

THE NEW KOSOVO GOVERNMENT

2002 BUDGET



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GLOSSARY

BPK	Banking and Payments Authority of Kosovo
CAM-K	Customs Assistance Mission in Kosovo
CEE	Central Europe and Eastern Europe
DM	Deutsche Mark (1 Euro = DM 1.95583)
EFC	Economic Fiscal Council
EU	European Union
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNP	Gross National Product
HCIC	Humanitarian Community Information Center
IAC	Interim Administrative Council
IDCA	International Donor Community Analysis
IPH	Institute of Public Health
IT	Information Technology
JIAS	Joint Interim Administrative Structure
KCB	Kosovo Consolidated Budget
KGB	Kosovo General Budget
KEK	Kosovo Electric Company
KFOR	Kosovo International Peacekeeping Force
KPC	Kosovo Protection Corps
KPS	Kosovo Police Service
KTA	Kosovo Trust Agency
KTC	Kosovo Transitional Council
OSCE	Organization for Security and Cooperation in Europe
PISG	Provisional Institutions of Self-Government
PIP	Public Investment Program
PTK	Post and Telecommunications of Kosovo
PUSP	Public Utility Service Provider
PURCK	Public Utility Regulatory Commission of Kosovo
RTK	Radio-Television of Kosovo
SME	Small and Medium Enterprises
SRSG	Special Representative of the Secretary General
UNHCR	United Nations High Commission for Refugees
UNMIK	United Nations Interim Administration Mission in Kosovo
UNSCR	United Nations Security Council Resolution
VAT	Value Added Tax
WB	World Bank
WHO	World Health Organization

2002 KOSOVO BUDGET OVERVIEW

Introduction

The 2002 Budget marks an important stage in each phase of transition for Kosovo. Beginning in 2002, Kosovo will be governed by a newly-elected Assembly, a President and Prime Minister and will have 9¹ Ministries serving as provisional institutions of self-government to carry out most government functions such as education, health and social welfare. The 2002 Budget will support important initiatives to expand Kosovo's private sector to continue building a market-based economy in years to come. Additionally, about 93% of the 2002 Budget is funded by local revenues marking an important transition to a budget fully funded by domestic revenues. Funding for major reconstruction efforts will remain at about the 2001 level, taper off by 2004 as donor funding declines and focus shifts to more domestic funding for future capital investment needs. By year-end 2003, the Kosovo Budget is expected to be fully funded by local revenues and to have fully integrated operating and capital spending.



For 2002, the Kosovo General Budget totals Euro 374.1 million, representing a 30% increase (+Euro 85.9 million) from the revised 2001 Budget. Although the increase appears expansionist considering the Kosovo economy's overall size, most of the increase is for implementing the new Kosovo Government institutions and associated new spending policies. The Kosovo General Budget discussed throughout this Overview refers to the 2002 Budget which includes the central government (provisional institutions of self-government and reserved functions) and municipalities. This Overview also briefly references the Kosovo Consolidated Budget, which consists of the Kosovo General Budget and the public enterprises that receive central budget transfers, to offer a complete look at the state of the public sector.

This 2002 Budget Overview includes eight sections:

1. Introduction
2. Revenues
3. Kosovo General Budget
4. Municipalities and Devolution
5. Public Enterprises
6. Public Investment Program
7. Political and Administrative Governance in Kosovo
8. Conclusions: Future Policy Priorities

It also provides a timeline of Key Political and Budget Events for 2001 and 2002 and a diagram of the Key Economic and Fiscal Institutions of Kosovo.

¹ The Constitutional Framework for provisional self-government in Kosovo, approved May 5, 2001 establishes 9 Ministries under the new Kosovo government structure. During the March 4, 2002 session of the elected Assembly, the newly-appointed Ministers agreed to create a new Ministry by breaking up the Ministry of Health, Environment and Spatial Planning into 2 Ministries: Ministry of Health and Ministry of Environment and Spatial Planning. The 2002 Budget is presented with the initial 9 Ministry government structure.

Revenues

What has made the significant budget increase from 2001 to 2002 possible has been a combination of economic growth, the introduction of modern taxes and improved compliance. In fact, the overall fiscal situation in Kosovo has greatly improved allowing for less reliance on international donors to fund government spending. The 2002 Budget will be funded mostly from domestic revenues (93 percent), as compared to 50 percent for 2000 and 79 percent for 2001.

Domestic revenue growth has been phenomenal since the inception of a new tax system in Kosovo in late 1999. Nominal revenues grew by more than 140 percent from 120.2 million to Euro 292.2 million from 2000 to 2001. Revenues are expected to grow an additional 24 percent in 2002 to reach Euro 359.2 million. Some of the revenue growth can be attributed to 2001 GDP growth of 13 percent and inflation of 10 percent but a large part of the growth can be attributed to better enforcement, better compliance, removal of exemptions and introduction of a modern VAT.

General economic growth is one of several factors contributing to the increase in domestic revenues. Reconstruction of buildings and infrastructure has been occurring, public services have improved and private sector activity has grown particularly for trade and services (i.e., hotels, restaurants, markets). Most of the revenue growth, particularly in 2002, is attributed to broadening the tax base, introduction of the VAT in July 2001, and improved compliance, particularly following the establishment of Tax Collection Offices on the Administrative Boundary Line with Serbia.

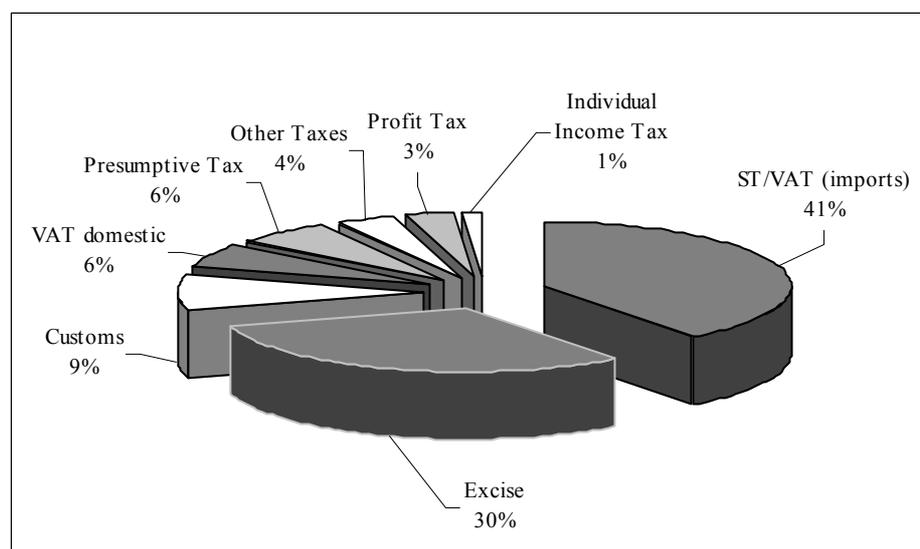
The revenue outlook for 2003 and 2004 shows more modest growth. Domestic revenues will grow by 13 percent to Euro 405 million and by 13 percent to reach Euro 458 million, respectively for 2003 and 2004. By 2003, donor funding for general government spending is expected to end. At that point, the tax base will need to be broadened to sustain expenditures and to create a budget that is supported fully by domestic revenues. The near term domestic revenue growth is based on the following assumed tax policy changes:

- Replacing the presumptive tax with profit tax for larger businesses effective April 2002;
- Decreasing the threshold for VAT from Euro 100,000 to 50,000 in July 2002;
- Introducing a comprehensive individual income tax in January 2003 and increasing the top marginal rate of the tax to 20 percent;
- Reducing customs tariff rates gradually over the next three years, starting with a reduction in July 2002; and
- Increasing excise rates for gasoline in January and July 2002 to compensate for the reduction in customs duties.

As the following chart and table reveal, the major sources of domestic revenues for 2002 and beyond are VAT, excise taxes, customs duty, profit tax, presumptive tax and individual income tax. With the introduction of new taxes in 2002, the structure of the tax revenues will gradually change from revenues collected at the border (mostly customs duty and excise

taxes) to revenues that are domestically generated (VAT, profit tax, presumptive tax, individual income tax). Revenues from domestically generated sources will be an estimated 20 percent of total revenues in 2002, as compared to only 10.5 percent and 17 percent in 2000 and 2001, respectively.

2002 Kosovo Revenues (Chart 1)
(in %)



2002 Kosovo Revenues (Table 1)

2001 Mid-Year Estimates and Actuals, 2002 Estimates, 2003 and 2004 Forecasts
(in Million Euro)

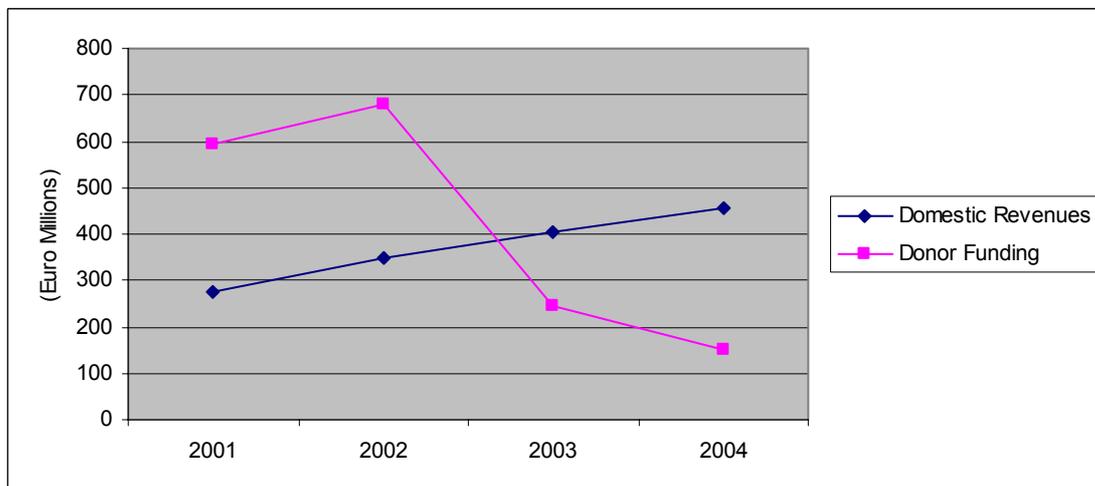
	2001 Mid-Year Est.	2001 Actual	2002 Estimate	2003 Forecast	2004 Forecast
Customs	42.5	47.6	32.2	25.3	14.8
Excise	77.2	76.9	105.9	125.0	146.0
ST/VAT (imports)	110.2	117.6	138.8	163.7	191.3
VAT domestic	7.7	9.8	20.5	25.7	30.0
Presumptive Tax	25.6	25.6	22.0	23.4	27.3
Profit Tax	0.0	0.0	10.2	12.1	14.1
Individual Income Tax	0.0	0.0	5.1	14.6	17.1
Hotel Tax	0.8	0.8	0.0	0.0	0.0
Other taxes	11.2	13.9	13.8	15.2	16.9
Subtotal, Domestic Revenues	275.2	292.2	348.5	404.8	457.5
Donor Funding ¹	76.5	76.5	25.6	0.0	0.0
Total, Revenues	351.7	368.7	374.1 ²	404.8	457.5
% change – domestic revenues	--	--	23%	13%	13%
% change – total revenues	--	--	4%	5%	13%
Domestic revenues as a % of GDP	15.5%	16.4%	17.6%	18.0%	18.3%

¹ Donor funding represents funding for general government spending. It excludes donor funding for major public investment activity and municipal revenue estimates.

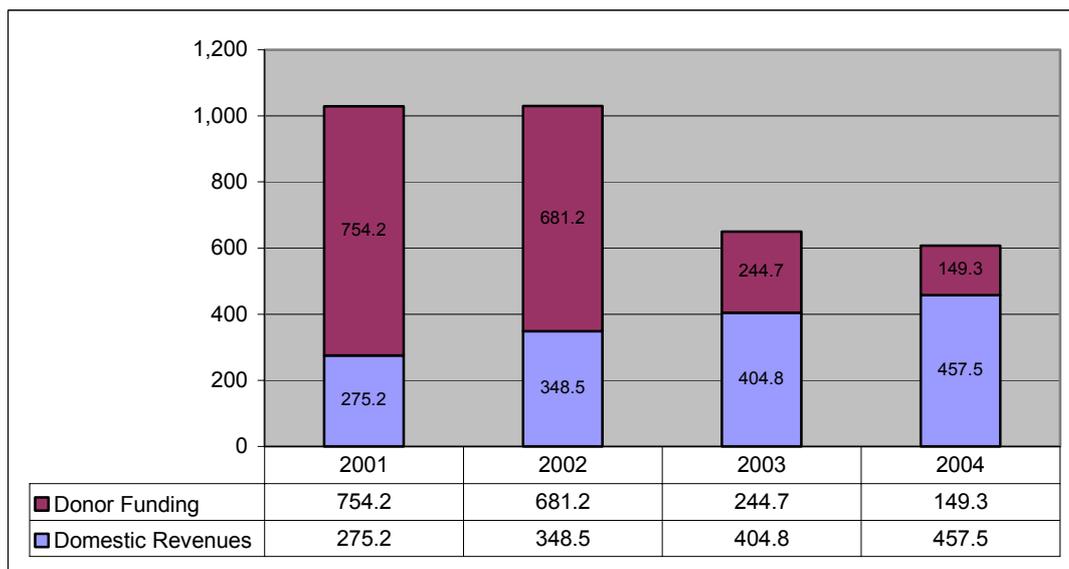
² The 2002 revenue forecast will increase by an estimated Euro 11 million based on additional revenue gained from delaying planned customs tariff reductions originally planned in January 2002.

As the previous table reveals, donor funding represents a portion of total revenues at 21 percent and 7 percent, respectively for 2001 and 2002. Donor funding has been provided for the Kosovo General Budget since 1999 for general budget support and for specific purposes. Additionally, donors have funded most of the major reconstruction that has occurred since the 1999 conflict. Annual donor-funded public investment has totaled about Euro 600 million per year from 2000-2002. Donor funding for public investment will gradually decline in 2003 and 2004 by –63 percent and 40 percent, respectively. More important, donor funding for general government spending is expected to end in 2003. The following charts show the relevant annual trends for domestic revenues and donor funding for 2001-2004. As seen in the charts, donor funding for public investment sharply declines in 2003 and 2004 while domestic revenues gradually increase during the same period but at a smaller rate of increase. Domestic revenues will need to further expand to enable the Kosovo General Budget to assume the costs of additional capital investment needs in the future.

2001-2004 Domestic Revenue and Donor Funding (Chart 2)
(in Euro Millions)



2001-2004 Domestic Revenue and Donor Funding (Chart 3)
(in Euro Millions)



Kosovo General Budget

For 2002, the Kosovo Budget will be the first budget to provide a program-based activity overview of government spending for both operating and capital spending (See “*The New Kosovo Government: 2002 Budget*” for program activity overviews by Ministry). For 2001, the Budget focused more on public investment spending and lacked an integrated approach with operating and capital spending figures to show the total program costs. The 2002 Budget goes significantly further in providing program activity overviews to show how public funds will be spent, and incorporating provisional recurrent cost estimates for capital projects. The 2002 Budget also includes forward estimates for 2003 and 2004 to provide a medium-term perspective, although the estimates are tentative given the central government was in transition during the budget finalization process. The next stage of budget integration requires systematic performance measurement information to assess the effectiveness and cost-efficiency of funded programs. It is expected that the 2003 Budget will include more performance measurement information, better forward estimates and further integrate operating and capital spending.

The 2002 Kosovo General Budget (KGB) includes expenditures for the central government (provisional institutions of self-government and reserved functions) and municipalities and is mostly financed by domestic revenues. It excludes most of the capital investment spending which is reflected in the mostly donor-financed Public Investment Program (PIP). Together, the KGB and the PIP provide the total cost of programs financed by domestic revenues and donor funding. The following table shows combined KGB and PIP spending by government function for 2001-2004. As the table reflects, the level of PIP spending sharply declines in 2003 and 2004 as KGB spending gradually increases during the same period.

2002 Kosovo General Budget and Public Investment Program (Table 2)
2001 (Mid-Year Estimate), 2002 (Proposed), 2003-2004 (Forward Estimates)
(in million Euro)

Function	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
General Public Services	38.7	28.3	83.9	39.2	35.2	6.9	35.2	3.9
Civil Emergency Service	12.9	13.8	13.4	18.7	15.8	10.2	16.2	7.1
Public Order and Safety	28.0	12.2	44.0	24.0	42.6	10.5	42.7	10.1
Economic Affairs	47.3	282.6	25.1	415.0	48.4	106.3	94.1	65.1
Environmental Protection	.2	.6	.6	4.8	0.7	2.3	0.7	0.7
Housing and Community	6.9	129.6	6.9	58.5	66.9	10.0	66.2	7.7
Health	47.0	26.7	52.9	35.8	61.9	76.5	65.8	36.1
Recreation and Culture	3.4	2.9	7.8	9.6	7.8	3.4	7.8	3.3
Education	60.3	18.2	74.2	45.3	125.5	18.6	129.0	15.4
Social Protection	43.5	2.6	65.3	4.7	0.1	0.0	0.1	0.9
Subtotal	288.2	517.5	374.1	655.6	404.8	244.7	457.5	149.3
Total, KGB + PIP	--	805.7	--	1,029.7	--	649.5	--	606.9
% of Total	36%	64%	36%	64%	62%	38%	75%	25%

Note: 2001 PIP figures represent actual spending, while 2002 – 2004 figures represent planned Public Investment spending.

Of the total Euro 374.1 million provided for the 2002 Kosovo General Budget, 51 percent is for provisional institutions of self-government, 29 percent for UN-administration retained powers (mostly justice, public services and economic and fiscal affairs) and the balance, 21

percent, provides transfers for the 30 municipalities of Kosovo. The following table (Table 3) shows how 2002 funding is allocated by central government Ministry / Agency and the municipalities. Annual budget comparisons by spending agency between 2001 and 2002 are not feasible due to the new government structure in effect beginning in 2002.

2002 Kosovo General Budget (Table 3)

Expenditure by Government Entity
(in Euro Million)

	# of Employees ¹	Approved Budget	% of Total
Provisional Self-Government Ministries			
Assembly, Offices of the President and Prime Minister, Ministers, and Ministerial Offices	392	6.9	1.8%
Ministry of Labor and Social Welfare	1,248	66.6	17.8%
Ministry of Education, Science and Technology	22,979	39.0	10.4%
Ministry of Health, Environment and Spatial Planning	6,793	39.0	10.4%
Ministry of Public Services	1,071	13.9	3.7%
Ministry of Transport and Communications	125	11.7	3.1%
Ministry of Culture, Youth and Sports	438	5.1	1.4%
Ministry of Agriculture	376	1.4	.4%
Other ²	80	8.9	2.4%
<i>Subtotal, Ministries</i>	<i>33,502</i>	<i>192.5</i>	<i>51.5%</i>
Reserved Agencies			
Kosovo Police Services	5,475	23.5	6.3%
Directorate of Civil Protection	4,806	16.4	4.4%
Department of Justice	1,801	10.9	2.9%
Correctional Services	1,274	6.5	1.7%
Central Fiscal Authority	888	8.4	2.2%
Directorate of Administrative Affairs	634	5.3	1.4%
Department of Infrastructure Affairs	18	2.5	0.7%
Department of Rural Affairs	71	.7	0.2%
Other Reserves ³	18	32.8	8.8%
<i>Subtotal, Reserved Agencies</i>	<i>14,985</i>	<i>107.0</i>	<i>28.6%</i>
Municipalities (Grants)	--	74.6	19.9%
TOTAL, Kosovo General Budget	49,944	374.1	100%

¹2002 employees are average full-time equivalent position figures.

²Other includes: Ministry of Finance and Economy (.503 million Euro), Ministry of Trade and Industry (.209 million Euro), and Contingent Expenditures (8.1 million Euro).

³Other Reserves includes: Radio and Television of Kosovo (2.5 million Euro), Independent Media Commission (.409 million Euro), Banking and Payments of Kosovo (1.3 million Euro), Ombudsperson Institution (.371 million Euro), Joint Advisory Council on Legislative Matters (.061 million Euro), Community Affairs Office (.096 million Euro), Contingent Expenditures (6.1 million Euro) and funding reserved for local municipality elections, employees pension contributions, and provisions for the proposed Kosovo Trust Agency, Public Utilities Regulatory Commission, Auditor General Office and Pensions Savings Trust.

Major trends to note are as follows:

- Seventy-two percent of the budget is under the authority of elected/appointed local and central government representatives;

- UNMIK retains authority over slightly more than a quarter of the budget to finance the reserved powers conferred under the Constitutional Framework (mainly justice, public services, economic and fiscal policy);
- The UNMIK-administered budget of Euro 107.0 million provides transfers for several important public entities including the public broadcasting station, Independent Media Commission, the Banking and Payments Authority, and the Community Affairs Offices;
- About 20 percent of the public funds will be transferred to the 30 Municipalities to spend directly on public education, primary health care and other local government services; and
- Over 50 percent of the 2002 Budget reflects the four largest spending areas -- Labor and Social Welfare (Euro 66.6 million), Education (Euro 39 million), Health (Euro 39 million) and the Law and Order Cluster (Justice, Police Services, Civil Protection, Correctional Services – Euro 57.3 million).

As the previous table reveals, the four priority spending areas for 2002 are Education, Health, Labor and Social Welfare, and Law and Order.

- *Education.* An important aspect of economic development for Kosovo is an improved public education system that fully prepares Kosovo youth for entering the workforce. Kosovo now faces the challenge of rebuilding educational facilities damaged during the conflict, modernizing the curriculum based on international standards, training teachers in modern techniques and meeting the demands of a rapidly growing population.² The Education system employs about 24,000 teachers and 6,000 administrative and support staff. The 2002 Budget provides a total of Euro 74.1 million for Education and has two major parts. First, Euro 35.1 million (47%) is earmarked for grants to enable the Kosovo municipalities to assume greater responsibility for primary and secondary education. The balance, Euro 39 million is for the central Ministry spending which includes a small allocation to develop curricula for various subjects at the primary level. Donor funding totaling about 6 million is also secured in 2002 mostly for: 1) overall curriculum development efforts to be guided by 7 core curriculum experts; 2) to train and certify 5,000 Kosovo teachers; and 3) to establish a special education program.
- *Health.* The Kosovo healthcare system is also in need of major restructuring. Currently, the healthcare system employs about 12,900 workers with a total budget of Euro 54.2 million. The Health budget has 2 components: 1) Euro 39 million (72 percent) for central Ministry expenditures; and 2) Euro 15.2 million (28 percent) in transfers to the 30 municipalities of Kosovo to support primary healthcare activities. Kosovo has some of the poorest health indicators in Eastern and Central Europe. It has the highest infant and maternal mortality rates in Europe as well as the highest TB prevalence. In the past, the healthcare system promoted inefficient use of expensive hospital care to treat many health conditions more appropriately treated in primary care facilities. Of the total provided for central Ministry spending, Euro 25.7 million (47 percent) is provided to assist in reforming the hospital network to operate more efficiently and to become more accessible

² The total population of Kosovo is about 1.8 million and the population is very young: 70 percent are under the age of 30, 10 percent of children are under the age of 5 and 2 percent are younger than one year.

to the population. An additional Euro 6.1 million is included in central Ministry budget to support local efforts to reform the healthcare system to have primary care facilities serve as the focal point for providing healthcare services.

- *Labor and Employment.* A major challenge for the Ministry of Labor and Social Welfare is to address the high level of unemployment in Kosovo, to provide social assistance for those Kosovars in need, and to reconstruct the social protection system of Kosovo. According to a 2001 household survey and poverty assessment, about 50 percent of the population in Kosovo is poor, and about 12 percent are considered extremely poor with little opportunity to overcome poverty.³ The 2002 Budget provides total funding of Euro 66.6 million for the Ministry. Of the total, 97% is earmarked for ongoing and planned social welfare, social assistance and pension activities. The approved budget will provide for the administration of the Social Assistance program currently benefiting just over 56,000 families, the new benefit for war invalids, next of kin assistance program and the universal pension scheme for the elderly beginning in 2002. A small portion of the 2002 budget is earmarked to support employment and vocational training activities.
- *Law and Order.* In the post-conflict environment of Kosovo, a priority for the government is to maintain peace and public order in Kosovo and to establish an effective and efficient system that promotes the rule of law and respect for human rights. This is the responsibility of the Law and Order cluster within the government consisting of 4 agencies: 1) the Kosovo Police Services; 2) Correctional Services; 3) Department of Justice; and 4) Directorate of Civil Protection. For 2002, the Budget includes Euro 57.3 million for the Law and Order cluster which represents 15.3% of the total Kosovo General Budget. Within the approved level, almost half (Euro 23.5 million) is earmarked for the Kosovo Police Services (KPS) primarily to increase the Police force to 5,475 officers by the end of the year and to initiate in late 2002 the transfer of operational responsibilities from UNMIK Police to the KPS. The gradual transfer of responsibilities will continue through 2005. An additional 16.3 million is provided for civil protection, mine clearance, fire and rescue services and emergency civil preparedness activities. The 2002 Kosovo Budget also allocates Euro 10.9 million for the administration of justice programs including the Courts and Prosecutors' Program under the responsibility and political direction of the Department of Justice. A total of Euro 6.5 million is also provided for Kosovo Correctional Service activities. The Public Investment Program includes committed donor funds in 2002 for ongoing renovation of the Dubrava prison and to construct a new prison in Lipjan. These projects will greatly expand the capacity of the Kosovo Correctional Service system and bring Kosovo closer to international correctional standards.

The following charts reflect the 2001 and 2002 Kosovo General Budget allocation by economic activity. General observations on annual budget trends by economic activity are:

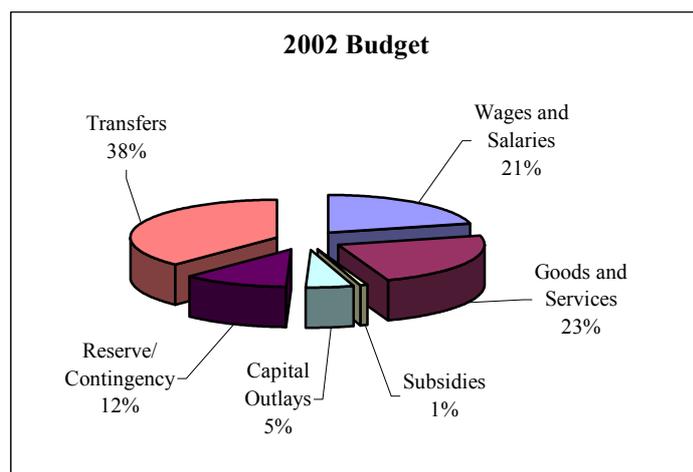
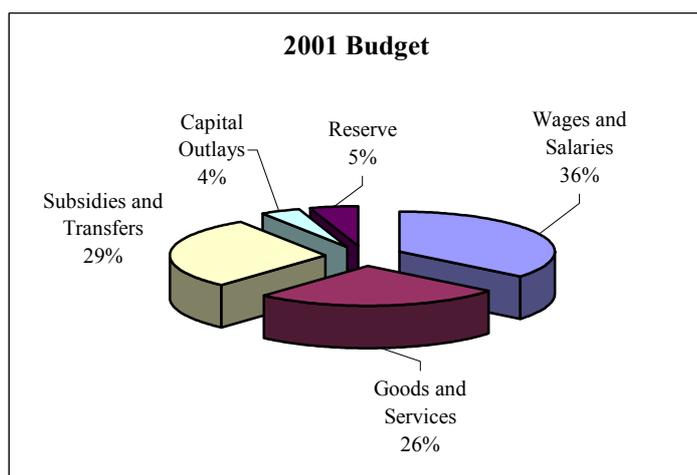
- Wages and salaries expenditures as a percent of the total budget declines from 2001 to 2002 due to continued efforts to contain staffing levels particularly in the larger spending agencies;
- Goods and services continues to represent about a quarter of the total spending for both years;

³ KOSOVO: *Poverty Assessment*, The World Bank, July 23, 2001, 57 pages.

- Minor capital expenditures continue to represent about 5% of annual spending for 2001 and 2002;
- The proportion of funding in reserve increases in 2002 due primarily to the funding that is earmarked either for UNMIK reserved functions awaiting UN-approval of their final status (Kosova Trust Agency and Public Utilities Regulatory Commission) or for small independent entities currently in the initial stages of setting up operations (Auditor General Offices and Pension Savings Trust); and
- A noticeable increase is reflected in annual budget subsidies and transfers due primarily to the large increase in central budget transfers to the 30 municipalities as general and earmarked grants for health and education expenditures.

Kosovo General Budget (Charts 3 & 4)

Expenditures by Economic Activity
(in %)



The following table compares general government spending by function for the period 2001 through 2002.

2002 Kosovo General Budget (Table 4)

Expenditure by Government Function
(In Euro Million)

	<i>Mid-Year Est.</i> 2001	<i>Proposed</i> 2002	<i>% change</i> 01 to 02
General Public Services	38.7	83.9	117%
Civil Emergency Service	12.9	13.4	4%
Public Order and Safety Affairs	28.0	44.0	57%
Economic Affairs	47.3	25.1	-47%
Environmental Protection	.2	.6	215%
Housing and Community Amenity	6.9	6.9	0%
Health	47.0	52.9	13%
Recreation, Culture and Religion	3.4	7.8	126%
Education	60.3	74.2	23%
Social Protection	43.5	65.3	50%
TOTAL, Expenditures¹	288.2	374.1	30%

¹Total expenditures includes donor-funded general government spending for 2000 – 2002.

When comparing expenditures for the 2001 and 2002 by government function, several major trends are noteworthy:

- As previously noted, general government spending increases by 30 percent from 2001 to 2002;
- General Public Services increases by 117 percent reflecting the start-up costs for the newly-elected Assembly, Presidency and Prime Minister and increased grants to the 30 Municipalities.
- Public Order and Safety Affairs increases by 57 percent mostly reflecting increases in the Kosovo Police Service staffing and support activities.
- Social Protection increases by 50 percent primarily due to the new pension scheme starting in 2002 funded at Euro 19 million.
- Education and Health receive increased funding of 23 percent and 13 percent, respectively to continue implementing reforms and supporting devolution of certain responsibilities to Municipalities in both areas.

The 2002 Budget assumes available revenue of Euro 384.8 million of which 93 percent is funded from forecasted domestic revenues and the balance is from donor contributions totaling Euro 25.6 million. In addition, a budget surplus of an estimated Euro 109 million will be carried forward from 2001 into 2002. The surplus or excess cash is the result of several factors, including: 1) a disciplined approach to the budget to control the level of public sector employment and wages; 2) a sustainable modern and efficient revenue system and improved enforcement; 3) economic growth during 2001 that significantly exceeded expectations; and 4) a capital budget financed entirely from donor contributions. A breakdown of the estimated surplus is shown in the following table:

2002 Kosovo Budget Surplus Breakdown (Table 5)
(in Euro million)

Where the Surplus Comes From:		
A.	Total Revenues for 2001	369
	Domestic revenues	293
	Donor assistance	76
B.	Total Expenditure Committed in 2001	287
	Total Budget Expenditure in 2001	242
	Committed in 2001 but to be spent in 2002	45
C.	2001 Surplus (A-B)	82
D.	Surplus carried forward from 2000	27
E.	Total 2001 Surplus (C+D)	109
How The Surplus Will Be Used in 2002:		
G.	Total amount committed in the 2002 Budget*	72
	Kosovo government offices refurbishing	13
	KEK improvements	51
	General infrastructure investments	8
H.	Balance available in 2002 (E-G)¹	37

*NOTE: The proposed uses of the 2002 Surplus are reflected in Schedule 4 of the 2002 Kosovo Consolidated Budget Regulation, UNMIK Regulation NO. 2001/37, approved on 22 December 2001.

¹The balance available in 2002 may increase by Euro 11 million due to additional revenue gained from reducing customs tariffs only once in 2002.

The surplus represents about one-third of the recurrent budget and 3 percent of estimated GDP for 2002. The 2002 Budget includes several proposals for using the surplus which are mostly one-time spending initiatives to address key economic problems in Kosovo. A portion is earmarked for one-time management and engineering improvements for the Kosovo Electricity Company (Euro 51 million), office refurbishment to accommodate the new government institutions (Euro 13 million) and a small reserve for other capital investment projects (Euro 8 million). The balance (**Euro 37 million**) is reserved to address cash flow problems. (See *Budget Regulation Schedule 4* for further details.)

This is considerable progress in adequately funding general government spending. Despite such progress, revenue growth is likely to taper off by 2003 and beyond. Continued expenditure restraint will be required to sustain fiscal stability in the future. For 2003, the Central Fiscal Authority and Ministry of Finance and Economy will need to develop a viable plan for incorporating off-budget and additional spending items into the Budget. Such items will include:

- Full-year costs of new initiatives funded in the 2002 Budget;
- Budgetary impact of further devolution of responsibilities to the municipalities;
- Recurrent cost implications of donor-funded reconstruction efforts to date;
- Addressing additional capital investment needs as they arise; and
- A possible Kosovo government contribution to help retire the external debt of the Federal Republic of Yugoslavia (FRY).

What will also be important is that the 2003 Budget reflect the policy priorities of the newly-elected Assembly and appointed Ministers along with an improved medium-term focus.

Municipalities and Devolution of Responsibilities

The 2002 Budget will mark the first year in which the underlying principles of UN Regulation 2000/45 on municipal devolution are realized. Regulation 2000/45, approved in August 2000, stipulates that the municipalities are the basic territorial self-government unit in Kosovo and confers a wide range of responsibilities to the municipalities, including:

- Managing municipal property;
- Urban and rural planning and land use;
- Licensing and regulating building and other economic development activities;
- Protecting the environment, providing public utilities, infrastructure and emergency services; and
- Providing social services, housing, primary and secondary education and primary health services.

With the 2002 Budget, Kosovo's 30 municipalities will be given more responsibility over primary and secondary education and primary health services and increased transfers to finance these services. A major challenge for the central government has been to ensure that the municipalities have the fiscal capacity to effectively execute their expanded responsibilities. An ongoing challenge will be to ensure that they have the management capability.

During 2001, the central government designed a system to ensure that all municipalities would have sufficient fiscal capacity to execute their new responsibilities. The system is composed of two major parts: improved municipal capacity to generate own source revenues and a system of general and special purpose transfers from the central to municipal budgets. The new system of municipal own source revenues is divided into two parts: a system of modern user fees and charges based on cost recovery and a modern property tax system. Municipal own source revenues are estimated at Euro 9 million in 2002 and should sharply rise in subsequent years as the property tax and the new system of fees and charges are fully implemented.

The major part of municipal revenues in 2002 will be drawn from transfers from the central budget to municipal governments. There are three separate transfers. The first is a special purpose grant for primary health care with a total level of Euro 15.2 million. The second is a special purpose grant for primary and secondary education whose total level is Euro 35.1 million. The third is a general budget grant of Euro 24 million which supports general budget revenues. This grant has increased sharply from its value of Euro 14 million in 2001. The total value of these grants is Euro 74.6 million.

It should be emphasized that as part of the transfer of education and primary health care to municipalities, the central ministries will continue to provide some funding to those programs. In the case of primary health care, the Ministry of Health, Environment and Spatial Planning will continue to be responsible for central procurement of essential medical supplies. The Ministry of Education, Science and Technology will continue to directly fund teachers salaries for the remainder of the school year. Taking all of this into account, total funding on primary health care and on primary and secondary education rises from a budgeted level of Euro 74.5 million Euro in 2001 to Euro 85.1 million in 2002 for an increase of 10.6 million or 14%.

Comparison of 2002 Kosovo Municipal Expenditures (Table 6)
Selected Expenditure Categories
(In Euro Million)

CATEGORY	2001	2002	% Change
Primary and Secondary Education			
Municipal Education Grant	--	35.1	--
Central Budget Spending on P&S Education	52.2	26.7	--
Subtotal, Primary and Secondary Budgeted Spending	52.2	61.8	18%
Primary Health Care			
Municipal Health Grant	--	15.2	--
Budgeted Health Co-Payment Fees	--	1.8	--
Central Budget Spending on Primary Health Care	22.3	6.2	--
Subtotal, Primary Health Budgeted Spending	22.3	23.2	4%
General Grant¹	14.1	24.0	70%
TOTAL	88.6	109.0	23%

¹This includes transfers to support Local Community Offices.

Not only has the level of spending on these important sectors increased, but the quality of the distribution of the funds has also improved. The special purpose grants and the general grants are now distributed by formula based on objective criteria. For example, the general grant (Euro 24.2 million) is not only based on population levels, but it also takes into account additional funds for municipalities needing major reconstruction, with a large share of minority villages requiring special needs, or with a high-density of infrastructure. The Education grant totaling Euro 35.1 million is also based on a formula that reflects several factors: the relative cost of operations and teachers salaries at each educational level, additional funding for minorities with special needs, and funding for special education and other unique needs.

A consequence of the distribution of education and health spending is that even though the total level of spending has increased from 2001 to 2002, some municipalities will have somewhat lower level of education or health funds than last year because relative to others, more objectively needy municipalities, they were over funded. However, any municipality that finds itself in this situation has the means at its disposal to make the spending reductions in a deliberate and systematic way because of a set of safeguards that have been built into the overall municipal revenue system. First of all, all municipalities enjoy a significant increase in their general operating grant. Some funds from this grant may be used to address any issues related to the difficulty of downsizing. Second, all municipalities have the capacity to significantly increase their level of own source revenues. Some of these revenues can similarly be used to address overstaffing issues.

The challenge of assisting municipalities to develop the management capacity to execute their new responsibilities is of ongoing importance. Indeed, Regulation 2000/45 includes the following provision:

Responsibility for financial administration shall not be transferred to a municipality until the independent auditor has certified that adequate budgetary and financial management systems are in place and that the municipal civil service has the capacity and capability to implement

effective financial procedures and controls. Until such time, the financial management procedures established by UNMIK shall remain in force.

In 2002, the central government is planning to assist the municipalities in building capacity so that an independent auditor can certify that adequate budget and financial management systems are in place with the human capacity to implement such systems.

Public Enterprises

The Kosovo Consolidated Budget consists of expenditures and revenues of the central government, municipalities and public enterprises providing a comprehensive look at the state of the Kosovo public sector. (See Table 8 for the Kosovo Consolidated Budget breakdown-Appendix I.)

Public enterprises should be self-sustaining entities that generate sufficient revenues to cover the cost of providing efficient and effective services to the public. The main public enterprises in Kosovo are the electricity generation and distribution company (KEK), the post and telecommunications company (PTK), Pristina Airport, Kosovo Railways and several local water, waste and heating companies. The public enterprise sector needs to be better managed and to increase transparency and accountability particularly related to internal operations and finances.

Prior to November 2001, several former UNMIK departments including the Public Utilities Department, Transport and Infrastructure and Post and Telecommunications were responsible for overseeing the public enterprises providing basic infrastructure services such as utilities and transport and communications. In addition, UNMIK assumed oversight for all former state and socially-owned enterprises in Kosovo under UNSCR 1244. Most of the state and socially-owned enterprises are industrial or commercial and were under the responsibility of the former Department of Trade and Industry.

Under the new Kosovo government structure, a proposed Kosovo Trust Agency (KTA) will be established within the UNMIK reserved powers to serve as custodian for all public, state and socially-owned enterprises. It is expected that the KTA will aim to improve management and increase transparency and accountability within the public enterprise sector. The 2002 Kosovo General Budget sets aside a portion of the Euro 21.8 million budget reserve for the KTA pending final resolution of its legal status and responsibilities by the United Nations. The key public enterprises that will require restructuring under KTA oversight are KEK and PTK. Trepca Mine is a state owned enterprise that receives budget subsidies and will also require major restructuring under KTA oversight to become a viable self-sustaining entity.

- KEK has major engineering and management problems. Its two thermal generators are old and prone to failure. The single largest share of the public investment program has been dedicated to KEK for major improvements with mixed results. For 2001, about Euro 140 million was spent to continue ongoing repairs of one of the thermal generators as well as a complete overhaul of the other thermal generator. Most of the public investment funding to date for the public utilities sector has been for generator repairs and other electricity production and distribution activities. In addition, KEK has received or will receive Euro 7.5 million and Euro 51 million in Kosovo budget subsidies for 2001 and 2002, respectively. The budget support for KEK is linked to KEK fulfilling performance indicators. Emergency repairs and stricter oversight by UNMIK has

somewhat improved KEK performance. The implementation of certain institutional measures in 2002 – effective management support, increased revenue collections – is expected to assist KEK in meeting the growing electricity demands of the population.

- Currently, there are 50 public utility providers operating in Kosovo. Of the total, 46 provide water and waste utility services, 3 provide heating services and there is one electricity services provider, KEK, previously discussed. About 50 percent of the water and waste companies receive Kosovo budget subsidies although the amount represents an insignificant proportion of the total budget, just 0.01 percent for 2001 and 0.004 percent for 2002. Additionally, these subsidies are considered temporary as the water and waste companies continue to institute cost control measures and increase revenue collection rates to improve overall revenue-expenditure balance. The water and waste companies have steadily improved revenue collection with average revenue collection estimated at about 50 percent as compared to the current KEK revenue collection rate of only 30 percent. This has resulted in a 50 percent reduction in the budget subsidy from the 2001 level of Euro 2.9 million to just Euro 1.5 million for 2002. Budget subsidies for the district heating providers doubled from 2001 to 2002 mostly due to rising fuel costs. It is expected that continued management and services improvements will be instituted by these public utility service providers in 2002.
- PTK is the only public enterprise in Kosovo that is profitable as it generated a substantial surplus for 2001 of Euro 54 million primarily from its mobile telephone network operations. PTK estimates that it will generate an even larger surplus for 2002 of Euro 67 million. Despite its profitability, PTK has internal accounting problems, its financial operations are not transparent despite UNMIK oversight and reporting to the central financial authorities is weak. Major PTK restructuring is expected to be a priority for 2002 for the designated oversight entity. For 2002, PTK will receive a small Kosovo Budget subsidy of Euro .051 million.
- The Trepca mining complex has also received sizable budget subsidies despite the uncertainty of its future status. The Trepca enterprise includes mining, smelting and processing components and has about 4,000 workers on its payroll. The complex is currently operating at minimum capacity. UNMIK has estimated that the cost to revitalize the complex to make it a viable operation is about Euro 50 million. The Trepca mining complex received Euro 7.8 million in budget subsidies in 2001 and will receive an estimated Euro 6 million in 2002. Additionally, UNMIK has secured Euro 12 million in 2002 donor funding to carry out technical, financial and environmental assessments of the complex to determine the necessary actions to minimize further deterioration of its assets, which elements of the complex are financially viable or have commercial potential in the long-term and any actions needed to mitigate and prevent environmental hazards from the mining activities.

Kosovo Budget Subsidies to Public Entities (Table 7)
2001 and 2002
(in Euro Million)

Entity	2001	2002	% change '01 to '02
<i>Public Utilities:</i>			
KEK ¹	7.5	51.0	580%
District Heating Companies	3.2	7.8	144%
Water & Waste Companies	2.9	1.5	-48%
<i>Transport:</i>			
Kosova Railway	0.6	0.9	50%
Humanitarian Transport Services	--	1.4	--
<i>Industrial:</i>			
Trepca Mining Complex	7.8	6.0	-23%
Subtotal	22.0	68.6	212%
<i>Other Public/Independent Entities²</i>			
BPK	1.5	1.3	-13%
Radio and Television of Kosovo	--	2.6	--
Independent Media Commission	--	0.4	--
Subtotal, Other Entities	1.5	4.3	187%
Total, Budget Subsidies to Public Entities	23.5	72.9	210%
<i>% Public Utilities of Total Budget Subsidies</i>	<i>58%</i>	<i>83%</i>	

¹The proposed KEK budget subsidy for 2002 will be funded from the budget surplus carried forward from 2001 into 2002. A total of Euro 72 million will be committed for KEK improvements of which 51 million will be spent in 2002 and the balance, Euro 21 million, spent in 2003.

²These entities provide services to the public and public sector and are expected in the near future to generate sufficient revenues from authorized fees to cover operating costs.

The previous table (Table 7) shows the amount of Kosovo budget subsidies to public enterprises relative to overall subsidies provided. Most of the Kosovo Budget subsidies for the public enterprises are for KEK, the district heating and water and waste enterprises and the railway company. Public enterprise subsidies totaled Euro 23.5 million in 2001 and are estimated to grow three times to reach almost Euro 75 million in 2002. The sharp increase in the subsidy level is due mostly to one-time engineering and management improvements proposed for KEK that will be funded from the budget surplus carried forward from 2001 into 2002. For the long-term, these subsidies should be gradually eliminated which will require these enterprises to improve their current management structure and financial operations.

Public Investment Program (PIP)

Almost all public investment is funded by international donors except for investments funded from the retained revenues of the post and telecommunications enterprise and the Pristina Airport. International donor funding is expected to decline as Kosovo gradually transitions to self-government. Capital investment needs will then have to be funded by domestic revenues or public debt. Kosovo is currently prohibited from incurring public debt to finance investments and public expenditures. Such prohibition is not likely to be lifted in the near future.

For 2001, donor spending on capital investment totaled Euro 517.5 million. Most of the capital investment funding was for reconstruction activity to rebuild infrastructure damaged during the 1999 conflict. In fact, since 1999 through 2001, international donors have committed almost Euro 1.7 billion in total for reconstruction activity. Of the total 2001 public investment funds spent, 74% was provided for the following four sectors: 1) Public Utilities (Euro 174 million); 2) Housing (Euro 130 million), 3) Trade and Industry (Euro 43 million); and 4) Agriculture (Euro 35 million). In fact, the single largest share of the public investment program is for Public Utilities (about 34%) and is mostly for the Kosovo Electricity Company for electricity generation and distribution activities.

For 2002, public investment spending is expected to continue at about the 2001 level. Public investment spending will continue to be devoted to the priority areas of Public Utilities, Housing, Trade and Industry and Agriculture. Although most of the planned 2002 public investment program will be dedicated to reconstruction activity, about 15% is earmarked for investment in human capital (capacity building and training), strategic planning (mostly developing master plans for major programs) and technical assistance. Future investment spending will drop by 30% and 45% for 2003 and 2004, respectively.

Public investment spending of Euro 600 million each year directly impacts the operating budget depending on the sector undertaking the investment. The 2001 Kosovo Budget earmarked some funds for recurrent costs associated with completed or planned public investment activity for 1999-2001. Of the total proposed public investment funding for 2002, about half is estimated to generate additional recurrent costs of Euro 12.5 million relative to 2001. Most of the recurrent costs incurred in 2002 will be for investments undertaken for the health, education and public safety sectors.

Another major recurrent cost that is reflected in the Kosovo Budget is for ongoing road maintenance activity. For 2001, about Euro 9 million was spent on road maintenance of which two-thirds was donor financed. However, ongoing road maintenance should be fully funded in the operating budget beginning in 2002. The 2002 Kosovo Budget includes Euro 10.759 million for the Ministry of Transportation and Communications for routine road maintenance activity.

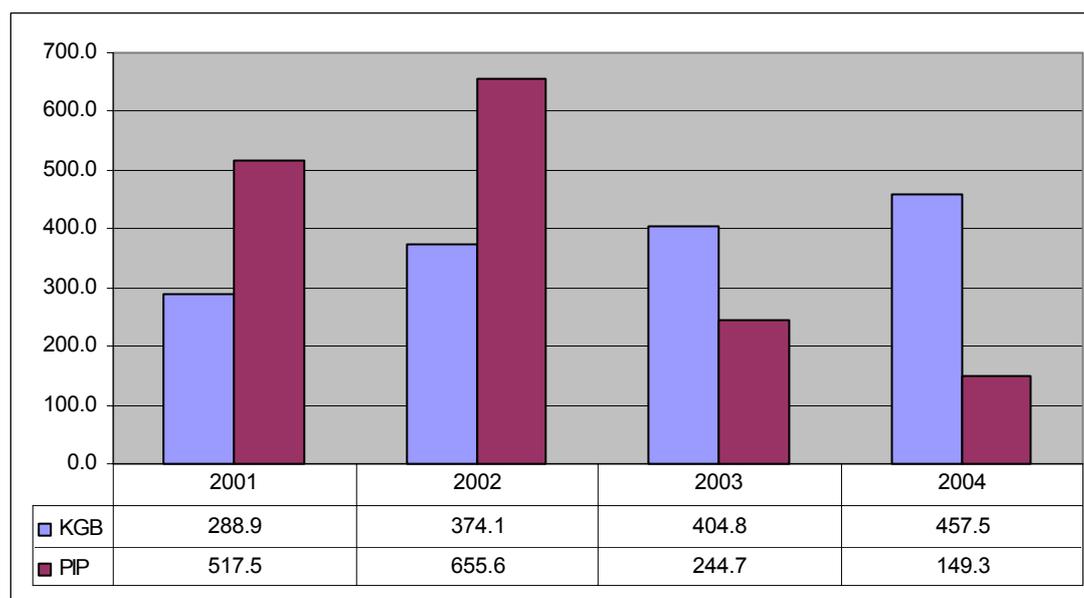
For 2003 and beyond, the Kosovo General Budget will need to take on a greater portion of the recurrent costs associated with current public investment spending, including the following areas:

- *Education.* Annual operating costs to maintain teacher training, curriculum development and special needs education programs currently funded under the PIP.
- *Health.* Annual operating costs to maintain a nurse training program currently funded under the PIP that would be implemented by Kosovar nationals.
- *Justice.* Annual operating costs associated with continued police force training, and salary and personnel costs for police officers currently funded in the PIP.
- *Transportation.* Annual operating costs for routine and periodic road maintenance mostly funded by donors.

Given the limited budgetary resources that will be available in the near future, funding routine maintenance and operating costs will require making difficult choices between funding new policy initiatives, existing program enhancements and addressing further capital investment needs. The significant level of public investment that has occurred since the 1999 conflict should have a direct and positive long-term impact on the Kosovo Budget and spur economic growth by generating additional tax revenue.

2001-2004 Kosovo General Budget and Public Investment Program (Chart 5)

Total Planned Spending
(in Euro Million)



The previous chart provides a general summary of combined actual and proposed Kosovo General Budget and planned Public Investment spending for the period 2001 – 2004. For reference, the Kosovo General Budget is funded mostly by domestic revenues while most of the public investment is donor financed. As the table reveals, donor-funded public investment gradually declines in the outyears as the level of Kosovo General Budget spending increases denoting a need for the KGB to assume the cost of continued infrastructure development beginning in 2003.

Political and Administrative Governance in Kosovo

Since the end of the 1999 conflict, Kosovo has been gradually progressing to self-government. Just after the 1999 conflict, the United Nations Mission in Kosovo (UNMIK) established a civilian administration under United Nations Security Council Resolution 1244. Regulation 1244 provided the Special Representative of the Secretary General (SRSG) and UNMIK the broad authority to perform civilian administrative functions, maintain law and order, develop provisional institutions of self-government and to direct economic development and reconstruction efforts in Kosovo.

UNMIK established four pillars or areas of responsibility for international agencies to guide political and institutional development in Kosovo: 1) Pillar 1 for humanitarian issues (led by the United Nations High Commission for Refugees); 2) Pillar 2 for civil administration (led

by the United Nations); 3) Pillar 3 for democracy building and elections (led by Organization for Security and Cooperation in Europe); and 4) Pillar 4 for economic development and reconstruction (led by the European Union). Fiscal and economic issues are primarily under the purview of Pillars 2 and 4.

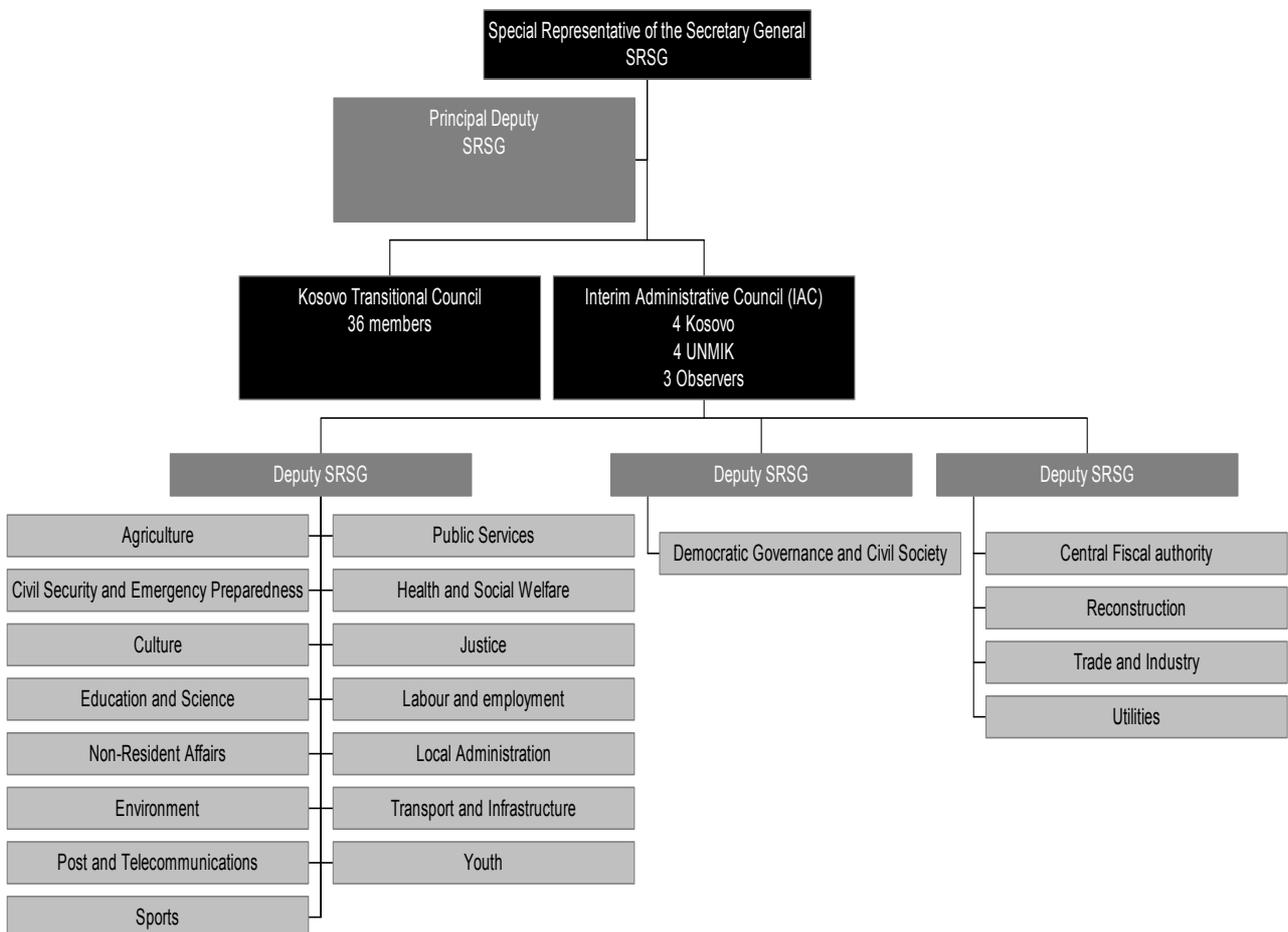
In addition, a Kosovo Transition Council (KTC) was established to serve as the highest political consultative body providing the main political parties of Kosovo a forum for direct input into UNMIK decisions. The KTC included representatives from ethnic Albanian, Serbian and other Kosovo ethnic groups.

To allow Kosovar nationals the opportunity to share administrative responsibility for governance, UNMIK established the Joint Interim Administrative Structure (JIAS) in January 2000. Under the JIAS structure, responsibility for administration was distributed among 20 departments across the four pillars (*See Diagram 1 of former JIAS structure*).

Each department was co-headed by an international advisor and a Kosovar working together to make policy and administrative decisions for the departments. The co-heads of the departments comprise the Council of Ministers acting as an official body to assist in policy discussions and implementation. Later on in 2000 an Interim Administrative Council (IAC) was also formed which had authority over all civilian affairs except matters pertaining to public safety and general security. The IAC had four international members and four Kosovars – three ethnic Albanians and one ethnic Serb.

UNMIK held municipal elections in October 2000 to create provincial assemblies. The elections represented the first successful act of devolving self-government to localities. The second round of municipal elections are currently scheduled for September 21, 2002.

Former Joint Interim Administrative Structure (Diagram 1)



Progressing further towards self-government, the SRSG promulgated a new Constitutional Framework for Kosovo in May 2001. The Constitutional Framework and UNSCR 1244 provide the current framework for Kosovo governance pending a resolution on the final political status of the province. UNMIK Regulation 2001/19, dated September 2001, establishes the Executive Branch consisting of an elected Assembly, appointed President, Prime Minister and Ministers to direct the activities of nine Ministries.⁴ The nine Ministries⁴ which comprise the provisional institutions of self-government (PISGs) are:

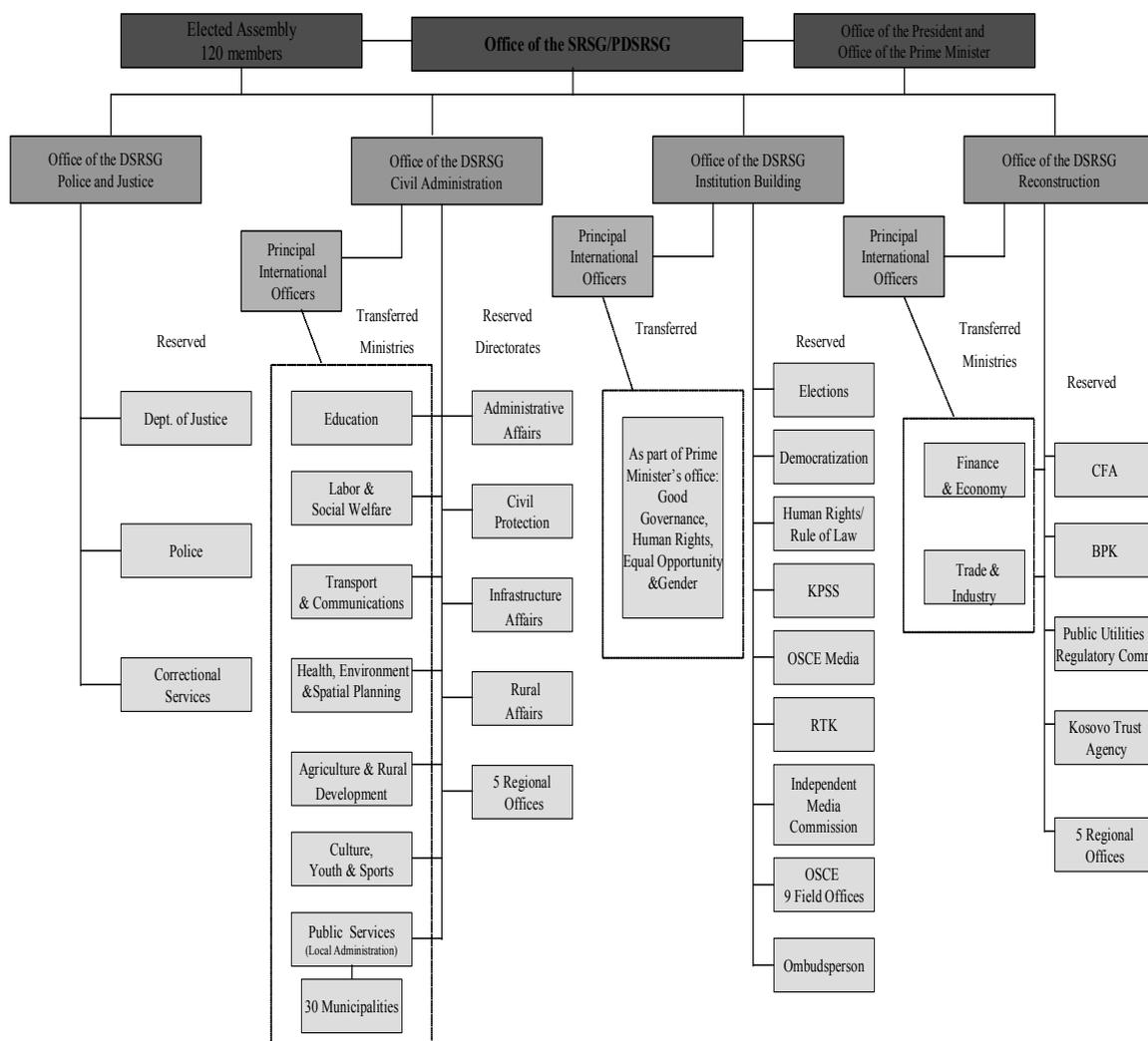
1. Ministry of Finance and Economy
2. Ministry of Trade and Industry
3. Ministry of Education, Science and Technology
4. Ministry of Culture, Youth and Sports
5. Ministry of Health, Environment and Spatial Planning
6. Ministry of Labor and Social Welfare
7. Ministry of Transport and Communication

⁴ During a March 2002 Assembly session, the Ministers agreed to create a new Ministry by breaking up the Ministry of Health into 2 Ministries: Ministry of Health and Ministry of Environment and Spatial Planning. The 2002 Budget is presented with the initial nine-Ministry structure.

8. Ministry of Public Services
9. Ministry of Agriculture, Forestry and Rural Development

Although the Constitutional Framework represents a concerted effort to confer more responsibility for self-government to Kosovar nationals, it also allows the SRSG to retain certain key powers including authority for maintaining law and order and to set the overall parameters for economic policy. The provisional institutions of self-government and the SRSG's reserved agencies together form the central government structure for Kosovo which is currently funded under the 2002 Kosovo General Budget.

New Kosovo Government Structure (Diagram 2)



The new Constitutional Framework provides a revised institutional structure that provides Kosovar nationals more input in economic and fiscal policy decisions. The elected Assembly will adopt the laws relating to economic and fiscal policy matters. The Assembly will have a

Budget Committee that will assess the budgetary impact of proposed laws submitted to the Assembly and review annual reports and financial statements of the PISGs, the Assembly and the President. The SRSG, acting under the advice of a newly-created Economic Fiscal Council, has the final authority to approve fiscal and policy parameters for the Budget. The Economic Fiscal Council will also advise the SRSG on final approval of the Kosovo Budget. The Central Fiscal Authority (CFA), which formerly served as the Finance Ministry of Kosovo from 1999-2001, will coordinate the Kosovo Budget development and execution working closely with the Ministry of Finance and Economy. The CFA also continues to operate the central Treasury and is responsible for overall fiscal and macroeconomic policy. The newly-established Ministry of Finance and Economy (part of the PISGs) will primarily be responsible for the fiscal and budgetary matters. It is expected that the CFA and Ministry of Finance and Economy will gradually merge in 2003. (See Appendix 3 for a diagram of the key economic and fiscal institutions of Kosovo.)

Conclusions: Future Policy Priorities

Providing a medium-term perspective for the Budget is important to maintain fiscal stability and to sustain current funded programs. The next three years will be critical for continued economic growth in Kosovo and will necessitate targeted spending to support such growth. The Kosovo government's responsibility will be to create an environment that enables the private sector to operate effectively and to expand. This will entail providing resources to establish the legal and regulatory framework that is needed to encourage future capital investment flows and through policy development and implementation. Currently, UNMIK is proposing the creation of an oversight agency, the Kosovo Trust Agency (KTA) that will coordinate and regulate the public utilities, privatization and commercialization transactions. The Ministry of Trade and Industry (MTI) will be responsible for creating the legislative and regulatory framework for private sector development and for improving competition. Together, the KTA and MTI will be the key governmental entities to develop the necessary framework for private sector growth.

Education. Public education will continue to be one of the highest priorities for further economic development in Kosovo. There will only be limited public funds in the near future which will necessitate targeted spending to continue implementing public education reforms. Spending should be targeted in the areas of teacher training, curriculum development based on international educational standards, and rehabilitation of existing school facilities and construction of new facilities. Moreover, as more of the responsibility for providing public education at the primary and secondary level is devolved to the municipalities, it will be important that the central government continue to assist municipalities to ensure that adequate funding is available to provide public education services at the local government level.

Health. Also important for the future growth of Kosovo will be continued health sector reforms. To provide a more efficient and effective health care system will require shifting the basis for services from hospitals to local primary health care facilities. The 2002 Kosovo Budget provides Euro 15.2 million to support municipalities in making the shift to having primary care facilities as the focal point for health care services for the local community. As the shift to primary health care facilities at the municipality level continues in the near future, additional funding will be needed to sustain the reform efforts.

Agriculture. Another priority for future economic development in Kosovo will be to finance agriculture sector improvements. Prior to the conflict, 60% of the Kosovo economy was generated from the agricultural sector. A priority is to restore its role in providing sustenance and economic opportunities for the majority of the population based in the rural communities. Donor funding is provided in 2002 under the PIP for agricultural initiatives primarily for to support agribusiness, to train farmers in international farming techniques to modernize the farming industry, and to rehabilitate the Kosovo irrigation network. Funding should be continued in the near future to sustain these initiatives.

Infrastructure Investment. Infrastructure investment to date has been financed mostly by international donors. The Kosovo Budget will need to provide a greater amount of funding for capital investments particularly for maintenance and continued operations of capital investment projects. This will ensure that the Kosovo Budget resources are directed at only those capital investment activities that are considered sectoral priorities. Additional capital investments will be needed in the area of public utilities, roads and bridges, housing and other essential infrastructure to support private sector growth and improve overall living conditions for the Kosovo population. In addition to the major reconstruction activity undertaken since 1999, the Kosovo government will need to consider future capital investments to upgrade existing infrastructure to higher standards. The Kosovo General Budget will also need to assume the recurrent costs for investment projects receiving capital funding from the PIP including – teacher training and curriculum development activities, nurse training, staffing of the police force.

Labor and employment. A significant portion of the population is either unemployed or otherwise unable to adequately provide for themselves. Providing social assistance and employment training will therefore continue to be a high priority. For 2002, the infrastructure will be in place for the administration of a pension trust and for the distribution of old-age pension payments to the population. In the near future, additional pension schemes may be considered for the disabled and other segments of the population in need of social support. It will be important that pensions and other social protection expenditures are at levels that are sustainable in the medium term.

Law and Order. Maintaining peace and public order and establishing an effective and efficient system of justice will continue to be a priority for the Kosovo government. An increased police force will be required to effectively maintain peace and public order. The police force is expected to increase by over 5,400 officers by 2003 if adequate funding is provided in the Kosovo Budget. Such funding would include the costs for salaries, compensation, vehicles and accommodations. Additionally, the major challenge for the Department of Justice will be to fully integrate the different activities and departments providing support to the judicial system (i.e., the Department of Justice, Correctional Services which it directs and the Kosovo Police Service) into a single, unified entity with coherent strategic direction under UNMIK administration. The Department of Justice will also need to carefully analyze and plan for the necessary human resources requirements to effectively develop a fair and properly functioning judicial system.

Transition to Kosovo Autonomy. The Kosovo Budget will face expenditure pressures in the near term as the UN, OSCE and EU reduce their involvement in the direct administration of Kosovo. A major challenge will be to develop a plan for the Kosovo Budget to gradually assume the costs of transferring administrative responsibilities to Kosovar nationals. Several administrative departments have significantly transferred responsibility for operations and

administration to Kosovar nationals with most staff and functions being funded by the Kosovo Budget. These include the Tax and Customs Administrations and the Departments of Education and Health. For other administrative departments, important functions particularly mid to high-level management are assumed by international staff or are under direct funding by internal organizations or donors or even completely outside of the current government structure. This would include for example a significant portion of the Kosovo policing function.

For the medium term, the Kosovo Budget will need to assume the cost of these activities as international staff involvement is reduced. Currently, it is difficult to assess the full impact of shifting the cost for administrative responsibilities to the Kosovo Budget. The amount is most likely to be less than the current costs of these activities funded by the UN, OSCE and EU. Wages paid to staff employed from the Kosovo Budget are much lower than wages paid to Kosovar nationals employed by international organizations and even lower than compensation of internationals performing tasks that local staff will eventually assume. In addition, the current cost of interpreters, vehicles, drivers and security guards needed to support international staff inflates the costs of providing similar functions in the future.

Further development of Kosovo government institutions will require continued efforts to establish a modern legal and regulatory framework in the near future. To fulfill these policy priorities in the future, it will be important that the Economic and Fiscal Council functions as an effective mechanism for coordinating policy making between the key economic and fiscal institutions.

Table 8: Kosovo Consolidated Budget
(in Euro Millions)

		2000 Actual Budget		2001 Mid-Year Budget		2002 Approved Budget	
1.	General Budget						
	Expenditure	207.7		281.0		374.1	
	Revenue (Domestic)		107.5		204.5		348.5
	Donor Financing		100.2		76.5		25.6
2.	Subtotal, General Budget	207.7	207.7	281.0	281.0	374.1	374.1
3.	Designated Donor Grants						
	Expenditure	11.3		--		--	
	Revenue (Donor)		11.3		--		--
4.	Subtotal, DDG	11.3	11.3	--	--	--	--
5.	TOTAL, Kosovo General Budget (2 + 4)	219	219	281.0	281.0	374.1	374.1
6.	Municipalities						
	Expenditures	11.2		18.7		83.4	
	Transfers		9.7		14.0		74.6
	Own Source Revenues		1.5		4.7		9.0
	Consolidation Item	(9.7)	(9.7)	(14.0)	(14.0)	(74.4)	(74.6)
7.	Total, Municipalities	1.5	1.5	4.7	4.7	9.0	9.0
8.	Public Enterprises						
	Expenditure	89.7		21.2		10.9	
	Subsidies		26.4		21.2		10.9
	Other Revenues		65.1				
	Operating Surplus	1.9					
	Consolidation Item	(26.4)	(26.4)	(21.2)	(21.2)	(10.9)	(10.9)
9.	TOTAL, Public Enterprises	65.1	65.1	--	--	--	--
10.	Total, Kosovo Consolidated Budget (4+ 7 + 9)	285.6	285.6	285.7	285.7	383.1	383.1

APPENDIX II

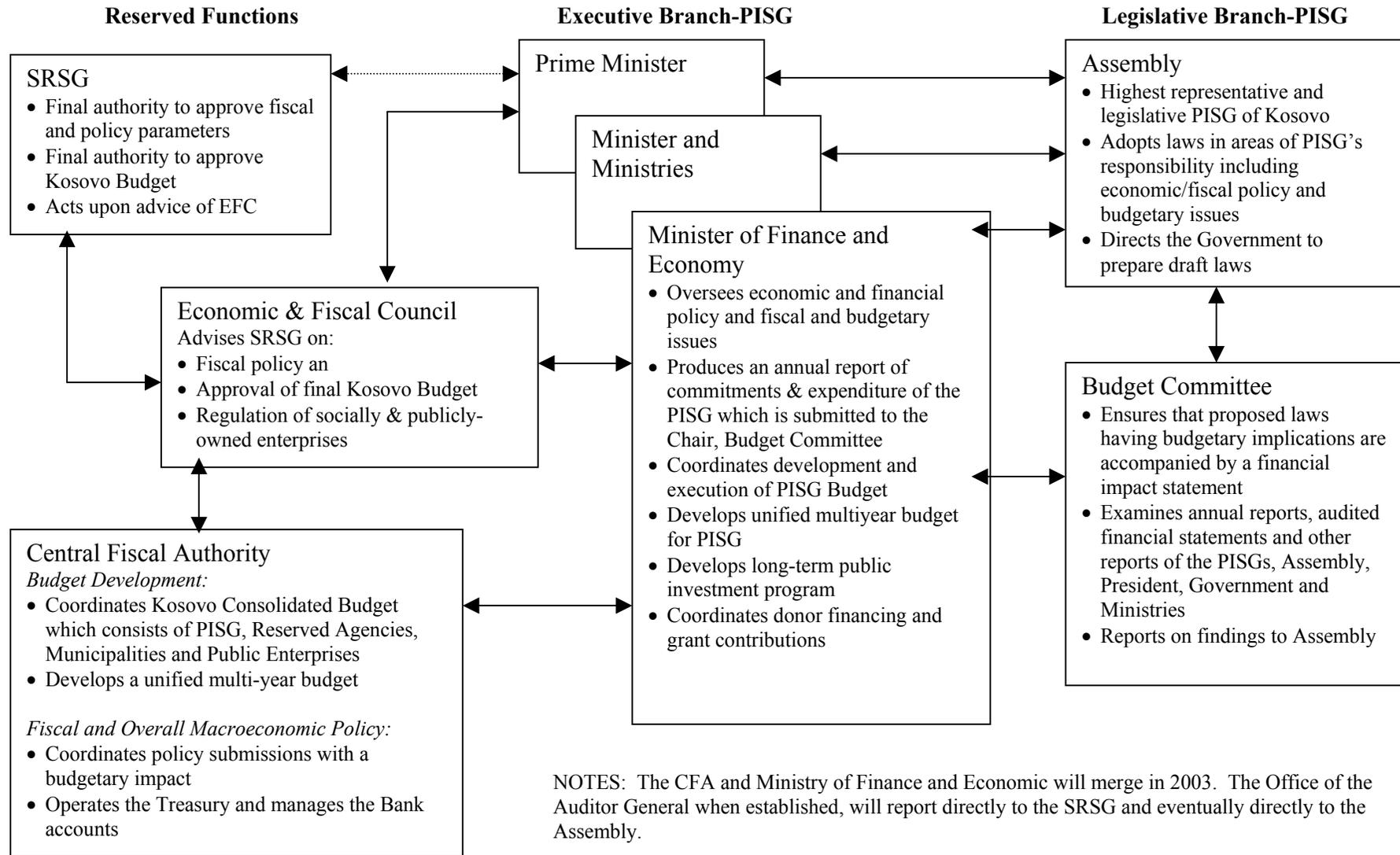
Key Political and Budget Events for 2001 and 2002

January 2001	Kosovo Consolidated Budget goes into effect on January 1 at the approved level of DM 500m (Euro 256m).
March 2001	Macroeconomic Fiscal Outlook Paper is first drafted establishing the global parameters for the 2002 Budget.
May 2001	SRSG promulgates a new Constitutional Framework for Kosovo establishing an Assembly, President, Prime Minister and Ministers to direct nine Ministries to serve as the provisional self-government institutions. Marks a major step towards self-government in Kosovo.
July 2001	VAT goes into effect with a threshold of DM 200,000 for eligible businesses.
September 2001	UN Regulation 2001/10 is approved establishing the framework for an Executive Branch consisting of provisional institutions of self-government. The property tax regulation is passed which permits municipalities to levy a tax on immovable property.
October 2001	Mid-year budget review results in a DM 63m (Euro 32m) increase for a total revised Kosovo General Budget of DM 563m (Euro 288m). MOU between Central Fiscal Authority, Department of Local Administration and Department of Education is signed regarding decentralization of certain financial and budgetary responsibilities for public education to the 30 Municipalities.
November 2001	Kosovo holds elections for an Assembly consisting of 120 members elected for a three-year term. 100 seats are filled by proportional vote, 10 are allocated to Kosovo Serbs and 10 to other ethnic communities. The transitional provisional self-government structure goes into effect after Assembly elections.
December 2001	Budget Regulation No. 2001/37 is approved authorizing expenditures totaling Euro 374m for the 2002 Kosovo General Budget.

Key Political and Budget Events for 2001 and 2002

January 2002	Conversion from DM to Euro as the official currency of Kosovo begins. Euro becomes the official currency after February 28.
April 2002	<p>The profits tax replaces the presumptive tax for those businesses in excess of Euro 100,000 turnover a year. The wage tax also goes into effect with progressive rates of 0%, 5% and 10%.</p> <p>Macroeconomic and Fiscal Issues paper establishing the overall strategy and parameters for the 2003-2005 Budget is drafted for Economic Fiscal Council to review and advise the SRSG.</p>
June 2002	Ministry of Labor is scheduled to begin making monthly basic pension payments to the elderly.
July 2002	<p>VAT threshold is lowered from Euro 100,000 to 50,000 to further broaden the tax base.</p> <p>Mid-year review of the 2002 Budget occurs. The Economic Fiscal Council reviews 2002 Budget outcome and advises SRSG on 2003 Budget parameters.</p>
September 2002	Municipal Elections are scheduled for September 21, 2002. Agencies submit revised budget requests for preliminary approval.
October 2002	<p>Majority of municipalities are expected to have undergone and passed an independent audit of their budget and financial systems and their capacity to implement the systems. Marks the first step to providing greater financial autonomy to localities.</p> <p>EFC advises SRSG on overall 2003 Budget based on revised Macroeconomic Paper and Agency submissions. SRSG issues final guidance for budget documentation.</p>
November 2002	Final 2003 Budget documentation is submitted to the EFC and approved by the SRSG on advice of the EFC.
December 2002	The 2003 Kosovo Budget is approved by the elected-Assembly for implementation on January 1, 2003.

THE ROLE OF THE BUDGET COMMITTEE AND KEY FINANCIAL INSTITUTIONS Appendix III



MACROECONOMIC OUTLOOK

After years of economic mismanagement and the lack of competent institutions during the Yugoslav regime, the Kosovo economy of today is showing many signs of progress. While comprehensive economic statistics still remain in rudimentary form, existing data shows real growth in economic activity since the year 2000. With a price inflation rate of 10 percent, real GDP grew near 13 percent from 2000 to 2001 (8 percent in per capita terms). In 2002, it is projected to grow by 8 percent in real terms (6 percent per capita) and by 14 percent in nominal terms (12 percent per capita).

Table 9 shows key macroeconomic figures for 2000, 2001 and predictions for 2002.

Table 9. Key Macroeconomic Aggregates (Euro million, unless otherwise noted)

	2000	2001	Nominal Change	Forecast 2002
GDP Aggregates	1,414	1,756	24.2%	1,984
Consumption	1,990	2,273	14.2%	2,450
Investment	1,280	1,399	9.3%	1,610
Exports	107	181	69.8%	201
Imports (1)	(1,963)	(2,097)	6.8%	(2,277)
Other Key Statistics				
GDP/Capita	799	944	18.3%	1,028
ADI/Capita (2)	1,989	2,172	9.2%	2,187
Unemployment rate	~26%	~29%	--	~27%
CPI rate of change	~10%	~10%	--	~6%

Note: (1) Includes *Errors and omissions*

(2) ADI = Adjusted Disposable Income (including in-kind donor transfers)

Source: CFA-MEU estimates as of March 2002

Historical Background

Since 1989 there was, for ten years, a gradual decline and repression of Kosovo's official economy. A large number of factories and large enterprises were mismanaged or abandoned, leading to the deterioration of fixed assets and infrastructure. The official economy was gradually replaced by "grey" activities, whereby Kosovars resorted to unrecorded means to make a living (such as subsistence agriculture and barter trade). Many Kosovars migrated to other parts of Europe in search of jobs and personal security. In turn, the remittances from Kosovars abroad helped living standards within the region. By the end of the decade, increased repression mixed with rising social tensions resulted in further political and ethnic violence, eventually leading to the ensuing NATO campaign in 1999.

Macroeconomic Environment

Geography

The geographic profile of Kosovo provides an added explanation to the current situation of its economy. Kosovo has a small territory (a size just over 10,000 square kilometers) characterized mostly by mountain (the largest, Mt. Gjeravica, is 2656 meters above sea level), hills, and valleys. The economy exhibits typical features of a landlocked territory – a large volume of its imports transit through neighboring countries. In fact, imports from the Balkan region and Turkey constitute about 80 percent of total imports. Its natural resources include large deposits of lignite, lead, and zinc. Kosovo's natural (mountainous) borders, along with its limited number of accessible roads, give it a relative advantage; namely Kosovo is well positioned to enforce border controls and collect border taxes more effectively than most Central and Eastern Europe (CEE) economies.

Population

With a population approaching 1.9 million, Kosovo is the newest of a series of small economies that have appeared on the political map of Central and Eastern Europe and Central Asia during the last decade. Among 28 transition economies, Montenegro, Slovenia and Estonia have smaller populations than that of Kosovo. Moreover, there are ten countries with less than 5 million people. In fact, only in six transition countries (Kazakhstan, Poland, Romania, Russia, Ukraine, and Uzbekistan) population exceeds 11 million.⁵ In this context, Kosovo is not an outlier. Contrary to potential concerns, the size of Kosovo may not be a serious drawback to both foreign and domestic investment. In some respects, the opposite may be the case. Estonia, Slovenia, Slovakia, Albania and Georgia are among the fastest reformers and most rapidly growing CEE economies. In per capita terms, Slovenia and Estonia get more FDI than most other CEE countries.

A comparative advantage feature of Kosovo's demography is its high proportion of young people – the median age of Kosovo's population is below 25, the lowest in Europe.⁶ While birth rates have declined significantly during the last quarter of the century, they are still among the highest in Europe. Kosovo's potential "systemic" learning capacities – while transiting from a socialist system to a market economy -- are much stronger than those of other economies that have much higher proportions of elderly populations.

The age structure also provides another unique opportunity for transition-related reforms. In most other CEE countries the necessity to maintain the old PAYG (pay-as-you-go) pension system absorbs a very large proportion of public funds. The CEE economies that make efforts to keep pensions at a relatively high level are struggling with large fiscal deficits and are forced to keep tax collection high, which slows down economic growth and breeds shadow economy. The latter undermines the rule of law and the effectiveness of policies. Because of Kosovo's relatively low number of current pensioners (65+ years old make up only 6 percent of Kosovo's population, the lowest proportion in Europe), Kosovo is able to support its elderly at a relatively low cost, which helps smooth transition to a fully-funded pension system and keeps fiscal burden at a low level.

⁵ U.S. Census Bureau, US Department of Commerce, <http://www.census.gov/cgi-bin/ipc/idbrank.pl>

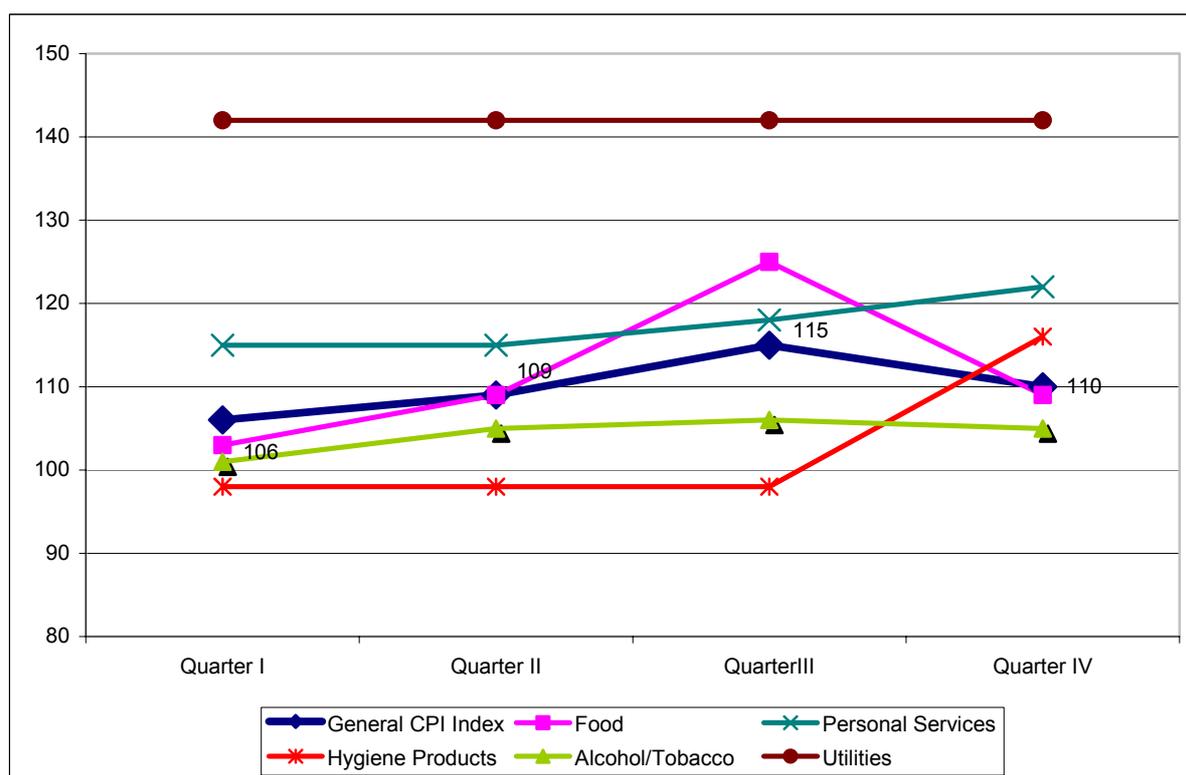
⁶ According to UNFPA Household Survey (1999) and World Bank LSMS (2000).

The Economy

Prices

In 2000-2001, prices grew at an average rate of 2-3 percentage points per quarter, or 10 percent per year. In 2001, the largest price increases occurred in wheat flour, several categories of meat (especially chicken), dairy products, fruits, vegetables, vegetable oils, and cigarettes. Also prices of municipal utilities (electric power and central heating) and personal services increased significantly.

Chart 6. Consumer Price Index, 2001 (July 2000 = 100)



Source: SOK and CFA-MEU

There are several factors that affect absolute and relative price changes in Kosovo. They are related to the transformations typical to a post-socialist transition, in particular:

1. **Price liberalization and resulting decreases in diverse distortions due to price policies of previous governments:** In most transition economies, basic food staples and labor-intensive services tend to become more expensive. Also, relative prices of labor and capital change. In a growing transition economy, a “catching up” effect often occurs: the purchasing power parity gap, which is very high during initial stages of transition, shrinks over time (local goods become more expensive, while imported goods become more affordable due to increases in domestic incomes in terms of US dollars or Euro).⁷ Most of these changes have a tendency to increase the overall price level.

⁷ Yet, residents of former socialist Yugoslavia enjoyed higher wages and incomes (in dollar terms) than those in other Central and Eastern European countries. While in the late 1980s an average monthly wage in the latter

2. **Fiscal reforms:** In Kosovo, the gradual removal of exemptions from sales tax/VAT and the introduction of other fiscal reform measures removed the distortions in price between exempt and non-exempt goods. As a result the average price level has increased.⁸
3. **Institutional and technological progress:** Comprehensive institutional reforms (especially in the banking/financial sector), foreign technical assistance, technological improvements, and open domestic borders for foreign competition all help to increase labor productivity and reduce costs (both production and transaction costs, including the cost of bank credits and imports). The net effect is a fall in price levels.
4. **Foreign aid:** While massive foreign assistance to Kosovo has significantly increased the aggregate demand and prices for consumer goods and provided direct or indirect subsidies to wages (especially in the public sector), the gradual reduction in this aid is likely to have an overall deflationary effect – less consumer demand, lower prices and wages.
5. **World markets:** If world economic growth remains at a low level,⁹ prices of oil, passenger cars and other imported goods may slide down and drive down domestic prices in Kosovo.

An important factor affecting price movements in Kosovo is the very high ‘openness’ of its economy. It is estimated that ‘visible’ imports account for about two-thirds of GDP – Euro 982 million in 2000 and Euro 1,150 million in 2001 -- which is almost twice as much as the average imports-to-GDP ratio for Balkan region countries (about 0.35).¹⁰ Price stability in Kosovo, therefore, is influenced by price movements in the countries in which the imports originate to a much greater degree than in other Balkan countries. It is estimated that about one-third of Kosovo visible imports arrive from countries with unstable prices – mainly Bosnia, Montenegro, Serbia, and Turkey.¹¹ It must be emphasized that price inflation in all Balkan countries has been declining for the last two years and further declines are expected in 2002-03.¹²

All of these factors should bring price inflation in Kosovo to about 6 percent in 2002 and 3.5 percent in 2003. This moderate level of expected price increases in Kosovo provides an opportunity to continue introducing important institutional reforms, including changes in the tax system.

countries (except East Germany) was \$40-100, in Yugoslavia it was several times higher. This is one of the reasons for which this catching-up income and price effect has not occurred in most former Yugoslav republics. In fact, in Bosnia, Serbia, Montenegro and Kosovo, today’s wages are significantly lower than those at the beginning of transition.

⁸ Tax collections in 2001 were higher than in the previous year by Euro 166 million, or by 130 percent.

⁹ GDP growth for 2001-2002 is estimated/predicted to remain at about 2 percent in Britain and Australia, 1 percent in Canada, USA, Switzerland and the Euro area (0.6 percent in Germany), and –1 percent (negative one percent) in Japan (www.economist.com).

¹⁰ Web sites of particular countries and IMF data.

¹¹ CFA-MEU estimates.

¹² Also, in the Euro area, inflation indexes are forecasted to decline from 2.6 percent in 2001 to 1.5 percent in 2002 (in Germany, from 2.4 percent to 1.2 percent); in the USA prices are expected to decline from 2.9 percent to 1.4 percent, respectively (www.economist.com).

A strong increase in food prices is, on the one hand, not good news. It reflects the difficult situation of Kosovo's agricultural sector, which finds it hard to compete with foreign producers. On the other hand, it is good news in the sense that it makes farm products more profitable. An apparent rebound of agricultural production in 2001 may be a reaction to food price increases in the previous year.

A relative stabilization of manufacturer's prices reflects: (1) stable prices in the countries of their origin, (2) increasing market competition in the Balkan region, and (3) declining transaction costs in foreign trade (most of manufactures are imported). This stability should help domestic investors and producers. Since nominal wages have not been growing during the last year and amounted to about Euro 200 a month, labor force has remained cheap, though it is more expensive than in most other countries of the region.¹³

Households

In Kosovo there are about 310,000 households of an average size of 6 persons each. In 2001, the average total annual household income was Euro 6,666, Euro 1,111 per person. One half of this amount was earned by household members, one-third was received from budget, international donors and family residing abroad, and one-sixth was accounted by the imputed income, i.e., the income equivalent of the consumption (housing, food, etc.) not purchased through the market (Table 10).

Table 10. Household Income and Consumption, 2000 and 2001

	2000	2001	2000	2001
	Million Euro	Million Euro	Euro/ capita	Euro/ capita
INCOME	1,906	2,067	1,077	1,111
Earned income	918	1067	519	574
Labor earnings (except donor employment)	769	923	--	--
Earnings of donor employed Kosovars	136	124	--	--
Other income	12	20	--	--
Imputed income (1)	377	341	213	183
Transfers	611	659	345	355
Private remittances from abroad	393	398	--	--
Transfers from KCB	31	36	--	--
House repair assistance	152	110	--	--
Food and other aid	36	15	--	--
EXPENDITURES	1,763	1,908	996	,1026
Total consumption	1,535	1,743	867	937
Total investment (housing)	228	165	129	89
SAVINGS	144	159	81	85

Note: (1) includes subsistence economy (food production and other) and owner occupied dwellings

Source: CFA-MEU estimates

¹³ In Albania, Serbia, Moldova, and Ukraine the monthly wage remains below Euro 100; in Macedonia, Bulgaria, and Romania it is about Euro 150.

In 2001 consumption expenditures per capita increased by 8 percent; real consumption per capita has declined by 2 percent. In 2002 and 2003 no significant increases in real consumption are expected. Increases in earnings will be counterbalanced by a gradual decline in donor activities and donor transfers.

Firms and Employment

The establishment of private business in Kosovo started in 1989. A significant increase occurred between 1990 and 1993, as many ethnic Albanians were laid off from governmental institutions, socially-owned enterprises, and public enterprises. A majority of these new private firms were characterized by low employment levels, and modest capital investment. A decade later, following the 1999 conflict, the enterprise sector continues with a similar profile: it is dominated by sole proprietors and individual entrepreneurs, predominantly in the wholesale and retail trade sectors.

Table 11. Number of Firms and Employees by Ownership Type, 2000 and 2001

Ownership Type	2000			2001		
	Firms	Employees	Employment per firm	Firms ²	Employees	Employment per firm
Private ¹	29,342	80,410	2.7	43,670	112,784	2.6
Public	26	954	36.6	36	983	27.3
State	98	7,547	77.0	116	10,658	91.8
Socially- owned	283	40,498	175.0	330	44,977 ³	136.0
Cooperative	77	724	9.4	85	768	9.0
Total⁽⁴⁾	29,826	130,133	4.4	44,237	170,170	3.9

Notes: (1) Includes Joint-Stock, Partnership, Limited Liability, Sole Proprietors and Individual Entrepreneurs
(2) The growth of registered enterprises from 2000 to 2001 was partly due to registration of newly established firms, and partly due to registration of previously existing unregistered firms.
(3) According to International Crisis Group "Strategy for Economic Development" (December 2001), the Department of Trade and Industry estimates the actual employment in SOEs in the range of 60,000.
(4) The table accounts only for registered employment in enterprises; Based on data from the National Establishment Survey and the WB LSMS, the CFA-MEU estimates total active employment at 533,000.

Source: SOK Business Register

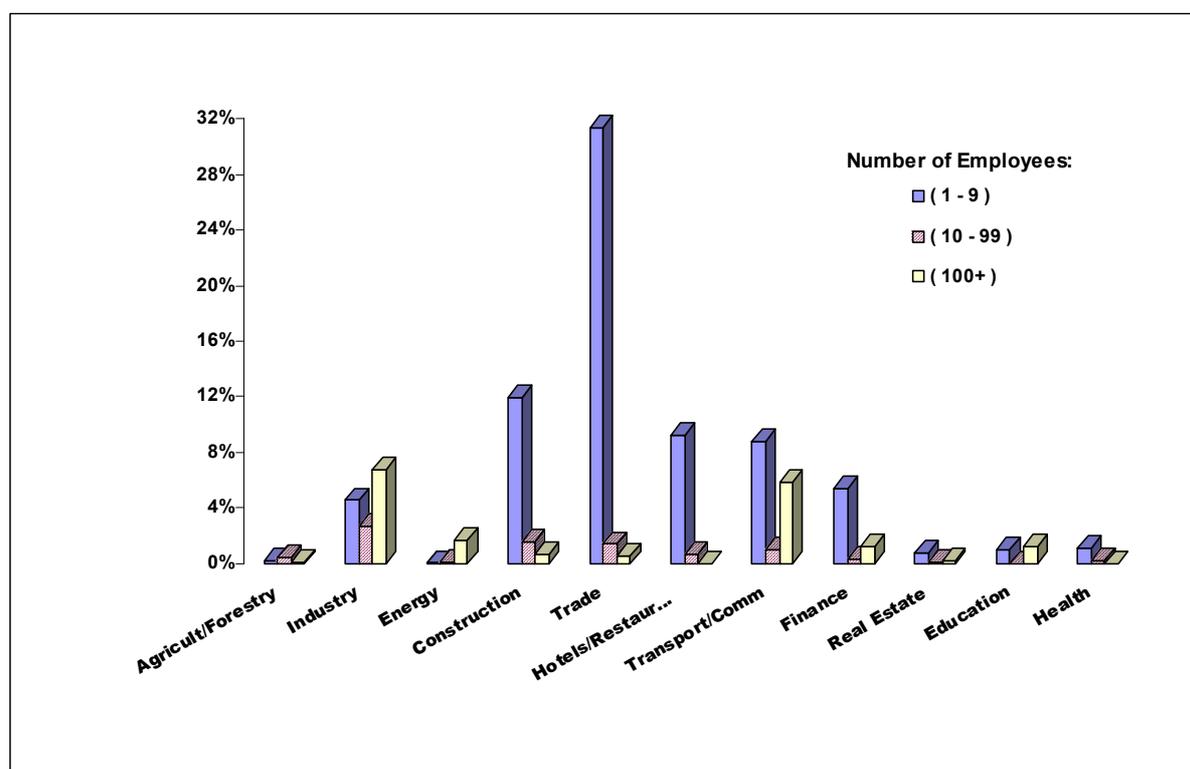
Over 90 percent of enterprises registered in Kosovo are either owned by sole proprietors or individual entrepreneurs, employing on average between 2 and 3 persons. Most of these small firms operate in wholesale and retail trade, construction, or hotel and restaurant businesses. The second largest category of enterprises (by employment size and by number of enterprises) includes socially-owned enterprises. They officially have the largest employment per firm averages, however many registered employees do not receive wage incomes, or are considered on unpaid leave. Those who do receive wages earn only about Euro 100-125 per month.¹⁴ Public and state-owned enterprises (e.g., KEK and PTK) constitute the remaining bulk of enterprises in Kosovo.

¹⁴ Riinvest Survey "Social Enterprises and their Transformation/Privatization", administered in March 2001.

While the young age structure is a positive sign for the future, the current employment structure is a cause of significant hardship. In the fall 2000, only 55 percent of Kosovars were in working age (21-65), of which, in turn, only 55 percent were actively employed, including 25 percent wage earners, 20 percent farmers, and 10 percent non-farm self-employed.¹⁵ Such a low level of employment is, however, balanced by a high per capita level of private remittances from abroad.

At the same time, almost a half of the working age population considers themselves “unemployed” or “out of labor force” – mostly women taking care of their families. Each working person (including self-employed) supports two non-working individuals. These proportions provide a partial explanation for the low GDP/capita level in Kosovo and make it difficult to assess expectations for future growth.

Chart 7. Enterprise Investment by Economic Activity and Number of Employees, 2000 (% of Total)



Source: National Establishment Survey (May 2001) and SOK Business Register

Current investment levels of enterprises also remain at sub-par levels. While total investment as a percentage of GDP is high, much of it is accounted for by donor and foreign financed investments in residential housing construction and other infrastructure. Most domestic enterprise investments take place in wholesale/retail trade, construction, and hotel/restaurant

¹⁵ World Bank estimates from LSMS; data taken from twelve months prior to the Survey (in fall of 2000). Twenty-five percent of wage income earners amounts to roughly 240,000 persons. The discrepancy between this figure and the total employment figures for registered employees in Table 12 (130,000 and 170,000, for 2000 and 2001, respectively) is mostly accounted for by a large number of unregistered employment, and farm employment. Unregistered employment is evident in many types of enterprises, yet should naturally decrease with increased registration enforceability.

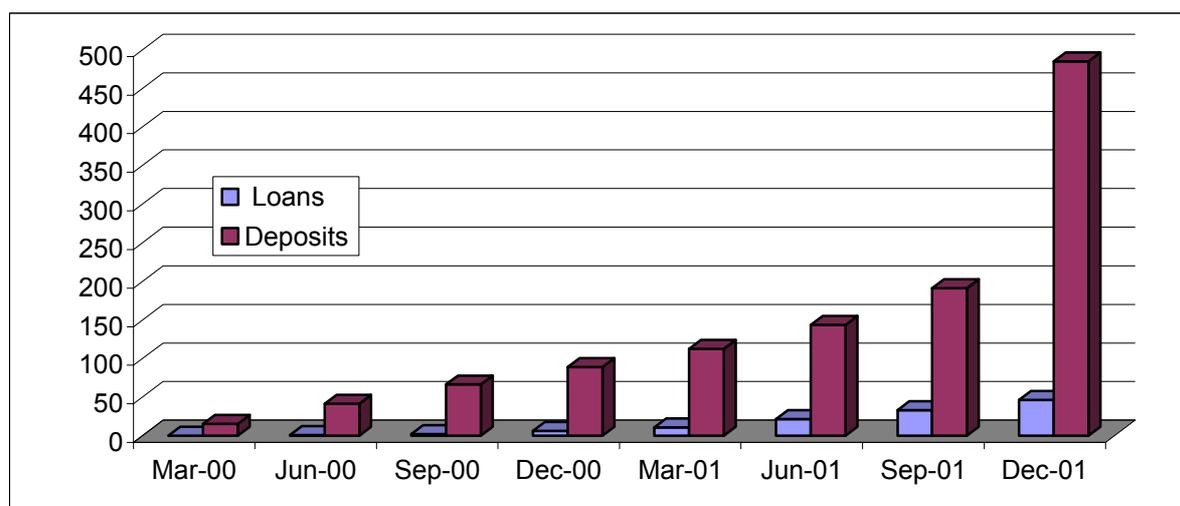
sectors.¹⁶ There appears to be underinvestment in other key parts of the economy, notably in the industrial sector. While many private enterprises have ambitious short and long term investment programs, many are constrained by the undersupply of credit in the financial sector and lack of an operational capital market.¹⁷

Financial Sector

Local Kosovar banking activities were started by Micro Enterprise Bank (MEB), which opened its first branches in April 2000. Until March 2001, this was the only commercial bank with five branches operating in five regional centers. However, in April - December 2001, six new commercial banks were licensed, and there are proposals in place for further licenses in 2002. In addition to commercial banks, Micro Financial Institutions (MFIs) provide bank-type (mostly credit) services in the financial sector. The number of MFIs increased from eight at the end of 2000 to 14 at the end of 2001.

By the end of 2001, total credits in Kosovo were Euro 45 million: Euro 25 million from commercial banks and Euro 20 million from the MFIs. Of commercial bank credits, MEB approved the highest amount (42 percent). Of MFIs, the Interim Credit Unit of the World Bank accounted for 29 percent of total MFI credits, mostly due to its favorable terms and conditions, and interest rates.

Chart 8. Banks and MFI Loans and Deposits, 2000 and 2001 (Euro million)



Note: The high level of deposits in December 2001 was partially due to DM/Euro conversions.

Source: MEB Monthly Reports and BPK Monthly Reports

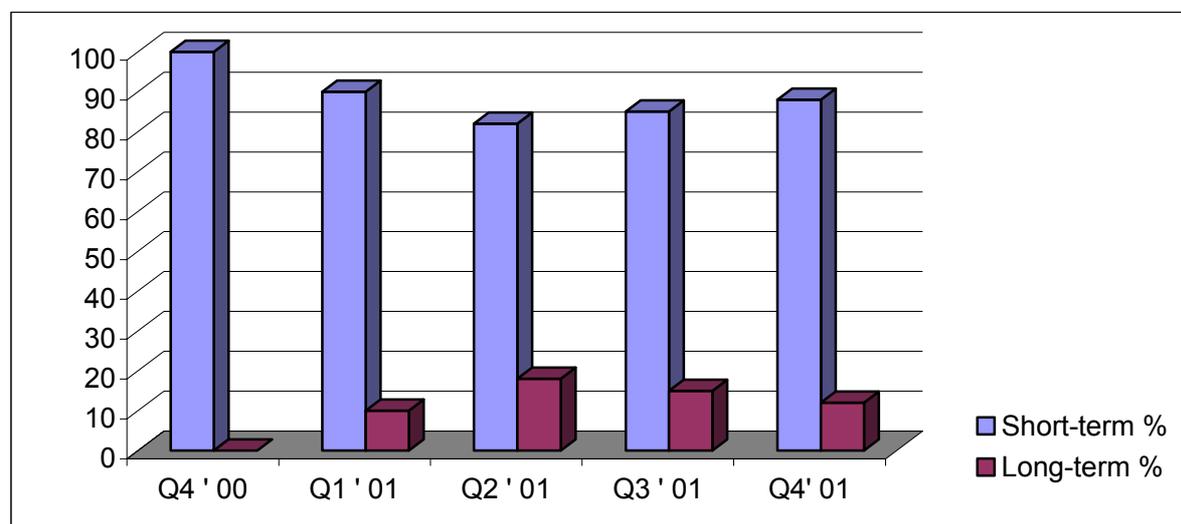
As illustrated in the above figure, there exists a large gap between deposits and credits in Kosovo. Total credits approved by commercial banks averaged slightly more than 5 percent of total deposits, very low by international comparison. The absence of clear legal framework for property titles, inadequate mortgage and bankruptcy laws and the weaknesses in the judicial system increase creditor' risks and therefore the cost of lending. High interest rates

¹⁶ CFA/SOK National Establishment Survey (May 2001).

¹⁷ In Riinvest's SME survey (SME Financing and Development. Draft Research Report. September 25, 2001, pp 3-4), surveyed enterprises' average planned investment amounted to Euro 287,300, while average credit demand was in the vicinity of Euro 180,000.

(up to 20-25 percent in some banks) make it unattractive for enterprises to apply for loans; and most banks lack efficient loan analysis and administration systems, which would allow them to reduce lending risks and transaction costs and offer lower loan rates. As a result, Kosovo commercial banks currently deposit a high percentage of their financial assets abroad. This should change in the medium term as the legal framework improves and banks gain experience in cost-efficient lending practices.

Chart 9. Bank Loans Profile, 2000 and 2001 (% of Total)



Source: BPK Reports

MFIs (except Interim Credit Unit) apply monthly flat interest rates on original credit balances, which make their long-term credits expensive.

Kosovo has adopted the Euro from January 2002. The exercise in conversion of DM to Euro had its positive externalities. Many new bank accounts were opened, money was brought from 'out of the mattress', and bank deposits more than doubled in the last quarter of 2001. Although some deposits were later withdrawn, the exposure to the banking system is a positive result of the Euro-conversion. The use of Euro, and earlier of DM, as the main currency in Kosovo brings in a degree of economic and fiscal stability which are crucial for Kosovo; this also precludes the use of exchange rate as a support mechanism for staying competitive.

Foreign sector

The foreign sector plays an important role for the Kosovo economy. While exports remain at a very low level and mainly consist of goods and services delivered to non-domestic organizations in Kosovo (and foreign nationals "expats" employed by these organizations), imports are very high (Table 12), exceeding GDP by 39 percent (2000) and 19 percent (2001).

Table 12. Foreign Trade Estimates, 2000 and 2001 (Euro million)

	2000	2001
Total exports	106.6	180.5
Export of goods	15.3	33.2
Donor purchased goods and services	51.7	82.3
Goods purchased by expatriates	39.6	65.0
Total imports	-1,963.0	-2,097.1
Goods	-957.7	-1,110.6
Non-exempt commercial imports	-740.0	-880.4
Exempt commercial imports	-45.4	-24.5
Donor imported goods	-172.4	-205.7
Commercial services	-39.3	-45.2
Electric power	-24.5	-39.7
Donor financed activities (projects)	-878.0	-1,004.3
Errors and omissions	-60.2	88.6

Note: KFOR activities not included

Source: Customs data and surveys (Rinvest and SOK/CFA)

In 2002 and 2003, in nominal terms, total imports are expected to increase by 8.6 percent, or by Euro 180 million, while exports are expected to increase by 11 percent, or by Euro 21 million.

International Community

Following the war, the international community in Kosovo made significant contributions to Kosovo that have impacted almost every aspect of its economy. Since 1999, it has been able to balance military security, emergency relief and reconstruction aid, institutional framework building, and economic reconstruction with a multitude of multilateral and bilateral assistance. While the unprecedented complexity of the interim UNMIK government combined with the international donor community has naturally produced certain economic inefficiencies, the international presence added a significant 'jolt' to Kosovo's economy (Tables 12 and 13) for the period 1999-2001, including:

1. Transfers (including humanitarian aid), given to Kosovar households (Table 10), enterprises (*See Table 7 2002 Budget Overview*), and the Kosovo General Budget (*See Table 1 2002 Budget Overview*);
2. Donor Community - foreign and domestic employment in international organizations -- including UNMIK, other governmental, and non-governmental organizations (Table 13)
3. Donor-related imports (Table 12).

Table 13. Donor Activity: Labor Employment, 2000 and 2001 (Euro million)

	2000	2001
Total labor income, Euro million	575.1	585.5
Domestic Employment, persons	18,015	17,791
Foreign Employment, persons	8,058	8,822

Note: Transfers to budget and local enterprises not included
Source: International Donor Community Survey, CFA-MEU, Feb 2002

In 2001 certain forms of international assistance (namely humanitarian aid) diminished, while other areas of assistance remained stable or showed slight signs of increase (e.g., in economic reconstruction). For 2002 and 2003, this assistance is expected to stabilize and begin declining, in particular, in direct cash aid to the local government budget, and in the size of the UNMIK interim government.

Macroeconomic Policy Priorities for 2002 and 2003

1. **Political status:** clarify the political/administrative status of Kosovo in order to enable/encourage both domestic and foreign investment and international business operations.
2. **Institutional infrastructure:** speed up the formation of a modern market regulatory framework which is necessary for an orderly economic development – effective protection of property rights and contract enforcement should become the core of this framework.
3. **Fiscal issues:** continue development of a modern fiscal system based on a low-rates-and-broad-base principle – make VAT the principal source of budget revenue, reduce distortions due to different tariff regimes for different Kosovo borders, establish one budget for Kosovo that would include both recurrent expenditures and capital (reconstruction) funds.
4. **Policy formulation:** elaborate an explicit long-term macroeconomic policy, which would identify main factors of economic growth and address such critical needs as modernized commercial law framework, improved legal infrastructure, human capital development policies, improved service quality and reliability in such key infrastructure sectors such as energy and telecommunication, improved financial intermediation system, and improved environmental policies.
5. **Natural environment:** make environmental and energy issues a high priority for Kosovo policymaking – elaborate a long term strategy.
6. **Enterprise restructuring and privatization:** clarify the status of “social” enterprises, sanitize, privatize or close down all large, unprofitable enterprises.
7. **International assistance:** facilitate a smooth and orderly reduction of international aid, which would avoid any disruptive impact of this withdrawal on the economy.

8. **Data:** improve national statistics and generate data for the needs of policymaking and business investment activities data.

REVENUES

Introduction

A strategic goal of the central fiscal authorities has been to develop a tax system that will make Kosovo self reliant in its fiscal resources as early as possible. With this in view, a modern tax regime is being developed that is investment-friendly and compatible with the EU. The primary aim is to build a tax regime that is economically efficient (creates the least possible distortion), fair, stable, simple and one that promotes economic growth. The central government has also designed a local revenue system of own source revenues based on cost recovery for municipalities to give them greater fiscal responsibility. This will make them less dependent on grants from the central government gradually over time.

Kosovo's revenue regime is gradually maturing into a vibrant system that is expected to be able to sustain the public expenditures of Kosovo fairly soon. Starting from a very low tax burden (the lowest in Europe), and significant dependence on foreign assistance, the fiscal system is showing signs of achieving self-sustainability. Compared with donor-dependence of 50 percent in 2000 in the recurrent budget alone, the 2002 Budget will be funded from domestic revenues to the extent of 93 percent. By 2003, the recurrent budget is expected to be totally financed by domestic revenues.

Revenues of the central budget (excluding donors) and the municipal budget as percentage of GDP have also shown significant improvement (see table below), from 8 percent of GDP in 2000 to 18.7 percent in 2002. The outlook for 2003 and 2004 also looks good.

Table 14: Central and Municipal Revenues 2001-2004 (projected)

	2001 <i>mid-year estimate</i>	2001 <i>actuals</i>	2002 <i>estimates</i>	2003 <i>forecasts</i>	2004 <i>forecasts</i>
Central and Municipal revenues					
Central Revenues (without donors), euro mi.	275.2	292.2	359.2	404.8	457.5
Municipal Revenues, euro million	7.7	7.7	22.2	28.2	34.5
Total	282.9	299.9	381.4	433.0	492.0
Central+municipal revenues as % of GDP		16.9%	18.7%	19.3%	19.7%

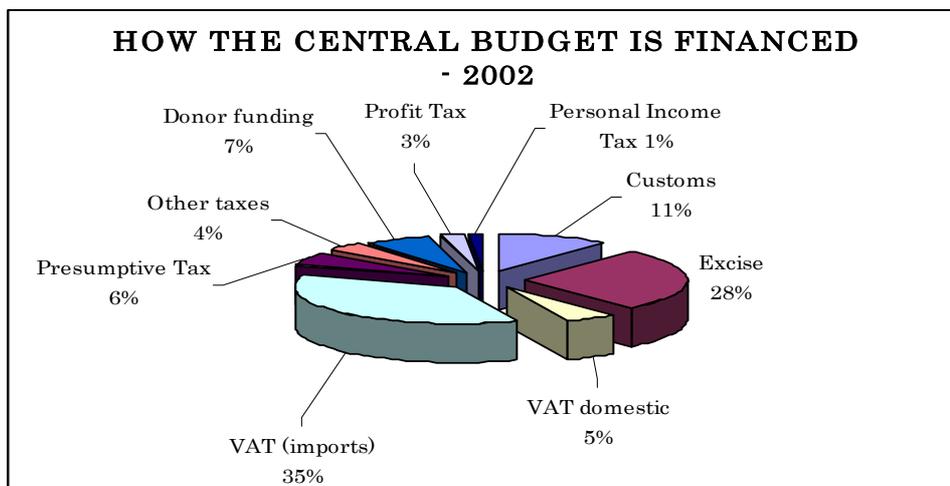
The year 2001 has shown remarkable improvement in revenue performance. There has been more than 100 percent growth in nominal revenues compared to 2000. The growth in revenue has been a result of several factors. Some of this was driven by GDP growth (13 percent) and inflation (10 percent). However the bulk of the buoyancy in revenue has been the result of widening of the tax base, introduction of modern taxes and improved compliance.

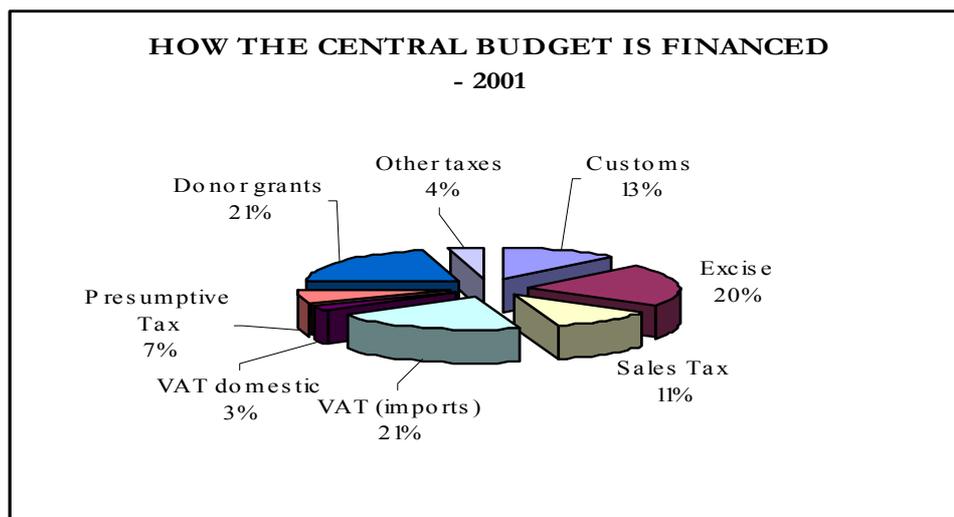
The widening of the tax base has been affected by removing exemptions for a large number of food items, some with effect from October 2000 and some from June 2001. With the emergency relief phase over, these exemptions on food items had outlived their utility. The introduction of the value added tax which is compatible with the VAT applicable in the European Union has introduced some element of self-policing in the tax regime.

Compliance has improved significantly with the relatively new Customs Service and the Tax Administration gaining in experience. The Customs Service, in co-operation with CAM-K, has achieved high standards in recruiting and training staff as well as delivering its services and cross-border co-operation. The setting up of Tax Collection Offices (TCOs) at the Serbian Administrative Boundary Line (ABL) has helped improve compliance and reduce smuggling. The fact that the Customs Service and the Tax Administration consisting together of merely 500 employees, almost entirely Kosovars, have been able to collect close to Euro 300 million in annual revenues is a remarkable achievement in itself. In the neighboring countries of the region, similar revenues have been collected by a staff force six times this size. Both the tax administration and the customs service have been built from scratch and consist of newly recruited young staff. The capacity of the revenue services will be stretched as new taxes are developed and introduced at a relatively fast pace, as part of the ambitious tax reform effort. The central fiscal authorities plan to augment the size of the tax and customs administrations in the next couple of years.

With the introduction of new taxes (especially the replacement of sales tax with the VAT), the structure of revenues will also be gradually changing. The sales tax was essentially another form of import tax. The VAT, however, is a tax on domestic consumption. Even where it is levied on imported goods, the input credit mechanism ensures that credit is given for purchases made at every stage of value addition. The following charts (Charts 10 and 11) show the structure of revenues in 2001 and 2002.

Charts 10 and 11





They indicate that revenues from domestically generated sources (domestic VAT, profit tax, income tax, presumptive tax and other taxes) will be 54 percent of total revenues in 2002 compared to only 35 percent in 2001. Thus the reliance on domestic taxes collected at the border is gradually expected to increase.

Sustainable revenues are essentially constrained by the level of economic growth, administrative capacity and public acceptability. In place of a large number of small taxes (nuisance taxes), which add to the administering cost for the government, as well as compliance cost for businesses, the central fiscal authorities plan to have in place just a few broad-based taxes. The main taxes for the year 2002 and beyond will be the VAT, excise taxes, customs duty, profit tax, presumptive tax, individual income tax and property tax for municipalities.

VAT

VAT has been identified as the backbone of revenues in the future and essential for the fiscal stability of Kosovo. It is largely EU-compatible, export friendly and investment friendly. Introduced in July 2001, it replaced the Sales Tax and the Hotel, Food, and Beverage Tax, of which VAT is one. As a broad-based tax on domestic consumption of goods and services, it will provide a reliable source of revenue and will lessen Kosovo's reliance on border taxation. Based on the destination principle, exports are zero-rated and imports are charged to tax at the border. While the VAT is broad-based in scope (there are very few exemptions) its high threshold (100,000 Euros) makes it narrow in its reach, in the initial stage. (By way of comparison, the threshold for VAT in Poland is equivalent to 10,000 Euros). This high threshold has been necessitated by the limited capacity of the tax administration. Also, for the sake of administrative simplicity and to prevent misclassification and disputes, VAT will continue at the single rate of 15 percent.

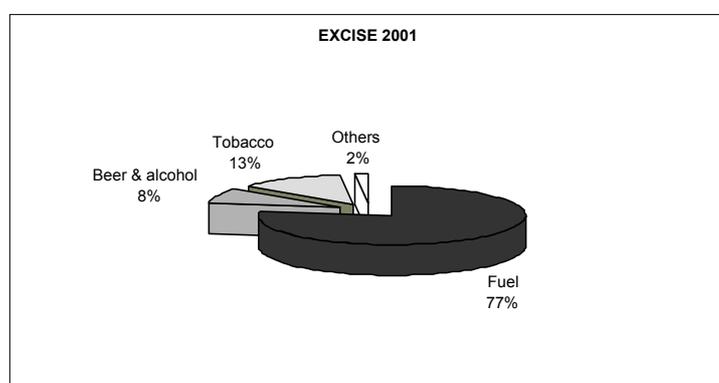
In July 2002, the VAT threshold will be lowered to Euro 50,000 to broaden the base further. Further reduction in threshold will be examined taking into account the capacity of the tax administration to handle a larger number of taxpayers. If the threshold were lowered to Euro 25,000 in July 2003, revenue from domestic VAT would increase substantially and overall revenue would increase by about Euro 50 million (see table below).

Table 15: Revenue effect of lowering VAT threshold to 25,000 euros in July 2003 (million euros)

	2003		2004	
	With threshold of 50,000 euros	With threshold of 25,000 euros starting July 2003	With threshold of 50,000 euros	With threshold of 25,000 euros starting July 2003
VAT on imports	163.7	163.7	191.3	191.3
VAT domestic	25.7	45.6	30.0	76.6
Total revenues	404.8	424.8	457.5	504.1

Excise taxes

Until 2000, about 90 percent of excise was coming from fuel imports. With more efficient controls in place, the central government is able to collect a much larger percentage of excise taxes from other categories such as tobacco and alcohol.



Excise on fuel (diesel, gasoline, heating oil, etc.) has been raised every quarter in 2001. Further adjustments to the fuel tax rates should be a function of prices in neighbouring economies. The central fiscal authorities foresee excise on fuel being raised only twice in 2002 instead of every quarter. The collection of excise on fuel requires stricter measures of enforcement (e.g. via bonded warehouses) rather than adjustments of the rate. The Fuel Board is taking steps to restrict import of petrol only through rail and then to be stored in bonded warehouses. This is expected to reduce petrol smuggling significantly and hence improve compliance.

The central fiscal authorities propose to introduce better computer-based information-matching between the Customs Service and the Vehicle Registry in order to prevent evasion of excise on cars imported into Kosovo.

Customs duty

The overall UNMIK trade regime is simple. Imports are subject to a 10 percent flat rate customs duty; exports are duty free. There are no tariff quotas and tariff ceilings. Only live animals and pharmaceutical products are subject to an import license. Scrap metals are subject to an export license. Import/export prohibitions apply to narcotic drugs and psychotropic substances, explosives and ammunition, weapons, pedophile material, endangered species (Washington Convention).

Trade with other entities of FRY, i.e. Serbia and Montenegro, is considered internal trade and not subject to customs duties, if goods are originating or produced in these territories. There is also free trade with Macedonia. Trade Agreements of this kind only influence the applicable rate of customs duties and no other taxes are affected (like VAT or excise tax).

The European Community and Switzerland have granted exceptional trade measures for countries participating linked to the European Union's Stabilization and Association process. Kosovo can benefit from these concessions. This means that most products originating in Kosovo can be imported into the European Union exempt from customs duties. However for certain products, like wine, the duty exemption applies within the framework of a tariff quota.

Even though free trade continues to be the long-term goal, the timing of tariff reduction has to be carefully measured against aspects of budgetary implications and more general economic considerations, which will require a gradual phasing down of rates. It is, accordingly, proposed to reduce tariff, starting July 1, 2002. This could be achieved in one of two ways. One option is to reduce the tariff across the board from the existing 10 percent to 6 percent. The other option is to introduce for a limited period, say two years, a tiered tariff system, where capital goods and raw materials would pay a reduced tariff of 1 to 2 percent and other items would pay the existing 10 percent. The reduction in tariff will allow Kosovar producers to import intermediate goods and capital goods at cheaper costs and will boost domestic production and exports. It will also significantly reduce the differential caused by the preferential tariff regime with Macedonia.

Profit tax/Presumptive tax

A profit tax (a transition economy version of the corporate tax) is being introduced in April 2002. Currently, a presumptive tax is in operation where income is presumed based on turnover. The tax is paid as a percentage of the turnover in some cases and as a flat amount in the case of small business establishments.

The profit tax will allow the introduction of a modern corporate taxation system in Kosovo for large businesses. The tax has been developed in conjunction with the regulation on accounting standards. Enterprises that are required to follow the international accounting standards will pay profit tax on their taxable income at the rate of 20 percent, instead of the presumptive tax. This will allow them to claim genuine business expenses and depreciation.

As more and more businesses develop the capability of maintaining books based on international accounting standards, the tax base will gradually widen. Small businesses will continue to be taxed under the presumptive scheme.

Personal Income tax

Starting April 2002 a personal income tax is being introduced. In the first year, this tax will cover only wage income. This is the first step towards a comprehensive personal income tax on all sources of income, which will be introduced in January 2003. In general, the tax will be withheld from wages by the employer and paid in bulk to the Kosovo Consolidated Budget. In accordance with EU practice, the tax will be at progressive rates of 5 percent and 10 percent in 2002 and 10 percent and 20 percent thereafter.

Property tax

Property tax is an important source of revenue for local government in most EU countries. The ability of local governments to levy their own taxes makes them less dependent on central government for grants/transfers. Usually, the central government is responsible for establishing property tax policy while local governments administer the property tax and receive all of the property tax revenue.

In order to develop property tax in municipalities, and develop the capacity of municipalities to create or upgrade the necessary property information and to assess and collect this tax, a pilot program has been introduced in September 2001. Several municipalities are in the process of being certified by the central fiscal authorities to participate in the pilot program. Later, a final version of the tax will be introduced, gaining from the experience during the pilot stage.

KOSOVO 2002 INTERGOVERNMENTAL BUDGET

Background. In August 2000, UNMIK Regulation 2000/45 was passed into law. This landmark legislation gives municipal governments in Kosovo responsibility for providing a wide range of public services, including:

- Managing municipal property;
- Urban and rural planning and land use;
- Licensing and regulating building and other economic development activities;
- Protecting the environment, providing public utilities, infrastructure and emergency services;
- Providing social services, housing, primary and secondary education and primary health services.

The devolution of these particular responsibilities is clearly a good thing. International experiences shows that the municipal level of government is the best level to provide these services. These services are used by local citizens and are very important to them. As a result, citizens have a strong interest in having them provided properly and in holding their elected officials accountable for using public funds efficiently. Shortly after Regulation 2000/45 was passed, municipal elections were held and by the beginning of 2001 freely elected municipal governments were established in all 30 of Kosovo's municipalities.

Although by January of 2001 the stage had been set for the new municipal governments to begin exercising their responsibilities as outlined in the law, none of the major municipal functions were devolved to local governments. The main reason for this is simple enough -- municipal governments did not have sufficient revenue to support the important functions that were to be devolved. During 2001, policymakers solved this problem by designing a two part revenue system for municipalities to support the new municipal functions. The new municipal revenue system consists of a system of intergovernmental transfers and a system of own-source revenues.

The new revenue system is described in detail below. In addition, Schedule 3B included at the end of this section provides a detailed breakout by municipality of each of the sources of funding. While the new system of financing municipal government in Kosovo is a major step forward, it will require municipalities to make a number of adjustments as they begin to execute their new responsibilities. At the same time, the system provides ample funding and flexibility to make these adjustments. This is described below in the subsection: "Funding Flexibility Under the New Revenue System".

Municipal Revenues

Table 1 below shows the main sources of municipal revenues in 2002 and compares them with their levels in 2001. Two points stand out most sharply: The first is the sharp increase in the level of the general grant from Euro 14.1 million in 2001 to Euro 24.0 million in 2002, an increase of Euro 10 million or 70%. The second is the very high level of "designated grants" for primary and secondary education and for primary health care. These grants did not exist in 2001 because the Ministries funded these activities from their central budgets.

Their 2002 level of Euro 52.0 million makes them the major source of municipal financing in that year.

At a budgeted level of Euro 10.4 million in 2002 own source revenues are only slightly higher than their level in 2001. The small change in that year obscures a significant change in the character of local own source revenues initiated at the end of 2001 which promises to yield significant dividends in the very near future. This will be described below in “Municipal Property Taxation and User Charges”.

Municipal Revenues by Source (Table 16)

(In Euro Million)

	2001	2002	% change 01 to 02
Designated Grants (Education, Health, LCO) --	--	52.0	--
General Grants	14.1	24.0	70%
Own Source Revenues	9.1	9.6	14%
TOTAL, Revenues	23.2	85.6	

Overall, Table 16 makes it clear that the transfer of new responsibilities from the central to the municipal level is financed almost entirely by transfers from the central to municipal governments rather than through municipal own source revenues.

Table 17 below provides additional detail on the breakout of the designated grants between primary and secondary education and primary health care. The table also shows central government spending on those sectors and compares total budgeted spending with their values in 2001. The table also highlights the fact that not all spending in primary and secondary education and in primary health care is devolved. There remains some direct central government spending in 2002 in education, and to a lesser extent, in primary health care. In primary health care Euro 6.2 million is held back at the center for central purchasing of “essential medical supplies”. In primary and secondary education the devolution process begins mid-way through the school year, and as a result, teachers salaries will continue to be paid from the central ministry until the new school year begins.

Table 17 compares total central spending on primary health care and primary and secondary education plus all transfers from the central government to municipalities in 2002 with their level in 2001. Two additional points stand out from the table:

- First, total budgeted spending for education and health remains almost unchanged between 2001 and 2002.
- Second, total transfers plus total budgeted spending from the central government on devolved functions rises from Euro 88.6 million to 109.1 million or 23% between 2001 and 2002.

That is, from intergovernmental transfers alone, municipalities in the aggregate have considerably more revenues available for the devolved functions and the other municipal activities.

TABLE 17
COMPARISON OF BUDGETED EXPENDITURE
SELECTED EXPENDITURE CATEGORIES
(in Euro million)

CATEGORY	2001	2002	% Change
Primary and Secondary Education			
Municipal Education Grant	--	35.1	--
Central Budget Spending on P&S Education	52.2	26.7	
Total Primary and Secondary Budgeted Spending	52.2	61.8	18%
Primary Health Care			
Municipal Health Grant	--	15.2	--
Budgeted Health Co-Payment Fees	--	1.8	--
Central Budget Spending on Primary Health Care	22.3	6.2	--
Total Primary Health Budgeted Spending	22.3	23.2	4%
General Grant¹	14.1	24.0	70%
TOTAL, Budgeted Expenditure	88.6	109.0	23%

¹ This includes transfers to support Local Community Offices

Funding Devolved Primary Health Care Activities Across Municipalities

The following table (Table 18) provides details on budgeted spending on Primary Health Care spending for 2002. It shows the breakout across economic category and level of government. The following points stand out most sharply from the table:

- First, out of a total budgeted level of spending of Euro 23.2 million, the greatest part, Euro 17.0 million or 73% will take place at the municipal level.
- Second, Euro 15.2 million or most of the Euro 17.0 million in municipal spending, will be financed by the designated grant, only Euro 1.78 million is expected to come from primary health care co-payments levied in accordance with the former Department of Health and Social Welfare Administrative Instruction 2001/17.
- Third, only Euro 6.2 million or 27% of total spending is financed by the Central Ministry. Of this amount, Euro 4.5 million is for goods and services, while 1.68 million is held in a reserve for the Ministry to assist municipalities to cope with the problem of overstaffing in this sector at the local level. This Euro 4.5 million of Central Ministry spending represents 40% of goods and services spending. It is the proportion represented by “essential medical supplies” such as prescription drugs and highly specialized medical equipment which is better purchased centrally and distributed in a secure manner. Further, this Euro 4.5 million is allocated across municipalities on a per-capita basis and if by mid-year it becomes clear that a municipality will not use a portion of its allotment on these centrally purchased supplies it may apply to the Central Ministry to have these funds reallocated.

Table 18
2002 Primary Health Care Spending (Euro million)

Category	Total	Ministry	Municipalities	Co-payments	Net Spending
Wages & Salaries	9.5	0.0	9.5	0.0	9.5
Goods & Services	11.2	4.5	6.7	(1.8)	4.9
Capital Outlays	0.8	0.0	0.8	0.0	0.8
Unallocated Reserves	1.7	1.7	0.0	0.0	0.0
Total	23.2	6.2	17.0	(1.8)	15.2

Distribution of the Designated Grant: The grant is distributed across municipalities on the basis of objective criteria – in particular the estimated level of population in each municipality. The distribution is determined by “baseline” staffing estimates provided by DHSW for each municipality. DHSW estimated the number of each primary health care specialization (General Practitioners, Nurses, Dentists, Support Staff) for each municipality based on a minimum level augmented proportionally to each 10,000 of the population. For example, the desired number of General Practitioners (GPs) in a municipality is calculated as follows: $GP = K + a \times Pop.$; where “K” is a constant (the absolute minimum regardless of population size) and “a” is a coefficient that is multiplied by the population. Each specialization has its own “K” and “a”. For every specialization, “K” and “a” are the same for every municipality. As a result, populous municipalities have larger total baseline staff than less populous municipalities. The distribution of the designated grant for each municipality appears below in Schedule 3B.

Funding Devolved Primary Secondary, Pre-Primary and Pre-School Activities Across Municipalities

Table 19 provides details on budgeted spending on Primary, Secondary, Pre-School and Pre-Primary Education spending for 2002. It shows the breakout across economic activity and level of government.

Table 19
2002 Pre-School Education, Primary Education, and Secondary Education Spending (Euro million)

Category	Total	Ministry	Municipalities	Education Fees & Charges	Net Spending
Wages & Salaries	44.4	18.0	26.4	0.0	26.4
Goods & Services and Capital Outlays	12.1	3.0	9.1	(1.3)	7.8
Unallocated Reserves	6.6	5.7	0.9		0.9
Total	63.1	26.7	36.4	1.3	35.1

The following points stand out most sharply from the table:

First, Central Ministry spending remains high because 2002 is a transition year for this sector. The budget provides the Ministry of Education, Science and Technology with Euro 26.7 million to support Pre-School Education, Primary Education and Secondary Education. The budget is divided in four parts: Wages & Salaries, Goods & Services, Capital Outlays and Reserves.

- The Wages & Salary budget (Euro 18.0 million) is intended to enable the Ministry to pay the teachers in all Municipalities until responsibility for teachers salaries is transferred on July 1st 2002 (the end of the 2001-02 school year).
- The Goods & Services budget is Euro 0.9 million and the Capital Outlay budget is Euro 2.1 million, for a total of Euro 3.0 million.
- The Reserves budget (Euro 5.7 million) will address the overstaffing issue Serbian schools and to fund the exceptional cost of providing education to the children of refugees from Macedonia.

Second, municipal spending is also quite high and changes its functional distribution during the year. The total size of the education grant is Euro 36.4 million, of which Euro 35.5 million is to be distributed to municipalities and Euro 0.9 is to constitute reserves. The distributed share of the municipal grant can be divided into three economic categories: wages & salaries, goods & services, and capital outlays.

For each municipality, the Goods & Services and Capital Outlays portion of its education grant allocation is calculated as being the residual of the grant allocation minus the Wages & Salaries portion. The proportion of Wages & Salaries compared to the municipal grant allocation varies from municipality to municipality, as the actual number of support staff and teachers are not the same from one municipality to another.

Support Staff (all non-teacher school personnel):

From January 1st 2002, it is the municipality's responsibility to pay support staff salaries from the Education Grant, possibly supplemented from the municipality's Own Source Revenues, or from its General Grant.

Teachers:

From January 1st to June 30th 2002, teachers salaries are to be paid by the MEST. From July 1st onward, paying teachers' salaries is the Municipality's responsibility.

Distribution of the Designated Grant: As with Primary Health Care, the designated grant for primary, secondary, pre-school and pre-primary education is distributed across municipalities on the basis of objective criteria. In particular, the grant allocation to each Municipality is based on a minimum level augmented proportionally to the number of pupils enrolled in the Municipality. The amount of the Education grant is based on the overall pupil enrollment of Kosovo. Hence, in a Municipality, the size of the grant allocation $g = K + b \times p$; where "K" is a constant (the absolute minimum regardless of the pupil enrolment) and "b" is a coefficient that is multiplied by "p", the number of pupils enrolled. "K" and "b" are the same for every municipality. As a result, municipalities with high student enrollment numbers receive a larger grant allocation than municipalities with small student enrollment numbers.

The General Grant

As mentioned above, the general grant increased by 70% between 2001 and 2002, or from a level of Euro 14.1 million to Euro 24.0 million. However, not only has the level of the grant increased, but, for the first time an effort was made to distribute the grant across municipalities on the basis of “fiscal need”. That is, the grant is distributed across municipalities on a per-capita basis modified by objective criteria that reflect cost differences in providing a similar market basket of locally provided public services. The objective criteria used in determining the distribution of the grant include: population size, population density, number of villages, number of minority villages, levels of utility services, school age population as a per-cent of overall population, and factors related to the impact of the conflict on municipal conditions.

In addition to these “fiscal need factors” there is a small “earmarked” portion of the general grant. This portion is related to the “fixed costs” of maintaining municipal government. It covers some of the costs of wages and salaries for elected municipal officials and municipal assemblies staff and costs for maintaining local community organizations in villages. Also, a flat 100,000 is provided to each municipality regardless of size as a supplemental basic stipend to defray the basic minimum costs of maintaining municipal government.

In the future, as municipal own source revenues become increasingly developed, a municipality’s fiscal need should be balanced by objectively measured differences in per-capita fiscal capacity. As municipal own source revenues become increasingly developed, it will become increasingly clear that some municipalities will have a greater or lesser ability to raise revenues from their own citizens because of differential levels of economic activity across Kosovo’s regions. These differentials should be factored into grant calculations moving forward. In the future, the general grant should be modified to reflect differences in revenue raising efforts across municipalities, i.e., grant policy should reward municipalities that engage in more intensive revenue raising efforts, after taking fiscal capacity into account.

Municipal Property Taxation and User Charges

Until the second half of 2001 the ability of municipalities to collect revenues from their own sources by levying taxes on their own citizens and businesses and by assessing fees and charges for municipal services was poorly defined by law. As a result, municipal own-source revenue collections were low and typically resulted from a bewildering array of taxes, fees and charges, some drawn from the old Yugoslavian system, some invented on the spot. The net result was a poorly organized system which, on the whole, delivered low levels of revenue, offered significant possibilities for corruption, and as often as not has been deleterious to economic development.

During the second half of 2001 policymakers developed a solution to this problem which is now being implemented. In September 2001 the pilot property tax regulation was passed which permits municipalities to levy a tax on immovable property. In August, an administrative instruction was put forward providing direction on a simple coherent system of municipal user fees and charges based on service cost recovery. All revenues collected both from the property tax and from the new user fees and charges will go to municipal budgets.

When the property tax is fully in place total collections could reach as high as Euro 40 to 50 million. By comparison, total own-source revenues collected by municipalities in 2001 were

only approximately Euro 6 million. Under the new system of fees and charges revenues from those sources are budgeted at Euro 10.4 million, but could easily be significantly greater.

Funding Flexibility Under the New Revenue System

As mentioned above, the special purpose grants for primary and secondary education and for primary health care have been set at roughly the same level as total spending for those functions in 2001 (that is, the total is roughly the same when we factor in Central Government spending). However, the distribution of the grants is now firmly based on objective criteria. Suppose in a particular municipality that during 2002 total budgeted spending for primary and secondary education from the special purpose grant and central spending decreased from its 2001 level because the level of students per teacher was significantly below the Kosovo average.¹⁸ Would this be a terrible problem for the municipality? Would it mean that all of the “excess” teachers would have to lose their jobs? Obviously, it would make sense for teachers to try to change jobs from where they were less needed to where they were more needed, but quite a few options are open to any municipality that finds itself in this situation:

- First, as previously mentioned, the General Grant increased by 70% overall – more for some municipalities than for others, but it increased significantly for all. If a municipality wants to use a portion of this grant to keep some of the “excess” teachers on the payroll, it can do it. Clearly, this requires the municipality to make choices between alternatives – instead of keeping teachers on the payroll, it may prefer to refurbish the library, or to repair some of the municipal roads or bridges.
- Second, every municipality has the possibility of levying a property tax and using some of the revenues to keep teachers on the payroll. That is, the citizens of the towns tax themselves and use their own money to pay some of the teachers who otherwise could not be paid from the grant. Once again, this requires the municipality to make choices – exactly the same choices as above.
- Third, in the case of Primary Health, the Central Ministry could compensate the staff members who would have been laid off as a result of the municipal health care restructuring by paying their salaries during the twelve months following the layoff. This “severance package” would be a one time-only opportunity, funded by the KCBs primary health reserves listed in schedule 1 of the 2002 Budget Regulation (R2002/37).

This example applies for primary health care as well as for education, and begins to drive home a central feature of the process of devolution and fiscal decentralization: municipalities have important jobs to do and they have the resources to do those jobs in the way that best suits the resources, desires and needs of their citizens. It does not have to, nor should it depend entirely on central government. Suppose the citizens of a municipality were simply not satisfied with the level of education that could be provided with the basic grant provided from the central government. Perhaps they feel their children should have a better school building than in other municipalities or that they should have more and better teachers of English, German and computer science. It is within their authority to tax themselves and to provide for their own felt level of need.

¹⁸ That would mean, by the way, that budgeted spending went up in some other municipality where the level of students per teacher had been significantly higher than the national average.

Schedule 3-B
Kosovo Municipal Budgets Section
1 January – 31 December 2002
(Euro)

Org. Code	Municipality	Program/Sub Program	Employees	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant ¹	Own Source Revenues	Total
61100	Glogoc/Glogovac		504	1,431,347	1,059,553		2,490,900	2,260,307	230,593	2,490,900
61110		Municipality Administration	150	266,894	639,442		906,336	675,743	230,593	906,336
61140		Education	199	929,265	265,142		1,194,407	1,194,407		1,194,407
61150		Health	155	235,188	154,969		390,157	390,157		390,157
61200	Fushe Kosove/Kosovo Polje		325	779,572	542,165		1,321,737	1,160,169	161,568	1,321,737
61210		Municipality Administration	94	174,126	301,247		475,372	313,804	161,568	475,372
61212		Local Community Office	9	16,014	60,235		76,249	76,249		76,249
61240		Education	98	410,772	90,284		501,056	501,056		501,056
61250		Health	124	178,661	90,399		269,060	269,060		269,060
61300	Lipjan/Lipljane		619	1,600,033	1,102,086		2,702,119	2,446,473	255,646	2,702,119
61310		Municipality Administration	179	318,494	731,706		1,050,200	794,554	255,646	1,050,200
61312		Local Community Office	18	38,960	40,858		79,818	79,818		79,818
61340		Education	225	946,324	135,810		1,082,134	1,082,134		1,082,134
61350		Health	197	296,255	193,712		489,967	489,967		489,967
61400	Obiliq/Obilic		268	666,646	379,443		1,046,089	925,935	120,154	1,046,089
61410		Municipality Administration	89	163,634	200,623		364,257	244,104	120,154	364,257
61412		Local Community Office	17	31,291	38,665		69,956	69,956		69,956
61440		Education	76	340,068	73,000		413,068	413,068		413,068
61450		Health	86	131,653	67,154		198,807	198,807		198,807
61500	Podujeva/Podujevo		780	2,252,319	1,852,235		4,104,553	3,465,438	639,115	4,104,553
61510		Municipality Administration	259	460,163	1,348,317		1,808,479	1,169,364	639,115	1,808,479
61540		Education	221	1,332,324	201,726		1,534,050	1,534,050		1,534,050
61550		Health	300	459,832	302,192		762,024	762,024		762,024
61600	Prishtina/Pristina		2,597	5,733,279	6,457,612		12,190,891	9,919,467	2,271,424	12,190,891
61610		Municipality Administration	622	1,104,390	4,305,260		5,409,650	3,620,129	1,789,522	5,409,650
61612		Local Community Office	38	69,945	84,921		154,866	154,866		154,866
61640		Education	860	2,836,039	1,034,293		3,870,332	3,388,430	481,902	3,870,332
61650		Health	1,077	1,722,905	1,033,138		2,756,043	2,756,043		2,756,043
61700	Shtime/Stimlje		212	644,188	410,884		1,055,073	998,831	56,242	1,055,073
61710		Municipality Administration	78	138,662	215,386		354,049	297,807	56,242	354,049
61740		Education	58	389,396	123,178		512,574	512,574		512,574
61750		Health	76	116,130	72,320		188,450	188,450		188,450

¹ Total General Grant levels for each municipality represent total spending for Municipality Administration and Local Community Office (partially financed by the general grant from the central budget) and Education and Health (financed by designated grants from the respective central Ministries.)

Org. Code	Municipality	Program/Sub Program	Employees	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
62100	Dragash/Dragas		288	1,021,824	449,091		1,470,915	1,414,673	56,242	1,470,915
62110		Municipality Administration	107	201,960	233,946		435,906	379,664	56,242	435,906
62112		Local Community Office	4	7,363	8,155		15,517	15,517		15,517
62140		Education	86	673,526	116,592		790,118	790,118		790,118
62150		Health	91	138,975	90,399		229,374	229,374		229,374
62200	Prizren/Prizren		1,217	3,499,775	3,875,711		7,375,486	6,494,018	881,467	7,375,486
62210		Municipality Administration	332	638,604	2,493,738		3,132,341	2,250,874	881,467	3,132,341
62212		Local Community Office	14	25,769	51,178		76,947	76,947		76,947
62240		Education	346	1,983,688	762,569		2,746,257	2,746,257		2,746,257
62250		Health	525	851,714	568,226		1,419,940	1,419,940		1,419,940
62300	Rahovec/Orahovac		418	1,266,374	1,183,271		2,449,645	2,052,371	397,274	2,449,645
62310		Municipality Administration	130	313,177	728,692		1,041,868	644,594	397,274	1,041,868
62312		Local Community Office	8	14,725	15,017		29,742	29,742		29,742
62340		Education	130	707,531	276,844		984,375	984,375		984,375
62350		Health	150	230,941	162,719		393,660	393,660		393,660
62400	Suhareke/Suva Reka		512	1,586,692	1,277,476		2,864,168	2,518,535	345,633	2,864,168
62410		Municipality Administration	182	354,325	823,182		1,177,507	831,874	345,633	1,177,507
62440		Education	143	936,405	247,666		1,184,071	1,184,071		1,184,071
62450		Health	187	295,962	206,628		502,590	502,590		502,590
62500	Malisheve/Malisevo		396	1,237,672	904,447		2,142,119	1,918,173	223,946	2,142,119
62510		Municipality Administration	132	262,804	494,742		757,546	533,600	223,946	757,546
62540		Education	130	768,822	275,397		1,044,219	1,044,219		1,044,219
62550		Health	134	206,046	134,308		340,354	340,354		340,354
63100	Decan/Decani		368	1,033,688	731,049		1,764,738	1,534,656	230,081	1,764,738
63110		Municipality Administration	116	205,028	495,386		700,414	470,333	230,081	700,414
63112		Local Community Office	8	14,725	14,573		29,299	29,299		29,299
63140		Education	114	614,480	91,947		706,427	706,427		706,427
63150		Health	130	199,455	129,143		328,598	328,598		328,598
63200	Gjakove/Djakovica		834	2,408,253	1,503,798		3,912,051	3,860,922	51,129	3,912,051
63210		Municipality Administration	252	510,269	635,651		1,145,920	1,094,791	51,129	1,145,920
63212		Local Community Office	6	11,044	73,957		85,001	85,001		85,001
63240		Education	273	1,408,657	497,162		1,905,819	1,905,819		1,905,819
63250		Health	303	478,283	297,028		775,311	775,311		775,311
63300	Istog/Istok		372	1,111,614	656,796		1,768,409	1,663,595	104,815	1,768,409
63310		Municipality Administration	136	251,556	301,461		553,016	448,202	104,815	553,016
63312		Local Community Office	8	14,725	22,926		37,651	37,651		37,651
63340		Education	106	659,789	218,764		878,553	878,553		878,553
63350		Health	122	185,544	113,645		299,189	299,189		299,189

Org. Code	Municipality	Program/Sub Program	Employees	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
63400	Kline/Klina		378	1,084,112	818,227		1,902,338	1,698,844	203,494	1,902,338
63410		Municipality Administration	139	265,360	392,497		657,857	454,363	203,494	657,857
63412		Local Community Office	5	9,203	11,197		20,400	20,400		20,400
63440		Education	106	612,142	300,888		913,030	913,030		913,030
63450		Health	128	197,406	113,645		311,051	311,051		311,051
63500	Peje/Pec		863	2,512,474	1,904,537		4,417,011	3,887,312	529,698	4,417,011
63510		Municipality Administration	261	577,044	1,125,928		1,702,972	1,173,274	529,698	1,702,972
63512		Local Community Office	9	16,566	20,473		37,038	37,038		37,038
63540		Education	286	1,438,530	461,108		1,899,638	1,899,638		1,899,638
63550		Health	307	480,334	297,028		777,362	777,362		777,362
64100	Leposaviq/Leposavic		215	440,212	292,568		732,780	717,441	15,339	732,780
64110		Municipality Administration	86	107,371	123,600		230,971	215,632	15,339	230,971
64112		Local Community Office	4	7,363	12,546		19,909	19,909		19,909
64140		Education	62	231,462	107,347		338,809	338,809		338,809
64150		Health	63	94,016	49,075		143,091	143,091		143,091
64200	Mitrovica/Mitrovica		1,008	2,435,548	1,852,944		4,288,492	3,803,787	484,705	4,288,492
64210		Municipality Administration	232	412,797	1,009,049		1,421,846	937,141	484,705	1,421,846
64212		Local Community Office	70	128,846	208,232		337,078	337,078		337,078
64240		Education	361	1,350,497	351,549		1,702,046	1,702,046		1,702,046
64250		Health	345	543,409	284,113		827,522	827,522		827,522
64300	Skenderaj/Srbica		475	1,359,868	1,117,284		2,477,152	2,277,748	199,404	2,477,152
64310		Municipality Administration	157	286,835	519,419		806,254	606,850	199,404	806,254
64312		Local Community Office	8	14,725	10,334		25,059	25,059		25,059
64340		Education	157	819,606	442,891		1,262,497	1,262,497		1,262,497
64350		Health	153	238,702	144,640		383,342	383,342		383,342
64400	Vushtrri/Vucitrn		561	1,803,563	1,287,787		3,091,350	2,720,663	370,687	3,091,350
64410		Municipality Administration	213	397,223	704,891		1,102,113	769,773	332,340	1,102,113
64412		Local Community Office	14	25,769	20,250		46,019	46,019		46,019
64440		Education	149	1,090,906	368,933		1,459,839	1,421,492	38,347	1,459,839
64450		Health	185	289,665	193,713		483,378	483,378		483,378
64500	ZubinPotok/ZubinPotok		209	412,757	376,591		789,347	766,851	22,497	789,347
64510		Municipality Administration	96	136,515	163,905		300,420	277,923	22,497	300,420
64512		Local Community Office	3	5,522	3,950		9,472	9,472		9,472
64540		Education	48	182,268	169,992		352,260	352,260		352,260
64550		Health	62	88,452	38,743		127,195	127,195		127,195
64600	Zvecan/Zvecan		167	347,893	417,204		765,097	745,668	19,429	765,097
64610		Municipality Administration	54	96,123	109,559		205,682	186,253	19,429	205,682
64612		Local Community Office	8	14,725	6,531		21,256	21,256		21,256
64640		Education	41	144,786	259,788		404,574	404,574		404,574
64650		Health	64	92,259	41,326		133,585	133,585		133,585

Org. Code	Municipality	Program/Sub Program	Employees	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
65100	Gjilan/Gnjilane		829	2,564,190	1,994,479		4,558,669	4,051,467	507,202	4,558,669
65110		Municipality Administration	248	437,666	1,161,204		1,598,870	1,091,668	507,202	1,598,870
65112		Local Community Office	12	22,088	62,984		85,072	85,072		85,072
65140		Education	249	1,599,207	486,179		2,085,386	2,085,386		2,085,386
65150		Health	320	505,229	284,112		789,341	789,341		789,341
65200	Kacanik/Kacanik		331	952,455	720,343		1,672,798	1,488,733	184,065	1,672,798
65210		Municipality Administration	102	181,488	437,844		619,332	435,267	184,065	619,332
65240		Education	99	570,779	171,436		742,215	742,215		742,215
65250		Health	130	200,188	111,063		311,251	311,251		311,251
65300	Kamenica/Kamenica		557	1,446,373	771,205		2,217,578	1,986,986	230,593	2,217,578
65310		Municipality Administration	163	367,108	445,525		812,632	582,040	230,593	812,632
65312		Local Community Office	30	55,220	93,354		148,574	148,574		148,574
65340		Education	191	763,084	90,269		853,353	853,353		853,353
65350		Health	173	260,962	142,057		403,019	403,019		403,019
65400	Novo Berde/ Novo Brdo		117	257,315	170,964		428,279	405,782	22,497	428,279
65410		Municipality Administration	67	138,049	101,165		239,214	216,717	22,497	239,214
65412		Local Community Office	7	13,294	7,929		21,223	21,223		21,223
65440		Education	24	76,392	48,955		125,347	125,347		125,347
65450		Health	19	29,581	12,915		42,496	42,496		42,496
65500	Shterpce/Strpce		164	425,689	213,618		639,307	583,576	55,731	639,307
65510		Municipality Administration	54	118,108	99,951		218,060	162,329	55,731	218,060
65512		Local Community Office	10	18,407	12,246		30,652	30,652		30,652
65540		Education	52	215,952	73,010		288,962	288,962		288,962
65550		Health	48	73,222	28,411		101,633	101,633		101,633
65600	Ferizaj/Urosevac		714	2,526,109	1,895,270		4,421,378	3,899,861	521,518	4,421,378
65610		Municipality Administration	250	503,050	1,114,109		1,617,159	1,095,641	521,518	1,617,159
65612		Local Community Office	12	22,088	10,823		32,910	32,910		32,910
65640		Education	186	1,586,976	483,643		2,070,619	2,070,619		2,070,619
65650		Health	266	413,995	286,695		700,690	700,690		700,690
65700	Viti/Vitina		402	1,334,894	749,038		2,083,932	1,829,309	254,623	2,083,932
65710		Municipality Administration	132	299,873	463,713		763,585	508,962	254,623	763,585
65712		Local Community Office	12	22,088		36,651	57,739	57,739		57,739
65740		Education	115	792,976	117,949		910,925	910,925		910,925
65750		Health	143	219,958	131,725		351,683	351,683		351,683
66000	Unallocated / 1	Unallocated Education Grant								
67000	Unallocated / 2	Unallocated Health Grant								
68000	Unallocated	Unallocated LCO Grant								
Total			16,700	46,176,729	36,967,673	1,065,415	84,209,817	74,563,008	9,646,809	84,209,817

1 / Including half of the year 2002 of wages and salaries and budget of primary school (14988 as average and 15227 in the end of the year)

2 / Including wages and salaries budget as average of 6067 employees for primary health (6067 in the end of the year)

THE NEW KOSOVO GOVERNMENT

Introduction

Progressing further towards self-government, the Special Representative of the Secretary General (SRSG) promulgated a new Constitutional Framework for Kosovo in May 2001. The Constitutional Framework and the United Nations Security Council Resolution 1244 provide the current framework for Kosovo governance pending a resolution on the final political status of the province. UNMIK Regulation 2001/19 establishes an Executive Branch consisting of an elected Assembly, appointed President, Prime Minister and Ministers to direct the activities of nine Ministries. The nine¹⁹ Ministries which comprise the provisional institutions of self-government (PISGs) are:

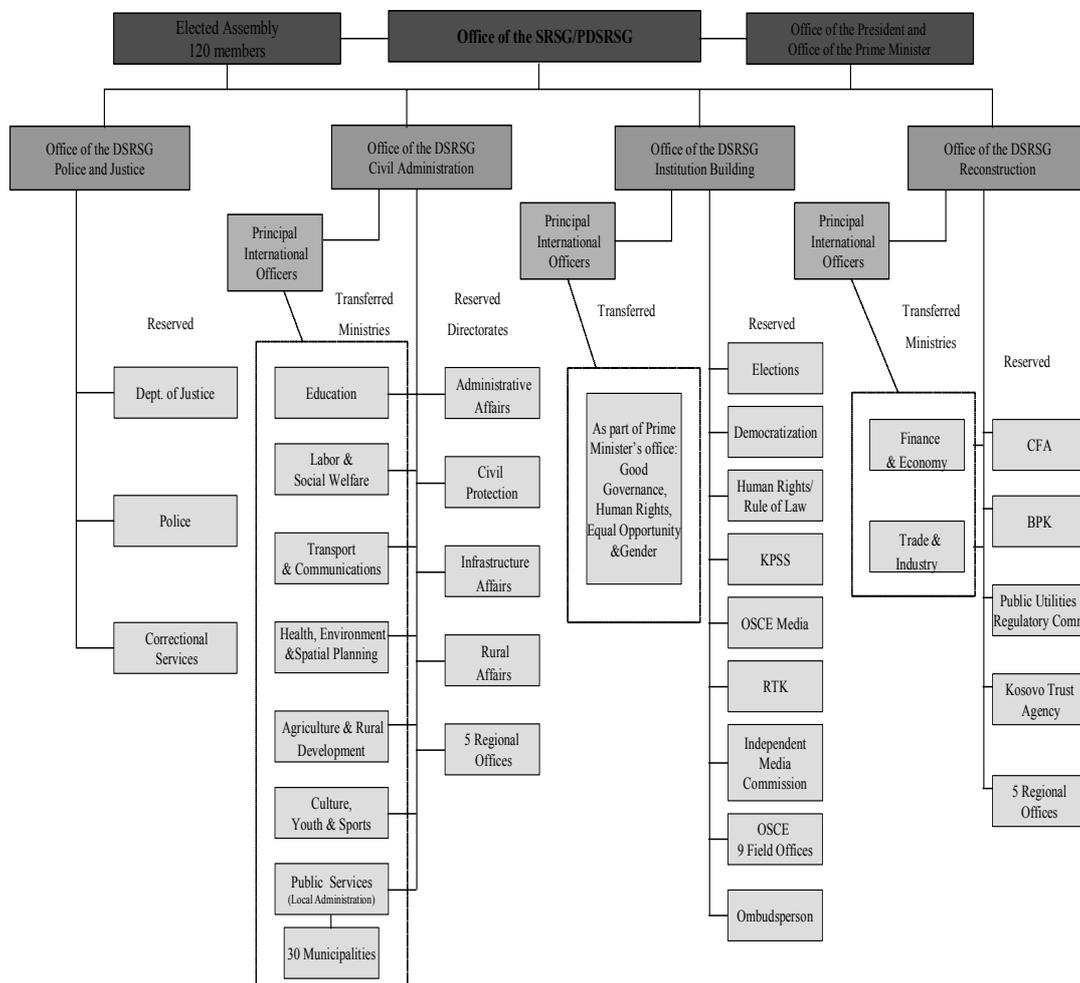
1. Ministry of Finance and Economy
2. Ministry of Trade and Industry
3. Ministry of Education, Science and Technology
4. Ministry of Culture, Youth and Sports
5. Ministry of Health, Environment and Spatial Planning
6. Ministry of Labor and Social Welfare
7. Ministry of Transport and Communication
8. Ministry of Public Services
9. Ministry of Agriculture, Forestry and Rural Development

Although the Constitutional Framework represents a concerted effort to confer more responsibility for self-government to Kosovar nationals, it also allows the SRSG to retain certain key powers including authority for maintaining law and order and to set the overall parameters for economic policy. The provisional institutions of self-government and the SRSG's reserved agencies together form the central government structure for Kosovo which is currently funded under the 2002 Kosovo General Budget.

The new Constitutional Framework provides a revised institutional structure that provides Kosovar nationals more input in economic and fiscal policy decisions. The elected Assembly will adopt the laws relating to economic and fiscal policy matters of the PISGs. The Assembly will have a Budget Committee that will assess the budgetary impact of proposed laws submitted to the Assembly and review annual reports and financial statements of the PISGs, the Assembly and the President. The SRSG, acting under the advice of a newly-created Economic Fiscal Council, has the final authority to approve fiscal and policy parameters for the Budget. The Economic Fiscal Council will also advise the SRSG on final approval of the Kosovo Budget.

¹⁹ The Constitutional Framework for provisional self-government in Kosovo, approved May 5, 2001 establishes 9 Ministries under the new Kosovo government structure. During the March 4 session of the Assembly, the newly-appointed Ministers agreed to create a new Ministry by breaking up the Ministry of Health, Environment and Spatial Planning into 2 Ministries: Ministry of Health and Ministry of Environment and Spatial Planning. The 2002 Budget is presented with the initial nine Ministry government structure.

New Kosovo Government Structure



This section contains 2002 Budget Overviews for each of the Provisional Institutions of Self-Government and the UNMIK Reserved Powers entities as well. A separate Overview is also provided on the Public Enterprise Sector in Kosovo.

ASSEMBLY, OFFICE OF THE PRESIDENT, OFFICE OF THE PRIME MINISTER, MINISTERS AND MINISTERIAL OFFICES

ROLE OF THE KOSOVO GOVERNMENT

The role of the Legislative Assembly, Office of the President, Office of the Prime Minister and the Ministers and Ministerial Offices is to serve as the legislative and executive administrative bodies for the new Kosovo government. The new Kosovo self-government structure is established in accordance with the Constitutional Framework adopted on May 15, 2001 and UNMIK Regulation 2001/19 of September 2001.

Under UNMIK Regulation 2001/19, the Kosovo Government will consist of an elected 120-member Assembly, a President, Prime Minister and nine Ministers. The Executive Branch of the Government is executed through the nine Ministries or the Provisional Institutions of Self-Government under the purview of the appointed Ministers. The nine Ministries are:

1. Ministry of Finance and Economy
2. Ministry of Trade and Industry
3. Ministry of Education, Science and Technology
4. Ministry of Culture, Youth and Sports
5. Ministry of Health, Environment and Spatial Planning
6. Ministry of Labor and Social Welfare
7. Ministry of Transport and Communication
8. Ministry of Public Services
9. Ministry of Agriculture, Forestry and Rural Development

The Prime Minister's Office is also within the Executive Branch. The Prime Minister is to be assisted by political advisers selected by the Prime Minister. Each Ministry is headed by a Permanent Secretary who is a civil servant. The primary role of the PISG Ministers is to establish the political direction and manage the Ministry's activities, and to be held accountable to the Assembly for matters pertaining to their Ministries. Additionally, the SRSG has the authority to appoint a Principal International Officer to each Ministry who advises the Minister, supervises other international advisers within the ministries, and oversees the Ministry's compliance with UNMIK Regulations.

2002 BUDGET HIGHLIGHTS

The 2002 Kosovo General Budget provides a total of Euro 6.889M to fund the administrative structure and operations of the Legislative Assembly, Office of the President, Office of the Prime Minister, and Ministers and the Ministerial Offices. Of the total, 52 percent or Euro 3.617M is allocated for the Assembly to fund the salaries of Assembly Members and staff. The following tables provide a breakdown of 2002 expenditures by program activity (Table 1) and economic activity (Table 2):

Table 1: Expenditure by Program Activity
(Euro million)

Ministries	Program Activity	Avg. 2002 Emp.	2002 Approved	2003 Estimate	2004 Estimate
Assembly	Assembly Members	120	1,194,122	1,194,122	1,194,122
	Administration and Services	102	2,422,628	2,422,628	2,422,628
Subtotal, Assembly		222	3,616,750	3,616,750	3,616,750
Office of the President	President Office	29	1,073,713	1,073,713	1,073,713
Subtotal, Office of the President		29	1,073,713	1,073,713	1,073,713
Ministers/Ministerial Offices	Prime Minister	6	534,300	534,300	534,300
	Minister of Finance and Economy	6	103,434	103,434	103,434
	Minister of Public Services	6	103,434	103,434	103,434
	Minister of Agriculture, Forestry and Rural Development	6	103,434	103,434	103,434
	Minister of Trade and Industry	6	103,434	103,434	103,434
	Minister of Transport and Communication	6	103,434	103,434	103,434
	Minister of Health, Environment and Spatial Planning	6	103,434	103,434	103,434
	Minister of Culture, Youth and Sports Minister	6	103,434	103,434	103,434
	Minister of Education Science and Technology	6	103,434	103,434	103,434
	Minister of Labor and Social Welfare	6	103,434	103,434	103,434
	Subtotal, Ministers and Ministerial Offices		60	1,465,209	1,465,209
Office of Prime Minister	Office of Prime Minister	81	733,131	733,131	733,131
Subtotal, Office of Prime Minister		81	733,131	733,131	733,131
TOTAL		392	6,888,803	6,888,803	6,888,803

Table 2: Expenditure by Economic Activity
(Euro)

Ministries	Program Activity	Avg. 2002 Emp.	Wages & Salaries	Goods & Services	Capital Outlays
Assembly	Assembly Members	120	1,194,122	0.000	0.000
	Administration and Services	102	255,646	1,759,773	407,209
Subtotal, Assembly		222	1,449,768	1,759,773	407,209
President's Office	President Office	29	102,258	485,727	485,727
Subtotal, Pres. Off.		29	102,258	485,727	485,727
Ministers and Ministerial Offices	Prime Minister	6	51,129	227,525	255,646
	Minister of Finance and Economy	6	32,825	30,678	39,932
	Minister of Public Services	6	32,825	30,678	39,932
	Minister of Agriculture, Forestry and Rural Development	6	32,825	30,678	39,932
	Minister of Trade and Industry	6	32,825	30,678	39,932
	Minister of Transport and Comm.	6	32,825	30,678	39,932
	Minister of Health, Environment and				

Ministries	Program Activity	Avg. 2002 Emp.	Wages & Salaries	Goods & Services	Capital Outlays
	Spatial Planning	6	32,825	30,678	39,932
	Minister of Culture, Youth and Sports	6	32,825	30,678	39,932
	Minister of Education Science and Technology	6	32,825	30,678	39,932
	Minister of Labor and Social Welfare	6	32,825	30,678	39,932
Subtotal, Ministers/ Ministerial Offices		60	346,554	503,623	615,033
Office of Prime Minister	Office of the Prime Minister	81	204,517	426,356	102,258
Subtotal, Office of Prime Minister		81	204,517	426,356	102,258
GRAND TOTAL		392	2,103,097	3,175,479	1,610,227
% of total			31%	46%	23%

Background

In accordance with United Nations Security Council Resolution 1244, the United Nations Mission in Kosovo was mandated to establish a functioning self-government in Kosovo over a certain period of time. The process of developing an autonomous government began with the establishment of the Joint Interim Administrative Structures in December 1999 consisting of international representatives working cooperatively with Kosovar nationals to serve as the heads of government departments and agencies. The process then continued with the municipal elections in October 2000 creating local municipal authorities and has culminated with the November 2001 general assembly elections. As a result, 120 members were elected to the Assembly of Kosovo and, subsequently, it is expected that the government will be established. It will comprise the Office of the Prime Minister and nine Ministries.

2002 Program Activity

The 2002 Kosovo General Budget provides a total of Euro 6.889M to fund the administrative structure and operations of the Legislative Assembly, Office of the President, Office of the Prime Minister, and Ministers and the Ministerial Offices. The key items to note regarding the budget's economic classification are:

- Euro 2.103M or 31% of the budget is provided for wages and salaries expenses primarily to cover the costs of the 222 Assembly members and support staff and the staff of the Ministers and Ministerial Offices.
- Euro 3.175M or 46% of the total budget covers the costs for goods and services related to establishing the offices to support the Executive Branch of the Government and Legislative Assembly operations.
- Euro 1.610 or 23% of the total budget is for capital outlays primarily to purchase equipment and vehicles to establish the Executive Branch and Legislative Assembly offices.

The major expenditures items by program activity as revealed in Table 1 are: 1) Euro 1.073M for the President's Office, 2) Euro 3.617M for the Assembly; 3) Euro 0.733M for the Office of the Prime Minister; and 4) Euro 1.465M for the Ministers and Ministerial Offices.

The major challenge for the Legislative Assembly and the Executive Branch of the Government will be to establish an effective fully functioning government beginning in 2002. The nine Ministries are a key element in this process and by establishing the political direction and managing the activities of their Ministries, they will contribute significantly to the operations of the government.

MINISTRY OF FINANCE AND ECONOMY

ROLE OF THE MINISTRY

The primary role of the Ministry of Finance and Economy is to:

- Coordinate the development and execution of a balanced annual budget for the Provisional Institutions of Self-Government (PISGs);
- Develop multiyear budgets and long-term public investment programs for and in coordination with the (PISGs), coordinate matters relating to donor assistance and grant financing, and ensure the effective and transparent use of donor funds in accordance with agreed purposes;
- Record and report on the expenditures and revenues of the government's budget;
- Conduct economic analysis and research, and
- Monitor compliance by the PISGs on public expenditure rules and procedures, promote anti-fraud and corruption practices and ensure the adoption of international accounting standards in the public and private sector.

The Ministry will carry out its activities working closely with the Central Fiscal Authority (CFA) during the period of transition to full self-government. It will be important to retain the institutional integrity of a single finance ministry model as much as possible throughout the period of transition. A transparent expenditure management and reporting system based on a unified Treasury and well coordinated financial management decision making process will be a critical factor for a successful transition.

The role of the new Ministry of Finance and Economy will build on that of the CFA particularly in developing a strong economic and fiscal policy framework. For the most part, the SRSG retains significant powers regarding economic and fiscal policy matters which are exercised in consultation with a joint Government-UNMIK body called the Economic and Fiscal Council.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides a total of Euro 0.503M and 51 average full-time equivalent positions for the Ministry of Finance and Economy. Of the total amount provided, 76%, or Euro 0.385M is for the Corporate Services Department which will provide administrative services for the Ministry. The balance, Euro 0.118M, is earmarked for the Ministry's two policy units -- the Budget and Economic Policy Departments.
- The key issue that the Ministry will face in 2002 will be to recruit and train civil servants to take on key positions in the Ministry while establishing the institutional framework for managing the new Kosovo government institutions finances.

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Budget Department	17	0.000	0.067	0.067	0.067
Economic Policy Department	13	0.109	0.051	0.051	0.051
Corporate Services Department	21	0.000	0.385	0.385	0.385
TOTAL, Kosovo Budget	51	0.109	0.503	0.503	0.503

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages & Salaries	Goods & Services	Subsidies & Transfers	Capital Outlays	Total
Budget Department	17	0.044	0.000	0.000	0.023	0.067
Economic Policy Department	13	0.033	0.000	0.000	0.018	0.051
Corporate Services Department	21	0.047	0.222	0.000	0.116	0.385
TOTAL, Kosovo Budget	51	0.123	0.221	0.000	0.157	0.503
% of total		24%	44%	0%	31%	100%

Background

Prior to the establishment of the Ministry of Finance and Economy, the United Nations Mission in Kosovo (UNMIK) created the Central Fiscal Authority (CFA) in 1999 to serve as a fully-functioning finance ministry capable of operating in a market-based economy. The CFA primarily oversaw activities in the areas of tax policy and administration, macroeconomic policy development, budget preparation and execution, customs service, public procurement policy development and internal audit practices. Under the new provisional self-government structure established under UNMIK Regulation 2001/19, the newly-formed Ministry of Finance and Economy will assume most of the key activities currently undertaken by the CFA. The CFA will continue to advise and coordinate fiscal practices related to the reserved functions retained under the SRSB such as budget preparation and execution, customs services and tax administration and policy. It is expected that the CFA will gradually merge with the Ministry of Finance and Economy in 2003.

2002 Program Activity Overview

- The 2002 Budget includes total funding of Euro 0.503M for 51 full-time equivalent positions for the Ministry of Finance and Economy.
- The 2002 Budget also provides Euro 67,276 for 17 full-time equivalent positions to support the Budget Department's activities. The Budget Department will primarily be responsible for coordinating the development of the annual budget of the institutions of self-government and long-term public investment program, and reporting on and overseeing the execution of the annual budget to ensure greater accountability in managing the government's financial resources.

- The 2002 Budget also includes Euro 51,446 and 13 full-time equivalent positions to support the activities of the Economic Policy Department. The Department will primarily be responsible for performing economic research and analyses and coordinating with the institutions of self-government to ensure the effective and transparent use of donor funds in accordance with agreed purposes.
- A total Euro 0.384M is provided for the Corporate Services Department, which will employ 21 full-time staff and perform administrative services to support the Ministry's activities.

MINISTRY OF PUBLIC SERVICES

ROLE OF THE MINISTRY

The role of the Ministry of Public Services is to provide public administration services to the Kosovo Government in a transparent, efficient and nondiscriminatory manner and to reform and modernize public administration in Kosovo.

The Ministry is responsible for the provision of public services to the population of Kosovo both directly as well as supporting the activities of other Ministries. The Ministry will achieve its overall strategic mission through the following key activities:

- Developing and overseeing the implementation of policies to develop a professional and accountable Kosovo government civil service to include training and development policies;
- Providing engineering and building management services for the institutions of self-government;
- Assisting in the administration and management of the central civil registry and database, including issue of ID cards, vehicle license plates, travel documents, birth and death certificates;
- Administer the civil service payroll and payment system;
- Supervising the collection, maintenance, analysis and publication of Kosovo Government official statistics; and
- Performing functions in the areas of local administration, judicial affairs and civil emergency preparedness.

Other Ministries and Departments, particularly the Ministry of Finance and Economy and the Central Fiscal Authority, the municipalities, training institutions, and the private sector will also participate in the development of this sector and implementation of its key activities.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget includes total funding of Euro 13.984M and 1,071 average full-time equivalent positions for the Ministry of Public Services (MPS). Of the total funding provided, about 45%, or Euro 6.332M is provided to fund engineering and building management expenses for the government's facilities. Almost 20% of the funding (Euro 2.256M) is earmarked to provide local administrative services for municipalities including emergency management services. The balance of the funding will finance activities in the area of information management, public procurement, civil and public administrative services and central administration support.
- The key issue that the Ministry will face in 2002 will be to provide adequate funding to refurbish many of the government facilities and to provide adequate space to

accommodate the new government institutions established under the Constitutional Framework for provisional self-government in Kosovo. Additionally, the Ministry will be faced with the ongoing issue of developing a professional civil service pay and position classification structure to accommodate the needs of the departments. Another key issue for the Department will be to develop and implement training and development programs to create a cadre of highly skilled professionals to serve in the Kosovo government's civil administration.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro millions)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Civil Service Administration	0.682	7.704	0.288	2.736	0.274	2.189	0.274	0.000
Information Management Services	0.000	0.000	1.700	3.064	1.359	0.702	1.617	0.165
Engineering and Building Mgmt.	8.352	1.093	6.332	6.675	7.131	1.000	7.112	1.000
Judicial Administration	0.000	0.000	0.096	0.000	0.096	0.000	0.096	0.000
Administration and Support	5.393	0.000	1.401	0.000	0.908	0.000	0.645	0.000
Kosovo Cadastral Agency	0.455	1.534	0.614	2.890	0.614	1.074	0.614	0.200
Kosovo Statistical Office	1.181	0.000	0.820	0.000	0.846	0.000	0.846	0.000
Public Procurement Agency	0.293	0.000	0.153	0.000	0.118	0.000	0.092	0.000
Kosovo Institute of Public Admin.	0.000	0.000	0.324	0.000	0.324	0.000	0.324	0.000
Local Administration and Emergency Management	3.826	1.788	2.256	7.250	2.288	2.750	2.298	2.500
Subtotal, KGB	20.083		13.984		13.874		13.918	
Subtotal, PIP		12.119		22.615		7.715		3.865
TOTAL	32.202		36.599		21.589		17.783	

*KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Avg. 2002 Emp.	Wages & Salaries	Goods & Services	Subsidies & Transfers	Capital Outlays	Total
Civil Service Administration	43	0.120	0.168	0.000	0.000	0.288
Information Management Services	183	0.351	1.199	0.000	0.149	1.700
Engineering and Building Mgmt.	83	0.187	5.424	0.000	0.721	6.332
Judicial Administration		0.000	0.096	0.000	0.000	0.096
Administration and Support	194	0.379	0.932	0.000	0.090	1.401
Kosovo Cadastral Agency	66	0.103	0.510	0.000	0.000	0.613
Kosovo Statistical Office	125	0.225	0.404	0.000	0.192	0.821
Public Procurement Agency	12	0.027	0.126	0.000	0.000	0.153
Kosovo Institute of Public Admin.	36	0.079	0.245	0.000	0.000	0.324
Local Administration and Emergency Management	329	0.654	1.540	0.000	0.062	2.256
TOTAL, Kosovo Budget	1,071	2.125	10.645	0.000	1.214	13.984
% of total		15%	76%	0%	9%	100%

Background

Prior to the establishment of the Ministry of Public Services (MPS), a series of UNMIK departments and independent agencies provided key public administrative services. In an effort to streamline the previous system and to provide a better coordinated central administrative structure to oversee such services, the Ministry of Public Services was created to take on the responsibilities of these former departments and independent agencies. Under UNMIK Regulation 2001/19, the Ministry of Public Services is created by merging the former UNMIK Department of Public Services and the Department of Local Administration with the Kosovo Statistical Office and Kosovo Cadastral Agency. In addition, the MPS will assume responsibility for civil service administration, which includes taking over the current OSCE Institute for Civil Administration, which will become the Kosovo Institute for Public Administration. The Kosovo Institute for Public Administration will provide central training and development programs for the Kosovo government civil service administration at the central and local government levels.

2002 Program Activity Overview

Engineering and Building Management

The Engineering and Building Management unit will receive Euro 6.332M or nearly 50% of the Ministry's budget allocation for 2002 for refurbishing and maintaining the office buildings of Kosovo civil service administration. The funding provided will support project design and supervision of refurbishment activities, ensuring compliance with international standards in such areas as security, access for the disabled, lifts and fire safety, and permit the development of local staff capacity to provide long-term building service management.

Key engineering projects for 2002 include the full rehabilitation of Bankos and the Rilindja building in Prishtina city center. In this respect, the Ministry has secured Euro 6.500M in donor funding to fund the Bankos building refurbishment project.

Information Management Services

The 2002 Budget provides Euro 1.700M to support the provision of internal Information Technology tools for the civil servants of Kosovo, both in the Central and Municipal administrations.

The Ministry is seeking donor funding under the Public Investment Program in the amount of Euro 3.060M. Of the total requested, Euro 0.750M is sought to fund the installation of a Wide Area Network to connect Kosovo's municipal administrations, and a Metropolitan Area Network to link together major office buildings in Pristina. Furthermore, the Ministry is seeking an additional Euro 2.310M to provide a PABX/PBX Telephone Systems for the Government Building Cluster, a secure data repository and a government archive repository.

Local Administration and Emergency Management

The 2002 Budget provides Euro 2.256M and 329 full-time equivalent positions to support the local administration and emergency management division activities within the Ministry formerly conducted by the Department of Local Administration. The local administration division's primary responsibility is to regulate local governments and the activities of the

municipalities by creating and maintaining a policy and legal environment, within which, municipalities can operate efficiently and effectively. The main challenge the division will face is the continued development of municipalities with full functioning elected bodies and a municipal civil service, supported by appropriate infrastructure, capable of providing the standards of service now increasingly expected of it across a wide range of responsibilities. The Ministry of Finance and Economy will also play a key role in developing the intergovernmental fiscal framework to ensure the appropriate allocation of revenue resources between the central and local government and on taxation policies in general.

Kosovo Cadastral Agency

The 2002 Budget includes Euro 0.613M and 66 full-time equivalents for the Kosovo Cadastral Agency to support the Agency's mission to reestablish and reform the property registration and information system in Kosovo. The funding provided will support the Agency's key activities which include providing technical support and managing the development of the cadastral information system, monitoring technical standards relating to management of the cadastral data, developing a cadastral database, equipping and training municipal cadastral officers to use survey equipment and software related to the cadastre, and coordinating the practices and procedures of the municipal cadastral offices working with the local administration division within the Ministry.

With respect to external funding, the Ministry has secured Euro 2.140M for international expert technical assistance to the Kosovo Cadastral Agency. In addition, the Ministry is seeking Euro 0.750M for 2002 and Euro 0.200M for 2003 from external donor assistance to complement their operating expenses.

Kosovo Statistical Office

The Budget provides Euro 0.820M and 125 full-time equivalents to fund the Kosovo Statistical Office (KSO). The funding will support the Office in carrying out its strategic mission to establish and maintain a reliable database of demographic and economic statistics. The funding will also support the operating expenses of the KSO HQ in Prishtina and six regional offices located in Prizren, Peja, Mitrovica, Gjakova, Ferizaj and Gjlani, which are responsible for a broad range of statistical programs. These programs include compiling national accounts estimates, production, employment and price data, household income and expenditure surveys, demographic data and social statistics. The KSO will need to improve the technical skills of its local staff to effectively carry out its program activities. The funding provided will support additional training of local staff.

Public Procurement Agency

The Budget provides Euro 0.153M and 12 full-time equivalents to fund the Public Procurement Agency. There will be two distinct areas of tasks and duties. One will be to support the municipalities and the departments for procurement activities, then the statistical and publication unit will be established to provide technical support. In addition to the locally recruited staff, international staff will play an advisory role, in order to overcome the transition period of handing over the responsibilities to the Kosovar staff.

Civil Service Administration

The 2002 Budget provides Euro 0.288M and 43 full-time equivalents to fund the Central Services Administration. It will administer the Civil Service payroll system, develop sound policies for training and capacity building, as well as implement policies for a multi-ethnic, professional, apolitical and accountable Civil Service.

The Civil Service Administration has three divisions: Policy, Human Resources Development, and Payroll and Payments. The Policy Division is responsible for all policy matters relating to the Personnel Function excluding administration of the payroll and payments and training of the Kosovo Civil Service. The Human Resources Division is responsible for developing capacities of the Kosovo Civil service through implementation of the Training Policy it has formulated and by using the existing Training Center, and, in the medium term, by setting up a Kosovo Institute of Public Administration. It also facilitates and coordinates the training activities of different Ministries and Directorates. Payroll and Payments Division is responsible for preparing the monthly payrolls and making payments to, approximately 58,000 employees in the Kosovo Civil Service (including the Kosovo Police Service).

MINISTRY OF AGRICULTURE, FORESTRY AND RURAL DEVELOPMENT

ROLE OF THE MINISTRY

The role of the Ministry of Agriculture, Forestry and Rural Development is to facilitate major structural changes in the rural economy, and to establish the economic framework and mechanisms to support employment creation and income generation by expanding the Kosovo agricultural sector.

The new Ministry will execute its role by:

- Developing policies and implementing legislation for agriculture, forestry and rural development;
- Facilitating the creation of credit programs to support agriculture, forestry and rural development activities in the private sector;
- Providing forestry services; and
- Coordinating with the Ministry of Health, Environmental and Spatial Planning to set health standards for agriculture, forestry, fish farming and rural development and quality control standards for food and agricultural products to protect consumers.

A Directorate of Rural Affairs will also be formed within the UNMIK Civil Administration reserved functions under the authority of the Special Representative of the Secretary General (SRSG). The Rural Affairs Directorate will be responsible for veterinary services, plant border control, agricultural and some forestry responsibilities, including the management of socially owned and public enterprises, and public forests and forestlands protection through the establishment of an Office of Control.

The new Ministry and the UNMIK Directorate of Rural Affairs will share some common administrative tasks including.

- Developing and implementing fire, pest and disease protection systems for forests and forestlands;
- Inspecting forest production transport vehicles to ensure compliance with public forest and forestland licensing requirements, and private forest and forestland management plans; and
- Inspecting wood and non-wood processing plants to ensure compliance with public forest and forestland licensing requirements, and private forest and forestland management plans.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides a total of Euro 1.434M and 376 average full-time equivalent staff for the operating expenses for the Ministry's major programs including plant protection and production, animal production and health, forest

regulation, rural development and agriculture applied research. The primary issue for the Ministry for 2002 will be continued recruitment and training of Kosovar nationals to assume roles of responsibility to manage the agricultural sector. The salary levels have hampered efforts to recruit experienced professionals for certain positions particularly, epidemiologists, IT staff, and senior policy officers.

- For 2002, external investment planned under the Public Investment Program is Euro 44.523M. As of December 31st 2001, Euro 28.548M have been secured to support ongoing assistance programs and for new donor programs due to start in 2002 including implementing specific training programs for agricultural cooperatives and municipal officers, for a forestry inventory initiative, to support agribusiness development, and to rehabilitate the Kosovo irrigation network. However Euro 15.972M is still being sought to fund farm and agribusiness development, reforestation activity, rural and farm development, animal production and institutional capacity building.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Plant Protection and Production	--	0.000	0.071	0.000	0.213	0.000	0.426	0.000
Animal Production	--	0.666	0.052	8.099	0.156	2.900	0.312	0.850
Kosovo Forest Authority	--	0.000	0.569	0.000	1.707	0.000	3.414	0.000
Rural Development	--	0.000	0.109	0.000	0.327	0.000	0.654	0.000
Agriculture Institute of Peja	--	0.000	0.085	0.000	0.255	0.000	0.510	0.000
Policy Unit	--	0.000	0.027	0.000	0.081	0.000	0.162	0.000
Central Administration	--	0.000	0.433	0.000	1.299	0.000	2.598	0.000
Forestry	--	0.082	0.088	1.348	0.264	1.075	0.528	0.500
Rural Finance, Marketing and Agribusiness Development	--	6.363	0.000	7.239	0.000	3.050	0.000	0.800
Institutional Capacity Building	--	0.767	0.000	4.939	0.000	4.740	0.000	1.060
Water Resource Policy and Irrigation Rehabilitation	--	1.887	0.000	9.352	0.000	5.000	0.000	5.000
Rural and Farm Development	--	10.851	0.000	13.546	0.000	12.450	0.000	12.150
Subtotal, KGB	--		1.434		4.302		8.604	
Subtotal, PIP	--	20.616		44.523		29.215		20.360
TOTAL		--		--	45.957		33.517	

* Kosovo General Budget figures for 2001 by program level are not available for the Ministry.

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods & Services	Subsidies & Transfers	Capital Outlays	Total
Plant Protection and Production	28	0.054	0.000	0.000	0.017	0.071
Animal Production	16	0.033	0.000	0.000	0.018	0.051
Kosovo Forest Authority	249	0.410	0.117	0.000	0.042	0.569
Rural Development	25	0.044	0.036	0.000	0.030	0.110
Agriculture Institute of Peja	23	0.037	0.032	0.000	0.015	0.084
Policy Unit	5	0.012	0.000	0.000	0.014	0.026
Central Administration	21	0.045	0.365	0.000	0.022	0.432
Forestry	9	0.024	0.034	0.000	0.031	0.089
TOTAL, Kosovo Budget	376	0.661	0.584	0.000	0.190	1.435
% of total		46%	41%	0%	13%	100%

Background

In accordance with UNMIK Regulation No. 2001/19 regarding the creation of the Provisional Institutions of Self-Government in Kosovo, the Ministry of Agriculture, Forestry and Rural Development was established beginning in 2002 to carry out many of the responsibilities of the former Department of Agriculture including plant protection and production, animal production, forestry services, rural development and agricultural statistics, agricultural applied research and policy making.

The agricultural sector accounts for a significant share of economic activity in Kosovo. In 1995, primary agricultural production represented 30 percent of Kosovo GDP, or 35 percent with the inclusion of forestry and food processing. In 1998, agricultural activities, together with forestry and agribusiness accounted for about 60 percent of employment, and played a key role in food security at the household level. As a direct consequence of the conflict and disruption, agricultural production as well as related processing industries almost came to a standstill in 1999. This near standstill in the agriculture sector is compounded by the decline of the socialist economy in the FRY and more recently by some 10 years of neglect and mismanagement. A combination of food aid and market recovery has removed the immediate, post-conflict risk of hunger and food insecurity in Kosovo. Individual and household food insecurity remains widespread but it is now an income problem, rooted in the loss of assets and jobs. The medium-term program envisages the provision of a broad range of rural financial services on a commercial and sustainable basis to support economically and financially viable investments in agriculture, agro-processing and other economic activities in the rural sector.

In carrying out its primary role, the Ministry aims to achieve the following outcomes and objectives in 2002:

- Increase agricultural production;
- Provide employment in the rural area with the development of farm and non-farm activities;
- Promote private enterprises to expand the agricultural sector;

- Develop a legal and regulatory framework to monitor agricultural, rural and forestry activities; and
- Support the revival of the agricultural cooperative sector through training and capacity building activities and creation of a regulatory framework.

2002 Program Activity Overview

Central Administration and Policy Units

The 2002 Budget provides Euro 0.460M for the Ministry's administration and policy units. Funding will be used to develop the Ministry's presence in rural Kosovo and in under-represented areas. The Ministry operates field offices containing field units to carry out activities in the areas of plant and animal production, forestry, rural development and agricultural statistics development. To achieve better efficiency and effectiveness, the 2002 Kosovo Budget provides funds for additional vehicles and office equipment and supplies for the field office units. The Ministry intends to open new field offices in Serbian areas, in addition to the already established Mitrovica North office.

Institutional Capacity Building

While many Kosovo Budget funded activities contribute indirectly to improving the capacity of civil servants working for the Ministry, external funding is specifically sought under the Public Investment Program to implement specific training programs targeting agricultural cooperatives and municipal officers. Funding in the amount of Euro 2.250M has been secured by the Ministry, yet an equal amount is still sought under the Public Investment Program for 2002 activity.

Forestry and Kosovo Forest Authority

The Department of Forestry will be responsible for developing a regulatory framework for public and private forestry management by establishing an overall policy for the conservation of forests and forestland resources, developing a strategy for effective administration of forests and forestland, conservation of flora and fauna, and developing a regulatory framework for the administration of forests and forestlands. The implementation of harvesting plans and public forest management will be under the responsibility of an Executive Agency, The Kosovo Forest Authority, that will report directly to the Permanent Secretary and the Ministry.

The forestry sector will be restructured in 2002 to reflect the division of responsibilities required under the new provisional self-government structure between the Ministry and the UNMIK Directorate of Rural Affairs. The budget is Euro 0.569M for the Kosovo Forest Authority and Euro 0.088 for the Ministry's remaining forestry jurisdiction.

With respect to external funding sought under the Public Investment Program, financial assistance of Euro 0.600M has been secured in 2002, plus an additional amount of Euro 0.575M in 2003 for capacity building activities and for the forestry inventory initiative. An additional Euro 0.750M is needed mainly for the Reforestation initiative, together with a minor capacity building program and a wood needs' assessment.

Rural and Farm Development

The overall goal of the rural development program is to improve the living and working conditions and position of the rural population, particularly marginalized groups including the rural poor and women.

The 2002 Kosovo Budget provides Euro 0.109M for the Rural Development program primarily to finance the training of Rural Development Officers in the Ministry's Field Units and to open new Field Units in Serbian areas. A challenge for the Ministry will be training and capacity building of the rural development officers to enable them to work closely with the Municipal Departments of Agriculture and to promote producers and rural organizations at the local level. The Kosovo Consolidated Budget allocation includes funds for language and computer training. The Ministry has identified the need for 30 municipal rural development officers to be funded directly through municipal budgets. Successful implementation of this rural development program assumes funds will be allocated in 2002 and beyond to sustain a level of 30 municipal rural development officers.

The Ministry has secured Euro 9.500M to implement programs to i) improve the professional competencies of small agricultural entrepreneurs through management training and community development; and ii) provide farm inputs such as seeds, fertilizers and machinery. The Ministry has also secured Euro 6.200M to support agro-business development. In addition, the Ministry is seeking external funding under the Public Investment Program in the amount of Euro 12.300M to alleviate rural poverty and implement income generation programs, to reactivate agro-enterprises, and support farm development through micro-credit schemes.

Peja Institute of Agriculture

The Budget for 2002 includes Euro 0.085M to finance operating expenses for the Peja Institute of Agriculture. The Peja Institute of Agriculture is a major program activity within the Ministry that was founded in 1947 to conduct scientific research and practical application of agricultural technologies.

For 2002, the Ministry will restructure the Institute's activities to better support municipalities and producer associations in the areas of rural development. This will be achieved through the use of the Institute as a mechanism for providing pertinent agricultural information, through field trials and basic research on agricultural technologies. In addition, the Ministry proposes to develop the Institute's training capacities for rural development activities by providing vocational training to municipality staff and farmers groups and associations. The Ministry will reorganize the Institute into several units, including:

- Information and Training;
- Analytical Laboratory;
- Nursery Production and Tissue Culture; and
- Soil Analysis.

External funding in the amount of Euro 0.400M is being sought under the Public Investment Program to support the establishment of the Institute.

Plant Protection and Production

The main objective of the Plant Protection and Production division is to regulate crop production and protection activities through appropriate regulations and guidelines, to monitor compliance of the regulations by the general public, to promote food security through improved productivity and to ensure public safety and environmental security. In addition, the division promotes efficient management of the irrigation system through optimization of the existing irrigation network.

The Budget in 2002 provides Euro 0.071M for the Plant Protection and Production program activity operating expenses. The Plant Protection and Production services underwent a restructuring in 2001 with 5 divisions created: Cereal Crops, Crop Monitoring, Fruit and Vegetables, Pesticides and Fertilizers and Irrigation. Seven field officers and three technicians within the department are responsible for phytosanitary surveillance throughout Kosovo. Six plant production officers promote diversification and the adoption of new technologies and promote farmers associations and cooperatives. For 2002 and beyond, the division will need to develop its capacity to monitor crops, propose better technologies, and provide technical assistance to producers. The division plans to develop irrigation officers to counsel farmers in irrigation related activities and to work with the rural development officers to develop marketing and processing opportunities.

External funding for plant protection and production activities began in 2001 and will continue in 2002. Donor assistance in the amount of Euro 9.000M has been secured to rehabilitate Kosovo's irrigation network. In addition Euro 10.000M is sought for further capital investment in the irrigation infrastructure during 2003 and 2004.

Animal Production

The Budget in 2002 provides Euro 0.052M for animal production program activities. The animal production and veterinary services activities were provided under the Division of Animal production and health under the former Department of Agriculture. In 2002, the two activities will be split between the new Ministry and the UNMIK Directorate of Rural Affairs with the new Ministry being responsible for animal production and the UNMIK Directorate of Rural Affairs for veterinary services. The animal production division will be organized into 4 sections: 1) Animal breeding; 2) Animal Nutrition; 3) Poultry, Fisheries, Apiaries; and 4) Pasture and Fodder Management. The Kosovo Budget will provide funding to recruit staff to these four divisions. Additionally, animal production officers will work with the Ministry's field offices to promote animal production activities.

The Ministry has secured external funding in the amount of Euro 7.700M for livestock support and to reconstruct Kosovo's cattle herd. Additional funding is sought for implementation of a livestock-tagging project.

MINISTRY OF TRADE AND INDUSTRY

ROLE OF THE MINISTRY

The role of the Ministry of Trade and Industry is to provide a freely competitive environment in which business can flourish with the minimum of interference from central and local government.

The Kosovo Government is responsible for establishing a transparent and enforceable legal and regulatory framework to encourage private sector growth. Within that framework, the Ministry of Trade and Industry's role is to provide the services that enable existing and new firms to comply with the legal and regulatory framework.

Another important role for the Ministry is to better coordinate the activities of NGOs and donors so that economic development programs fit within one comprehensive private sector development strategy. One way to achieve program harmonization is by actively taking part in the steering boards of the larger economic development programs. Another way is by making the expertise and the institutional memory of the Ministry available to implementing agencies. The Ministry will seek to complement the work of other Ministries and Departments in this sector including the Local Administration and Emergency Management Directorate within the Ministry of Public Services. The Ministry will carry out its activities largely building on the regional representative network system established under the former JIAS Department of Trade and Industry. This will enable the Ministry to ensure that its role in implementing private sector development activities is effectively achieved throughout Kosovo.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget includes total funding of Euro 0.209M and 29 full-time equivalent positions for the Ministry of Trade and Industry. Of the total funding provided, 42%, or Euro 0.087M is for the Economic Development program activities with the balance of the funding earmarked for central administrative services.
- The key issue that the Ministry will face in 2002 will be to continue its level of effort to introduce a transparent and enforceable regulatory framework for economic activity in Kosovo given the transition to a new provisional self-government, which may identify other strategic priorities. The Ministry will also be faced with the challenge of having to strengthen its workforce with both international experts as well as skilled Kosovar staff to be able to effectively carry out its economic development activities.

2002-2004 Kosovo General Budget and Public Investment Program
Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KCB	PIP	KCB	PIP	KCB	PIP	KCB	PIP
Economic Development	0.262	34.351	0.087	29.025	0.087	28.342	0.087	0.000
Central Administration	0.192	0.000	0.122	0.000	0.122	0.000	0.122	0.000
Subtotal, KGB	0.454		0.209		0.209		0.209	
Subtotal, PIP		34.351		29.025		28.342		0.000
TOTAL	34.805		29.234		28.551		0.209	

*KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages & Salaries	Goods & Services	Subsidies & Transfers	Capital Outlays	Total
Economic Development	21	0.048	0.039	0.000	0.000	0.087
Central Administration	8	0.017	0.054	0.000	0.051	0.122
TOTAL, Kosovo Budget	29	0.065	0.093	0.000	0.051	0.209
% of Total		31%	44%	0%	25%	100%

Background

Historically, the economic and business environment of Kosovo hampered any efforts to conduct efficient business operations due to the lack of clarity of ownership, which was based on the concept of “social ownership”. As a result, Kosovo has a relatively small number of registered private enterprises that are mainly active in the trading and services activities. A substantial part of economic activity is undertaken in the parallel economy.

Establishing a transparent and enforceable regulatory framework will encourage the expansion of the private sector in two ways. It will lower barriers of entry to the private sector and it will begin to legitimize the parallel economy through a combination of incentives and requirements. An additional barrier to private sector development is a decade of neglect and disinvestments of the public enterprises, which resulted in a real decline in physical facilities as well as causing a loss of markets, skills and expertise to Western Europe and elsewhere.

Under the previous UNMIK government structure, the Department of Trade and Industry (DTI) was established to promote economic development in Kosovo. The former DTI had six directorates carrying out activities in the areas of commercialization and commercial law, private sector development, Trepca revitalization, mines and minerals and policy and regulation.

In accordance with UNMIK Regulation 2001/19 and the Constitutional Framework approved in May 2001, the Ministry of Trade and Industry is established primarily to take over the private sector development activities of the former DTI with central administrative support.

A Kosovo Trust Agency is also established within the UNMIK reserved functions that will take over the commercialisation and Trepca responsibilities of the former DTI. The Public Utilities Regulatory Commission will be established to assume responsibility for the Mines and Minerals program currently under DTI.

2002 Program Activity Overview

- The Budget in 2002 includes total funding of Euro 0.209M and 29 full-time equivalent positions for the Ministry of Trade and Industry.
- The Economic Development Directorate will primarily be responsible for overseeing legal and regulatory projects aimed at establishing an economic rule of law in Kosovo, facilitating and encouraging the development of the private sector by means of targeted SME programs and donor-funded credit facilities, coordinating private sector development projects aimed to stimulate economic activity through training, and the promotion of professional associations and the identification of market possibilities.

MINISTRY OF TRANSPORT AND COMMUNICATIONS

ROLE OF THE MINISTRY

The role of the Ministry of Transport and Communications is to:

- Ensure that safe, reliable, efficient and affordable transport services are available throughout Kosovo and users pay for these services.
- Provide modern, reliable, commercially operated post and telecommunications services at reasonable cost; and to create a favourable climate for private investment in the post and telecommunications sector in the future when the appropriate regulatory framework is available.

The Executive Administration of the Ministry will carry out its role in the development of the transport and communications sector by undertaking the following key activities:

- Rehabilitating the transport infrastructure;
- Providing periodic and routine maintenance of the transport infrastructure;
- Ensuring application of appropriate safety standards of transport services;
- Training and development of local staff;
- Consolidating operations and improving the policy making and regulatory capabilities of the Ministry;
- Developing post and telecommunications policy and regulations.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides Euro 11.708M to cover the recurrent costs for Road Infrastructure, Public Transport Services, Post and Telecommunications and central administrative expenses. Of the total, 92% or Euro 10.759M is provided for road infrastructure, primarily to cover the cost of routine maintenance of the 1800km main and regional road network in Kosovo. Although this represents a significant increase from the 2001 level of Euro 3.94M, the Ministry estimates that a minimum of Euro 13.0M is needed in annual funding to adequately provide for routine maintenance of the network of main and secondary roads (excluding bridges).
- For 2002, the major change to existing policy is the increased funding for road maintenance and the availability of grant funding to encourage work on main roads in urban areas. The increase is provided as a partial fulfillment of a commitment to donors that recurrent maintenance needs will increasingly be funded under the Kosovo Budget. It is also the first year in which specific funding for Road (Public) Transport Services activities have been provided.
- For the telecommunications sector, the Budget of Euro 0.299M is provided to develop a more competitive, market-oriented telecommunications network in Kosovo. Key budget initiatives in 2002 include establishing a fund to subsidize telecommunications services in rural and remote areas in Kosovo, preparing a strategic plan for sector improvements and upgrading the current telecommunications networks in Kosovo.

- For 2002, external investment planned under the Public Investment Program amounts to Euro 56.300M. As of December 31st 2001, Euro 32.000M have been secured in the form of ongoing assistance programs and of new donor programs due to start in 2002. However Euro 24.300M is still being sought to maintain, repair and upgrade the primary and secondary road infrastructure and to develop a strategic plan for improving and upgrading the telecommunications network.
- It is also expected that the Ministry will absorb the Vehicle Registration Program and Drivers Licensing Unit early in 2002, greatly increasing its establishment size and allowing a comprehensive management of the road transport system for the first time. Funds for this activity will need to be transferred from the Ministry of Public Services.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Road and Infrastructure/Bridges*	10.214	2.314	10.759	56.250	25.400	36.500	66.300	26.500
Public Transport Services	0.037	0.297	0.128	0.000	0.500	0.000	1.000	0.000
Post and Telecommunications	0.283	5.249	0.299	0.050	0.350	0.000	0.350	0.000
Central Administration	0.145	0.000	0.522	0.000	0.550	0.000	0.600	0.000
Subtotal, KGB	10.679		11.708		26.800		68.250	
Subtotal, PIP		7.860		56.300		36.500		26.500
TOTAL	18.539		68.008		63.300		94.750	

* KGB includes Euro 10M for Road Maintenance. Although PIP includes a total of Euro 56M for road expansion, overlays and other projects in 2002, future ongoing road maintenance projects will need to be financed under the KGB as recurrent expenditures.

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

Note: * Subject to necessary adjustments to accommodate absorption of Vehicle Registration Program and Driver Licensing Unit.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages & Salaries	Goods & Services	Subsidies & Transfer	Capital Outlays	Total
Road Infrastructure	66	0.139	9.341	1.278	0.000	10.758
Public Transport Services		0.000	0.128	0.000	0.000	0.128
Post and Telecommunications		0.000	0.299	0.000	0.000	0.299
Central Administration	59	0.173	0.349	0.000	0.000	0.522
TOTAL, Kosovo Budget	125	0.312	10.117	1.278	0.000	11.707
% of Total		3%	86%	11%	0%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 regarding provisional self-government in Kosovo, the Ministry of Transport and Communications is established by merging the former Department of Transport and Infrastructure with the Department of Post and Telecommunications. The new Ministry will be responsible for providing road transport and infrastructure, post, telecommunications and information technology services. The SRSG retains oversight responsibility for railways, Pristina airport, PTK and telecommunications regulatory functions.

Kosovo has an 1800 km network of main and secondary roads, a similar length of local roads, a 330 km single-track railway system, and an international airport. Infrastructure and related transport equipment are in urgent need of improvement following many years of inadequate maintenance and the 1999 conflict. The JIAS Department of Transport and Infrastructure was created in 2000 to guide and regulate the development of infrastructure and the provision of transport services. Municipalities have financial responsibility for the maintenance of all local roads and for main and regional roads within designated urban areas. KFOR has played a significant role in the rehabilitation and maintenance of transport infrastructure to date.

Before the conflict Kosovo had the second lowest telephone penetration rate in Europe (6 lines per 100 inhabitants). The post and telecommunications infrastructure was old and poorly maintained. Moreover, it was seriously damaged during the conflict. After the conflict, PTK (Post and Telecommunication of Kosovo) was established by UNMIK regulation as the provider of post and telecommunications services. Some basic telecommunication services have been restored following emergency repairs carried out by PTK. A new wireless telephony network was established in early 2000 to provide a temporary alternative to the damaged fixed network. The network was built and operated according to GSM standards for cellular mobile telephony. With respect to postal services, partial re-equipment of post offices enabled certain mail services to be resumed.

2002 Program Activity Overview

Road Infrastructure

The 2002 Budget for routine maintenance and upkeep of the existing road network is Euro 10.759M. This includes the provision for limited inputs to bridge repairs for the first time.

The Ministry of Transport and Communications' major issue is the necessary cost of road and bridge asset maintenance, and maintaining functional service, including investment in repair upgrading or rehabilitation (including roads currently under the Municipalities authority). The main and regional roads alone have a replacement cost of well over Euro 1 billion. The greatest risk is that recurrent road funding will not meet established targets and that the rapid deterioration of the network will continue, with increased transport costs and ultimate unserviceability. The implications are economic and social stagnation. Associated risks are that donor support will be withdrawn too early, that local institutional capacity will not be sufficient to effectively manage the network, that the continued separation of vehicle and infrastructure management will lead to increased costs and damage, and that military needs

will continue to place undue pressure on the network without compensation.

The Directorate of Roads (DoR) started the year 2001 with 25 staff and expects to recruit to a total of 65 local staff by the end of 2002. This provides increased capacity for monitoring the road network and supervision of maintenance works. Regional offices (five) are being expanded while central technical support resources are being improved. Technical assistance is being used to develop local capacity and expertise, to expand the scope of services offered and to overcome limitations in the historical role of local road agency. Concurrent efforts are being made to improve related educational facilities, to provide material testing facilities and to develop private sector capacity, in both contracting and design services.

Additionally, the Ministry began developing a major Road Network Master Plan to update the assessment of road conditions prepared in 1999 and to apply economic modeling techniques to prioritize future capital investments in roads projects. Return on investment in road projects is expected to remain high, with World Bank Urgent Road Project citing an EIRR (Economic Internal Rate of Return) of 57% on average, for roads selected under its project.

Current efforts are also being made to involve local private sector agencies in design, construction and related services. A key part of this strategy will be the establishment of a Road Transport Advisory Committee, that provides for road user, road provider and public inputs. Competition in works supervision will be one way in which a competitive framework might be further promoted. Accountability for performance and outputs needs to be established, and improved quality assurance techniques applied.

The lack of well-qualified and trained local staff in the sector remains a serious constraint and efforts towards institutional and human resource development will remain priorities. Recruitment of local staff has been accelerated but skills and experience levels need to be further developed. Continued reliance on international contractors for major works has done little in supporting local industry, but reflects the relatively low starting point of local contractors, in terms of finances, management skills, equipment and staff skills. Associated with this is the need to work with all partners, including universities, users, service providers and suppliers.

With respect to external financing, the Ministry has secured Euro 32.000M for heavy road-maintenance, major repairs on roads and bridges, and the upgrading of essential segments of the primary and secondary road network. The Ministry is seeking an additional Euro 24.250M in 2002 for road repairs and upgrading.

Public Transport

The 2002 Budget provides Euro 0.128M primarily to fund start up and expansion costs for establishing 5 regional offices. In addition to the funding provided for expanded operations, the department is proposing a revised administrative and regulatory structure to oversee the transport services to be created in 2002 for more efficient operations of the public transport services. The Ministry will assume additional responsibilities for control and regulation of freight, safety, vehicles and dangerous/hazardous goods. The new Ministry will also have an expanded role in the management of surface traffic and the introduction of international conventions and standards for safety and environment.

Post and Telecommunication

The 2002 Budget provides Euro 0.299M for operating expenses for the post and telecommunications department. The department oversees the activities of the related Post and Telecommunications enterprise. A key initiative is preparing a strategic plan for sector improvements and upgrading the current telecommunications networks in Kosovo. The ministry is seeking external financing under the Public Investment Program for this initiative. A key issue for 2002 and the near future is developing professional and qualified personnel in PTK who will be able to offer improved services to customers and to develop an efficient, transparent, and market driven post and telecommunications sector. To achieve this, a two-step program will be implemented.

The first step will be to prepare the market for becoming fully competitive and transparent. This goal requires the development of a new policy framework, with the appropriate regulations, to resolve the question of ownership of the current UNMIK administered PTK, and to create a fair, transparent system of services licensing and competence supervision. In order to achieve this, international qualified consultancy services are required to appropriately define the steps to be followed and assess the current Kosovar sector capabilities.

The second phase of the program is to develop capacity within the main Post and Telecommunications operator in Kosovo, PTK, a public enterprise with some 2,000 employees which needs to be updated and trained in modern management techniques as well as technically. This will be essential if PTK is to achieve an efficient, modern management, providing a reliable and sustainable service.

MINISTRY OF HEALTH, ENVIRONMENT AND SPATIAL PLANNING

ROLE OF THE MINISTRY

The role of the Ministry of Health, Environment and Spatial Planning is to:

- Improve the quality of, and access to, the healthcare system in Kosovo; develop an integrated network of facilities that provides adequate care at the appropriate level; and ensure that healthcare is provided by professionals with appropriate training and qualifications;
- Develop and implement sustainable strategies and policies for an efficient, transparent, accountable and non-discriminatory environmental protection regime in Kosovo; and
- Restore the spatial planning authority at the central and municipal level; enforce valid urban planning regulations and building laws and initiate their reform, if necessary; monitor and coordinate the reconstruction of war-damaged houses, support private and public investment in the housing sector, and promote housing construction projects for the vulnerable population and ethnic communities.

The Ministry will execute its role by undertaking the following key activities:

Develop policies, implement legislation, and establish norms, standards and guidelines to create a nondiscriminatory and accountable healthcare system, for the protection of water resources, air, soil and biodiversity, and for establishment of a comprehensive spatial planning framework.

Monitor the general health situation and implement appropriate measures to prevent health risks to the population including the regulation of drugs and medication, and standards for housing safety and industrial emissions.

Manage the use and development of the infrastructure that is used to provide healthcare, environmental protection services and spatial planning activities under the Ministry's responsibility.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides a total of Euro 38.952M and 6,793 average full-time equivalent positions for the Ministry's four major programs Hospitals, Primary Healthcare, Environment and Spatial Planning. Additionally, the budget earmarks Euro 15.230M to support the devolution of responsibility for primary healthcare activities in the 30 municipalities of Kosovo. The major issue for the Ministry will be to continue its efforts to right-size the healthcare workforce throughout Kosovo particularly in the hospital sector and the family medicine centers. Responsibility for rightsizing the healthcare workforce will involve Municipal authorities as responsibility for primary healthcare is devolved to the municipalities in 2002.

- For 2002, external investment planned under the Public Investment Program amounts to Euro 97.785M. As of December 31st 2001, Euro 22.000M has been secured primarily for ongoing assistance and new programs including funding for Pristina hospital improvements and hospital equipment, and to train healthcare professionals such as nurses and family medicine practitioners and public health employees.
- However Euro 75.785M is still being sought to complete the rehabilitation of Kosovo's hospitals and emergency care units, to refurbish primary health centers throughout the Province, to train nurses and health practitioners, to rehabilitate public health and mental health centers, to continue the reconstruction of war-damaged houses for vulnerable families, to create social housing apartments for families now living in temporary community shelters and to improve the government's capacity to monitor and protect the environment.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KCB	PIP
Hospitals	22.076	3.648	25.703	13.850	33.234	10.350	36.302	12.500
Primary Healthcare	22.290	1.736	6.181	5.254	6.181	5.700	6.181	2.700
Other Health*	2.671	8.952	5.480	15.720	6.913	10.950	7.744	2.250
Environment	0.202	0.279	0.636	3.880	0.700	2.313	0.700	0.650
Spatial Planning	0.000	0.000	0.751	59.090	0.751	49.525	0.751	18.625
Kosovo Drug Regulatory Authority	0.000	0.000	0.201	0.000	0.201	0.000	0.201	0.000
Subtotal, KGB	47.239		38.952		47.980		51.879	
Municipality Grants			15.230					
Subtotal, PIP		14.615		97.785		78.838		36.725
TOTAL	61.854		151.967		126.818		88.604	

* PIP includes Euro 3.9M for Nurse and Family Medicine Practitioners Training Program. KGB will need to assume the recurrent costs associated with maintaining a training program conducted by Kosovar nationals in the future.

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity	Average 2002 Emp.	Wages & Salaries	Goods & Services	Subsidies & Transfers	Reserve	Capital Outlays	Total
Hospitals	5,840	9.805	15.642	0.000	0.000	0.256	25.703
Primary Healthcare		0.000	4.501	0.000	1.681	0.000	6.182
Other Health	712	1.175	3.967	0.000	0.000	0.337	5.479
Environment	148	0.276	0.268	0.000	0.000	0.092	0.636
Spatial Planning	78	0.200	0.192	0.000	0.000	0.360	0.752
Kosovo Drug Reg. Authority	15	0.032	0.133	0.000	0.000	0.036	0.201
TOTAL, Kosovo Budget	6,793	11.488	24.703	0.000	1.681	1.081	38.953
% of Total		30%	63%	0%	4%	3%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 regarding the creation provisional self-government in Kosovo, the Ministry of Health, Environment and Spatial Planning was created by merging relevant programs from the former JIAS Department of Health and Social Welfare, the former JIAS Department of Reconstruction and the JIAS Department of Environmental Protection. The Joint Interim Administrative Structure (JIAS) was the former United Nations structure, consisting of 20 departments, responsible for civil administration in Kosovo.

Health

The Kosovo health system, like others in the region, overemphasizes providing hospital care through specialists rather than focusing on primary care in smaller facilities such as health houses and ambulanta. The current healthcare system promotes inefficient use of expensive hospital care for many health conditions that could be more appropriately treated at other facilities. The health facilities are organized so that individual departments are in separate buildings that duplicate common functions such as laboratory and radiology services. Many facilities have suffered from neglect and are in need of repair and renovation of basic services.

There are six hospitals in Kosovo, five of which are regional facilities serving their local populations. The sixth, the University of Pristina, is a tertiary care facility providing complex services (e.g., neonatal services) for the entire population of Kosovo. There are also 29 health houses within municipalities that provide lower levels of care, and 250 small ambulanta that provide very basic levels of care.

Environment

The primary sources of environmental pollution in Kosovo are industrial pollution and solid waste. The main contributors to industrial pollution are the industrial complexes of Trepca

and Obiliq. These industries have been operating without environmental protection equipment and no effective air pollution control. Solid Waste is the third main cause of environmental pollution in Kosovo. The lack of an effective solid waste disposal system provides one of the most visible manifestations of pollution in Kosovo.

Spatial Planning

International Donors have funded the reconstruction and rehabilitation of 49,000 homes of the most vulnerable families during the 30 months that followed the 1999 conflict. Yet additional efforts from both international and local sources will be necessary to fully address the housing situation in the future. Additional attention will be given to the development of the social housing activities and private housing market, the need to assist other vulnerable population groups such as the homeless and welfare recipients.

Since the armed conflict, an unprecedented population movement from rural to urban areas has occurred. This has resulted in much building activity in the towns, where zoning plans and building laws have frequently not been respected. Illegal building activities have spread widely, which affects the spatial development of Kosovo as a whole and the environment of towns and villages. The central governmental capacity and authority to regulate urban and spatial planning and the capacity of municipalities to undertake this function is limited. The result is inconsistent and erratic application of existing planning regulations and building laws. Uncertain ownership of property, including housing, creates additional problems.

2002 Program Activity Overview

Hospitals

The 2002 Budget provides Euro 25.703M or 66% of the Ministry's total budget to finance operating expenses for Hospitals in Kosovo. This includes staffing, both professional and managerial, and routine maintenance of buildings, vehicles and equipment. The funding will assist in reforming the hospital network to operate more efficiently and to become more accessible to the population. Hospitals should play a key role in Kosovo to provide necessary services such as surgery, emergency medicine services and inpatient treatment of conditions that cannot be provided in primary health care setting. Currently, the hospitals are often not able to provide this care, because they are not properly equipped and are in poor condition, lacking basic sanitation, water and heating facilities.

With respect to external funding sought under the Public Investment Program, financial assistance of about Euro 6M has been secured for sanitation improvements at the Pristina Hospital and for provision of general hospital equipment. An additional Euro 7.500M is sought in 2002 and Euro 22.5M is needed in the subsequent two years to complete the rehabilitation of Kosovo's hospital facilities and to create reliable emergency care units.

Primary Health

The 2002 Budget includes Euro 6.181M or 16% of the Ministry's total budget to support devolution of primary healthcare activities to the 30 municipalities of Kosovo. Of this amount, Euro 4.5 million is for goods and services, while 1.68 million is held in a reserve for the Ministry to assist municipalities to cope with the problem of overstaffing in this sector at the local level. This Euro 4.5 million of Central Ministry spending represents 40% of goods

and services spending. It is the proportion represented by “essential medical supplies” such as prescription drugs and highly specialized medical equipment which is better purchased centrally and distributed in a secure manner.

With respect to external funding under the Public Investment Program, the Primary Health Care program is seeking Euro 5.250M in 2002 and 8.500M during the subsequent two years for the refurbishment of Primary Health Centers and for the provision of healthcare equipment, including dental care equipment.

Other Health (Planning, Public Health and Mental Health)

The 2002 Budget includes Euro 5.480M for other healthcare activities including capacity building, public health and mental health programs. The funding will cover operating costs such as staffing and maintenance of facilities and equipment, the provision of routine materials for testing laboratories and the cost of educational materials to support public education campaigns.

Capacity Building: External donor support in the amount of Euro 3.900M is provided to improve the healthcare system’s financial management as well as to pursue the training of healthcare professionals such as nurses and family medicine practitioners. An additional Euro 2.500M is being sought under the Public Investment Program for additional training of nurses and to improve healthcare information technology.

Public Health: Budget allocations improve preventive public health measures in Kosovo, including health awareness campaigns and capability to cope with a major illness outbreak or epidemics. Historically, public health services have been significantly under-funded and as a result, capacity must be developed to provide services to track diseases and efficiently allocate resources.

Euro 6.500M is provided to pursue the ongoing training of public health employees. An additional Euro 4.220M is sought to improve Kosovo’s public health crisis management and outbreak prevention capabilities. Assistance is primarily needed to improve the capacity of public health staff and to provide equipment for public health centers throughout the province.

Mental Health: 2002 funding is provided to help ensure that adequate mental health care services are accessible to the population. Mental health care is currently provided in a hospital setting that lacks acceptable standards of clinical or compassionate care. The Mental Health program is seeking Euro 4.300M under the Public Investment Program to develop mental health wards in hospitals that will separate patients from others and provide resources for their treatment; to develop intensive care units in hospitals that can treat mental patients who need close monitoring and intensive treatment for extreme conditions; to build community-based health centers that will allow treatment of mental health conditions on an outpatient basis; and to establish protected apartment facilities where individuals with chronic conditions can live and be better integrated into the community.

Environment

The Budget includes Euro 0.636M to support four environmental protection programs: 1) Planning, Policy and Legislation; 2) Monitoring, Evaluation and Pollution Control; 3) Nature

Conservation; and 4) Water Resources Management. The Planning, Policy, Legislation, Nature Conservation, and Water Resources Management Programs will operate under the Ministry of Health, Environment and Spatial Planning while the Monitoring, Evaluation and Pollution Control program will operate under the authority of a specialized governmental agency under the Ministry's supervision. The independent agency is being established to provide economies of scale and provision of better services in monitoring and controlling environmental protection activities.

With respect to external funding, the Ministry has secured Euro 1.000M for the establishment of a pollution monitoring network and to continue the rehabilitation of urban green areas. In addition, it is seeking Euro 0.900M to fund various capacity building programs, including the training of pollution inspectors. Furthermore, the Ministry is seeking Euro 1.375M for numerous activities, including preparing the management plan for Sharr National Park, developing a flood protection capacity, monitoring and beginning the remediation of the Mitrovica Industrial Park and the Obiliq industrial facility.

Spatial Planning

The Budget includes Euro 0.751M to support establishment of a Spatial Planning Institute. The funding will ensure provision of adequate equipment as well as staffing levels to begin the Institute's activity.

The establishment of the Spatial Planning Institute will also require external financial contributions of Euro 0.600M to build local capacity and purchase basic equipment such as vehicles and computers. Euro 10.000M has been secured for housing reconstruction activity in 2002. In addition, the Ministry is seeking Euro 42.500M for continuing the reconstruction of war-damaged houses for vulnerable families. Furthermore, the Ministry is seeking Euro 3.250M for its Social Housing program which will provide a permanent accommodation for homeless families and those living in temporary conditions, and Euro 2.250M for its Kosovo Housing Loan Program which supports private reconstruction initiatives.

Municipal Healthcare Activities

The Budget also provides Euro 15.230M as a designated grant to support municipal healthcare activities in the 30 municipalities of Kosovo. The grant is required as part of the process of devolving full responsibility for primary healthcare to the municipalities with associated funding. In addition, external funding in the amount of Euro 0.936M is sought by municipalities under the Public Investment Program. (See the Introductory Chapter "2002 Kosovo Intergovernmental Budget" for further details on the funding of devolution of primary healthcare to municipalities.)

MINISTRY OF CULTURE, YOUTH, SPORTS AND NON-RESIDENT AFFAIRS

ROLE OF THE MINISTRY

The role of the Ministry of Culture, Youth, Sports and Non-Resident Affairs is to:

- Rehabilitate and protect the cultural heritage of Kosovo by developing adequate policies to protect monuments and sites, as well as by developing programs for the promotion of artistic and cultural expression that is inclusive of minority communities.
- Promote the development of an educated and open youth, favoring their access and participation in the Kosovar society, and complete the formal education sector by means of targeted non-formal programs, scholarships and international exchange.
- Formulate policies and strategies to promote sports as an important factor of physical, psychological and social growth of individuals, favoring integration and mutual respect regardless of ethnic and social differences.
- Develop a communication network for non-resident Kosovars to preserve their cultural, educational and historical ties with their homeland and to attract the investment from the Diaspora to improve the Kosovo economy over the long term.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides Euro 5.115M and 438 full-time equivalent positions for the Ministry of Culture, Youth, Sports and Non-Resident Affairs activities. Of the total funding provided, 57% (Euro 2.936M) is for Cultural activities, 27% for Sports and the balance of 16% is for Youth and Non-Resident Affairs activities.
- For 2002, external investment planned under the Public Investment Program amounts to Euro 6.124M. As of December 31st 2001, Euro 0.628M has been secured in the form of investments linked to ongoing assistance programs and of new donor programs due to start in 2002, whereas Euro 5.496M is still being sought to rehabilitate the cultural heritage of Kosovo, protecting sites and monuments of historical, archeological, ethnological or architectural value; promoting artistic and cultural expression; increasing youth participation in society; and modernizing the sports sector, to make it democratic and accessible to the largest possible number of participants.

**2002-2004 Kosovo General Budget and Public Investment Program
Expenditure by Program Activity
(Euro million)**

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Culture	2.013	3.514	2.936	4.146	2.936	3.120	2.936	3.033
Youth	0.240	0.368	0.385	0.475	0.385	0.300	0.385	0.300
Sports	1.175	0.552	1.365	0.900	1.365	0.000	1.365	0.000
Non-Resident Affairs	0.199	0.000	0.429	0.603	0.429	0.267	0.429	0.267
Subtotal KGB	3.627		5.115		5.115		5.115	
Subtotal PIP		4.434		6.124		3.686		3.599
TOTAL	8.061		11.239		8.801		8.714	

*KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

**2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)**

Program Activity/Entity	Avg 2002 Emp.	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Culture	45	0.088	0.057	1.220	0.000	1.365
Youth	329	0.621	0.607	1.698	0.010	2.937
Sports	47	0.083	0.045	0.240	0.017	0.385
Non-Resident Affairs	17	0.036	0.376	0.000	0.016	0.428
TOTAL, Kosovo Budget	438	0.828	1.085	3.158	0.043	5.115
% of Total		16%	21%	62%	1%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19, the Ministry of Culture, Youth, Sports and Non-Resident Affairs (MCYS) is created by merging the former Departments of Culture, Youth, Sports, and Non-Resident Affairs into one Ministry. The MCYS will develop and approve sector wide policies for the four programs based on the strategic objectives outlined above. These policies and programs will be tailored to effectively utilize the resources available in the Budget.

2002 Program Activity Overview

Culture

The 2002 Budget provides Euro 2.936M for cultural activities, an increase of over 50% from the 2001 level of Euro 1.9M for culture activities. The 2002 Budget also represents a shift in the funding priorities for the Culture sector. Prior to 2002, the former Department of Culture budget was devoted mainly to fund wages and salary payments for regional cultural institutional employees. However, the full-time equivalent positions have decreased from the 2000 level of 900 to 329, a decrease of more than 60%. The resultant budget savings of Euro 1.689 million will be used in 2002 to implement several proposed cultural sector initiatives

including programs to promote the visual and performing arts, to revive the local handicrafts industry and to improve the library and archives systems in Kosovo.

With respect to external assistance, funding in the amount of Euro 3.600M is being sought to support the Ministry's cultural activities. In particular Euro 2.750M is sought to protect cultural monuments and to restore Kulla-houses in Western Kosovo.

Youth

The 2002 budget of 0.385M is a significant increase in funding over 2001. It will enable the Ministry to undertake major policy initiatives to improve Youth program activities including programs to educate youth on health issues and to foster cooperation between the ethnic communities. The Ministry will also undertake a major campaign against drugs aimed at youth.

The Ministry is seeking external funding for developing non-formal education policy and programs with European certification/recognition, ensuring the sustainability of youth centers as non-formal education focal points and refurbishing of parts of buildings in rural areas or municipalities. In addition, the Ministry is seeking assistance for implementing a staff Capacity Building program targeting youth workers and civil servants.

Sports

The 2002 Kosovo budget provides a slight increase in funding for Sports from the 2001 level of Euro 1.230M to Euro 1.365M. For 2002, the Ministry will use the slightly higher funding level to continue developing sports federations in Kosovo and for a new initiative to modernize the sports facilities in Kosovo. The Ministry will also earmark funds for programs to encourage greater female participation in sports and to encourage interethnic activities through sports forums.

External funding of Euro 0.900M is sought to install synthetic surfaces in 15 municipal sports halls.

Non-Resident Affairs

The 2002 budget provides Euro 0.428M for non-resident affairs activities. This level represents more than double the 2001 funding level of Euro 0.190m. With the increased funding, the Ministry will continue efforts to strengthen the existing networking and communications links with the Diaspora while implementing new initiatives to attract investments from Diaspora in the Kosovo economy through investment conferences held abroad.

The Ministry is seeking Euro 0.600M in external assistance under the Public Investment Program for the opening of libraries in Switzerland, Germany, Sweden, Belgium and the USA, for funding cultural tours and cultural camps, and for training non-resident teachers. Funding is also sought for organizing the Kosovo Investment Conference targeting potential investors from the Diaspora.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

ROLE OF THE MINISTRY

The role of the ministry of Education, Science and Technology is to:

- Improve the quality of, and access to, the education system in Kosovo;
- Bring the education system in Kosovo in line with EU standards;
- Integrate all Kosovar children into compulsory education from ages 6 to 15; and
- Encourage the development of the scientific community as a highly qualified market for innovation and development in a comprehensive system of higher education.

The Ministry is responsible for the formulation of an overall strategy for the development of Education, Science and Technology in Kosovo and the promotion of a single, unified, non-discriminatory and inclusive educational system so that each person's right to education is respected and quality learning opportunities are available to all, irrespective of their ethnic or social origin, race or gender, disability, religion, politics or opinions.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides Euro 38.956M and 22,979 average full-time equivalent positions for the operating expenses of the Ministry's 10 programs, including Pre-school, Primary, Secondary, University and Higher Education, Special needs Education, Boarding Facility, National University Library, Educational Administration, Teacher Training and Curriculum Development.
- The Budget provides an additional Euro 35.149M to the Ministry as a designated grant to the 30 municipalities to fund their expanded public education responsibilities beginning in 2002. The Ministry of Education, Science and Technology, the Directorate of Local Administration & Emergency Management and the Central Fiscal Authority signed a Memorandum of Understanding in October 2001 setting out arrangements for the decentralization of financial responsibility for schools. Under the terms of this agreement, responsibility for employing and paying education staff will be transferred to the Municipalities during 2002. Responsibility for administration and support staff salaries will be transferred at the start of the 2002 financial year. Responsibility for teaching staff salaries will be transferred during 2002. It is now expected that the transfer of budget responsibility will take place on 1 July 2002.
- Although budget responsibility will be decentralized, staff will continue to be paid through the Ministry of Public Services central payroll system. Salaries will continue to be set centrally for all Kosovo Civil Servants, and the Central Treasury will continue to be responsible for Kosovo budget transactions.
- For 2002, external investment planned under the Public Investment Program amounts to Euro 38.440M. As of December 31st 2001, Euro 19.358M has been secured in the form of investments linked to ongoing assistance programs and of new donor programs due to start in 2002. However, Euro 19.100M is still sought to complete the reconstruction of schools, to refurbish and equip higher education facilities, to

improve vocational education, to further the training of teachers, to improve special needs education for the disabled and to continue curriculum development.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro millions)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Pre-School Education	2.298	0.011	0.638	0.000	3.335	0.000	3.606	0.000
Primary Education	37.684	0.990	19.132	0.000	50.392	0.000	51.579	0.000
Secondary Education	12.259	0.000	6.915	0.000	20.148	0.000	20.875	0.000
Boarding Facility/Dormitory	0.254	0.000	0.031	0.000	0.330	0.000	0.373	0.000
Special Needs Education	0.469	0.771	0.815	1.350	1.118	0.150	1.205	0.150
University and Higher Education	6.395	0.028	9.891	5.400	12.491	3.200	13.514	1.200
National University Library	0.242	0.000	0.265	0.000	0.457	0.000	0.518	0.000
Educational Administration	0.732	0.143	1.012	0.000	1.654	0.000	1.654	0.000
Teacher Training*	0.000	0.000	0.192	4.000	0.246	1.500	0.271	0.500
Curriculum Development	0.000	0.000	0.065	0.140	0.100	0.250	0.110	0.500
Planning, Management, Finance	0.000	0.000	0.000	0.300	0.000	0.000	0.000	0.000
School Reconstruction Program	0.000	11.400	0.000	21.250	0.000	10.000	0.000	10.000
Vocational Education	0.000	0.210	0.000	6.000	0.000	3.500	0.000	3.000
Subtotal, KGB	60.332		38.956		90.270		93.705	
Municipalities Grants			35.149					
Total, KGB	60.332		74.105					
Subtotal, PIP		13.553		38.440		18.600		15.350
TOTAL	73.885		112.545		108.870		109.055	

* PIP includes an estimated Euro 5.5M for Teacher Training, curriculum development and establishing a special needs education program. KGB will need to assume the recurrent costs associated with these projects in the future.

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

*** KGB forward estimates for Municipal Grants included in the KGB Subtotal for 2003 and 2004.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Avg 2002 Emp.	Wages & Salaries	Goods & Services	Subsidies & Transfers	Reserve	Capital Outlays	Total
Pre-School Education	398	0.347	0.020	0.000	0.119	0.151	0.637
Primary Education	14,998	13.430	0.537	0.000	3.503	1.662	19.132
Secondary Education	4,277	4.242	0.323	0.000	2.107	0.243	6.915
Boarding Facility/Dormitory	0.000	0.000	0.011	0.000	0.000	0.019	0.030
Special Needs Education	258	0.413	0.217	0.000	0.000	0.185	0.815
University / Higher Education	2,500	4.908	4.216	0.000	0.000	0.767	9.891
National University Library	100	0.180	0.086	0.000	0.000	0.000	0.266
Educational Administration	307	0.520	0.349	0.000	0.000	0.143	1.012
Teacher Training	112	0.192	0.000	0.000	0.000	0.000	0.192
Curriculum Development	29	0.050	0.015	0.000	0.000	0.000	0.065
TOTAL, Kosovo Budget	22,979	24.282	5.774	0.000	5.729	3.171	38.956
% of Total		62%	15%	0%	15%	8%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 regarding the creation of the Provisional Institutions of Self-Government in Kosovo, the Ministry of Education, Science and Technology was created by restructuring the former JIAS Department of Education.

In 1991-1992 the majority of Kosovars left the official education system. However education of children continued for almost a decade in a parallel system. During this period Kosovar teachers were unable to up-date their teaching skills and methods. The 1999 conflict saw the complete cessation of educational activities for several months and there was widespread damage to educational facilities and loss of records.

Kosovo now faces the challenge of restoring facilities, making up for past neglect, modernizing curriculum and educational methods and coping with the demands of a rapidly growing population.

2002 Program Activity Overview

The total 2002 budget allocation for Education is Euro 74.104M, of which Euro 35.149 is for earmarked education grants for the 30 Municipalities of Kosovo. The grants cover the following costs of operating schools during 2002:

- Goods and services;
- Capital funds for minor repairs and maintenance;
- Salaries for support staff and administrative staff (including school directors and deputy directors, pedagogues) for 12 months from January to December 2002; and
- Salaries for teaching staff for six months from July to December 2002.

The amount to be appropriated to each Municipality in the education grant has been calculated on the basis of the number of students enrolled in schools in the Municipality and other factors affecting the cost of operating schools. The method of calculating the grant is intended to share the available budget resources between Municipalities in a way that is fair and equitable.

Budget funds for the payment of salaries to teachers for the first six months of the year has been appropriated to the Ministry of Education and Science. This amount is higher than provided for the following six months from July to December. The rationale is that the Municipalities should not face an immediate problem of downsizing the number of teachers at the beginning of the year. It is expected that the Municipalities will gradually implement a downsizing staff plan over the course of the school year. (See the Introductory Chapter “2002 Kosovo Intergovernmental Budget” for further details on financing public education activities in the Municipalities.)

Pre School and Pre-Primary Education

The total 2002 budget for pre-primary and preschool is Euro 1.5 M, of which Euro 0.863 M is in the form of a grant to municipalities. This amount will be used for staffing costs, goods and services, and minor capital outlays.

In 2000, preschool and pre-primary education were separate entities. However, given that they both relate to education prior to attending a formal primary school, it has been decided by the department of education to put them in the same category. Preprimary education including preschool presently enrolls 17,000 children of age group 9 months to 5 /6 years. Whereas the preschool (Kindergarten) education is taught in separate institutions, preprimary classes are held as attached classes with normal primary schools. This sector has around 900 employees, which include teachers, pedagogues, nurses, support staff, etc. Presently, the kindergartens are overcrowded and have inadequate facilities. It is important for children in this age group to have adequate resources including play and recreation equipment, and a boarding service.

Primary Education

The total 2002 budget allocation for Primary education is Euro 42.500M, of which Euro 22.868M is in the form of a municipal grant. This amount will be used for staffing costs, goods and services, and a significant amount of Euro 1.661M for capital expenditures.

Primary Education is the largest sector dealing with 320,000 children from 6-14 years of age. During last year, a new regulation providing for compulsory education was introduced. The result is that 50,000 additional children of age 6 have been admitted to grade one. Also, additional numbers of teachers and support staff and an extreme shortage of space to accommodate children has put immense pressure on the school system. Currently, most of the schools are running two or three shifts. As such, the possibility of purchasing containers will also be explored during 2002. With the increase in the overall number of children, the goods and services budget and capital outlay budget has also increased.

Secondary Education

The total 2002 budget allocation for secondary education is Euro 17.0M, of which Euro 10.086M is in the form of a municipal grant. The capital budget will be spent on purchasing science equipment and undertaking major repairs.

Secondary education is important in preparing youth for entering the job market. A good secondary education can lead to improvements in the productivity of the country. Kosovo has 105 secondary schools including 28 for Serbian children. These schools enroll 90,000 students. Some 900 additional employees were recruited after the September 2000 admissions. This sector presently employs 4,277 persons who earn an average monthly salary of Euro 140. Owing to lower salary scales, there is a shortage of teachers in Physics, Chemistry, Mathematics and Engineering. September 2001 admissions have registered an increase of substantial numbers of students in secondary schools. This will require an additional 600 teachers and 300 support staff, mainly technicians, as well as laboratory attendants.

School Reconstruction Program

The Ministry is seeking external funding under the Public Investment Program to continue the school reconstruction effort undertaken since the end of the 1999 conflict. Although a large number of primary and secondary schools have been reconstructed under international donor assistance, the reconstruction/rehabilitation of seventy-two (72) additional school-buildings remains an urgent priority. The immediate need is estimated at Euro 21.250M, of which Euro 11.250M has been secured through donor assistance programs. The Ministry is therefore seeking an additional Euro 10.000M for school reconstruction assistance for 2002. Furthermore, the school reconstruction need for 2003 and 2004 is estimated at Euro 5.000M a year.

Boarding Facilities

The 2002 budget allocation is Euro 0.031M. There are 7 dormitories in the school system and 1 in the university. Minor increases have been provided in goods and services and capital outlays during 2002.

Special Needs Education

For 2002, the budget allocation is Euro 0.815M. There are 14 Special Educational institutions in Kosovo. This number also includes 4 institutions that are residential in nature. Awareness programs launched during 2001 and training of teachers has increased demand for special education.

A new shift in the policy regarding special needs education has been implemented during 2002. It involves introduction of "Attached Classes" for special needs children. Accordingly, 42 new attached classes have started functioning in various municipalities. This will not only result in wider coverage of special education facilities but will also integrate the disabled children with the general pupil population.

Education Administration

The 2002 budget allocation is Euro 1.012M which is only 1.4% of the proposed total Education Budget (approximately Euro 74.000M, including the Ministry budget and municipal grant).

Reforms in Educational Administration could not be implemented during 2001 due to a shortage of financial and material resources. During 2002, a number of changes will take place including the appointment of Senior Education Officers and Education Officers, one in each municipality, the appointment of local Kosovars in various positions in the Department of Education and Science, provision of support staff to the Regional Education Officers and shouldering the responsibility of office rentals, utility, travel, participation in seminars and equipment costs. These costs were previously being met through the UNMIK staff budget.

National University Library

For 2002, the budget allocation for the National University Library is Euro 0.265M. An increase of 21 persons mainly professional librarians has raised its staffing strength to 100. Despite the fact that substantial improvement in the repairs and maintenance of the NUL is warranted, a nominal increase in the goods and services and capital outlay will improve the library programs in a phased manner.

With respect to external financing, the Ministry is seeking Euro 2.000M under the Public Investment Program for rehabilitating the National University Library.

University and Higher Education

The 2002 budget allocation for University Education amounts to Euro 9.891M. The University of Pristina has been allocated a 56% increase in the budget for 2002 compared to 2001.

The University of Pristina has about 1,800 employees and 20,000 students studying in 14 faculties and 7 Higher schools located in the regions. The university has been deficient in science equipment, laboratory material, books and journals. It has 3 dormitories and a Students Center that needs renovation and furniture for the students.

The 2002 Budget provided for 750 additional employees to (i) introduce the new departments of Social Science, Psychology and Ethnology; and (ii) provide higher educational opportunities to the Serbian students. The allocations will be utilized mainly for the following:

1. Renovation of Serbian Higher Education
2. Provision of equipments for various departments
3. Library books and media
4. Temporary Faculty, Mitrovica
5. Provision of higher Utility bills

The current budget allocation is inadequate to fully address the capital investment needs of the University. Although, an amount of Euro 250,000 will be collected from registration fees,

dormitory taxes and other sources of income of the university, the following **Investment Program** for the university is still sought through donor assistance:

Central Laboratory Unit	Euro 0.600M
Dormitory renovation	Euro 1.750M
Central Admin. Building	Euro 0.750M

Curriculum Development

The 2002 budget allocation for curriculum development is Euro 0.065M. This is a new budget item. An international Agency is providing funding for the development of the School Curriculum and is presently paying the salaries of 7 Core Curriculum experts from its own resources, in addition to making the services of a long-term consultant available. During 2002, curricula for various subjects at primary level will be developed. A core group of 30 persons mainly on secondment from existing schools will be engaged in the activity. These subject specialists will be attending workshops and seminars both within the country and abroad.

Teacher Training

For 2002, the budget allocation for teachers' training is Euro 0.192M. The teachers of Kosovo have not been trained for almost 12 years nor have in-service programs been conducted for them. An international donor in cooperation with Kosovo Education Centre, and other international partners, will coordinate this activity. An investment of about Euro 5.786M will be provided by international donors for training and certification of Kosovo teachers. In the first year, 5,000 teachers all over Kosovo will be trained. The Ministry's budget will finance only the cost of their replacement during the time these teachers are undergoing training.

The Ministry is still seeking external funding of Euro 0.500M under the Public Investment Program for acquiring equipment, library material and textbooks.

Vocational Education

The Ministry has secured Euro 2.500M in external funding for vocational education development. The Ministry is seeking additional funding of Euro 3.500M for the provision of vocational education equipment.

MINISTRY OF LABOR AND SOCIAL WELFARE

ROLE OF THE MINISTRY

The role of the Ministry of Labor and Social Welfare (MLSW) is to address the high level of unemployment by promoting employment in Kosovo, to provide social assistance for those Kosovars in need, and to reconstruct the social protection system of Kosovo.

The Ministry aims to achieve the following goals and objectives in 2002 to further develop the labor and social welfare sector:

- To create a comprehensive legislative framework for the labor and social assistance and welfare sector beyond the essential Labor Law of Kosovo by also developing a legal foundation for the Ministry's social assistance and welfare services;
- To further develop existing labor and social assistance and welfare policies to better target certain populations including Serbian and non-Serbian minorities, women, disabled, young people, elderly, unemployed and pensioner and to be more cost effective.
- To continue recruiting and training and developing Kosovar nationals despite budgetary constraints to address the severe understaffing of the Ministry in non-executive professional positions as well as to assume key executive posts in the professional departments and central administrative services.
- To strengthen the Ministry's network of institutions of employment offices and social work centers to enable the Ministry to provide efficient and effective labor market and social welfare services to the majority of the population.
- To better address the labor rights of previous public sector employees particularly from the former public administration and publicly-owned enterprises.

The MLSW will work to achieve these goals and objectives as it carries out its overall mandate to address issues relating to labor, employment, social assistance, pensions for the elderly and war invalids and to further develop other social welfare institutions.

2002 BUDGET HIGHLIGHTS

- The Budget for 2002 provides total funding of Euro 66.559M. Of the total budget about 97% or Euro 64.698M million is earmarked for ongoing and planned social welfare, social assistance and pension activities. The balance of 3% amounting to Euro 1.670M is provided primarily for labor and employment affairs activities and to establish a Labor Inspection Authority. The approved level will address the Ministry's needs in the areas of labor and employment affairs, social assistance and pension schemes, building of social welfare institutions and establishing a Labor Inspection Authority and Central Administrative Services Division within the Ministry.

- For 2002, external investment planned under the Public Investment Program amounts to Euro 10.685M. As of December 31st 2001, Euro 5.585M has been secured in the form of investments linked to ongoing assistance programs and of new donor programs due to start in 2002. However Euro 5.100M is still being sought to complete the refurbishment and equipment of regional employment centers, rehabilitation of three vocational education centers and development of modular training schemes, employment creation for the unskilled and for minority groups, as well as rehabilitation of special institutions such as the Shtime Special Institute.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Social Welfare	43.565	15.527	64.698	4.675	64.698	1.000	64.698	0.500
Labor Inspection Authority	0.000	0.000	0.195	0.000	0.195	0.000	0.195	0.000
Labor & Employment Affairs	0.981	5.923	1.477	6.000	1.477	4.229	1.477	3.758
Central Administration	0.000	0.000	0.189	0.000	0.189	0.000	0.189	0.000
Subtotal, KGB	44.546		66.559		66.559		66.559	
Subtotal, PIP		21.450		10.675		5.229		4.258
TOTAL	65.996		77.234		71.788		70.817	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Social Welfare	930	1.655	2.745	59.202	1.096	65.698
Labor Inspection Authority	48	0.088	0.030	0.000	0.077	0.195
Labor & Employment Affairs	242	0.441	0.621	0.000	0.415	1.477
Central Administration	28	0.051	0.054	0.000	0.084	0.189
TOTAL, Kosovo Budget	1,248	2.235	3.450	59.202	1.672	66.559
% of Total		3%	5%	89%	3%	100%

PROGRAM ACTIVITY

Background

Under UNMIK Regulation No. 2001/19 relating to provisional self-government in Kosovo, the Ministry of Labor and Social Welfare (MLSW) has been established by merging the former JIAS Department of Labor and Employment and the Social Welfare Unit of the JIAS Department of Health and Social Welfare. The MLSW consists of four organizational units: 1) Department of Labor and Employment; 2) Department of Social Welfare; 3) Labor Inspection Authority (Department of Labor Inspection); and 4) Central Administrative Services Division. The Ministry's primary mission is to address issues relating to labor and

employment, social assistance and pension schemes for the elderly/war invalids and strengthening its social welfare institutions.

The MLSW relies on two networks of institutions to carry out its mission throughout Kosovo: a) the Kosovo Office of Employment; and b) the Kosovo Centers for Social Work. The Kosovo Office of Employment will remain under the authority of MLSW from 2002 and beyond and while authority for the Centers for Social Work will be transferred to the municipalities.

2002 Program Activity Overview

Social Welfare

For the social welfare sector, the Budget in 2002 provides Euro 64.698M. Of the total, 29% or Euro 19M is provided for pension payments to restart in June 2002. The proposed flat rate pension scheme for the elderly will involve making regular monthly payments to about 132,000 people. The approved level will enable the Ministry to continue training staff in the 30 Centers for Social Work, in developing policies and procedures for social services provision and help address the needs of children given up for adoption. The approved budget level will also provide operating expenses to administer the Social Assistance Scheme presently benefiting approximately over 56,000 families, the new Benefit for War Invalids, Next of Kin assistance program, and the universal pension scheme for the elderly beginning in 2002.

The main program activities for 2002 for the social welfare sector will be to: 1) Introduce the administration and payments of pensions for the elderly; 2) Continue renovation of Shtime Special Institution and de-institutionalization of residents; 3) Further strengthen the Centres for Social Work through skill development and introduction of better IT systems; 4) Implement activities related to the World Bank/DFID Social Protection Project; 5) Continuation of the Social Assistance Scheme.

The approved budget level is based on several key assumptions relating to the implementation of social welfare assistance programs. The budget is based on the signed regulation on pensions and assumes that the newly elected Assembly will agree to the proposed timing and rate of the proposed pension scheme. The budget also assumes that a sustainable infrastructure for pension and SAS payments will be negotiated and that the number of Social Assistance Scheme beneficiaries will remain relatively stable. It is assumed that sufficient funding will be provided to complete the pension administration building renovations and for all start up costs. Fraud control will become an increasingly important issue with the introduction of pensions and it is assumed that policies will be adopted to address this issue as well.

With respect to external financing, the Ministry has secured Euro 3.000M for the refurbishing of Social Centers and the training of social workers. Yet additional external assistance in the amount of Euro 1.500M is still sought under the Public Investment Program to support the refurbishment of the Stimje Special Institute and other special institutions, as well as the provision of furniture and basic equipment to all special institutions.

Labor and Employment Affairs

For the labor and employment affairs sector, the Kosovo Budget provides Euro 1.476M to primarily promote the activities of Kosovo Office for Employment and vocational training activities. The Kosovo Office of Employment network, with 188 employees, consists of a central services unit (dealing with labor market data consolidation and analysis), 7 regional employment centers, 22 municipal employment offices and 5 sub-offices to serve minorities. The Ministry expects to open 4 additional Serbian municipal offices in the Northern Mitrovicë region in the near future. More than 237,000 jobseekers are registered and around 6,800 unemployed found a job through the mediation of the Employment Services to date. The Budget includes funding also to establish a Labor Inspection Authority that will serve as an Executive Agency within the Ministry. The newly established Labor Inspection Authority's primary mandate is to implement labor law in accordance with UNMIK Regulation No. 2001/27 on the Essential Labor Law for Kosovo.

The 2002 Budget includes funding for 40 new staff, including Employment Advisors, Vocational Training Advisors, and Vocational Guidance Advisors to support the expansion of the Employment Services throughout Kosovo. Additionally, the Budget provides funds to implement capacity building programs specifically adapted to the staff for the Employment Offices sectors (i.e., Job Mediation, Vocational Training, and Vocational Guidance) will be implemented. It is expected that about 200 staff will benefit from these training programs. In addition, the Ministry anticipates establishing up to 13 Employment Offices as part of the expansion of unemployment coverage into minority areas. The employment offices efficiency and effectiveness will be improved with the acquisition of vehicles and equipment funded in the budget. To support the refurbishment of employment centers, the Ministry is seeking Euro 0.500M under the Public Investment Program.

Vocational Training Centers will be established to operate with the Employment Offices, providing skills and increasing the employability of around 1,000 jobseekers. To achieve its objective, the Ministry has secured Euro 2.250M in external assistance. Yet Euro 1.300M is still sought under the Public Investment Program to establish three new Vocational Training Centers in North Mitrovica, Ferizaj, and Janjevo, and for the development of modular training schemes designed to improve flexibility of the training system.

The Ministry will establish a Labor Inspection program, including the recruitment and training of 32 labor inspectors, and the establishment of Labor Inspection Offices.

The Ministry is seeking Euro 1.800M under the Public Investment Program to fund Labor intensive Public Works, targeting the unskilled and ethnic minorities. This will include the use of Contractors for rehabilitation of community infrastructure works employing unskilled and ethnic minorities, capacity building in municipal structures to plan, design and supervise labor-based community infrastructure works, and training of small scale contractors.

Additionally, a key international partner will help launch a project promoting self-employment initiatives through training and business start-up assistance.

Central Administrative Services

The 2002 Kosovo Budget also provides Euro 0.189M to establish a Central Administrative Services division to provide administrative, logistical, financial, procurement and legal

support to the Ministry's operational departments. The Division was created by merging and expanding the financial and administrative units of the former JIAS Department of Labor and Employment and Directorate of Social Welfare.

CENTRAL FISCAL AUTHORITY

ROLE OF THE AUTHORITY

The role of the Central Fiscal Authority (CFA) includes responsibility for the overall coordination and financial management of the Kosovo Budget. Further, its role is to develop fiscal policy and administrative systems for Kosovo, including sound tax administration, revenue and macroeconomic policy and a modern accounting/treasury system.

In 2002, the role of CFA will change as the framework for the provisional institutions of self-government is established in accordance with UNMIK Regulation 2001/19 and the Constitutional Framework for Provisional Self-Government approved on May 15, 2001. Under the new Kosovo governance structure, a Ministry of Finance and Economy will be established that will take on many of the fiscal responsibilities currently executed by CFA. These will include overseeing budget preparation, execution and monitoring for the provisional institutions of self-government and conducting economic analysis and research.

The CFA will continue to oversee the development and execution of the budget for the governmental agencies and functions retained under the authority of UNMIK as well as coordinate the Customs administration activities, and tax administration and policy activities. For reference, the 2002 Kosovo Budget totals Euro 374.1M. Of the total, Euro 267M or 71% is provided for the provisional institutions of self-government and the 30 municipalities, for which the Ministry of Finance and Economy will be responsible. CFA will oversee the balance of the 2002 Kosovo Budget (Euro 107M) provided for the government agencies and functions reserved for UNMIK.

2002 BUDGET HIGHLIGHTS

- The 2002 Kosovo Budget includes total funding of Euro 8.386M and 888 employees to support the key Central Fiscal Authority programs – Customs, Tax Administration, Central Administrative Services, Independent Taxation Review Board and Kosovo Board for Financial Reporting Standards. Of the total CFA funding provided, 21% is for Central Administrative Services, 47% is for Tax Administration expenses, and the balance is primarily for Customs Administration. Total funding of Euro 0.102M is also provided to establish an Independent Taxation Review Board and Kosovo Board for Financial Reporting Standards in 2002.
- The main challenges facing the CFA for 2002 will include recruiting and retaining Kosovar staff to assume key management positions and training them appropriately; working with the newly-established Ministry of Finance and Economy to maintain a single-finance ministry model during the transition to provisional self-government; continuing to develop and refine internal audit processes; assisting in implementing a sound policy for expenditure and revenue assignment between the 30 municipalities of Kosovo and central government; integrating information technology into the fiscal administrative functions of the CFA and disseminating accounting standards for the public and private sector based on international accounting standards through the newly-established Kosovo Board for Financial Reporting Standards.

2002 Kosovo Budget
Expenditure by Program Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Customs/Tax Collection	340	2.993	2.572	3.970	3.980
Tax Administration	395	1.372	3.953	1.372	1.372
Central Administration Services	147	2.834	1.759	1.759	1.759
Independent Taxation Review Board	3	0.000	0.051	0.051	0.051
Kosovo Board for Financial Reporting Standards	3	0.000	0.051	0.051	0.051
TOTAL	888	7.199	8.386	7.203	7.213

* Public Investment Program figures for 2001 are Euro 7.158 M for the Central Fiscal Authority.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2001 Emp.	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Reserves
Customs/Tax Collection	340	1.455	0.989	0.000	0.128	0.000
Tax Administration	395	1.243	1.505	0.000	1.206	0.000
Central Administration Services	147	0.284	1.202	0.000	0.272	0.000
Independent Taxation Review Board	3	0.008	0.043	0.000	0.000	0.000
Kosovo Board for Financial Reporting Standards	3	0.008	0.043	0.000	0.000	0.000
TOTAL, Kosovo Budget	888	2.998	3.783	0.000	1.605	0.000
% of Total		36%	45%	0%	19%	0%

PROGRAM ACTIVITY

Background

The Central Fiscal Authority was established under UNMIK Regulation 2000/7 in 1999 to serve as the central fiscal entity for UNMIK government agencies. According to the regulation, the primary role of the CFA was to supervise tax policy and administration, treasury activities, customs and budget preparation, execution and monitoring. In addition, CFA worked with the Public Procurement Regulatory Body (PPRB) to establish a public procurement system in Kosovo. The CFA information technology and internal audit groups support its functions.

The Budget Office within CFA drafted and executed a partial year budget for the period September – December 1999 and drafted its first full year Kosovo Budget for 2000 which financed public expenditures for the UNMIK departments and provided grants to municipalities. The 2001 Kosovo Budget mostly covered capital investment expenditures. Capital investment has been largely financed by donor grants and programmed by the former Department of Reconstruction. Under CFA fiscal management, the portion of the Kosovo

Budget financed from donor grants has gradually reduced. In 1999 it was 74%, in 2000 it was 51%, in 2001 it was about 30% and 7% for 2002. The Customs administration collects 98% of domestic revenues to finance Kosovo Budget expenditures.

2002 Program Activity Overview

The CFA Budget in 2002 includes total funding of Euro 8.387M and 888 average full-time equivalent positions to support the key Central Fiscal Authority programs – Customs, Tax Administration, Central Administrative Services, Independent Taxation Review Board and Kosovo Board for Financial Reporting Standards.

Tax Administration

For the 2002 Budget, the Tax Administration is allocated Euro 3.953M or 47% of the total. Of the total amount allocated, Euro 1.243M is for staffing expenses. This will fund an average of 395 employees. Another Euro 1.505M will be provided for domestic travel, utilities, vehicle maintenance, fuel, IT maintenance, communications, rent for office premises, office supplies and for printing tax publications. An additional Euro 1.206M is provided for minor capital expenditures including the purchase of photocopiers, computers, facsimiles, furniture, vehicles and the Tax Administration Information System.

Central Administration

The Central Administration unit of the CFA consists of the Budget Office, Treasury Office, Information Technology Unit, Internal Audit, Procurement/Regulatory Office and Tax Policy and Macroeconomic Directorate. The 2002 budget for the Central Administrative Services is Euro 1.759M of which 68% is earmarked for the purchase of goods and services to support the Central Administrative Services activities. These funds will be used for domestic travel, utilities, office maintenance, training (language and IT), office supplies, communications, fuel, vehicle maintenance and publications. Capital outlays for the Central Administration are budgeted at EURO 0.272m. These funds will be used to purchase computers, office furniture, photocopiers, training equipment, vehicles and software.

Customs

The 2002 Budget for the Customs Office is Euro 2.572m, or 31% of the total CFA budget. Of this amount, Euro 1.455M is for staffing expenses and will fund an average staff level of 340 employees. An additional Euro 0.989M is provided for the purchase of goods and services including utilities, fuel, vehicle maintenance, storage rental, office supplies and uniforms. The budget also provides Euro 0.128M for minor capital expenditures to purchase furniture and equipment.

Independent Taxation Review Board & Kosovo Board for Financial Reporting

The 2002 budget for the Independent Taxation Review Board is Euro 51,129 or 0.6% of the total CFA budget. Of this amount, Euro 7,731 will be used for funding the average staff level of 3 employees, and, an additional Euro 43,398 is provided for goods and services. The same budget amounts have been provided for the Kosovo Board for Financial Standards.

DIRECTORATE OF ADMINISTRATIVE AFFAIRS

ROLE OF THE DIRECTORATE

The Directorate of Administrative Affairs is responsible for the provision of public services to the population of Kosovo both directly as well as by supporting the work of other Departments. It is responsible for the establishment of a legal and institutional framework for the delivery of services on a sustainable basis, including resident and civil status registration and the authority over the civil registry database for the issue of ID cards, travel documents, birth, death and marriage certificates through the Civil Registry Unit. It has responsibility as well for the publication of the Official Kosovo Gazette.

In addition, the Directorate is also responsible for the overall coordination of property related to matters of public buildings, the Housing and Property Directorate, including the Housing Claims Commission. The Housing Property Directorate (HPD) is responsible for regularizing property rights for those persons who lost property due to discriminatory laws in the 1990s, the conflict of March 1999 and to confirm the so-called “informal transactions” entered into between ethnic groups during the 1990s. The effective implementation of the HPD mandate will contribute to economic stabilization and investment in Kosovo.

2002 BUDGET HIGHLIGHTS

- The Kosovo Budget 2002 provides Euro 5.367M for the Directorate of Administrative Affairs for its major program activities which are the Civil Registry Service, Central Processing Center, Official Kosovo Gazette and the Housing and Property Directorate. Of the total amount provided, 59% is earmarked for the Department’s Central Processing Unit, 22% is provided for the Civil Registry Service activities, and the balance funds the Official Kosovo Gazette and the Housing and Property Directorate.
- The key activities of the Directorate in 2002 will concentrate on implementing the previously discussed responsibilities. The key issue for the Housing and Property Directorate (HPD) will be to collect all claims by December 2002, from persons who have lost their property as a result of discrimination during the 1990s or from persons who lost their property during the conflict of March 1999, the majority of which will come from Serbia proper. The HPD will then be required to process all claims and implement the decisions made by the Housing and Property Claims Commission.
- The HPD is primarily funded through voluntary contributions. UNMIK has in the past provided approximately 10% of the HPD total financing through the Kosovo Budget.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Civil Registry	0.696	0.000	1.198	0.000	1.198	0.000	1.198	0.000
Central Processing Center	6.091	0.000	3.192	0.000	3.192	0.000	3.192	0.000
Official Kosovo Gazette	0.102	0.000	0.102	0.000	0.102	0.000	0.102	0.000
Housing and Property Directorate	0.524	145.490	0.875	11.193	0.875	7.940	0.875	7.500
Subtotal, KGB	7.431		5.367		5.367		5.367	
Subtotal, PIP		145.490		11.193		7.940		7.500
TOTAL	152.921		16.560		13.307		12.867	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Civil Registry	316	0.578	0.620	0.000	0.000	1.198
Central Processing Center	250	0.448	1.703	0.000	1.041	3.192
Official Kosovo Gazette	3	0.009	0.093	0.000	0.000	0.102
Housing and Property Directorate	65	0.108	0.767	0.000	0.000	0.875
Total, Kosovo Budget	634	1.143	3.183	0.000	1.041	5.367
% of Total		22%	59%	0%	19%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 and the Constitutional Framework for Provisional Self-Government in Kosovo, under the new self-government structure, UNMIK will retain responsibility over the Housing and Property Directorate, including the Housing Claims Commission and responsibility for the civil registry database, which shall be maintained in cooperation with the Provisional Institutions of Self-Government (PISG). These responsibilities will be carried out by the Directorate of Administrative Affairs through the following key activities:

- Providing public services, including the issue of ID cards, vehicle license plates, travel documents, birth and death certificates to the population; and
- Collection and processing of property claims and implementation of decisions.

2002 Program Activity Overview

The Budget provides Euro 1.198M for the *Civil Registry Service* to exercise control and authority over the civil registry database, which shall be maintained in cooperation with the PISGs. A total of Euro 3.192M is provided for the *Central Processing Center* to maintain the central civil registry of the residents of Kosovo, perform data entry from all civil documents, provide the voters list for the different elections and produce UNMIK Travel Documents.

The Official Kosovo Gazette Unit is funded at Euro 0.102M. The unit is responsible for publishing UNMIK Regulations and Administrative Directions in the three official languages in one book. The Unit is also responsible for selling, distributing and advertising of the publication as well as the creation and maintenance of a database on applicable laws.

Housing and Property Directorate

The budget provides an additional amount of Euro 0.875M for the *Housing and Property Directorate* to regulate property rights in Kosovo through the collection and determination of claims from persons who lost their property pursuant to the conflict in March 1999 and as a result of discriminatory legislation passed in the 1990s.

HPD has an important task to play in Kosovo, being responsible for:

- Providing a legal mechanism to resolve residential property disputes allowing individuals to exercise their property rights acquired through informal transactions or lost as a result of discriminatory laws or the 1999 conflict. This will enable allow individuals to deal with their property, providing economic stability and enabling investment.
- Protecting the legal status of the owners of abandoned properties (i.e. IDPs and refugees) by administering those properties. Such protection removes pressure on IDPs and refugees to sell their property immediately as the HPD can place property under its administration, thereby protecting the property and allowing the rightful occupants to return to their own property when they believe it is safe to do so.
- Providing overall direction on property rights in Kosovo including guidance to UNMIK and KFOR and others on specific issues related to property.

DIRECTORATE OF CIVIL PROTECTION

ROLE OF THE DIRECTORATE

The role of the Directorate of Civil Protection is to:

- Develop and maintain the Kosovo Protection Corps (KPC), in accordance with UNMIK Regulation 1999/8, as the governmental emergency response organization;
- To exercise control and authority over the management of the administration and financing of civil security and emergency preparedness; and
- Take over the responsibilities for mine clearance in Kosovo from the UN Mine Action Coordination Center for residual demining activities.

According to the Constitutional Framework for provisional self-government in Kosovo, approved on May 15, 2001, the SRSG retains responsibility for exercising control and authority over the management of the administration and financing of civil security and emergency preparedness. Responsibility for these activities is gradually to be assumed by the Provisional Institutions of Self-Government (PISGs).

It is the role of government in the sector to develop and implement strategies and policies for emergency preparedness in Kosovo, to formulate programs and budgets for the development and maintenance of the necessary services, to develop, implement and supervise the regulatory (including standards) and financial framework, and to coordinate the planning and performance of emergency responses.

The main administrative agencies involved in the sector at the central level are the Directorate of Civil Protection (KPC) and the Division of Emergency Management (Ministry of Public Services), and the Municipalities with regard to the Fire and Rescue Services. UNMIK Regulation No. 2000/45 on "Self-Government of Municipalities in Kosovo" stipulates the responsibilities and powers of municipalities including fire and emergency services. The operational entities involved in the sector are the Kosovo Protection Corps, the Municipal Fire and Rescue Services, the Kosovo Police Services, and the Medical Services. The international peacekeeping force KFOR may also be called upon for assistance in particular situations.

The Directorate of Civil Protection is established by merging several programs of the former JIAS Department of Civil Security & Emergency Preparedness primarily the KPC and Mine Clearance Programs, while the former department's Fire & Rescue Services and Civil & Emergency Preparedness will gradually be transferred to the Ministry of Public Services (Department of Local Administration & Emergency Management, Division of Emergency Management) throughout 2002.

2002 BUDGET HIGHLIGHTS

- The Budget for 2002 provides a total funding level of **Euro 16.363M** to cover the recurrent costs for the **Kosovo Protection Corps, Mine Clearance, Fire & Rescue Services, and Emergency & Civil Preparedness**. Although, in nominal terms this represents a modest increase over the budget for 2001, in real terms, it represents a significant increase given the planned reduction in staff numbers, because of the activation of Kosovo Protection Corps Reserve.
- For 2002, external investment planned under the Public Investment Program amounts to Euro 18.652M. As of December 31st 2001, Euro 1.500M had been secured in the form of investments linked to ongoing assistance programs and of new donor programs due to start in 2002. However, a further Euro 17.152M is still being sought to upgrade and develop KPC emergency response capacity, through acquisition of equipment, focused training and improved management and logistic skills, as well as the activation of the KPC Reserve, to complete the rehabilitation and construction of Kosovo's Fire Brigades, to establish 5 Regional Alarm and Information Centres, and to improve the EOD (Explosive Ordnance Disposal) Response Development, including the acquisition of necessary equipment.
- The key issues facing the sector for 2002 will be to effectively establish operations at different levels, the distribution between levels and entities of responsibilities, obligations, and resources, and the coordination of resources for emergency response.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity

(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Kosovo Protection Corps	12.045	8.044	12.280	12.582	11.607	5.725	11.840	4.163
Mine Clearance	2.139	6.998	0.400	0.720	0.468	0.105	0.564	0.150
Fire & Rescue Services	0.164	0.499	2.988	4.000	3.349	3.600	3.445	2.900
Emergency & Civil Preparedness	0.707	0.000	0.695	1.350	0.877	0.850	0.900	0.000
Subtotal, KGB	15.055		16.363		16.301		16.749	
Subtotal, PIP		15.541		18.652		10.280		7.213
TOTAL	30.595		35.015		26.581		23.962	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Kosovo Protection Corps	4,000	7.203	4.471	0.000	0.607	12.281
Mine Clearance	716	1.412	1.135	0.000	0.441	2.988
Fire & Rescue Services	5	0.011	0.370	0.000	0.019	0.400
Emergency & Civil Preparedness	85	0.152	0.415	0.000	0.128	0.695
TOTAL, Kosovo Budget	4,806	8.778	6.391	0.000	1.194	13.363
% of total		54%	39%	0%	7%	100%

PROGRAM ACTIVITY

Background

The Directorate is responsible for four programs: (1) Kosovo Protection Corps, (2) Mine Clearance, (3) Fire & Rescue Services and, (4) Emergency & Civil Preparedness.

1. KPC (Kosovo Protection Corps)

According to UNMIK regulation No. 1999/8 on the establishment of the Kosovo Protection Corps (KPC), the KPC shall:

- Provide for disaster response capability, including major fires, and industrial accidents or spills;
- Undertake search and rescue operations;
- Provide humanitarian assistance in isolated areas;
- Assist in demining; and
- Contribute to rebuilding infrastructure and communities.

KPC have no role in law enforcement or any other task involved in the maintenance of law and order. Day-to-day supervision of the KPC is the responsibility of KFOR, under policies and priorities established by the Directorate.

During the year 2000, KPC was entirely financed by Designated Donor Grants. However, as an acknowledgement of its successful transition to a civilian government organization, most of the KPC operating expenses are currently funded under the Kosovo Budget. Most of its key capital investment needs remain unfunded and are completely donor funded.

2. Mine Clearance

The UNMIK Mine Action Coordination Center (MACC) was established as the focal point for mine action in Kosovo. Over the past two and a half years, the MACC monitored the work of 16 mine clearance organizations, using personnel from a dozen countries working with 900 trained Kosovars, to destroy nearly 25,000 landmines and more than 8,300 cluster bombs. The effort included contributions from 15 other organizations that helped communities to understand the threat of mines and educate them about the risk they pose.

After ascertaining that all known minefields and cluster bomb strike sites in Kosovo were cleared to internationally acceptable standards, the long-term responsibility for demining activities were transferred to the Directorate in December 2001.

This responsibility implies the establishment of a quick response mechanism able to effectively deal with the incidents related to Land Service Ammunition and Cluster Bomb Units as found by the public including a central management and quality assurance capacity in accordance with the International Standards for Humanitarian Mine Clearance.

3.-4. Fire & Rescue Services and Civil & Emergency Preparedness

The Kosovo Risk Assessment Overview conducted in April 2000 and the Draft Regulation on Civil Emergency Preparedness in Kosovo is the basis for development of the emergency prevention and response structure for the Fire & Rescue Services and Civil & Emergency Preparedness programs.

The Fire and Rescue Services is responsible for developing and maintaining an operational fire and rescue services in the municipalities with capacity for: (1) implementation and supervision of fire prevention regulations and guidelines; (2) fire fighting; (3) residual rescue services (e.g. traffic accidents, small leakage of dangerous substances); and (4) other civil protection issues.

Emergency Preparedness is responsible for the establishment of a regulatory and financial framework for the distribution of responsibilities, obligations, and resources between the governmental level, the municipalities, and the private sector (owners or/and users of buildings, industries and other establishments as well as individuals in the society). This goal is performed by:

- Establishing sustainable administrative and co-coordinating functions on the central as well as municipal level;
- Implementing and supporting hazard identification and evaluation processes at municipal levels;
- Developing and implementing programs for emergency prevention measures with priority given to fire prevention;
- Developing emergency response planning;
- Developing and implement programs for public awareness;
- Establishing systems, facilities and procedures for warning and informing the public;
- Establishing coordinating command centers on regional level for emergency response.

2002 Program Activity Overview

KPC (Kosovo Protection Corps)

The 2002 Budget provides Euro 12.280M or 75% of the Directorate's total budget to finance operating expenses for KPC in Kosovo. The KCB funds for KPC will not only be used for day to day routine operating costs, but also to upgrade and develop their emergency response capacity through acquisition of equipment, focused training and improved management and logistic skills. The Budget for Kosovo Protection Corps envisages average staff strength of 4,000 KPC members over the year. During the year 2002, the activation of the KPC reserve is

planned to take place, so that the KPC establishment reflects an organizational size of 3,000 full time members and a reserve of 2,000 members. The reserve will be called up for training, two months each year, and as and when required.

The number of KPC sites must be reduced significantly or there will be a shortage of funds for goods and services. Any additional costs must be covered by designated donor funds.

With respect to external funding sought under the Public Investment Program, financial assistance of about Euro 0.950M has been secured for equipment and Work Projects carried out by KPC members. An additional Euro 11.600M is sought in 2002 and Euro 9.900M is needed in the subsequent two years to complete the implementation and equipping of the different KPC units specialized in emergency response, to develop an integrated communications network, to provide the necessary operational and managerial training, to repair the damaged infrastructure and for the activation of the KPC Reserve Corps.

The noncompletion of the KPC Program will obstruct the process of transforming it into a civilian emergency response organization. It will seriously limit its capability to respond to disasters and emergencies as well as frustrate the goal of creating a safe society in Kosovo.

Mine Clearance

The 2002 Budget includes Euro 0.400M or 3% of the Ministry's total budget to finance operating expenses for the newly appropriated Mine Clearance activity including staffing and maintenance of buildings, equipment and vehicles.

Although in absolute terms the appropriation for Mine Clearance is under Euro 0.500M, it reflects an increase of 144% over the year 2001. Special KPC teams will carry out the responsibility, and provision has been made for this under the KPC budget. The central management and quality assurance capacity, however, in accordance with International standards for humanitarian mine clearance and insurance for the teams will be met from the mine clearance program.

With respect to external funding sought under the Public Investment Program, financial assistance of about Euro 0.550M has been secured for the EOD (Explosive Ordinance Disposal) training program.

An additional Euro 0.170M is sought in 2002 to complete the implementation and development of the EOD Response Teams, including special de-mining equipment, offices/garages and individual specialist training in order to establish an efficient EOD response capability.

In the event that the Mine Clearance Program is not realized there will be no civilian response capacity available in Kosovo to deal with the threat posed by mines/explosives.

Fire and Rescue Services

The 2002 budget includes Euro 2.988M or 18% of the Ministry's total budget to finance operating expenses for the Fire and Rescue Service, including staffing and maintenance of buildings, equipment and vehicles.

The Budget for Fire & Rescue Service reflects an increase of 39.7% over the year 2001. A total of 146 additional firefighters will be recruited and provided with basic training. Plans include refresher training for existing firefighters, procurement of uniforms, protective gear and personal insurance for all firefighters during 2002.

A major concern for the Fire and Rescue Service is the high maintenance costs of the Fire Engines. The existing vehicle fleet of the fire service is obsolete and spans several generations. This leads not only to high maintenance costs, but makes uniform logistic routines impossible. A replacement program for the obsolete vehicles is necessary.

With respect to external funding sought under the Public Investment Program, financial assistance of about Euro 4.000M is sought in 2002 to complete the renovation of the 22 existing Fire Stations, as well as the establishment of 8 new Fire Stations, making a total of 30. The proposal includes the construction or renovation of buildings, provision of individual equipment, radio communication network, light and heavy equipment, and the selection and training of new firemen.

Emergency & Civil Preparedness

The 2002 budget provides Euro 0.695M or 4% of the Ministry's total budget to finance operating expenses for the Emergency & Civil Preparedness Unit including staffing and maintenance of buildings, equipment and vehicles.

The operating budget for Emergency & Civil Preparedness is almost at the same level as the year 2001.

With respect to external funding sought under the Public Investment Program, financial assistance of about Euro 1.350M is sought in 2002 to establish an integrated emergency response network of 5 Regional Alarm and Information Centres. In addition, total funding of Euro 0.850M is being sought in 2003 for enhancing the integrated emergency response system by implementing a Kosovo wide radio and command system.

KOSOVO POLICE SERVICE (KPS)

ROLE OF THE AGENCY

The role of the Kosovo Police Service (KPS) is to maintain peace and public order in Kosovo through the establishment of a professional and effectively functioning local police force.

This will be achieved by the completion of key activities, including completing the selection/recruitment process to ensure that the best candidates are accepted for the Kosovo Police Force; completing basic, special and field training for all local Police Officers; establishing a professional province wide Police Force structure; creating a complete logistical support system for the local Police; and securing the necessary infrastructure, equipment and other resources.

Under the new self-government structure in accordance with UNMIK Regulation 2001/19 and the Constitutional Framework, UNMIK will retain responsibility for the law enforcement institutions and the correctional service both of which include and are supported by local staff. The primary role of the Kosovo Police Service is to create and operate a professional and effectively functioning local police force.

The Government responsibility for formulating and implementing policing policy and for law enforcement in Kosovo is exercised primarily through UNMIK Police, which is responsible for coordinating the development and activities of the KPS. Ultimately this responsibility will be assumed by the KPS within the future government structure of Kosovo.

2002 BUDGET HIGHLIGHTS

Euro 23.497M and 5,475 full-time equivalent positions have been allocated for KPS within the 2002 Kosovo Budget. This amount has been broken down as follows – 61% for salaries and wages of Police Officers and associated staff, the remaining (39%) is for goods and services and capital outlays. After accounting for taxes and duties, the available funds are Euro 5.04M. This provides for the non discretionary costs associated with graduating classes 18 to 21 of Euro 1.77M and allows Euro 3.37M towards the non discretionary goods and services costs for 2002 of Euro 4.64M.

KPS has examined the options available given the approved budget allocation and has concluded that priority must go to the consolidation of the current KPS strength and the provision of the essential resources of Euro 3.52M for the KPS transition process. This will require the reallocation of a portion of wages and salary budget to the goods and services budget category. As a result, the target strength of 5,675 KPS Officers and 200 civilian staff will not be achieved at the end of 2002.

There are a number of unfunded New Policy Proposals for 2002 that will require external donor support to provide these important capabilities to support law and order. These capabilities are:

- The establishment of a Canine and Detector Dog capability that is a three-year program that requires Euro 0.318M in 2002 and Euro 0.926M and 0.437M in years two and three respectively. This provides for the acquisition and training of five

canine units to support patrols, building search, narcotic interdiction and explosives detection.

- Intelligence and Organized Crime units' initiative is part of a programme to incorporate intelligence and organized crime investigative units within the five police regions. Euro 0.719M is the funding requirement for the current year. A further Euro 1.200M may be needed to establish a central headquarters depending on the location used.
- A public disorder and emergency response capacity is required to provide riot and disturbance intervention, high risk forced entry and warrant service, and enhanced crime reduction programs. This program is part of the transition from UNMIK SPU to KPS and is designed for implementation over three years. Year one requires Euro 1.053M
- A high priority for budget support is the close protection unit. This is vital to meet the security requirement of principals assessed as "at risk". This is a priority for members of the National Assembly. A limited quantity of equipment was acquired in 2001. Euro 1.453M is required for the continued development and operation of the capability in 2002.

The KPS Security Service Division (KPSSD) is to be resourced as a service provider. The National Assembly has Euro 0.546M budget provision for security services. Other program areas such as courts also have budgeted for static security support. It is intended that the KPSSD be funded from such sources.

Witness protection was an unfunded priority until in January 2002 the SRSG directed that funds be made available. The provision was deducted from the KPS goods and services allocation.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Kosovo Police Service	15.174	5.113	23.497	7.500	23.497	8.000	23.497	8.940
Subtotal, KGB	15.174		23.497		23.497		23.497	
Subtotal, PIP		5.113		7.500		8.000		8.940
TOTAL	20.287		30.997		31.497		32.437	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Kosovo Police Service	5,475	14.329	6.406	0.000	2.762	23.497
TOTAL, Kosovo Budget	5,475	14.329	6.406	0.000	2.762	23.497
% of Total		61%	27%	0%	12%	100%

PROGRAM ACTIVITY

Background

The Kosovo Police Service is responsible for the full process of the development of a local police service in Kosovo, i.e. of selecting candidates to become Police Officers, arranging their field training, providing them with all necessary facilities, uniforms, weapons, and equipment, as well as providing them with the special training needed to enable them to start their own policing actions, initially under the supervision of UNMIK police.

KPS is also responsible for evaluating local Police personnel from a professional perspective, and mentoring and monitoring their operations. OSCE runs part of the training process by providing basic police training at the Police School. It is planned that OSCE will also run specialized police training as part of what is expected eventually to become a comprehensive police training facility. The budget support for training is provided by OSCE

UNMIK Police, a separate force within the UNMIK structure designated as Kosovo Police Service Planning and Development, is currently responsible for all policies, planning, procedural job descriptions and duty regulations for the KPS, as well as for the structures of different Police divisions. UNMIK Police is expected to begin the hand over of operational responsibilities to KPS beginning in late 2002, and continue incrementally through 2005. Most regional operations should be in the hands of KPS at this time. The central headquarter functions are expected to be handed over by mid 2006. By that time the KPS should have become a fully self-sustained entity funded from the Kosovo Budget.

Police facilities are in very poor condition as most of them were damaged during the 1999 conflict and their rehabilitation is an urgent requirement. Immediate budget funding of Euro 2.000M is needed for initial work in 2002.

2002 Program Activity Overview

In 2002, Euro 23.497M has been allocated for Kosovo Police Service activities. External donor assistance of Euro 7.500M is still being sought, mainly for additional basic equipment, as vehicles, uniforms and weapons.

These identified funding needs are due to expansion plans of the Kosovo Police Service, which at the end of 2001 increased up to 4,475 police in the KPS including those at various stages of training. This will rise to 5,450 by the end of 2002 if supplementary funding is available to meet the costs of the additional 900 police officers (three more classes of 300

each). By that time, with the additional funding to facilitate the transition process, the KPS could include 100 officers in a Special Force Division, 400 in a Border Police Division and 3,500 in the province's public security branch. They would be supported by 200 civilian staff. It is planned that at the end of the transition period to have 40 Public Security Centers (Police Stations) province wide, 5 Regional Police HQs and one Kosovo Police HQ.

For the proposed investment, the additional annual recurrent costs are estimated at Euro 47.70M when the KPS is fully established at the beginning of 2004. It is difficult to see how these can be avoided if the Service is to be established and maintained from Kosovo's own budgetary resources. During the establishment phase of the Service and while there are particularly heavy pressures on the Kosovo budget, it is appropriate that some of the establishment costs be sought from donors. Provision has been made for some of these costs in the Operations Budget for 2002 but it is not sufficient to meet all the needs identified here for that year.

DEPARTMENT OF JUSTICE

ROLE OF THE AGENCY

The role of the Department of Justice (DOJ) is to establish an effective and efficient judicial system that promotes the rule of law and respect for human rights for all Kosovo citizens regardless of ethnic differences and according to applicable laws and international standards and practices. This is achieved through specific strategic objectives, such as:

- Designing and directing an effective and efficient system of courts and prosecutors' offices that promotes the rule of law and respect for human rights for all;
- Integrating ethnic minorities into the Kosovo judiciary and facilitate their access to justice;
- Maintaining effective and constructive cooperation between members of the Kosovo judiciary and the international judges and prosecutors;
- Bringing local forensic medicine and pathology services up to internationally acceptable standards to enable them to provide forensic evidence to criminal investigations;
- Monitoring the work of judges and prosecutors, including the issuance of recommendations for new appointments and extensions and conducting disciplinary proceedings; and
- Protecting victims' rights and ensuring their participation in criminal prosecutions.

The day-to-day administrative functioning of the courts and prosecutorial service has become the responsibility of the Department of Judicial Administration within the Ministry of Public Services. The Department of Justice will support its primary responsibilities by undertaking key activities, including:

- A Sensitive Information and Operations Unit is being created within the Department of Justice to provide prosecutorial input to KFOR and UNMIK Police on organized crime, terrorism and cross-border insurgency matters, to support organized crime-related operations undertaken by KFOR and the Police, to process sensitive or classified information for use in courtroom prosecutions, and to provide expertise and support on organized crime and terrorism issues to International Prosecutors and Judges.
- A Legal Policy Unit is being created within the Department of Justice that will be staffed by lawyers with a mix of civil and criminal law backgrounds, which will be the focal point for policy issues within the Department and serve as the primary liaison with other Kosovo-based agencies on substantive legal matters.
- A Victim Advocacy and Assistance Unit is being created in the Department of Justice with expertise in victim/witness assistance that will provide assistance to witnesses and/or victims of crimes from the beginning of DOJ involvement in a case until the end of the trial process.

- The number of International Judges and Prosecutors will be increased from the 2001 level of 20 to 34 by May of 2002 to improve Pillar I capabilities to prosecute and hold high-risk prisoners related to organized crime and extremism. To effectively combat organized crime and extremist activities, additional legislation is required, including the following:
 - **Covert Measures Regulation:** This regulation will enable police and prosecutors to use various types of covert investigative activity thus significantly enhancing their ability to investigate and prosecute cases arising from organized crime and extremist activities;
 - **Money Laundering Regulation:** This regulation will enhance police capabilities in detecting and investigating money laundering in Kosovo;
 - **Forensic Regulation:** This regulation will establish a capacity to provide fair medico-legal autopsies and examinations through a Medical Examiner's Office, and provide the forensic pathology support to the victim identification and recovery activity as part of the Pillar I Missing Persons Program;
 - **Professional Standards Regulation:** To improve the professional accountability of judicial professionals.

2002 BUDGET HIGHLIGHTS

- The 2002 Kosovo Budget provides a total of Euro 10.879M and 1,801 average full-time equivalent positions for the operating expenses for the Department's major programs, including the Kosovo Judicial and Prosecutorial Council and the Kosovo Medical Examiner's Office (formerly Kosovo Forensic Institute). In addition to these programs, it provides a substantial amount for the Courts and Prosecutors' Program, a program under the responsibility and political direction of the Department of Justice, but administered in its daily operations by the Department of Judicial Administration of the Ministry of Public Services.
- For 2002, external investment planned under the Public Investment Program amounts to Euro 0.994M. As of December 31st 2001, Euro 0.647M have been secured for the implementation of the Kosovo Medical Examiner's Office (KMEO), whereas Euro 0.347M is still sought to complete the implementation project of the KMEO and some minor investments for the Kosovo Judicial and Prosecutorial Council. The establishment of a viable forensic facility (the KMEO) is a project of main concern for the Justice Sector, as it will provide the necessary medico-legal autopsies analysis and examinations for a proper and well-functioning judicial system.
- For the 2002-2004 Kosovo budget cycle the Department of Justice will face several key operational and funding challenges. First, the integration of the different activities and departments providing support to the judicial system, the Department of Justice, the Penal Management System which it directs, and the Police into a single, unified strategic direction under Pillar I. In addition, this coordination of services will carefully need to analyze and plan the necessary human resources requirements for effectively implementing a fair and well functioning judicial system. This will result

in an increase in wages and salaries budget for the Department in the near term, in order to prepare the sector for its gradual transfer to the Kosovo democratic institutions.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Department of Justice	6.913	0.112	10.879	0.047	10.879	--	10.879	--
Kosovo Judicial and Prosecutorial Council	0.000	7.313	0.000	0.947	0.000	--	0.000	--
Subtotal, KGB	6.913		10.879		10.879		10.879	
Subtotal, PIP		7.525		0.994		--		--
TOTAL	14.338		11.873		10.879		10.879	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays
Department of Justice	1,801	4.849	3.806	0.000	2.223
TOTAL, Kosovo Budget	1,801	4.849	3.806	0.000	2.223
% of Total		45%	35%	0%	20%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 regarding the creation of the Provisional Institutions of Self-Government in Kosovo, the Department of Justice was created by restructuring the former JIAS Department of Justice, and continues to be responsible for the Kosovo Correctional Services through this service. The Correctional Service has its own budget under the Pillar I program.

Since the early 1990's, Kosovo Albanians were excluded from the official justice system. The primary task of the Department of Justice has been to establish a justice system that provides equal employment opportunities for all, irrespective of gender, ethnic and/or religious background.

The Department of Justice (DOJ) has functional responsibilities that cover the complete establishment and strategic planning for the judiciary and the courts and prosecutorial services, while day-to-day administrative functioning of the courts and prosecutorial service is the responsibility of the Ministry of Public Services. In the implementation of its mandate,

the DOJ re-established the Supreme Court of Kosovo, 5 district courts, 22 municipal courts, 1 commercial court, 22 minor offences courts and 13 offices of the Public Prosecutor.

As of 1 June 2001, 369 judges and prosecutors and more than 1,000 support staff (administrators, registrars, typists, legal assistants, legal apprentices, messengers, etc.) have been appointed to the judicial institutions of Kosovo.

The DOJ requires significant material support to operate the judicial system including vehicles, office furniture and equipment. It will require the support of KPSSD in providing security, and needs to collaborate with donors in the refurbishment of judicial buildings, the provision of material assistance to the courts, finance support, forensic expertise and legal assistance programs.

The proper functioning of the Kosovo Judicial and Prosecutorial Council, i.e. the support of its tasks pursuant to Regulation No. 2001/8, requires a Secretariat to provide the necessary administrative support.

All activities of the DOJ benefit from UN assistance in the form of UN staff and operating expenditures. There are no plans to transfer any of the Department of Justice substantive functions in the foreseeable future.

2002 Program Activity Overview

Department of Justice

In 2002, Euro 10.879M has been allocated for Department of Justice activities. External donor assistance of Euro 0.647M has been committed to implement a new forensic institute to provide the services of the Medical Examiner's Office. In addition, Euro 0.347M is still sought for complementing the available resources for the implementation of the Medical Examiner's Office and some minor requirements for the Kosovo Judicial and Prosecutorial Council.

The Department's responsibilities by program activity are as follows:

Courts and Prosecutors

Conduct an effective and efficient judicial system that promotes the rule of law and respect for human rights for all the citizens of Kosovo, by:

- Integrating ethnic minorities into the Kosovo judiciary;
- Facilitating access to justice for ethnic minorities;
- Analyzing and evaluating the functioning of courts and prosecutors' offices and specific judicial or prosecutorial activities, for the purpose of proposing their reform;
- Investigating the activities of judicial personnel;
- Ensuring protection of victims and their participation in the criminal justice system in order to facilitate the fighting of organized crime.

Kosovo Medical Examiner's Office

- Providing medico-legal autopsies including external and internal examinations of bodies;
- Providing medico-legal examination (eg. rape kits, collection of body fluids, collection of trace evidence); and
- Performing toxicology analysis (determining the levels of alcohol and drugs in biological material).

Kosovo Judicial and Prosecutorial Council

- Interviewing candidates for the positions of judges, prosecutors and lay-judges in all of Kosovo and formulating relevant recommendations for the eligible candidates to be appointed to the SRSG;
- Conducting disciplinary proceedings against judges, prosecutors and lay-judges, including investigations in coordination with the Judicial Inspection Unit within the Department of Justice, public hearings and imposing or recommending to the SRSG, as required, the relevant sanctions;
- Developing and implementing a continuing system of evaluation of judges' and prosecutors' for the purposes of deciding on matters related to the career of judges and prosecutors, i.e. promotion and request for transfers as well as for adjudicating or making recommendations on disciplinary proceedings;
- Developing and implementing a reform on the selection and training of judges and prosecutors including the organization of a public competition;
- Giving advice on any judicial matter, upon request of the SRSG; and
- Establishing the Secretariat, recruiting the necessary staff, providing a suitable location and the required office equipment.

KOSOVO CORRECTIONAL SERVICES

ROLE OF THE AGENCY

The role of the Kosovo Correctional Services (KCS) is to create and operate a modern correctional service that is efficient, effective and humane. KCS shall particularly endeavor to demonstrate respect for the rule of law and fundamental human rights in all of its policies and action; contribute to the security of society by maintaining a lawful and safe system of detention and incarceration and conditional release; operate in full compliance with international correctional standards; cooperate with all partners in the criminal justice system, and provide professional vocational training for convicted prisoners in order to facilitate their future reintegration into society.

In accordance with UNMIK Regulation No. 2001/19 and the Constitutional Framework for Provisional Self-Government in Kosovo, under the new self-government structure UNMIK will retain responsibility for the law enforcement institutions and the correctional service both of which include and are supported by local staff. The primary role of the Kosovo Correctional Service is to create and operate a penal system based on international standards — a system that seeks social integration rather than simple punishment. The Department will carry out its primary role in the sector through the following key activities:

- Rehabilitating and refurbishing persons and detention centres all over Kosovo according to international standards in order to increase the capacity to accommodate existing and foreseen prisoners and detainees in Kosovo;
- Developing and implementing policies and procedures that fully comply with international correctional standards and respect fundamental human rights with regard to the management of correctional facilities and treatment and care of inmates;
- Providing a lawful and safe system of detention, incarceration and conditional release;
- Promoting human rights/rule of law through regular consultations and participation in joint task forces on issues of common interest such as juvenile justice, trafficking, treatment and care of psychiatric/mentally ill detainees and prisoners, staff welfare issues, etc.;
- Establishing recreation, educational and vocational training programmes for all inmates; and
- Recruiting and training Kosovar nationals who will take over the management of KCS upon the departure of international experts and civilian and correctional personnel to staff all the Correctional facilities in Kosovo.

2002 BUDGET HIGHLIGHTS

- The 2002 Kosovo Budget provides Euro 6.499M and 1,274 average full-time equivalent positions for KCS. Of the total, 38% is for salaries and wages of the Correctional Officers and associated staff, 46% is for the purchase of goods and services to support KCS activities, and the balance is for minor capital expenditures, primarily the purchase of vehicles, security equipment and other equipment to support the operation of its facilities. KCS' primary concern is if the prison population increases at a rate greater than the forecasted level. Initial indications in early 2002 are that this is probable and hence all budget provision will be inadequate to operate

the prison system for the full 12 months. A further KCS concern is the need for sufficient funds to cover associated operating costs for the capital investment projects in Dubrava penitentiary and new Lipjan Prison.

- External donor support has been secured for the construction of a new prison facility in Lipjan as well as for the ongoing refurbishment of the Dubrava penitentiary. In addition to the already funded projects, Euro 3.450M are still being sought for funding a prisoner escort service, CCTV for Dubrava and Lipjan, Walk-Through metal detectors, and water reservoirs.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Kosovo Correctional Services	4.635	2.134	6.499	10.790	6.499	2.350	6.499	1.000
Subtotal, KGB	4.635		6.499		6.499		6.499	
Subtotal, PIP		2.134		10.790		2.350		1.000
TOTAL	6.769		17.289		8.849		7.499	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget

Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Kosovo Correctional Services	1,274	2.453	2.967	0.000	1.079	6.499
TOTAL, Kosovo Budget	1,274	2.453	2.967	0.000	1.079	6.499
% of total		38%	46%	0%	16%	100%

PROGRAM ACTIVITY

Background

In August 1999, a reconnaissance mission of Canadian and British Correctional experts carried out an overall assessment of the condition of Corrections in Kosovo in order to establish correctional requirements and conduct a survey of the detention facilities. A follow-up mission carried out in September 1999 prepared an elaborated strategic plan for the recruitment, staffing, training and re-establishment of ISTOK Penitentiary (Dubrava Prison). This plan recommended the adoption of practices in conformity with European Prison Rules and UN Minimum Standards for the Treatment of Prisoners and Detainees. The first UN Correctional Expert arrived in Kosovo in October 1999 with the support of a few experts on secondment from the United Kingdom and Canada.

Further plans were elaborated in order to transfer management of all correctional facilities to the Penal Management Division/Kosovo Correctional Service from NATO Forces (KFOR) and International Civilian Police (CIVPOL).

On 29 November 1999, PMD/KCS took over the first correctional facility from the German

KFOR in Prizren. Fifty-eight Kosovar Correctional officers who had served in the previous regime were identified and offered a three-day refresher course before being assigned under the supervision of a team of international Correctional experts from the UK.

The inaugural Correctional Officer Training Course commenced in November 1999. All Correctional Officers currently on board have participated in the basic training course. Selected Officers have also participated in specialized courses such as Prisoner Escort, Control and Restraint operations and Firearms Training. In 2002, another complement of Correctional Officers will undergo Management Training with a view to identifying senior and middle managers who will take over from the international experts in the future.

KCS has benefited from a lot of technical, financial and material support from various governments since October 1999.

2002 Program Activity Overview

In 2002, Euro 6.499M have been allocated for Kosovo Correctional Service activities. External donor assistance of Euro 5.400M has been committed to build a new prison facility in Lipjan. In addition, Euro 1.000M has been secured to rehabilitate block 4 and 5 of the Dubrava penitentiary. Completion of these projects will create 500 additional cell spaces.

The Department has identified key performance indicators to measure its results in achieving its key programme activities with the approved funding level for 2002. The indicators are:

- To create 500 additional cell spaces and to employ an additional 500 correctional officers and civilians.
- To nominate 22 Kosovar Directors to co-chair key positions of responsibility within KCS.
- To train all sentenced prisoners in Dubrava and Lipjan Prisons in basic skills such as carpentry, tailoring, cookery according to their interest and duration of sentence.
- To enable inmates to acquire some basic knowledge depending on their previous level of education, the choice of courses to be delivered and the duration of their sentence(s).
- To present 10 UNMIK Regulations and approximately 20 Standard Operating Procedures for approval relating to administration of Correctional facilities in Kosovo for the treatment and care of prisoners and detainees, and conduct of correctional officers.

For the 2002/2004 Kosovo budget cycle the KCS will face several key operational and funding challenges. First, the wages and salary allocation will have to be increased to cover the expected rise in staffing levels in the Dubrava and Lipjan facilities upon completion of the proposed renovation of these facilities. In addition, the establishment of a Prisoner Escort Service will require additional staff, as well as an additional allocation for maintenance of the fleet of escort vehicles, communications and security equipment. Local capacity building must be carried out in a systematic and sustained manner before complete hand-over of responsibility.

DIRECTORATE OF RURAL AFFAIRS

ROLE OF THE DIRECTORATE

The Directorate of Rural Affairs (DRA) shall perform all administrative tasks and functions to ensure a reliable and efficient delivery of the relevant public services and safeguarding of public natural resources and property, in the agricultural and forestry sector. The DRA will be managed and supported with particular emphasis to enhance the capacity of local staff recruited under the Kosovo Budget, in line with the eventual transfer of the component administrative bodies of the DRA into the Ministerial administrative structure.

The DRA's main tasks and responsibilities are focused in four areas:

Agricultural and Forestry Enterprises: The DRA being the responsible institutional body for both agricultural and forestry public and socially owned enterprises, will together with other governmental bodies, identify and elaborate policies for the re-vitalization and appropriate regulation of these activities.

Public Forest and Forestland property: The DRA has oversight and veto powers over the Ministry of Agriculture, Forestry and Rural Affairs regarding Forest and Forestland policy, including any proposed change of land use, quarry licenses and grazing on public forestland. This will include control over the setting of harvesting and silviculture targets on public forestland following the principle of sustainable forest management. The DRA will also perform an auditing and assessment role (follow-up of operations performance) over the planning, licensing and services performed by the Kosovo Forestry Authority/Agency (KFA) and other contractors in/on public forests and forestlands for wood and non-wood products.

Border Transit Control of Plants and Plant products (including food): The main objective of the Office for Plant Border Control is to safeguard against the entry into Kosovo of harmful pests and diseases, to regulate the entry of pesticides, and control plant-origin food imports.

Border Transit Control of Animal and Animal Products (including food): Under the Constitutional Framework for provisional self-government in Kosovo, UNMIK is required to control border/boundary transit of goods for animals and animal products. This requires the entire public veterinary services to also be within the UNMIK reserved area. This is due to the highly infectious nature of certain transboundary animal diseases that require border control facilities to be an integral part of the overall animal disease surveillance and animal identification and movement control systems, that are located within and are a core part of the public veterinary services. The DRA is responsible for establishing and supporting the Kosovo Veterinary Services (KVS).

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides Euro 0.749M as a baseline budget for the financing of basic activities of the DRA in four specific fields: the Kosovo Veterinary Services, the office for plant border control, the office for public and socially owned enterprises in agriculture and forestry, and the Office for Public Forests and Forestlands. A series of cost recovery mechanisms are being established to allow for a greater scope of activities in a number of areas, that require immediate attention. Furthermore, additional funding, some of which already secured, is required to enhance the capacity building component of the 2002-2004 programme.
- For 2002, external investment planned under the Public Investment Program amounts to Euro 4.100M. As of December 31st 2001, Euro 2.500M have been secured in the form of investment linked to ongoing assistance programs and of new donor programs due to start in 2002. Euro 1.600M is still sought to fund activities such as the Kosovo Veterinary Services, Plant Border Control, for administrating Agricultural and Forest Public and Socially Owned Enterprises, and the administration of Public Forests and Forestlands.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB*	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Kosovo Veterinary Services	--	0.000	0.299	3.500	0.299	0.000	0.299	0.000
Plant Border Control	--	0.000	0.104	0.000	0.104	0.000	0.104	0.000
Agriculture Public Enterprises	--	0.000	0.005	0.250	0.005	0.000	0.005	0.000
Office of Public Forests	--	0.000	0.283	0.250	0.283	3.700	0.283	10.200
Central Administration	--	0.000	0.055	0.000	0.055	0.000	0.055	0.000
Plants and Plant Products	--	0.000	0.000	0.100	0.000	0.000	0.000	0.000
Subtotal, KGB	--		0.746		0.746		0.746	
Subtotal, PIP	--	0.000		4.100		3.700		10.200
TOTAL			4.846		4.446		10.946	

*KGB figures for 2001 by program level are not available

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Kosovo Veterinary Services	40	0.084	0.092	0.000	0.124	0.300
Plant Border Control	12	0.029	0.036	0.000	0.039	0.104
Agriculture Public Enterprises	1	0.002	0.002	0.000	0.002	0.006
Office of Public Forests	18	0.049	0.129	0.000	0.105	0.283
Central Administration		0.000	0.055	0.000	0.000	0.055
TOTAL, Kosovo Budget	71	0.163	0.316	0.000	0.269	0.748
% of total		22%	42%	0%	36%	100%

PROGRAM ACTIVITY

Background

The agricultural and forestry sector accounts for a significant share of economic activity in Kosovo. In 1995, primary agricultural production represented 30 percent of Kosovo GDP, or 35 percent with the inclusion of forestry and food processing. In 1998, agricultural activities, together with forestry and agro-business accounted for about 60 percent of employment, and played a key role in food security at the household level. As a direct consequence of the conflict and disruption, agricultural production as well as related processing industries almost came to a standstill in 1999. This near standstill in the agricultural sector is compounded by the previous 10 years of under-investment and mismanagement.

The Directorate of Rural Affairs (DRA) will administer those areas of the civil administration in Agriculture and Forestry which are sensitive and which require to be administered by the International component for some time longer. These activities will be administered exclusively by the DRA with no control functions by the transferred Ministry of Agriculture. It is important to note that the administrative bodies and Kosovo Budget staff will eventually be transferred to the Ministerial structure, and for this reason must receive the same attention and capacity building support as the already transferred components.

2002 Program Activity Overview

Agricultural and Forestry Enterprises

The 2002 Budget provides Euro 0.005M for the administration of Agriculture Public Enterprises. External funding in the amount of Euro 0.250M is also sought under the Public Investment Program to support the development of a comprehensive and updated cadastral database with GIS capacity of the land and infrastructure property. Funding is also sought for the completion of a 30-municipality survey in collaboration with the Statistical Office of Kosovo in order to determine the current managerial status and commercial output of the enterprises.

Public Forest and Forestland Property

The 2002 Budget provides Euro 0.283M to establish the Office for Public Forests and for auditing and assessing the planning, licensing and the services performed by the Kosovo Forestry Authority and other contractors in public forests and forestlands for wood and non-wood products. The Directorate is seeking Euro 0.250M in external financing to reinforce the monitoring and control capacity over the Kosovo Forestry Authority and the forestry Socially-Owned Enterprises.

Border Transit Control of Plants and Plant Products

The 2002 Budget provides Euro 0.104M for operating border control posts, and for implementing import procedures to regulate the entry of plants and plant-products. The Directorate is also seeking Euro 0.100M to develop capacity of the systems, so as to harmonize procedures with EU standards. Support was first provided in 2001 by a training component under a World Bank project that has provided the office with a strategy and road map for future activities.

Border Transit Control of Animal and Animal Products

The 2002 Budget provides Euro 0.299M for establishing the Kosovo Veterinary Services. With respect to external funding, the Directorate has secured Euro 2.500M in veterinary technical assistance and is seeking an additional Euro 1.000M for veterinary and analysis equipment and training.

The Kosovo Veterinary Services

The 2002 Budget provides Euro 0.299M for the Kosovo Veterinary Services which has 3 main components: (i) a Centralised Headquarters based in Pristina; (ii) a Veterinary Field Unit; and (iii) a Border/Boundary Inspection Post system at 5 authorised road entry points into Kosovo, at the Pristina train station and international airport.

The Centralized Headquarters: consists of: a KVS Directorate, a diagnostic laboratory and three sections with planning, monitoring and legislative functions: (1) Animal Health Section; (2) Veterinary Public Health Section and (3) Animal Welfare Section.

- The KVS Directorate will primarily be responsible for overall supervision and management of the KVS, for advising the Kosovo Government on veterinary policy, developing Veterinary Law(s).
- The Kosovo Veterinary Laboratory (KVL) will provide two functions 1) basic laboratory services for the analysis of animal, food of animal origin and animal processing plant samples; and 2) to serve as a dispatch facility for samples requiring analysis by the relevant world reference laboratories.
- The Animal Health Section will be responsible for all activities to safeguard and improve animal health in Kosovo. It will be organized into three units: 1) Border Inspection Post Coordination Unit; 2) Animal Health Surveillance Unit, and 3). Animal ID Unit.

The Veterinary Field Unit (VFU): will serve as the extension outreach of the KVS. Its primary responsibilities will be:

- To outsource and supervise tasks set by the units of the three KVS sections to private veterinary practitioners and trained technicians;
- To issue export certificates; and
- To outsource disease control and eradication tasks, animal ID tasks, animal drug/residue surveillance tasks, hygiene surveillance tasks, and animal welfare tasks to private practitioners as appropriate.

The unit will be based in Pristina, with the veterinary officers operating in the four areas of Kosovo. Locating the VFU in the same premises as the central headquarters of the KVS will allow for good coordination with the units of the three sections on a daily basis.

The Border/Boundary Inspection Posts: will be located at the five road crossing points along the FYROM, Albanian and FRY boundaries. Furthermore, BIP facilities will be open upon request at the Pristina International airport at Sllatina, and Pristina train station at Fushe Kosova/Kosovo Polje, staffed by the Field Veterinary Unit officers. The BIPs will prepare and organise work plans in collaboration with the BIP coordination unit; inspect and authorise entry for all live animals and animal products (food and non-food) according to the legislation; record and manage data regarding passage of all consignments; sample animals and products of animal origin; collect inspection processing fees according to legislation; prepare statistics for submission to the BIP coordination unit; inform the BIP coordination unit in case of consignments not conforming to the legislation; prepare proposals for the amendment of sub-law legislation and BIP procedures when appropriate.

DIRECTORATE OF INFRASTRUCTURE AFFAIRS

ROLE OF THE DIRECTORATE

The role of the Directorate of Infrastructure Affairs is to provide the administrative structure and central authority over the railways, frequency management and humanitarian transport functions in Kosovo. In support of the Directorate's strategic objective, certain administrative functions will also be executed by the Ministry of Transport and Communications within the Provisional Institutions of Self-Government.

2002 BUDGET HIGHLIGHTS

- The Budget in 2002 provides a recommended funding level of Euro 2.458M for UNMIK Railways and related Humanitarian Transport Services, Post and Telecommunications and central administrative costs. Of the total funding provided, Euro 0.871M is provided to cover the UNMIK Railway expenses. Humanitarian transport services for minorities receive funding of Euro 1.355M. The approved funding level maintains current services level for humanitarian train transport services. Minimal funding is also provided for telecommunication frequency management and for central administrative expenses as well.
- The key funding issue for the Directorate of Infrastructure Affairs is capital investments for the UNMIK Railways, including upgrading railway infrastructure and telecommunications equipment proper to the railway services, to better support commercial freight and passenger traffic from and to Macedonia and outside Kosovo. In addition, funding is sought for restructuring the Railways operations to develop it into a market-oriented entity. The Directorate also plans to acquire frequency management equipment in the amount of Euro 0.575M. All in all, the Directorate is seeking Euro 3.795M to address its capital investment needs in 2002.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
UNMIK Railways	0.639	1.231	0.871	3.220	0.871	3.750	0.871	3.750
Humanitarian Transport Services	0.000	0.000	1.355	0.000	1.355	0.000	1.355	0.000
Post and Telecommunications	0.000	0.000	0.051	0.000	0.051	0.000	0.051	0.000
Central Administration	0.000	0.000	0.181	0.000	0.181	0.000	0.181	0.000
Communications FrequencyMgmt.	0.000	0.000	0.000	0.575	0.000	0.575	0.000	0.575
Subtotal, KGB	0.639		2.458		2.458		2.458	
Subtotal, PIP		1.231		3.795		4.325		4.325
TOTAL	1.870		6.253		6.783		6.783	

* KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
UNMIK Railways		0.000	0.000	0.871	0.000	0.871
Humanitarian Transport Services		0.000	0.000	1.355	0.000	1.355
Post and Telecommunications		0.000	0.000	0.051	0.000	0.051
Central Administration	18	0.038	0.143	0.000	0.000	0.181
TOTAL, Kosovo Budget	18	0.038	0.143	2.278	0.000	2.458
% of Total		2%	6%	92%	0%	100%

PROGRAM ACTIVITY

Background

In accordance with UNMIK Regulation No. 2001/19 regarding the creation of the Provisional Institutions of Self-Government in Kosovo, a Ministry of Transport and Communications was created effective in 2002 by merging the former JIAS Department of Transport and the JIAS Department of Post and Telecommunications. The newly formed Ministry will oversee the provision of services and facilities in the sectors of road transport, public road transport, post, telecommunications and information technology. At the same time, UNMIK Regulation No. 2001/19 created the Directorate of Infrastructure Affairs with the responsibility for railways, humanitarian transport and communication frequency management, which remained reserved functions under the purview of the UN Special Representative of Secretary General beginning in 2002.

Kosovo has an 1,800 km network of main and secondary roads, a 3300 km single-track railway system, and an international airport. Infrastructure and related transport equipment are in urgent need of improvement following many years of inadequate maintenance and the effect of the 1999 conflict. The JIAS Department of Transport and Infrastructure was created in 2000 to guide and regulate the development of infrastructure and the provision of transport services. The international peacekeeping force KFOR has played a significant role in the rehabilitation, maintenance and operation of transport infrastructure.

Before the conflict, Kosovo had the second lowest telephone penetration rate in Europe (6 lines per 100 inhabitants). The post and telecommunications infrastructure was old and not well maintained. Moreover, it was seriously damaged during the conflict. The telephone penetration rate dropped to the lowest in Europe. After the conflict, PTK (Post and Telecommunications of Kosovo) was established by UNMIK regulation as the only provider of post and telecommunications services. Basic telecommunication services have been restored following emergency repairs carried out by PTK. Partial re-equipment of the post offices enabled certain mail service to be resumed. In early 2000, a new network was built and is currently operated according to GSM standards for cellular mobile telephony to provide a temporary alternative to the damaged fixed network.

2002 Program Activity Overview

Railways

For 2002, the Budget provides a total allocation of Euro 0.871M and external funding is sought under the Public Investment Program of Euro 2.220M. Program activity will focus on providing cost-effective and efficient freight transport services at cost recoverable rates, providing passenger transport services in so far as revenues are sufficient to cover marginal costs and bringing the infrastructure and rolling stock up to European maintenance and safety standards.

Humanitarian Transport

For 2002, the Budget provides a subsidy totaling Euro 1.355M. Program activities include providing crucial freedom of movement to all minority ethnic communities living in large concentrations and enclaves throughout Kosovo. UNMIK shall provide the agency selected to implement this service with buses and light vehicles for the service. Maintenance and repairs of the buses and all other light vehicles shall be carried out by the implementing agency in an approved workshop. In view of the fundamentally humanitarian nature of the project, UNMIK will continue to use the services and expertise of the Danish Refugee Council (DRC) under the supervision of the Directorate of Infrastructure Affairs

Post and Telecommunications

The Budget for 2002 provides Euro 0.051M for operating expenses for the Post and Telecommunications Unit within the Directorate of Infrastructure Affairs. The primary activity consists in establishing frequency spectrum planning and management capability. In 2002 the Directorate is seeking external assistance of Euro 0.575M to acquire essential equipment in order to begin frequency management services.

Central Administration

For 2002, Euro 0.181M is also provided for central administrative expenses to oversee the transport and communications functions within the reserved functions.

RADIO TELEVISION KOSOVO (RTK)

ROLE OF THE PUBLIC BROADCASTER

The role of the Radio Television Kosovo (RTK), as Public Broadcaster for Kosovo is to provide via TV and Radio, balanced and accurate public information and educational programs, as well as entertainment programs, in all local languages. It should guarantee as well information programming in minority languages. This key goal should be achieved in a self-sustained media which functions as an essential institution in a democratic society.

RTK was established and developed by OSCE, and its funding will remain primarily public, supplemented by advertising and commercial revenue. On 15 June 2001 Regulation No 2001/13 on the Establishment of Radio Television Kosovo entered into force, giving RTK legal status as an editorially independent public service broadcaster. It is important to note that the Government needs to preserve RTK's editorial independence from governmental and political influence, to guarantee the right to impartial information for all Kosovo citizens.

2002 will be its first year as an all-Kosovar organization, having been managed until now by the European Broadcasters Union (EBU) under a Memorandum of Understanding with OSCE.

2002 BUDGET HIGHLIGHTS

- The Budget in 2002 provides a total of Euro 2.557M for the operating expenses of the Radio Television Kosovo (RTK). This is in the form of a subsidy/transfer to the Organization for Security and Co-operation in Europe (OSCE), which supervises the operations of RTK. Although this represents a significant amount, RTK operating expenses are much higher. The allocated amount constitutes about 44% of the total operating costs.
- The main concern for RTK is to develop as a sustainable public broadcaster through different funding sources. It relies heavily on external donor support. An additional, Euro 3.309M is being sought to complement the Kosovo Budget grant in order to fully cover the operating expenses.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP	KGB	PIP
Radio and Television of Kosovo	0.000	2.622	2.577	3.309	2.577	0.000	2.577	0.000
Subtotal, KGB	0.000		2.577		2.577		2.577	
Subtotal, PIP		2.622		3.309		0.000		0.000
TOTAL	2.622		5.886		2.577		2.577	

*KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Radio and Television of Kosovo	--	0.000	0.000	2.556	0.000	2.556
TOTAL, Kosovo Budget	--	0.000	0.000	2.556	0.000	2.556
% of Total		0%	0%	100%	0%	100%

PROGRAM ACTIVITY

Background

In September 1999, the European Broadcasters Union (EBU), under mandate from the OSCE/UNMIK set up an emergency broadcasting service for Kosovo. The Broadcaster, known as RTK has since then built up steadily to become a reliable source of news and information for the population of Kosovo. The OSCE promoted the renaissance of Radio Television Kosovo (RTK) as a public and independent broadcaster. RTK now broadcasts seven hours daily in Albanian and Serbian, with news and programming also in Bosnian and Turkish. OMiK supported its development and professionalised its staff, to safeguard its editorial independence from all political influences and to increase Kosovo participation in its management and journalist activities.

An UNMIK regulation establishes a legal and funding structure for the public broadcaster RTK. It establishes a Board composed of both internationals and Kosovars to oversee the operation of RTK. Following RTK's establishment as a legal entity, OMiK appointed the RTK Board of Directors, to set policy and agree to the RTK Budget. Throughout 2001, OMiK also worked on an administrative directive establishing a licensing fee. Final consultations on the development of a license fee system for RTK are underway.

2002 Program Activity Overview

In 2002, Euro 2.557M have been allocated for the **Radio Television Kosovo (RTK)** activities. External donor assistance of Euro 3.309M is being sought to complement the Kosovo Budget grant in order to fully cover the operating expenses. RTK total operating expenses amount a total of Euro 5.865M, of which Euro 4.590M or 78.3 % is for the Television operations, and Euro 1.275M or 21.7 % is for Radio operations. The expressed financial needs will contribute to the continuation of the development of both Radio and Television to hold up the standard of the sole Public Broadcast in Kosovo.

With the 2002 funding, Radio Television Kosovo (RTK) operations will be continued, and minority language programming in Serbian, Bosnian and Turkish will be further developed. There will be continued expansion of television airtime, which is currently seven hours daily on terrestrial and four hours daily on satellite. RTK radio, consisting of Radio Kosova and Blue Sky radio, broadcast a 24-hour daily programme on two channels, with Serbian and Turkish minority programming on Blue Sky, the main multi-ethnic station, and additional Turkish programming on Radio Kosova.

INDEPENDENT MEDIA COMMISSION

ROLE OF THE COMMISSION

The role of the Independent Media Commission in Kosovo is to guarantee fair access to and freedom of the press and information in Kosovo, by regulating all the necessary aspects of the media sector and implementing the necessary legislative policy.

In 2002, the OSCE will continue to build a legal framework for media in Kosovo as well as maintain and enforce a temporary regulatory regime for the print media until such time as the current UNMIK Regulation 2000/37 and the Print Code of Conduct are replaced by an operational self-regulatory system. The Interim Media Commission (IMC) will replace the Temporary Media Commissioner (TMC) as the media regulatory authority in Kosovo and will establish a Press Council. Once the provisional authorities have passed adequate libel, defamation and slander laws with workable enforcement procedures, the IMC shall be an independent institution responsible for the regulation of the broadcast media in Kosovo. It will provide the legal framework and oversight for the development of a stable broadcast environment in Kosovo and be responsible for maintaining a frequency plan and ensuring the plan complies with international agreements and law. The IMC is to be responsible for licensing all broadcasters and ensuring that broadcasters adhere to the terms and conditions of their licenses.

2002 BUDGET HIGHLIGHTS

- The 2002 Budget provides a total of Euro 0.409M for the operating expenses of the Independent Media Commission. This amount will complement the OSCE grant to the Institution, in order to fully cover its central operating expenses. No external funding under the Public Investment Program (PIP) is being sought at this time.

2002 Kosovo Budget Expenditure by Program Activity (Euro million)

Program Activity/Entity	Average 2001 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Independent Media Commission	--	0.000	0.409	0.409	0.409
TOTAL	--	0.000	0.409	0.409	0.409

2002 Kosovo Budget Expenditure by Economic Activity (Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays
Independent Media Commission		0.000	0.000	0.409	0.000
TOTAL		0.000	0.000	0.409	0.000
% of Total		0%	0%	100%	0%

Background

As part of the continuing efforts to develop self-sustainable institutions, OSCE established an independent body, the Temporary Media Commissioner (TMC) whose main task is to introduce and uphold journalistic standards. In accordance with Regulation 2000/36, the TMC is entitled to take action against violation of the media regulations and/or the associated codes of conduct for broadcast and print media.

The OSCE has provided systematic evaluation of adherence to the Print and Broadcast Codes by monitoring the current total of 92 radio stations, 24 television stations and seven daily newspapers at both the central and local level in Kosovo. OMiK supported the Temporary Media Commissioner (TMC), to fine two Kosovo Albanian dailies for infringements of the Temporary Print Code, with legal advice and administrative assistance. The imposition of the TMC fines has appeared to have a salutary influence, and there are indications that the general tenor of the media has moderated.

2002 Program Activity

In 2002, Euro 0.409M have been allocated for **Independent Media Commission** operating expenses. No External donor assistance is being sought.

Nevertheless, in order to maintain its independence in the near future, the IMC requires a non-political source of public funding, such as direct funding from the Kosovo Budget. The regulation establishing the IMC sets up a funding apparatus through the collection of license fees. However, as revenue generated by the collection of license fees by the IMC is not anticipated to materialize until 2003, the IMC will require financial and administrative support from the Kosovo Budget and/or international donor organizations. The presence of international staff within the IMC is necessary for its development. International media and legal experts are required to ensure a smooth and effective hand-over. A failure to continue to fund the IMC will paralyze the new institution and cause its collapse.

BANKING AND PAYMENTS AUTHORITY (BPK)

ROLE OF THE BPK

The role of the BPK is to foster an efficient and safe system for domestic payments, and to foster the liquidity, solvency, and efficient functioning of a stable market based banking system.

The main role of the BPK will be executed through the following key activities:

- Licensing and supervising banks and other financial institutions through the conduct of off-site monitoring, onsite examination and other supervisory measures;
- Collecting and paying-out funds as directed by accounts-holders and other entities such as government wage payments, collection of various taxes, and other sums;
- Functioning as a banker to the Central Fiscal Authority and providing financial advice at its request;
- Owning and operating one or more payments systems;
- Holding foreign currency deposits of banks, the Central Fiscal Authority, and other entities;
- Ensuring the adequate supply of banknotes and coins for the settlement of the cash transactions; and
- Conducting regular economic and monetary analysis of the Kosovo economy, making public the results, and submitting proposals and measures to the UN interim Administration in Kosovo on the basis of such analysis.

2002 BUDGET HIGHLIGHTS

As a result of the Regulation 1999/20, BPK is treated as a public legal entity and as such shall enjoy operational and administrative autonomy. As a result, “net income shall be allocated each year to a General Reserve Account until the Capital and General reserve accounts are equal to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the BPK by account holders shown on the balance sheet of the BPK for the end of the financial year. Any balance of net income shall be transferred to the Central Fiscal Authority as revenue for the budget. BPK charges for its services to cover most of its expenditures. The 2002 Kosovo Budget provides Euro 1.329M in subsidies and transfers to cover the operating expenditures of BPK.

2002 Kosovo Budget
Expenditure by Program Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Banking and Payments of Kosovo	--	1.493	1.329	0.000	0.000
TOTAL	--	1.493	1.329	0.000	0.000

2002 Kosovo Budget
Expenditures by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays
Banking and Payments of Kosovo	--	0.000	0.000	1.329	0.000
TOTAL	--	0.000	0.000	1.329	0.000
% of Total		0%	0%	100%	0%

Background

In the early 1990's, the National Bank of Kosovo ceased existing as an autonomous national bank. Instead, it was reincorporated into the National Bank of Yugoslavia and became merely a branch office. Following the end of the conflict in June 1999, UNMIK established the Banking and Payments Authority of Kosovo (BPK) with Regulation 1999/20. Regulation 1999/20 established the Banking and Payments Authority of Kosovo (BPK) as a distinct public legal entity. The BPK enjoys operational and administrative autonomy, except as provided for in Regulation 1999/20. The BPK acts as the banker to the Kosovo government by holding the account of the Central Fiscal Authority and will function as a Central Bank with exceptions that it cannot issue currency or extend credit.

During November and December 2001, the BPK was engaged in preparations for the introduction of the Euro in Kosovo on 1 January 2002 and ensuring that the new currency will be available at all Banks, country wide. The Bank is also anticipating adjustment to its branch structure following the IMF Review in the early part of 2002.

KOSOVO OMBUDSPERSON INSTITUTION

ROLE OF THE INSTITUTION

The role of the Ombudsman Institution (OI) in Kosovo is to promote and protect the rights and freedoms of individuals and legal entities and to help to ensure that all persons in Kosovo are able to exercise effectively the rights and freedoms safeguarded by international human rights instruments.

Both UNMIK Regulation 2000/38 and the Constitutional Framework for Provisional Self-government established the Institution with independent status. The planned transfer of the OI to the Kosovo Budget, after an initial transitional period with senior international staff at the helm, entail that the objectives of the OI for 2002 fall within two general categories. The first, to ensure that the Institution continues effectively to exercise its jurisdiction throughout the entire territory of Kosovo, *inter alia*, by improving access to the Institution, successfully resolving individual complaints and addressing systemic human rights violations. The second is to build up the capacity of the OI, through the recruitment and retention of high quality staff, and the provision of in-depth capacity building and training to local staff, allowing them to develop the necessary skills for the proper conduct of human rights investigations and reporting.

2002 BUDGET HIGHLIGHTS

- The Budget in 2002 provides a total of Euro 0.372M for the operating expenses of the Ombudsman Institution of Kosovo. This amount will complement the OSCE grant to the Institution, in order to fully cover its central operating expenses.
- For 2002, external financial assistance is being sought under the Public Investment Program (PIP) amounting to Euro 1.400M in order to cover the expansion of the Ombudsman Institution in Kosovo, with the opening of 4 regional offices. Funding under the Kosovo Budget will be needed in 2003 and beyond to maintain the operations of the regional offices.

2002-2004 Kosovo General Budget and Public Investment Program

Expenditure by Program Activity
(Euro million)

Program Activity/Entity	2001		2002		2003		2004	
	KGB	PIP	KGB	PIP	KGB	PIP*	KGB	PIP*
Ombudsman Institution	0.000	0.000	0.372	1.400	0.372	0.000	0.372	0.000
Subtotal, KGB	0.000	0.000	0.372		0.372		0.372	
Subtotal, PIP				1.400		0.000		0.000
TOTAL	0.000		1.772		0.372		0.372	

* Ombudsman Institution did not seek external donor funding for 2003 and 2004. Prior to 2002, OI was funded by OSCE and therefore not reflected in the Kosovo Budget.

** KGB represents the Kosovo General Budget that includes recurrent expenditures that are mostly financed by domestic revenues. PIP represents the Public Investment Program that includes mostly capital expenditures financed by international donor funding.

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays	Total
Ombudsperson Institution		0.088	0.252	0.000	0.031	0.371
TOTAL, Kosovo Budget		0.088	0.252	0.000	0.031	0.371
% of Total		24%	68%	0.000	8%	100%

Background

The **Ombudsperson Institution (OI)** in Kosovo was established by UNMIK Regulation 2000/38, of 30 June 2000, and officially inaugurated in November 2000, to enhance the protection of human rights in Kosovo and assure transparency in Kosovo's administration. All legal persons in Kosovo have the right, without threat of reprisal, to make complaints to an independent office concerning human rights violations or actions constituting abuse of authority by any public authority in Kosovo. To this end, the OI has jurisdiction to receive and investigate complaints, monitor, take preventive steps, make recommendations and advise on such matters in order to promote and protect the rights and freedoms of individuals and legal entities safeguarded by international human rights instruments.

Approximately 1,000 people have visited the Institution, with 344 formal applications being lodged in 2001. The majority of the applications concern property issues, employment issues, the right to a fair trial, personal liberty and security issues.

2002 Program Activity Overview

In 2002, Euro 0.372M have been allocated for **Ombudsperson Institution** operating expenses. External donor assistance of Euro 1.400M is being sought to cover the expansion, including local staff salaries for 44 project staff (11 in each office) into 4 field offices in order to serve the needs of all inhabitants of Kosovo. This is particularly the case for members of ethnic communities, who often live in isolated communities without communications facilities and who face risks to personal security should they venture out of those communities. The main activities of the field offices would be the receipt and investigation of individual complaints, the conduct of *ex officio* investigations, participation in the preparation of Special Reports, mediation and reconciliation, and human rights promotional activities.

JOINT ADVISORY COUNCIL ON LEGISLATIVE MATTERS

ROLE OF THE COUNCIL

The JAC/LM's role is twofold:

- To provide consultative services and advice on legislation promulgated by the Special Representative of the Secretary General (SRSG) within the SRSG's reserved powers; and
- To assist in revising the major codes currently in effect, including the execution of penal sanctions law, the non-contentious court procedures law, the contentious court procedures law, contractual relations law, and the minor offences law.

This function will continue with the implementation of the Constitutional Framework for Provisional Self-Government in Kosovo (UNMIK Regulation 2001/9). The JAC/LM may also liaise with the elected Kosovo Assembly in the future. However, its role would be limited to substantive matters and would take place under the direction of the UNMIK Legal Adviser.

2002 BUDGET HIGHLIGHTS

- The Budget in 2002 provides Euro 61,866, of which Euro 36,302 is for Salaries and Wages and Euro 25,565 for Goods and Services to establish the Joint Advisory Council on Legislative Matters (JAC/LM) in 2002.
- Funding needs for 2003 and 2004 for the JAC/LM will be reviewed during 2002 after required policy decisions are made regarding the status of the JAC/LM and its functions and responsibilities related to the UNMIK administration.
- The JAC/LM is not seeking public investment program funding in 2002.

2002 Kosovo Budget Expenditure by Program Activity (Euro million)

Program Activity/Entity	Average 2002 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Joint Advisory Council on Legislative Matters	10	0.234	0.062	0.062	0.062
TOTAL	10	0.234	0.062	0.062	0.062

2002 Kosovo Budget
Expenditure by Economic Activity
(Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays
Joint Advisory Council on Legislative Matters	10	0.036	0.026	0.000	0.000
TOTAL, Kosovo Budget	10	0.036	0.026	0.000	0.000
% of total		58%	42%	0%	0%

PROGRAM ACTIVITY

2002 Program Activity Overview

The Kosovo Budget 2002 provides an overall allocation of Euro 61,866 for the **JAC/LM**. Of the total, 59% or Euro 36,302 is earmarked for Salaries and Wages to cover the employment of 10 staff for the JAC/LM. The balance of the funding, Euro 25,565 for Goods and Services is allocated as follows:

- *Services*: Euro 17,895. This will cover the recruitment of Kosovars with specific legal expertise to work as consultants for the JAC/LM on a temporary or ad hoc basis.
- *Travel*: Euro 2,556. Members of the JAC/LM may occasionally need to travel to meetings outside Kosovo. There is a long-standing collaboration with the Council of Europe, which has its headquarters in Strasbourg, France.
- *Equipment/Property Purchase/Rental*: Euro 2,556 to cover office equipment.
- *Supplies*: Euro 2,556 to cover office supplies.

COMMUNITY AFFAIRS OFFICE

ROLE OF THE OFFICE

The role of the Community Affairs Office in Kosovo is to act as a coordinating body and to exercise its functions by promoting an integrated and comprehensive approach for the protection of minority communities and ensuring the delivery of essential services to those communities to ensure compliance with the Constitutional Framework, which highlights the need to *promote coexistence and support reconciliation between communities*.

The Office of Community Affairs will work with the Office of the DSRSG for Civil Administration and the Office of Returns and Communities to design a comprehensive strategy with action plans focused on the integration of local communities into the main stream of political and socio-economic life in Kosovo. To meet its obligations in the protection of minority interests, the Office will require the full support of the SRSG.

2002 BUDGET HIGHLIGHTS

- The Budget in 2002 provides a total of Euro 0.096M for the operating expenses of the Community Affairs Office. No external funding under the Public Investment Program (PIP) is being sought at this time.

2002 Kosovo Budget Expenditure by Program Activity (Euro million)

Program Activity/Entity	Average 2002 Employees	2001 Mid-Year Estimate	2002 Approved	2003 Estimate	2004 Estimate
Community Affairs Office	8	0.000	0.096	0.096	0.096
TOTAL	8	0.000	0.096	0.096	0.096

2002 Kosovo Budget Expenditure by Economic Activity (Euro million)

Program Activity/Entity	Average 2002 Employees	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Outlays
Community Affairs Office	8	0.019	0.026	0.000	0.051
TOTAL, KGB	8	0.019	0.026	0.000	0.051
PERCENTAGE		19.8%	27%	0%	53.2%

Background

UNMIK Regulation 2000/45 on Self-Government of Municipalities specifies the establishment of the Office of Community Affairs and municipal level bodies (Local Community Offices) responsible for enhancing the protection of the rights and interests of Communities. UNMIK Regulation 2001/19 stipulates the Office of Community Affairs as being part of the SRSG's reserved powers structure under the supervision of the DSRSG for Civil Administration. As such, the Office serves as the focal point within the UNMIK reserved area for monitoring and reporting on the implementation of measures and mechanisms for the protection of community rights within central and local administrations and coordinating the activities of the Local/Municipal Community Offices in the 24 mixed municipalities of Kosovo.

In the past year, the Office has overseen a stabilization of the remaining minority population, facilitated the improvement of freedom of movement with minority busing, coordinated the distribution of millions of deutchmarks in generous contributions by European governments and lobbied for equitable access and provision of public services for minorities.

2002 Program Activity Overview

Community Affairs Office

- In 2002, Euro 0.096M have been allocated for the Community Affairs Office operating expenses. No External donor assistance is been sought.
- To meet its responsibilities, the Office is headed by a Chief, a Coordinator for Serbian minorities, a Coordinator for non-Serbian minorities, a Monitoring Support Officer, two UN Volunteers and seven Kosovo Consolidated Budget (KCB) local national staff. The Office monitors the Local Community Offices budgets, which total some Euro 1.7 M. The Office also monitors the municipal budgets to ensure "fair share" financing for minorities.

Significant challenges remain to protect communities against *majoritization*, protection of their rights through Civil Rights legislation, oversight of Regulation 45 compliance, ensuring Community and Mediation committees are properly constituted and functioning so minorities look to their own interests in facilitating the full establishment of Community Offices so local nationals become the active agents for change rather than internationals. Returns, as a key priority, will necessitate that more is done to protect minority property rights, to guarantee minority employment and to ensure "fair share" budgets and access to banking services.

PUBLIC UTILITIES REGULATORY COMMISSION

ROLE OF THE COMMISSION

The role of the Public Utilities Regulatory Commission of Kosovo (PURCK) is to promote sustainable delivery of utility services that are: 1) universally accessible; 2) provided based on the lowest possible sustainable tariff; and 3) compliant with EU standards regarding the natural environment, public health and workplace health and safety and general quality standards. The PURCK is also responsible for safeguarding the public interest regarding the public utilities sector in Kosovo. The public utilities sector consists of public utility service provider enterprises that produce and distribute electricity, provide district heating and potable water, and provide sewerage and irrigation services and collect and dispose of solid waste. The PURCK is also responsible for safeguarding the public interest relating to economic activities concerning mining and minerals exploitation by both socially-owned enterprises and private mining companies.

2002 KOSOVO BUDGET HIGHLIGHTS

- The 2002 Kosovo Budget earmarks a small portion within the Euro 21.6 million in reserve for certain UNMIK reserved independent entities that are being established in 2002. The PURCK will initially be staffed with about 50 employees, of which 15 will be international experts. Most of the Kosovar national staff positions will be funded by the Kosovo Budget staff will initially hold around 50 persons, about 15 of them expected to be international experts. The international staff will be financed under the EU/UNMIK pillar budgets. It is expected that the PURCK will eventually be self-financed from regulatory tariffs.
- The major challenge that the PURCK will face in 2002 will be to develop the skills and expertise of Kosovar nationals employed within the PURCK through a training and development program. Such program will need to include modules on business administration, legal training, public communication and language training to prepare Kosovars to gradually assume more senior positions within the PURCK in the near future. Initially, it may be essential that additional international experts are hired to assume the more senior positions. In addition, short-term international assistance, for such areas as training, publicity or specific regulation projects, may be needed. For 2002, donor funding has been secure for six internationals to take on senior positions with the PURCK. The EU/UNMIK pillar is providing supplies, equipment and office space for the PURCK as well.

BACKGROUND INFORMATION

The Public Utilities Regulatory Commission is a new legal entity that is going to be established in the year 2002. Subject to the final authority of the EU/UNMIK pillar and the SRSG, the commission's tasks will be establishing and implementation/enforcement of regulations within the framework of applicable law and UNMIK regulation, regarding the mining and minerals exploitation and utilities services and the decision of conflicts between PUSPs, PUSPs and municipalities and (only in appeal), customers and PUSPs. The PURCK will carry out its role by undertaking the following key activities:

- Establishing the benchmarks regarding work processes and product quality;

- Setting the rules on customer relations, including handling of complaints;
- Setting the rules on tariff calculation;
- Setting criteria for licensing of enterprises;
- Developing regulation regarding restructuring of the sector;
- Reviewing and monitoring management decisions/plans that could impact sector; and
- Inspecting, licensing/delicensing and applying fines of the PUSPs and mining companies, when appropriate.

The Public Utilities Regulatory Commission will be governed and administered by a Commission consisting of the chairpersons of its 3 subcommissions (the *Commissioners*) and their deputies, and is chaired by the *Regulator*. The 3 subcommissions will regulate the areas of: 1) Mines and minerals; 2) Power and district heating; and 3) Water and waste (including the bulk water supply). In addition to the Commissioners, each subcommission will be staffed with operational, legal, financial and tariff specialists.

AUDITOR GENERAL OFFICE

STRATEGIC OBJECTIVE

The primary mission of the Auditor General Office is to give assurance to the Parliament in relation to the design and implementation of adequate and effective control, which facilitate achieving the objectives of the Government. In this regard, it coordinates the activities of Kosovo government audit functions, but does not have direct control over the activities of individual department audit functions.

2002 BUDGET HIGHLIGHTS

The Kosovo Budget 2002 provides Euro 100,000 for operational costs to establish the Auditor General Office.

BACKGROUND

Under the UNMIK Constitutional Framework for provisional self-government in Kosovo, the Auditor General Office, when established, will operate independently of the Provisional Institutions of Self-Government. The Auditor General Office is established within the reserved functions under the authority of the Special Representative of the Secretary General (SRSG). The General Auditor, who will head the Office, will be an independent official appointed by the SRSG.

The Internal Audit Office, currently based in the Central Fiscal Authority, will serve as a starting and focal point for the establishment of the Auditor General Office. The Auditor General would be an independently selected official, who would coordinate the audit functions for the ministries, departments, public enterprises, public utilities, municipalities or agencies who are funded from the Kosovo Consolidated Budget (KCB) or generate revenue for the KCB. The Auditor General Office will also be responsible for developing audit standards in accordance with International Audit Standards.

KOSOVO PENSIONS SAVINGS TRUST

Strategic Objective: The primary mandate of the Kosovo Pension Savings Trust (Trust) is to serve as a management trustee action on behalf of participants and beneficiaries and to administer and manage individual pension savings accounts for all employees in Kosovo, ensure prudent investment and custody of pension assets, and use the proceeds of the individual pension accounts to purchase annuities for savings pensions.

2002 Kosovo Budget Highlights

- To effectively establish the Trust in 2002 will require financing of the start up costs, operational costs, and information technology development. The Kosovo Budget 2002 provides Euro .511 million to finance office start-up costs for the first months of the Trust operations, and part of the information technology development costs. Starting from the third quarter of 2002, the contributions of participants will pick up the operating costs.
- An estimated Euro 1.073 million is needed to finance the full start up costs, operation costs and information technology development for the Trust in 2002. The budget assumes that full financing of the Trust will be shared between the Kosovo Consolidated Budget (Euro .511 million), contributions of the participants (Euro .255 million), and the international donor community (Euro .306 million). The donor funding contributions will be primarily to hire an Adviser and Consultants to support the Executive Director of the Trust, and to cover part of the information technology development expenses.

Background information

Kosovo Pension Savings Trust is a new legal entity established in the year 2002, in accordance with the Regulation on Pensions in Kosovo 2001/35 that was signed into law on December 22, 2001. Savings Pensions is a new form of pensions introduced by the above regulation as part of the overall pension reform in Kosovo.

The Regulation on Pensions proposes a three-tier architecture of the pension system. The second tier of the system will be financed by mandatory contributions of employers and employees. Businesses and workers will start making contributions to Individual Pension Accounts maintained by the Kosovo Pension Savings Trust. Employees will contribute 5% of their wages into the account, and the employer will match that with 5%. Contributions made to individual pension accounts will be saved and invested according to strict international standards, and will accumulate in the account until the worker is 65; they will not be used by the government or the pension fund for other purposes. Small administration charge will apply. Participation in this program is mandatory in 2002 for all agencies of the state, state or socially owned enterprises, and large employers. In 2003 all other employers, including employers of agricultural workers, as well as all self-employed persons will have to join the system of individual accounts.

The Kosovo Pension Savings Trust will be governed and administered as follows:

- A Governing Board with seven members will be established to set investment policy guidelines, supervise investment and accounts performance, approve the Trust's budget, and approve performance statements for the BPK;

- A Managing Director will be appointed to oversee the operations of the Trust Office.
- The Trust office will consist of several units including general operations, accounting, accounts management and IT, payments and transfers, appeals and enforcement and training and public relations. The operational units will be staffed with 25 employees.

KOSOVO PUBLIC ENTERPRISE SECTOR

ROLE OF THE PUBLIC ENTERPRISE SECTOR

The role of the Public Enterprise Sector in Kosovo is to provide efficient and effective public utility, transport and communication services to the public and to operate in a manner allowing for full cost recovery of such services; and to provide commercial and industrial activities through self-sustaining socially owned enterprises which contribute to economic growth in Kosovo: The Public Enterprise Sector will carry out its strategic role by undertaking the following activities:

- Undertaking the major restructuring of operations and instituting improved management systems of the public utilities and state and socially owned enterprises which are deemed to be potentially viable entities;
- Investing in renovation and maintenance of the physical infrastructure of the public and socially-owned enterprises; and
- Building local capacity within the enterprises through training and development to improve the skills and expertise of Kosovar nationals.

The role of the central government in this sector is twofold. First, it is important that the central government rehabilitate and restructure the current public and state and socially-owned enterprises in Kosovo to improve management and to encourage greater transparency and accountability particularly related to internal and financial operations. In addition, it is important for the central government to develop and implement the appropriate legal and regulatory framework to support institutional strengthening of the Public Enterprise Sector.

Currently, the Public Enterprise Sector in Kosovo consists of 50 Public Utilities Service Providers (PUSPs), a central airport and airport authority, a railway company and post and telecommunications provider. The main public enterprises in Kosovo are the electricity generation and distribution company (KEK), the post and telecommunications company (PTK), Pristina Airport, Kosovo Railways and several local water, waste and heating companies. In addition, the sector includes all former state and socially-owned enterprises in Kosovo for which the UN Administration in Kosovo has assumed ownership responsibility. Most of the state and socially-owned enterprises are industrial or commercial in nature.

2002 BUDGET HIGHLIGHTS

- The 2002 Kosovo Budget includes total funding of Euro 68.6 million in budget subsidies for the public enterprises. Budget subsidies are provided primarily for the electricity provider, KEK, for the district heating companies, water and waste facilities, the railway company and the Trepca mining complex. Of the total amount provided, 74% is allocated for the Kosovo Electricity Corporation for management and engineering improvements in 2002. The KEK subsidy is financed mostly from the one-time budget surplus that is being carried forward from 2001 into 2002. The

substantial budget support for KEK is linked to KEK fulfilling performance indicators. (See *Budget Surplus discussion in the 2002 Budget Overview*).

- The main challenges facing the Public Enterprise Sector will be to greatly improve the financial position and management of the public utility service providers and the socially owned enterprises which are deemed to have the potential to become viable, to introduce competition into the telecommunications market to expand options and level of telecommunications service, to build local capacity within the local enterprises by training Kosovar nationals. A priority for the Kosovo Government will be to establish consistent funding, oversight and reporting arrangements for these public enterprises.

The following table provides a breakdown of Kosovo budget subsidies to public entities for 2001-2002:

Kosovo Budget Subsidies to Public Entities
2001 and 2002
(in Euro Million)

	2001	2002	% change '01 to '02
<i>Public Utilities:</i>			
KEK ¹	7.5	51.0	580%
District Heating Companies	3.2	7.8	144%
Water & Waste Companies	2.9	1.5	-48%
<i>Transport:</i>			
Kosova Railway	0.6	0.9	50%
Humanitarian Transport Services	--	1.4	--
<i>Industrial:</i>			
Trepca Mining Complex	7.8	6.0	-23%
Subtotal	22.0	68.6	212%
<i>Other Public/Independent Entities²</i>			
BPK	1.5	1.3	-13%
Radio and Television of Kosovo	--	2.6	--
Independent Media Commission	--	0.4	--
Other			
Subtotal, Other Entities	1.5	4.3	187%
Total, Budget Subsidies to Public Entities	23.5	70.6	210%
<i>% Public Utilities of Total Budget Subsidies</i>	<i>58%</i>	<i>85%</i>	

¹The proposed KEK budget subsidy for 2002 will be funded from the budget surplus carried forward from 2001 into 2002. A total of Euro 72 million will be committed for KEK improvements of which 51 million will be spent in 2002 and the balance, Euro 21 million, spent in 2003.

²These entities provide services to the public and public sector and are expected in the near future to generate sufficient revenues from authorized fees to cover operating costs.

Background

Prior to November 2001, several former UNMIK departments including the Public Utilities Department, Department of Transport and Infrastructure and Department of Post and Telecommunications were responsible for overseeing the public enterprises providing basic

infrastructure services such as utilities and transport and communications. In addition, UNMIK assumed oversight for all former state and socially-owned enterprises in Kosovo under UNSCR 1244. Most of the state and socially-owned enterprises are industrial or commercial and were under the responsibility of the former Department of Trade and Industry. Under the Constitutional Framework for provisional self-government in Kosovo, the regulatory powers of the former Public Utilities Department will be transferred to an independent regulatory body, the Public Utility Regulatory Commission in Kosovo. The PURCK will be a component of the UNMIK reserved powers. The PURCK will be primarily responsible for developing a regulatory framework for each sector which will clarify issues such as licensing regimes, consumer protection, service quality and the creating market competition within the industry.

In addition, a proposed Kosovo Trust Agency (KTA) will be established within the UNMIK reserved powers to serve as custodian for all public, state and socially-owned enterprises. It is expected that the KTA will aim to improve management and increase transparency and accountability within the public enterprise sector. The legal status of the KTA is uncertain pending final approval of the enabling legislation by the United Nations. The 2002 Kosovo General Budget sets aside a portion of total Euro 21.8 million in reserve for KTA operations pending final resolution of its legal status and responsibilities by the United Nations. The key public enterprises that will require restructuring under KTA oversight are KEK and PTK. Trepca Mine is a state owned enterprise that receives budget subsidies and will also require major restructuring under KTA oversight to become a viable self-sustaining entity.

Although both the regulator (PURCK) and the custodian (KTA) are part of the UNMIK reserved authorities, they are considered independent bodies within this new structure to avoid conflicts of interest that could otherwise occur.

Public Utilities

The Department of Public Utilities oversees 50 Public Utilities Service Providers (PUSPs) who are all registered with the Department. In early 2002, its regulatory powers are going to be transferred to the PURCK. The remaining responsibilities will be assumed by the KTA.

Out of the 50 PUSPs: 46 operate in the areas of water production/distribution/bulk supply and/or waste collection. There are three District Heating PUSPs and there is one electricity provider (KEK). Approximately 50% of the Water and Waste PUSPs currently receive subsidies from the Kosovo Consolidated Budget to cover operating costs (before depreciation). These shortfalls are mostly transitional in nature and can be addressed through a combination of cost control, an increase in the revenue collection rate and the income and expenditure balance of these PUSPs.

The regulations establishing the PURCK and KTA, and sector specific regulations in the areas of power, water and solid waste are expected to result in significant changes to PUSPs during 2002. Sector laws will require all PUSPs to become corporatized and restructured, in preparation for mandatory private sector participation in the near term. It can be expected that PURCK will work closely with the KTA to ensure improved management practices, accurate financial accounting and reporting according to international accounting standards, improved customer service, improved billing and collection practices and increased sectoral competition. Further, water and waste companies, most of which are presently combined in the municipalities will be separated, and many of the water companies can be expected to be

consolidated under the authority of the KTA. All will be subjected to private sector participation in the near to medium term under the KTA and the monitoring of the regulator.

The Power Company, KEK, continued to receive significant donor funding and operating subsidies during 2001 to fund the repair of its power generation facilities and to meet the cost of imports of electricity to make up the shortfall in power supplies while repairs were underway. Major repairs to the Kosovo B plant have been completed. A total of Euro 200.319 M was secured in 2001 under the Public Investment Program, mainly to support already mentioned energy sector rehabilitation, but also to support solid and waste disposal rehabilitation and water sector rehabilitation.

The 2002 Kosovo General Budget includes a subsidy totaling Euro 51 million for KEK improvements. During 2002, numerous changes are expected to occur at KEK that are intended to improve its technical and financial performance, and to prepare the company for private sector participation in the near-term. A new management assistance contract will enter into force during the first quarter of 2002 with a duration of two years, the purpose of which is to provide technical assistance and training related to continuing capital improvements to the mining, generation and distribution systems. The Regulation on Power in Kosovo will also come into force during the first quarter of 2002, strengthening the ability of KEK to enforce bill collection. The draft regulation also has provisions requiring the restructuring, corporatization of KEK, in preparation for public tenders related to the commercialization of its component parts (mining, generation, transmission and distribution) which must occur not later than a year after the law enters into force. Contracts are also in the process of being let for key management positions within KEK which are expected to bring additional international expertise and market orientation to the company. Budget allocations will be conditioned upon the successful implementation of these activities, and the achievement of concrete performance indicators related to revenue collection, staff reduction and the reduction of load shedding and power outages.

The water and waste PUSPs show a steady upward trend with respect to revenue collection. The average revenue collection rate is estimated at around 50% at present. Staff numbers are expected to remain stable at around 3,100 but to decline relative to the quantity and quality of services provided. The progress allows for a significant reduction in subsidies in comparison to 2001.

There are three district heating companies, in Pristina, Gjakova, Mitrovica. Fuel is the major cost of the district heating systems and the Public Utilities Department, has organised central procurement of fuel for the 2000-2001 district heating season. Fluctuations in the US dollar affect the DM price of heating oil and may have a significant impact on the subsidy requirements of district heating entities. A new tariff scale was implemented for the 2000-2001 season, however, revenue collection is a particular problem for district heating due to the absence of meters and the difficulty of disconnecting non-paying customers. A budget subsidy of 7.8m Euro is provided in the 2002 Kosovo Budget for the district heating companies. Adjusting for the anticipated effects of VAT and customs duties that have become applicable, the subsidies decline by 28%. The utilities are going to pay an increasing part of fuel costs out of their own revenues in addition to other operating costs that the district heating PUSPs are already covering.

Transport

The UNMIK Department of Transport and Communications has responsibility for the UNMIK Administered Railway Operations in Kosovo (hereinafter UNMIK Railways), for Pristina Airport and for the Humanitarian Bus Transports.

UNMIK Railways has gradually been developing its services during 2001. One milestone was in March 2001 when the responsibility of train operations was handed from KFOR to UNMIK Railways. Another important step was taken in May 2001 when an Operational Agreement was signed with the Macedonian Railways enabling, not only military and humanitarian train traffic, but also commercial traffic from and to Macedonia and elsewhere to serve the customers of the Railways. In order to develop the UNMIK Railways into a market oriented organization the restructuring program will continue during 2002 with the support from SIDA and EAR as main Donors.

An important factor for the development of the Railways during 2002 is the opening of the Northern Line to the FRY. This would increase both military and commercial freight traffic. Other important factors for the sustainable development is the establishment of the Legal Framework for the UNMIK Railways as well as a clearly defined Transport Policy leveling the playing field between competing modes of transports, where, for instance, costs for infrastructure is looked upon in similar ways. The freight volumes for 2002 are considered to double compared to 2001.

Pristina Airport recommenced commercial operations during 2000. The airport enterprise earns revenue from a passenger departure fee, landing fees and aircraft handling charges. The airport currently handles up to 12 commercial flights a day for the winter season and will be able to have up to 18 commercial flights for the next summer season – the maximum number approved by KFOR is 16, plus 2 we may ask from the humanitarian side. Plans for continued improvement of the airport terminal and related operations assume the investment of projected net operating revenues.

The freedom of movement for all communities, enshrined in international law, presents UNMIK with a formidable challenge in fulfilling the humanitarian mandate that forms an essential component of the responsibilities entrusted to it by the international community under Security Council Resolution 1244.

A vital component of these efforts since August 1999 have been a bus service providing freedom of movement to non-Albanian communities living in large concentrations and enclaves throughout Kosovo. Albanian communities living in predominantly Serbian settlements are similarly benefiting from the service, especially where freedom of movement is threatened or jeopardized.

The humanitarian bus service was previously operated under the auspices of UNHCR as part of its mandate for Humanitarian affairs under the original UNMIK structure. UNMIK Civil Administration took over responsibility for this indispensable activity on 1st July 2001.

The European Agency for Reconstruction is committed to provide additional vehicles for the service. These buses will provide the much needed operational flexibility for future operational requirements.

Annual funding for the service remains a challenge. The UNMIK Civil Administration will most likely be responsible in the future for providing continued funding for the humanitarian transport service.

Communications

Post and Telecommunications Enterprise of Kosovo (PTK) provides both postal and telecommunications services to the people, commercial and institutional establishment of Kosovo. PTK has the right to use the existing public post and telecommunication infrastructure as of June 1999, and to extend the infrastructure and services. PTK is the only public enterprise that has been explicitly established by UNMIK Regulation, 1999/12.

The Postal infrastructure has now been extended to 1,045 post offices and the future organization restructured into four business units. Presently and in the near future, postal services are operating at a loss, but the new model will operate commercially including extended financial services to be profitable.

The fixed telecommunication infrastructure is being repaired, but also extended including latest technology and additional services. The rollout of the mobile (Vala 900) network continued during 2001 with phase 2 and is currently continuing with phase 3 which will mainly be installed during 2002.

A project for PTK Internet infrastructure and services is being implemented and will commence in Prishtina in December 2001. The installation process continues for all of Kosovo in the coming years.

PTK is also implementing the new accounting system and introducing International Accounting Standards. The system will support the new PTK structure with separate accounts for each business unit.

A new billing center is also established that will be able to handle billing of all services to customers, i.e. for fixed and mobile telephony, and Internet Services.

The payment rate for fixed telephone bills has increased to 74% from last year's rate of 38%. Capital investments are paid by PTK generated funds and all available funds, after operating expenses are covered, are reinvested in the infrastructure and services. This is to the benefit of the people, commercial and industrial establishment of Kosovo and will aid the fast rebuilding of Kosovo.

Independent Public Entities

In 2001 a number of semi-autonomous entities were established under UNMIK regulations, which receive public funds from the Kosovo Budget and other sources. Examples include the Independent Media Commission, Radio and Television of Kosovo, and the Accounting and Auditing Standards body. Although these public bodies were established by regulation and receive funding from the budget, they have a certain degree of independence from the UNMIK Civil Administration and operate their own bank accounts outside the Kosovo Consolidated Fund. Consistent funding, oversight and reporting arrangements will be established for these bodies.

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UNITED NATIONS
United Nations Interim
Administration Mission in
Kosovo



UNMIK

NATIONS UNIES
Mission d'Administration
Intérimaire des Nations Unies au
Kosovo

REGULATION NO. 2001/37

**ON THE APPROVAL OF THE KOSOVO CONSOLIDATED BUDGET AND
AUTHORIZING EXPENDITURES FOR THE PERIOD 1 JANUARY TO 31
DECEMBER 2002**

The Special Representative of the Secretary-General,

Pursuant to the authority given to him under United Nations Security Council resolution 1244 (1999) of 10 June 1999,

Taking into account United Nations Interim Administration Mission in Kosovo (UNMIK) Regulation No. 1999/1 of 25 July 1999, as amended, on the Authority of the Interim Administration in Kosovo and UNMIK Regulation No. 1999/16 of 6 November 1999, as amended, on the Establishment of the Central Fiscal Authority of Kosovo and Other Related Matters,

For the purpose of approving the Kosovo Consolidated Budget for the period 1 January to 31 December 2002 and other related matters,

Hereby promulgates the following:

Section 1
Definitions

For the purposes of the present regulation:

(a) "Assembly" shall mean the Assembly of Kosovo established pursuant to chapter 9 of UNMIK Regulation No. 2001/9 of 15 May 2001 on A Constitutional Framework for Provisional Self-Government in Kosovo;

(b) "Budget Line" shall mean the total of the expenditure categories for the Provisional Institutions of Self-Government established pursuant to UNMIK Regulation No. 2001/9 (PISG), and any organ or agency thereof, organs or agencies of the UNMIK Interim Administration carrying out functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9, any municipality and any organ or agency thereof, and any of the independent

bodies or offices listed in chapter 11 of UNMIK Regulation No. 2001/9, as set out in the Schedules to the present regulation;

(c) “Central Fiscal Authority Accounting Record” shall mean the accounting record established by the Central Fiscal Authority;

(d) “Commitments” shall mean contemplated expenditures, whether or not subject to a legal obligation;

(e) “Expenditure Categories” shall mean Salaries and Wages, Other Goods and Services, Subsidies and Transfers, Capital Outlays and Reserve;

(f) “Expenditures” shall mean payments of money from, or transfers out of, the Kosovo Consolidated Fund;

(g) “Government” shall mean the Prime Minister and ministers of Kosovo;

(h) “Kosovo Consolidated Budget” shall mean the overall budget of Kosovo, which comprises the general administrative, municipal and public enterprise sectors of government activity, consolidated in accordance with internationally accepted government finance standards;

(i) “Kosovo Consolidated Fund” shall mean the fund established pursuant to UNMIK Regulation No. 1999/16, as amended;

(j) “Kosovo General Budget Sections” shall mean the sections of the Kosovo Consolidated Budget that encompass the budget transactions of the PISG and any organ or agency thereof, organs or agencies of the UNMIK Interim Administration carrying out functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9, any municipality and any organ or agency thereof, and any of the independent bodies or offices listed in chapter 11 of UNMIK Regulation No. 2001/9;

(k) “Kosovo Municipal Budgets Section” shall mean that section of the Kosovo Consolidated Budget that encompasses the budget transactions of the established Kosovo municipal administrations;

(l) “Kosovo Public Enterprises Statements of Expenditure and Revenue Section” shall mean that section of the Kosovo Consolidated Budget that encompasses the expenditures and revenues of the specified Kosovo public enterprises or enterprise groups; and

(m) “Schedules” shall mean the schedules attached to the present regulation.

Section 2 General Expenditures

Expenditures are authorized for the period 1 January to 31 December 2002 from the Kosovo General Budget Section for the General Government purposes indicated and the amounts shown in Schedules 1 and 2, Section A of Schedule 3, and Schedule 4. Release of the funds, for commitment or expenditure, set out in Schedule 4 may be authorized by the Special

Representative of the Secretary-General upon the written advice of the Head of the Central Fiscal Authority.

Section 3 Municipal Expenditures

Expenditures are authorized for the period 1 January to 31 December 2002 from the Kosovo Municipal Budgets Section for the purposes indicated and the amounts shown in Section B of Schedule 3. The appropriations in respect of revenues are authorized to the extent that the “own source” revenues as set out in Section B of Schedule 3 are deposited into the Kosovo Consolidated Fund and the appropriation is recorded in the Central Fiscal Authority Accounting Record. Amounts authorized shall be used only for the specified purposes and in a manner consistent with any applicable policy guidance rendered by the appropriate ministry, executive agency or other authority so designated by the Special Representative of the Secretary-General.

Section 4 Public Enterprises Expenditures and Revenues

Estimated expenditures and revenues for public enterprises for the period 1 January to 31 December 2002 are set out in the Kosovo Public Enterprises Statements of Expenditure and Revenue for the purposes and in the amounts shown in Schedule 5. The estimated expenditures set out in Schedule 5 are authorized only to the extent of revenues realized by each enterprise, including revenues in the form of a transfer or subsidy set out in Schedules 1, 2 and 4. Each such enterprise shall submit to the Central Fiscal Authority a monthly financial statement reporting on the revenue, expenditure and cash flow of the entity, setting out any changes to the overall financial plan as reflected in Schedule 5.

Section 5 Re-Appropriation of Unexpended Commitments and Balances

5.1 Following the closure of the financial year 2001, the Head of the Central Fiscal Authority shall submit to the Special Representative of the Secretary-General for approval, a schedule of any unexpended commitments incurred in 2001 and recorded in the Central Fiscal Authority Accounting Record. Upon approval by the Special Representative of the Secretary-General, expenditures for such commitments shall be deemed authorized for the period 1 January to 31 December 2002 from the Kosovo Consolidated Fund.

5.2 Expenditures from unexpended balances of designated donor grants, which grants were actually received in 1999, 2000 and 2001, are authorized for the period 1 January to 31 December 2002.

5.3 Expenditures from unexpended balances of Municipal General Grants for 2001 are authorized for the period 1 January to 31 December 2002. Expenditures from unexpended balances for own source revenues for 2000 and 2001 are authorized for the period 1 January

to 31 December 2002 to the extent they have been deposited in the Kosovo Consolidated Fund and recorded in the Central Fiscal Authority Accounting Record.

Section 6
Limits on Commitments and Expenditures

6.1 Pursuant to section 4.4 of UNMIK Regulation No. 1999/16, as amended, no expenditures from, or commitments against, the Kosovo Consolidated Fund shall be made except as authorized in the present regulation.

6.2 The Special Representative of the Secretary-General may, upon the written advice of the Head of the Central Fiscal Authority submitted through the Economic and Fiscal Council, impose limits or other constraints on the manner in which and the rate at which, commitments are to be made and discharged.

6.3 Notwithstanding the restriction set out in section 6.1 of the present regulation, unanticipated donor grants deposited in the Kosovo Consolidated Fund for specified purposes may be allocated and spent for those purposes. If the specified purpose is not already set out in the Schedules, an amount equivalent to the deposited donor grant shall be deemed to be appropriated and a budget line created to permit expenditure to take place.

6.4 Revenue from co-payments and fees for health care purposes collected by the Ministry of Health, Environment and Spatial Planning in 2002 shall be appropriated, for health care purposes only, as the revenue is deposited into the Kosovo Consolidated Fund and an appropriation recorded in the Central Fiscal Authority Accounting Record.

6.5 Revenue from co-payments, fees and charges collected by municipalities in excess of the revenue amounts shown in Section B of Schedule 3 shall be appropriated as the revenue is deposited into the Kosovo Consolidated Fund and an appropriation recorded in the Central Fiscal Authority Accounting Record. Appropriations of education fees and charges or primary health care co-payment revenues shall be separately recorded and used by the municipality only for education or primary health care purposes, respectively.

6.6 The Special Representative of the Secretary-General may appropriate for specific purposes fees or other charges deposited into the Kosovo Consolidated Fund, and may authorize expenditures pursuant to such appropriation. Such appropriation and authorization with respect to organs or agencies of the UNMIK Interim Administration performing functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9, shall be made upon the written advice of the Head of the Central Fiscal Authority submitted through the Economic and Fiscal Council. Such appropriation and authorization with respect to the PISG, and any organ or agency thereof, shall be made upon the written advice of the Head of the Central Fiscal Authority and also the Permanent Secretary of the Ministry of Finance and Economy submitted through the Economic and Fiscal Council.

6.7 The PISG, and all organs or agencies thereof, organs and agencies of the UNMIK Interim Administration carrying out functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9, municipalities and all organs and agencies thereof, and the

independent bodies or offices listed in chapter 11 of UNMIK Regulation No. 2001/9, shall ensure that expenditures on Salaries and Wages do not exceed the amounts shown in Schedules 1, 2 and 3, and that the number of staff at the end of 2002 does not exceed the numbers specified in Schedules 1, 2 and 3.

6.8 A proposal to increase expenditures on Salaries and Wages or to increase the number of staff beyond that specified in section 6.7, may be approved only by the Special Representative of the Secretary-General, acting on the advice of the Economic and Fiscal Council upon written advice of the Head of the Central Fiscal Authority submitted through the Economic and Fiscal Council. In considering such proposals from an organ or agency of the PISG, the Special Representative of the Secretary-General also shall consider the written advice of the Permanent Secretaries of the Ministry of Public Services and the Ministry of Finance and Economy.

6.9 The Special Representative of the Secretary-General may, upon the written advice of the Head of the Central Fiscal Authority submitted through the Economic and Fiscal Council, issue amendments to the Schedules, by means of a subsequent administrative direction.

Section 7 Contingent Expenditures

7.1 The amounts authorized for contingent expenditures may be used only for urgent and unforeseen requirements. Funds of contingent expenditures are appropriated as set out in Schedule 1 as an Advance to the Minister of Finance and Economy, and in Schedule 2 as an Advance to the Special Representative of the Secretary-General.

7.2 For organs and agencies of the PISG, amounts may be transferred from the Advance to the Minister of Finance and Economy. The Permanent Secretary of the Ministry of Finance and Economy may authorize, on receipt of proper justification, the expenditure of amounts up to Euro 50,000 for each urgent and unforeseen requirement. Proposals for transfers of amounts in excess of Euro 50,000 and not exceeding Euro 250,000 shall be forwarded, together with the written recommendation of the Permanent Secretary for Finance and Economy to the Minister of Finance and Economy, for authorization. For amounts exceeding Euro 250,000, the Minister of Finance and Economy shall consult with the Government in deciding on the authorization.

7.3 For amounts appropriated in Schedule 2 for urgent and unforeseen requirements, the Head of the Central Fiscal Authority may authorize, on receipt of proper justification, the expenditure of up to Euro 50,000 for each urgent and unforeseen requirement of organs and agencies of the UNMIK Interim Administration carrying out functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9. Proposals for the transfer of such amounts in excess of Euro 50,000 shall be forwarded, together with the recommendation of the Head of the Central Fiscal Authority, to the Special Representative of the Secretary-General for authorization.

7.4 All transfers approved under section 7.2 of the present regulation shall be reported annually to the Assembly within three months of the closure of the financial year. Where any such transfers remain unexpended at the closure of the financial year there shall be a report

from the Minister or Head of the relevant PISG, to the Assembly, with a copy to the Economic and Fiscal Council. For organs and agencies of the UNMIK Interim Administration carrying out functions under the powers and responsibilities reserved to the Special Representative of the Secretary-General pursuant to chapter 8 of UNMIK Regulation No. 2001/9, the report shall be made to the Special Representative of the Secretary-General with a copy to the Economic and Fiscal Council. The matter shall be indicated in the relevant financial statements.

Section 8
Adjustments to Amounts Authorized

8.1 Adjustments to the amounts authorized may be made as follows:

(a) The Special Representative of the Secretary-General may, upon the written advice of the Head of the Central Fiscal Authority submitted through the Economic and Fiscal Council, effect transfers between Schedules;

(b) For transfers of authorized amounts between appropriations for Expenditure Categories for any individual budget line, provided that the reallocation does not exceed, in total, twenty percent (20%) of the category being reduced, such transfer may be made upon the written approval of:

- (i) For Schedule 1, the Permanent Secretary of the Ministry of Finance and Economy; and
- (ii) For Schedules 2, 3 and 4, the Head of the Central Fiscal Authority;

(c) Transfers of authorized amounts between appropriations for Expenditure Categories for any individual budget line in excess of twenty percent (20%) of the category being reduced, including transfers between budget lines, may be made upon written approval of:

- (i) For Schedule 1, the Minister of Finance and Economy, upon the written advice of the Permanent Secretary of the Ministry of Finance and Economy and the Government. Notification of such decisions shall be given in writing to the Chairperson of the Budget Committee of the Assembly, no later than 14 days after the decision; and
- (ii) For Schedules 2, 3 and 4, the Special Representative of the Secretary-General, upon the written advice of the Head of the Central Fiscal Authority;

(d) Appropriations for reserves may be transferred in part or in whole to any other category within the same function and Schedule upon the written approval of the Head of the Central Fiscal Authority (Schedules 2, 3 and 4) or the Permanent Secretary of the Ministry of Finance and Economy (Schedule 1); and

(e) Amounts authorized pursuant to section 7 of the present regulation may be transferred between Budget lines in Schedule 1 by the Permanent Secretary of the Ministry of

Finance and Economy, and in Schedules 2, 3 and 4 by the Head of the Central Fiscal Authority.

8.2 The Head of the Central Fiscal Authority shall be notified of all adjustments to authorized amounts, in writing and in a form to be established by the Head of the Central Fiscal Authority in a subsequent administrative instruction, for recording in the Central Fiscal Authority Accounting Record.

Section 9
Expenditures Limited to Revenues

The Head of the Central Fiscal Authority, in allocating funds for expenditure, shall allocate funds only to the extent revenue or other financing sources are available in the Kosovo Consolidated Fund to make the expenditure.

Section 10
Annual Reporting

10.1 Within three months of the closure of the financial year, the Permanent Secretary of the Ministry of Finance and Economy, upon receipt from the Treasury of a statement of the commitments and expenditures of the PISG, shall prepare a report on the matter, and submit it to the Minister of Finance and Economy. After consultation with the Prime Minister, the Minister shall then forward it the Chairperson of the Budget Committee of the Assembly, with copies to the Economic and Fiscal Council and the Head of the Central Fiscal Authority.

10.2 Upon receipt of the report made pursuant to section 10.1 of the present regulation, the Head of the Central Fiscal Authority shall, within four months of the closure of the financial year, submit to the Special Representative of the Secretary-General and the Economic and Fiscal Council a consolidated report of the commitments and expenditures of the Kosovo Consolidated Budget.

Section 11
Entry into Force

The present regulation shall enter into force on 22 December 2001.

Hans Haekkerup
Special Representative of the Secretary-General

Schedule 1
KOSOVO GENERAL BUDGED SECTION- PROVISIONAL SELF – GOVERNMENT
1 January – 31 December 2002

Org. code	Func/ Sub Func Code	Ministries/ Departments	Departments/Agencies	Employees		Expenditures on Goods and Services		Subsidies and Transfers	Capital Outlays	Reserve	Total
				End of 2002	Avg 2002	Wages & Salaries	Goods & Services				
10100		Assembly		222	222	1,449,768	1,759,773		407,209		3,616,750
10102	0101		Assembly Members	120	120	1,194,122					1,194,122
10103	0101		Administration and Services	102	102	255,646	1,759,773		407,209		2,422,628
10200	0101	Office of President	Office of President	29	29	102,258	485,727		485,727		1,073,713
10300		Ministers and Ministerial Offices		60	60	346,554	503,623		615,033		1,465,209
10301	0101		Prime Minister	6	6	51,129	227,525		255,646		534,300
10302	0101		Minister of Finance and Economy	6	6	32,825	30,678		39,932		103,434
10303	0101		Minister of Public Services	6	6	32,825	30,678		39,932		103,434
10304	0409		Minister of Agriculture, Forestry and Rural Development	6	6	32,825	30,678		39,932		103,434
10305	0409		Minister of Trade and Industry	6	6	32,825	30,678		39,932		103,434
10306	0409		Minister of Transport and Communications	6	6	32,825	30,678		39,932		103,434
10307	0706		Minister of Health, Environment and Spatial Planning	6	6	32,825	30,678		39,932		103,434
10308	0806		Minister of Culture, Youth and Sports	6	6	32,825	30,678		39,932		103,434
10309	0908		Minister of Education, Science and Technology	6	6	32,825	30,678		39,932		103,434
10310	1009		Minister of Labor and Social Welfare	6	6	32,825	30,678		39,932		103,434
10400	0101	Office of Prime Minister	Office of Prime Minister	81	81	204,517	426,356		102,258		733,131
20100		Ministry of Finance and Economy		51	51	123,876	221,860		157,626		503,362
20101	0101		Budget Department	17	17	43,807			23,468		67,276
20102	0101		Economic Policy Department	13	13	33,500			17,946		51,446
20103	0101		Corporate Services Department	21	21	46,568	221,860		116,212		384,640
20200		Ministry of Public Services		1,077	1,071	2,125,068	10,644,620		1,214,318		13,984,006
20201	0103		Civil Services Administration	49	43	120,146	167,612				287,758
20202	0103		Information Management Services	183	183	351,255	1,199,385		149,297		1,699,938
20203	0103		Engineering and Building Management	83	83	187,286	5,423,857		721,177		6,332,321
20204	0303		Judicial Administration				96,123				96,123
20205	0103		Administration and Support	194	194	378,770	932,152		89,987		1,400,909
20206	0601		Kosovo Cadastral Agency	66	66	103,261	510,290				613,550
20207	0103		Kosovo Statistical Office	125	125	224,713	403,921		191,734		820,368

Org. code	Func/ Sub Func Code	Ministries/ Departments	Departments/Agencies	Employees		Expenditures on Goods and Services		Subsidies and Transfers	Capital Outlays	Reserve	Total
				End of 2002	Avg 2002	Wages & Salaries	Goods & Services				
20208	0103		Public Procurement Agency	12	12	27,058	125,777				152,835
20209	0103		Kosovo Institute for Public Administration	36	36	78,780	245,164				323,944
20210	0103		Local Administration and Emergency Management	329	329	653,799	1,540,339		62,122		2,256,261
20300		Ministry of Agriculture, Forestry and Rural Development		376	376	660,714	583,824		189,916		1,434,454
20301	0402		Plant Protection and Production	28	28	54,330			17,189		71,519
20302	0402		Animal Production	16	16	33,475			18,360		51,835
20303	0402		Kosovo Forest Authority	249	249	410,342	116,881		41,941		569,165
20304	0402		Rural Development	25	25	43,936	35,790		29,705		109,431
20305	0408		Agriculture Institute of Peja	23	23	36,997	32,467		15,339		84,803
20306	0409		Policy Unit	5	5	12,424			14,313		26,737
20307	0409		Central Administration	21	21	45,249	364,878		22,506		432,634
20308	0402		Forestry	9	9	23,959	33,807		30,564		88,330
20400		Ministry of Trade and Industry		27	29	64,607	93,474		51,129		209,210
20401	0401		Economic Development	19	21	47,765	39,277				87,042
20402	0409		Central Administration Services	8	8	16,842	54,197		51,129		122,168
20500		Ministry of Transport and Communications		125	125	312,334	10,117,444	1,278,230			11,708,007
20501	0405		Road Infrastructure	66	66	139,300	9,341,047	1,278,230			10,758,577
20502	0405		Public Transport Services				127,823				127,823
20503	0406		Post and Telecommunication				299,106				299,106
20504	0404		Central Administration	59	59	173,033	349,468				522,501
20600		Ministry of Health, Environment and Spatial Planning		6,807	6,793	11,488,098	24,703,067		1,080,743	1,680,532	38,952,440
20601	0703		Hospitals	5,844	5,840	9,804,528	15,642,464		255,646		25,702,638
20602	0704		Primary Health /1				4,501,209			1,680,532	6,181,741
20603	0705		Other Health	712	712	1,175,075	3,966,756		337,453		5,479,283
20604	0506		Environment	148	148	276,374	267,661		92,033		636,068
20605	0602		Spatial Planning	88	78	199,910	191,734		359,822		751,466
20606	0706		Kosovo Drug Regulatory Authority	15	15	32,211	133,243		35,790		201,244
20700		Ministry of Culture, Youth and Sports		430	438	827,606	1,085,388	3,158,337	43,585		5,114,916
20701	0801		Sports	45	45	88,075	57,520	1,219,559			1,365,154
20702	0802		Culture	329	329	621,097	606,832	1,698,471	10,175		2,936,574
20703	0803		Youth	39	47	82,762	44,669	240,307	16,873		384,611

Org. code	Func/ Sub Func Code	Ministries/ Departments	Departments/Agencies	Employees		Expenditures on Goods and Services		Subsidies and Transfers	Capital Outlays	Reserve	Total
				End of 2002	Average 2002	Wages & Salaries	Goods & Services				
20704	0101		Non Resident Affairs	17	17	35,672	376,367		16,538		428,577
20800		Ministry of Education, Science and Technology		23,930	22,979	24,281,807	5,774,242		3,171,288	5,729,050	38,956,386
20801	0901		Pre-school Education /2	457	398	347,208	19,940		151,470	119,237	637,856
20802	0901		Primary Education /3	15,227	14,998	13,430,314	537,368		1,661,699	3,502,930	19,132,311
20803	0902		Secondary Education /4	4,843	4,277	4,241,722	322,886		243,503	2,106,882	6,914,993
20804	0905		Boarding Facility/dormitory				11,504		19,173		30,678
20805	0905		Special Needs Education	355	258	413,152	217,005		185,343		815,501
20806	0904		University and Higher Education	2,500	2,500	4,908,402	4,215,602		766,938		9,890,941
20807	0904		National University Library	100	100	179,770	85,641				265,412
20808	0908		Educational Administration	307	307	519,873	348,957		143,162		1,011,992
20809	0905		Teacher Training	112	112	191,722					191,722
20810	0905		Curriculum Development	29	29	49,642	15,339				64,981
20900		Ministry of Labor and Social Welfare		1,262	1,248	2,234,648	3,450,755	59,201,976	1,671,848		66,559,227
20901	0601		Social Welfare	930	930	1,655,175	2,745,300	59,201,976	1,095,750		64,698,200
20902	0401		Labor and Inspection Authority	48	48	87,468	30,268		77,205		194,941
20903	0401		Labor Affairs	256	242	440,983	620,990		414,530		1,476,503
20904	0409		Central Administration Services	28	28	51,023	54,197		84,363		189,583
20199		Advance to the Minister for Finance and Economy	Contingent Expenditures							8,148,175	8,148,175
Total Provisional Self – Government Budgeted				34,477	33,502	44,221,854	59,850,153	63,638,542	9,190,682	15,557,757	192,458,987

1/ As reserve for primary health staff restructuring

2/ As reserve for excess staff for minority, Macedonian refugees and returnees (in average 37 teacher and 45 support staff, in the end of year 43 teachers and 51 supportive staff)

3/ As reserve for excess staff for minority, Macedonian refugees and returnees (in average 1648 teacher and 451 support staff, in the end of year 1673 teachers and 458 supportive staff)

4/ As reserve for excess staff for minority, Macedonian refugees and returnees (in average 846 teacher and 322 support staff, in the end of year 957 teachers and 364 supportive staff)

Schedule 2
KOSOVO GENERAL BUDGET SECTION – UNMIK Reserved Powers
1 January – 31 December 2002
(Euro)

Org. Code	Fun/ Sub Fun. Code	UNMIK Directorate/Organisational Unit	Sub Units	Employees		Expenditures on Goods and Services		Subsidies and Transfers	Capital Outlays	Reserve	Total
				End of Year 2002	Avg 2002	Wages & Salaries	Goods and Services				
30100		Central Fiscal Authority		970	888	2,997,827	3,783,437		1,605,457		8,386,721
30102	0101		Customs/Tax Collection Offices	407	340	1,455,137	989,350		127,823		2,572,309
30103	0101		Tax Administration	410	395	1,242,951	1,504,732		1,205,626		3,953,309
30104	0101		Central Administration Services	147	147	284,278	1,202,559		272,007		1,758,844
30105	0101		Independent Taxation	3	3	7,731	43,398				51,129
30106	0101		Kosovo Board for Financial Reporting Standards	3	3	7,731	43,398				51,129
30200		Directorate of Administrative Affairs		634	634	1,142,526	3,183,052		1,040,990		5,366,568
30201	0103		Civil Registry	316	316	578,268	620,198				1,198,465
30202	0103		Central Processing Center	250	250	447,892	1,702,862		1,040,990		3,191,744
30203	0103		Official Kosovo Gazette	3	3	8,688	93,055				101,744
30204	0601		Housing and Property Directorate	65	65	107,678	766,938				874,616
30300		Directorate of Civil Protection (KPC)		4,806	4,806	8,777,569	6,391,003		1,194,429		16,363,001
30301	0201		Kosovo Protection Corps	4,000	4,000	7,202,577	4,470,731		606,801		12,280,109
30302	0302		Fire and Rescue Services	716	716	1,411,665	1,134,956		440,989		2,987,610
30303	0201		Mine Clearance	5	5	11,044	370,124		18,816		399,984
30304	0201		Executive Core	85	85	152,283	415,192		127,823		695,298
30400	0301	Police Service	Kosovo Police Service	5,875	5,475	14,329,098	6,406,083		2,762,277		23,497,458
30500	0303	Justice	Judicial Affairs	1,801	1,801	4,848,863	3,806,206		2,223,353		10,878,422
30600	0304	Correctional Services	Kosovo Correctional Services	1,274	1,274	2,453,219	2,966,720		1,078,826		6,498,765
30700		Directorate of Rural Affairs		71	71	163,051	314,553		269,341		746,945
30701	0402		Kosovo Veterinary Services	40	40	83,688	91,836		123,928		299,453
30702	0402		Plant Border Control	12	12	28,990	36,323		38,837		104,151
30703	0402		Agriculture Public Enterprises	1	1	1,657	2,045		1,505		5,206
30704	0402		Office for Public Forests	18	18	48,716	129,129		105,070		282,916
30705	0409		Central Administration				55,220				55,220
30900		Directorate of Infrastructure Affairs		18	18	38,433	142,650	2,277,294			2,458,377
30903	0405		UNMIK Railways					871,241			871,241
30904	0405		Humanitarian Transport Services					1,354,923			1,354,923
30905	0406		Post and Telecommunications					51,129			51,129
30906	0405		Central Administration	18	18	38,433	142,650				181,083
31100	0803	Radio and Television of Kosovo	Radio and Television of Kosovo					2,556,459			2,556,459
31200	0803	Independent Media	Independent Media Commission					409,197			409,197

Org. Code	Fun/ Sub Fun. Code	UNMIK Directorate/Organisational Unit	Sub Units	Employees		Expenditures on Goods and Services		Subsidies and Transfers	Capital Outlays	Reserve	Total
				End of Year 2002	Avg 2002	Wages & Salaries	Goods and Services				
		Commission									
31300	0101	Banking and Payments of Kosovo	Banking and Payments of Kosovo					1,329,359			1,329,359
31500	0103	Ombudsperson Institution	Kosovo Ombudsperson			88,106	252,578		30,678		371,362
31600	0101	Joint Advisory Council on Legislative Matters	Joint Advisory Council on Legislative Matters	10	10	36,302	25,565				61,866
31800	0103	Community Affairs Office	Community Affairs Office	8	8	19,143	25,488		51,385		96,016
30198	0101	Advance to SRSG	Contingent Expenditures							6,135,503	6,135,503
30199	0101	Other Reserves /1	Reserve							21,883,126	21,883,126
		Total Reserved Budget		15,467	14,985	34,894,137	27,297,337	6,572,309	10,256,734	28,018,629	107,039,146

1/ Including of 5,112,919 Euro for local municipal elections and 5,112,919 Euro for contributions on pensions schema and provisions for the proposed Kosovo trust Agency, Public Utilities Regulatory Commission, Auditor General and Pensions Saving Trust

Schedule 3-B
KOSOVO MUNICIPAL BUDGET SECTION
1 January – 31 December 2002
(Euro)

Org. Code	Municipality	Program/Sub Program	Empl.	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
61100	Glogoc/Glogovac		504	1,431,347	1,059,553		2,490,900	2,260,307	230,593	2,490,900
61110		Municipality Administration	150	266,894	639,442		906,336	675,743	230,593	906,336
61140		Education	199	929,265	265,142		1,194,407	1,194,407		1,194,407
61150		Health	155	235,188	154,969		390,157	390,157		390,157
61200	Fushe Kosove/Kosovo Polje		325	779,572	542,165		1,321,737	1,160,169	161,568	1,321,737
61210		Municipality Administration	94	174,126	301,247		475,372	313,804	161,568	475,372
61212		Local Community Office	9	16,014	60,235		76,249	76,249		76,249
61240		Education	98	410,772	90,284		501,056	501,056		501,056
61250		Health	124	178,661	90,399		269,060	269,060		269,060
61300	Lipjan/Lipljane		619	1,600,033	1,102,086		2,702,119	2,446,473	255,646	2,702,119
61310		Municipality Administration	179	318,494	731,706		1,050,200	794,554	255,646	1,050,200
61312		Local Community Office	18	38,960	40,858		79,818	79,818		79,818
61340		Education	225	946,324	135,810		1,082,134	1,082,134		1,082,134
61350		Health	197	296,255	193,712		489,967	489,967		489,967
61400	Obiliq/Obilic		268	666,646	379,443		1,046,089	925,935	120,154	1,046,089
61410		Municipality Administration	89	163,634	200,623		364,257	244,104	120,154	364,257
61412		Local Community Office	17	31,291	38,665		69,956	69,956		69,956
61440		Education	76	340,068	73,000		413,068	413,068		413,068
61450		Health	86	131,653	67,154		198,807	198,807		198,807
61500	Podujeva/Podujevo		780	2,252,319	1,852,235		4,104,553	3,465,438	639,115	4,104,553
61510		Municipality Administration	259	460,163	1,348,317		1,808,479	1,169,364	639,115	1,808,479
61540		Education	221	1,332,324	201,726		1,534,050	1,534,050		1,534,050
61550		Health	300	459,832	302,192		762,024	762,024		762,024
61600	Prishtina/Pristina		2,597	5,733,279	6,457,612		12,190,891	9,919,467	2,271,424	12,190,891
61610		Municipality Administration	622	1,104,390	4,305,260		5,409,650	3,620,129	1,789,522	5,409,650
61612		Local Community Office	38	69,945	84,921		154,866	154,866		154,866
61640		Education	860	2,836,039	1,034,293		3,870,332	3,388,430	481,902	3,870,332
61650		Health	1,077	1,722,905	1,033,138		2,756,043	2,756,043		2,756,043

Org. Code	Municipality	Program/Sub Program	Empl.	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
61700	Shtime/Stimlje		212	644,188	410,884		1,055,073	998,831	56,242	1,055,073
61710		Municipality Administration	78	138,662	215,386		354,049	297,807	56,242	354,049
61740		Education	58	389,396	123,178		512,574	512,574		512,574
61750		Health	76	116,130	72,320		188,450	188,450		188,450
62100	Dragash/Dragas		288	1,021,824	449,091		1,470,915	1,414,673	56,242	1,470,915
62110		Municipality Administration	107	201,960	233,946		435,906	379,664	56,242	435,906
62112		Local Community Office	4	7,363	8,155		15,517	15,517		15,517
62140		Education	86	673,526	116,592		790,118	790,118		790,118
62150		Health	91	138,975	90,399		229,374	229,374		229,374
62200	Prizren/Prizren		1,217	3,499,775	3,875,711		7,375,486	6,494,018	881,467	7,375,486
62210		Municipality Administration	332	638,604	2,493,738		3,132,341	2,250,874	881,467	3,132,341
62212		Local Community Office	14	25,769	51,178		76,947	76,947		76,947
62240		Education	346	1,983,688	762,569		2,746,257	2,746,257		2,746,257
62250		Health	525	851,714	568,226		1,419,940	1,419,940		1,419,940
62300	Rahovec/Orahovac		418	1,266,374	1,183,271		2,449,645	2,052,371	397,274	2,449,645
62310		Municipality Administration	130	313,177	728,692		1,041,868	644,594	397,274	1,041,868
62312		Local Community Office	8	14,725	15,017		29,742	29,742		29,742
62340		Education	130	707,531	276,844		984,375	984,375		984,375
62350		Health	150	230,941	162,719		393,660	393,660		393,660
62400	Suhareke/Suva Reka		512	1,586,692	1,277,476		2,864,168	2,518,535	345,633	2,864,168
62410		Municipality Administration	182	354,325	823,182		1,177,507	831,874	345,633	1,177,507
62440		Education	143	936,405	247,666		1,184,071	1,184,071		1,184,071
62450		Health	187	295,962	206,628		502,590	502,590		502,590
62500	Malisheve/Malisevo		396	1,237,672	904,447		2,142,119	1,918,173	223,946	2,142,119
62510		Municipality Administration	132	262,804	494,742		757,546	533,600	223,946	757,546
62540		Education	130	768,822	275,397		1,044,219	1,044,219		1,044,219
62550		Health	134	206,046	134,308		340,354	340,354		340,354
63100	Decan/Decani		368	1,033,688	731,049		1,764,738	1,534,656	230,081	1,764,738
63110		Municipality Administration	116	205,028	495,386		700,414	470,333	230,081	700,414
63112		Local Community Office	8	14,725	14,573		29,299	29,299		29,299
63140		Education	114	614,480	91,947		706,427	706,427		706,427
63150		Health	130	199,455	129,143		328,598	328,598		328,598
63200	Gjakove/Djakovica		834	2,408,253	1,503,798		3,912,051	3,860,922	51,129	3,912,051
63210		Municipality Administration	252	510,269	635,651		1,145,920	1,094,791	51,129	1,145,920
63212		Local Community Office	6	11,044	73,957		85,001	85,001		85,001
63240		Education	273	1,408,657	497,162		1,905,819	1,905,819		1,905,819
63250		Health	303	478,283	297,028		775,311	775,311		775,311

Org. Code	Municipality	Program/Sub Program	Empl.	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
63300	Istog/Istok		372	1,111,614	656,796		1,768,409	1,663,595	104,815	1,768,409
63310		Municipality Administration	136	251,556	301,461		553,016	448,202	104,815	553,016
63312		Local Community Office	8	14,725	22,926		37,651	37,651		37,651
63340		Education	106	659,789	218,764		878,553	878,553		878,553
63350		Health	122	185,544	113,645		299,189	299,189		299,189
63400	Kline/Klina		378	1,084,112	818,227		1,902,338	1,698,844	203,494	1,902,338
63410		Municipality Administration	139	265,360	392,497		657,857	454,363	203,494	657,857
63412		Local Community Office	5	9,203	11,197		20,400	20,400		20,400
63440		Education	106	612,142	300,888		913,030	913,030		913,030
63450		Health	128	197,406	113,645		311,051	311,051		311,051
63500	Peje/Pec		863	2,512,474	1,904,537		4,417,011	3,887,312	529,698	4,417,011
63510		Municipality Administration	261	577,044	1,125,928		1,702,972	1,173,274	529,698	1,702,972
63512		Local Community Office	9	16,566	20,473		37,038	37,038		37,038
63540		Education	286	1,438,530	461,108		1,899,638	1,899,638		1,899,638
63550		Health	307	480,334	297,028		777,362	777,362		777,362
64100	Leposaviq/Leposavic		215	440,212	292,568		732,780	717,441	15,339	732,780
64110		Municipality Administration	86	107,371	123,600		230,971	215,632	15,339	230,971
64112		Local Community Office	4	7,363	12,546		19,909	19,909		19,909
64140		Education	62	231,462	107,347		338,809	338,809		338,809
64150		Health	63	94,016	49,075		143,091	143,091		143,091
64200	Mitrovica/Mitrovica		1,008	2,435,548	1,852,944		4,288,492	3,803,787	484,705	4,288,492
64210		Municipality Administration	232	412,797	1,009,049		1,421,846	937,141	484,705	1,421,846
64212		Local Community Office	70	128,846	208,232		337,078	337,078		337,078
64240		Education	361	1,350,497	351,549		1,702,046	1,702,046		1,702,046
64250		Health	345	543,409	284,113		827,522	827,522		827,522
64300	Skenderaj/Srbica		475	1,359,868	1,117,284		2,477,152	2,277,748	199,404	2,477,152
64310		Municipality Administration	157	286,835	519,419		806,254	606,850	199,404	806,254
64312		Local Community Office	8	14,725	10,334		25,059	25,059		25,059
64340		Education	157	819,606	442,891		1,262,497	1,262,497		1,262,497
64350		Health	153	238,702	144,640		383,342	383,342		383,342

Org. Code	Municipality	Program/Sub Program	Empl.	Expenditures				Source of Financing		
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
64400	Vushtrri/Vucitrn		561	1,803,563	1,287,787		3,091,350	2,720,663	370,687	3,091,350
64410		Municipality Administration	213	397,223	704,891		1,102,113	769,773	332,340	1,102,113
64412		Local Community Office	14	25,769	20,250		46,019	46,019		46,019
64440		Education	149	1,090,906	368,933		1,459,839	1,421,492	38,347	1,459,839
64450		Health	185	289,665	193,713		483,378	483,378		483,378
64500	ZubinPotok/ZubinPotok		209	412,757	376,591		789,347	766,851	22,497	789,347
64510		Municipality Administration	96	136,515	163,905		300,420	277,923	22,497	300,420
64512		Local Community Office	3	5,522	3,950		9,472	9,472		9,472
64540		Education	48	182,268	169,992		352,260	352,260		352,260
64550		Health	62	88,452	38,743		127,195	127,195		127,195
64600	Zvecan/Zvecan		167	347,893	417,204		765,097	745,668	19,429	765,097
64610		Municipality Administration	54	96,123	109,559		205,682	186,253	19,429	205,682
64612		Local Community Office	8	14,725	6,531		21,256	21,256		21,256
64640		Education	41	144,786	259,788		404,574	404,574		404,574
64650		Health	64	92,259	41,326		133,585	133,585		133,585
65100	Gjilan/Gnjilane		829	2,564,190	1,994,479		4,558,669	4,051,467	507,202	4,558,669
65110		Municipality Administration	248	437,666	1,161,204		1,598,870	1,091,668	507,202	1,598,870
65112		Local Community Office	12	22,088	62,984		85,072	85,072		85,072
65140		Education	249	1,599,207	486,179		2,085,386	2,085,386		2,085,386
65150		Health	320	505,229	284,112		789,341	789,341		789,341
65200	Kacanik/Kacanik		331	952,455	720,343		1,672,798	1,488,733	184,065	1,672,798
65210		Municipality Administration	102	181,488	437,844		619,332	435,267	184,065	619,332
65240		Education	99	570,779	171,436		742,215	742,215		742,215
65250		Health	130	200,188	111,063		311,251	311,251		311,251
65300	Kamenica/Kamenica		557	1,446,373	771,205		2,217,578	1,986,986	230,593	2,217,578
65310		Municipality Administration	163	367,108	445,525		812,632	582,040	230,593	812,632
65312		Local Community Office	30	55,220	93,354		148,574	148,574		148,574
65340		Education	191	763,084	90,269		853,353	853,353		853,353
65350		Health	173	260,962	142,057		403,019	403,019		403,019
65400	Novo Berde/ Novo Brdo		117	257,315	170,964		428,279	405,782	22,497	428,279
65410		Municipality Administration	67	138,049	101,165		239,214	216,717	22,497	239,214
65412		Local Community Office	7	13,294	7,929		21,223	21,223		21,223
65440		Education	24	76,392	48,955		125,347	125,347		125,347
65450		Health	19	29,581	12,915		42,496	42,496		42,496

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Org. Code	Municipality	Program/Sub Program	Empl.	Expenditures	Source of Financing					
				Wages & Salaries	Goods & Services and Capital Outlays	Reserve	Total	General Grant	Own Source Revenues	Total
65510		Municipality Administration	54	118,108	99,951		218,060	162,329	55,731	218,060
65512		Local Community Office	10	18,407	12,246		30,652	30,652		30,652
65540		Education	52	215,952	73,010		288,962	288,962		288,962
65550		Health	48	73,222	28,411		101,633	101,633		101,633
65600	Ferizaj/Urosevac		714	2,526,109	1,895,270		4,421,378	3,899,861	521,518	4,421,378
65610		Municipality Administration	250	503,050	1,114,109		1,617,159	1,095,641	521,518	1,617,159
65612		Local Community Office	12	22,088	10,823		32,910	32,910		32,910
65640		Education	186	1,586,976	483,643		2,070,619	2,070,619		2,070,619
65650		Health	266	413,995	286,695		700,690	700,690		700,690
65700	Viti/Vitina		402	1,334,894	749,038		2,083,932	1,829,309	254,623	2,083,932
65710		Municipality Administration	132	299,873	463,713		763,585	508,962	254,623	763,585
65712		Local Community Office	12	22,088		36,651	57,739	57,739		57,739
65740		Education	115	792,976	117,949		910,925	910,925		910,925
65750		Health	143	219,958	131,725		351,683	351,683		351,683
66000	Unallocated / 1	Unallocated Education Grant				912,028	912,028	912,028		912,028
67000	Unallocated / 2	Unallocated Health Grant								
68000	Unallocated	Unallocated LCO Grant				153,388	153,388	153,388		153,388
Total			16,700	46,176,729	36,967,673	1,065,415	84,209,817	74,563,008	9,646,809	84,209,817

1 / Including half of the year 2002 of wages and salaries and budget of primary school (14988 as average and 15227 in the end of the year)

2 / Including wages and salaries budget as average of 6067 employees for primary health (6067 in the end of the year)

SCHEDULE 4: KOSOVO GENERAL BUDGET – PROPOSED INVESTMENT PROJECTS
(in Euro Million)

	Proposed Project/Area	Total Commitment	Estimated Expenditures		
		2002	2001	2002	2003
1.	KEK²				
	Import of Electricity for Winter 2001/2002	8.0	3.0	5.0	--
	Improve/Increase Electricity Generating Capacity				
	Second stage refurbishment of A3/A4	18.0	--	13.0	5.0
	Proposed refurbishment of A5	20.0	--	20.0	--
	Improve Distribution Capacity	18.0	--	13.0	5.0
	Improve Collection Capacity				
	Installation of new/additional meters	20.0	--	10.0	10.0
	Management and Cost Improvements				
	New Management Contract	20.0	--	10.0	10.0
	External Audit	1.0	--	1.0	--
	Provision for Redundancies	3.0	--	2.0	1.0
	SUBTOTAL	108.0	3.0	74.0	32.0
	Less: Estimated Donor and/or Vendor Support ³	(29.0)	--	(18.0))	(11.0)
	KCB funding from 2001	(8.0)	(3.0)	(5.0)	--
	TOTAL, 2002 Estimated Kosovo Consolidated Budget Commitment	72.0	0.0	51.0	21.0
2.	Office/Working Accommodation for PISG				
	Proposed refurbishment of office/working accommodation (including purchase of UN equipment)	13.0	--	13.0	--
3.	Other Proposed Projects to be considered by the SRSG subject to funding availability				
	(e.g., acceleration of PIP projects, railway infrastructure)	8.0	--	8.0	--
	Total	93.0	0.0	72.0	21.0

1. The proposed appropriations are subject to further development of specific project proposals and then SRSG approval, including consideration of any specific conditions to be required by the SRSG, before any funds are allocated by CFA;
2. Further consideration and implementation of the following project proposals for KEK are tied to the planned implementation of the new Management Contract and the implementation of appropriate legal sanctions against illegal use of electricity, etc.
3. In addition, EC, USAID and other Donors plan to provide continued support for maintenance and other activities subject to the Management Contract conditions.
4. Numbers may not add due to rounding.

Schedule 5 : Kosovo Public Enterprises Statements of Expenditure and Revenue
2002 Forecast (bold), 2001 Estimate (italics)
Euro '000

	Expenses				Revenue				Surplus (deficit)	Cash Balance		
	Staff: Av. for year	Wages and Salaries	Goods and Services (etc)	Total	User Charges and other income	Budget Subsidies	Total	At Start of Financial Year		Change	At Close of Financial Year	Capital Investments
Post and Telecommunication												
PTK Fixed Network (a)	871	4,611	13,475	18,086	56,242	0	56,242	38,156	-239	8,347	8,108	29,809
	770	3,748	9,741	<i>13,489</i>	<i>39,146</i>	0	<i>39,146</i>	<i>25,657</i>	4,693	-4,932	-239	<i>30,590</i>
PTK Mobile Network	131	722	21,474	22,196	57,503	0	57,503	35,307	13,129	4,603	17,732	30,704
	50	253	17,504	<i>17,757</i>	<i>50,254</i>	0	<i>50,254</i>	<i>32,497</i>	7,497	5,632	13,129	<i>26,865</i>
PTK Postal services	898	3,127	4,953	8,080	2,045	0	2,045	(6,035)	-5,951	-8,674	-14,625	2,639
	815	2,651	1,398	<i>4,049</i>	<i>387</i>	0	<i>387</i>	<i>(3,663)</i>	155	-6,106	-5,951	<i>2,443</i>
Total PTK	1,900	8,460	39,902	48,362	115,790	0	115,790	67,428	--	--	--	63,153
	<i>1,635</i>	<i>6,652</i>	<i>28,644</i>	<i>35,296</i>	<i>89,787</i>	0	<i>89,787</i>	<i>54,491</i>	--	--	--	<i>59,898</i>
Public Utilities b)												
KEK	8,543	24,331	124,175	148,507	100,055	58,799	158,853	10,347	-26	10,347	10,321	190,461
	<i>9,764</i>	<i>23,172</i>	<i>56,925</i>	<i>80,097</i>	<i>55,924</i>	<i>17,031</i>	<i>72,955</i>	<i>(7,142)</i>	7,116	-7,141	-26	<i>381,255</i>
District Heating Ents.	150	286	11,158	11,444	3,477	7,825	11,302	(142)	153	-142	11	3,957
	<i>173</i>	<i>394</i>	<i>3,847</i>	<i>4,241</i>	<i>920</i>	<i>3,291</i>	<i>4,212</i>	<i>(30)</i>	183	-30	153	<i>8,308</i>
Water & Waste Ents.	3,100	4,945	12,782	17,728	16,194	1,534	17,728	0	20	0	20	27,002
	<i>3,245</i>	<i>5,880</i>	<i>10,105</i>	<i>15,985</i>	<i>11,934</i>	<i>2,937</i>	<i>14,871</i>	<i>(1,114)</i>	1,134	-1,114	20	<i>18,309</i>
Transport and Infrastructure												
Pristina Airport	134	1,242	13,712	14,954	16,601	0	16,601	2,894	1,873	2,520	4,393	9,965
	<i>134</i>	<i>686</i>	<i>2,007</i>	<i>2,693</i>	<i>4,678</i>		<i>4,678</i>	<i>1,975</i>			1,873	<i>1,844</i>
Kosovo Railway	614	1,166	1,769	2,935	3,525	0	3,525	591	189	183	372	1,555
	<i>520</i>	<i>893</i>	<i>999</i>	<i>1,892</i>	<i>1,979</i>	<i>639</i>	<i>2,618</i>	<i>726</i>			189	<i>0</i>
Banking and Payments Authority (BPK)												
	365	958	3,225	4,183	4,561	1,344	5,904	1,722	-2,748	-2,370	378	0
	<i>365</i>	<i>926</i>	<i>2,817</i>	<i>3,743</i>	<i>2,250</i>	<i>1,493</i>	<i>3,743</i>	<i>0</i>				<i>0</i>
TOTAL 2002	14,806	41,389	206,723	248,113	260,202	69,501	329,704	81,591				
<i>Total 2001</i>	<i>15,836</i>	<i>1,639</i>	<i>4,866</i>	<i>6,506</i>	<i>4,774</i>	<i>25,392</i>	<i>4,789</i>	<i>(1,716)</i>				<i>37,532</i>

Public Enterprise Notes:

a) PTK Corporate and other costs included in PTK Fixed Network Data. (Corporate costs 2000, DM 300,000, 2001, DM 500,000.)

b) 2002 budget subsidies represent amounts requested by the Public Utilities Department for PUD enterprises. The DM 115m requested for KEK represents DM 95m for capital investments and DM 20m for contingency funds.

c) Railway revenue includes UNMIK purchase of passenger services for minorities (DM 520,000 in 2000, DM 670,000 in 2001). Budget subsidy is a repayable loan from the Kosovo Budget (DM1.24 in 2000, DM0.626m in 2001).

d) BPK expenses do not include DM 5 m capital reserves.

General notes:

Revenues: Includes all operating and non-operating revenues.

Expenses: Operating and nonoperating expenses, including direct taxes paid.

Capital Investments funded from retained revenue or committed donor funds. Capital projects for which no donor has been identified are shown in the PIP.