



USAID/Kosovo Newsletter

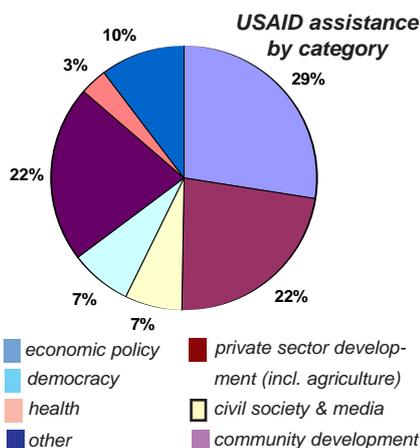
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Five years of USAID in Kosovo:

Progressing from crisis to development

U.S. assistance to Kosovo started in mid-1999, a time when over half of the housing was completely destroyed or severely damaged, the economy and institutions of Kosovo were in shambles, and most of the population had fled their homes. 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, created a massive development need in Kosovo. The U.S. Agency for International Development (USAID) started with the programs to address immediate needs, both in humanitarian relief programs and initial assistance to establish institutions in municipalities and to support a free media. At the same time, on June 21, 1999, Dale Pfeiffer came to Pristina to open the USAID Mission to Kosovo for long-term development programs.

Five years have passed since Dale Pfeiffer opened USAID/Kosovo, and on July 7, he will retire as USAID/Kosovo's Mission Director. In this time, USAID/Kosovo has committed \$241.75 million to rebuilding everything from infrastructure to institutions - and is just one part of the over \$650 million of assistance offered by the U.S. Government in five years.



As Kosovo rebuilt, the USAID/Kosovo goal evolved, and today, the goal of USAID/Kosovo is to help transform Kosovo into a democratic, self-governing, economically sustainable entity, in which all citizens have equal opportunities and rights.

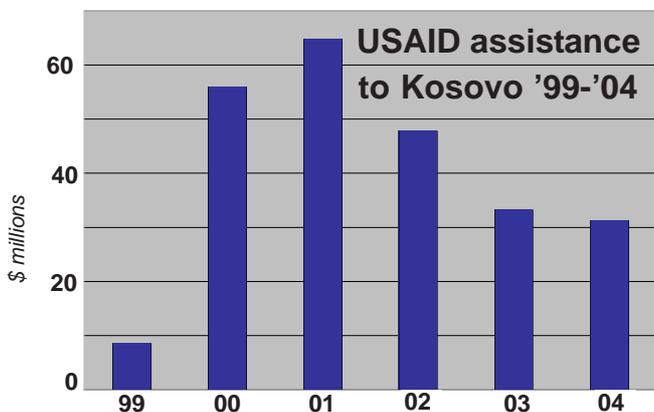
**ESTABLISHING THE GROUNDWORK
TO BUILD A GOVERNMENT
INFRASTRUCTURE AND
MARKET ECONOMY**

This new strategy, the development of which Pfeiffer oversaw, was based on

extensive analysis, consultation with a wide variety of concerned parties, and experience over the past four years of engagement 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 situation in Kosovo, and has led to concentration on two broad areas - economic development and democracy and governance. By reviewing five years of change in Kosovo, it is clear that USAID/Kosovo remains committed to developing a positive future for Kosovo and for all Kosovars. ☘

Led by USAID's team of experts in the fall of 1999, Kosovo was off to a fast start in building a government infrastructure and laying the groundwork necessary to support the development of a private sector economy. Looking back over the past five years, one can see the emergence of an enabling environment fundamental to economic stability and growth.

On the fiscal and budgetary front, USAID has been instrumental in helping to firmly establish the Ministry of Finance and Economy (MFE). Under its leadership, an impressive array of fiscal and macroeconomic policies has been put in place. For example, a progressive Financial Management and Accountability Act was passed by the Kosovo Assembly. A single budget process, consistent with international best practices has been developed. Operating under the rubric of the MFE is 'Treasury', which oversees all aspects of the spending of public funds through its modern government financial accounting system.



USAID's Mission to Kosovo, opened on 21 June 1999, provides assistance on long-term development programs as one part of the overall support and assistance provided by the U.S. Government. In this time, USAID/Kosovo has committed \$241.75 million to Kosovo.

To support Kosovo's annual budget exercise, a macroeconomic framework has been developed. In addition, a comprehensive and fair taxation system has been instituted. The tax system is administered by approximately 500 local Kosovar staff -- collecting over 100 million euros annually in domestic tax revenues, and more than 50 million euros in pension contributions. The introduction of a market-value-based property tax in 2001 was key in providing the principal own-source revenue for Kosovo's municipalities. The revenue generated from the property tax will support municipalities in improving the quality of life of all Kosovars through the provision of local services such as health, education and clean water.

On the banking front, USAID was instrumental in establishing the

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Establishing the groundwork to build a government infrastructure and market economy

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Banking and Payment Authority of Kosovo (BPK). In just over four years, the BPK has greatly contributed to the development of Kosovo's financial sector through its application of laws and regulations governing banks and insurance companies and pension funds.

With USAID's support, one of the most significant achievements was the establishment of a new three-tier pension system in 2001, allowing for the establishment of the Kosovo Pension Savings Trust (KPST). KPST, a non-profit independent institution, administers and manages the investment of more than 54 million euros, building a secure future for Kosovo workers.

USAID's contributions towards building a government infrastructure and market economy:
 --Helped establish the Ministry of Finance & Economy-formerly the Central Fiscal Authority-responsible for fiscal policies and procedures, including a modern 'Tax Administration' and 'Budget and Treasury' departments.
 --Helped establish the Banking and Payment Authority (BPK), which has contributed to the development of Kosovo's financial sector by introducing rigorous licensing and regulatory practices governing both banks and non-banking financial institutions. The BPK also operates the payments system that allows for clearing and settlement of funds. The leadership and organizational structure provided by the BPK is the foundation upon which public trust and investor confidence in the sector has been rebuilt.
 --Helped establish the Kosovo Pension Savings Trust, a non-profit independent agency, tasked with administering and investing the mandatory pension contributions on behalf of current participants.
 --Provided leadership in the design and development of a legal and operational framework for Kosovo's privatization program.

On the economic development front, USAID's privatization advisors played a key role in designing a strategy, legal framework, and procedures for Kosovo's privatization program. Kosovo is one of the few transition economies where privatization is viewed positively and actively desired by the majority of the public.

USAID has worked with the Assembly and the Office of Legal Support in the Prime Minister's Office in developing a framework of core economic and commercial legislation, such as laws on mortgage, banking and collateral.

With the support provided by USAID in helping set up the institutional, regulatory and legal frameworks needed to support a democratic and free market economy, Kosovo now has the means necessary to encourage entrepreneurial initiative and revive economic activity. ☘

BUILDING BRIDGES...AND BUILDING COMMUNITIES

Five years ago, between destruction from the conflict and damage from years of neglect, Kosovo's communities faced ruined roads, bridges, health centers, schools, electric lines, water systems - or such infrastructure was totally lacking.

USAID/Kosovo worked to repair that infrastructure and, in the process, helped rebuild the communities' ability to respond to citizens' needs. What started first as humanitarian aid quickly changed to programs that worked with communities to develop priorities and work together on accomplishing the construction or repairs of various infrastructure projects.

USAID/Kosovo, in the past five years, has supported programs totalling over \$50 million in community re-building efforts. Over 500 projects were completed, from electricity to water system upgrades, rehabilitation of schools and clinics, roads, bridges, and other public buildings, working with local communities to identify their priorities and develop plans for maintenance of the new structures. These programs supported grassroots social and economic recovery initiatives with the goal of creating an improved foundation for social and economic recovery. Communities were able to see immediate positive changes and most provided cash and/or in-kind contributions - as well as their ideas and work on implementing projects - and took responsibility as citizens in the future development of Kosovo.

For example, Shtime municipality undertook many projects with USAID support. But more important that just the water and sewer systems constructed was what they learned in the process. Sabri Qerkini, director of urbanization, explains that after determining the first goal, that potable water was needed for many villages, their next goal was to establish "a connection between citizens, institutions and donors, and thirdly, that the citizens would be made aware of the necessity to contribute to changing their communities, and that there was a lot they could do themselves." In villages around Rashnice, a source of water was developed into a reservoir and water system for six villages. "From these projects, we understand now how to mobilize the community to get things done. When there are more funds for our projects, we will have a wonderful place to live, but we will never stop working together now," Qerkini says.

And work in municipalities has not ended. The Municipal Infrastructure and Support Initiative (MISI) started in late 2003, is working with nine municipalities, enabling them to take a leading role in improving conditions for return and reintegration. MISI focuses on strengthening communication between municipal officials and leaders of the minority and majority communities, as well as addressing priority municipal and community infrastructure and non-infrastructure barriers to returns and reintegration. Communities, through a community working group, prepare project proposals and if selected, the community/municipality must fund a minimum of 20% of the infrastructure project costs (29 have been accepted to date).

Building on the community involvement programs, USAID/Kosovo recently launched a new three-year program to improve the effectiveness, responsiveness and accountability of municipal governments. The new Local Government Initiative will focus on improved municipal management and leadership, fostering local economic development and increased public participation in local governance. The program will work with five municipalities, selected through a competitive process, in a pilot effort. Each will have a resident municipal consultant who will work side-by-side with municipal authorities to develop capacities, establish systems, and provide on-the-job training while addressing real community challenges.



Dale Pfeiffer (right) dedicated many projects across Kosovo such as this heating system for Kamenice schools Fan Noli and Desanka Maksimovic.

Together, these programs have made - and will make - a contribution to the development of stronger communities all across Kosovo. ☘

IMPROVING THE ECONOMY WITH PRIVATE BUSINESS

Improving the economy is huge challenge facing Kosovo- and one that USAID has worked to address. For private enterprises to flourish, businesses need access to capital, business expertise, and a regulatory/legal environment that enables business to be conducted easily.



Trade fairs and business-to-business meetings have reaped real results. "To meet 200 other businesses in one hall is not going to happen every day. Businesspeople here have lost touch with businesses in other countries and this helps link them up again," said Luan Berisha, Executive Director of the Kosovo Export Association. Participating companies have concluded over 7.3 million euros in business deals with regional markets.

In 1999, entrepreneurs struggled to reestablish their businesses and faced a tough reality-- there was insufficient credit. To provide credit and help businesses grow, USAID initiated a finance project for small and medium enterprises (SMEs) -and 2,405 businesses obtained loans. In 2001, this project established a full-service bank staffed by local professionals, the American Bank of Kosovo (ABK). ABK soon saw a dramatic increase in deposits and loans, and became the first bank serving several minority areas. In less than a year, it reached its goals of disbursing \$5 million SME loans, maintaining less than 4% delinquency on loan repayments and creating 1,000 new jobs. This project was operating at the same time that USAID helped offer microfinance credits and the rural institutions, established to offer small loans all across rural Kosovo, still operate today. In 2002, Austria's 2nd largest banking group purchased 76% of ABK's capital stock and in 2003, purchased the remaining shares-becoming Raiffeisen Bank Kosovo.

"The purchase of ABK represented the largest private sector post-conflict investment in Kosovo to date," says Dale Pfeiffer, USAID/Kosovo Mission Director. In addition, the program income from ABK's sale will help further private sector development through a newly created educational fund to provide graduate fellowships to qualified Kosovars to study in the U.S. In addition to credit, USAID began programs to provide management and business skills to private entrepreneurs. USAID's Kosovo Business Support program (KBS) provided assistance to Kosovo businesses in areas such as management, accounting and marketing.

More recently, USAID focused on improving quality of production to help expand businesses' exports and their production of products that can replace imported goods - steps that can improve the economy and lead to more jobs as businesses' sales increase. Improving the legal environment for business was also tackled (see "Establishing the groundwork") so that businesses could operate without undue restrictions. Under the KBS program, meetings and trade shows brought Kosovo businesses together with each other as well as others in southeast Europe and other parts of the world, helping them find ways to export products and locate raw materials. For example, an invitation to an Austrian venture capital company helped facilitate a 1.1 million euro investment in a local company to build a new pharmaceutical manufacturing facility.

The Small Farm Support (SFS) program introduced improved technologies to increase the quality and quantity of agricultural commodities. For example, 1,000 farmers were introduced to new

FOSTERING DEMOCRATIC SELF-GOVERNANCE AND A CIVIL SOCIETY

Among the many long-term developments in Kosovo since 1999 is the evolution of government and how Kosovo's citizens relate to it. USAID has worked with the Provisional Institutions of Self-Government (PISG), civil society and local municipalities to foster the development of democratic institutions, a modern legal framework, a functioning judiciary and a professional media sector for Kosovo.

One of the building blocks of democracy - and an economy that is attractive to business - is having a legal framework that supports democratic institutions, a government that is responsive to the public and acts in accordance with the rule-of-law in a predictable fashion, and the fair and transparent administration of justice. USAID has contributed to making the legislature and judiciary more responsive to Kosovo's citizenry through the development of Good Governance Legislation, including revised rules of parliamentary procedure and a draft law on Freedom of Information.

Working with local legal practitioners and UNMIK authorities, work has been undertaken to rebuild and modernize the judiciary system. In 2002, the first Court Administration Project was completed, which developed a case management system, computerized various procedures and designed systems to help courts run efficiently and transparently to better serve citizens. Along with this, USAID worked with local legal practitioners to improve their knowledge so that lawyers would be able to better represent all sides. Programs have helped established a continuing legal education system and led study tours for private attorneys and judges to foster in-depth understanding and application of law. Over 60 law students completed legal internships through a USAID-supported program and work is underway on development of a legal clinic program with the University of Prishtina law faculty to increase the number of attorneys able to serve the public.

Democracies flourish not only with a strong rule-of-law foundation, but with participation from an active civil society. USAID has contributed to the organizational and professional viability of more than 50 non-governmental organizations (NGOs) that represent civil society by providing services and advocacy for communities and their causes. Support has included helping NGOs change their organizational structures to include functioning boards, conflict of interest policies and gender balance. NGO members have completed training programs in management, gender awareness, advocacy and policy analysis. These NGOs have implemented a minimum of one advocacy project in every municipality, which have resulted in changes to local policy that matter to Kosovar citizens. For example, public participation regulations have been developed and adopted in four municipalities, providing clear guidelines for increased citizen participation in their government. Interested and active citizens can bring about greater improvements as they advocate for change in their own society, and USAID will continue to support their participation.

Another element needed for citizens to make good decisions in a democracy is a strong media. Starting in 1999, USAID began its media support program, helping construct a permanent terrestrial broadcasting system (the broadcast towers seen throughout Kosovo) providing broadcast news to 80% of Kosovo's population. USAID has assisted two private, independent television stations and the first independent news

Improving the economy with private business*continued from page 3*

production technologies through training, demonstrations and individual technical assistance. Under USAID-assisted programs, 44 milk collection centers improved their milk handling and management practices. The dairy sales of participating producers increased an average of 40%, new products such as flavored yogurts were introduced, and household incomes from dairy production rose by 25% -- critical steps in putting money in the hands of rural citizens, utilizing the capacity of processors (leading to increased employment) and supplying Kosovo consumers with locally produced dairy products. The poultry industry also improved, increasing its market share of domestically produced eggs from zero to almost 60% during the past two years. These small steps add up to an improved economy,

increased business profitability and employment. These are the successes that can encourage businesses to expand - and invest in Kosovo. ☘

Fostering democratic self-governance and a civil society*continued from page 3*

agency in Kosovo, KosovaLive, in their establishment, and offers training and technical assistance to independent media outlets and journalists. Independent media that offer objective, balanced news - and varying opinions - gives society a chance to evaluate information and make informed decisions. ☘

LOOKING BACK - AND AHEAD: PARTING THOUGHTS FROM USAID/KOSOVO'S PFEIFFER

Five years ago on June 21, I arrived in Pristina with a couple of Kosovar colleagues who had been assisting me in Skopje in preparation for opening the USAID Mission for Kosovo. The drive was eerie, seeing destruction along the road and wondering what awaited us. It is a day I will always remember. Hundreds of people were milling around on Mother Teresa Street, seeking friends and family, celebrating the end of the war and the end of oppression. Ironically, sitting in one coffee shop were a number of Serbian MUP policemen, symbols of that oppression, unable to decide if it was time to go. They were ignored in the excitement.

It readily became apparent that Kosovo was in a bad state. Whole sections of towns and thousands of houses were destroyed or damaged and the usual institutions and organizations on which societies rely for services and government were all but eliminated. Families were separated although an informal system existed for people to track one another. However, there were large numbers of missing; many still are. The international community descended with fleets of "logoed" vehicles and started their tasks to restore order and deal with the humanitarian crisis. While we began setting up the USAID mission to deal with longer term development concerns, OFDA and OTI (other arms of USAID) mobilized, playing a role in the humanitarian relief efforts and taking the first steps to creating institutions, mainly at the municipal level, and supporting a free media.

Side-by-side were thousands of Kosovars who quickly joined these efforts. Most amazing was how quickly the private sector asserted itself, bringing in food and reconstruction supplies. The next amazing sight was the speed at which homes were repaired. Bridges, bombed by NATO, were made passable and security forces spread throughout Kosovo to give assurance to people that they were safe.

Today Kosovo is physically a different place. Sometimes it appears there is no room left for new construction (though one hopes owners will finish off the homes still standing building block naked). Trade thrives with shops carrying every consumer item imaginable. Roads and

bridges are in generally good repair and will be more so now that elections offer opportunities for municipal officials to win votes by filling in potholes. The institutions of government are two years-plus old and doing relatively well, considering the short time and low salaries. KEK is beginning to perform better after frustrating everyone with its poor delivery of electricity the past few years. And despite the events of March, public safety is relatively good, probably very good when compared to areas of comparable population size in other parts of Europe.

Sadly, despite all the achievements, the economy is still not producing enough jobs and steady incomes. Europe's youngest population experiences massive unemployment, a situation saved only by incoming diaspora money. Privatization, a key and symbolic step to clearing the waste of the past to provide a foundation for the future, has been in limbo as bureaucrats who should know better identify obstacles rather than solutions. Investors are still timid; new productive enterprises are few. But if Kosovars and their international friends can continue to work together rather than bicker, the problems can be solved and Kosovo can have the benefits of democracy and prosperity. A place in Europe also awaits, attainable only if Kosovo recognizes the value of a diverse society and all learn to live together to create a better future for all citizens.



Dale Pfeiffer,
USAID/Kosovo Mission Director

My five years of contact with Kosovars leaves me convinced they will have this bright future. And I have been proud of whatever small role I have had in helping them move toward achieving it. But I am most proud of the Kosovars who have worked with me in this effort. ☘

Dale Pfeiffer