

BTI 2014 | Kosovo Country Report

Status Index	1-10	6.23	# 47 of 129	
Political Transformation	1-10	6.60	# 46 of 129	➔
Economic Transformation	1-10	5.86	# 56 of 129	➔
Management Index	1-10	5.20	# 56 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	1.8	HDI	-	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	-	Gini Index		-
Life expectancy	years	70.1	UN Education Index	-	Poverty ³	%	-
Urban population	%	-	Gender inequality ²	-	Aid per capita	\$	325.0

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Kosovo saw the closure of its International Civilian Office, charged with supervising the independence process; violent Kosovar-Serb protests against the Kosovo authorities' attempts to enforce border controls in northern Kosovo; and a breakthrough in negotiations with Serbia on Kosovo-Serbia relations. Hashim Thaçi was reappointed prime minister in February 2011, having won the December 2010 elections, which were heavily criticized for fraud. For the first time, the cabinet included a member of the Serbian minority. In February 2011, the Kosovo Assembly elected the controversial entrepreneur Behgjet Pacolli as president. However, the Constitutional Court declared the election unconstitutional because an opposition boycott caused the number of participating members of parliament to fall below the required quorum. As a consequence, the governing and opposition parties agreed to elect the deputy director of the Kosovo police, Atifete Jahjaga, as the first woman and first nonpartisan president of the republic.

The EU had set dialogue with Serbia as a precondition for both countries' EU accession talks. The dialogue, which focused on technical problems because Prishtina had excluded status questions, started in March 2011 and, in spite of being slowed down by ethnic tensions and clashes in northern Kosovo during the summer, resulted in five agreements on technical issues by end of 2011. The dialogue continued in 2012 and led to an agreement in spring 2013. While both sides stressed that progress had been made because a "new phase of peace, tolerance and cooperation" was essential, the main difficulty was, according to Serbian Prime Minister Ivica Dačić, the transfer of police and judiciary powers to a future association of Serb municipalities in the north of Kosovo. Prishtina saw accepting this demand as diminishing its own sovereignty, as the northern part around Mitrovica, with its natural resources, is considered an economically vital and essential part of Kosovo. Since March 2012, Serbia has been an official EU accession candidate and thus, like Kosovo, has a vital interest in making sure that dialogue continues.

Democratic progress is still hampered by the prioritization of party interest over national considerations, by nepotism and by preferential treatment of civil organizations that refrain from necessary criticism of government policies. Veteran organizations and Kosovo-Albanian nationalist political groups, like the self-determination movement (Vetevendosje), dismiss dialogue with Serbia. This endangers not only healthy relations with the Kosovo Serbian minority but also regional stability and Kosovar prosperity, all of which heavily depend on good relations with Serbia. An agreement reached between the two sides on Integrated Border Management (IBM) in northern Kosovo, integrating the Eulex mission with Serbian and Kosovar customs officers and policemen, is considered a major step forward. Belgrade also promised to make the heavily criticized “parallel structures” in northern Kosovo transparent, an important concession in exchange for Prishtina’s not explicitly demanding Serbian recognition of Kosovo in the talks. Normalization of relations is now believed to be of greater importance to both sides. The integration of the Serbian minority has improved, as five Serbian local mayors are in the Kosovo government, and 20 seats in the Assembly are reserved for minority representatives.

A major deficit is still the weak rule of law, widespread corruption and a political class unable or unwilling to fight organized crime efficiently. The Eulex mission was declared a failure, but Kosovo’s commitment to the rule of law coaching process constituted at least a first step into the right direction. The privatization process is still being criticized as nontransparent, as are administrative barriers to foreign investment, which imperil Kosovo’s economic prospects.

History and Characteristics of Transformation

Until the breakup of Yugoslavia, Kosovo was an autonomous province located within the Republic of Serbia, but endowed with nearly all the rights of Yugoslavia’s other republics. According to the census conducted in 1991, about 80% of Kosovo’s residents identified themselves as ethnic Albanian. In 1989, in violation of both the Kosovo and federal constitutions, Belgrade abolished Kosovo’s autonomy and established a repressive police and military regime in the region. Kosovo Albanians were expelled from public service. Throughout the 1990s, Kosovo was ruled directly from Belgrade, with the local Serbian community playing a significant role in implementing Serbia’s rule over Kosovo. The majority of Kosovars, led by the Democratic League of Kosovo, chose peaceful resistance that aimed at defying the exercise of Serbia’s authority over the territory and building a system of “parallel government institutions.” The failure of peaceful resistance combined with increasing repression by Belgrade, culminated in the emergence of the Kosovo Liberation Army and armed conflict in 1998. The conflict was brought to an end through NATO military intervention in the spring of 1999. Following the end of the war, in June 1999, an international administration was established in Kosovo through U.N. Security Council Resolution 1244, which administered the territory until early 2008. The U.N. Interim Administration Mission in Kosovo (UNMIK) was designated as the authority holding civilian responsibility over Kosovo,

while NATO's presence in Kosovo (Kosovo Force, or KFOR) was responsible for the security portion of this international mission.

The mission established an interim constitutional framework for provisional self-government in 2001 and organized Kosovo's first democratic elections on 17 November 2001. It also represented Kosovo internationally.

Interethnic clashes in March 2004 between Kosovo Albanians and Kosovo Serbs raised concerns in the international community that a continued failure to resolve the final status of Kosovo would lead to yet more insecurity and instability. Thus, the U.N. Secretary General appointed a special envoy, Martti Ahtisaari, who, after a period of unsuccessful negotiations with Belgrade and Prishtina, in 2007 proposed an internationally supervised process of establishing a sovereign state. Whereas leading Kosovo-Albanian political actors accepted the plan, Serbia opposed it and continues to consider Kosovo an integral part of its territory.

On 17 February 2008, Kosovo's parliament declared Kosovo an independent state, which was recognized by the United States and most EU member states (103 U.N. member states in June 2013), but not by Russia and China, among others. Having recognized Kosovo, major Western states formed an international steering group and appointed an international civilian representative (ICR) to supervise the independence process and the implementation of the Ahtisaari Plan. The ICR was simultaneously appointed the European Union special representative for Kosovo. To support the rule of law in Kosovo, the European Union in 2008 deployed a mission of police and judicial personnel (Eulex). In April 2008, Kosovo's parliament adopted a new constitution based upon the Ahtisaari Plan. Following Serbia's request, the International Court of Justice in July 2010 issued an advisory opinion that Kosovo's unilateral declaration of independence did not violate international law.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The United Nation's Mission in Kosovo (UNMIK) and the NATO-led Kosovo Force peacekeeping mission (KFOR) remain the only organizations all relevant states recognize as responsible for administering Kosovo. Following the declaration of independence by the Kosovo authorities and the entry into force of a new constitution in 2008, UNMIK has reduced its role, focusing on the promotion of security, stability and respect for human rights.

Monopoly on the
use of force

6

In 2008, UNMIK was complemented by an international civilian office (ICO) and a European Union Rule of Law Mission in Kosovo (Eulex). The ICO, which supervised the implementation of the Ahtisaari Plan leading towards a full independence of Kosovo, was closed in September 2012. Eulex continues to exercise executive (authoritative) powers with regard to investigating, prosecuting, adjudicating and enforcing cases of war crimes, terrorism, organized crime, corruption, interethnic crimes, financial/economic crimes and other serious crimes.

According to the Kosovo constitution, the country and its constitutional bodies (president, government, security force, police, etc.) have authority over security, justice and law enforcement, but are obliged to cooperate with international authorities and to act in accordance with Kosovo's international responsibilities.

In 2011 and 2012, the state's monopoly on the use of force was called into question by Kosovo Serbs who, with financial support from Belgrade, sustained parallel administrative structures in municipalities with dominant Kosovo-Serb population in northern Kosovo. In July 2011, Kosovo Serbs seized border posts in northern Kosovo to protest the deployment of Kosovo-Albanian customs and police officers. In 2012, resistance by the local Serbian population to border controls conducted by the Kosovo government led to clashes with KFOR and demands from Prishtina that Mitrovica, northern Kosovo's main city, should acknowledge Kosovo's independence and the legitimacy of the state's institutions. Serbian enclaves within the rest of Kosovo are

politically split between disregard for these institutions and cooperation, as some Kosovo Serbian politicians see a viable future for their minority in Kosovo only in cooperation and integration.

The vast majority of Kosovo's population is of Albanian origin, supported Kosovo's independence process and therefore readily accepts the nation-state as legitimate. Kosovo Serbs constitute the largest ethnic minority in Kosovo (approximately 7% of the population, according to the most recent census, 2000), forming a local majority in northern Kosovo and in several enclave municipalities elsewhere. Most Kosovo Serbs oppose the state and, in a referendum held in February 2012, nearly unanimously refused to recognize the institutions of the Republic of Kosovo. Smaller minorities like the Ashkali, Bosnians, Roma and Gorani to some extent doubt the impartiality of the mainly Kosovo-Albanian-influenced state institutions, but do not question the state's legitimacy per se. Fear may exist that ethnic minorities might be marginalized by the Albanian majority, especially Kosovo-Albanian hardliners, a fear used by the Serbian minority to justify the maintenance of so-called parallel structures in Kosovo. In principle and by law, citizenship is granted everyone without exception. The Serbian minority, for the most part, declined it so far because it would imply an acknowledgement of Kosovo's independence.

State identity
7

The Islam practiced in majority-Muslim Kosovo is widely considered moderate and syncretic, with elements of worship derived from Christianity. The Kosovo-Albanian political sphere claims to be secular and neutral when it comes to religion. This attitude is historically motivated by the following factors: Muslim Albanians living in close association with Christian neighbors, a Christian Albanian diaspora in southern Italy, and superficial acceptance of Islam. The hijab was banned from public schools in 2010, with deputy foreign Minister Vlora Citaku explaining that she considered it "a sign of submission of female to male, rather than a sign of choice." Also, family planning policy is quite liberal in Kosovo, raising criticism from anti-abortion groups. Still, some observers claim that the influence of hard-line Islamist clerics and states with a fundamentalist interpretation of Islam has increased in recent years.

No interference of
religious dogmas
9

Basic administrative structures are still deficient. The European Union's legal mission Eulex, which tried to enhance law enforcement in Kosovo, had a minor success in opening border crossings in northern Kosovo at the end of 2012, but it still struggles with clan and veteran structures from the Kosovo conflict impeding prosecution of crimes committed in the conflict. Minorities complain about ethnically biased jurisdiction. Tax and fee collection is limited to an extent that provision of gas and electricity has to be subsidized by the state. Public transport (buses) is best in the Prishtina region. The rail system is not reliable and a project to connect it across the border to the Albanian system remains only letters of intent.

Basic
administration
8

2 | Political Participation

Kosovo has held four parliamentary elections since the conflict. The first two, in 2001 and 2004, were administered by the Organization for Security and Cooperation in Europe (OSCE), and the second two, in 2007 and 2010, were monitored by the international community. The OSCE and other observing groups concluded that these elections were generally fair and free. In 2010, systematic fraud at 712 polling stations and numerous irregularities induced the Central Election Commission to organize multiple re-votes in January 2011, which the electorate largely boycotted. Perpetrators of electoral fraud were not properly prosecuted, which tarnished a decade of successfully organized free and fair elections. Whereas Kosovo Serbs residing in northern Kosovo have boycotted subsequent local and national elections, in the rest of Kosovo Serbs have increasingly participated and also run for seats in the Kosovo Assembly.

Free and fair elections

7

In April 2011, Kosovo-Albanian parties agreed on introducing direct presidential elections, which are to be held for the first time after the current president's term. The constitution and electoral legislation guarantee minimum shares of seats in the Kosovo Assembly and in local self-government bodies to non-majority communities (Serbian, Roma, Ashkali/Egyptian, Bosniak, Turkish, Gorani). But access to the media and to campaign platforms to discuss issues concerning minorities are extremely restricted. Recently, that has changed somewhat, as even contentious issues of Kosovo daily life begin to receive media coverage, but a focus on the worries of the Serbian minority is often seen as support for this group's parallel structures.

The democratically elected political representatives' effective power to govern is undermined by two factors. First, northern Kosovo refuses to be subjected to the center's political decisions. For example, barricades went up in 2012 to thwart Kosovo's border police. Second, Kosovo-Albanian veterans' organizations put considerable pressure on the political decision-making process, accusing the political elite of too readily giving in to the international community's demands. For example, the self-determination movement organized demonstrations when suspected Kosovo-Albanian war criminals were about to be extradited to the International Criminal Tribunal for the Former Yugoslavia (ICTY).

Effective power to govern

7

According to Article 3.1 of the Law on Freedom of Association in Non-Governmental Organizations, "every person shall enjoy the full freedom of association and establishment in NGOs." More than 6,000 (most of them inactive) civic organizations/NGOs are active in Kosovo, especially on municipal policy, corruption, and environmental issues. Protests were organized, for example those related to the privatization of Post and Telecommunications of Kosovo (PTK), and recently NGOs tried to improve interethnic reconciliation, especially with regard to

Association / assembly rights

9

northern Kosovo. The impact was limited due to political tensions there. Groups with a focus on human rights and minority representation are promoting equal access to justice, employment, education and healthcare, with some impact at national and local level.

Freedom of expression is officially guaranteed by the constitution. Though the government claims to have improved the legislative framework for media independence, enforcement has been very weak. The public Radio and Television of Kosovo (RTK) struggles with financial problems, and journalists face continued political pressure and even physical attacks (22 in 2011, none of which were prosecuted). While media diversity was increased by the expansion of cable operators, television stations complained that cable operators are not transmitting their signals because their programs criticize the government. The state directly finances RTK, and markedly pro-government coverage is the outcome. Journalists were accused of defamation of government officials, though there are efforts to decriminalize so-called defamation. Selective advertising by the government was used to influence newspapers, but new amendments to the Law on Public Procurement banned this practice. New media formats have recently raised awareness of contentious issues hitherto not discussed publicly.

Freedom of
expression

6

3 | Rule of Law

Kosovo's constitution defines the separation of powers and institutes a system of checks and balances between the legislative, executive and judicial branches. But the executive branch repeatedly interfered in the work of the legislature and judiciary. The Kosovo Assembly has been repeatedly criticized for not exercising its constitutional mandate of controlling the government. Parliamentary committees in the Assembly have been ignored by the executive branch, in essence diminishing their parliamentary oversight role.

Separation of
powers

6

The independence of the judiciary continues to be impaired by political authorities and high levels of corruption. In May 2012, the European Commission and Kosovo launched a Structured Dialogue on the Rule of Law. The Commissioner for Enlargement and European Neighbourhood Policy Štefan Füle stressed it was designed to help Kosovo address challenges in the field of the rule of law, with a focus on the judiciary, organized crime and corruption. The European Union mission in Kosovo, Eulex, and its Kosovo counterparts since the launch of the mission in 2008 made some progress in terms of sustainability, accountability, freedom from political interference and multi-ethnicity, including compliance with European best practices and international standards. On 1 January 2013, new laws on courts, on the state prosecutor, on the Kosovo Judicial Council, on the Kosovo Prosecutorial Council and on the Special Prosecutorial Office entered into force. In addition, the criminal code and the criminal procedure code, among others, were reformed. The reform replaced

Independent
judiciary

5

the former municipal and district courts with newly established basic courts that will be the first-instance courts for minor criminal offences, unless otherwise regulated by law.

But political interference in the work of the judiciary remains a problem, and witness protection is insufficient. Although all judges and prosecutors were vetted and reappointed by an international commission in 2009, standards and mechanisms to appoint and promote judges according to professional criteria and to protect the judiciary from political interference are still weak. The government determines court budgets, thus creating an extreme dependence. Closed court cases have been discussed in the Assembly. Kosovo's judicial council and prosecutorial councils have so far failed to protect judges and prosecutors from external influence. For instance, the Democratic League of Kosovo (LDK) was the only political party in parliament that opposed debate on the Kicina case, which concerned the killing, with his family, of an Albanian man who worked as a Serbian policeman prior to the 1999 Kosovo war.

Despite pledges to fight corruption, enforcement lags. Corruption remains widespread and the public infers from its prevalence that elected officeholders and civil servants operate with impunity. In 2012, the Foreign Affairs Committee of the European Parliament called upon Eulex to increase its efforts in the country against organized crime and corruption. Eulex said it was investigating more than 350 incidents of corruption. By mid-2012, the mission's judges had handed down 220 verdicts. But it would have helped Eulex's image in Kosovo if the verdicts had included indictments on high-level corruption cases.

In January 2012, the Kosovo government approved the 2012 – 2016 strategy against corruption, outlining the objectives and the preventive measures. In February 2012, the president established the National Anti-Corruption Council to improve coordination among agencies and organizations concerned with the prevention and prosecution of corruption. The new strategy of the Kosovo Agency Against Corruption is based on the assessments of local and international institutions on the level of corruption.

Eulex indictments led to the arrest of Kosovo's top anticorruption prosecutor, Nazmi Mustafi, and two other suspects, in April 2012, over allegations he took bribes to drop corruption charges against powerful individuals. Mustafi headed the special anticorruption task force established by Kosovo Prime Minister Hashim Thaci in 2010. His biggest case focused on Hashim Rexhepi, the former governor of Kosovo's central bank, which collapsed in December 2011 when a court refused to confirm the indictment against Rexhepi, citing a lack of evidence. According to a report published by UNMIK in February 2013, a deputy prime minister, two former ministers, two

Prosecution of
office abuse

5

magistrates, two mayors and other civil servants were either under investigation or indicted on allegations of corruption.

In September 2011, the Constitutional Court constrained the immunity of deputies to a functional immunity, which has contributed to strengthening their accountability for abuse of public office. According to a monitoring report published by the European Commission in 2012, the law on financing of political parties does not prohibit or strictly regulate donations from organizations that provide goods or services to public administration. In addition, this report criticized the lack of reporting obligations in the law on preventing conflicts of interest.

Civil rights are constitutionally guaranteed by the Republic of Kosovo, but de facto those rights are often violated, either with respect to domestic violence or hate crimes against ethnic minorities. Kosovo Serbs regularly complain about the bias of courts that assess crimes against their community. The police force, though multiethnic in principle, is said not to behave properly when confronted with Roma, Gorani or Serbian citizens. Civil society in Kosovo is generally too weak to serve any watchdog function. Another important problem is the issue of persons missing since the Kosovo conflict, regardless of whether they belong to the majority ethnicity or a minority. Human and civil rights defenders, among them Nazlie Bala, a well respected Kosovo human rights defender, face death threats. Human rights NGOs have called for the protection of human rights defenders in line with international and domestic obligations. The protection of persons with mental disabilities is quite weak. The Law against Discrimination, adopted in 2004, is not being enforced. Hate crimes have been committed by radical groups against the magazine Kosovo 2.0 and the LGBT organization Libertas. Human rights NGOs report that Kosovo society is very homophobic, and LGBT groups face violence and threats. The Law against Discrimination and the constitution prohibit discrimination on the basis of sexual orientation, but there is a limited knowledge and understanding by law enforcement officials of LGBT rights. Fewer threats were reported in recent years compared to 2006 – 2007, which may have been due to greater caution taken by LGBT people in their activities, and their reduced visibility.

Civil rights

6

4 | Stability of Democratic Institutions

Kosovo's democratic institutions have been in the process of development since the end of the Kosovo conflict. The parliamentary system, which has been supported by the international community, was complemented with the Kosovo Intelligence Agency and the Kosovo Security Council. In February 2011, the Kosovo Assembly elected a new president, the oligarch and politician Behgjet Pacolli. The opposition boycotted the election because it suspected Pacolli would use his office to promote his business interests. The Constitutional Court ruled that the election had violated the constitution due to its failure to achieve the necessary quorum and the absence of

Performance of
democratic
institutions

6

an opposition candidate. Following a political agreement between ruling parties and opposition, a new president was elected in April 2011, but no constructive dialogue exists between the ruling coalition parties and the opposition. Important decisions in parliament, such as approval of the budget and a resolution on dialogue with Serbia, were adopted without any opposition votes.

Democratic institutions are accepted by the majority of the relevant actors. The Kosovo-Albanian parties in the Assembly have demonstrated pride in the efforts of independent Kosovo since the 2008 declaration of independence. Some relevant actors, like the Kosovo Liberation Army (KLA) veterans' organization or the self-determination movement have regularly disputed the legitimacy of democratic institutions when reconciliation steps toward Serbia or the mainly Serbian north of Kosovo had been made. The Serbian parties in Kosovo proper, though cautious about cooperation immediately following independence, have started participating, while the Serbian majority in northern Kosovo is still opposed to any acceptance of Kosovo's democratic institutions, and consequent recognition of independence.

Commitment to democratic institutions

7

5 | Political and Social Integration

Democracy in Kosovo is dominated by national party elites, with a very limited role for nonmembers in party affairs; a limited direct role of party members in decision-making; a lack of party factions; weak influence within parties by functional groups like those of youth, women, and retired persons; a lack of affiliated organizations; a hierarchical internal order; simple organizational patterns; and indirect election of central party bodies. The party system is quite stable, as the leading parties' reputation as victors in the Kosovo conflict is still quite firm. The parties' programs have long been centered on independence, leaving aside other vital issues like social change and economic problems. Social and economic success is largely connected to party loyalty.

Party system

7

The Democratic Party of Kosovo (PDK) is Kosovo's largest political party. It led the government in the period under review headed by Prime Minister Hashim Thaci. Its coalition partners include the Democratic League of Kosovo and two smaller parties. The main opposition parties are the Alliance for the Future of Kosovo, founded by former Kosovo Liberation Army commander Ramush Haradinaj; the New Kosovo Alliance, founded by millionaire businessman Behgjet Pacolli; and the radical nationalist Vetevendosje party of the former student leader Albin Kurti.

New party foundations, like the self-determination (Vetevendosje) movement, have started to exert increasing pressure on the traditional party system, causing some fragmentation. The minority parties are either trying to adapt to the majority party system or distancing themselves completely from it, as is the case with the Serbian

minority. Recently, in regional elections, Serbian candidates have chosen adaptation in hopes of benefiting their constituency.

Interest groups remain weak and fragmented, and heavily influenced by the largest political parties. Political parties have also sought to influence the Kosovar Chamber of Commerce and the Association of Kosovar Businesses for their own ends. Clientelism stemming from old conflict bonds have hindered socioeconomic progress and blocked political discourse. Interest groups, NGOs that have evolved since 1999, have tried to focus on social, economic and environmental problems, but without major success. The trade unions remain ineffective and very much dependent on the government. In spite of the Labor Law, from January 2011, and the Law on Trade Unions, adopted in July, the private sector remains out of reach for the trade unions. Anti-union pressure from employers and inefficient court protection mean that many workers are afraid to join a union, or even to report violations of their rights. The large informal economy also puts many workers outside the scope of the unions.

Interest groups
6

Public opinion surveys have shown that most Kosovars consider democracy preferable to any other form of political system. Still, general approval of democracy diminished in the wake of socioeconomic changes and the government's seeming passivity in the face of Serbian separatism in northern Kosovo. The Kosovo-Albanian majority approves of democratic norms, but as a way to foster intra-ethnic cohesion rather than cooperation between all citizens of Kosovo.

Approval of
democracy
7

The number of NGOs is about 4,800, with only about 500 active, mainly in the Prishtina area. Kosovo does not have a legal definition or a specific legal form for social enterprises. The social enterprise sector has not yet developed in Kosovo, but there are some valuable initiatives both in the for-profit and nonprofit sectors that may develop into social enterprises. The main factor of social solidarity in Kosovo is still the family due to historical problems with an all-encompassing or discriminatory state welfare system. The tendency to establish associations for social support is rather limited, also owing to the incompetence of political parties. Interethnic trust has yet to emerge, as harsh conflict memories remain fresh, and stereotypes of the other, Serbian or otherwise, have yet to be overcome.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Kosovo is ranked among the poorest countries in the world, with 30% of the population below the poverty line. The average annual per capita income (PPP) is at \$7,400. Unemployment is a significant problem that encourages outward migration and a significant informal, unreported economy. Most of Kosovo's population lives in rural towns outside of Prishtina. Inefficient, near-subsistence farming is common, the result of small plots, limited mechanization, and lack of technical expertise. Kosovo's unemployment rate is about 45%, the highest in the western Balkans. The unemployed in Kosovo are mainly young people, women, and those with limited education. Thousands of Kosovars are likely to lose their jobs since they have been working for international missions that are expected to close down altogether, or reduce operating staff, including the International Civilian Office and Eulex. Minorities complain of exclusion on ethnic grounds. Ethnic stereotypes propagated by the media are likely to deepen social exclusion. According to the Human Development Index, Kosovo has not made visible progress in recent years.

Question
Score

Socioeconomic
barriers
5

Economic indicators		2009	2010	2011	2012
GDP	\$ M	5449.2	5593.7	6452.5	6237.6
GDP growth	%	2.9	3.9	5.0	3.8
Inflation (CPI)	%	-2.4	3.5	7.3	2.5
Unemployment	%	45.4	-	-	-
Foreign direct investment	% of GDP	7.5	8.7	8.5	4.7
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-547.0	-767.9	-1028.2	-484.5
Public debt	% of GDP	-	-	-	-
External debt	\$ M	1725.7	1455.6	1531.0	-
Total debt service	\$ M	313.2	110.3	148.7	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	18.0	17.7	16.5	16.2
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Generally speaking, Kosovo's economy is hampered by poor natural resources, an underdeveloped industrial sector (most of which is located in the Serbian-dominated north), ageing equipment, insufficient investment, and a labor supply that exceeds demand. Since 1999, Kosovo's economy has made considerable progress in transitioning to a market-based system and maintaining macroeconomic stability. The problem remains that the economy relies strongly on the international community's assistance, and on the Kosovo-Albanian diaspora, mainly in Germany, Switzerland and the Scandinavian countries, as far as financial and technical assistance is concerned. In past and present, emigration and an informal, unreported economy are a direct result of the high unemployment rate (around 45%). In order to reduce unemployment, Kosovo needs high investments in equipment, and therefore has to improve its investment environment. The Kosovo Anti-Corruption NGO Cohu (Stand Up) claims that corruption has made Kosovo almost impermeable for other businesses, except for those with political connections. Inflows of foreign investment in Kosovo decreased to €6.2 million in the first half of 2012, whereas investments had previously grown from €27 million in 2009 to €84 million in the first six months of 2011 and peaked with a total volume of €94 million in 2011. This change reflected the impact of the protracted economic crisis in Europe.

Market-based
competition
5

Publicly owned enterprises in the fields of energy, electricity, telecommunications, postal services, railways and air traffic are believed to offer ample opportunities for corruption. When the state, in trying to reduce the informal economy (some say it comprises about 30% of all economic activity in Kosovo), required businesses to install electronic bookkeeping equipment, only two companies received licenses to sell this equipment. The Competition Commission concluded that this created a

Anti-monopoly
policy
7

monopoly. Under the so-called Energy Market Model, the government also created a monopoly in the generation and distribution of electricity, some civic groups say. In June 2012, the Kosovo government decided to privatize the Electricity Distribution Company (KEDS) by selling it to the Turkish consortium Limak Yatirim Enerji and Calik Enerji Sanayi for €26.3 million, the highest bid. The privatization of KEDS and other public companies was fraught with irregularities, and was opposed by the public and experts, who objected that the country's economy, energy sector and citizenry would not benefit from it. Individual companies can create an economic monopoly in Kosovo, as Limak and Calik already have, since the company also manages the only civilian airport in Kosovo. The privatization of KEDS also suffered from a lack of transparency; civil society had no access to the documents in this bid. KOSID (Kosovo Civil Society Consortium for Sustainable Development) even filed an indictment against the Ministry of Economic Development (MED), alleging that the lack of transparency violated the constitution and the Law on Access to Public Documents. Soon after the KEDS privatization decision, Kosovo's Energy Regulatory Office decided to raise electricity bills by 8.9% in a country where 16% of citizens live on \$1 per day, and the unemployment rate is between 40% and 45%.

Kosovo confronts a negative trade balance. The country's institutions are aware that changing this would require a comprehensive economic and political approach and fundamental reforms to liberalize the operational environment and improve the competitive position of Kosovo in the global market. Kosovo introduced a liberal trade regime as part of regional trade liberalization, particularly that initiated by the Stability Pact for Southeast Europe. Though Kosovo is not an official member of the stability pact, the country committed itself to respecting the obligations from the Memorandum of Understanding on Trade and Transport Facilitation in Southeast Europe, signed by the countries of Southeast Europe in 2001. The memorandum provided for the elimination of tariffs on 90% of the volume of trade and 90% of tariff lines, the elimination of non-tariff barriers to trade for intra-regional trade, and the strengthening of trade in services. After acquiring full membership in the Central European Free Trade Agreement (CEFTA), in 2006, Kosovo tried to establish trade rules based on European Union and World Trade Organization principles, thus making Kosovo's businesses competitive for the EU and world markets. Especially problematic in this respect was Serbia's opposition to the export stamps "Republic of Kosovo," which dramatically inhibited exports from Kosovo to European countries.

Kosovo's highly capitalized and liquid banking sector has benefited from its relative insulation from international markets. The Kosovo government typically runs a budget deficit of less than 3% of gross domestic product, and the total government debt is just 7% of GDP. Together with this progress, Kosovo's banking sector is considered to be quite sound. By western Balkan standards, nonperforming loans of less than 6% are healthy, and provisions already cover more than 100% of bad debts. The banking system has a Tier 1 capital adequacy ratio of 17%. The Central Bank of

Liberalization of
foreign trade
9

Banking system
7

Kosovo limits loan-to-deposit ratios to 80%. Many banks have ratios well below this. After separation from Serbia, the first local bank was licensed in 2001, and the banking sector has grown to eight banks, of which two are locally owned. The banks have not yet shown any obvious signs of excessive risk-taking behavior. In general, banks are reluctant to take on much additional exposure to the country's leading corporations, owing to a relatively high concentration among the 10 companies that have revenues of more than €100 million per year. Many of them focus on the mining sector in the north of the country, which has been affected by rising tensions between the Serb community that dominates northern Kosovo and the authorities in Prishtina. Weak rule of law remains a challenge to all businesses in Kosovo, with the country ranked number 117 out of 183 in the World Bank Ease of Doing Business rankings for 2012. The last president of the Central Bank of Kosovo, Hashim Rexhepi, was dismissed in 2010 following corruption allegations.

8 | Currency and Price Stability

Kosovo's central bank is not a member of the European System of Central Banks, and Kosovo is not formally part of the euro zone, although it uses the euro as its currency. Thus, the central bank cannot and does not conduct its own monetary policy and is not a lender of last resort. Inflation has been volatile despite the use of the euro as the single currency in circulation. In March 2013 consumer price inflation was recorded at 2.60% by the Kosovo Agency of Statistics. From 2003 until 2013, the inflation rate averaged 2.84%, reaching an all-time high of 14.20% in May 2008 and a record low of -4.40% in May of 2009. These shifts have been driven mainly by changes in food and international commodity prices.

Anti-inflation /
forex policy

8

The IMF has been supporting Kosovo since independence, but suspended its 2011 Stand-By Arrangement (SBA) because the government of Prime Minister Hashim Thaci had increased public sector wages by up to 50%. In April 2012, the IMF approved a new SBA after the government achieved a fiscal adjustment of 1.5 percentage points of GDP. According to the IMF, the government's fiscal policy has achieved a sustainable budget and has increased the available cash buffers. The government has also prepared a rules-based fiscal framework that is envisaged to set an overall ceiling on the general government deficit of two percentage points of GDP per annum.

Macrostability

5

Economic growth in 2012 was largely driven by remittance flows from the Kosovo-Albanian diaspora and increased public spending, particularly on a large highway to Albania. The economy was projected to grow by 5% in real terms, and inflation is likely to fall in 2013. The reason Kosovo was largely left unaffected by the worst of the financial crisis is its small size and limited integration into global financial

markets. Kosovo's banking system remained stable in the reporting period, with healthy liquidity and capital buffers.

The Kosovo budget accepted for 2012 was 7.7% larger than that of 2010, with revenues estimated at €1.36 billion. Revenues from border taxes were expected to amount to over €60 million, while the Tax Administration should collect domestic tax revenues of about €85 million. The budget also included the sale of the state-owned Post and Telecom Company, which had been postponed. The budget draft was based on an economic growth rate of 5.5%, driven mainly by public investment. The budget deficit in 2012 stood at around 2.7% of GDP, slightly higher than the deficit of 1.9% in 2011. Attempts to keep the deficit in check have been thwarted by what is often described as a climate of rampant financial mismanagement.

By the end of 2013, Kosovo will profit from the sale of 75% of state telecom PTK. The treasury bond market, which began to function in early 2012, was characterized by a low interest rate together with high bidding offers from commercial banks. This demonstrates a favorable fiscal position in Kosovo, but, in the real sector, also a lack of absorbent capacity for investments. The slowdown in lending reflects a decline in demand and slower economic activity.

9 | Private Property

Theoretically, property rights are well defined, but, in reality, the process of establishing clear property relations is still marked by unresolved issues from the pre-conflict and immediate post-conflict era. Return, restitution and reparation remain burning issues. The Kosovo Property Agency (KPA) introduced legal mechanisms to address individual property rights. Another problem is that Serbian internal and external refugees can reacquire property, but they are often barred from using it. The Kosovo Ministry of Local Government Administration should ensure that municipalities fully comply with expropriation procedures and prevent the demolition of displaced peoples' properties and the construction of illegal structures on their property. This is an issue Eulex is also confronted with, while the Kosovo Police Service has been very responsive to property crimes. Another problem is the KPA information policy, and the cooperation with the Serbian state so that internally displaced persons are informed about the restitution process.

Property rights
7

Several large publicly owned enterprises, such as the public telecom company, have been offered for sale as part of the government's privatization strategy. The legal problems associated with the strategy are complex and politically charged, which could have long-term consequences for the economy. The complexity and nontransparency of the process allows owners or employees to take advantage of specific legal loopholes at the expense of the state budget or the performance of the companies. Ethnic minorities criticize ongoing discrimination affecting their ability

Private enterprise
7

to benefit from privatization. Privatization often did not have the desired effect because it was conducted in an unstructured and hasty manner.

The European Union supports the transition of Kosovo to a market economy by direct incentives for private businesses, and a USAID-funded Kosovo private enterprise program tried to improve business-enabling environments. In spite of official declarations to back these initiatives, the political system still condones patronage relationships between politicians and business cronies relying on weak institutions to secure control of the economy.

10 | Welfare Regime

Political change and instability, socioeconomic distress, and a lack of adequate social safety networks all intensified social problems in the reporting period, including child abandonment. Though Kosovo's constitutional framework is compliant with European standards, the reality is quite different. Kosovo's social safety system does not offer unemployment benefits, maternity allowance, or child benefits. It offers social and disability pensions and social aid for persons disabled in the Kosovo conflict and the families of those killed in the conflict. In 2009, Kosovo introduced financial aid for families taking care of children with severe and permanent disabilities.

Kosovo spends about 3% of GDP on healthcare. It is estimated that about 40% of all health expenditure is private spending, which results in inequalities in access. Healthcare is in some regions almost unavailable, and even in the capital of Prishtina medical treatment is lacking. Patients who have the resources to seek medical care face long waits, outdated technology and doctors who lack advanced education and training. Satisfaction with Kosovo's health services stand at less than 30% (June 2008 report by the United Nations Development Programme).

The social safety system in Kosovo includes two categories of assistance. The first covers poor households with no member working or in which the only adult able to work is permanently taking care of a dependent person. The second category covers households with unemployed adult family members and at least one child aged five or below, or an orphan up to age 15. After rates were raised in 2009, the gross standard rate of social assistance for a one-person household became €40 per month, and €55 for a two-person household (if aid is added for every additional person, the household maximum is €80). The social safety scheme might be well targeted (with 78% of funds going to the poor, and 45% of funds to the bottom quintile), but it reaches only 23% of the poor. The most marginalized groups in Kosovo, Roma, Ashkali and Egyptians, almost completely fall out of the social safety system, even as they suffer

Social safety nets

5

higher rates of poverty, infant and under-five mortality rates (among the highest in Europe), and stunted growth and malnutrition in young children.

As Kosovo is still a largely traditional society, equality is discussed in the political arena and incorporated into the law, but opportunities remain unequal for many in practice. Provisions for equal opportunity are made in the constitution, an anti-discrimination law exists, and projects are supported to help persons with disabilities. In 2004, a law on gender equality was passed that was meant to preserve and establish gender equality as a fundamental value for democratic development, providing equal opportunities for participation in political, economic, social, cultural and other fields. The United Nations Development Programme (UNDP) tried to make the justice system in Kosovo more accessible to women and to help improve protection of women's rights.

Equal opportunity

6

11 | Economic Performance

While the growth rate was slower than in previous years, mainly due to global economic developments, Kosovo's economy in 2012 did grow. The financial crisis provoked a decline of foreign direct investment and exports, while imports were also hit by the slower growth rate. In order to counterbalance that, public investments were increased. Remittances from the diaspora and an increase in agriculture subsidies had a positive effect on economic activity.

Output strength

5

Kosovo's GDP rose by 5.0% in 2011, and by an estimated 2.1% in 2012. From 2006 until 2011, Kosovo's GDP annual growth rate averaged 4.5%, reaching an all-time high of 6.9% in December 2008 and a record low of 2.9% in December 2009. The main source of Kosovo's economy is the export-driven mining industry and remittances from the diaspora. Kosovo is plagued by a high unemployment rate of about 45%, with a large shadow economy employing most of the registered unemployed. Economists estimate Kosovo's economy would have to grow by 8% each year in order to absorb the young people entering the job market and hold unemployment steady. But Kosovo struggled to maintain 2012 growth of about 3% after a growth rate of 4% in the previous year. The structural problems of Kosovo's economy are visible in the capital's industrial zone, which is dominated by trading firms or retailers importing food, clothing and other essentials, while little is being produced in Kosovo for domestic consumption or export.

In contrast to other countries in the region facing stagnation or contraction due to falling exports and foreign investment, Kosovo can count on remittances from Kosovars living in Western Europe and diaspora investments in the real sector, which largely drive Kosovo's economy. The diaspora is living in countries less affected by the European crisis, mainly in Germany and Switzerland. Most remittances from the diaspora leave the economy to pay for imports instead of strengthening the local

economy. Interest rates for short-term agriculture loans are as high as 18% (compared to 5% in Serbia and 7% in Albania). Foreign direct investment did not materialize due to corruption scandals that led to investigations against senior government officials. The investment climate is not improving, in part because the high number of licenses required to start a firm provoke corruption, or investors are turned away to protect political and business allies from competition. Tax revenues in Kosovo could be much higher, but the administration lacks the necessary staff for collection enforcement. For example, the rental tax is mostly not collected because many landlords do not report their rent incomes. Rents are often paid in cash, not through bank transfer, so payments and taxable amounts are hard to track.

Kosovo had increasingly large trade deficits (57% of GDP in 2007, 35% of GDP in 2012) due to a very weak export base. Kosovo's preeminent export goods – to Macedonia, Germany, Italy, Serbia, China and Turkey – are metals (47% of total exports) and mineral products (30% of total exports). Kosovo's main import goods are mineral products, appliances and electric materials, prepared food, beverages and tobacco.

12 | Sustainability

Kosovo is plagued by environmental pollution and fails to address the problem, prioritizing economic progress instead. Of the air pollution in Kosovo, 40% is caused by cars. Cancer rates have spiked the area around the Obiliq power plant. Another problem is deforestation. Over 40% of Kosovo's land mass (approximately 465,000 hectares) is covered by forest, with state property accounting for 60% and private property 40%. Kosovo has a long wood processing tradition. This sector is considered one of Kosovo's most dynamic and promising industry sectors. The use of uranium in the Kosovo conflict; mining pollution in the Mitrovica region; water pollution; the destruction of the White River, the largest river in Kosovo, resulting in a water shortage; and poor trash management are other pressing problems that need to be addressed. An air pollution law was approved in 2010, following another from 2004, but the administration lacks necessary staff to prosecute violators.

Environmental
policy
5

The education system in Kosovo, which is thought to integrate all members of society, remains ethnically divided, mainly owing to ideologically fraught textbooks that offer only the outlook of the majority ethnicity. Education in primary schools is conducted in five languages (Albanian, Serbian, Bosnian, Turkish and Croatian), the education system remains underdeveloped. Higher education is offered mainly in the capital and in Serbian-speaking northern Mitrovica.

Education policy /
R&D
5

Another problem is the high number of university graduates, which is more than the labor market can accommodate. Prishtina University, founded in 1970, registered almost 10,000 new students for the 2012 – 2013 academic year. It currently hosts

more than 40,000 full-time students: 37,800 undergraduates and 3,500 master's degree students. The value of diplomas is in constant decline, as there were reports of students who passed without attending exams. The practice of selling and buying university diplomas, both undergraduate and graduate degrees, has worried the academic world in the region. In the 1990s, the education system in Kosovo was working in extremely difficult circumstances. Teaching and learning were done privately and in secrecy. In the postwar period, the education system has undergone many changes. The pre-university sector was restructured, and the infrastructure of schools improved. Kosovo has three public universities and 14 public research institutes. With an eye to boosting participation in international research projects, Kosovo passed a scientific research law. But the main hindrances are a lack of scientifically qualified personnel, the low number of PhD students, poor laboratory equipment and insufficient technical know-how, all of which isolates the Kosovo research community from the international one. Kosovo spends less than 5% of GDP on education, though in the budget approved for 2013 the government again stressed the high importance of education.

Transformation Management

I. Level of Difficulty

Four years after the declaration of independence, governance capacity is still limited by the coexistence of the different legal and administrative frameworks of the various Kosovar authorities and international agencies with partially overlapping jurisdictions (UNMIK, Eulex, KFOR, etc.). The neglect of infrastructure during the decades of Kosovo-Albanian-Serb conflict poses a significant structural constraint. High unemployment and poverty, as well as limited access to education and high levels of low-skilled labor, constitute further barriers to economic development.

Structural
constraints

6

Though the Kosovo Albanian community was unanimous in welcoming the new, independent state in 2008, civic engagement is quite limited. On the one hand, the nonviolent resistance movement of the 1990s has formed a tradition of civic solidarity. On the other hand, this legacy of a self-organized Kosovo-Albanian shadow state has been associated with a traditional tendency to abstain from public involvement, which was already a subject of complaint by officials in Yugoslavia under Tito. The often large family networks in Kosovo are still the primary form of social engagement, while membership in political parties and voter turnout on election days (under 50%) remain relatively low. The numerous NGOs in Kosovo have contributed considerably to social progress, but a high percentage of them are no longer active. It is often stated that corruption charges against politicians do not attract much attention because politicians are held in low repute.

Civil society
traditions

4

Tensions between the majority Albanian community and the Serbian minority continue to shape politics in Kosovo, especially at the dividing line of the river Ibar in northern Kosovo. In the rest of Kosovo, Serbian enclaves were ushered nilly-willy into cooperation and participation in local and national elections, as Belgrade could no longer directly assist parallel Kosovo Serb political structures. Religious strife between the Serbian Orthodox and Muslims among Kosovo Albanians is a byproduct of the ethnic conflict. Islam in Kosovo is widely believed to be peaceful, not prone to radicalization. But there are unconfirmed rumors about Islamist groups active in Kosovo. Social tensions stem from low wages, high living costs, high unemployment, poverty, the poor social welfare system, and discrimination against minorities. Results include labor strikes, suicide, crime and emigration.

Conflict intensity

5

II. Management Performance

14 | Steering Capability

The long-term interests of Kosovo five years after the declaration of independence – integration into supranational organizations, reduction of corruption and a modernization of the economy – are obvious. Still, the priorities for the government and the parties supporting it consist of attracting voters by campaigning on external problems, a strategy that worked well in pre-independence days but offers no promising prospects for the immediate future. Belgrade might subsidize the parallel government institutions in northern Kosovo, but the structural problems Kosovo faces can only be solved by implementation of prudent, farsighted policies.

In implementing economic and political reforms, Kosovo made some progress in the review period, but due to political inertia, lack of capacity and often inefficient administration, reform concepts were not implemented as readily as they were supposed to be. Current economic growth is still not sufficient to affect the high unemployment rate. Political cooperation to speed up the reform process was often inhibited by disagreements. In September 2012, for example, the Democratic League of Kosovo (LDK) left the parliamentary election and constitution reform committees because its pleas had been ignored by Prime Minister Hashim Thaci's ruling Democratic Party of Kosovo (PDK). The LDK withdrew from the committees, only weeks before the end of supervised independence, over a disagreement regarding President Atifete Jahjaga's mandate. Jahjaga was elected in April 2011 as part of an agreement between Thaci's PDK and the LDK to undertake constitutional and electoral reform. The agreement stipulated that presidential elections to replace Jahjaga would be called six months after approving the constitutional reform. Kosovo's constitutional court, however, ruled in July 2012 that Jahjaga's mandate was for five years.

Since 1999, the policy learning process has been heavily influenced by the international community. Independence was set as the priority, while other state-building factors like civil society, working infrastructure and others were set aside for after the declaration of independence. After 2008, the lack of policy priorities beyond this goal became apparent. Policy was more ad hoc than based on structured political concepts. The lawmaking process is to a considerable extent not based on the country's actual needs but on international laws chosen in order to highlight Kosovo as a modern European country. In drafting policies, the international community (International Civilian Office, OSCE, EC and members of the so-called

Question
Score

Prioritization
6

Implementation
6

Policy learning
5

Quint: United States, United Kingdom, Germany, France and Italy) is still playing an important role.

15 | Resource Efficiency

Kosovo has established independent and intra-governmental auditing institutions to monitor public spending. However, the mechanisms of financial control are weak, political leaders seem to lack interest in reforms, and the parliament does not have the means so far to force the government to better assess the auditor's findings, find those who committed the mistakes or violated criteria, and take clear measures. The government has committed itself to establishing a rules-based fiscal framework limiting the budget deficit.

Efficient use of assets

4

According to a report published by the European Commission in 2012, the laws on civil service and on salaries in the civil service provide the legal conditions for a stable, unified and professional civil service, but lack implementation. Public administration is still one of the major employers in Kosovo, with about 70,000 civil servants. The number has remained steady, and their low wages (between €170 and €250) were increased by Kosovo's government under Hashim Thaci in a move heavily criticized by the IMF as inconsistent with the country's economic needs. Sustainable public administration reform is strongly needed, including necessary funding and staffing, as recruitment is still heavily politicized. Party loyalty seems to be more important than professional competence. Criticism has also been leveled at the low percentage of minorities in public posts.

The government's policy still appears to be focused on the leading party's political interests. Allegations that Prime Minister Thaci was involved in or responsible for crimes against humanity during the Kosovo conflict were dismissed as a campaign against deserving veterans and politicians, and a government was formed despite international criticism. Cabinet members with a corruption record were not excluded. This shows a refusal to act in accordance with the expectations of the international community, which is also worried about the prioritization of party interests, amid the proliferation of nepotism and other forms of corruption, over the country's long-term interests. A nontransparent decision-making process among a small group of political leaders prevents the government from finding the best solution in the general interest.

Policy coordination

6

Kosovo has established institutions and legal mechanisms to fight corruption, but cases are not investigated thoroughly enough and are often inhibited when higher political interests interfere. The legal framework concerning corruption exists, but coordination of the organizations involved in fighting corruption has long been lacking, a serious obstacle to success. According to an October 2012 report by the European Court of Auditors, the Kosovo Anti-Corruption Agency cannot investigate criminal activities and is powerless to prosecute cases of alleged corruption. Public

Anti-corruption policy

4

procurement is supervised by three central bodies – the Public Procurement Agency, the Public Procurement Regulatory Commission and the Procurement Review Body – with overlapping responsibilities, producing a complex and fragmented institutional arrangement prone to corruption. Kosovo has adopted laws on asset declaration, preventing conflict of interest in exercising public functions and access to documents, but noncompliance with these regulations is not effectively sanctioned.

In early 2012, Kosovo's Anti-organized Crime Council was inaugurated. Being composed of nongovernmental actors and organizations, the council aims to coordinate the anticorruption activities of independent watchdog, whistleblower and civil society institutions. In addition, the council seeks to contribute to the government's anticorruption strategy and the implementation of anticorruption laws, and to suggest new corruption-related laws. The major problem is that Kosovo's president did not extend the council's mandate beyond the role of a facilitator. The political will to clean up public institutions and decision-making processes is lacking. Anticorruption policy in Kosovo thus does not get beyond political statements. By contrast, anticorruption policy in neighboring countries has been more institutionalized. Anticorruption agencies have powers of criminal prosecution, and corruption cases have led to convictions. In Kosovo, the outcome of Eulex anticorruption endeavors are meager; high-ranking corruption cases especially were not even investigated, which creates an impression of impunity.

16 | Consensus-Building

All major political actors in Kosovo see democracy and a working market economy as goals to be achieved and continuously improved on. Integration into the European Union is greeted by the vast majority as an acknowledgement of Kosovo's attempts to become a European liberal democracy, quite a contrast to the situation in Serbia, where a vast majority would rather refrain from EU membership if recognition of Kosovo's independence is a precondition. The condition Kosovo has to fulfill before EU accession talks can start is the dialogue with Serbia, something which only the self-determination movement Vetevendosje opposes.

The Kosovo government and leading social groups in Kosovo consider the so-called parallel structures maintained by Serbia as unconstitutional, therefore illegal and antidemocratic. Mainly northern Kosovo with its large Serbian population, but also the Serbian enclaves in the south, receive financial, logistic and political support from Belgrade that, in the case of northern Kosovo, is considered to be separatism and an undermining of Kosovo's republican, democratic order. Serbian representatives defend their position by pointing to the dire situation of the Serbian minority, and to their opinion that the Kosovo declaration of independence was itself an act of

Consensus on goals
9

Anti-democratic
actors
7

separatism. The influence of antidemocratic Kosovo-Albanian parties of the extreme right, whose origins go back to the 1940s, and of Islamist groups seem to be limited.

In the years after the Kosovo conflict, the situation was often perilous for minorities. In March 2004, even clashes of Kosovo-Albanian radical groups with the Serbian, Roma/Ashkali and other minorities spread from Mitrovica to the rest of the country. Reconciliation efforts by the Kosovo-Albanian majority's political class were extremely limited. Ever since, the atmosphere has been tense but has remained mostly calm. Serbian enclaves' participation in national elections started rising as integration came to seem like the only viable alternative. Still, political leaders continue to exploit divisive ideas, such as an interpretation of Kosovo culture and history as overwhelmingly Albanian, leaving aside contributions of the other ethnicities, in spite of commitments to a multiethnic and multicultural society.

Cleavage /
conflict
management

6

Despite the high number of NGOs and civil society advocacy groups, the government rarely consulted them in the reporting period unless their agenda was in compliance with the political one. As NGOs depend on donations, they tend to avoid open confrontation and criticism. Religious organizations sometimes complain about lack of interest in their concerns, as Kosovar politicians tend to emphasize their commitment to a secular society.

Civil society
participation

6

The decentralization process, based on the Ahtisaari plan, is seen as an extremely successful policy to overcome historical and ethnic frictions between Serbs and Albanians. Evidence of organ trafficking perpetrated by the KLA during the Kosovo conflict has not succeeded in sparking a broader debate about KLA crimes, disappointing hopes expressed by the Serbian minority that the Kosovo-Albanian side would face up to its past.

Reconciliation

4

The War Veterans Organization regularly protests prosecution of KLA veterans suspected of crimes against minorities in Kosovo, thus hindering reconciliation. In November 2012, the Supreme Court of Kosovo ordered a retrial of Democratic Party of Kosovo Vice President Fatmir Limaj and three others, who were charged with crimes committed in a Kosovo Liberation Army detention facility in Klecke/Klecka during the Kosovo war in 1998 – 1999. All four defendants were subsequently detained. These measures triggered a wave of criticism from Kosovo government officials.

Kosovo Albanians celebrated the acquittal of former Kosovo Liberation Army (UCK) insurgency leader Ramush Haradinaj and two others indicted on war crimes charges by the International Criminal Tribunal for the Former Yugoslavia (ICTY) in November 2012. Whereas the government viewed the ruling as confirming UCK's just fight for freedom in the 1999 conflict, Serbian human rights activist Natasa Kandic emphasized that crimes had occurred and that their perpetrators should be held responsible by Kosovar courts. In her view, a major barrier to justice is the fear

Kosovo-Albanian witnesses harbor of testifying about high-level UCK personnel. Representatives of the Serbian minority and others claim that a generally favorable interpretation of recent history, in contrast to an outright condemnation of the role played by other Kosovo minorities, would not help reconciliation.

17 | International Cooperation

According to a 2012 report by the European Court of Auditors, Kosovo received EU assistance of €16 per capita in 2011, which is more than twice the per capita assistance granted to other western Balkan countries in that year. According to European Commission data cited in this report, EU per capita assistance provided since 1999 has been more than that of any other recipient in the world. Although more than half of this aid was given to support the rule of law, Kosovar institutions (police, prosecutors, judiciary) have failed to effectively prosecute organized crime, only 40% of court rulings were enforced in 2011, and implementation gaps persist for many laws.

Effective use of support

7

Kosovo has a strong interest in international cooperation aiming at European integration, visa liberalization and integration into international organization such as the World Bank and the United Nations. More than half of U.N. member states and 22 out of 27 EU members have recognized Kosovo as an independent state, but any involvement of Kosovo in U.N. affairs, even at the lowest level, is strongly opposed by Serbia, which, in 2010, filed an unsuccessful action with the International Court of Justice against Kosovo's 2008 declaration of independence. Kosovo readily accepts international recognition but is somewhat negligent when it comes to implementation of standards required to further accession processes for international organizations. These standards relate to issues including the rule of law, respect for minority rights, and the fight against corruption.

The number of U.N. member states that recognize Kosovo has not risen considerably since 2010, when only 75 out of 192 had done so (2013: 99 out of 193), and five EU member states (Romania, Slovakia, Spain, Greece and Cyprus) still refuse to recognize Kosovo. The Kosovo parliament adopted a resolution calling for an end to international supervised independence by the end of 2012, thereby committing itself to fulfilling all requisite obligations. At the end of March 2012, the EU launched a feasibility study to determine whether Kosovo is ready to sign a Stabilization and Association Agreement (SAA) as the first step towards the European Union.

Credibility

6

The European Union and especially the United States stress their belief in a democratic and liberal Kosovo in spite of the concern caused by the fraudulent national elections from December 2010. Efforts by Prishtina to make the dialogue

with Belgrade a success were unanimously hailed as remarkable progress in the tense relations between the two countries, in spite of the temporary interruption.

Serbia, Romania and Greece still refuse to recognize Kosovo as a state. Kosovo-Albanian politicians say this refusal results more from the internal problems and historical difficulties of Serbia, Romania and Greece than it reflects Kosovo's deficits in minority legislation. In March 2013, Kosovo became a full member of the Regional Cooperation Council, the main umbrella organization of regional cooperation in southeastern Europe, with 46 members, which is considered the main instrument of EU pre-accession and regional cooperation. The refusal of Serbia and other regional actors is explained on the grounds that a recognition of the breakaway republic would set a dangerous precedent for other problematic regions, like the Sandzak, the Medvedje/Bujanovac region in southern Serbia, or Macedonia, which has already recognized Kosovo. The dialogue between Belgrade and Prishtina, begun about technical problems and set for both countries as a precondition for EU accession, is perceived as a model for other strained situations in the region. In October 2012, a first meeting between Prime Ministers Ivica Dacic and Hashim Thaci upgraded this process to a political level and led to, among other things, an agreement on the integrated management of border crossing points. In April 2013, both sides agreed to transform the Kosovo-Serb institutions in Kosovo into an association of Serb-majority municipalities with far-reaching autonomy that will represent Kosovo Serbs within the Consultative Council for Communities, led by the president of Kosovo. The agreement also envisages the integration of Kosovo-Serb judicial, police and other security structures into the legal framework and respective institutions of Kosovo.

Regional
cooperation
8

Strategic Outlook

What was hoped for on Kosovo's independence day has yet to be fulfilled. Many problems that needed to be solved were put on hold during the years of unresolved state status. Critics of the declaration of independence warned that Kosovo could destabilize the region; Russia, China and five EU countries perceive Kosovo's independence as a dangerous precedent that could encourage separatist movements worldwide and complicate relations with ethnic minorities seeking autonomy or even independence. These warnings have proved unfounded so far. Serbia, for example, tends to see a link between the Kosovo case and autonomy demands in its northernmost province of Voivodina. As the loss of Kosovo is considered a national shame, and a further reduction of national territory is feared, Serbia clings to northern Kosovo with its predominantly Serbian population. Regional stability therefore heavily depends on an understanding between Serbia and Kosovo, which achieved progress in the dialogue process the EU set as a precondition for accession talks with both Belgrade and Prishtina. Other reforms that need to be addressed before accession relate to economic development, rule of law, the fight against corruption, a long-term education policy that balances supply of and demand for educated workers, and a reform of public administration in order to facilitate the foreign investment critically needed by landlocked Kosovo's economy. The political class should open up closed circles of decision-making and integrate civic organizations.

Kosovo's future path of reform and development particularly depends on addressing the following challenges:

- Sovereignty/statehood: Prishtina insists on a full integration of northern Kosovo into the independent state because everything else is considered a reduction of Kosovo's sovereignty. A serious debate within the EU accession process about alternative solutions that would dissolve national borders could eventually pacify Serbia's political opposition to recognizing Kosovo and ease tensions between Prishtina and Belgrade. The breakthrough achieved in the dialogue process with Serbia has shown that there is a way out of the stalemate. But a sustainable settlement for Kosovo should also entail reconciliation, with outreach to society and individual citizens. The recognition and integration of an association of Serb-majority municipalities, in April 2013, may pave the way towards an autonomous status for northern Kosovo, comparable to that of South Tyrol within Italy. A one-sided solution is doomed to failure, as the time does not yet seem to be ripe for either side to abnegate its position.

- Rule of Law: Since Eulex proved unable to enforce the rule of law in Kosovo, the regional government and administration should do their utmost to disentangle nontransparent structures, often based on clan and business ties, in order to give a clear sign that Kosovo's society is determined to leave the past behind and create a truly European, open and free society. The process

of emancipation from the international community's influence in Kosovo must be based on steps taken by Kosovar society, if it wants to be taken seriously.

– Regional stability: If dialogue, rule of law and progress towards civil society are taken seriously, fears could be allayed that Kosovo can't be a source of stability. These fears are the main reason some EU member states and states worldwide are still reluctant to recognize Kosovo.