

# BTI 2016 | Kosovo Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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., PPP \$	9228.3
Pop. growth <sup>1</sup>	% p.a.	0.3	HDI rank of 187	-	Gini Index	26.7
Life expectancy	years	70.8	UN Education Index	-	Poverty <sup>3</sup>	% 0.3
Urban population	%	-	Gender inequality <sup>2</sup>	-	Aid per capita \$	293.2

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

In 2013, Belgrade accepted Prishtina's authority in majority Serb areas such as northern Kosovo in exchange for increased autonomy for the Serbs in Kosovo – a move that had remained unthinkable for years after 2008. The agreement signed in Brussels by Serbian Prime Minister Ivica Dacic and Kosovan Prime Minister Hashim Thaçi was criticized sharply by hardliners on both sides. Serbia had recognized a rogue state and Kosovo would accept illegitimate Serbian influence on Kosovan affairs. Both sides knew well that only a successful Serbia–Kosovo dialogue would lead to EU membership. In October 2013, the European Union and Kosovo began negotiating a Stabilization and Association Agreement, which was celebrated as a landmark achievement in Kosovo's efforts to become fully integrated into European structures. The June parliamentary elections in Kosovo appeared to be a sequel to the Brussels Agreement as for the first time Serbia officially encouraged Kosovan Serbs to participate, obviously to help both countries' EU bids. But the turnout was only 42%, and even lower in majority Serb areas. The ruling party of Prime Minister Thaçi, which had led the country since its declaration of independence, achieved the strongest vote with around 30%, while 30,000 election monitors were present to prevent a repetition of the major election frauds in 2010. It was the first time since Kosovo declared independence, commentators said, when the decisive issue was the economy, the high unemployment rate and the well-being of the people, which might explain the low turnout. The politicians of the Kosovo conflict generation did not embody any hope of a solution to structural problems such as clientelism and corruption. The candidates instead kept making obviously untenable promises. The record of the outgoing coalition government was better than it often appeared, the standards of a market-oriented economy kept improving together with the investment climate. In the World Bank's Doing Business report, Kosovo achieved a higher score in 2014. But Thaçi lost to the opposition parties Democratic League of Kosovo (Lidhja Demokratike e Kosovës, LDK), Alliance for the Future of Kosovo (Aleanca për Ardhmërinë e Kosovës, AAK) and the newly founded political movement Initiative for Kosovo (Nisma për Kosovën, NISMA) supported by the nationalists of Self-Determination (Vetëvendosje, VV),

whose president declared he would only maintain his support if the reconciliation process with Serbia after the Brussels Agreement was interrupted. Until December, the Assembly of Kosovo remained in a deadlock over the distribution of offices. Finally, the economist and LDK politician Isa Mustafa was elected prime minister by the Assembly and Thaçi became foreign minister. Both politicians promised a continued dialogue with Belgrade, to the utmost dismay of VV, which reverted to its tradition of violent street protest in January 2015. The pragmatic solution was internationally lauded as proof of Kosovo's democratic maturity. But Kosovo's economic and social problems remain: a high unemployment rate; average wages amounting to just €350; a large part of the population living below the poverty line, war criminals who are still active in politics; and a younger generation desperately looking for jobs that Kosovo's economy cannot provide, despite the promises of the political elite. Fortunately, this has thus far not strengthened political or religious extremists. Kosovo is still widely considered a secular country, in which Muslim conservatives and radicals are trying to gain influence.

## History and Characteristics of Transformation

Prior to 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. Kosovan 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 Kosovans, led by the LDK, 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 Kosovan Albanians and Kosovan 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) were for a long time after 1999 the only organizations all relevant states recognized as responsible for administering Kosovo. Following the declaration of independence by the Kosovan 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. 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 toward full independence for 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 Kosovan 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.

Monopoly on the  
use of force

7

In 2011 and 2012, the state's monopoly on the use of force was called into question by Kosovan Serbs who, with financial support from Belgrade, sustained parallel administrative structures in municipalities with dominant Kosovo-Serb population in northern Kosovo. In July 2011, Kosovan 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. In order to foster neighborly relations

between Belgrade and Prishtina – a precondition for EU accession – and to grant Kosovo territorial integrity, on 19 April 2013 Belgrade and Prishtina signed the Brussels Agreement. Serbia de facto assented to Kosovo's territorial integrity, ceding control over the north of Kosovo to a supra-municipal structure for Kosovan Serbs – the Association of Serbian Municipalities (ASM). Serbs in the North of Kosovo rejected this move as a treasonous and explicit recognition of the statehood of Kosovo that the Serbian Constitution should forbid.

In fall 2013, northern municipalities took part in elections organized by the authorities in Kosovo. Albeit reluctantly, they have gradually moved to embrace Kosovan institutions. The parallel police departments have been integrated into the Kosovan system.

The vast majority of Kosovo's population is of Albanian ethnic background which supported Kosovo's independence and therefore readily accepts the nation-state as legitimate. Kosovan 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 Kosovan 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. 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.

The Kosovan Constitution and electoral legislation guarantee minimum shares of seats in the 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 is extremely restricted. This has changed somewhat recently, as even contentious issues of Kosovan daily life begin to receive media coverage, but any focus on the worries of the Serbian minority has been viewed as support for the group's parallel structures.

In the April 2013 Brussels Agreement, Serbia ceded administrative control over the north and abandoned ambitions for partition. The agreement also paved the way for an end to parallel structures and a healing of the rift between the Serbian and Albanian population within Kosovo. Its success is still doubtful as Serbs feel discriminated against by official policy. In principle and by law, citizenship is granted to everyone without exception. The Serbian minority, for the most part, have so far declined citizenship because it implies recognition of Kosovo's independence. The political goal of most northern Kosovan Serbs has evolved from challenging Kosovo's statehood to creating a non-contiguous autonomy inside Kosovo.

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. 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.” Some observers claim that the influence of hardline Islamist clerics and states with a fundamentalist interpretation of Islam has increased in recent years. In January 2014, Kosovo’s Foreign Minister Enver Hoxhaj (of the Democratic Party of Kosovo, Partia Demokratike e Kosovës or PDK) identified a menace to the young state from “various religious currents seeking to spread Islam in our public life, to bring it to bear in our public discourse, to impose a different way of life.” Hoxhaj has underlined his own and his government’s pro-Western attitude that secularism is a “sacred value” of the Kosovan state, but the small radical party Islamic Movement to Unite (LISBA), which gained no seats in the 2013 municipal elections, labeled him a “profiteer” and an Islamophobe who would try to alter the Muslim profile of the country’s people. The AAK, which has the fourth largest delegation in the Kosovo Assembly, shared Hoxhaj’s view and sharply criticized LISBA’s attacks on the foreign minister. The former Kosovan prime minister and AAK leader Ramush Haradinaj expressed respect for all religions, but contempt toward young Islamist radicals. Haradinaj stated that Islam had been practiced in Kosovo for 500 years and had coexisted in perfect harmony with the other religions of Albanians. There are attempts by, for example, Wahhabi organizations in Kosovo to undercut the country’s Muslim clerical apparatus but they encounter resistance from local conventional believers, including the chief Muslim cleric Naim Ternava.

The Serbian Orthodox Church’s political outlook is conservative to hardline, although it has practically no political influence beyond the Serbian community in Kosovo. Nevertheless, it dominates the interpretation of the Kosovo issue among that community. The Ukrainian-Russian conflict of late 2014 and early 2015 has heated up the political discourse within the Orthodox Churches with respect to Kosovo. The Kosovan issue is considered an example of European, “Western” indulgence toward radical Islam. The number of attacks on Serbian Orthodox religious sites has fallen recently, but in February 2013, several Serbian Orthodox cemeteries were desecrated.

No interference of religious dogmas

9

Basic administrative structures are still deficient. EULEX, which tried to enhance law enforcement in Kosovo, had minor success in opening border crossings in northern Kosovo at the end of 2012, but still struggles with clan and veteran structures from the Kosovan conflict that impede the prosecution of crimes committed in the conflict, and internal issues of intimidation and rivalries. A judge was allegedly bribed in a murder case at the end of 2014, provoking widespread dissatisfaction among the Kosovan population. 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 unreliable and a project to connect it across the border to the Albanian system remains unfinished.

Basic  
administration  
8

Overall, services remain poor, but the public does not have high expectations for them, so there is no major dissatisfaction over their absence.

## 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 and numerous irregularities induced the Central Election Commission to organize multiple re-votes in January 2011. Perpetrators of electoral fraud were not properly prosecuted, which tarnished a decade of successfully organized free and fair elections. Whereas Kosovan Serbs residing in northern Kosovo have boycotted subsequent local and national elections, in the rest of Kosovo, Kosovan Serbs have increasingly participated and also run for seats in the Kosovo Assembly.

Free and fair  
elections  
7

The elections in June 2014 following the 2013 agreement to normalize relations between Belgrade and Prishtina (a precondition for their bids to join the European Union) were considered successful but that was due mainly to the large number of monitors (30,000). The voter turnout was just 42% nationally and even lower in majority Serb areas. The monitors should prevent a repeat of the fraud observed in the 2010 elections. Laws do not provide for any sanctions in case of election campaign abuse. The spending of public funds on election campaigns and the use of media controlled by the government or political parties are considered standard practice. The coalition that emerged in June 2014 (LDK, AAK, NISMA, VV) was unable to form a working government for over five months.

Electoral conduct has, however, significantly improved in the two most recent elections (2013 and 2014). In 2014, for the first time, the results were not contested and there were no accusations that the elections were fraudulent. The majority of

mandates have not been full, with the exception of those for municipalities between 2009 and 2013. All other mandates were either extended or cut short. Electoral justice has also improved through a number of measures in the most recent amendment of the Criminal Code. While the electoral infrastructure has improved, some of these improvements remain ephemeral. Equality of opportunity is now questioned not at the ballot box, but in the unequal funding structure for parties' campaigns, and the disproportionate space they enjoy in the media.

The municipal elections in November 2013 were overshadowed by violence in Serb-dominated northern Kosovo. Voting had to be repeated in parts of northern Mitrovica and in other towns after Serbian extremists raided polling stations, attacked voters and demolished ballot boxes.

The democratically elected political representatives' effective power to govern was undermined by two factors. First, northern Kosovo refused to be subjected to the center's political decisions, and in 2012, barricades were used to thwart Kosovo's border police. Following the EU-focused 2013 Brussels Agreement, and in spite of sharp criticism within Serbia, Belgrade agreed to have northern Kosovo integrated into Kosovan political structures. Secondly, Kosovo-Albanian political organizations and Kosovo Liberation Army (KLA) 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. The VV movement organized demonstrations when suspected Kosovo-Albanian war criminals were about to be extradited to the International Criminal Tribunal for the Former Yugoslavia (ICTY). In January 2015, VV supported violent protests in Prishtina calling for the resignation of Communities and Returns Minister Aleksandar Jablanovic. The minister had verbally attacked Albanians who blockaded Serb pilgrims visiting a church in the town of Gjakova/Djakovica at Orthodox Christmas. The protesters also demanded that the Trepca mine complex, disputed between Prishtina and Belgrade, should be under Kosovan state control. Overall, various interest groups exist, but their power has gradually decreased over time.

Effective power to govern

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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." Freedom of assembly is generally safeguarded by the government, EULEX, and NATO peacekeepers, but demonstrations have also been restricted for security and reasons of public order. NGOs generally function freely. The courts can ban groups that infringe on the constitutional order or encourage ethnic hatred. The constitution protects the right to establish and join trade unions. However, workers face intimidation, and private-sector unions are nearly nonexistent.

Association / assembly rights

9

More than 6,000 (most of them inactive) civic organizations/NGOs are active in Kosovo, especially on municipal policy, corruption, and environmental issues. In the

past, protests were organized, for example, against the privatization of Post and Telecommunications of Kosovo (PTK). While positive forms of participation remain low, street protests are a frequent means of putting pressure on the government. May 2013 saw massive protests in Prishtina against the arrest of seven former KLA members for war crimes. In June 2013, people took to the streets to demonstrate against the parliament's approval of the Brussels Agreement with Serbia. Both cases demonstrated that political issues still have a much higher power to mobilize masses than socioeconomic ones. NGOs try to improve interethnic reconciliation, especially with regard to northern Kosovo. The impact was long limited by the local refusal to recognize the central government. 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. Association is closely linked to a significant middle class that is employed in the private sector, which in Kosovo is paper-thin. While association is not curtailed by the authorities, it remains low due to incentives and the short history of Kosovo's democracy.

Freedom of expression is officially guaranteed by the constitution with the exception of ethnic hostility. 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 faced political pressure and even physical attacks. Journalists who reported on radical Muslim groups received death threats. 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 this "defamation." Selective advertising by the government was used to influence newspapers, but new amendments to the Law on Public Procurement banned this practice.

Since private media outlets lack stable and sufficient revenues from sales and advertisements, they strongly depend on their owners and have to take into account their political or economic interests. New media formats have recently raised awareness of contentious political and social issues not hitherto publicly discussed (e.g., homosexuality, corruption). Access to information via the internet is not restricted. In 2014, the parliament adopted a law on the protection of journalistic sources.

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. Legislative power is exercised by the Assembly of Kosovo, which consists of 120 deputies (including 20 minority representatives), the executive is exercised by the government of Kosovo (prime minister, ministers), and judicial power by the courts, including the Supreme Court, the highest judicial authority, and the Constitutional Court. But the executive branch repeatedly interfered (informally) 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. EULEX and its Kosovan counterparts have made some progress in terms of sustainability, accountability, freedom from political interference and multi-ethnicity, including compliance with European best practices and international standards. In June 2014, the EULEX mandate was extended and downscaled; EULEX judges no longer form majorities in court panels and have ceased to open new cases (with the exception of cases affecting Serb-majority areas in the north of Kosovo). EULEX judges, however, have warned that the local judiciary was insufficiently prepared to manage complex and sensitive lawsuits. Most damaging to the credibility of EULEX were allegations that a judge was bribed in a murder case and that the police and justice mission failed to investigate properly.

Independent  
judiciary

5

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

But political interference in the work of the judiciary remains a problem, and witness protection is insufficient. 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. In 2014, the Assembly failed to appoint its quorum of members of the judicial council, which constrained the functioning of this self-governing body.

Another persistent grave problem is the discrimination by the judicial system against minorities. Courts are also burdened with a huge backlog of cases, amounting to 466,255 in 2013 (European Commission data).

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.

The image of EULEX was also damaged by corruption charges. In October 2014, the Kosovo daily Koha Ditore and an EULEX prosecutor accused a EULEX judge of accepting bribes to close a murder case, and EULEX itself of having failed to investigate the incident properly. In an EU-ordered external investigation published in 2015, a legal expert concluded that EULEX was unable to lay the foundations of a system capable of fighting corruption in Kosovo. A former EULEX official also argued that EULEX has been neither willing, nor capable of convicting criminal members of Kosovo's political elite in cases of high-level political corruption.

According to a 2014 report on Kosovo published by the European Commission, the anti-corruption strategy and action plan of the government have failed to generate effective results. The Commission warned about the conflicts of interest arising from the fact that more than 1400 senior officials in 2013 held multiple functions funded by the Kosovo budget. According to a report published by UNMIK in February 2013, a deputy prime minister, two former ministers, two magistrates, two mayors and other civil servants were either under investigation or indicted on allegations of corruption. In March 2014, the mayor of Prizren and five other officials were found guilty of office abuse. But in spite of the ongoing trial, the prime suspect was reelected in the 2013 local government elections.

Deputies enjoy only functional immunity, but charges of corruption have rarely led to convictions. The law on the financing of political parties is not enforced because the Central Election Commission lacks resources to hold parties accountable for disclosing their funds. In 2014, the Kosovo Assembly amended the law on the declaration of gifts for public officials to classify undeclared assets and false asset declarations as a criminal offense. However, as the European Commission noted in its 2014 report on Kosovo, "the number of convictions is low and sanctions imposed do not deter."

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. For example, a protest organized by Kosovan Albanians from south Mitrovica in June 2014 resulted, according to the U.S.-based international NGO Human Rights Watch, in violent clashes with Kosovan police. Kosovan 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.

Prosecution of  
office abuse

5

Civil rights

6

According to the U.N. High Commissioner for Refugees, there were approximately 17,000 internally displaced persons at the end of 2014. The number of voluntary returns of displaced persons has declined. 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 Nazlije Bala, a well-respected Kosovan human rights defender who provides support to women who have been raped, face death threats. In 2013, Bala was attacked, a “barbaric” act immediately condemned by Kosovo’s president Atifete Jahjaga. 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 and 2007, which may have been due to greater caution taken by LGBT people in their activities, and their reduced visibility. Women’s rights are guaranteed on paper, but in practice lowered career opportunities, underrepresentation in politics and domestic violence are also part of women’s situation in the still widely traditional Kosovo.

#### 4 | Stability of Democratic Institutions

Kosovo’s democratic institutions have been in the process of development since the end of the Kosovo conflict. The “Standards for Kosovo” prepared the way for independence, which was declared in 2008. The parliamentary system, which has been supported by the international community, was complemented with the Kosovo Intelligence Agency and the Kosovo Security Council. The Kosovo Assembly lacks capacity to effectively supervise the government’s policies. Corruption and patronage are widespread in public administration.

Relations between the government coalition and the opposition remain difficult and polarized. Important decisions in parliament, such as approval of the budget and resolutions on dialogue with Serbia, were adopted without opposition votes. The June 2014 parliamentary elections led to a deadlock between outgoing Prime Minister Hashim Thaçi and the opposition parties, who accused Thaçi of corruption, nepotism and failure to press for economic reforms. The opposition therefore tried to outmaneuver the prime minister by uniting forces. When protests in the streets of Prishtina turned violent in January 2015, Kosovan Prime Minister Isa Mustafa accused the opposition of trying to bring down the government by co-opting the protests.

Performance of  
democratic  
institutions

6

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 northern regions of Kosovo had been made, e.g., during the Brussels Agreement talks in 2013. The Serbian parties in Kosovo, though cautious about cooperation after the declaration of independence, started participating, while the Serbian majority in northern Kosovo was generally opposed to any acceptance of Kosovo's democratic institutions, and consequent recognition of independence. The Brussels Agreement has opened up a rift in the Serbian community in northern Kosovo about the strategy for the future.

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. Electoral volatility is relatively low and the party system is quite stable, as the leading parties' reputation as victors in the Kosovo conflict is still quite firm. Parties are organizationally institutionalized, but do not have a broad membership. The parties' programs have long been centered on independence, leaving aside other vital issues like social change and economic problems.

Party system

7

The PDK is Kosovo's largest political party. It led the government until December 2014, when the LDK formed a coalition with the PDK following the parliamentary elections, making the LDK politician and former Mayor of Prishtina Isa Mustafa prime minister. The governing parties perform important functions by providing public sector jobs and resources for their supporters. Social and economic success is largely connected to party loyalty.

The main opposition parties are the AAK, founded by former KLA commander Ramush Haradinaj; the New Kosovo Alliance (Aleanca Kosova e Re, AKR), founded by millionaire businessman and former President of Kosovo (2011), Behgjet Pacolli; and the radical nationalist VV of the former student leader Albin Kurti. Newly founded parties like VV exert increasing pressure on the traditional party system, causing polarization and some fragmentation. The minority parties are either trying to adapt to the majority party system or distancing themselves completely from it, like the Serbian minority. In local elections, the candidature of Kosovan Serbs was a heated issue, but following the Brussels Agreement, Serbia recommended their active and passive participation in their own interests.

Interest groups remain weak and fragmented, and heavily influenced by the larger political parties. Political parties have tried to influence the Kosovan Chamber of Commerce and the Association of Kosovan Businesses for their own interests. Clientelism stemming from old Kosovo conflict bonds have hindered socioeconomic progress and blocked political discourse. Interest groups and 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 of the same year, 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

More than 6,000 (most of them inactive) civil society organizations (CSOs) exist in Kosovo, and the politically active organizations are primarily concerned with municipal policy, anti-corruption and environmental protection. NGOs are generally not associated with membership, and membership-based groups are only slowly emerging. Membership association is closely related to the emergence of a middle class that is largely reliant on the private sector for its well-being.

Public opinion surveys have shown that most Kosovans consider democracy preferable to any other form of political system. For example, a survey conducted by the European Bank for Reconstruction and Development in 2010 found that 75% of the Kosovans believed that democracy was preferable to any other 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. Being pro-Western, Kosovans also support democracy as a way to align with the West.

Approval of  
democracy  
7

The number of registered local CSOs is about 6,900, with only about 10% of them 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

Question  
Score

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 from 2001 to 2013 averaged 44.1% (it all-time high was 57% in 2001), the highest in the Western Balkans. In 2013, the rate decreased to a record low of 30%, from 30.90% in 2012. The unemployed in Kosovo are mainly young people, women, and those with limited education. Thousands of Kosovans have lost well-paid jobs since the international missions including the International Civilian Office and EULEX started to reduce operating staff. Minorities complain of political 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.

Socioeconomic  
barriers  
5

In the June 2014 parliamentary elections the main competitors, Prime Minister Thaçi, the LDK president Isa Mustafa and the AAK led by Ramush Haradinaj, promised to create unrealistic numbers of new jobs. Kosovo would need an annual economic growth rate of 20% to meet their promises of 200,000 jobs. In the years since the 2008 declaration of independence, unemployment has decreased by about 10%, from 43% to 31% (2014). The political parties in government in Kosovo until June 2014 could not find efficient ways to reduce the high unemployment rate during their four-year term – subsidized agriculture does not seem to be a solution. The total number of newly created jobs stood around 40,000. The new government has not envisaged any new jobs before the end of 2015 in its mid-term spending plan.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	3736.5	5829.9	7073.0	<b>7273.8</b>
GDP growth	%	6.0	3.3	3.4	<b>2.5</b>
Inflation (CPI)	%	-1.4	3.5	1.8	<b>0.4</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	3.6	8.3	4.9	<b>2.7</b>
Export growth	%	-	12.5	2.3	<b>13.9</b>
Import growth	%	-	9.2	-1.5	<b>5.0</b>
Current account balance	\$ M	-307.7	-767.9	-451.4	<b>-564.4</b>
Public debt	% of GDP	-	16.1	17.5	<b>18.7</b>
External debt	\$ M	-	1455.6	2199.3	-
Total debt service	\$ M	-	110.3	56.0	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	23.7	16.4	16.2	<b>16.2</b>
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Kosovo's economy is hampered by poor natural resources, an underdeveloped industrial sector, ageing equipment, insufficient investment, and a labor supply that exceeds demand. Most industry is located in the Serbian-dominated north and it is not clear whether the Brussels Agreement will open access to these industrial assets and natural resources. Since 1999, Kosovo's economy has made considerable progress in transitioning to a market-based system and maintaining macroeconomic stability. Weak rule of law remains a challenge to all businesses in Kosovo, with the country ranked 117 out of 183 in the World Bank's Ease of Doing Business 2012. However, Kosovo moved up to 75 in the same rankings in June 2014.

The economy relies heavily on the international community's assistance, and on the Kosovo-Albanian diaspora, mainly in Germany, Switzerland and the Scandinavian countries for financial and technical assistance. In past and present, emigration and an informal, unreported economy are a direct result of the still high unemployment rate (around 31% in 2014). The informal sector is estimated to account for 30% to 35% of GDP. In order to reduce unemployment, Kosovo needs high investments in equipment, and therefore has to improve its investment environment. Electricity shortages, weak rule of law, lack of access to finance and inadequate professional education hamper the development of a private sector. The Kosovan 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 €287 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. Since then the macroeconomic environment has somewhat stabilized, though in the first half of 2014, FDIs dropped slightly. According to the central bank, the country still has a positive result for international investments: €27.8 million at the end of the second quarter of 2014 versus €94.5 million at end of the first quarter.

But significant problems continue to dog the development of a successful market economy: the volatile political situation, a limited banking system lacking the ability to issue long-term loans to support serious investment, and the fact that financial remittances from migrant workers to their families have declined. Currency convertibility is free as Kosovo uses the euro. The Kosovan tax system is simple and has relatively low tax rates. Tax revenues could be much higher, but the tax administration lacks the necessary staff for collection enforcement – e.g., 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. Tax evasion, among national and international firms, is a serious problem.

Market-based  
competition

5

Competition laws prevent excessive concentration, the abuse of dominant market positions and cartels, but there are significant deficiencies in their enforcement. A law on competition was passed in 2004 in order to ensure the sustainable development of the market economy, and a law on protection of competition in 2010. In 2013, the Assembly also adopted a law on state aid, and a commission to monitor and approve state aid was established. The Kosovo Competition Authority was instituted to safeguard enforcement of anti-monopoly and competition laws, which are still fairly inconsistent. In its 2014 report on Kosovo, the European Commission noted that the Competition Authority has been unable to fulfill its mandate since November 2013, because it lacks qualified staff, and four of the five officials constituting its decision-making body had not been appointed.

Anti-monopoly  
policy

7

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, for example, the state, in trying to reduce the informal economy, required businesses to install electronic bookkeeping equipment, only two companies received licenses to sell this equipment. The Competition Authority concluded that this created a monopoly. Under the Energy Market Model some civic groups say the government created a monopoly in the generation and distribution of electricity. Individual companies can create an economic monopoly in Kosovo, like the Turkish owners of Kosovo's Electricity Distribution Company, Limak Yatirim Enerji and Calik Enerji Sanayi, who also manage the only civilian airport in Kosovo.

There are administrative barriers for entrants in several key sectors and a limited number of suppliers, which keeps prices artificially high.

Kosovo continues to record a negative trade balance. In December 2014, the trade deficit was €198.5 million. The trade balance from 2003 to 2014 averaged -€137.4 million. Export in 2014 (€23.1 million) was only 11.4% of imports (€202.4 million). Exports consist mainly of metals and their byproducts, mineral products and ready-made food, beverages and tobacco, while imports for the larger part consist of mineral products, ready-made food, machinery, mechanical and electrical equipment. The main commercial partners are EU countries, which account for 38.8% of exports and 43.1% of imports (March 2014). Kosovo's institutions are aware that changing the negative balance requires 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

Liberalization of  
foreign trade

9

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 European Union 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. By western Balkan standards, nonperforming loans amounting to 8.3% of total loans in 2014 are healthy, and provisions already cover more than 100% of bad debts. The banking system had a tier 1 capital adequacy ratio of 14.6% in 2014. The central bank limits loan-to-deposit ratios to 80%, while many banks have ratios well below this. According to a 2015 IMF report, the central bank has strengthened the framework of banking supervision, risk assessment and emergency liquidity assistance.

The banking sector has grown to nine banks, of which two are locally owned. Existing banks have healthy profits, but the limited number of banks implies a lack of competition. The banks have not yet shown any obvious signs of excessive risk-taking behavior – instead they are often blamed for stifling business. 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 ten companies that have revenues of more than €100 million per year. Kosovo's ratio of credit to GDP was only 33% in 2014, which is the lowest in the western Balkans. Banks complain of weak rule of law, which prevents them from lowering interest rates since it consumes significant resources for them to collect nonperforming loans. Many of the banks focus on the mining sector in the north of the country, which could become more accessible after the Brussels Agreement.

In June 2013, a framework agreement with the European Investment Bank (EIB) and a credit line with the ProCredit Bank, both supporting small and medium-sized businesses (SMEs), were signed. A further decisive step toward a considerably wider credit line came with Kosovo's admission to the Council of Europe's Development Bank.

Banking system

7

## 8 | Currency and Price Stability

Kosovo's central bank is not a member of the European System of Central Banks, and though Kosovo is ambitious to join the European Union, it is not formally part of the euro zone, despite using the euro as its currency. From 1999 to 2002, Kosovo used the German mark as legal tender. The unilateral adoption of the euro provided relative price stability. The central bank cannot conduct an independent monetary policy and is not a lender of last resort. The activity of the bank is limited to the role of regulator, with the main responsibility of ensuring a stable financial system. In order to strengthen banking sector stability in 2012, an Emergency Liquidity Fund and a Deposit Insurance Fund were established and a new law on banking, microfinance, and the establishment of non-bank financial institutions was passed.

Anti-inflation /  
forex policy

8

The last president of the central bank, Hashim Rexhepi, was dismissed in 2010 following corruption allegations that raised serious concerns about EULEX. Rexhepi had defended the central bank's independence against the interests of the country's political elite, and was found innocent in 2012. His immediate successor Gani Gërguri followed in Rexhepi's footsteps, while Bedri Hamza (appointed in 2013) is considered to be too close to Thaçi's PDK to be independent.

Inflation has been volatile despite the use of the euro as the single currency in circulation. Average consumer price inflation was recorded at 1.8% for 2013 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. The inflation rate declined further and became negative in early 2015. These shifts have been driven mainly by changes in food and international commodity prices, but they could be partly countered by investments in infrastructure aimed at supporting the economy.

The government's fiscal and debt policies promote macroeconomic stability, but lack institutional safeguards and are prone to populist policy changes. The overall budget deficit for 2014 is projected at 2.4% (3.0% in 2013), the public debt at 11.4% (9.7% in 2013). These are low figures in comparison with other Southeast European countries but are at least partly attributable to Kosovo's short history of independent political decision-making. Prior to the elections of June 2014, the government increased public sector wages and social pensions by 25%, promising new benefits for war veterans. The new government elected in June 2014 and formed in December of that year promised to maintain sustainable deficits and debt levels, but is still planning to increase its domestic debt. The previous government led by Prime Minister Hashim Thaçi adopted a rules-based fiscal framework that is envisaged to set an overall ceiling on the general government deficit of 2% of GDP per year.

Macrostability

5

Kosovo successfully concluded a 20-month precautionary Stand-By Arrangement with the IMF in December 2013. In a 2015 report on Kosovo, the IMF expressed its concern about the deteriorating fiscal situation and noted that public sector wages had more than doubled since independence. To afford these increases and contain the fiscal deficit, governments cut spending on infrastructure investments and spent less on education than other western Balkan countries. 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 absorption capacity for investments. The slowdown in lending reflected 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. Complications arise from the unreliable cadastral records, multiple claims and allegations that properties were sold several times by displaced Serbs.

Property rights

7

Another problem is that Serbian internal and external refugees can reacquire property, but they are often barred from using it. Municipalities failed to comply with expropriation procedures and to prevent the demolition of displaced persons' 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.

Private companies are viewed institutionally as important engines of economic production. In 2013, the private sector accounted for approximately 70% of GDP in Kosovo.

Private enterprise

7

The privatization of a 75% stake in the Post and Telecommunications of Kosovo failed in 2013 because the contract was not approved by a majority of the parliamentary deputies. The legal problems associated with privatizing large publicly owned enterprises are complex and politically charged, which could have long-term consequences for the economy. The complexity and non-transparency 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 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.

The privatization of the Electricity Distribution Company (KEDS) and other public companies have been fraught with irregularities, and opposed by the public and experts who objected that the country's economy, energy sector and citizenry would not benefit from it. The privatization of KEDS also suffered from a lack of transparency; civil society had no access to the documents in this bid. The Kosovo Civil Society Consortium for Sustainable Development (KOSID) even filed an indictment against the Ministry of Economic Development, 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 still high.

## 10 | Welfare Regime

Political change and instability, socioeconomic distress, and a lack of adequate social safety networks intensified social problems in the years since independence, 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, which can result in the abandonment of children. The social system offers social (the largest component of social protection spending) and disability pensions, social aid for persons disabled in the Kosovo conflict and families whose members were killed. These benefits have increased rapidly in recent times, while interest groups campaign for their further expansion. More than 115,000 pensioners received a basic pension in 2013 (average of €60 per month, at the poverty threshold). In 2009, Kosovo introduced financial aid for families taking care of children with severe and permanent disabilities. Kosovo officially spends a marginal 3% of GDP on healthcare and social safety, which explains the high poverty rate. In the period between 2008 and 2012, social assistance spending for the poorest has been in constant decline. 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

Social safety nets

5

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 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 basically a traditional society, equality might be discussed in the political arena, among liberal intellectuals in the small number of urban centers and incorporated into the law, but opportunities remain unequal for women and minorities 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 sexual equality was passed that was meant to preserve and establish 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.

But with especially high youth unemployment at over 55% – every year about 30,000 new jobseekers enter the labor market while only 15,000 new jobs are created – only about 10% of the active youth population get a chance to work, mainly to the great disadvantage of women. The Kosovan Constitution grants equal rights to minorities. But since 2008, the number of Serbs leaving Kosovo for Serbia has kept growing, as they see no prospects for themselves and their families in Kosovo. The state's security organizations have been opened to minority members with limited success. It is doubtful whether the Brussels Agreement will bring about any change in the reconciliation process.

Equal opportunity  
6

## 11 | Economic Performance

Kosovo's economy grew by an estimated 2.7% of GDP in 2014 and 3.4% in 2013. The main sources of growth are public investment, the export-driven mining industry and remittances from the diaspora. Kosovo is plagued by a high rate of unemployment (the figure of 45% prior to 2013 was revised to a significantly lower rate due to a change in the way it is measured, reportedly to match Eurostat's methodology). A large shadow economy employs most of those who are registered as 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. 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. The inflation rate (CPI) was relatively low in 2013 at 1.9%, and declined further in 2014.

In contrast to other countries in the region facing stagnation or contraction due to falling exports and foreign investment, Kosovo can count on remittances (12% of GDP) from Kosovans living in Western Europe and diaspora investments in the real sector, which largely drive Kosovo's economy but leave it to pay for imports instead of strengthening the local economy. In spite of a slight drop in 2014, FDI still had a positive result.

Kosovo had increasingly large trade deficits (57% of GDP in 2007, 35% of GDP in 2012 and 40% in 2013) 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

Environmental concerns receive only sporadic consideration and are often subordinated to growth efforts. In October 2013, the Kosovo Assembly adopted a law on the inspectorate of environment, waters, nature, spatial planning and construction. However, there is a lack of administrative capacity to implement this law and other environmental regulations. Kosovo is plagued by environmental pollution and fails to address the problem, prioritizing economic progress instead. In October 2014, Kosovo had not yet adopted a strategy to reduce CO<sub>2</sub> emissions. Of the air pollution in Kosovo, 40% is caused by cars. According to a 2014 report on Kosovo published by the European Commission, around 75% of the water carried is lost due to the dilapidated pipe system.

Output strength  
6

Environmental  
policy  
5

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 waste management are other pressing problems that need to be addressed. Spatial planning is rudimentary outside urban areas, which has resulted in construction on arable land, and dispersed towns, often with septic tanks and no more efficient provision for sewage.

Kosovo has a very positive demographic situation (38% of the population is under 19) and could benefit from it economically if the standards of the education system were raised. Quality of education differs across municipalities. The shortage of a skilled workforce is already felt in some sectors of Kosovo's economy. The education system in Kosovo was also meant to integrate all members of society, but remains ethnically divided, mainly owing to ideologically fraught textbooks that offer only the outlook of one ethnicity or another. 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. The last ten years have seen a proliferation of private as well as public universities across the country, many of dubious quality. Although Kosovo has achieved full gender parity in basic education, in higher education female enrollment is still low. Another problem is the high number of university graduates, which is more than the labor market can accommodate. 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 2015 the government again stressed the high importance of education.

Education policy /  
R&D

5

## Transformation Management

### I. Level of Difficulty

Seven years after the declaration of independence, governance capacity is still limited by the coexistence of the different legal and administrative frameworks of the various Kosovan authorities and international agencies with partially overlapping jurisdictions (UNMIK, EULEX, KFOR, etc.). The persistent contestation of Kosovo's sovereignty poses obstacles for access to international fora and cost-intensive technical difficulties. 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. The integration of northern Kosovo according to the Brussels Agreement could, if conducted successfully, offer new energy and export resources as most of the mining industry is situated in the north. Kosovo's governments expressed their hope that an integration might contribute to an alleviation of economic, social and identity problems of Kosovo.

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. Time will tell whether this stalemate can be overcome by the Brussels Agreement. In the rest of Kosovo, Serbian enclaves were ushered willy-nilly 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 Kosovan Albanians is a byproduct of the ethnic and territorial dispute. 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. These tensions result in labor strikes, suicide, crime and emigration. Radical grassroots movements like VV regularly build their campaigns on the rift between Serbs and Albanians, using the allegation that Belgrade still dominates and influences Kosovo's official politics. Violent clashes with the police in Prishtina in early 2015 were one of the results.

Conflict intensity  
5

## II. Management Performance

### 14 | Steering Capability

The government of Prime Minister Hashim Thaçi set strategic priorities, but sometimes postponed them in favor of short-term political benefits. For example, the government increased public sector wages by 25% prior to the 2014 elections at the expense of public investment projects. Subsidizing KLA veterans and building a Kosovan national identity were seen as more important than a structured, strategic social policy.

Kosovo achieved several successes on the path to full integration, including admission to supranational organizations like the World Bank and IMF, and the prospect of accession to the European Union if good neighborly relations with Serbia could be achieved. To prepare Kosovo for European integration, in 2012 the Thaçi government established a Steering Group for Strategic Planning that was led by a political advisor of the prime minister and consisted of key officials from the Prime Minister's Office and different ministries. However, the group met only rarely and had a limited influence on strategic prioritization and inter-ministerial coordination.

Though steady economic growth was achieved, with a rising number of the poor benefitting, the percentage of those left behind was still high. The unemployment rate

Question  
Score

Prioritization  
6

among the young and well-educated is high, and their growing discontent is not really met by the ruling elite formed in the Kosovo conflict.

The strongest party, Thaçi's PDK, is still a dominant political force but the outcome of the June 2014 elections showed that the war leader generation is about to leave the stage. They do not seem to be able to cope with the serious problems Kosovo still faces: corruption, clientelism, high unemployment and privatization issues.

Kosovo made considerable progress in implementing economic and political reforms in 2013 and 2014, but due to political inertia, lack of capacity and often inefficient administration, reform concepts were not implemented as readily as intended. The Thaçi government failed to implement an anti-corruption policy that led to convictions in cases of high-level political corruption. Police, prosecutors and courts have not effectively addressed organized crime. The government was also unable to significantly improve the business environment to attract more FDI and increase employment. Political cooperation to speed up the reform process was often inhibited by disagreements.

Implementation

6

The government of Prime Minister Hashim Thaçi demonstrated some willingness and ability in policy learning, insofar as it has tried to transfer and adopt advice provided from the international community. The law-making process is to a considerable extent not based on an endogenous process of assessing the country's actual needs and identifying policy priorities. Rather, the international community (International Civilian Office, OSCE, European Commission and members of the "Quint": the United States, United Kingdom, Germany, France and Italy) largely set the agenda for policy-making, providing the templates for policies and assisting in their formulation. As a consequence, the reality of implementation diverges from the legislation, and local policymakers and stakeholders have lacked both commitment and capacity to behave as intended by the new laws.

Policy learning

5

The Thaçi government also found it difficult to adapt its policy-making to the new situation that emerged after Kosovo had attained its independence as a state. Policy-making became more ad hoc and remained donor-driven rather than based on a clear set of priorities reflecting the post-independence constellation. The desire to join international organizations like the European Union helped to improve the dialogue process with Belgrade and influence domestic political decisions.

#

## 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 thus far have the means 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. In April 2014, the government adopted a medium-term expenditure framework, but this strategy document lacked coherence and a clear structure based on the government's policy priorities. Reforms of public financial management have been limited to individual sectors, as the European Commission noted in its 2014 report.

Efficient use of assets

4

Laws on civil service and on salaries in the civil service provide the legal conditions for a stable, unified and professional civil service, but are not fully implemented. 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 Thaçi 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 of Prime Minister Hashim Thaçi tried to coordinate conflicting objectives, but friction, redundancies and gaps in task assignment were significant. Since the government consisted of Thaçi's PDK, the AKR and several parties representing ethnic minorities, policy coordination entailed striking a balance between the different interests of the governing parties. Political coordination occurred through informal meetings between the political leaders of these parties, who participated as deputy prime ministers (six in total) and ministers in Thaçi's cabinet. While there were efforts to address conflicting priorities, the allocation of ministries as fiefdoms to coalition parties prevented a more constructive collaboration. Political coordination has become more difficult in the government of Prime Minister Isa Mustafa, which took office in December 2014, because this government incorporated a bipolarity between PDK and its long-term rival of roughly equal political strength, the LDK.

Policy coordination

6

The Office of the Prime Minister, the Ministry of Finance and the Ministry of European Integration are charged with inter-ministerial coordination. A cabinet committee (the Ministerial Council) has been created to coordinate EU-related policies. There is a Steering Group for Strategic Planning and an office for strategic planning at the Office of the Prime Minister, designed to coordinate policy planning. Unfortunately, these bodies lacked political weight.

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 a report published by the European Commission in 2014, the Kosovo Anti-Corruption Agency has improved its cooperation with the criminal investigation authorities, but lacks the analytical capacity to assess risks in sectors vulnerable to corruption.

Anti-corruption  
policy  
4

Public 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. Being composed of non-governmental actors and organizations, Kosovo's Anti-Organized Crime Council aims to coordinate the anti-corruption activities of independent watchdog, whistleblower and civil society institutions. In addition, the council seeks to contribute to the government's anti-corruption strategy and the implementation of anti-corruption laws, and to suggest new corruption-related laws. However, 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. Anti-corruption policy in Kosovo thus does not get beyond political statements. The outcome of EULEX anti-corruption endeavors has also been meager; high-ranking corruption cases in particular were not even investigated, which creates an impression of impunity. Critics of EULEX have claimed that the mission avoided seriously prosecuting high-level political corruption in order to avoid endangering the state building project of the international community in Kosovo.

## 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 acknowledgment of Kosovo's attempts to become a European liberal democracy, in contrast to the situation in Serbia, where a still considerable majority would rather give up the EU accession bid if recognition of Kosovo's independence is a precondition. The dialogue between Serbia and Kosovo is presently supported by the Serbian government as well as the new Kosovan government formed in December 2014. The self-determination movement VV actively opposes the dialogue.

Consensus on goals  
9

The concept of market economy is not principally contested by any of the leading political parties, social movements or any other influential intellectual group in Kosovo. The results – the malfunctions, low wages or the effects and conditions of the privatization process – are criticized and reforms demanded. Nevertheless, the specific policy orientation is not uniform, and the political class does not invest sufficiently in making the free market function smoothly.

The Kosovan government and leading social groups in Kosovo considered the parallel structures maintained by Serbia as unconstitutional, therefore illegal and anti-democratic. Mainly northern Kosovo with its large Serbian population, but also the Serbian enclaves in the south, received financial, logistic and political support from Belgrade that, in the case of northern Kosovo, was considered to constitute separatism and an undermining of Kosovo's republican, democratic order. Serbian representatives defended their position by pointing to the dire situation of the Serbian minority, and expressed their opinion that the Kosovo declaration of independence was itself an act of separatism. This is hoped to change with the implementation of the Brussels Agreement. The influence of anti-democratic Kosovo-Albanian parties of the extreme right, whose origins go back to the 1940s, and of Islamist groups seem to be limited. The Kosovo-Albanian nationalist VV movement exerts considerable influence on the democratic process via street protests. When the formation of a new government was deadlocked after the parliamentary elections in June 2014, VV declared it would only support a new coalition if the dialogue process with Serbia was interrupted. According to estimates of the Ministry of Interior published in early 2015, about 300 young Kosovans have joined the Islamic State militia since the beginning of the conflict in Syria and Iraq. There are concerns that returnees from this war will form violent radical groups in Kosovo.

Anti-democratic  
actors

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Interethnic tensions have continued since the Kosovan conflict, but have been largely contained by the presence of the NATO-led Kosovo Force and the EU-led police mission. Kosovan political elites have been unable to prevent occasional outbreaks of violence, such as the clashes in 2004 and in 2011. Moreover, poverty, persistent high unemployment and the emergence of the radical populist-nationalist party VV have contributed to the potential for interethnic conflict.

Cleavage /  
conflict  
management

6

In January 2015, about 50,000 Kosovans protested against the Kosovan-Serb politician Aleksandar Jablanović and called upon him to resign from his office as minister of communities and returns. Jablanović had criticized a group of mothers of Kosovo war victims who blocked the entrance of the Orthodox Church in Gjakova/Djakovica on Serbian Christmas Eve to protest against Serbia's refusal to apologize for war crimes. In addition, he had labeled protesters "savages" because they threw stones at a bus transporting attendants to the Christmas service. The protests spread throughout Kosovo and forced Jablanović to resign.

Serbian enclaves' participation in national elections started rising, as integration appeared to be the only viable alternative. Parts of the political leadership continue to exploit divisive ideas, such as interpreting Kosovan culture and history as overwhelmingly Albanian – to the exclusion of contributions from other ethnicities – in spite of their official commitments to a multiethnic and multicultural society. However, key decision-makers have consistently prevented major conflicts from arising, and sent moderate messages to the public.

Despite the high number of NGOs and civil society advocacy groups, the government rarely or never consults them unless their agenda is in compliance with their own. As NGOs depend on donations, they tend to avoid open confrontation and criticism. Religious organizations sometimes complain about a lack of interest in their concerns, as Kosovan politicians tend to emphasize their commitment to a secular society. There are some inroads of cooperation, and most NGOs who seek cooperation find ways to do so. Sometimes, joint cooperation may not be very fruitful, or genuine, but several civil society initiatives have proved successful (e.g., the recent example of the anti-tobacco movement).

Civil society  
participation  
6

The political leadership does not address historical acts of injustice and has made limited efforts to initiate a process of reconciliation. In April 2014, the Kosovan parliament approved the creation of a special court to adjudicate on crimes committed by Kosovan Albanians during and after the 1998 – 1999 Kosovo war. The court will be presided over by international judges and will be located in the Netherlands.

Reconciliation  
5

In July 2014, an EU-task force investigating war crimes confirmed that senior KLA officials led a campaign of murder and ethnic cleansing against Serbs and Roma after the 1999 war. Evidence of organ trafficking perpetrated by the KLA during the Kosovo conflict has not succeeded in sparking a broader debate about KLA crimes, disappointing the hopes of the Serbian minority that the Kosovo-Albanian side would face up to its past. The War Veterans Organization regularly protests prosecution of KLA veterans suspected of crimes against minorities in Kosovo, thus hindering reconciliation. The prosecution of war crimes continues to be constrained by the intimidation of witnesses, who are insufficiently protected.

The government has begun to pay out compensation to the political prisoners, and a new law will compensate war veterans. The process is ongoing with Serbia, but this remains in the realm of a political settlement. Short of an apology from Serbia, there have been no adequate efforts of proper reconciliation across the ethnic divide. Despite this disagreement about the past, relations have improved.

## 17 | International Cooperation

Kosovo has relied heavily on the assistance of the international community, the United States and the European Union during the process leading to independence and EU membership. The international missions in Kosovo, whether military or civilian, helped Kosovo significantly in creating the necessary institutions, infrastructure and judiciary. The EULEX legal mission was only the last in a long series of different forms of international assistance. 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. More than half of this aid was given to support the rule of law (police, prosecutors, judiciary) in order to prosecute organized crime. Though there always were and still are deficits in implementing the strategy (corruption, rule of law, etc.) it was perceived and supported by all actors as long-term before and, of course, after 2008. Kosovo has a strong interest in international cooperation aiming at European integration, visa liberalization and integration into international organizations. 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.

Effective use of support

7

The Thaçi government mostly acted as a credible and reliable partner, but some international actors still expressed doubts regarding its reliability. The number of U.N. member states that recognize Kosovo has not risen considerably since 2010, when only 75 out of 192 did so (2013: 99 out of 193). Five EU member states (Romania, Slovakia, Spain, Greece and Cyprus) still refuse to recognize Kosovo. The European Union and Kosovo completed their negotiations on a Stabilization and Association Agreement (SAA) in July 2014. The agreement represents the European Union's acknowledgment of Kosovo's reform efforts and the progress made to improve relations with Serbia. In addition, the agreement takes Kosovo an important step toward EU membership. The European Union and especially the United States declared their confidence in the success of the Brussels Agreement, concluded in April 2013 between Kosovo and Serbia to integrate Serb-dominated municipalities of northern Kosovo into Kosovo's institutional framework. Confidence in the credibility of the Kosovan government led the European Union to downscale the mandate of its rule of law mission EULEX. However, the European Union has retained its visa obligation for Kosovan citizens. Foreign banks have been very reluctant to lend money to Kosovan companies and households due to the weak and unreliable enforcement of credit claims.

Credibility

6

Among EU members and neighboring states, Bosnia, Serbia, Romania, Slovakia, Cyprus 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 relations in the region. 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 Kosovan Serbs within the Consultative Council for Communities, led by the president of Kosovo. The agreement also envisaged the integration of Kosovo-Serb judicial, police and other security structures into the legal framework and respective institutions of Kosovo. Kosovo's legislation guarantees the sovereignty of neighboring states, and prevents Kosovans from fighting abroad. Kosovo's political will could tend more toward the international community, but is hampered by the non-recognition.

Regional  
cooperation  
8

## Strategic Outlook

The darker predictions expressed after Kosovo's 2008 declaration of independence have not yet been realized. Russia, China and others had warned that the new state would destabilize the region, setting a dangerous precedent that could encourage ethnic minorities and separatist movements worldwide. Serbia, which had added a statement to its constitution that Kosovo was an integral part of its territory, held onto northern Kosovo with its predominantly Serbian population. It was clear that the demand for the partition of Kosovo, a rift in the north between Serbs and Albanians, would hinder reconciliation, a peaceful future, and ultimately delay the accession of both countries to the European Union. The Brussels Agreement of April 2013 was therefore a great step forward. Other serious problems remain unresolved: the inefficient, biased and even corrupt judicial system, the endemic corruption, an education system split along ethnic and gender lines, which does not provide the skilled workforce the country desperately needs, or a public administration not facilitating but hindering foreign investment critically needed by Kosovo's landlocked economy. If the political class not only seriously addressed the problems but also included CSOs in the decision-making process a solution would be more forthcoming. The Brussels Agreement has shown that an integration of all people living in Kosovo – even those considered averse to Kosovo statehood – seems possible. The cooperation between the Kosovan and Serbian sides leading to the agreement also proved that the EU accession bid is a strong enough incentive to overcome a rift which everyone thought insurmountable. Only compromise can offer a solution in a region where the nationalist position is incompatible with the actual diversity. The absence of ethnic strife and an anti-discriminatory judicial system would create a better and safer environment that can attract new foreign investment. Creating new jobs and improving the education system must be a priority for the new government of Isa Mustafa if it seriously seeks to stop the brain drain of the younger generation to EU countries and the United States. An open society with equal chances for everyone as an ideal cannot be reconciled with a system where, for example, the privatization process remains largely non-transparent and academic and business positions are distributed along party lines. A Special War Crimes Court was established that should also ensure that people who have committed crimes in the Kosovo conflict no longer play a part in political and public life. The post-2008 enthusiasm that resulted in a high number of recognitions of Kosovo's statehood has given way to a certain degree of disenchantment. The Thaçi government's successes in obtaining new recognitions were quite modest.