

FINANCING PROPOSAL

A HOUSING, INSTITUTIONAL, WATER/WASTE, AND HEALTH SUPPORT PROGRAMME FOR KOSOVO IN 2001

1. IDENTIFICATION

Beneficiary state: KOSOVO - The Federal Republic of Yugoslavia
Programme: Council Regulation (EC) No.2666/2000
Year: 2001
Cost: € 100 million
Expiry date: 31.12.2002 contracting
31.12.2003 disbursements
Sector: AA
Group: M
Budget line: B7-546
Responsible: Genoveva RUIZ CALAVERA

2. SUMMARY

This proposal aims to build on the reconstruction assistance from OBNOVA committed for Kosovo in 1999 and 2000, which amounted to **127M€** and **435M€** respectively. This proposal consists of:

- **Housing.** Grant assistance for the reconstruction of seriously damaged houses of the most vulnerable people, and support for resolving property rights.
- **Water and Solid Waste Management.** Support for the collection and safe disposal of solid waste. Further rehabilitation of the Province's largest water supply system.
- **Agriculture.** Support and restructuring of public enterprises in the agribusiness.
- **Local government and Civil Society.** – Support for local government through the further secondment of EU experts to municipalities and the rehabilitation of important public buildings and other local infrastructure. Support for the Kosovar public broadcaster (RTK); the introduction of civil affairs legal aid; and reinforcing civil society through support to the local NGO network;
- **Health.** Focussing on the provision of essential medical equipment and vocational training to doctors and nurses.

The budget allocations are

AMOUNT	SECTOR	PROGRAMME DESCRIPTION
€38 Million	Housing	Annex I
€20 Million	Water and Solid Waste Management	Annex II
€10 Million	Agriculture (Agribusiness)	Annex III
€18 Million	Local Government and Civil Society	Annex IV
€14 Million	Health	Annex V
Maximum available : €100 Million		

3. GENERAL BACKGROUND

3.1. Past EC Reconstruction Funding (implemented by the European Agency for Reconstruction only)

FINANCING PROPOSALS 1999	SUB-SEGMENTS	DESCRIPTION
I) €45million	€9.5 Mio	A damage assessment and ATA facility for support to the Task Force for the Reconstruction of Kosovo.
	€35.5 Mio	An urgent, integrated rehabilitation programme, focusing on housing reconstruction, public utilities (electricity and water), village employment and rehabilitation, customs, de-mining, and small scale operations projects.
II) €6million		A programme for support for transport and local administration in Kosovo
III) €1million		Rehabilitation of the hospital of Mitrovica
IV) €2.5 million		An economic reconstruction programme for Kosovo including public administration, public utilities (energy, water, post & telecommunication), private sector development, Kosovo Protection Corps, Civil Society and Feasibility Studies.
V) €2.5 million		For emergency road clearance
VI) €5million		For exceptional targeted support for public services under the 1999 Kosovo Budget.
VII) €5million*		For the Agency for Reconstruction
FINANCING PROPOSALS 2000	SUB-SEGMENTS	DESCRIPTION
I) €15 million*		For the Agency for Reconstruction
II) €30 million		Targeted budgetary support for Energy imports and support for Public services
III) €140 million		A further reconstruction programme for (energy, housing, transport and water
IV) €25 million		A fostering of economic development programme (enterprise development, agriculture input imports)
V) €10 million		Support of health care reform programme
VI) €40 million		Extended support to the 2000 Energy and Housing programme and urgent support for solid waste management
VII) €11.5 million		Targeted budgetary assistance for purchasing electricity imports and undertaking urgent refurbishment works in 3 municipal District Heating systems
VIII) €171 # Million		An extensive infrastructure and economic development programme
IX) €4 million #		For the Agency for Reconstruction

* The original budget for the running cost of the Agency in 2000 was set at €20 million (€5m committed in 1999 and €15m in 2000). However, only €8.5 million was actually required, leaving the balance of €11.5 million available to be reallocated to purchasing electricity imports and refurbishing the district heating systems of three main towns (see component VII).

These two programmes although committed in 2000 under the "Notenboom procedure" are in practice part of the 2001 Programme overall and have been conceived and planned as such.

3.2 Socio-economic issues

Kosovo has a long way to go in order to secure even its most basic physical, economic and institutional infrastructure. Things have improved – e.g. power cuts are less frequent and there is much reconstruction of houses and businesses in the urban areas – but Kosovo started from a very low base in 1999 and is still a long way from any sense of economic or social normality.

The weather has remained unusually mild right up until the end of November. Obviously this has been a boon to the reconstruction effort given that so many of the key repairs to infrastructure - power stations, roads, housing, etc - are affected by the weather. Under EC funding, the rehabilitation of the critical main roads to Skopje and to Tetovo have now been completed which will help with trade and the importing of critical goods and materials for the reconstruction effort.

There are some encouraging signs of economic activity. For example, disbursement of micro-loans for small entrepreneurs continues apace with over 80 loans made per month. Considerable interest has also been shown in the Small and Medium Sized Enterprise (SME) credit facility set up with EC and World Bank funding. The Interim Credit Unit (ICU) responsible for running this operation has already received over 200 applications even though actual lending is only just getting underway.

But major underlying economic problems remain. There is still only one commercial bank operating in Kosovo, and charging very high interest rates. And the local economy is rather narrowly focussed on trade and service industries, many of them heavily dependent on the reconstruction effort and the spending power of the numerous expatriates. This is obviously unsustainable and it is essential that longer term sustainable and productive activities where Kosovo may have some comparative advantages, such as agriculture, are put on a sound footing and begin to make a real contribution to the economy.

At the macro economic level, some welcome stability has been imposed by UNMIK, despite the problems of having to manage an economy with the almost unique handicap of being unable to run a deficit or to have access to public borrowing. The Kosovo Consolidated Budget is now on track to end the year with no expected budgetary shortfalls. Customs duties and vehicle registration tax are the principal means of raising revenue mainstay, although other forms of tax, particularly sales tax are being collected, and the introduction of VAT and income taxes are planned by UNMIK. Nevertheless, there will again be a deficit in the 2001 Consolidated Budget in the order of €103 million (including €20 million for energy imports) which will have to be made good by the international community. Clearly, greater efforts from UNMIK to ensure revenue raising from the users of public services and utilities are going to be an essential element in reducing future deficits and bringing the budget into balance.

Poverty is widespread and is particularly evident away from the main urban centres and arterial roads. Winter is upon us and it will again be tough for the many people who are still without adequate housing, running water and a reliable electricity supply. Many communities are cut off for several weeks at a time during periods of heavy

snow and a shortage of firewood and fresh food is likely to be a problem for the most vulnerable families.

Housing in particular remains a major concern. The shortage of adequate housing is exacerbated by the increasing numbers of refugees who are returning from Western Europe. Democracy and civil society remain fragile, and critical public services such as the health service and waste disposal are clearly inadequate to meet even basic needs.

3.3. Socio-political issues

The municipal elections that were held on 28th October went smoothly with little of the inter-party violence which many feared. There was a large turnout with a clear victory for Rugova's moderate Democratic League of Kosovo (LDK). On the eve of the elections the five party political leaders of the Province signed a declaration committing themselves to: respect the legitimacy of the elections; fully implementing the results; full respect of human rights; and the wish to see the involvement of all ethnic communities in the electoral process.

That said, the situation is far from stable. The Serb population boycotted the local elections in Kosovo. All the ethnic Albanian parties, including the LDK, are firmly committed to full independence. There has recently been a worrying increase in apparently politically inspired violence – the most obvious examples being the assassination of one of Rugova's key aides in broad daylight, and the bomb attack on the residence of the FRY representative in Pristina.

The plight of minorities in the Province has not improved and is unlikely to until its future status is resolved. When the former KLA political spokesman, Adem Demaci, recently went to Belgrade for an interview with Serb journalists (unthinkable under the Milosevic regime) he was asked when Serbs would be safe to walk the streets of Pristina once more. His reply, "when Belgrade acknowledges our freedom", neatly summarises the present sentiment amongst the vast majority of Kosovar Albanians. And all of this against the backdrop of simmering problems along the Serbian border in the Presevo Valley.

4. PROGRAMMING CONTEXT

The recent developments in Belgrade do not yet impact greatly on the programme planning for Kosovo. Despite the international community's anxiety to help Serbia and Montenegro, there is no sign of any lessening of its commitment to Kosovo. So far as the EC is concerned there commitment to the Province remains very high as demonstrated by the budgets allocations in late 2000 and this proposal for 2001. The main programming criteria continue to be:

- Providing sustainable solutions to key areas of economic and social infrastructure;
- Supporting UNMIK's reconstruction priorities and working closely with other donors;
- Supporting sectors where practical assistance can be absorbed reasonably quickly;

- Building on past assistance and concentrating available funds.

6. IMPLEMENTATION

This programme will be implemented under the responsibility of the European Agency for Reconstruction which will sign all necessary contracts with service providers and suppliers. Selection of contractors will be carried out in conformity with the Agency and Obnova/CARDS Regulations, with maximum emphasis placed on local tendering to the extent permitted by the regulation.

The Agency will require an initial allocation of approximately €8 million for supporting the running costs associated to the implementation of this programme. This funding will be requested under a separate financing proposal.

Implementation of projects will be carried out in close co-ordination and consultation with UNMIK, KFOR and those international agencies and donors which are active in the various fields of the programme.

7. INDICATIVE DISBURSEMENT SCHEDULE (M€ACCUMULATED)

Sector	June 2001	Dec 2001	June 2002	Dec 2002	June 2003
Housing	9.0	28.0	36.0	38.0	38.0
Water and Solid Waste Management	4.0	12.0	18.0	18.0	18.0
Agriculture (Agribusiness)	0.5	3.0	6.0	8.0	10.0
Local Government and Civil Society	0.8	3.0	8.0	16.0	19.0
Health	0.6	2.5	6.0	10.0	15.0
TOTAL	14.9	48.5	70.4	90.0	100.0

8. MONITORING, EVALUATION AND AUDIT

This programme will be monitored and supervised by the European Agency for Reconstruction who shall:

- monitor the implementation of the programme on the basis of regular reports, and
- carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after the completion of the programme.

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF) and the European Union's Court of Auditors.