Newborn state peers into a hazy future

Wordplay: a girl nestles in the letter 'O' of the graffitti-scrawled Newborn sculpture in central Pristina Kester Eddy

An enthused population still faces big economic and political hurdles, writes **Neil MacDonald**

Newborn, the block letter monument to Kosovo's independence, has lost its glossy sheen since it was installed in central Pristina 16 months ago.

The signatures of citizens and well-wishers – scrawled in black marker over the yellow-painted sheet metal – now mingle with urban grime, shreds of kebab wrapper and the occasional flyer for an upcoming concert.

The 24m-long, 3m-high English word has becomes a familiar part of the untidy cityscape. Yet the new Balkan state, which declared independence on February 17 of last year, continues to struggle for international acceptance.

While the US and most European Union members recognised Kosovo promptly, other countries support Serbia, which claims the ethnic Albanian-dominated territory as a province.

On May 19, Bahrain became the 60th United Nations member to extend recognition, and the number promises to keep growing. Kosovo last month gained enough votes to join the International Monetary Fund (IMF), a diplomatic victory that could reassure investors. "This marks a very important moment, a turning point for the Republic of Kosovo," says Fatmir Sejdiu, president of the newborn state. "IMF acceptance shows that Kosovo follows contemporary fiscal policies."

Hashim Thaci, prime minister, says: "Membership means a success for us, but also a real responsibility going forward to create new, well-paid jobs, build modern infrastructure and reform health care." World Bank membership looks certain to follow.

Yet UN membership, the surest stamp of sovereignty, will be impossible as long as Russia and China – both permanent, veto-holding UN Security Council members – insist that Kosovo belongs to Serbia.

International telecommunication, aviation and sporting organisations, among others, have shut out the breakaway state, even if pragmatic "borrowing" of foreign code numbers allows phones to ring and airlines to fly. Legal ambiguity has plagued Kosovo ever since Nato warplanes pushed Serb forces out in 1999. Earlier, the autonomous Serbian province enjoyed status similar to a republic in the Yugoslav federation – but without the right to split from Serbia. The separatist Kosovo Liberation Army (KLA) eventually attracted support because of the harsh repression under Slobodan Milosevic, the 1990s Serb leader who later died while on trial for war crimes.

US diplomats said independence would be "the last piece of the puzzle [to re-stabilise the region] after the break-up of Yugoslavia".

Pristina's state institutions largely took shape during the nine years of UN post-war rule. In the end, Kosovo had to split from the UN mission as much as from Serbia.

Ethnic Albanians comprise 90 per cent of the territory's roughly 2m people. Serbs now account for just 5 per cent, while Turks, Bosniaks, Roma and other groups make up the rest.

Kosovo's constitution, adopted last June, incorporates the entire "settlement package" proposed by the former UN envoy, Martti Ahtisaari, before independence. After Russia blocked the plan at the Security Council, the western powers gave the green light to the frustrated Kosovo Albanians to declare independence as a multi-ethnic democracy.

Kosovo's leaders accepted EU-led supervision for an open-ended period, mainly to guarantee minority rights. The Ahtisaari plan calls for extreme decentralisation, even allowing Serb communities to maintain financial ties to Belgrade.

Several international "presences" remain closely involved. More than 14,000 Nato-led troops keep a lid on ethnic tensions, although the alliance could soon downsize the force.

Brussels has mobilised nearly 2,000 mainly EU police, judicial and customs officials to bring their local counterparts up to speed. Eulex, as the mission is called, must constantly dance around the delicate "status" question. Five EU countries have declined to accept Kosovo's independence, and Eulex works under a UN legal umbrella.

North of the Ibar river, where ethnic Serbs predominate, UN officials remain vital intermediaries. Belgrade also co-operates on policing and border control, despite its more visible campaign to thwart Kosovo's worldwide recognition.

Another EU-linked organisation, the International Civilian Office (ICO), explicitly supports independence.

Pieter Feith, international civilian representative, holds executive authority, including the power to dismiss elected leaders for breaching the Ahtisaari plan. So far he has limited himself to "gentle persuasion" and kept his arguments with the government behind closed doors.

Mr Feith – who works simultaneously as a "status neutral" EU envoy – hopes to persuade Serbs to accept their future as part of Kosovo. He has yet to make a breakthrough. "Hardline leaders in the north manipulate Serb fears about independence," he says.

He also aims to encourage stricter

Continued on Page 2

Inside this issue

Kosovo

State faces hazy future

Continued from Page 1

standards in Pristina. "Corruption is a serious problem," he says.

Previously, the need for political stability has overridden other considerations. "Criminal relationships permeate even political parties and power structures," an international diplomat says. "But if we are to bring Kosovo closer to the EU, we must clean this up."

Kosovo faces huge economic hurdles: high unemployment, heavy reliance on foreign remittances and daily power cuts. But these problems are surmountable, says Ahmet Shala, minister of economy and finance. "We will closely co-operate with all our partners to make Kosovo sustainable," he says. "The picture of Kosovo as a non-sustainable country is increasingly outdated."

At a donor conference last year, Kosovo secured promises of €1.2bn in international aid for two years. The government, in return, accepted strict budget conditions from the IMF.

"We are mostly on the same page as the IMF and the World Bank," Mr Shala says.

In practice, however, the government has veered away from the agreed framework, instead adopting "an unrealistic picture of available resources" and "overly optimistic" growth expectations, international economists say. The financing gap could force Kosovo to turn to donors again.

The latest budget, finalised a month ago, forecasts 4.1 per cent economic growth this year, lowered only slightly because of the world economic crisis.

"In terms of realism, the [budget's] authors are still on a learning curve," says Ranjit Nayak, World Bank representative in Kosovo. "Every transitional country coming out of a post-conflict situation and into a market economy goes through similar paces."

Before, Kosovo's leaders could blame the UN. Nowadays, citizens expect more from the people they elect.

Approval for international and domestic institutions has declined, says a report from the United Nations Development Programme (UNDP). Over the six months up to April, approval for Kosovo's government fell 19 percentage points to 38 per cent. (Four years ago, the provisional government scored above 80 per cent.) But the UN mission – Kosovo's least popular institution – has dropped to 16 per cent, its lowest level yet. Eulex, uniquely, climbed to 39 per cent.

Fisnik Ismaili, whose Ogilvy Kosovo advertising team hit on the Newborn idea just in time for independence, expresses mixed feelings. He had hoped to repaint the monument for each anniversary, starting with the flags of all the countries recognising Kosovo. He wanted a kiosk to sell Newborn souvenirs. Instead, the government paid him a year late, with a discount shaved off the agreed fee, he says.

But the stark English word – chosen to catch the eye of foreign television crews – has gained local currency. Pristina today boasts a Newborn café, a Newborn pizzeria and a Newborn hotel. One local music group calls itself Newporn.

Mr Ismaili gave up worrying about copyright violations. "It's a national monument," he says. "We didn't do it for money."

Television shines a light on the political stage

POLITICS

Personalities take a leading role, say **Neil MacDonald** and **Krenar Gashi**

One Saturday morning just after nine o'clock, a prominent cabinet minister sets his coffee pot onto the burner and fiddles with the stove dials. His wife, by his side, giggles: "He never makes coffee without the camera here." Radio Television of Kosovo (RTK) has this season offered an unprecedented peek into the private lives of the political elite.

"A cup of coffee with . . .", the state-owned broadcaster's top-rated Saturday morning programme, visits the homes of Kosovo's rich and famous. Besides actors and singers, the RTK camera crew has called for coffee with many of Kosovo's elected leaders.

Viewers watch – as some politicians open their clothes wardrobes, even showing hanging underwear – with a mixture of fascination, disgust, envy and admiration. "People rise early on Saturdays to catch it," an RTK official says.

In the second year after the new state's independence declaration, many citizens have become more critical of the political class. Rival party leaders slam each other for alleged corruption like never before. But the linkage of wealth and power surprises no one, says Avni Zogiani, Pristina's most vocal anti-corruption activist.

Not all of the leadership, of course, has welcomed RTK in.

Hashim Thaci, Kosovo's prime minister, heeded advice from his inner circle and declined, the RTK official says. Elected shortly before independence, Mr Thaci continues to enjoy western backing and strong popular support.

A former guerrilla leader, he first served as provisional prime minister after Nato expelled Serbian forces in 1999. With the uncertainties of status talks now past, his nominally centre-left government courts voters with roads, schools and promises of jobs.

Despite rising disappointment with government institutions on his watch, support for Mr Thaci's Democratic Party of Kosovo (PDK) remains stable at 30 per cent or more, according to opinion polls. He rules with a lesser partner, the Democratic League of Kosovo (LDK), the declining remnant of a once-dominant party.

Kosovo's president, Fatmir Sejdiu, took over the pacifist-leaning LDK after the death of Ibrahim Rugova, still regarded by many as the "father of Kosovo".

Without equivalent historic credentials, Mr Sejdiu could never keep squabbling party factions together. But his personal approval ratings remain high, as his grey eminence persona fits with the largely ceremonial presidency.

The prime minister's main competition comes from another former guerrilla leader, Ramush Haradinaj, leader of the Alliance for the Future of Kosovo (AAK), whose boxy hillside mansion has become a Pristina landmark. On the weekend programme, Mr Haradinaj showed off his antique daggers. He initially toned down his ex-guerrilla image by donning glasses, but more recently went for laser surgery, he says. Many citizens recall Mr Haradinaj's drive and efficiency during his 100 days as prime minister starting in late 2004. Even after he resigned to face trial in The Hague for alleged war crimes, United Nations administrators praised him for keeping the territory's ethnic Albanian majority calm during fruitless talks with Serbia.

'Every country has corruption and Kosovo is no exception'

Hashim Thaci
Prime Minister

Acquitted two months after independence, he received a warm welcome and resumed active politics. But in his absence, former AAK ministers had become notorious for greed. "The top-level leader must set the example," Mr Haradinaj says.

Mr Thaci says he fully agrees, pointing out how Mr Haradinaj kept control behind the scenes for the whole time the AAK held office.

"Every country has corruption, and Kosovo is no exception," Mr Thaci says. "But we had the region's worst governance before. Now, we are following EU recommendations to institute transparent governance."

Mr Thaci, at 41 years old, and Mr Haradinaj, at 40, could remain on Kosovo's political stage for many years.

Although Mr Haradinaj's party has rebounded to nearly 15 per cent, most analysts see no combination that could bring Mr Thaci's PDK down.

Despite the provisions of the western-backed status plan adopted in Kosovo's constitution, the prime minister has prevented new elections until the end of his current term in 2011. He achieved this through a controversial power-sharing deal with the president and the approval of international diplomats.

Pieter Feith, Kosovo's international supervisor, approved the postponement. "It is not illegal. It allows this government to take a crack at reforms," he says. "Democracy is about rule of law, not just elections. There are too many elections in the Balkans."

But the two parties, based on ex-guerrillas, will surely jostle for economic leverage with municipal elections this November. The Organisation for Security and Co-operation in Europe, which provided monitors for past elections, can no longer do so because of Serbian objections. But European and US organisations can prevent rampant ballot-stuffing, international diplomats say.

Jakup Krasniqi, speaker of parliament, shocked viewers with his portrait of Enver Hoxha, the late Albanian dictator. Hajredin Kuci, deputy prime minister, appeared "boring and formulaic, just as in politics," the RTK official says. An AAK member, Ardian Gjini, gained popular esteem by showing off his bookshelves.

Mr Feith hopes the local elections will help to rein in abuses of power, since "politicians are more sensitive to criticism and advice" during the run-up. Critics increasingly accuse the Thaci government of tightening its grip on the media. Yet politicians remain free to choose about "A cup of coffee with . . .".

Glass ceiling: Sylejman Shala (second from right) at his window workshop. High interest rates on loans are impeding growth, he says Kester Eddy

Local enterprises still struggle for a hearing

ECONOMY

Paltry domestic production requires urgent attention, writes **Kester Eddy**

It is a hot, Sunday afternoon, and in the small town of Bibaj, 40km south of Pristina, the Balkan slumber is almost complete; except that, is, for the steady, determined movements at Sylejman Shala's workshop, where a clutch of workers sets about making windows by the side of the road.

"I've got work alright; work for three months," says Mr Shala as he leafs through the order book. "For the past fortnight I've been doing two shifts, from eight o'clock to 11 o'clock every day, just to keep up."

Mr Shala, 38, founded his company five years ago with "twenty euros in my pocket and using borrowed machines". Turnover hit €300,000 last year, and his workshop now employs six.

"They're all registered and legal. I've trained them myself and the best, on top salary, gets €300 a month," he insists – citing a figure 20 per cent above the average wage.

Mr Shala's venture would not warrant a mention in western Europe, but in job-starved Kosovo, where official unemployment is estimated at 40 per cent, his success is significant.

The breakaway state ranks as one of the poorest in Europe – GDP per capita was a miserable €1,800 last year, roughly a 10th that of Slovenia, the richest part of former Yugoslavia.

Even at the best of times, Kosovo, with a small population and disputed independence, would not find it easy to attract foreign direct investment – it has an archetypical Balkan business environment, fraught with corruption and legal uncertainty.

Mr Shala, however, shows it can be done and without using friends in high places. "We do only private work; I don't go in for government stuff; I can't afford the time for all the tendering papers," he says. He would like capital to expand his workshop, but says bank loans are out of the question. "Interest rates are just too high," he says.

Ahmet Shala, Kosovo's minister of economy and finance (no relation to the window maker) insists that things are on the mend after the turmoil of the past two decades.

"If you look at the GDP, in 2002 it was just €800m, and now it's €3.9bn, so Kosovo is moving ahead quite fast. Of course, there are big challenges, but we are taking measures on key areas such as privatisation, electricity, education, infrastructure and legislation. I believe the energy we have put into making a business-friendly environment here will move the country ahead," he says.

The minister points to reductions in taxation as an example. "The highest personal income tax bracket is 10 per cent, and corporate profit tax is also 10 per cent. I think we have the lowest tax burdens in Europe," he says.

Critics say this is an exaggeration, and Kosovo needs more incentives to boost its economy.

However, the World Bank, in a recent report comparing 23 cities in south-east Europe, ranks Pristina 12th overall in terms of ease of doing business, while Prizren, in southern Kosovo, comes eighth – both cities are put ahead of the heavyweight regional capitals Belgrade (13th) and Zagreb (19th).

The new state has undoubtedly come a long way since the dark days of 1999, although perceptions abroad have been slow to change, says Mimoza Kusari-Lila, executive director of the American Chamber of Commerce in Kosovo. "I've just come back from the States, and perceptions are from 10 years ago. Now Kosovo is stable within the Balkans; the streets are safe," Ms Kusari-Lila says. Although she admits that many Kosovars still do "not quite get how a [legally transparent] economy should work" after becoming accustomed to "using loopholes" for survival during the Milosevic years, she agrees the business environment is improving.

'There's really huge potential for investment in agriculture, which would provide jobs in the countryside'

However, Ms Kusari-Lila says the government should do much more to boost domestic production, thereby improving the disastrous trade figures that reveal imports, at €2bn, are a staggering 10 times the volume of exports, at a paltry €200m. This in turn boosts the current account deficit, which hit 23 per cent of GDP last year.

"The main source of revenues is our diaspora; last year we had foreign direct investment of some €350m, against over €550m in remittances. This goes into consumption, allowing Kosovo to run up its huge trade deficit," she says.

As a result, the service sector makes up 60 per cent of the economy, and the country imports most of its food. "There's really huge potential for investment in agriculture, which would provide jobs in the countryside for the unemployed, as well as in energy, tourism, recycling and outsourcing," she says.

The government has similar thoughts, and has identified the agricultural sector for special treatment, with plans to introduce financial guarantees for farmers, says minister Shala. He is, however, less inclined to consider subsidies to help the likes of Sylejman Shala and his small window business.

"I think the low taxes make best competitive conditions, but interest rates are coming down; there is competition between banks," he says.

Indeed, with its strategy to diversify risk while expanding, Raiffeisen International, the Austrian bank that is the second-largest commercial bank in Kosovo, is now seeking to serve small businesses, says Iliriana Jakupi, head of retail banking.

"Twelve per cent might seem expensive to him [Syleman Shala]. But I know the window business; if he came into the bank, it would be easy to explain the cost-benefit argument to him," she says.

Law and order forced to adapt to circumstance

JUSTICE

Neil MacDonald on the unique operation of the state's EU-led 'rule of law' courts

In a courtroom packed with grizzled, hawk-eyed young men, the witness shifts uneasily from one foot to the other.

The chief judge asks: "Were you threatened before coming here?"

"So far I have not been in danger or threatened," replies the reluctant witness, a local prison guard called to testify in a murder case. "But maybe tomorrow it could happen."

In one sense, the Peja district court appears loaded with local flavour.

The case involves a classic family vendetta killing, still fairly common in Kosovo's mountain areas. The proceedings look strikingly ordinary, with the witness, defendant, prosecutors and defence lawyers all coming from the majority ethnic group. But the chief judge speaks in accented English, pausing for the translator to give the Albanian version.

The panel of three judges includes two Italians, part of the European Union-led "rule of law" mission launched last year in Kosovo.

"This is not normal administration of justice," admits Alberto Perduca, head of the justice component with the so-called Eulex mission and also an Italian judge.

"Our current effort is to find a very pragmatic, practical solution, at least for these old criminal cases."

The mission's more than 40 judges and 20 prosecutors aim to "mentor" their local counterparts as well as to plug holes in an overburdened court system. Other Eulex components bolster the local police and customs services.

Direct courtroom participation will be "most important in the initial period", Mr Perduca says.

"We have to move forward, piece by piece, to create a system of justice with the trust of public opinion."

Of all Kosovo's state institutions, the judiciary stands out as the least satisfactory to citizens across the fragmented territory, a recent report from the United Nations Development Programme (UNDP) suggests.

Local judicial weakness stems partly from the discrimination against ethnic Albanians in legal education before the 1998-1999 war, Eulex officials say.

Then, the sudden departure of Serb judges after the war left the courts paralysed.

UN administrators partly filled the void, managing trials and training local jurists. Yet the case backlog steadily mounted.

When the UN mission scaled down last year, Eulex judges took over 180 criminal cases, including 60 on old war crimes.

Many UN court officials transferred to the EU-led mission. Special cases, such as organised crime and war crimes, remain reserved for international judges.

But the new mission takes a different approach overall, Mr Perduca says. "We aim to put our judges and prosecutors at the service of Kosovo's judiciary."

The third judge in the Peja trial – a Kosovo Albanian from the district court – hardly participates at all.

Only the Italians dissect all the testimony and point out contradictions.

The fidgety man at the witness stand says he "can't remember" his written statement from a year ago, when he gave evidence against the defendant.

"There is a big discrepancy," the chief judge warns. "Either you accuse the defendant, or you accuse the prosecutor . . . of forging your signature on the letter."

Bringing local judges up to solid European standards could take five years or more, says a former UN jurist in the system.

In the meantime, Kosovo's confusing patchwork of local and international authorities raises questions about the legal basis for Eulex's work.

Recent history has left the territory with a complex mix of old Yugoslav law, UN decrees and now, given last year's independence declaration and new constitution, pure Kosovo law.

But Serb areas, since they reject independence, cling to the UN as the final legal authority.

Eulex's mandate, endorsed by the UN, vaguely calls on judges to apply the "applicable law". The potential for divergence makes legal theorists squirm.

"Now, there is no substantial gap between the two sets of rules," Mr Perduca says. "In future, if the Assembly of Kosovo were to make substantial changes, the situation would be more difficult."

'Our current effort is to find a very pragmatic, practical solution, at least for these old criminal cases'

Alberto Perduca
Head of Justice, Eulex

Unfortunately, while the two ethnic groups have wrestled over legal jurisdictions, around 60 arrested suspects have languished in detention for up to two years without trial.

The Mitrovica courthouse, the scene of riots last year in a hardline Serb neighbourhood, suffers from the worst bottleneck.

Eulex, therefore, has no option but to skip legal hairsplitting.

"We must make an abstraction from the notion of justice as an expression of sovereignty," Mr Perduca says, "and concentrate on justice as a service . . . for the victims, for the community and for the accused."

Two trials since Mitrovica's reopening have dealt with robberies – one ending in acquittal, the other in a conviction.

The third (about to start at time of writing) was for an ethnically-motivated assault.

Many Serbs appear grateful for law and order, regardless of Eulex's growing ties to the Kosovo state.

"No lawyer has so far challenged the authority of Eulex, not even Serb lawyers in the north," Mr Perduca says.

Contributors

Neil MacDonald
Balkan Correspondent

Kester Eddy
FT Contributor

Krenar Gashi
Kosovo Stringer

Seb Morton-Clark
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

Transfer of power sees legal tangles proliferate

PRIVATISATION

UN officials have been accused of underselling, says **Neil MacDonald**

Llamkos workers protesting in April. Legal wranglings left them unpaid for nine months

Three years ago, the international officials handling privatisation sales in Kosovo heralded Llamkos as an exemplary success.

The rolling mill for galvanised sheet metal in Vushtrri, 25km north of Pristina, was set for a surge of improvements. The buyer, Bulgaria's Kremikovtzi, had paid only €4.2m, but had committed to investing €15m over two years. However, the level of subsequent investment is mired in controversy.

The last FT special report on Kosovo, in May 2006, said Llamkos showed how a cheap sell-off, combined with commitments on investment and employment, "can work" to revive moribund industries. The plant had by then resumed exports around the region.

Soon, however, Llamkos became the textbook case of a failed privatisation – exposing the pitfalls of what Kosovo's former United Nations administration termed "special spin-off" sales.

The government, having declared Kosovo independent in February 2008, wants to take the company back and start the sale again. This is possible because for all special spin-offs, the former Kosovo Trust Agency (KTA) retained a "call option" allowing it to repossess assets.

"The call option for Llamkos is under consideration," says Dino Asanaj, chairman of the Privatisation Agency of Kosovo (PAK), the recently formed replacement for the KTA. Referring to the subsequent low levels of investment in the sheet metal mill, he says: "Small infractions are negotiable. But this looks like the worst case."

Under the 2005 sale agreement, the UN-led agency could have repossessed Llamkos at nominal share value, amounting to just €2,000. Yet for PAK, which took over the privatisation portfolio last August, the call option could be more difficult to use now.

"Our agency has inherited significant problems from the predecessor agency," says Shkumbin Becaj, PAK's deputy managing director.

Confusion has arisen because of the UN's ambiguous handover to new authorities.

Because of Russia's veto-power in the UN Security Council, the mission that had governed the disputed Serbian province for nine years could not completely close. But the UN scaled down its presence, transferring policing and justice to the EU, and implicitly allowed local institutions to assume day-to-day power.

Technically, enforcing a call option on a company would still require approval by the latest UN mission chief, Lamberto Zannier. But the government, eager to demonstrate newfound sovereignty, would prefer not to ask him.

The Llamkos problems, in fact, became evident soon after privatisation. An Indian group, Global Steel, took over Kremikovtzi at almost the same time as the Llamkos privatisation.

According to UN documents, a dispute followed between Global Steel and former Bulgarian shareholders about whether certain assets, including Llamkos, were included in the deal. Global Steel finally won, but the level of investments promised at the time of the initial sale had fallen behind.

> 'With the specifics Kosovo has, it's extremely difficult, but not impossible, [to privatise]'

Then, as metal industries foundered worldwide, local managers said Llamkos could no longer cover its payroll of 500 workers.

The case has raised questions about the whole concept of special spin-off sales, which can arguably end up restricting rational management choices. "If the conditions were sensible or sustainable, private owners would make similar decisions anyway," an EU economist says.

Such free-market logic provides little comfort to laid-off workers. Kosovo's parliament and Vushtrri's mayor are demanding renationalisation of the factory.

But international supervisors with seats on PAK's board warn that any cancellation of the privatisation would send a terrible signal to other would-be investors in Kosovo.

Mr Asanaj of PAK has kept his options open. Special spin-offs in general are not problematic, he says, because the investor – not the agency – proposes the exact conditions and price. "The best proposal wins," he says. The Peja brewery, the Rahovec winery and several flour mills have all done well.

Feronikeli, Kosovo's biggest privatised company, has hit a rough patch in the world nickel market, but has kept on 1,000 workers and already invested nearly triple its obligatory €20m in three years. "Dozens of companies work for Feronikeli indirectly, so the impact is quite significant," Mr Asanaj says.

Out of 24 special spin-offs completed by the KTA, only about 20 per cent went bad, he says. "Non-success elsewhere could affect a company here. One fifth failing would be normal in any economy."

Kosovo's last government accused international officials of selling prized companies too cheaply. PAK officials downplay such objections.

"Even in perfect situations, privatisation can be difficult," Mr Asanaj says. "And with the specifics Kosovo has, it's extremely difficult, but not impossible."

Primod Mittal, the owner of Global Steel, did not reply to e-mailed questions, and other officials from his company declined to comment.

Privatisation proceeds worth €450m are in a trust account pending settlement of creditor claims, including those of Serbia.

Builders stake claims in divided city of Mitrovica

Crossing the River Ibar Reuters

At the grassy summit overlooking Mitrovica a few weeks ago, gangs of workmen in yellow T-shirts scrambled over half-built walls and rooftops. The "ISO 999" logo on their backs marked them as authorised builders from an ethnic Albanian firm on the other side of the river.

Just a few metres downhill, a noisy pair of dump trucks prepared the ground for a rival set of houses. Older Serb builders relaxed around a picnic table, waiting for their United Nations construction permit.

Usually, contractors in the area are neither speedy nor worried about permits. But in their rush to repopulate the hilltop, the two work crews have staked out political turf claimed for their respective ethnic communities.

"This housing thing is not about building houses," says an international official. "It has more to do with the evolving local political situation and the evolving international situation."

Five weeks ago, Serb protesters clamouring about an "invasion" marched up the hill and scuffled with European Union riot police, who had formed to protect the ethnic Albanian workmen.

Ali Kadriu, leader of the ethnic Albanian reconstruction effort, had pestered UN officials for years to let him reclaim his house in the Kroi i Vitakut neighbourhood, known in Serbian as Brdjani. But the UN, which governed Kosovo for almost nine years after the war, discouraged returns to the mainly Serb north because of security fears. "Eulex [the new EU-led police and justice mission] took a different view – that the right to reconstruct your own house was important," says David Slinn, the British diplomat who monitors Mitrovica for the International Civilian Office.

With the retreat of the UN into a passive role, Kosovo's own authorities have tried to assert their relevance in the north.

Mitrovica's ethnic Albanian mayor, Bajram Rexepi, describes home reconstruction as "a humanitarian project . . . not a political project," although he also hopes to bind together all of Kosovo's territory. Starting on the outskirts, rather than smack in the middle of North Mitrovica, was deliberate and diplomatic, he says. "We hoped to decrease tensions with Serbs, to gradually improve relations, not create a provocation."

The municipality had already rebuilt Serb houses on the ethnic Albanian-dominated side. But few returnees came, and hardly any stayed for long. "They decided to leave again because they found no chances for employment or education," Mr Rexepi admits.

Although unofficial, the River Ibar forms the starkest dividing line through the former Serbian province. Serbs concentrated on the north side, with unbroken ties to Belgrade, have mostly ignored Kosovo's transition to independence. Serbian dinars are the north's main currency.

But in the new state's second year, pressure has mounted to integrate with Pristina. Around 13,000 Serbs reside in northern Mitrovica, with perhaps 2,000 ethnic Albanians and fewer than 1,000 others, according to European Stability Initiative research. The southern part has swelled to some 65,000, almost entirely Albanian. Despite the mayor's claim to city-wide responsibility, the Serb community maintains a whole parallel municipality, dominated by nationalist hard-liners.

Mayor Rexepi says he cannot talk to such illegal institutions, but could "meet them as citizens from time to time". Northern Kosovo's Serb leaders, Marko Jaksic and Milan Ivanovic, have declined his offers to meet with international mediation, he says.

Decentralisation plans in Kosovo's constitution would split the city into two legal municipalities, with a joint board for water supply, electricity, environmental protection and urban planning. Mayor Rexepi sees potential in such arrangements: "This could be a bridge for co-operation," he says.

Serbs and Albanians work well together, the mayor adds, even if too much happens on the wrong side of the law. Ultimately, he would rather see the construction sector busy with industrial parks or shopping malls. "People all want to move toward normality and economic development."

Mitrovica once prospered thanks to the Trepca mining complex. But with the mines nearly dormant since the conflict, the city now has Kosovo's highest rate of unemployment. "Serious companies hesitate to invest here because of the political and security situation," Mr Rexepi says.

The contested hilltop was completely ethnic Albanian before the war. But as soon as rebuilding started, Serbs bought adjacent tracts at inflated prices. The funds may have come from Belgrade, but all documents were in order.

The Serb construction foreman, Dragoslav Zivkovic, says he has no wish to partition Kosovo's territory. "To divide Kosovo would be to divide Serbia," he says.

Musa Haliti, a representative from the neighbourhood, says he expects no trouble living alongside the Serbs: "We were neighbours before."

Neil Macdonald

Poor state protection risks souring local wine success

DOMESTIC INVESTMENT

A stimulus is needed to keep producers competitive, write **Krenar Gashi** and **Neil MacDonald**

Beneath the undulating terrain around Rahovec, enormous oak casks, stained with nearly 40 years of local vintages, are enjoying their best time yet, says Valdet Spahiu. The barrel-chested oenologist, a 38-year veteran of the cavernous underground wine cellar, says the private owners who took over three years ago have shown a passion for their product that was missing since the 1980s.

The weather has treated the Stone Castle winery kindly. "And we receive our salaries on time," Mr Spahiu says.

Stone Castle stands out as one of Kosovo's successful privatisation stories – a "special spin-off" where the buyers have largely met their obligations to keep workers and improve the facility. Harry Bajraktari and Rrustem Gecaj, a pair of Albanian Americans originally from Kosovo, bought the Yugoslav-era NBI Rahoveci site three years ago, paying €5m to the United Nations trust agency, which was then responsible for disposing of "socially owned" assets.

Although they had to ask for a one-year extension, they will soon complete their promised investment of a further €5m, spent on site renovations, technological upgrades and newly introduced grape varieties.

The workforce hovers just over the agreed minimum of 250, rising above 300 with seasonal labour, says Ismet Hulaj, Stone Castle's chief financial officer. More than 90 per cent of output goes for export, mainly to the UK, Switzerland and Balkan countries.

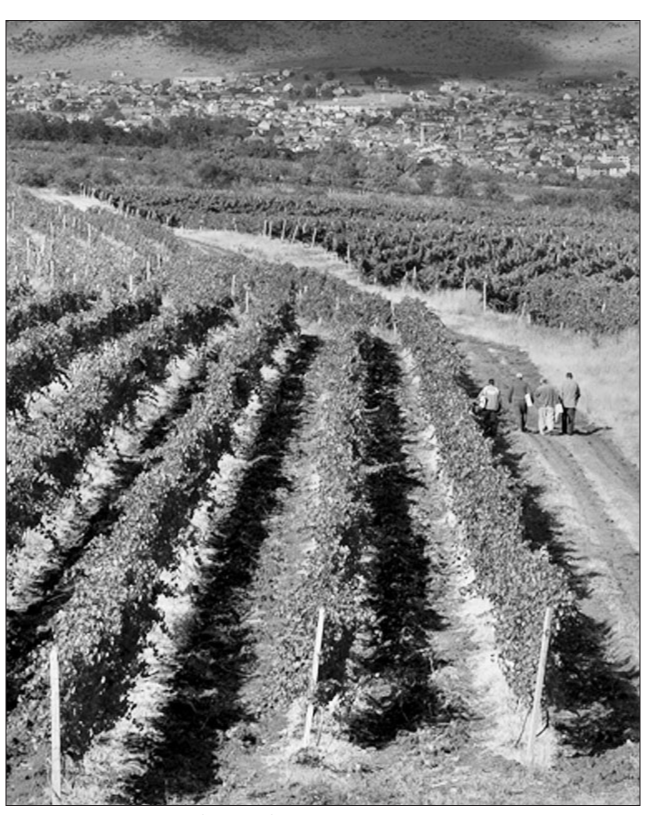
It all sounds tremendous until you look more closely.

The 50m litre plant – which used to sell low-priced wines in non-communist Europe for hard currency – remains the largest wine storage site in the former Yugoslavia and among the largest on the continent, Mr Hulaj says.

Yet Stone Castle, recent quality upgrades notwithstanding, now sells only a fifth of that capacity each year. Turnover for 2008 came to €3m, with profits of just 10 per cent.

The domestic market provides a dubious foundation. Kosovo has only 2m people, mostly without strong wine-drinking traditions. And while the company does its own bottling, the bottles are imported at extra cost from Bulgaria because no one makes them locally.

But the bigger problem is the lack of state protection, Mr Hulaj says. Go into any grocery shop in Kosovo, and you are more likely to find Montenegrin Vranac on the shelf. "All sorts of products enter Kosovo without interference, and this definitely affects our business," he says. "Our government needs to change the fiscal policy to protect our domestic products."



Weathered well: a Stone Castle vineyard near Rahovec

Local wine producers receive no stimulus for foreign sales, while their competitors in other Balkan countries benefit from 10 per cent subsidies on each bottle exported.

The state sees the need to pay more attention to agriculture – an underdeveloped sector for the new state. "We are importing around 80 per cent of our agricultural products, says Ahmet Shala, minister of economy and finance.

> 'We've made it, despite all the obstacles, despite the global financial downturn'

The government will soon initiate a risk-guarantee scheme for agricultural producers, giving them help with financing rather than direct subsidies, Mr Shala says. The plan includes paying part of the steep interest rates on investment loans.

Even so, Balkan trade disputes could hinder Kosovo's few serious exporters for several more years.

The newly proclaimed country has lost out badly in the Central European Free Trade Agreement (Cefta), the largely theoretical customs-free area for countries still outside the European Union. Kosovo belongs to the trade zone only through the UN mission that ruled after the 1998-1999 war.

Neighbouring countries have hesitated to accept Kosovo's new customs stamp on export shipments this year, even after recognising the new state's independence from Serbia. But these fellow Cefta members have mainly used the stamp excuse to keep up unfair trade barriers. "We as Kosovo belong to Cefta, just like Montenegro does, which obliges everyone to allow free economic access and free movement of goods," Mr Shala says.

Most of Kosovo's 4,000 hectares of vineyards are in the Rahovec area, where wine was made as early as 28 BC, according to a stone tablet unearthed nearby. Stone Castle owns some 600 hectares, but also buys grapes from local farmers.

The big winery – unlike some smaller ones along the road to Prizren – suffered little war damage. Exports resumed in small quantities even before privatisation. Since last year's independence declaration, Stone Castle has dropped the cumbersome "UN Security Council Resolution 1244" stamp from most of its bottles.

Buoyed by greater freedom, the company hopes to crack the US market soon. But the "Made in Kosovo" success story remains a work in progress. This year promises to be tough, with foreign distributors making increasingly late payments.

"We've made it, despite all the obstacles, despite the global financial downturn," says Shani Mullabazi, general manager.

The company next intends to open its doors for wine tourism. Talks are underway with the UK-based Regent Holidays, Mr Mullabazi says.

University trains 'honest business leaders' of the future

EDUCATION

Kester Eddy visits AUK, Pristina's youthful and idealistic academy

A framed pledge hangs in the reception hall of the American University in Kosovo (AUK), signed by every student. Each has publicly vowed not to "cheat, steal or plagiarise" and to "show respect to all" at the institution.

For Diellza Gashi, a 21-year old from Pristina who graduated last week, it is a daily reminder of the university's core values.

"The pledge is put there because AUK, as an educational institution, together with the students, values individual work and intellectual property rights. I strongly believe that people should get credit for their work; I think that we all signed fully aware of the meaning," she says.

The university, located in the hilly eastern outskirts of Pristina, was founded just six years ago, with much of the initial support and funding from the Kosovo global diaspora.

It aims to give the brightest local youth a better chance of a good-quality, practical, US-based education and thereby help build a better future for Kosovo.

The need was particularly acute because the Milosevic regime of the 1990s had in effect shut out ethnic Albanian children from the public school system.

As a result, the Kosovo Albanians organised a so-called "parallel education" system, whereby teachers taught in homes – a make-shift, patchy system at best.

Judging by the relaxed, yet clearly serious, students on campus, AUK has already made a strong start.

"The founders asked: what does Kosovo need? Does it need more lawyers and economists – the default subjects here? No, it needs practical, entrepreneurial, honest, innovative business leaders. So we began by offering a degree with a management major," says Chris Hall, AUK president.

One to benefit is Ramush Haradinaj, Kosovo's former prime minister, who completed a management degree from AUK by correspondence course while on trial in The Hague for alleged war crimes. (He was acquitted last year and has since attempted a political comeback.)

AUK, which offers degrees in association with Rochester Institute of Technology, New York, has since expanded to offer majors in public policy and media with information technology.

But fees, at some €5,000 per annum – although cheap by US standards – represent a fortune in Kosovo.

"Fees are really expensive compared to average incomes here; I'm especially grateful to my parents, who financed my first year at AUK," says Mrika Aliu, who has just completed her second year.

Ms Aliu, who chose AUK because its degree is "recognised all over the world, giving me the opportunity to work in other countries," has won financial support for her academic excellence, and works in the career services department to ease the financial burden.

'My goal is to positively contribute to the economic development of my country'
Diellza Gashi
Student

Prof Hall, keen to make AUK available to talented students regardless of income, works aggressively at fundraising, and is also planning dormitory space to cut costs for students with homes outside of Pristina.

Despite the financial hurdles, the university is popular, with current intakes at 150 students each year.

Without exception, students refer to the methodology and dedication of teachers – about half are local, the remainder foreign – as an inspiration.

"In the public universities in Kosovo, students are looked upon as inferior; it is all about the professors, [so] the will to study and attend classes all but fades away," says Donjeta Haliti, who has just completed her second year.

By comparison, at AUK "we are seen as equals, given the opportunity to express ourselves and work on our skills. You feel that you are among the best and being taught by the best, which increases the will to work harder," she says.

The school is also concerned to attract ethnic minorities, and currently has six Kosovo Serbs enrolled.

Prof Hall revels in the enthusiasm and educational standards already achieved, but says he does not want Kosovo graduates to see the US degree as a "ticket out of the country".

"Our job is not to accelerate the brain drain, but to enable students to pursue careers here," he says,

Hence the university requires students to complete two 400-hour stints in salaried internships at local companies.

And to ensure these periods, and the pay, are genuine and completed, students are required to produce documented evidence as proof.

Students learn from the experience and in many cases have jobs waiting for them at one of the placement companies upon graduation, says Prof Hall.

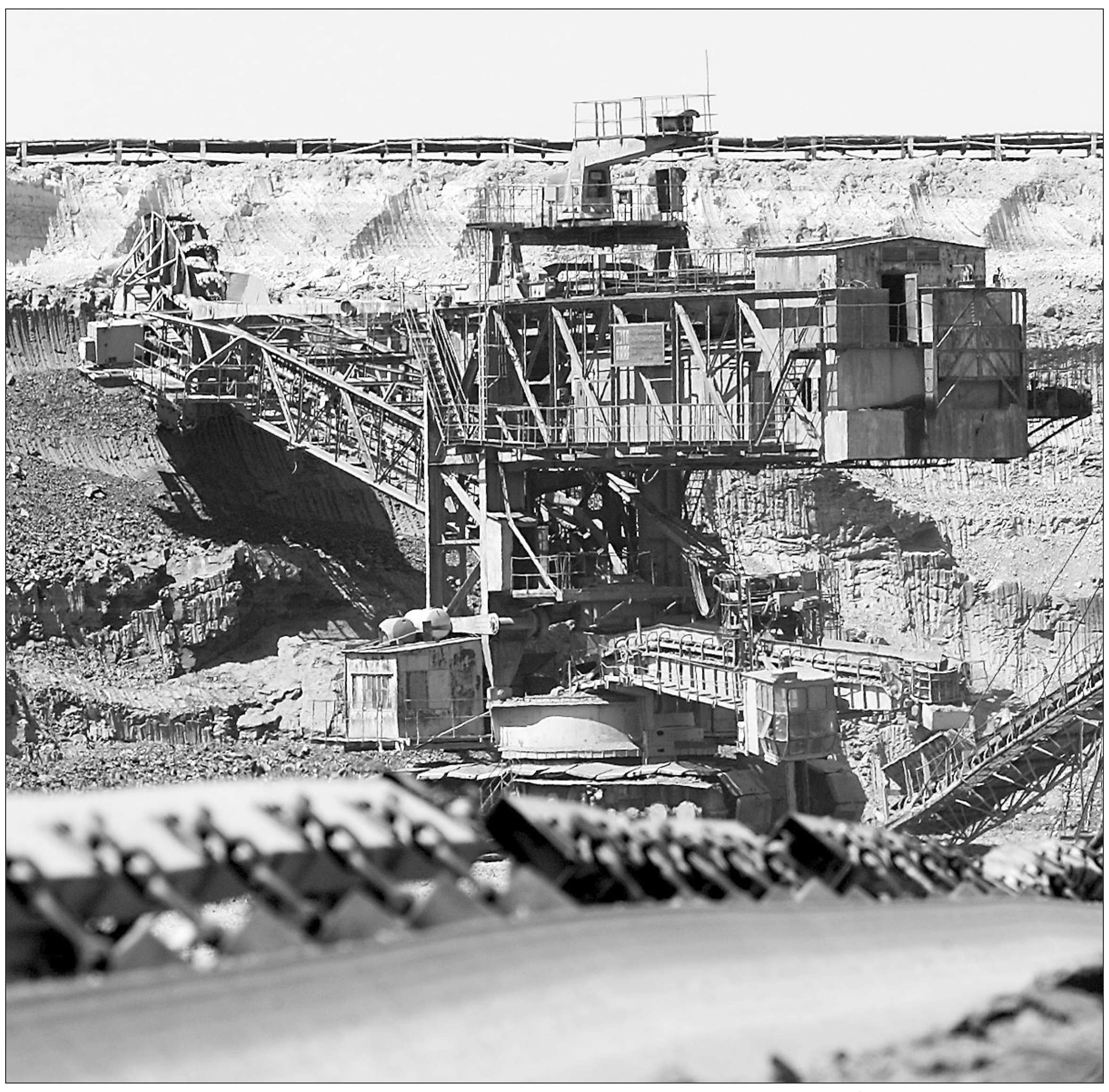
"We have, I think, only two Kosovar graduates, from our first two graduating classes, working outside the country, though we have about a dozen doing postgraduate studies in the EU or US," he says.

Ms Gashi is adamant about where her skills will be used: "After finishing my graduate studies I plan to come back and begin my professional career in Kosova. My goal is to positively contribute to the economic development of my country."

Plant raises hope in battle between light and dark

ENERGY

Power cuts and creaky distribution continue to plague the industry, writes **Kester Eddy**



Dig for victory: an excavator extracts lignite, or brown coal, at the Mirash coal mine in Obelic Bloomberg

Saatchi & Saatchi Israel has won the contract to develop the new Kosovo "national brand". Last month David Kosmin, vice-president of the public relations agency, was in Pristina to tell the media.

Like any PR professional, Mr Kosmin declines to dwell on the negative; so when asked by the FT about the less-appealing aspects of Kosovo, he replied: "Everyone knows the main negative images; [I'd rather] look forward . . . and focus on people."

At that point, the lights went out.

It was a stark reminder of the problems that bedevil Kosovo's electricity system, which has suffered frequent shortages ever since the conflict of 1999. The breakaway Balkan state relies on two ageing, inefficient power plants for all but a fraction of domestic generation.

Successive administrations have recognised that a reliable electricity supply is crucial for economic development. Kosovo's huge reserves of lignite (a type of low-grade coal) became the basis for new generation capacity plans developed this decade.

The government sees the project – originally known as Kosovo C and now dubbed New Kosovo – as the future of the power system, despite the environmental difficulties associated with this dirty, low-energy fuel.

But the sector's problems are manifold; every winter engineers of KEK, the state electricity company, struggle to keep the turbines spinning at the old plants, assuming, that is, there is fuel. The conveyors that bring the lignite from adjacent mines have a habit of seizing up. The plants have an effective capacity of roughly 800MW, which still falls short of peak demand, now approaching 1,100MW.

Traversing the creaky transmission and distribution systems – also starved of investment – an alarming quantity of electricity goes astray, either lost through resistance or stolen via illegal connections. Even when power makes its way to a legal consumer, there are problems with billing and non-payment.

As a European Commission report concluded last year, a staggering 44 per cent of electricity entering the distribution network in 2007 was "stolen or not paid for, representing revenues of about €99m. Theft accounts for more than half of this . . . often facilitated by KEK employees."

Arben Gjukaj, the engineer appointed to head KEK last year to clean up operations, insists things are improving.

A focus on the lignite conveyors has led to "a full month's supply of fuel", which in turn has improved power plant output.

"Last year we generated 85 per cent of total demand, with 15 per cent imported. This year, consumers in category A [those that pay reliably] have not had any power cuts, and in the past two months even category C customers [who owe debt] have seen no big reductions," he says.

To improve revenue collection and combat theft, the entire operation has been restructured, with individual staff trained in customer relations and given performance-related incentives.

The results overall are "very encouraging", with cash collection in the first quarter of this year up "an astonishing 46 per cent," Mr Gjukaj says.

While citizens concede that supply has improved, critics remain sceptical. The government meanwhile insists it is addressing the industry's structural problems to attract private capital. It says it will introduce cost-based pricing and spin off the distribution network prior to privatisation, and is working on legislation to expand its limited hydroelectric capacity by 400MW. But the biggest issue is the future of New Kosovo – a massive 2,100MW installation designed ultimately to replace the existing plants and make the system self-sustainable for decades.

The four consortia successful in pre-qualification bidding in 2006 (see box) have waited in frustration as the government elected in 2007 has re-examined plans, and, alleging wrong-doings in the original tender, dallied over crucial points – such as whether the successful investor should take on the existing units, together with their potentially horrendous clean-up costs.

"There's no doubt that [in order] to move fast it would be better to exclude existing assets and all the associated complications," says Lorik Haxhiu, who heads the agency co-ordinating the project.

With electricity demand increasing at 7 per cent annually, further delay exacerbates the power shortage problems.

"If the government made a decision before the summer break, we could close the deal early next year, with the first unit generating in 2015," says Mr Haxhiu.

But the project has attracted fierce criticism, not least from Luan Shallaku, executive director at the Kosovo Foundation for Open Society.

"I've shouted for two years about the environmental damage this plant will create. Now I'm turning to more patriotic rhetoric to make people understand," he says. Mr Shallaku, a chemical engineer, argues Kosovo does not need such a large power station. He supports, at maximum, a 1,000MW plant, but insists the state should have a 49 per cent stake in whatever project goes ahead.

Anything less is simply economic madness for Kosovo, and "only makes perfect business for foreign investors for the next 40 years", he says.

The bidders

Groups that have pre-qualified to bid for Kosovo C, the new lignite-fired power station:

AES (USA) with CEZ (Czech)

EnBW (Germany) with Washington Group Int'l (USA)

Enel (Italy) with Sencap (Greece-USA)

RWE (Germany)

Privatisation tests water in outdoor idyll

TOURISM

Questions hang over ownership of holiday facilities, says **Kester Eddy**

Few stumbling upon the Hotel Narcis, in the village of Brezovica, southern Kosovo, would feel welcome, except perhaps a filmmaker out to reproduce the grimmest memories of communist-era tourism.

Inside the vast, ill-lit reception hall, a score of armchairs await non-existent guests, a mixture of stuffing and springs visible through the gashes of their once-plush leather.

At the counter, a middle-aged receptionist, speaking only Serbian, reveals the rates at €30 per person, before declining to answer questions on business.

To ever be more than a cheap weekend getaway, Brezovica needs to attract foreign tourism developers. But Kosovo's ethnic Albanian-dominated government must strike a delicate balance with economic growth and the wishes of a hesitant ethnic Serb enclave.

About 12km to the south, at the beginning of a dozen or so meandering ski runs, the air is fresh and mountain scenery attractive, but here too – at least out of the skiing season – it is eerily devoid of tourists and marred by a profusion of plastic bags and bottles.

"It's all very sad; Brezovica used to be one of Yugoslavia's best ski-resorts, with wonderful hospitality," says Zeke Ceku, president of the Kosovo Tourism Association. Brezovica has fallen foul of the economic disruption in Kosovo over the past two decades, leaving the non-private hotels and ski-facilities starved of maintenance and care. True, the majority Serb area welcomes visitors – largely middle-class ethnic Albanians from around Pristina.

"I go skiing there every year. The majority of workers are [ethnic] Serbian, most skiers are [ethnic] Albanian, so we are their clients. They are very interested in being tolerant, there's no politics. It's surreal," says Jeta Xharra, executive director of the Balkan Investigative Reporting Network in Kosovo.

Still, tourist numbers are "way down" on what they were, or what they could be, says Mr Ceku.

"The season is much shorter now, maybe two months only. What we need is privatisation; I know the management and workers there want that, to get business moving," he argues.

This scenario dovetails with the thoughts of Dino Asanaj, chairman of the Privatisation Agency of Kosovo, for this "God-given beauty" of a location.

"Brezovica and the region should become an all-year tourist destination. You have 150 days of snow for skiing in winter, and could add hiking, biking and [similar pursuits] in summer," he says.

The agency has chosen an adviser to draw up a framework development plan for secure, long-term investment in and around Brezovica, Mr Asanaj says, stressing that this will include full consultation with the local population.

"We hope to present this to potential investors at a conference next year," he says.

Bora Milosevic, an ethnic Serb who owns the Ljuboten, a smartly-run boutique motel up the road from the hapless Narcis in Brezovice, says the recent skiing season has been a success, with "too many" guests.

His response to news of the privatisation plans was positive: "That sounds great. We could have 15,000 beds here."

Mr Milosevic advocates more co-operation with the authorities in Pristina, meaning an end to the practice in Serb enclaves of non-payment of taxes and electricity bills.

"The time has come to start changing; people should pay for electricity, but of course this means we should have reliable services and infrastructure in exchange," he says.

With such enthusiasm on the ground, the privatisation plans should forge ahead. But Mr Milosevic admits

'What we need is privatisation – the management and workers there want that – to get business moving'

"not everyone" in the village shares his opinion. There is also a question mark over who exactly owns the hotels and ski facilities – which were both legally designated as "socially-owned" in Yugoslav days, with ultimate direction exercised from Belgrade.

Mr Asanaj brushes aside any doubts on title: "We own it. The area was all under 'social ownership' in the former system," and as the successor administration, Kosovo inherits the title, he says.

He concedes that under the Kosovo privatisation law, all stakeholders – meaning the managers and workers at the Brezovica facilities – must reach a consensus before any sales can go ahead.

But with the Serbian government continuing to exert influence in the enclave, privatisation could prove tricky.

"The locals need the business in Brezovica, but the problem is you need consensus to privatise.

"I'm not a political man, but there are signs of pressure from Belgrade there," Mr Ceku says.

Mr Milosevic, similar to Mr Ceku, underpins his vision for Brezovica's future on a straightforward economic rationale.

Proudly indicating the Ljuboten menu in both Serbian and Albanian languages, he says: "Many don't think like me; but they have to understand and look to the future."

Callers forced to talk in foreign codes

TELECOMMUNICATIONS

Krenar Gashi unravels the complexity of a simple phone call

More than a year after Kosovo's declaration of independence, its officials still have Serbian telephone numbers on business cards.

Serbia's international dialling code, +381, remains for landline calls. Mobile networks have taken another route, bringing two more dialling codes to the territory.

The array of prefixes is a hurdle the new state must overcome to make a successful sale of its prized Post and Telecom of Kosovo (PTK) in the months ahead.

Yet without membership of the United Nations, Kosovo cannot obtain a unique dialling code number from the International Telecommunication Union (ITU), a UN body based in Geneva. Only around 60 countries have recognised the Balkan breakaway state, while many others – including key UN Security Council members – back Serbia's claim to Kosovo. But the fast-expanding telecommunications sector has bigger problems than reliance on the Serbian prefix. Mobile telecom companies – coming on the scene since the withdrawal of Serb forces a decade ago – had to "borrow" dialling codes from foreign operators. Kosovo has become the world's only telecom territory using three international prefixes, none of them its own.

The PTK's state-owned mobile operator, Vala, uses Monaco's prefix, +377, based on a deal reached in 2000 by the UN mission in Kosovo (UNMIK). Borrowing the telecom code was the only solution, says Anton Berisha, outgoing head of the Telecommunication Regulatory Authority, Kosovo's independent regulator.

"UNMIK had initiated talks with ITU to get Kosovo a temporary international code, but that was blocked by Russia and China," says Mr Berisha, whose mandate as chair has expired, although no one has replaced him yet.

Serbia – backed by the same two big powers – keeps lobbying to block Kosovo from joining international organisations.

As states sprang up around eastern Europe in the 1990s, they demanded their own codes. Other small countries, which had shared with larger neighbours, suddenly wanted distinct numbers too.

Monaco obtained its +377 code in 1996, and by 2000 was selling usage rights to Kosovo. The fees have fallen, but it still costs the PTK €19m per year, or €0.08 per minute of international calls. But increasing competition has helped, Mr Berisha says. In 2006, Mobitel, a Slovenian state-owned firm, took over IPKO, Kosovo's first internet service provider, for €20m, with an eye on expanding mobile telephony. After winning the licence for €75m, IPKO's consortium in April 2007 launched Kosovo's second mobile network. With €200m more invested since then, it has become Kosovo's biggest foreign investment, and Slovenia's biggest venture abroad.

Thanks to Slovenian state ties, IPKO pays only €0.01 per minute on international calls with its +386 country code. The resulting saving helped the newcomer lure users while retaining an enormous profit margin.

Kosovo has become the world's only telecoms territory using three international prefixes, none of them its own

Akan Ismaili, IPKO's youthful chief executive, beams with pride about achieving positive earnings just a year after starting. Turnover last year was €41m, he says. Still, that is a pittance compared with the €170m turnover of the PTK, whose net profit of €60m makes it one of Kosovo's most sought-after assets.

After several false starts, the government hopes to privatise the domestic telecom company this year.

PTK boosted its visibility by winning a tender in April 2009, at the head of a consortium, for the fourth mobile network in Albania. Critics say Kosovo should not invest there while struggling to attract its own foreign investments. PTK's chief executive, Shyqyri Haxha, responds: "We will not invest money. All we will invest is our expertise."

Mr Haxha also hesitates to talk about the PTK's deal with a US-based investor, UNIFI Holdings, for a "virtual" mobile operator. The joint venture, Dardafon, would be run by UNIFI and resell part of PTK's GSM bandwidth. Another virtual mobile operator, D3, already feeds from the IPKO network, making four licensed mobile operators in all. But the complexities do not end there.

Despite Belgrade's retreat in 1999, Serbian mobile operators have put their antennae on Kosovo's soil. State-controlled MTS and Norwegian-owned Telenor Serbia work without licences from the authorities in Pristina. Kosovo's ethnic Serb minority relies on the two services.

In 2006, the UN administration gave permission to Kosovo's authorities to remove antennas of operators reaching outside the Serb-dominated settlements. Some were removed, but after an attack on Anton Berisha – a rocket-propelled missile was fired at his vehicle – the process stopped (Serbs were not suspected in the attack).

As a consequence, Kosovo's telecom companies claim they lose 200,000 users to "illegal" operators.

Mr Berisha, recalling his time as chief regulator, says he could never clamp down on the infringement, which stems from "a combination of political and criminal activities".