

# CRS Report for Congress

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## **Kosovo: Reconstruction and Development Assistance**

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# Kosovo: Reconstruction and Development Assistance

## Summary

Efforts to reconstruct and develop Kosovo following the devastation and disruption caused by the war will require billions of dollars and support from multiple donors. In P.L. 106-429, the FY2001 foreign aid bill, Congress limited Kosovo aid to 15% of donor assistance. The Bush Administration has requested \$120 million for Kosovo activities under the SEED account in FY2002.

Assessments conducted by the World Bank and the European Community in 1999 estimated external financing needs for Kosovo reconstruction at \$2.3 billion over four to five years. UNMIK, the U.N. Interim Administration Mission in Kosovo, is the chief governing body in Kosovo, supported by the OSCE (Organization for Security and Cooperation in Europe) and the European Union.

At the two 1999 Kosovo donor conferences, \$1.5 billion was pledged for reconstruction-related efforts. In 2001, more than \$593 million has been pledged. Reconstruction programs include a wide variety of activities. Support for the UN administrative budget, economic policy reform, establishment of rule of law, and efforts to stimulate a nascent private sector and civil society are being undertaken by the United States and other donors.

One issue for Congress is the level of aid to be provided and the proportionality of U.S. assistance *vis a vis* European donors. Both the FY2000 and FY2001 appropriations limited U.S. contributions to 15% of the total. Some are also concerned that Europeans are not matching pledges with actual disbursements and necessary dispatch.

Whether aid pledged will go to meet actual needs is another issue of possible concern to Congress. Both external financing for the UNMIK administrative budget and numbers of international civilian police have not met targets in the past.

Some observers have been critical of the way the program has been implemented thus far and others are concerned regarding the possibility of corruption in the aid program as well as in the new Kosovo government. Steps are being taken by donors to address these issues.

The relationship of Serbia to Kosovo will affect future reconstruction. At present, efforts to remake Kosovo are creating a *de facto* independence, although the U.N. continues to recognize the sovereignty of Serbia over Kosovo. The October 2000 change of government in Serbia may facilitate a resolution to this issue.

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# Kosovo: Reconstruction and Development Assistance

## Introduction

The war in Kosovo in 1998 and 1999 and the NATO air campaign in 1999 caused immense physical destruction — of housing and electric, water, sewage, transport and other infrastructure — and eliminated social, public safety, and other government services. In mid-1999, a U.N. mission assumed administration of the province while NATO began to deploy a peacekeeping force there.<sup>1</sup>

In the first six months following the war, humanitarian assistance facilitated the return of refugees, and provided food and other immediate assistance to help people survive the winter. Reconstruction and development efforts — to restore services, establish democratic government, and foster economic growth — is expected to take many years, cost billions of dollars, and require support from multiple donors.

This report describes U.S. and international steps to rehabilitate Kosovo including cost assessments, institutional mechanisms, and assistance programs. Since many believe that a solution to Kosovo's problems must include the economic and political development of its neighbors, the report also discusses aid to the region.

## Congressional Action in 2001

On April 2, 2001, the Bush Administration requested \$120 million under the SEED (Support for East European Democracy) Act account for FY2002 activities intended to facilitate the reconstruction and development of Kosovo. Congress was expected to take up the foreign operations appropriations under which Kosovo programs are funded in late June or July.

## Congressional Action in 2000

On February 7, 2000, the Clinton Administration proposed an FY2000 supplemental appropriation as well as its FY2001 budget request. Both included specific amounts under the SEED Act account for Kosovo reconstruction. Other accounts may indirectly assist reconstruction by supporting peacekeeping and related activities.

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<sup>1</sup> For information on political developments in Kosovo, see CRS Issue Brief IB98041, *Kosovo and U.S. Policy*.

**Table 1. SEED Appropriations for Kosovo Reconstruction**  
(in \$ millions)

FY1999	FY2000	FY2000 Supp.	FY2001	FY2002(req)
\$76.5	\$150.0	\$12.4	\$149.7	\$120.0

The Clinton Administration's \$624.5 million supplemental request for Kosovo-related activities would have supported a number of accounts normally funded under both the Foreign Operations and the Commerce, Justice, State appropriations, and included funding for several countries in the region. The request included funds for military training, construction of secure diplomatic facilities, educational exchanges, military financing to improve security cooperation, and international peacekeeping contributions. While the House approved a supplemental bill (H.R. 3908) that provided only 40% of the request, the Senate did not act on the measure, preferring to take up parts of the supplemental request within the FY2001 appropriations bills. The only Kosovo-related parts of the Administration request to have been adopted in supplemental language were in the FY2001 Military Construction appropriations bill, H.R. 4425, signed into law as P.L. 106-246 on July 13. It provided \$50 million for the SEED account, of which up to \$12.4 million could be used for police activities in Kosovo, the remainder to be spent on Montenegro and Croatia.

For FY2001, the Clinton Administration requested \$175 million for Kosovo under the SEED account. It would be split between funding for government reform and for private sector development. An additional \$176.9 million was requested for Kosovo programs from other accounts. Most was for peacekeeping activities, including support for the UN international police and the Organization for Security and Cooperation in Europe (OSCE) mission in Kosovo, and the rest was \$9.9 million from the Economic Support Fund (ESF) to cover part of the \$15 million U.S. share of budget support for UN Mission in Kosovo (UNMIK) operations.

After the Senate (S. 2522) and House (H.R. 4811) addressed the Kosovo issue in their separate versions of the FY2001 foreign operations bill, Congress agreed on a conference report on H.R. 4811 on October 25 that was signed into law as P.L. 106-429 on November 6. The enacted bill did not earmark a specific level of aid for Kosovo. However, it limited the amount of aid from the SEED, ESF, and International Narcotics and Law Enforcement accounts to no more than 15% of total pledges made by all donors for 2001 as of March 31, 2001. It also prohibited use of funds for large scale physical infrastructure reconstruction. Of Kosovo funds, the bill provided \$1.3 million to the National Albanian American Council's training program for Kosovar women.

In an attached FY2001 emergency supplemental (Title VI), Congress addressed those items in the Administration's FY2000 supplemental request that come under the foreign operations legislation. It provided the full \$2.87 million request for the International Military Education and Training program (IMET) to increase the professionalism of regional country militaries, and \$31 million in Foreign Military Financing to help regional countries make defense reforms and improve security cooperation. It also provided \$13 million (of \$22 originally requested) in USAID Operations and Expenses for administering SEED programs. The SEED program received an additional \$75.8 million for Montenegro, Croatia, and Serbia, which

brought the FY2000 and 2001 SEED supplemental totals to \$126 million, \$69 million less than the Clinton Administration request of \$195 million. As noted above, however, Kosovo was eligible for \$12.4 million of that total, well under the \$92.8 million originally requested for it.

## Background

**Reconstruction and Development Costs.** Although a number of estimates of post-war reconstruction needs were put forth even while the war was still raging, all were conjecture; none were based on a comprehensive on-the-ground survey. In July 1999, several international task forces began making the assessments that would lead to a more realistic estimate of needs and costs.

The first major assessment (July 28, 1999), conducted by a European Commission Task Force, focused on housing and local village infrastructure. It estimated that 58 percent of the houses in 1,300 villages had been damaged, most of them severely. The estimated cost to repair this housing is \$1.2 billion, and for other village facilities — schools, clinics, local electricity, clean water, etc. — \$43.9 million.

A second, more far-reaching, round of assessments, covering energy, telecommunications, transport, commercial, and social infrastructure, was conducted prior to the second donor conference held in mid-November 1999.<sup>2</sup> It was prepared by the European Commission (EC) and the World Bank, with the support and assistance of numerous donor organizations, including groups specializing in specific sectors — for example, the U.N. Food and Agriculture Organization (FAO) focusing on damage to the agriculture sector and the European Bank (EBRD) reviewing the state of business enterprises.

Laying out reconstruction and development objectives in Kosovo over the next four to five years, the EC-World Bank report estimates the cost of reaching those objectives at \$2.3 billion in external financing, on highly concessional terms. According to the European Task Force, nearly half of the funds would be needed before early 2001. In addition, government operations during this period, taking into account probable local revenues, are expected to suffer a deficit that would have to be made up by external financing — estimated at \$107 million in 2000 (as of March 2000). At the November 1999 donor conference, donors were asked to contribute to the operational budget as well as to undertake programs outlined in the reconstruction strategy.

**Institutional Mechanisms.** The U.N. Security Council established (under resolution 1244) a U.N. Interim Administration Mission in Kosovo (UNMIK) to oversee the reconstruction, to create democratic institutions and legal, regulatory, and administrative bodies, and to develop the framework of an economic system, including banking, currency, and trade and fiscal policy. Until January 15, 2001, Bernard Kouchner was the head of UNMIK; Hans Haekkerup, a former Danish Defense Minister has replaced him. A Kosovo-UNMIK Joint Interim Administrative

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<sup>2</sup> *Toward Stability and Prosperity: A Program for Reconstruction and Recovery in Kosovo*, November 3, 1999.

Structure, established with the agreement and participation of three Kosovo Albanian leaders on December 13, 1999, is expected to act as a new government, supplanting old structures. The Organization for Security and Cooperation in Europe (OSCE), working under UNMIK, has responsibility for police training and democratization activities, including human rights, election supervision, and rule of law. The European Union, also under UNMIK, oversees reconstruction.

The European Commission and the World Bank have taken the lead in organizing international economic assistance efforts, through their joint chairing of a High-Level Steering Group, that includes the United States and other major donors. A first donor conference was held in Brussels on July 28, 1999, and concentrated on short-term, mainly humanitarian, needs arising from the return of refugees. A reconstruction-oriented donor conference was held on November 17, 1999.

On December 15, 1999, the European Union formally established a European Agency for Reconstruction of Kosovo to administer its reconstruction program. It is working with the U.N. administration in Kosovo; its seat is in Thessaloniki, Greece, and its “operations center” is in Pristina. The U.S. Agency for International Development established a mission in Pristina to implement the U.S. program of assistance.

**U.S. and Other Donor Contributions.** Although the chief focus of the July 28, 1999 donor meeting was provision of short-term, mostly humanitarian, aid – \$1.4 billion of which was pledged at the conference – significant amounts (\$757 million) were promised as well for support of the UN civil administration and “other urgent” assistance related to a more long-term reconstruction and development effort.<sup>3</sup>

The November 17 conference, almost entirely focusing on reconstruction and development concerns, evoked slightly more than \$1 billion in pledges (only \$36.2 million was pledged for humanitarian programs). This amount closely matches the \$1.1 billion estimated to be needed until the end of 2000. However, funds pledged for the different categories of required assistance – civil administration budget, peacekeeping, and reconstruction – may not meet the specific monetary needs in each category. The U.S. pledge of \$157 million represented 15% of the total pledged at the November conference. EU and member states pledged \$759 million, 74% of the total. Table 2 shows the cumulative reconstruction-related pledges from the July and November 1999 conferences.

For 2001, further pledges were made at a February 26, 2001 conference. Although the total derived by the World Bank/EC is roughly \$593 million, a State Department survey of donors puts the total at \$648 million. The U.S. share is \$94.3 million, just under the 15% allowed by the FY2001 appropriations act. In order to meet the 15% requirement, the State Department separated out funding for the

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<sup>3</sup> “Other urgent” assistance was defined by the conference organizers to include “peace promotion, media, civil security, democracy, as well as reconstruction and development.” All of these non-humanitarian programs, including civil administration, are considered “reconstruction” and/or “development” in this report. However, the line dividing humanitarian and reconstruction aid is a thin one. Many countries, including the United States, have counted as humanitarian aid activities that others would call reconstruction.

civilian police, figuring that police costs vary widely between countries. The United States, therefore, intends to provide under 15% of the police force at a cost of roughly \$55 million. The total FY2001 U.S. contribution in Kosovo for reconstruction and police is \$149.7 million.

**Table 2. Kosovo Reconstruction-Related Pledges**

(\$ millions)

Countries	1999-2000*	2001**
Canada	44.2	8.1
Denmark	38.2	19.0
Finland	10.6	6.6
France	11.2	8.5
Germany	9.5	92.7
Italy	8.6	9.7
Japan	100.0	0.0
Spain	12.4	0.0
Sweden	51.2	16.3
Switzerland	92.6	54.4
The Netherlands	61.5	10.2
United Kingdom	103.1	21.0
United States	221.6	94.3
Institutions	1999-2000*	2001**
European Community	668.7	169.2
World Bank	60.0	2.0
Total EC + 15 Member States (total from above)	979.1	371.0
<b>Grand Total</b>	<b>1,543.8</b>	<b>592.8</b>

\*Cumulative amounts from July 28 and November 17, 1999, donor conferences.

\*\* As of March 2001. State Department calculates the total pledge at \$648 million.

**Source:** World Bank and EC. Includes UNMIK budget and reconstruction project aid.

**1999-2000 Winterization Activities.** Although more likely categorized as humanitarian in nature, efforts to insure that returning Kosovars survive the winter of 1999-2000 were viewed by some as an early indication of the ability of the UN and participating donors to cope with the challenges in Kosovo. With the objective of providing shelter for 350,000 people, nearly 60,000 emergency repair kits designed to allow residents to have one warm, dry room were provided, more than 10,000 roofing kits distributed, thousands of tents supplied, and accommodation centers for those with no other alternative made available. Targeted food distributions were made to more than 900,000 people. Wood stoves and firewood were distributed, and conventional heating systems repaired. Although operation of power plants and district heating was not always reliable, it appears that winterization efforts were largely successful.



**Reconstruction and Development Programs.** Donors are funding and participating in a wide range of reconstruction and development programs. These include, in the early stages, payment of salaries of school teachers and civil servants in the new administration. UNMIK, with the technical assistance of the donors, is also moving to establish the legal and other structures necessary for basic governance and a market economy, including regulations for a banking system, licensing for small business and construction, civil registration, tax collection, and the like.

As is the case with its foreign aid programs in other locales, the United States is providing mostly technical assistance and small grants. Among other actions, the United States has pledged and deployed 605 civilian police to assume police functions under UNMIK and to train the new police force at a school established in Vucitrn by the OSCE.

USAID is implementing a number of projects, including economic policy reform assistance in the areas of fiscal and tax affairs, commercial law, and private sector development. It has also established micro-lending programs to foster small business growth. In the democracy sector, USAID has undertaken efforts to create a voter registry, train existing and new political parties, encourage women's leadership, promote independent media, and foster the work of NGOs. Efforts to help Kosovo establish a rule of law, including training of new judges, development of a law school curriculum, and legal analysis and legislative drafting support, are also underway.

The EU has pledged roughly \$838 million to date for Kosovo reconstruction projects. The first EU-financed programs were providing material supplies for local housing repair, assisting basic power and water infrastructure rehabilitation, helping re-establish the customs service, supporting village job creation, creating a land mine clearance coordination center, and financing the rehabilitation of the Mitrovica Hospital. The EU has also provided support for the local administration (seconding Member State experts to local Kosovo government) and helped to repair roads and bridges prior to winter use. Additional projects included provision of identity cards for the population, support for micro-credit, and equipment and training for the Kosovo Protection Corps.

Although Kosovo is not a state eligible for lending, the World Bank has provided \$2 million from a Post-Conflict Facility for a Community Development Fund for infrastructure and services projects and for budget support for the civil administration of the province. It is also providing \$60 million in grant assistance through a Trust Fund for Kosovo over an 18 month period. This assistance is supporting efforts to improve agricultural production, reform the education, health, and banking systems, and improve the energy sector.

**Status of Reconstruction as of June 2001.** By most accounts, Kosovo has made much progress since the end of the war, although it may have a long way to go before it is a self-sustaining, self-governing entity. Basic infrastructure – roads, airport, communications, schools, housing – has been repaired. Basic services – health, education, electricity, and water – are being provided. A framework of government is in place – with Kosovar nationals matched with international personnel in all departments of the UN administrative structure, and a judicial system, with police and courts, established. Elections at the local level were successfully held in

October 2000, and Municipal Assemblies have begun to take responsibility for basic government functions. A constitutional framework is being developed, and province-wide elections for an assembly are scheduled for November. Small business and signs of civil society, including independent media, are growing.

While the barest elements of government are in place, they function at minimal levels. Standards need to be improved across-the-board. Public utility infrastructure is antiquated and needs replacement. Teachers, police, and civil servants need training. Violence between ethnic Albanians and minority Serbs continues. While the UN estimates that donor support for the operating budget may end by 2003, it anticipates a need for donor activity in multiple sectors of Kosovar life for years to come.<sup>4</sup>

## Issues for Congress

**U.S. Reconstruction Aid Levels.** The extent of the U.S. role in Kosovo reconstruction is a still unsettled issue. By virtue of its leadership in NATO and its donor status, the United States has a significant role at this time, but constraints on the amount of assistance it provides may affect its role in the future.

At the July 1999 donor conference, the United States pledged \$277.6 million in non-humanitarian “urgent” aid, coming from FY1999 emergency supplemental appropriations (P.L. 106-31), originally approved for refugee and related relief during the war. Including its humanitarian assistance pledge, the United States accounted for 25% of all donor pledges at the July conference. At the November conference, the United States pledged an additional \$157 million. The latter pledge reflected the limitations placed on U.S. assistance by Congress under the FY2000 Foreign Operations Appropriations Act. H.R. 3422, enacted by reference in P.L. 106-113, appropriated at least \$150 million for Kosovo, but limited the total U.S. contribution to 15% of all other donor pledges made at the November 1999 conference. In fact, the \$157 million was 15% of the total pledged.

The Clinton Administration position, reinforced by Congress, was that, because the United States bore the brunt of the burden for prosecuting the war, the EU and its member states would be the principal contributors for reconstruction in Kosovo and for most of the development assistance for Southeast Europe.<sup>5</sup> The 15% share of reconstruction activity imposed by Congress in the FY2000 appropriations, however, did not coincide with the Clinton Administration’s view of the appropriate U.S. role. The FY2000 supplemental request for \$93 million in economic assistance, not counting other sums for Kosovo-related activities, would have boosted the U.S. share to about 22% of year 2000 pledges. The Clinton Administration argued that these additional funds were needed to meet U.S. objectives in the region, regardless of what other donors did, especially in view of the financial demands posed by the increasingly evident need for an expanded and well-trained police force. In the end,

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<sup>4</sup> *Kosovo 2001-2003: from Reconstruction to Growth*, Department of Reconstruction, United Nations Mission in Kosovo, December 2000.

<sup>5</sup> For a discussion of U.S. and other NATO country roles, see CRS Report RL30398, *NATO Burdensharing and Kosovo: A Preliminary Report*, January 3, 2000.

Congress approved (in P.L. 106-246) only \$12.4 million in supplemental funds, designated solely for police activities.

The FY2001 appropriations language continues to limit the U.S. contribution from SEED, ESF, and Narcotics accounts – to 15% of total donor pledges as of March 31, 2001. The Clinton, and later Bush, Administrations planned a Kosovo \$94 million economic aid program, and State Department estimates of total donor contributions, at \$648 million, would permit this amount under the 15% formula. However, these donor totals would be insufficient to cover an additional \$55 million requested for civilian police. Because police costs vary considerably between countries – while many countries assign police from their national forces, the United States must contract, usually former police, for the positions – the State Department is figuring the U.S. police contribution by number of police rather than expense. As of March 2001, the United States had pledged 605 police out of a total pledge of 4,585 (13.2%).

**Burden-Sharing.** As noted above, the debate on whether aid is sufficient to meet U.S. objectives in the region has been dominated by the question of aid proportionality in relation to other donors. Early in the year 2000, the slowness of European donors in turning their pledges into actual cash exacerbated this concern. In a January 26, 2000 speech, Secretary of State Albright took note of this problem, saying “It is vital that our partners join us not only in pledging generously, but also in disbursing promptly.”<sup>6</sup> The EU, with a reported history of bureaucratic delay in dispensing aid, was, apparently, the target of these remarks. It was particularly slow in providing a promised \$35 million in budgetary assistance, which was urgently needed to pay salaries of teachers and government staff.

In a February 2, 2000, hearing of the Senate Armed Services Committee, Senator John Warner criticized the EU on the \$35 million and hammered it for not doing enough to meet the UNMIK request for a 6,000 person UN civilian police force. He threatened to use the Kosovo supplemental as a vehicle to tie U.S. assistance to the disbursement of funds by other nations. The proposed Warner amendment would withhold 50% of U.S. funds for military operations in Kosovo until the President certified that, among other things, the EU and member states had provided at least 33% of amounts committed by them for reconstruction, 75% of amounts committed for the UNMIK budget, and at least 75% of the international police force.

In response to criticism such as that offered by Secretary Albright and Senator Warner, a statement issued by leading EU officials pointed out that the EU nations provide 80% of the KFOR troops, and the EU provides the majority of reconstruction assistance.<sup>7</sup> With regard to the \$35 million mentioned at the Senate hearing, the EU officials said that they were considering offering an additional \$10 million, to be provided before the end of February, bringing the total EU contribution to more than

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<sup>6</sup> “Albright Irked by Kosovo Funds Delay”, *Financial Times*, January 28, 2000.

<sup>7</sup> According to the State Department, EU nations represent 64% of KFOR troops, all European nations represent 70%, and all Europe with Russia and Ukraine represent 80%.

half of the then-existing \$80 million Kosovo budget requirement in 2000.<sup>8</sup> On February 9, France announced an emergency grant of \$2.3 million for the Kosovo 2000 budget. By mid-March, according to UNMIK, sufficient funds had been paid to assure UNMIK's solvency.

Although the UNMIK budget issue was resolved, the episode continued to have ramifications in Congress. On March 22, 2000, Representative Gilman and 19 co-sponsors introduced H.R. 4053, the "United States-Southeastern Europe Democratization and Burdensharing Act of 2000," which, in part, limited total U.S. assistance to southeastern Europe for FY2001 through 2005 to 15% of total donor assistance. At an April 11 House International Relations Committee hearing, Chairman Gilman and Representative Bereuter offered to amend the legislation to raise the limit to 18%.

On March 30, 2000, during House debate on the FY2000 supplemental, a Kasich amendment was offered with language identical to the proposed Warner amendment. It was defeated on a 200-219 vote. However, on May 17, the House approved (264-153) a Kasich amendment to the Defense Authorization (H.R. 4205) that would end funding for the U.S. military presence in Kosovo if by April 1, 2001, the President had not certified that EU, EU member nations, and European NATO members "obligated or contracted" at least 50% of their 1999 and 2000 commitments for reconstruction aid, 85% of humanitarian commitments, 85% for the Kosovo budget, and 90% for police. The language was removed from the enacted bill.

On May 18, 2000, the Senate rejected (53-47) language in the FY2001 Military Construction Appropriations, S. 2521, which would withhold 25% of FY2000 military funds for Kosovo, pending certification that the Europeans have obligated or contracted 33% of their 1999 and 2000 reconstruction commitments and 75% of their humanitarian assistance commitments, provided 75% of their UNMIK budget commitment, and deployed 75% of the number of international civilian police pledged. If that certification was not made by July 15, 2000, those funds could be used only for withdrawal of U.S. troops. During Appropriations Committee mark-up of the bill on May 9, the condition had been approved by a vote of 23-3.

While the Clinton Administration would probably have been able to make the required certifications regarding humanitarian, reconstruction, police, and budget aid proposed in the various amendments offered during the 2000 debate (see Tables 3, 4, and 5 for status as of end of 2000), perhaps a key question when considering proportionality of aid in relation to other donors is what impact the U.S. proportion would have on its role in multilateral decisionmaking. The presumption is that the United States would be happy to see Europe lead on this issue. But the consequence of a smaller U.S. financial role may be that it relinquishes desired influence over events in Kosovo.

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<sup>8</sup> The \$80 million projected deficit does not count funding for the police force. *Joint Statement by the High Representative of the EU, Javier Solana, and Commissioner for External Relations, Chris Patten*. February 7, 2000.

**Table 3. Donor Contributions and Disbursements to UNMIK**

	Pledge (\$ millions)	Percent of Total Donor Pledge	Percent of Pledge Disbursed
United States	14.9	13.7%	100%
EC + Bilateral Europe	85.42	78.6%	100%

**Note:** Both the U.S. and EC/Europe disbursed more than originally pledged.

**Source:** World Bank/EC as of 12/31/00.

**Table 4. Donor Pledged/Contracted Reconstruction Aid**

	Pledge (\$ millions)	Percent of Pledge Contracted
United States	206.7	80%
EC + Bilateral Europe	989.5	68%

**Source:** World Bank/EC as of 12/31/00.

**Table 5. Donor Contributions to International Police Force**

	Pledge (# of forces)	% of Total Donor Pledge	Number Deployed	% of Pledge Deployed
United States	605	13.2%	605	100%
EU/NATO	1,342	29.3%	1,281	95%

**Source:** Dept of State/UN as of 3/27/01.

**Adequacy of Funding.** While the November donor conference produced sufficient pledges to meet broad spending goals for the year 2000, it is unclear whether donors will provide funds to the specific sectors where and when they are needed. The housing and health sectors, in particular, have been consistently underfunded by donors.

The most stark and serious example of inadequate funding to date was the deficit in the 1999 administrative budget of UNMIK, which pays salaries for civil servants, teachers, and policemen, and provides basic government services. Possibly because donors prefer to provide aid in the form of technical expertise using their own nationals rather than providing funds for things like salaries, insufficient funds were pledged for this purpose. And, of funds pledged, countries were slow in disbursing the money. In mid-December 1999, Bernard Kouchnier, the UNMIK head, made a

special plea for 1999 funds to the international community, a plea repeated in early February with regard to the 2000 budget. "Today I have no deutschmarks in the Kosovo budget for the year 2000, so I cannot pay for the few, vital public servants, the hospitals, education, the judicial system and electricity."<sup>9</sup> As noted above, sufficient payments have now been made to keep UNMIK operating. As tax revenues increase, the donor role in the administrative budget is expected to decline.

A related issue has been the lack of sufficient international civilian police. To date, the United Nations has authorized a 4,718 level UN international police force, although Kouchner had requested a 6,000 level force and many believe even more are needed. As of March, 4,585 had been pledged by donors, and 4,314 had actually been deployed. Although a police training center was established in autumn 1999, training new Kosovo local police is a slow process, and recruiting experienced civilian police from donor nations has not been easy.

**Implementation and Corruption.** As reconstruction and development programs go forward, there have been concerns regarding the competency of implementation and, based on the example of Bosnia, the possibility of corrupt use of funds. During the 1999-2000 winter, some commentators raised questions about the ability of UNMIK to provide adequate housing for the tens of thousands of returned Kosovars and complained about the slow progress in restoring services. Despite congestion at the Macedonia border that slowed import of building materials and other problems, the UN did achieve its housing objectives. In the first year, critics also noted that hundreds of criminal suspects had been released without an indictment or trial, because there was still no criminal justice system in place. In response, UNMIK imported international judges and prosecutors in order to jump-start a judicial process. Some observers have also criticized international donors for distorting the local economy by paying higher wages for agency drivers than for teachers, and stifling local initiative by providing large grants to civic organizations whose management skills are weak and liable to become dependent on external donors. All these criticisms must be weighed against the feasible alternatives as well as the inherent difficulties of the Kosovo situation, including the early failure of donors to meet budget requirements.

One reason for the presence of so many donor organizations is concern regarding possible corrupt use of their resources if funds were provided directly to local groups or individuals. There were early allegations of missing USAID funds from one humanitarian organization. With limited rule of law in place and corrupt petty bureaucrats at the local level, the growth of corrupt practices in government is a danger. Donor caution in releasing funds, however, means a slower process when many demand speed. Efforts by USAID and others to create a rule of law are necessary first steps to stifle an environment that breeds corruption.

**Serbia and Kosovo.** The extent to which policymakers recognize Serbian sovereignty over Kosovo has been a persistent factor in Kosovo reconstruction and

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<sup>9</sup> "France Pledges 15m francs in Emergency Aid for Kosovo," *BBC Monitoring*, February 9, 2000. "Civilian Chief Pleads for More Kosovo Aid," *Associated Press*, December 17, 1999.

is certain to affect future reconstruction efforts.<sup>10</sup> While U.N. resolution 1244 technically refers to an autonomous Kosovo within a sovereign Serbia, the de facto result of reconstruction aid appears to have been the creation of a viable self-functioning entity. Early on, this was the subject of some controversy between Bernard Kouchner and Kofi Annan, the UN Secretary General, who reportedly disputed Kouchner's decision to recognize the German mark as the legal currency and other decisions that infringed on the sovereignty of Yugoslavia.<sup>11</sup> Later, Annan pushed the Security Council for some clear determination of Kosovo's status, whatever the outcome, but the allies remained reluctant to be seen endorsing separatism in Europe.<sup>12</sup>

The uncertainty regarding Kosovo's status keeps unresolved property issues that constrain administrators from selling off government-owned utilities and establishing property rights. It also discourages the foreign investment necessary to stimulate economic growth in the province. While the October 2000 change of government in Serbia has not altered the fact of UN administration of Kosovo, it does raise the possibility of limits to continued UN activity and Kosovo independence and it may also be diverting potential donor funds from Kosovo to the reform effort in Serbia.

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<sup>10</sup> For detailed discussion of the aid program for Serbia, see *The Federal Republic of Yugoslavia: U.S. Economic Assistance*, CRS Report RS20737, updated regularly.

<sup>11</sup> "Annan Comes to Serbs' Defense", *Washington Post*, October 15, 1999.

<sup>12</sup> "Annan Seeks U.N. Debate on Kosovo", *Washington Post*, March 8, 2000.