

Serbs and Albanians have wrestled for control over the territory of Kosovo for hundreds of years.<sup>1</sup> In 1989, then Serbian and subsequently Yugoslav President Slobodan Milosevic revoked Kosovo's autonomous status, disbanded its institutions of local government, imposed direct control from Belgrade, replaced Kosovar Albanians with Serbs in most official positions, and began to dispossess the Kosovar Albanians of their equity in most communally owned enterprises through a rigged process of "privatization." As Yugoslavia disintegrated in the 1990s, the majority Albanian Kosovar population's resistance to Serbian rule grew apace. Initially nonviolent, Albanian resistance began to take more-militant forms as the decade progressed, leading to the emergence of an armed insurgency, built around the Kosovo Liberation Army (KLA). Serbian efforts to extirpate insurgent activity produced significant civilian casualties and a mounting flow of refugees and displaced persons. By 1998, the international community felt compelled to intervene, initially through diplomatic means, then through economic sanctions, and finally with military force to stem the bloodshed. On March 24, 1998, NATO opened a bombing campaign over Kosovo and the rest of Yugoslavia. The bombing was triggered by Belgrade's rejection of an interim settlement for Kosovo that had been reached at an international conference in Rambouillet, France. NATO's objective was to force the removal of Serbian military and police forces and place Kosovo

---

<sup>1</sup>For a detailed treatment of Kosovo's turbulent history, see Noel Malcolm, *Kosovo: A Short History*, New York: HarperCollins, 1999.

under international protection until its final status could be determined.

On June 3, 1999, after 11 weeks of increasingly intense NATO bombing and facing the prospect of a Western military intervention on the ground as well, Yugoslav President Milosevic accepted NATO's conditions.<sup>2</sup> UNSCR 1244, passed on June 10, 1999, prescribed arrangements for Kosovo's postconflict governance, establishing a UN-led international administration, and authorized the deployment of a NATO-led military security force. Terms of this resolution postponed determination of the final status of Kosovo to the indefinite future. In the interim, the UN would gradually prepare the way for democratic, autonomous self-government, while NATO would provide external and, to the extent necessary, internal security.

## CHALLENGES

A decade of Serbian repression, years of mounting civil conflict, and 11 weeks of NATO bombing had driven more than half of Kosovo's population from their homes and destroyed much of the infrastructure and housing stock. Ethnic tensions were white-hot, and the potential for retributive violence was very high. All elements of the Serbian administration were discredited, and most departed with Serbian forces, leaving Kosovo without the most basic structures of governance.

### Security

Yugoslav military forces were required to withdraw immediately from Kosovo under the terms of the military technical agreement that Belgrade had signed with the NATO force commander.<sup>3</sup> There

---

<sup>2</sup>For analyses of the NATO air campaign, see Stephan T. Hosmer, *The Conflict over Kosovo: Why Milosevic Decided to Settle When He Did*, Santa Monica, Calif.: MR-1351-AF, RAND, 2001; Benjamin S. Lambeth, *NATO's Air War for Kosovo: A Strategic and Operational Assessment*, Santa Monica, Calif.: RAND, MR-1365-AF, 2001; and Ivo H. Daalder and Michael E. O'Hanlon, *Winning Ugly: NATO's War to Save Kosovo*, Washington D.C.: The Brookings Institution, 2001. For a first-hand account of the war, see Wesley K. Clark, *Waging Modern War: Bosnia, Kosovo, and the Future of Combat*, New York: PublicAffairs, 2002.

<sup>3</sup>International Security Force (KFOR) and the Governments of the Federal Republic of Yugoslavia and the Republic of Serbia, Military Technical Agreement, 2002.

was concern that Serbian forces would undertake punitive actions as they withdrew or that ethnic Albanian guerrillas would launch reprisal attacks against Serbian civilians once the Yugoslav forces left. The entire police force in Kosovo, being Serbian, was also required to leave the province. As Serbian forces moved out, KLA elements moved in, seeking to install themselves in positions of authority before the UN Interim Administration in Kosovo (UNMIK) was in a position to assume its new responsibilities fully.

### Humanitarian

By war's end, close to 1 million Kosovar Albanians, about 45 percent of the prewar population, had fled or were expelled from their homes.<sup>4</sup> As Serbian forces withdrew, about half the Serbian population fled with them. These new refugees settled in Macedonia, Serbia, and Montenegro. Other Serbian residents fled their homes to congregate in Serbian enclaves elsewhere in Kosovo. All told, approximately 130,000 Serbs and 100,000 other minorities remained in the provinces.<sup>5</sup> The conflict also resulted in massive damage to the housing stock; two-thirds of all homes in Kosovo were damaged or destroyed.<sup>6</sup>

### Civil Administration

Kosovo had no civil administration. Serbian administrators had fled and would, in any case, have been wholly unacceptable to the bulk of the population. Former Kosovar Albanian administrators had been out of office for a decade. KLA elements, few of which had any administrative or political experience, felt entitled to assume positions of responsibility and moved quickly to seize municipal and provincial facilities. The UN was assigned the responsibility of gov-

---

<sup>4</sup>Some 863,000 Kosovar Albanians fled Kosovo for Albania, Macedonia, or Bosnia and Herzegovina. Several hundred thousand more were internally displaced in Kosovo. (OSCE, *Kosovo/Kosova as Seen, as Told: The Human Rights Findings of the OSCE Kosovo Verification Mission*, Pts. I and II, Vienna: OSCE Secretariat, 1999, Ch. 14.)

<sup>5</sup>ICG, *Return to Uncertainty: Kosovo's Internally Displaced and the Return Process*, Washington, D.C., ICG Balkans Report No. 139, December 13, 2002c, p. 1.

<sup>6</sup>Dimitri G. Demekas, Johannes Herderschee, and Davina F. Jacobs, *Kosovo: Institutions and Policies for Reconstruction and Growth*, Washington, D.C.: International Monetary Fund, 2002, p. 2.

erning Kosovo only as the conflict ended and, consequently, had no opportunity to plan, organize, or recruit in advance.

### **Reconstruction**

In the decade before the conflict, Yugoslavia's GDP decreased by one-half because of a combination of its involvement in wars in Croatia and Bosnia and its poor economic policies at home. Kosovo began and ended the decade as the poorest region in the former Yugoslavia. In addition to the general decline in the Yugoslav economy, discrimination against ethnic Albanians and an overall climate of unrest resulted in an exodus of people, especially the better educated. Investment during this period fell sharply. As a consequence, the stock of both human and physical capital had deteriorated substantially before the conflict, making postconflict recovery all that much more difficult.

### **THE U.S. AND INTERNATIONAL ROLES**

NATO and the UN shared responsibility for Kosovo's postconflict security and governance: the former overseeing all military activities, the later all civil. UNSCR 1244 built in an intentional overlap between the two organizations' mandates for policing and internal security. The UN was to have primary responsibility for the police and law-and-order functions, but NATO was to fill gaps in the UN's capabilities as and when necessary. The intent was to avoid a situation that had so often occurred in Bosnia. Both the military and the civil authorities declined to perform important security-related tasks (for instance, riot control and combating organized crime): the military because it lacked the mandate and the civil because it lacked the capacity.

### **Military**

UNSCR 1244 set forth detailed guidelines for what it termed an international security presence. Although the resolution itself did not so specify, it was understood that NATO would assume responsibility for fielding and controlling this presence. NATO's Kosovo Force (KFOR) was responsible under the terms of this resolution for

- deterring renewed hostilities, enforcing the cease-fire, ensuring the withdrawal, and preventing the return of Yugoslav military, police, and paramilitary forces
- demilitarizing the KLA and other armed Kosovo Albanian groups
- establishing a secure environment in which refugees and displaced persons could return home in safety, the international civil presence could operate, a transitional administration could be established, and humanitarian aid could be delivered
- ensuring public safety and order and supervising demining until the international civil presence could take over
- supporting the work of the international civil presence and coordinating closely with it
- conducting border monitoring duties
- protecting its own freedom of movement and that of the international civil presence and other international organizations.

KFOR entered Kosovo on June 12, 1999, numbered almost 45,000 troops by the end of that year, and organized itself into five multinational brigades, each led by a major NATO ally: the United States, the United Kingdom, France, Germany, or Italy.

### **Civil and Economic**

UNSCR 1244 gave broad authority to what it termed the “international civil presence,” which was to operate under UN leadership. While formally acknowledging continued Yugoslav sovereignty over Kosovo, the resolution assigned all sovereign functions to either NATO or the UN. UNMIK was thus charged with governing and with representing Kosovo internationally. All international organizations operating in Kosovo (other than NATO) were subordinated to UN authority, and the most important were assigned specific places within UNMIK’s hierarchy. The result was a four-pillar arrangement in which UNHCR assumed responsibility under UN oversight for humanitarian issues; the OSCE for democratization, the press, and elections; and the EU for reconstruction and development. The UN, in addition to overseeing the activities of the other three pillars, assumed direct responsibility for the security pillar: the police, courts, and prisons.

The U.S. administration wished to maximize European responsibility for Kosovo's reconstruction and democratization. In contrast with Bosnia, therefore, where two and eventually three of the top four international positions were American, all the top spots were European in Kosovo, including both the NATO and UN commands and the leadership of all four UNMIK pillars. This allowed the United States to reduce the scale of its financial and military commitments to only 16 percent of the reconstruction funding and peacekeeping troops, while retaining adequate influence because of the U.S. positions in the NATO and UN hierarchies and its unparalleled prestige among the population of Kosovo.

U.S. planning for postconflict operation in Kosovo was conducted in accordance the Presidential Decision Directive 56, which had been issued following the Haiti intervention in an effort to capture the major lessons of that effort and to regularize preparations for similar operations in the future. Many of the lessons of that and previous such operations were applied. Interagency debates over respective roles and missions were, consequently, much muted.

## **WHAT HAPPENED**

NATO began to prepare for its role in postconflict Kosovo several months in advance. Forces were accordingly positioned in neighboring Macedonia and thus were able to move on a few hours' notice to ensure Serbian withdrawals, demilitarize the KLA, and establish a somewhat secure, if still somewhat chaotic, environment. The UN, given only a few days notice regarding its own role, was much slower to deploy administrators and police. This left a large disparity, for the first several months, between the capacities of the international military and civil presences, creating a governance gap that both Albanian and Serbian extremists moved to fill. Nevertheless, the fact that NATO was assigned backup responsibility for internal security ensured that basic law-and-order functions were fulfilled and that extremist elements were held in check.

Over time, the hierarchical UN-led structure for civil governance began to function—and with greater authority and coherence than did previous efforts in Somalia, Haiti, and Bosnia. Kosovars were associated with this international regime, first by selection and then by election. Local and then general elections were held. Kosovo's

comparative tranquillity contributed importantly to the peaceful diffusing of crises on its periphery, in Macedonia, Serbia, and Montenegro. Progress in the democratization, economic development, and eventual integration of the Balkan region as a whole reduced destabilizing pressures within Kosovo and increased the prospect that its final status would be resolved peacefully someday.

### **Security**

The immediate task for KFOR was to ensure that Yugoslav forces complied with the phased-withdrawal timeline outlined in the military technical agreement. This required KFOR to deploy quickly into the province to prevent a security vacuum in contested areas. KFOR elements met with Yugoslav's military liaison teams in Pristina and elsewhere to ensure proper transfer of military authority in the region. Yugoslav forces completed their withdrawal with few difficulties by June 20, 1999, the deadline under the agreement.

Within KFOR, however, there was an immediate crisis. Russian troops moved from Bosnia into Kosovo unexpectedly and seized the Pristina airport. NATO Supreme Commander General Wesley Clark directed that the KFOR Commander, UK Lieutenant General Sir Michael Jackson, compel the Russians to withdraw from the airport. General Jackson responded that the confrontation should be resolved diplomatically, in which view London and eventually Washington concurred. The Russian and U.S. defense and foreign ministers met in Helsinki on June 18, 1999, and agreed on the terms for Russia's participation in KFOR. As in Bosnia, the Russians agreed that their forces would serve formally under U.S., but not NATO, command.<sup>7</sup>

Having entered Kosovo to protect the ethnic Albanian majority from Serbian oppression, KFOR and UNMIK soon found that their most difficult and demanding task was protecting the Serbian minority from its former victims. Roughly half the Serbian population (which may have numbered about 250,000 to 300,000) had left with the Ser-

---

<sup>7</sup>For a detailed account of the Pristina airfield incident, see Clark (2002), pp. 375–403. See also the Agreed Points on Russian Participation in KFOR (Helsinki Agreement), signed by the Secretary of Defense of the United States and the Minister of Defense of the Russian Federation at Helsinki, Finland, June 18, 1999.

bian forces. Those who stayed gathered in enclaves, mostly toward the northern border with Serbia. This embattled population found itself subjected to a progression of deadly terrorist-type attacks. In response, the remaining Serbs organized their own defenses, while spurning UNMIK efforts to secure control of their areas and promote ethnic reconciliation. The government in Belgrade (at least until Yugoslav President Milosevic's ouster in October 2000) encouraged this militant and rejectionist attitude on the part of the local Serbian population.

Although the robust size of KFOR eventually allowed it to create a generally secure environment, pockets of tension remained. The principal flash point was the town of Mitrovica, where Serbs and Albanians faced off against each other. When the KFOR commander attempted to move U.S. forces from the U.S. sector to reinforce Mitrovica during the February 2000 crisis there, the U.S. military authorities balked and required the troops to return to the U.S. sector.<sup>8</sup> This was inconsistent with the mechanism established in the NATO Operation Plan, which gave the KFOR Commander such authority, and made it more difficult for him to shift forces across command boundaries to meet future emergencies.

KFOR moved quickly to demilitarize the KLA. As Serbian forces began to withdraw, the KLA leadership, at strong U.S. urging (President Clinton personally called KLA "Prime Minister" Hashim Thaci to clinch the deal), signed the "Undertaking of Demilitarization and Transformation" on June 21, 1999. This agreement provided for a "cease-fire by the KLA, their disengagement from the zones of conflict, subsequent demilitarization and reintegration into civil society."<sup>9</sup> Disarmament proceeded slowly and was never total, but by September 20, the KFOR commander certified that the KLA had adequately completed the process of demilitarization.

Many demobilized KLA personnel found their way into the newly created Kosovo Protection Corps (TMK), which was established for that purpose. This organization was given the authority to provide

---

<sup>8</sup>See, for example, Richard Beeston, Michael Evans, and Ian Brodie, "Pentagon Refuses to Send Troops to Serb Area," *London Times*, February 29, 2000, p. 1, and Robert Burns, "US to Limit Kosovo Patrols," Associated Press, February 29, 2000.

<sup>9</sup>Hashim Thagi and KFOR Commander Lieutenant General Mike Jackson, "Undertaking of Demilitarisation and Transformation by the KLA," Kosovo, June 21, 1999.

disaster response, conduct search and rescue, provide humanitarian assistance, assist in demining, and contribute to rebuilding infrastructure and communities. The TMK was allowed no role in defense, law enforcement, riot control, internal security, or any other task involved in the maintenance of law and order. Nevertheless, its members and the bulk of the Kosovar population regard it as the precursor of an eventual Kosovar military force. The TMK's maximum authorized strength is 5,000 (3,000 active, 2,000 reserve). In principal, it requires representation from all ethnic groups, but Serbs have been most reluctant to serve in an organization led and largely manned by former KLA members.

The UN CIVPOL effort took many months to become fully established. Donor countries quickly volunteered significant numbers of police, but it took considerable time for these personnel to begin arriving in Kosovo. In the interim, in accordance with UNSCR 1244, KFOR assumed policing duties in Kosovo. UNMIK CIVPOL took over direct responsibility for law enforcement in a phased process beginning in Pristina on August 23, 1999, and extending to several other major towns by summer 2000.<sup>10</sup> The CIVPOL operation was initially intended to consist of 3,110 international police officers. The authorization was raised to over 4,700 in late 1999. Reaching these authorized numbers proved difficult, but 4,450 UNMIK international police were in country by December 2000. UNMIK also moved to create and begin training a new local police force, the Kosovo Police Service (KPS). By mid-July 2000, the KPS had 842 officers.<sup>11</sup>

The UNMIK international police effort eventually consisted of three components: the UN CIVPOL unit, the UN Border Police Unit, and the UN special police units (SPUs). The traditional CIVPOL were distributed among regional commands throughout the province, where they progressively assumed responsibility for law enforcement and maintenance of public security from KFOR. The Border Police Unit worked in conjunction with KFOR units on Kosovo's international frontiers. The SPUs were responsible for crowd control and other tasks requiring more heavily armed police. Unlike traditional

---

<sup>10</sup>See UNMIK, *UNMIK Police Annual Report 2000*, 2000a, pp. 10–12.

<sup>11</sup>ICG, *Kosovo Report Card*, No. 100, Pristina, Kosovo, and Brussels, Belgium, August 2000, pp. 42–46.

CIVPOL, who were individuals intermingled with police from other countries, SPUs were formed units from single countries, consisting of Italian Carabinieri, the French Gendarmerie, the Spanish Guardia Civil and other such quasi-military police establishments.

In Bosnia, these heavier police contingents, labeled military specialized units (MSUs), had operated exclusively under NATO command in Bosnia, but NATO commanders had generally resisted using them for law enforcement. In Kosovo, these assets were deployed in KFOR and UNMIK, giving both international entities some capacity for riot control and other high-end policing tasks. The first of UNMIK's SPUs arrived in April 2000; by early 2002, ten SPUs were stationed throughout the province.

By August 2001, KFOR's total presence in the province had dropped to 38,820.<sup>12</sup> U.S. and other KFOR militaries began doing more dismounted and small-unit patrolling, especially along the border between Kosovo and Macedonia, where guerrillas were smuggling weapons or agitating for uprising against the Skopje government.

The level of international military forces remained stable through 2002, although there have been discussions about significantly reducing—possibly halving—the size of KFOR.<sup>13</sup> Additionally, the force-protection posture of KFOR units has loosened substantially since 1999. U.S. commanders, long viewed as much more concerned about force protection than European militaries are, reduced travel restrictions for soldiers and began to allow visits and interaction with the local populace. The UNMIK CIVPOL contingent, meanwhile, remains significant. As of September 2002, 4,466 UNMIK police officers were in the province working alongside the 4,933 KPS officers who have been trained and deployed.<sup>14</sup> The crime rate, initially quite high, has been dropping as the UNMIK and KPS police efforts have matured.<sup>15</sup>

---

<sup>12</sup>International Institute for Strategic Studies, *The Military Balance 2000–2001*, Washington, D.C., 2001, p. 30.

<sup>13</sup>Reuters, "NATO Eyes More Troop Cuts in Balkans," January 15, 2003.

<sup>14</sup>UNMIK Police Web site, 2003.

<sup>15</sup>Michael Steiner, "Address to the [United Nations] Security Council," April 24, 2002.

## Humanitarian

Upon entering Kosovo, KFOR provided humanitarian assistance. KFOR's role in humanitarian assistance was turned over to international organizations, such as UNHCR and various NGOs, as soon as these became operational in the province. Once established in Kosovo, UNHCR supervised the return of refugees and IDPs and an emergency shelter program. KFOR continued to play a role by protecting historic cultural sites and by escorting and safeguarding ethnic minorities in various parts of the province.

One of the major success stories of the initial deployment was humanitarian assistance. As mentioned above, most Kosovar Albanian refugees and IDPs promptly returned home, 500,000 in the first month after the end of the conflict alone. UNHCR provided shelter assistance to 700,000 people over the winter. Meanwhile, other relief agencies distributed food aid to 1.5 million people across the province.<sup>16</sup> Although numerous refugees and IDPs remained, they were receiving adequate assistance. As a result, the humanitarian assistance "pillar" was phased out of the UNMIK structure by July 2000.<sup>17</sup>

## Civil Administration

Because the UN, unlike NATO, could not draw on standing units to supply the necessary manpower, it was slower in establishing a presence in Kosovo. Personnel to serve in UNMIK needed to be identified and hired one by one. It took many months to complete this process. By November 22, 1999, there were approximately 1,169 personnel from the UN and partner organizations in Kosovo.<sup>18</sup>

UNSCR 1244 assigned UNMIK chief responsibility for all legislative, executive, and judicial authority in Kosovo. Initially, UNMIK focused on assembling staff and equipment for this unprecedented mandate. By the end of 1999, UNMIK had established a series of interim administrative structures for governing the province. Many of these

---

<sup>16</sup>ICG (2000), pp. 41–42.

<sup>17</sup>UNMIK, *Bringing Peace to Kosovo Status Report*, October 19, 2000b.

<sup>18</sup>UNMIK (2000b).

structures included councils with Albanian and Serbian leaders, but initially none of the Kosovars had decisionmaking authority. UNMIK scheduled municipal elections for October 2000.<sup>19</sup>

### Democratization

Kosovo's ethnic Albanian majority was divided between members and supporters of the KLA and those who preferred to look to the civilian nonviolent resistance movement organized around the League for Democratic Kosovo (LDK) for leadership once the war was over. KLA leaders, who had fought for Kosovo's liberation and had emerged as war heroes, expected to participate in, indeed to dominate, postconflict governance. They moved quickly to install their own chosen ministers, mayors, and other officials throughout Kosovo. UN-appointed successors displaced these individuals only gradually and with difficulty.

First public opinion polls, then local and eventually general elections indicated that, while the vast majority of Kosovar Albanian population respected and were very grateful to the KLA for its role in their liberation, most preferred to return to the more-mature and -moderate leadership of the LDK for their postconflict governance. The UN and NATO performed with considerable if not uniform success the difficult task of persuading the KLA leadership to pursue its aspirations for power through the open and democratic means of free elections, in which their prospects of prevailing were poor.

Kosovars elected a parliament in November 2001. The moderate LDK party won a strong plurality of the votes, but its subsequent difficulty in forming a governing coalition was a harbinger of the long political road ahead.<sup>20</sup> The political situation remains challenging. The provincial government is functioning, and many responsibilities have been turned over to elected Kosovars, but tensions between

---

<sup>19</sup>ICG (2000), pp. 22–33.

<sup>20</sup>Andrew Gray, "Moderate Party Wins Plurality in Kosovo," *Washington Post*, November 20, 2001, p. A16; Radio Free Europe/Radio Liberty, *RFE/RL Balkan Report*, Vol. 5, No. 76, November 16, 2001; Fredrik Dahl, "First Kosovo Assembly Session Marred by Walkout," Reuters, December 10, 2001; and Garentina Kraja, "Kosovo Fails to Elect President," Associated Press, January 10, 2002.

Albanians and Serbs remain high, as indeed do those among Albanian factions.<sup>21</sup>

Those who drafted UNSCR 1244 took the view that any attempt to determine Kosovo's final status would only destabilize the larger region, since the vast majority of the population would accept nothing but independence. Yet most neighboring countries, Albania accepted, strongly opposed such a development. By putting the issue of Kosovo's final status to one side, the international community has been able to promote a democratic transformation in Belgrade, work out an accommodation between Serbia and Montenegro, defuse a civil conflict in Macedonia, continue to build multiethnic institutions in Bosnia, and begin the integration of the region into both NATO and the EU.

Nevertheless, continued uncertainty over Kosovo's future status has only hardened its ethnic divisions and retarded its democratic development. At some point in the next few years, the international community will need to determine whether the region as a whole is stable enough to accommodate itself to a political future for Kosovo that is acceptable to its inhabitants, which almost certainly means independence or something very close to it.

### Reconstruction

The EU, which had the lead responsibility for economic reconstruction, drew on the expertise of a number of donor countries and international financial institutions to manage the reconstruction and economic development effort. This effort involved a number of tasks, most of which were pursued simultaneously. On the institutional side, they included the creation of the Central Fiscal Authority, a nascent finance ministry; a new tax system and tax administration; and a new trade regime and customs department. As part of the new foreign trade regime, a flat 10 percent ad valorem tariff was imposed on all imports.<sup>22</sup> Because Kosovo technically remains part of

<sup>21</sup>For a summary of the current political situation and a proposed road map to a final settlement, see ICG, *A Kosovo Roadmap (I): Addressing Final Status*, Washington, D.C., ICG Balkans Report No. 124, March 1, 2002a.

<sup>22</sup>Dimitri G. Demekas, Johannes Herderschee, and Davina F. Jacobs, *Kosovo: Progress in Institution Building and Economic Policy Challenges*, Washington, D.C.: International Monetary Fund, December 6, 2001, p. 3.

Yugoslavia, imports from Yugoslavia (Serbia and Montenegro) have not been subject to this tariff.

The EU supervised the creation of the Banking and Payments Authority of Kosovo (BPAK) and the reform of the payment system. In addition to supervising all financial institutions in Kosovo, the BPAK operates 29 branches throughout the province. These branches, which were set up quickly, provide a substantial share of transaction services in the province.

A key element of the reconstruction of the financial sector was the decision made two months after the end of the conflict to legalize the use of all foreign currencies for domestic transactions. Because the deutschmark had been in wide use in Yugoslavia and Kosovo since the 1960s, it immediately became the de facto national currency. BPAK oversaw the cash conversion of deutschmarks for euros in early 2002, when the European Central Bank replaced national currencies with euro notes and coins. The EU also assisted in the reconstruction of housing and infrastructure. The bulk of economic assistance in 2001 and 2002 paid for materials, machinery, equipment, and construction services as part of this effort. To coordinate the tasks of reconstruction, a Department of Reconstruction was set up to coordinate donor assistance and prepare a public investment program.

In each of these institutions, well-qualified expatriate staff members were paired with Kosovars. After provincial elections were successfully completed in November 2001, the UNMIK began the process of transferring more authority to Kosovar government officials. However, a number of key decisions, including the overall budgetary framework, remain under the control of UNMIK.

The damage resulting from generations of communist mismanagement followed by a decade of Serbian looting proved difficult to repair. Facing disagreement within the international community on how to tackle these challenges, the UN administration delayed many of its decisions. By the end of 2000, Kosovo had a much-improved commercial code, the outcome of international development efforts. Nearly a year passed after the conflict before a criminal and civil code was put in place, and then it was the Yugoslav code dating from 1989, which had the virtue of being pre-Milosevic but the disadvan-

tage of also being pre-postcommunist. A number of property disputes therefore remain unresolved even today.

Within two years of the end of the conflict, UNMIK had made substantial strides in creating a set of economic policy institutions in Kosovo. The institutional framework for fiscal policy had also been created, although the tax system was still under development. A value-added tax and taxes on personal income and on corporate profits had yet to be introduced. In 2000, tax revenues only covered half of recurrent government expenditures. Thus, the fiscal situation was unsustainable without continued foreign assistance. Moreover, Kosovo still lacked much in the way of a banking system at the time.

By January 2003, Kosovo had a budget and a functioning finance ministry, in the form of the Central Fiscal Authority. As of this writing, the tax system is being expanded to include personal and corporate income taxes.<sup>23</sup> Tax revenues were to cover over 90 percent of recurrent expenditures in 2002.<sup>24</sup> The financial system is solid, and the BPAK is considered very competent. Kosovars are taking increasing responsibility for economic policy decisions. As a consequence of these developments, Kosovo's economic institutions and policies have become completely independent from those of the Yugoslav government, a result that had not been officially envisioned at the time UNMIK was created.

International assistance for Kosovo's reconstruction proved more generous than for any earlier postconflict response or any since. The United States and international organizations spent \$1.5 billion on financial assistance to Kosovo in 1999 and 2000, including funding for budgetary assistance, reconstruction and recovery, and peace implementation.<sup>25</sup> In addition to official assistance, Kosovars received an additional \$350 million in financial assistance from expatriate family and friends. As a result, economic growth was very strong in both 2000 and 2001. Measures of aggregate output and consumption for Kosovo are fraught with great problems. Nevertheless,

---

<sup>23</sup>UNMIK, *The New Kosovo Government: 2002 Budget*, Pristina, Kosovo, 2002.

<sup>24</sup>Demekas, Herderschee, and Jacobs (2002).

<sup>25</sup>World Bank and European Commission, *Report on Progress Made in Committing, Contracting and Spending Donor Pledges to Kosovo*, Washington, D.C., May 2002, p. 1.

according to RAND estimates, per capita GDP may have been as much as three-quarters higher in 2000 than in the preconflict year of 1998. GDP rose by one-quarter in deutschmark terms in 2001 and in the neighborhood of 15 percent in real terms.<sup>26</sup> As a consequence, according to RAND estimates, per capita GDP had already exceeded 1990 levels by about 5 percent in 2001.

Substantial foreign assistance continued into 2001, still running 39 percent of estimated GDP. Expatriate Kosovars provided additional assistance, equal to about one-half that from official donors. On a per capita basis, assistance actually rose slightly compared to 1999 and 2000. However, assistance dropped in 2002 to about 25 percent of GDP and is projected to fall to 15 to 20 percent of GDP in 2004. As a consequence, rates of economic growth and increases in personal consumption have slowed.

Although the province now functions economically, it remains dependent on foreign assistance. Private economic activity, although expanding, has not yet reached the point of independently sustaining economic growth. A substantial share of consumption and investment continues to rely on official and private transfers of funds from abroad.

## LESSONS LEARNED

Kosovo has been the best managed of the U.S. post-Cold War ventures in nation-building. U.S. and European forces demilitarized the KLA; local and national elections took place two years after the conflict ended; and economic growth has been strong.

Indeed, the experience yielded a number of important lessons regarding civil administration, democratization, and economic growth:

- Broad participation, extensive burden-sharing, unity of command, and effective U.S. leadership can be compatible.
- A slow mobilization of civil elements in peace operations can be costly.

---

<sup>26</sup>Demekas, Herderschee, and Jacobs (2002), p. 6.

- Uncertainty over final international status can hinder democratic transition.
- When countries lack effective governmental institutions, placing expatriate staff in positions of authority can facilitate economic policymaking and implementation.
- Large-scale assistance can rapidly restore economic growth in conjunction with effective economic institutions.

One of the most significant aspects of the reconstruction effort in Kosovo was the degree of collaboration and burden-sharing among participant countries and international organizations. Military unity of command was achieved through NATO, although U.S. troops represented only 16 percent of the force. While there were some disagreements among NATO countries over such issues as target sets and operational goals during the military campaign, postwar military cooperation was much smoother.<sup>27</sup> KFOR acted swiftly to demilitarize the KLA, some of whose members were integrated into the newly established TMK. Civil unity of command was established under UN auspices. Responsibility for economic reconstruction was assigned to the EU, acting under UN oversight. Again, U.S. economic assistance represented only 16 percent of the total. In sum, while Kosovo has been the best organized and best resourced of the post-Cold War operations, it has also been the one with the lowest U.S. contribution, in proportion to that of other participants.

Despite its comparative success, the Kosovo operation was plagued by slow start-ups in most aspects of civil implementation, such as CIVPOL. Italy, France, Spain, and other countries offered police contingents to perform such tasks as border patrol, law enforcement, and the general maintenance of public security. SPUs were established for more-difficult functions, such as crowd control, and included separate units from single countries, such as the Spanish Guardia Civil and the French Gendarmerie. It unnecessarily took several months for these units to become fully established. Fortunately, the international mandate contained in UNSCR 1244 explic-

---

<sup>27</sup>On alliance difficulties during the military operation in Kosovo, see Clark (2002); John E. Peters, Stuart Johnson, Nora Bensahel, Timothy Liston, and Traci Williams, *European Contributions to Operation Allied Force: Implications for Transatlantic Cooperation*, Santa Monica, Calif.: RAND, MR-1392-AF, 2001; and Lambeth (2001).

itly gave responsibility for the maintenance of law and order to KFOR, pending UNMIK's capacity to assume the responsibility. Yet, too much time was wasted for one of the operation's most important tasks.

Furthermore, Kosovo's final status was unresolved—and is still in limbo today. This postponement, essential for purposes of regional stability, has nevertheless retarded the process of ethnic reconciliation and democratic transformation in Kosovo. Bernard Kouchner, the UN administrator in Kosovo, has argued that, without greater clarity about Kosovo's status—including Belgrade's authority over the territory—it was difficult to administer the territory effectively.<sup>28</sup>

As a province of Serbia, Kosovo had no independent governmental budgetary or economic institutions. After the intervention, the international community helped Kosovo set up a central bank, treasury, and finance ministry within a few months. It also adopted a new currency for Kosovo, the euro. Reforming commercial law has proceeded more slowly. Competent expatriates initially staffed the new financial institutions. These individuals introduced systems and practices that have made the institutions function much more effectively than their counterparts in Haiti or even Bosnia. Early on, expatriate staff were paired with locals. This process enabled the expatriates to transfer their knowledge and management skills to nationals. It also enabled them to judge the competency of their eventual replacements and to recommend staffing changes, when appropriate.

With the exception of Germany, Kosovo enjoyed the most rapid economic recovery among the cases studied. Foreign assistance was also the highest as a share of GDP. The large per capita and absolute inflows of assistance to Kosovo, public and private, have been crucial to the rapid initial rates of recovery. The EU was largely responsible for economic reconstruction, and states and international organizations provided over \$671 million during the last six months of 1999 and \$704 million in 2000.

---

<sup>28</sup>Barbara Crossette, "UN Council Urged to Debate Political Future of Kosovo," *New York Times*, March 7, 2000, p. A6.