. However, institutional weaknesses and the fragile democracy may compound Kosovo's bid to access the EU. The lack of a comprehensive strategy for European integration, insufficient institutional structures and a democratic deficit are the main obstacles in Kosovo's integration to the EU. As one the chairperson of the Kosovo parliamentary commission for EU integration put it "integration process is the next most important step after independence."

One of the biggest impediment in the future will be the recognition of independence by the remaining five EU member states who opted out of recognition due to their fears of domestic separatism. These states are still staunchly opposing recognition to Kosovo's statehood, before it can sign any pre-membership deals. Until then, Kosovo will need much of the current EU presence in order to provide their technical assistance and expertise in all steps towards preparations for the stabilisation association agreement and eventually accession to the EU.

Kosovo's declaration of independence should have marked a closure but the fact that there are various international arrangements, overlapping responsibilities and competing authorities across Kosovo may have an affect the internal stability and territorial integrity. This complex arrangement may also be the very obstacle to functional statehood. The Serbian role and propaganda is continually open, in a way that overshadows urgent economic and social problems.

A key issue that still remains bleak is the ability to attract more foreign direct investment which would subsequently increase the confidence of investors for the political leadership of Kosovo. Kosovo's recent membership in IMF and World Bank may be an incentive for restoring the confidence of investors and businesses which will improve the social and economic development in Kosovo.

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Annex A: Map of Kosovo



Source: <http://www.courts.state.nh.us>

Annex B: Kosovo – key events³⁵

20 June 2008-In a report to the UN Security Council, the UN Secretary General acknowledges the need for the UN to reconfigure the international presence in Kosovo and the EU decision to deploy a European Security and Defence Policy (ESDP) rule of law mission.

19/20 June 2008-The European Council recalls EU's 'willingness to assist the economic and political development of Kosovo through a clear European perspective, in line with the European perspective of the region'.

15 June 2008-The Constitution of Kosovo enters into force.

18 February 2008-The Council of the European Union takes note of Kosovo's declaration of independence resolution and notes that member states will decide, in accordance with national practice and international law, on their relations with Kosovo. It underlines EU's conviction that Kosovo constitutes a sui generis case.

17 February 2008-The Kosovo Assembly adopts a resolution which declares Kosovo to be independent.

14 December 2007-The EU underlines its readiness to play a leading role in implementing a settlement defining Kosovo's future status and to assist Kosovo in the path towards stability, including by an ESDP mission and a contribution to an international civilian office as part of the international presences.

05 November 2007-The European Commission publishes its third progress report for Kosovo under UNSCR 1244.

³⁵ Source: http://ec.europa.eu/enlargement/potential-candidate-countries/kosovo/eu_kosovo_relations_en.htm

26 March 2007-UN Secretary General Ban Ki-moon forwards to the UN Security Council the Comprehensive Proposal for the Kosovo Status Settlement prepared by his Special Envoy Martti Ahtisaari.

February 2006-Status negotiations commence under the auspices of the UN Special Envoy for the future status process.

November 2005-The UN Security Council endorses the appointment of Martti Ahtisaari by the UN Secretary General as Special Envoy for the future status process for Kosovo.

April 2005-The Commission adopts the Communication to the Council and the European Parliament on "A European Future for Kosovo".

February 2002-The Provisional Institutions for Self-government are established (a President, a government with a Prime Minister and ministers and an Assembly).

November 2001-Kosovo holds general elections.

November 2000- Zagreb Summit launches the Stabilisation and Association Process (SAP) for five countries of South-Eastern Europe.

June 1999-NATO-led KFOR enters Kosovo.

June 1999-United Nations Security Council Resolution 1244 establishes the United Nations Interim Administration Mission in Kosovo (UNMIK).

May 1999-The EU proposes the new Stabilisation and Association Process (SAP) for five countries of South-Eastern Europe.

March - June 1999-NATO bombing campaign against Yugoslav military and security targets in Kosovo and Yugoslavia proper ('Operation Allied Force').

February 1999-The Contact Group convenes peace talks at Rambouillet. Yugoslavia rejects the proposed Interim Agreement for Peace and Self-Government in Kosovo and talks break down on 19 March.

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