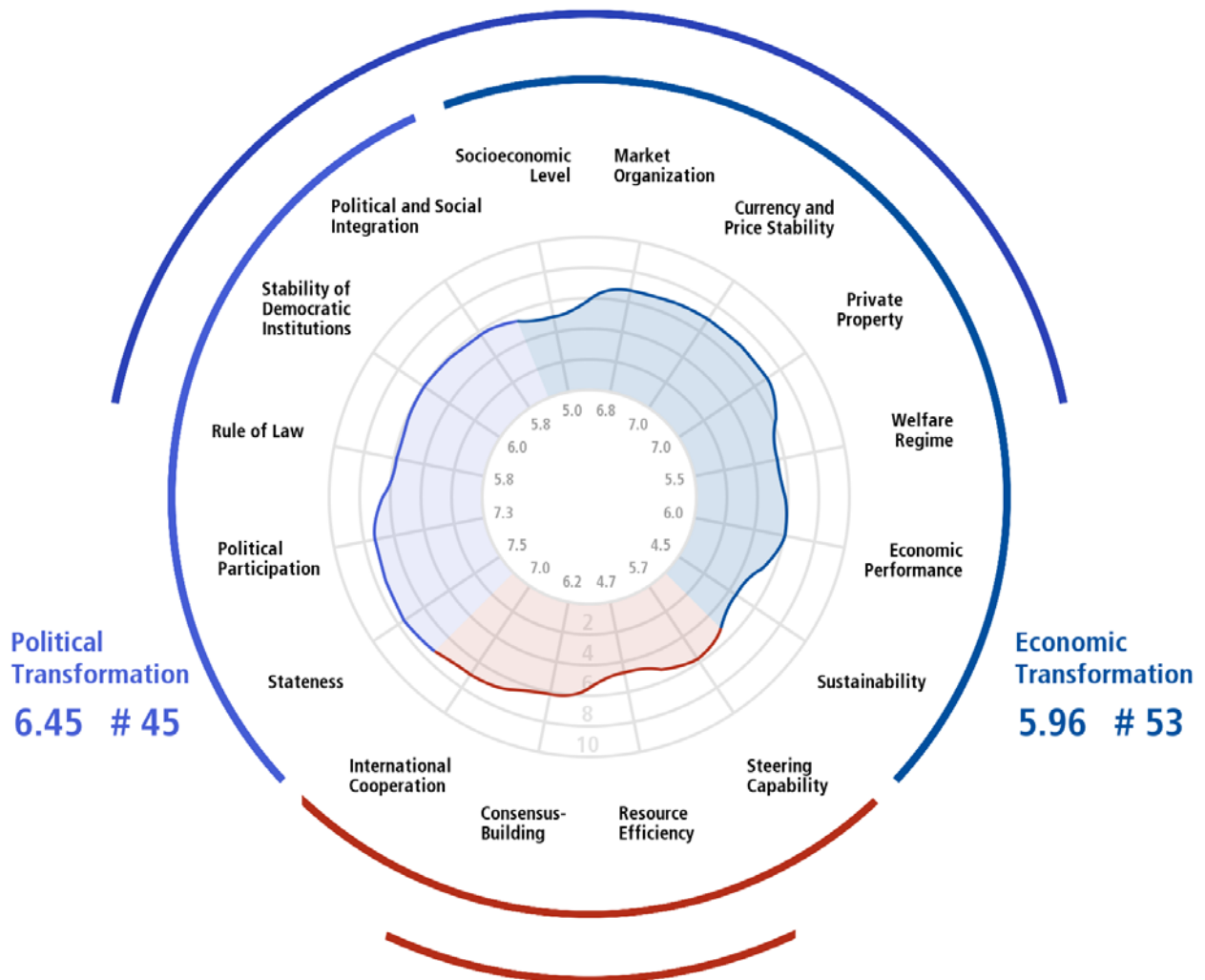


Kosovo

Status Index

6.21 # 49

on 1-10 scale out of 129



Political Transformation
6.45 # 45

Economic Transformation
5.96 # 53

Governance Index

5.17 # 57

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report – Kosovo. Gütersloh: Bertelsmann Stiftung, 2018.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	1.8	HDI	-	GDP p.c., PPP \$	10066
Pop. growth ¹	% p.a.	0.8	HDI rank of 188	-	Gini Index	26.7
Life expectancy	years	71.3	UN Education Index	-	Poverty ³	% 3.7
Urban population	%	-	Gender inequality ²	-	Aid per capita \$	243.0

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

On February 17, 2016, Kosovo marked its 8th anniversary since independence. The period under review offers a mixed picture. While the political conflict between the government and opposition continued, Kosovo remained committed to the improvement of its relations with Serbia. Besides strengthening the rule of law in Kosovo, the improvement of relations with Serbia is a key requirement that must be achieved before Kosovo can formally apply for EU membership. The law reforms were serious enough to allow the European Commission to propose the transfer of Kosovo to the Schengen visa-free list in May 2016. The EU-Kosovo Stabilization and Association Agreement (SAA) entered into force on April 1, 2016, the first contractual relationship between the European Union and Kosovo.

The conflicts between the government and opposition, including demands that Prime Minister Isa Mustafa and former Foreign Minister Hashim Thaçi should resign, stem from contradictory views over the strengthening regional cooperation agreements signed in Brussels in August 2015. These agreements included the Association of Serb-majority Municipalities in Kosovo and the demarcation of borders with Montenegro. At a protest rally in January 2016, part of the Kosovo government building was set on fire and protesters clashed with police. Protests organized by the three opposition parties, Ventevendosje (VV), the Alliance for the Future of Kosovo (AAK) and the Initiative for Kosovo (Nisma), also took place inside the National Assembly where regularly tear gas was used. Nine opposition members of parliament were arrested and blocked the parliament's work. As a result of the arrests, AAK-leader Ramush Haradinaj resigned his mandate as a member of parliament, claiming that parliament had ceased to be democratic. While violent protests were raging outside the National Assembly, Hashim Thaçi was elected Kosovo's new president after three rounds, and to the background of a deal between the coalition government's parties PDK and Prime Minister Mustafa's LDK. The deal stated that the prime minister's post should go to a member of the LDK and the president's post to a member of the PDK.

A law on border demarcation between Kosovo and Montenegro passed in August 2016 was another cause for violent protests. Though the opposition denied involvement, six VV activists were arrested. One of the arrested VV activists, Astrit Dehari, later died in prison, officially by suicide. Further protests followed demanding the resignations of Prime Minister Mustafa, the minister of justice and the minister for internal affairs. As a consequence of the protests and rising political tensions, Prime Minister Mustafa in September 2016 withdrew a planned final vote on the contentious border agreement. However, this was a counterproductive decision as the border demarcation with Montenegro is one of the preconditions set by the European Union for visa liberalization within the European Union.

Meanwhile, progress in the fight against corruption suffered two serious publicized setbacks after a Pristina-based newspaper published wiretapped phone conversations of PDK officials discussing appointments to senior positions in government, the judiciary, police and media. In November 2016, the TV show “Jeta ne Kosove” revealed details of a major tax fraud in which an estimated €25 million had disappeared. Until 2012, over 300 Kosovan businesses had claimed huge tax deductions by filing fake invoices issued by shell companies. Controversial and forward-looking with regard to the reconciliation process was the agreement signed by the outgoing president, Atifete Jahjaga, with the Netherlands concerning the establishment of a new court for the prosecution of veterans of the KLA (Kosovo Liberation Army) suspected of war crimes.

The mostly Serbian northern part of Kosovo opposes integration into what it considers an illegitimate state. In August 2016, attempts started to reopen the barricade blocked Ibar river bridge which separates the Serbian north from the Albanian south of Mitrovica, according to the Brussels Agreement. While the bridge was expected to reopen in January 2017, tensions between the north and south had prompted the Serbian authorities in North Mitrovica to build a wall near the northern half of the bridge which was only prevented by the intervention of the Ministry for Environment and Spatial Planning.

The economically important Trepca mining complex located in the north of Kosovo was also an issue between Serbia and Kosovo, because Kosovo’s members of parliament in October 2016 supported a law placing Trepca under the control of Pristina. The law’s intention to transform Trepca into a shareholder company majority owned by the Kosovan government would violate Serbia’s rights to Trepca. The main party of Kosovo Serbs, Srpska Lista (Serbian List), proclaimed it would boycott the work of parliament and government. These political and social problems demonstrate how difficult the road still is toward developing a functioning civil society, reconciliation between Kosovo’s different ethnic groups and the country’s full integration into international political structures.

A disquieting problem Kosovo must face is the rising influence of radical Islamic groupings in Kosovo, often explained as a result of Kosovo’s economic and social problems. A large part of the population lives below the poverty line and the younger, often well-trained generation is looking for jobs that Kosovo’s labor market is not providing.

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. Kosovo Albanians were expelled from public service. Throughout the 1990s, Kosovo was ruled directly from Belgrade, with the local Serbian community playing a significant role in implementing Serbia's rule over Kosovo. The majority of 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 November 17, 2001. It also represented Kosovo internationally. Interethnic clashes in March 2004

between Kosovo Albanians and Kosovo Serbs raised concerns in the international community that a continued failure to resolve the final status of Kosovo would lead to yet more insecurity and instability. Thus, the U.N. Secretary General appointed a special envoy, Martti Ahtisaari, who, after a period of unsuccessful negotiations with Belgrade and Pristina, 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 February 17, 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 as 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.

On September 10, 2012, the ICR office was dissolved, but EULEX, KFOR and UNMIK have maintained a presence in Kosovo. On April 19, 2013, Kosovo-Albanian and Serbian government representatives signed the so-called Brussels Agreement mediated by the European Union. The agreement envisages the integration of Kosovo-Serb-majority municipalities into Kosovo's institutional system and far-reaching territorial autonomy rights for these municipalities.

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

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.

Based on U.N. Security Council Resolution 1244(1999), a Military-Technical Agreement between NATO, and the Federal Republic of Yugoslavia and Serbia, a NATO-led Kosovo Force (KFOR) has been deployed in Kosovo to contribute to a safe and secure environment, support the international humanitarian effort and civilian presence, ensure freedom of movement, and prevent renewed hostilities. Following the declaration of independence by the Kosovan authorities and the entry into force of a new constitution in 2008, the U.N. Interim Administration Mission in Kosovo UNMIK, which enjoys civilian executive power according to U.N. Security Resolution 1244(1999), has reduced its role, focusing on the promotion of security, stability and respect for human rights. The EU Rule of Law Mission 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.

This arrangement of statehood has been increasingly challenged by radical political actors, which has occasionally resulted in violence. Kosovo-Serb and Kosovo-Albanian extremists refused to accept the integration of an autonomous association of Kosovo-Serb-majority municipalities in Kosovo's legal system agreed by Pristina and Belgrade in April 2013. In August 2016, activists of the Kosovo-Albanian opposition party Vetevendosje attacked the parliament building with rocket-propelled grenades to protest against the ratification of a border delineation agreement signed with Montenegro. Other violent protest actions included the detonation of a hand grenade in the courtyard of Kosovo's state television and radio broadcaster, and

Question
Score

Monopoly on the
use of force

7

'06 '18 10



1

release of tear gas during several sessions of the parliament. In November 2016, Kosovo police arrested 19 armed people suspected of planning terrorist attacks in Kosovo and the wider region. Another hand grenade exploded in January 2017 at the new Kosovo Government Office in North Mitrovica, a majority-Serb area. Kosovo-Serb activists set up roadblocks to protest the reopening of a refurbished bridge in northern Kosovo by Kosovo-Albanian politicians, and against a law defining the Trepca mines and facilities as the property of Kosovo.

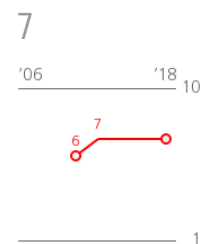
According to the census conducted in 2011, ethnic Albanians comprise 93% of the 1.7 million residents of Kosovo (excluding northern Kosovo). This census was, however, boycotted by residents of Serb-majority municipalities in northern Kosovo, and by Serbs and Roma in southern Kosovo. Kosovo Serbs constitute the largest ethnic minority (according to the 2000 census where Serbs participated, their share was approximately 7% of the population), and form local majorities in North Kosovo and several enclave municipalities in southern Kosovo. Most Kosovo Serbs opposed the declaration of independence and in a February 2012 referendum almost unanimously rejected the institutions of the Republic of Kosovo. On April 19, 2013, political representatives of Kosovo and Serbia signed the so-called Brussels Agreement in order to integrate Kosovo-Serb-majority municipalities into the legal system of Kosovo while protecting their autonomy. The agreement paved the way for an end to parallel structures, and a healing of the rift between the Serbian and Albanian populations within Kosovo. Its success is still doubtful as Serbs feel discriminated against by official policy. In January 2017, Serbs in northern Kosovo continued to reject the agreement's explicit recognition of the statehood of Kosovo and violation of Serbia's constitution. However, Kosovo-Serb citizens participated in the 2014 parliamentary elections of Kosovo, and local Kosovo-Serb political representatives collaborated in the "normalization" process aimed at implementing the Brussels Agreement.

Kosovo-Albanian opposition parties have rejected the agreement because it would lead to a fatal fragmentation of Kosovo. Among the main Kosovo-Albanian parties, the opposition party Vetevendosje has advocated a unification of Kosovo with Albania.

Although Serbia's government has accepted talks in order to improve the relations between Serbia and Kosovo, and has required the Serbian communities in Kosovo to actively participate in Kosovo's institutions, Serbia is still trying to avoid any official recognition of Kosovo's statehood. Hence, Belgrade tried to inhibit the international integration of Kosovo, a policy somewhat mitigated by the pro-EU Serbian Prime Minister Aleksandar Vučić.

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. The fear of a marginalization of ethnic minorities by the Albanian majority is one of the reasons the Serbian minority supports the so-

State identity

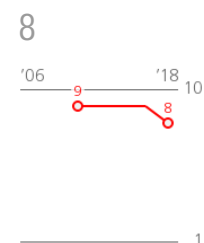


called Serbian parallel structures in Kosovo. The Kosovan constitution and electoral legislation guarantee seats in the National Assembly and in local self-government bodies to non-majority communities (Serbs, Roma, Ashkali/Egyptian, Bosniak, Turks, Gorani). Access to the media and campaign platforms 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 concerns of the Serbian minority has been viewed as support for the Serbian parallel structures.

In principle and by law, citizenship is granted to everyone without exception. Many residents belonging to the Serbian minority have so far declined citizenship because it would imply recognition of Kosovo's independence.

According to the constitution (Article 8), the Republic of Kosovo is "a secular state and is neutral in matters of religious belief." The Islam practiced in majority-Muslim Kosovo (96% of 2 million inhabitants) is still widely considered moderate and syncretic. Kosovo seemed to be one of the most pro-American, secular societies in the world. There are five protected faiths in Kosovo: Islam, Serbian Orthodoxy, Catholicism, Protestantism and Judaism. Most of the Muslim Kosovans consider their Albanian ethnic origins to be more important than their religious identity. Still, the country recently had to fend off the threat of radical Islam. The Kosovo police identified 314 Kosovans, including two suicide bombers, 44 women and 28 children, who went abroad to join the Islamic State, the highest number per capita in Europe. Kosovo's counterterrorism police observed a rising influence of Wahhabi and Salafi radicalism promoted by a network of charities, private individuals and government ministries in Saudi Arabia and other conservative Arab gulf states. The Kosovo police charged 67 people, arrested 14 imams and closed 19 Muslim organizations. The terrorist attacks in Paris, Brussels and Istanbul further intensified worries about this new phenomenon. In January 2014, Kosovo's then Foreign Minister (again since June 2016), Enver Hoxhaj (Democratic Party of Kosovo, Partia Demokratike e Kosovës or PDK), had already identified a menace to the young state from religious currents seeking to spread Islam in public life. Hoxhaj is not the first to underline Kosovo's pro-Western attitude, and that secularism was a central value of the Kosovan state. 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. The hijab was banned from public schools in 2009. Deputy Foreign Minister Vlora Citaku considered it "a sign of submission of female to male, rather than a sign of choice." That women face difficulties getting a job if they wear a headscarf has provoked protests about a violation of basic rights. The influence of hardline Islamist clerics and states with a fundamentalist interpretation of Islam, especially Saudi Arabia, has increased recently. Conservative Islam is fast taking roots in Kosovo which is especially apparent among the younger generation. Moderate Kosovan imams see the

No interference of religious dogmas



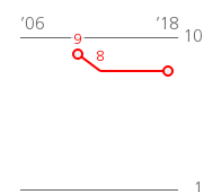
800 mosques in Kosovo, 240 built after the conflict, as part of a strategy of Saudi Arabia to create its intransigent version of Islam. The growing religious conservatism is especially visible in rural areas where unemployment is high. Islamic charities are filling the gap left by Kosovo's weak institutions. Over the past two years, Middle Eastern-funded charities suspected of having ties to Islamic extremist groups were closed. The Serbian Orthodox Church's political outlook is conservative to hardline. It may wield no direct political influence, but the Orthodox Church's interpretation of the Kosovo issue dominates the discourse within the Serbian community in Kosovo and Serbia but also in Russia and Eastern Europe. The number of attacks on Serbian Orthodox religious sites has fallen recently, but they still occur and seem to rise anew with the growing influence of a politicized Islam. Kosovo presently faces an important and difficult choice whether to permit religious expression or insist on its secular values.

Public administrative structures in Kosovo are still deficient, remain highly politicized and lack accountability. In September 2016, an action plan to modernize administration was passed, comprising a new salary system for civil servants, a human resource management information system, electronic systems and other instruments, with the objective of improving services to citizens. 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 Pristina region. The rail system is unreliable and a project to connect it with the Albanian system remains unfinished. Generally, services remain poor, but the public does not have high expectations. Public administration reform projects aim to address issues like the adoption of a comprehensive public financial management strategy.

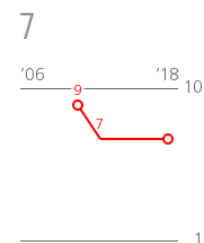
2 | Political Participation

Kosovo has held five parliamentary elections since the 1999 conflict, roughly one every three years. The last parliamentary election was held in 2014. While Kosovo Serbs from northern Kosovo boycotted subsequent local and national elections, in the rest of Kosovo the Serbian population has increasingly participated in and run for seats in the National Assembly. The June 2014 elections, following the 2013 agreement to normalize relations between Belgrade and Pristina, were considered successful due mainly to the large number of election monitors (30,000). Voter turnout was just 42% nationally and even lower in majority-Serb areas. 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. In February 2016, Kosovo's members of parliament elected Foreign Minister Hashim Thaçi as president in a third round of voting, following two inconclusive rounds. The election was overshadowed by violent protests of opposition groups (VV and others), who rejected Thaçi's candidacy, mainly because he had negotiated the 2013 Brussels Agreement with

Basic
administration
8



Free and fair
elections
7



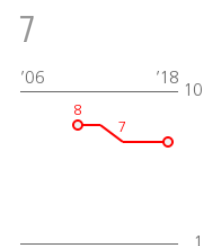
Serbia. Media and civil society sharply criticized the fact that members of Thaçi's PDK were prosecuted and convicted for corruption. Electoral justice has also improved through an amendment of the Criminal Code. While the electoral infrastructure has improved, some of these improvements remain ephemeral, because the conditions of party campaign funding and disproportionate media coverage of individual political parties continue to constrain the fairness of elections.

The democratically elected political representatives' effective power to govern has been undermined by three main factors. First, Serbia and her international allies, especially Russia and China, did their utmost to delay the recognition process of Kosovo's statehood. Second, many Kosovo-Serb residents and political actors in the majority-Serbian northern part of Kosovo refused to accept political decisions taken in Kosovan institutions. Third, the Kosovo-Albanian opposition party Vetevendosje organized violent actions and protests against the Brussels Agreement on the integration of Kosovo-Serb majority municipalities into Kosovo, and the border demarcation agreement between Kosovo and Montenegro. Fourth, leaked wiretapped phone conversations of PDK officials in 2016 showed the extent to which informal networks control democratic institutions in Kosovo by undermining formal procedures of appointments and decision-making.

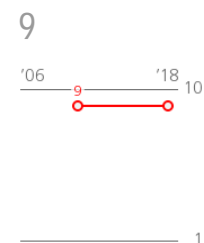
According to article 43, 44 of the constitution the freedom of association and gathering is guaranteed. Article 3.1 of the Law on Freedom of Association in Non-Governmental Organizations specifies that "every person shall enjoy the full freedom of association and establishment in NGOs." Freedom of assembly is guaranteed by the government, EULEX, and NATO peacekeepers. Demonstrations have been restricted for security reasons and public order. 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. But workers faced intimidation and private sector unions are nearly nonexistent.

More than 6,000 civic organizations/NGOs are active in Kosovo, especially on municipal policy, corruption and environmental issues. The problem remains that interference in NGOs' activities, including suspensions, is still common under the current legal conditions and that there is no procedure to appeal against unwarranted interference. Street protests are a frequent means of putting pressure on the government. Massive protests have often been organized in the country's capital against the arrest of former KLA members for war crimes or leading politicians. For example, the arrest of former prime minister, and now member of parliament and opposition leader Ramush Haradinaj in France on Serbian war crimes warrant in January 2017. In August 2015, the agreement Kosovo signed with Serbia in Brussels led to violent protests which kept the capital in turmoil throughout 2016.

Effective power to govern



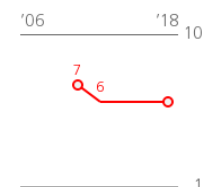
Association / assembly rights



Freedom of expression and media is guaranteed by the constitution (articles 40 and 42). There are seven newspapers, and 21 TV and 83 radio stations in Kosovo. However, TV is the main source of information besides the internet (84% of Kosovans have access to the internet). There are no legal obstacles to establishing a new media outlet. Freedom of expression can only be limited by law and the decision of the Independent Media Commission (IMC) in order to prevent the “encouragement or provocation of violence and hostility on grounds of race, nationality, ethnicity or religion.” But many journalists believe that the IMC’s decisions are of a rather political nature. Though media laws are generally consistent with EU standards and the government claims to be improving the legislative framework for media independence, enforcement has been quite weak. The fact that the government is the largest employer and media are dependent on advertising revenue influences editorial policies. The government’s use of selective advertising to influence the opinion-making process was officially banned following amendments to the Law on Public Procurement, but is still a frequent practice. Critique of government policy and politicians often had dire consequences for newspapers and journalists who were intimidated, searched and barred from access to public information. They were accused of sympathizing with the Serbian side and of defamation of government officials. However, there are efforts to decriminalize “defamation,” a necessary step because the defendant has to prove his innocence. Though the public service broadcaster, Radio Television of Kosovo (RTK), is financed out of the state budget, RTK still struggles with financial problems. Critical journalists faced not only political pressure but also physical attacks and even death threats, for example, when journalists reported on Islamist groups in Kosovo. While media diversity was increased by the expansion of cable operators, TV stations complained that cable operators were not transmitting their signals because their programs criticize the government. Since private media outlets lack stable and sufficient revenues from sales and advertisements, they strongly depend on their owners, international donors, and have to consider political and economic interests. In spite of pressures new media formats have raised awareness of contentious political and social issues (e.g., homosexuality and corruption). Access to information via the internet is not restricted. In August 2016, a scandal dubbed “Pronto 2,” involving leaked wiretaps of PDK politicians who were discussing political appointments, kept the media and EULEX busy, and further undermined the credibility of the ruling party.

Freedom of expression

6



3 | Rule of Law

In Article 4, Kosovo’s constitution defines the separation of powers and institutes as a system of checks and balances between the legislative, executive and judicial branches. Legislative power is exercised by the National Assembly, 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

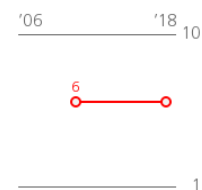
Separation of powers

6

Constitutional Court. The executive branch repeatedly interfered (informally) in the work of the legislature and judiciary. The National Assembly has been repeatedly criticized for not exercising its constitutional mandate to control the government. Parliamentary committees in the National Assembly have been ignored by the executive branch, in essence diminishing their parliamentary oversight role. Positive developments concern the Constitutional Court which recently played an important part in the Brussels Agreement, the agreement on the “Association/Community of Serb majority municipalities in Kosovo,” and the protection of multi-ethnicity and ethnic communities’ identity.

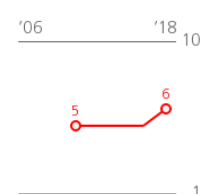
The independence of the judiciary continues to be impaired by political authorities and high levels of corruption. EULEX and its Kosovan counterparts have made some progress in terms of sustainability, accountability, freedom from political interference and multi-ethnicity, including compliance with European best practices and international standards. According to the 2015 justice package laws, amendments to the constitution and secondary legislation have been adopted. The constitutional amendment concerning the composition of the Kosovo Judicial Council should strengthen judicial independence. Seven of the 13 members are now appointed by judges, six by the National Assembly and four members should be from minorities. The Brussels Agreement also led to an increase in recruitment of Kosovo-Serb judges and prosecutors. The clearance rate of cases could be improved (99.02% of cases received are resolved within a year), but still a lot remains to be done as administration of justice is slow and inefficient. Efficiency is hampered by deficiencies in criminal legislation. A centralized criminal records registry is still missing. Judges, prosecutors and attorneys still fail to adhere to an ethical code, but disciplinary procedures are already in place (e.g., the Office of the Disciplinary Counsel, ODC). The main reason why the judiciary is prone to influence is Kosovo’s size and social structure. Kosovo has an average of 19.5 judges per 100,000 inhabitants, with a total of 350 local judges and 39 EULEX judges. Kosovo is working on the implementation of the 2014 to 2019 strategic plan for Kosovo’s judiciary and a strategy for reducing the backlog of cases. 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 northern Kosovo.

EULEX judges warned that the local judiciary was insufficiently prepared to manage complex and sensitive lawsuits. 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 dependence. Closed court cases have been discussed in the National Assembly. Kosovo’s judicial council and prosecutorial councils have so far failed to protect judges and prosecutors from external influence. Another persistent grave problem is the discrimination by the judicial system against minorities. Courts are also burdened with a huge backlog of pending cases at court level. In 2013, there



Independent judiciary

6

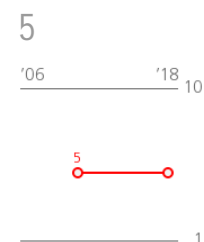


were 466,255 impending cases, which had declined to 440,627 by the beginning of 2016 (European Commission data and Kosovo Judicial Council's Department of Statistics).

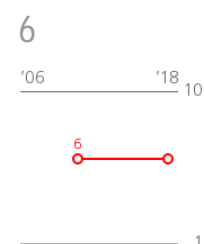
Corruption remains a serious and prevalent problem in many areas of Kosovo's political and administrative life. The criminal law provisions on corruption, in the criminal code and criminal procedure code, follow European standards. Kosovo continues to implement the 2013 to 2017 anti-corruption strategy and action plan, monitored by the Anti-Corruption Agency (ACA). Results are not satisfactory due to meager financing. Some progress has been achieved due to the establishment of a multi-disciplinary investigative team and the introduction of a tracking mechanism for high-profile corruption, thereby fulfilling two recommendations made in 2015. In December 2015, the IT tracking mechanism was established which could lead to asset seizure and confiscation. In 2016, out of 33 high-level cases 21 indictments followed, 17 for corruption and four for organized crime. The ACA conducted investigations and, while the quality of its reports still needs to be improved, the ACA has sent 677 cases to prosecution since it was established. Enforcement of anti-corruption measures and effective financial investigations still lag due to limited capacity and attempts to influence the proceedings. While asset freezing and seizures have increased, the number of final confiscations remain low. (In 2015, the value of frozen or confiscated assets was €20.6 million. In the first half of 2016, the estimated value of sequestered assets was €1 million). The fight against corruption would also be better if witness protection mechanisms were more efficient. A special problem is northern Kosovo which failed to meet its obligations in sending in its asset declarations to the ACA. The negative public impression that civil servants and politicians operate with impunity has not really improved. Kosovo law does not yet include any mechanism for the automatic suspension or removal from office of officeholders charged with or convicted of corruption. In the past, the image of EULEX which presently continues its downsizing was also damaged by corruption charges. An EU-ordered external investigation published in 2015 concluded that EULEX was unable to lay the foundations of an efficient anti-corruption system for Kosovo, thus failing to convict Kosovo officials in cases of high-level political corruption.

Civil, human and fundamental rights are constitutionally guaranteed, and are generally in line with European standards. However, due to a lack of resources and political commitment, implementation is hindered and the violation of rights, such as domestic violence or hate crimes against ethnic minorities, often goes unpunished. An Inter-Ministerial Coordination Group for Human Rights was established in May 2016 to devise a strategy for the efficient enforcement of rights. In January 2016, a national preventive mechanism against torture was introduced and a separate body within the Ombudsman Institution should inspect places where people are deprived of their liberty. While the prison system in Kosovo is being improved in accordance with the U.N. Standard Minimum Rules, a prison complex is still expected to be set

Prosecution of
office abuse



Civil rights

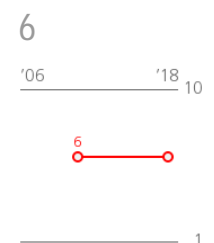


up in North Mitrovica. Progress regarding freedom of expression and assembly was quite limited, if not negative following intimidation of journalists, including threats and attacks. Kosovo Serbs regularly complain about the bias of courts assessing crimes against their community. The Kosovo police force, though multiethnic in principle, is said not to behave properly when confronted with Roma, Gorani, Ashkali or Serbian citizens. The protection of cultural heritage of the Serbian Orthodox Church and the problem of illegal construction remain key challenges. Limited progress was made on the return and reintegration of displaced people. According to the U.N. High Commissioner for Refugees, there were approximately 17,100 internally displaced persons in July 2015, while 204,049 internally displaced persons from Kosovo are still resident in Serbia. The number of voluntary returns of displaced people has declined. Another important problem is the issue of missing people since the Kosovo conflict (July 2016: 10,593). Human and civil rights defenders, for example, who provide support to women who have been raped, even faced death threats. Human rights NGOs have called for the protection of human rights defenders in line with international and domestic obligations. The protection of people 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. Women's rights are guaranteed in theory. However, women have de facto few career opportunities, are underrepresented in political life and still have limited access to property ownership, which decisively hampers women's full enjoyment of their rights.

4 | Stability of Democratic Institutions

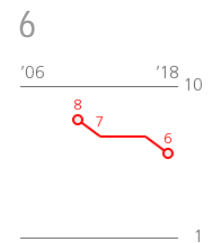
Democratic institutions perform their functions in principle, but often are inefficient due to tensions between institutions. In 2016, the effectiveness of the National Assembly was hampered by violent protests of the opposition. The National Assembly lacks the capacity to effectively supervise government policies. Corruption and patronage are widespread in public administration. Relations between the government coalition and the opposition were always difficult and polarized, but have declined since the government's commitment to improve Kosovo-Serbian relations following the Brussels Agreement of 2013. Important decisions in the National Assembly, such as approval of the budget and resolutions on dialog with Serbia, were adopted without opposition votes. When public protests in the streets of Pristina turned violent in January 2015 and again in 2016, during the voting-in of President Thaçi, Kosovan Prime Minister Isa Mustafa accused the opposition of trying to bring down the government by misusing the protests.

Performance of democratic institutions



Kosovo's democratic institutions are supported by the majority of the relevant actors. The Kosovo-Albanian parties in the National Assembly identify with Kosovo as a democratic republic state, but sometimes favor an exclusivist, even nationalist position. Though Kosovo is officially a multiethnic state with political privileges for minorities. Some relevant actors, like the Kosovo Liberation Army (KLA) veterans' organization or the self-determination movement, regularly disputed the legitimacy of democratic institutions when reconciliation steps toward Serbia or the mainly Serbian northern regions of Kosovo were being pursued, such as during the "normalization" talks aimed at implementing the Brussels Agreement on the integration of Serb-majority municipalities in Kosovan institutions. The Serbian parties in Kosovo have started to participate in this process, based on the insight that they profit more from cooperation than abstention.

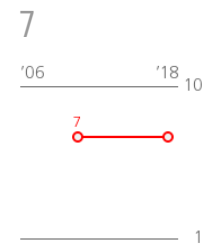
Commitment to democratic institutions



5 | Political and Social Integration

Democracy in Kosovo was in a deadlock in 2016 due to the hardened stances of the government and opposition parties. Kosovo's political scenery is dominated by national party elites, with a very limited role for non-members 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 women, and young and retired people, a lack of affiliated organizations, a hierarchical internal order, simple organizational patterns and indirect election of central party bodies. Electoral volatility is relatively low, the party system quite stable, as the leading parties' reputation as victors in the Kosovo conflict is still quite firm. Parties are institutionalized, but do not have a broad membership. Following the 2014 parliamentary elections, the Party of Democratic Progress (PDK) and the Democratic League of Kosovo (LDK) formed a coalition government led by Prime Minister Isa Mustafa, an LDK politician and former mayor of Pristina. 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. During the period under review, the main opposition parties were the Alliance for the Future of Kosovo (AAK), founded by former KLA commander Ramush Haradinaj, and the nationalist Self-Determination (Vetevendosje) party of former student activist Albin Kurti. Other opposition parties include the liberal New Kosovo Alliance (Aleanca Kosova e Re, AKR) of millionaire businessman Behgjet Pacolli, the "Initiative for Kosovo" (NISMA) under Fatmir Limaj and the pro-European, social democratic "Alternativa" (The Alternative). In 2016, during the protests of opposition parties, the main party representing the Serb community in Kosovo, Srpska Lista (Serbian List, SL), boycotted both parliament and government, following the approval of the law on the Trepca mining complex.

Party system

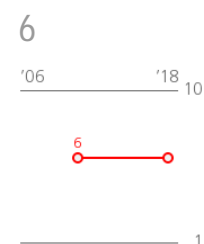


Interest groups remain weak and fragmented, and heavily influenced by the larger political parties. Political parties have tried to influence the Kosovan Chamber of Commerce and the Association of Kosovan Businesses for their own interests. Cronyism stemming from old Kosovo conflict bonds has hindered 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. NGOs can work freely, but courts can dissolve groups which infringe on the constitutional order or foster ethnic hatred. The trade unions remain ineffective and very much dependent on the government. Anti-union pressure from employers, intimidation and threats, 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.

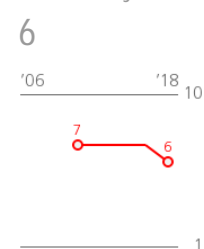
Public opinion surveys have regularly shown that a majority of Kosovans consider democracy preferable to any other form of political system. A survey conducted by the European Bank for Reconstruction and Development in 2016 found that 60% of the Kosovans preferred democracy over any other political system which represents a dramatic decrease from 75% in a 2010 survey. The reasons for the growing dissatisfaction are manifold: the poverty of large parts of society, unemployment, corruption and the low accountability of the political decision-making process.

In 2015, there were about 8,000 registered CSOs/NGOs in Kosovo, with only a small share of them being active, mainly in the Pristina area. CSOs in Kosovo are currently facing a hard time. On the one hand, the European Union continues to increase its contributions to CSOs. On the other hand, many CSOs are too small to have a chance of attracting these funds. The gap between large and small CSOs is getting wider. The donor-oriented CSO model which is more successful under these conditions does not necessarily serve the community better than the previous model. 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 are still fresh and stereotypes of the other have yet to be overcome.

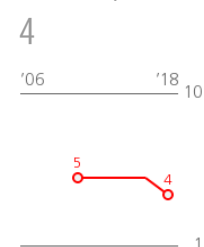
Interest groups



Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Thousands of Kosovans left the country in 2014 to 2015 for the European Union, as Kosovo is still among the poorest countries in the world. About 30% of the population below the poverty line and people's optimism that meaningful change will be achieved soon is low. The average annual per capita income in Kosovo is just €3,000, while the average annual income in the public sector is almost €4,000. 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 Pristina. Inefficient, near-subsistence farming is common, the result of small plots, limited mechanization and lack of technical expertise. Kosovo's unemployment rate between 2001 and 2015 averaged 43%. The unemployment rate is projected to trend around 27.5% in 2020. The unemployed in Kosovo are mainly young people (half of Kosovo's population is under the age of 25, while the youth unemployment rate is 57.7%), women (18.1% are active and 36.6% are unemployed), and unskilled workers (account for 57.1% of unemployed people). Thousands of Kosovans have lost well-paid jobs since the international missions including the International Civilian Office and EULEX started to reduce operational staff numbers. Minorities complain of political exclusion on ethnic grounds. According to the Human Development Index, Kosovo has not made visible progress in recent years and ranks among the least developed countries in southeast Europe (0.804 score in 2009, most recent data). The Gini Index was 27 in 2013, which was the lowest level of inequality in southeast Europe (World Bank data).

Question
Score

Socioeconomic
barriers

5

'06 '18 10



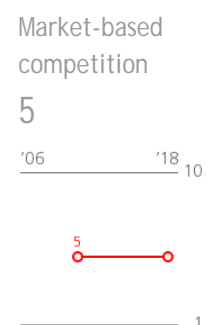
Economic indicators		2013	2014	2015	2016
GDP	\$ M	7072.1	7386.9	6440.5	6649.9
GDP growth	%	3.4	1.2	4.1	3.4
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	5.3	2.7	5.3	3.6
Export growth	%	-1.6	6.3	1.9	2.4
Import growth	%	-3.0	8.6	3.8	5.2
Current account balance	\$ M	-241.2	-501.5	-546.9	-
Public debt	% of GDP	16.2	16.7	18.9	19.9
External debt	\$ M	2220.8	2242.3	2158.2	2152.3
Total debt service	\$ M	147.6	152.6	160.7	158.1
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	16.2	16.4	15.4	14.8
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.7	0.7	0.8	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In 2016, it was feared that the political gridlock could deter investors from key projects. Kosovo's economy is hampered by a paucity of natural resources, an underdeveloped industrial sector, aging equipment, insufficient investment and a labor supply that exceeds demand. Most industry is located in the Serbian-dominated north. The Brussels Agreement was expected to open access to these industrial assets and natural resources. However, a proposed law to allow Pristina to assume control of the Trepca mines sparked protests and a boycott by the Kosovo-Serb community. 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. Nevertheless, while the country ranked 117 out of 183 countries in the World Bank's Ease of Doing Business 2012, it ranked 75 out of 189 countries in 2014 and 60 out of 190 countries in 2017. The economy relies heavily on the international community's assistance, and on the Kosovo-Albanian diaspora's remittances for financial and technical assistance. In



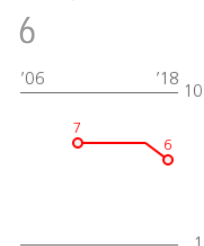
2016, remittances totaled €2.1 billion, with diaspora communities mainly resident in Germany, Switzerland and the Scandinavian countries. Currently and in the past, emigration rates and the informal economy are a direct result of the still high unemployment rate. The informal sector is estimated to account for between 30% and 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.

Competition laws prevent excessive concentration, the abuse of dominant market positions and cartels, and they are generally in accordance with the EU acquis, but there are still significant deficiencies in their enforcement. The Kosovo Competition Authority (KCA) was founded in order to assure enforcement of anti-monopoly and competition laws, which are still fairly inconsistent. The European Commission stated that the KCA has been unable to fulfill its mandate since November 2013, because it lacks qualified staff and the necessary budget. Between 2013 and 2016, the KCA did not take any decisions because no members had been nominated. In June 2016, its five board members were finally nominated by the assembly, but contrary to the relevant assembly committee's recommendations. The State Aid Commission (SAC) responsible for the implementation of the law on state aid has only one staff member, from the six planned for its secretariat.

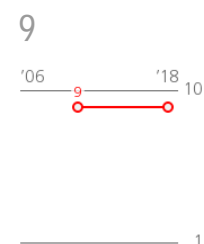
Publicly owned enterprises in the fields of energy, electricity, telecommunications, postal services, railways and air traffic are believed to offer ample opportunities for corruption. When, for example, the state, in trying to reduce the informal economy, required businesses to install electronic bookkeeping equipment, only two companies received licenses to sell this equipment. The KCA concluded that this created a monopoly. According to some civic groups, the government has established a monopoly in the generation and distribution of electricity. There are administrative barriers for entrants in several key sectors and a limited number of suppliers, which keeps prices artificially high.

The SAA Kosovo signed with the European Union is expected to improve the country's trade and investment integration into the European Union. With a trade openness of 71.4% of GDP Kosovo is still not fully integrated into global trade flows. Kosovo continues to record a negative trade balance. From December 2015 to December 2016, the trade deficit widened from €230.1 million to €247 million. Exports consist mainly of mineral products, ready-made food, beverages, tobacco, plastic and rubber articles. Meanwhile imports, coming mainly from Serbia (14.1%), Germany (11.6%), Turkey and China, in 2016 consisted of transport equipment, machinery, electrical materials and mineral products. Kosovo's biggest trade partner remains the European Union (41.9% of trade in 2015), the next in line is Central European Free Trade Agreement (CEFTA) (30.2%). Kosovo has introduced a liberal

Anti-monopoly policy



Liberalization of foreign trade



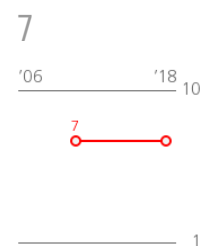
trade regime as part of regional trade liberalization, particularly within the Stability Pact for Southeast Europe.

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 southeast European countries in 2001. The memorandum provided for the elimination of tariffs on 90% of the volume of trade and 90% of tariff lines, the elimination of non-tariff barriers to trade for intra-regional trade, and the strengthening of trade in services.

After acquiring full membership in the Central European Free Trade Agreement (CEFTA), in 2006, Kosovo tried to establish trade rules based on European Union and WTO standards, thus making Kosovo's businesses competitive for the EU and world markets. Kosovo is not yet a WTO member and has not yet taken steps to join. Especially problematic was Serbia's opposition to the export stamps "Republic of Kosovo," which dramatically inhibited exports from Kosovo to EU countries.

Kosovo's banking sector is characterized by a high concentration and restricted competition (interest rate spread marked 10.8%, the highest in the region) which is considered a huge obstacle to financial intermediation. The Central Bank of Kosovo's statistics show that loans have increased year by year by 16.4%, while interest rates for individual loans generally increased by 14.2%. SME credit interest rates stood at 16.65% in 2015, the highest in the region. The banking sector's key profitability indicators continued to worsen in 2016, with return assets (ROA) falling from 2.8% in 2015 to 2.6% in 2016. The sector's outstanding loan portfolio stood at €1.18 billion, up 9.2%. Corporate loans grew 6.3% to €1.41 billion, while loans to households increased by 15.4% to €770 million. Credits in non-euro currencies amounted to €1.4 million. The Kosovo banking system's capital adequacy was 18.6% in 2016. Kosovo's highly capitalized and liquid banking sector has benefited from its relative insulation from international markets. Kosovo's nonperforming loans ratio (of total loans) was 6.2% in December 2015 (2014: 8.3%), and provisions already cover more than 100% of bad debts. The banking system had a capital adequacy ratio of 18.7% in June 2016 (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, but are rather blamed for stifling business. In general, banks are reluctant to take on much additional exposure to the country's leading corporations, due 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

Banking system



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 has not become more accessible in spite of the Brussels Agreement.

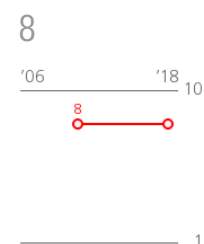
8 | Currency and Price Stability

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, but uses the euro as its currency. 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 central responsibility of ensuring a stable financial system.

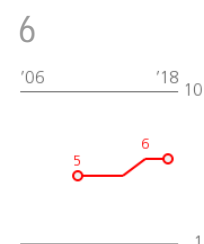
Bedri Hamza, governor of Kosovo's central bank, stressed that the bank was committed to a low inflation rate. Inflation has been volatile despite the use of the euro as single currency in circulation. Average consumer price inflation was recorded at 0.23% in 2016 (1.77% in 2013) by the Kosovo Agency 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 2009. The inflation rate declined further and became negative in early 2015 (0.54%). 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.

Kosovo's government, which has a €8 million fiscal deficit, has to do its utmost to promote macroeconomic stability. In order to reduce public debt, Kosovo introduced a public debt law setting the maximum public debt-to-GDP ratio at 40%, which was reduced to 30% in a recent amendment. Other correctives include a constitutional stipulation that external borrowing by the government requires parliamentary ratification with a qualified majority, a law on public financial management and accountability – any additional budget has to be deficit neutral – and a fiscal rule limiting budgetary deficits to 2% of GDP. These policies were necessary because Kosovo's fiscal policies had for a long time lacked institutional safeguards and were prone to populist policy changes. Budgets were expanded before elections, public sector wages and pensions were raised by 25% in 2014, and new social benefits were introduced for political prisoners and conflict veterans. Infrastructure projects were started with high political prestige and little economic viability. A sharp reduction in government expenditure was necessary in order to keep the financial deficit at the 2% of GDP defined by the fiscal rule. The overall budget deficit was 3% in 2013 and 2.4% in 2014, while public debt was 9.7% in 2013 and 11.4% in 2014. These are low figures in comparison with other southeast European countries but are mainly attributable to Kosovo's short history of independent political decision-making. Still, Kosovo urgently needs to reduce its public debt which increased from €84 million

Anti-inflation /
forex policy



Macrostability



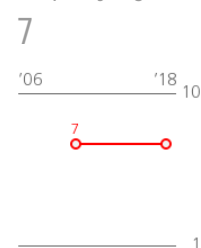
at the end of 2011 to €748 million at the end of 2015 (i.e., 13% of GDP). Kosovo successfully agreed a 22-month Stand-By Arrangement (SBA) of about €184 million with the IMF in July 2015. The SBA should preserve low debt and financial stability, thereby facilitating balanced economic growth. In a 2015 report on Kosovo, the IMF had expressed concern about the deteriorating fiscal situation and noted that public sector wages had more than doubled since independence.

9 | Private Property

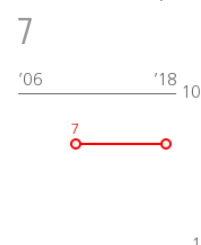
In Kosovo, property rights are poorly defined and enforced, especially those of women and of members of minority communities. The process of establishing clear property relations is still marked by unresolved issues from the pre-conflict and immediate post-conflict era. Return, restitution and reparation remain burning issues. The Kosovo Property Agency (KPA) introduced legal mechanisms to address individual property rights. The Kosovo Property Rights Program (RPR) assists the Kosovo Ministry of Justice to elaborate a property reform strategy and a new property law. Women's property rights are an issue which entered the discussion recently. Women are registered as owning only 16% of real estate in Kosovo. The Kosovo constitution stipulates that women enjoy the right of inheritance, which contradicts tradition and common usage. The low percentage proves that implementation of the law is lagging. Complications with property rights arise from the unreliable cadastral records, non-harmonization of laws regulating property inheritance, legal uncertainties with regard to the functioning of courts, the deficient notary system, a lack of electronic databases, and claims and allegations that properties were sold more than once by displaced Serbs. 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 properties belonging to displaced people and the construction of illegal structures on their property. EULEX tried to solve these issues, with limited success. The Kosovo Police Service has been responsive to property crimes.

Small and medium-sized private enterprises (SMEs) are viewed institutionally as important engines of economic progress, but are not yet able to compete successfully in local, regional, EU and international markets. This is due to deficits in infrastructure, business climate constraints and a government focused on civil service job creation, a problematic legacy of the post-conflict era. A creative culture of entrepreneurship is also missing, according to the Kosovo Ministry of Trade and Industry, resulting in a saturation of particular market niches (e.g., gas stations, swimming pools, hotels). The main obstacles to job creation within and development of SMEs are access to finance, the overall economic situation, the energy supply and foreign trade circumstances. Over 40% of Kosovan firms identified the cost of capital as a significant constraint (Slovenia 19.9%, Serbia 14.7%). In 2016, Kosovo created a credit guarantee scheme to support SMEs. Between 2013 and 2016, the private

Property rights



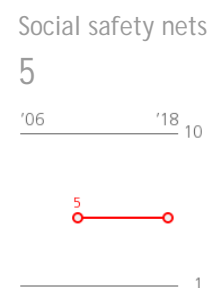
Private enterprise



sector accounted for about 70% of GDP in Kosovo. The privatization process in Kosovo is accompanied by problems such as institutional dualism, ownership disputes, undervalued agricultural land, non-utilization of privatization funds and the exclusion of citizens from the privatization process. These problems have damaged Kosovo's production capacity. As a result of the flawed privatization process more people have lost their jobs than found new ones. Around 500 socially-owned enterprises were privatized, but examples of successful privatization cases in Kosovo are very rare. The complexity and opacity 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. The privatization of the Electricity Distribution Company (KEDS) and other public companies have been burdened with irregularities. There was also strong opposition to KEDS privatization from the public and experts who objected that the country's economy, energy sector and citizenry would not benefit from it. The privatization of KEDS suffered from a lack of transparency. Civil society had no access to the documents in this bid.

10 | Welfare Regime

The high unemployment rate in Kosovo (35.3% in 2014, 32.9% in 2015) and a lack of quality jobs leads to poverty and income insecurity. At the same time, the social safety networks are insufficient, thereby intensifying social problems. Though Kosovo's constitutional framework is compliant with European standards, the reality is quite different. Kosovo would have to implement changes in the law on local finance so that municipalities can deliver social and family services directly to those in need. A lack of clarity regarding the available social service budget results in a variation of levels of support. 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 pensions representing the largest component of social protection spending, and disability pensions, social aid for disabled people in the Kosovo conflict and families whose members died in the conflict. These benefits have increased in the last three years, while interest groups campaign for their further expansion. Over the past two decades, the Kosovo government spent over \$2 billion on payments to KLA veterans (currently 46,000), money Kosovo had received mainly from the United States, the European Union and the IMF. In May 2016, Prime Minister Mustafa announced a 33% increase in pensions, depending on education, to between €158 and €230 per month. Kosovo officially spends a marginal 3% of GDP on health care and social safety, which explains the high poverty rate. Health care is almost unavailable in some parts of Kosovo. Even in the capital of Pristina medical treatment is not sufficient. Patients who have the resources to seek medical care face long waits, outdated technology and doctors who lack advanced education and training. 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



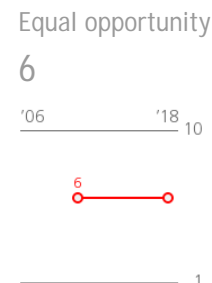
mortality rates (among the highest in Europe), and stunted growth and malnutrition in young children.

As Kosovo is still basically a traditional society, the issue of non-discrimination has not been adequately addressed so far in practice. Kosovo has a sound statutory framework for the protection of human rights and equality, and has shown progress in the adoption of key human rights. They are incorporated into the law, but real opportunities remain unequal for women and minorities. Provisions for equal opportunity are made in the constitution, an anti-discrimination law exists and projects are supported to help people with disabilities. Regarding non-discrimination, secondary legislation for the implementation of the law on protection from discrimination has not been adopted yet.

Gender inequity, particularly marked in education and the labor market, remains widespread and interacts closely with ethnicity. Women over 60 are particularly likely to be illiterate, especially in rural areas where both male and female illiteracy are higher than in towns. Almost 14% of women living in rural areas are illiterate, while the corresponding figure for men is 4%. The pervasive inequities in Kosovo's society are illustrated by educational attainment. On average, a Kosovan has roughly ten years of education, but the rural population lags behind the urban, women behind men, and non-Serb minorities behind Kosovo Albanians and Kosovo Serbs.

Discrimination against women during the hiring process and in the workplace is an issue to be addressed, as well as limited access to child care and to flexible work arrangements. The U.N. Development Program (UNDP) tried to make Kosovo's justice system more accessible to women and to 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.

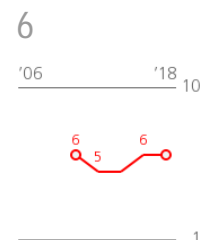
Members of ethnic minorities like the Roma, Ashkali and Egyptians continued to suffer institutional discrimination. The number of Serbs leaving Kosovo for Serbia has kept growing, as they see no prospects for themselves and their families in Kosovo. Marginalization of LGBT people, violence against women, hate speech and hate crime against minorities, and the intimidation of journalists are only partially and inefficiently addressed.



11 | Economic Performance

Kosovo's economy grew by an estimated 3.4% in 2013 and 2.7% of GDP in 2014. The average growth rate between 2011 and 2014 was 3.5%. Kosovo is one of only four countries in Europe to have recorded positive growth rates following a declaration of independence. The economic growth rate in 2015 was 3.6%, and is projected to be 3.9% in 2017 and 4.0% in 2018. These projections are largely based on an increase in private investment, consumption, FDI and workers' remittances. The main sources of economic growth are public investment, the export-driven mining industry and remittances from the Kosovo-Albanian diaspora. Kosovo's heaviest burden is the high unemployment rate of almost 33% in 2015. 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 young people entering the labor market and hold unemployment steady. The inflation rate (CPI) was comparably low in recent years, 1.3% in 2016 and 1.7% in January 2017. In contrast to other states in the region facing stagnation or contraction as a result of falling exports and dwindling FDI, Kosovo can at least rely on large remittances, which account for 12% of GDP, from Kosovans living abroad. Diaspora investments in the real sector largely drive Kosovo's economy but leave it to pay for imports instead of strengthening the local economy. This is why the current government aims to increase domestic productivity and trade. Instead of remittances and consumption, the national economy should be driven by investments and trade. Public administration should be improved to increase the quality of public services and reinforce the business climate. In spite of a slight drop in 2014, FDI still has a positive result (5.6% of GDP in 2015, 3.7% in 2016), while the trade deficit remains high (57% of GDP in 2007, 35% in 2012, 40% in 2013) due to a very weak export base. Kosovo's pre-eminent export goods, mainly exported 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.

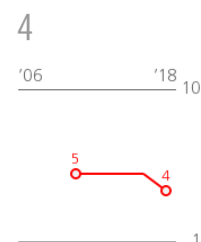
Output strength



12 | Sustainability

Economic progress, job creation and development of industries are such pressing issues that environmental issues often fall behind the government's growth priorities. In October 2013, the National 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 environmental regulations. Kosovo is plagued by environmental pollution and fails to address the serious health impacts related to air pollution. Until today, Kosovo has not adopted a strategy to reduce CO2 emissions. The air quality is particularly poor in the urban areas of Pristina, Obiliq, Drenas and Mitrovica. The main sources of pollution in Kosovo include traffic,

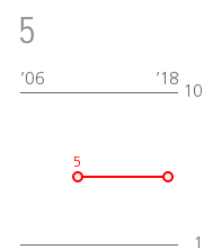
Environmental policy



energy and mining production, the burning of wood and lignite for household heating, emissions from industrial complexes, and landfills for urban and industrial waste. Mining and industry activities produce about 1.3 million tons of commercial, often hazardous waste per year, but a proper waste management for any type of waste does not exist. According to a 2014 European Commission report on Kosovo, around 75% of the water carried is lost due to the neglected pipe system. 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 for 40%. Kosovo has a long-standing wood processing tradition and 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 insufficient provision for sewage. If the current waste management system (which does not really deserve the term) continues unchanged it will lead to serious air and groundwater pollution. With regard to climate change, alignment with EU policies is limited. The Kosovo government has finalized but not adopted a strategy on climate change which should be consistent with the EU 2030 framework of climate and energy policies. In Kosovan society, environmental awareness is just in its early stages of development.

Kosovo has a markedly positive demographic situation (38% of the population is under 19 years of age, 2012), and would benefit economically if education received adequate public spending and the standards of the education system were raised. Until 2015, public spending on education was increased to 4.95% of total public expenditure and 17.1% of per capita GDP, which was still substantially less than the regional average. Quality of education differs across municipalities. Reforms have been initiated, including improvements in access to education, a modest increase in government spending, an improved teacher management, and a mandatory teacher certification and training system. The education system remains underdeveloped and weak. It does not provide students with the skills they need in a rapidly changing labor market. The Kosovo government has started implementing the Kosovo Education System Improvement Project, supported by the World Bank with a \$11 million credit, which intends to strengthen quality, accountability and efficiency in education. Higher education is offered mainly in Pristina and in Serb-inhabited northern Mitrovica. The last ten years have seen a proliferation in 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 and early school dropout rates among minority groups remain high. A serious problem is the disproportionately high number of university graduates, far beyond what the labor market is able to accommodate. The value of

Education policy /
R&D



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 regional and international academia. In the postwar period, the pre-university sector has been restructured, and the infrastructure of schools has been improved. Kosovo has three public universities and 14 public research institutes. Kosovo passed a scientific research law in order to boost participation in international research projects, but this law has not been properly implemented due to a lack of funding. The main obstacles are a lack of scientifically qualified personnel, the low number of PhD students, poor laboratory equipment and insufficient technical know-how, isolating Kosovo's research community from the international one. The research budget is below 0.2% of GDP, and Kosovo has to improve its administrative capacity on research and innovation. Still, Kosovan organizations were involved in more than 50 proposals submitted to the EU research and innovation program Horizon 2020. Of these 50 proposals, nine have been promised funding, which is a positive development compared to previous years.

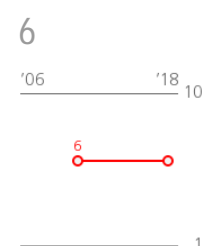
Governance

I. Level of Difficulty

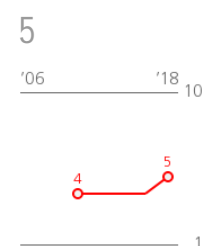
Nine years after the declaration of independence, governance capacity is still limited by structural constraints. Kosovo is one of the poorest countries in the world, with an estimated unemployment rate of 36% (2014). There are many adult family members in precarious or unsteady jobs who are living below the poverty line, from the majoritarian population, women and elderly people, and especially from minority communities. The labor force has either acquired an education that Kosovo's labor market cannot profit from or dropped out of school early, as in the case of many Roma, Ashkali or Egyptians. Traditional constraints such as discrimination against women in the workplace add to the deficient education situation. Kosovo is a landlocked country, with connections to ethnically related Albania, but is dependent on good relations with Serbia and Macedonia where Kosovo is not generally seen in a favorable light. Visa liberalization and EU membership is seen as a solution to Kosovo's precarious geographical location. Severe infrastructural deficiencies – a neglected railway system, outdated machinery and defective motorways – have to be addressed by the government. High unemployment and poverty, as well as limited access to education and high levels of low-skilled labor, constitute serious obstacles to economic prosperity. The EU accession process has highlighted many of Kosovo's structural constraints and is expected to boost the modernization of Kosovo's society.

Under Kosovo's parallel political system, which existed before the Kosovo conflict, civic engagement was widespread, and many Kosovans participated in defending their culture and social life against Serbia's oppression. The initially nonviolent Kosovan resistance movement of the 1990s built a tradition of civic solidarity. On the other hand, Kosovan society is characterized by a strong reliance on family structures and a traditional tendency to abstain from public involvement, which had been a reason for regular complaints from officials in Tito's Yugoslavia. Large family networks in Kosovo are still the primary form of social engagement, while membership in political parties and voter turnout on election days remain relatively low (under 50%). The numerous NGOs in Kosovo, mostly international, have contributed considerably to social progress, but most of them are no longer active. It is often claimed that corruption charges against politicians did not attract much attention because politicians are held in low repute. In 2016, the situation seems to have changed a bit. After the winter of discontent 2014/2015 when thousands of Kosovans left the country, participation in anti-government protests rose substantially.

Structural constraints



Civil society traditions



Immediately following the Kosovan conflict, ethnic divisions mainly between Kosovo Albanians and Kosovo Serbs dominated political and social life. After the declaration of independence in 2008, these divisions still exist, especially in nationalist Kosovan political circles. The Ibar river in the north still demarcates a line of conflict, although the conflict is no longer as violent as it was, due to the neighborhood policy of Pristina and Belgrade. Large population groups can still be mobilized to protest certain decisions of Serbia regarding Kosovo. But as issues and problems have now to be solved by Kosovo's political elite and civil society, critique and protests are rather directed at Kosovo's own government now. The protests against the Brussels Agreement which turned violent were both a protest against an alignment with the problematic neighbor and a protest against a political elite many Kosovans considered to be incompetent. The religious renaissance of traditional Islam in Kosovo is also a reflection of social problems and a sluggish reform process, and an antidote to social discontentment. The multi-religious Kosovan society and its tradition of religious tolerance is in serious danger of being displaced by ethnic strife and religious confrontation. The ethnic strife can only be resolved if the Serb community, which was ushered into cooperation, feels an accepted and not only tolerated as part of Kosovan society. Religious strife between the Serbian Orthodox residents and Muslim Kosovo Albanians is largely a byproduct of the ethnic and territorial dispute. Islam in Kosovo is widely believed to be peaceful, not prone to radicalization, a favorable situation compared to the rest of Europe. But Kosovo has recently become a recruiting place for the Islamic State (IS) group. Social tensions are exacerbated by low wages, high living costs, the high unemployment rate, poverty and the deficient social welfare system. These problems resulted in labor strikes, suicide, crime, and, as in winter 2014/2015, in mass 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 manipulates Kosovo's politics.

Conflict intensity

5

'06 '18 10

5

1

II. Governance Performance

14 | Steering Capability

The election of Isa Mustafa (LDK) as new prime minister in 2014, an economist and professor at the Pristina University, marks a policy and strategy change in the country's short political history. The former prime minister, Hashim Thaçi, had officially developed strategic priorities in accordance with the international actors in Kosovo, but often postponed or ignored official policy in favor of securing short-term political benefits for party colleagues and old KLA comrades. In contrast, Mustafa has adopted a more matter-of-fact, technocratic political style. The former

Question

Score

Prioritization

6

'06 '18 10

6

1

government was often criticized for increasing public sector wages at the expense of public investment projects. Subsidizing KLA veterans and building a Kosovan national identity were considered to be more important by the former government than implementing a structured, strategic social policy program. Kosovo achieved considerable success on the international level, including admission to supranational organizations like the World Bank and IMF. But social policies, the fight against corruption, reform policies urgently demanded by the European Union to accelerate the accession process, are progressing slowly. Mustafa defended the newly-created Association of Serb Municipalities in the National Assembly. Opposition deputies threw eggs at him in September 2015. When the ethnic Serbian party, Srpska Lista, refused to participate in Kosovan institutions following a request by the Serbian Prime Minister Aleksandar Vučić, Mustafa called the position of the Serbian government wrong, destructive and unacceptable. Still, the Kosovan opposition routinely blocks the National Assembly's work and the reconciliation process with Serbia through violent protests and has even demanded Mustafa's demission. Mustafa also defended the border demarcation agreement with Montenegro, another important step toward developing friendly relations with neighboring states, but even ministers of his government opposed the agreement.

The government's attempts to successfully implement its strategic priorities were inhibited by the problems that have accompanied Kosovo's development since the declaration of independence: cronyism, corruption, an inefficient economy and the high unemployment rate. Strategic priorities are shared by the key political actors, but they often neglect that progress on the national and international level comes at a certain price, meaning that one would have to make sacrifices. As international subsidies started drying up, international agreements with considerable concessions had to be signed, including the Brussels Agreement, the border demarcation agreement with Montenegro. Similarly, an efficient anti-corruption strategy has to be adopted which risks alienating parts of the political elite and the electorate. The violent protests and polemic against reform-oriented politicians like Prime Minister Mustafa were a visible result of this painful, but necessary process. The signing of the EU SAA was a major success and a sign that the European Union appreciates Kosovo's serious endeavors to bring about policy change. The Brussels Agreement with Serbia is progressing in spite of opposition protests and boycotts by the Kosovo-Serb community. Generally, Kosovo has made progress in implementing economic and political reforms since the elections of 2014. However, due to political inertia, lack of capacity and inefficient administration, reforms were often not implemented as readily as intended. The anti-corruption policy is still not consistent enough to secure convictions in cases of high-level political corruption. Police, prosecutors and courts have not effectively addressed organized crime. The government was also unable to really improve the business environment in order to attract more FDI and reduce unemployment.

Implementation

6

'06 _____ '18 10

6

_____ 1

The government's capacity for policy learning and its flexibility regarding the replacement of failed policies is limited. Before and immediately after 2008, the policy learning process was mainly driven by the international actors in Kosovo, the International Civilian Office, the OSCE, the European Commission, the EULEX and members of the Quint, the United States, the United Kingdom, Germany, France and Italy. They set the agenda and tried to enforce it largely against local antagonisms. Civil society, liberal intellectuals in the media and NGOs tried to infuse their reform agenda, with limited success. The new LDK-PDK government elected in 2014 is forced to correct a policy of the past which has not produced the expected results. Appeals to national identity have not solved Kosovo's problems. All governments since 2008, including the Thaçi government have demonstrated a willingness and ability in policy learning. They tried to transfer advice provided by the international community, but often failed or stopped half-way. The legislative process is to a considerable extent not based on an endogenous process of assessing the country's actual needs and identifying policy priorities. As the agenda was long set from external actors, 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. The Thaçi government also found it difficult to adapt its policy-making to the new situation emerging after Kosovo had attained independence. Policy-making became more ad hoc and remained donor-driven rather than based on a clear set of priorities reflecting the post-independence situation. The desire and need to join international organizations (e.g., the European Union) forced the political actors to improve the dialog process with Belgrade and alter domestic political decisions.

Policy learning

5

'06 '18 10

5

1

15 | Resource Efficiency

The European Reform Agenda developed to maximize the political and economic benefits of SAA, includes the statement that Kosovo needs a transparent, merit-based and non-political selection process in order to guarantee independent institutions, agencies and regulatory bodies. 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 National Assembly does not have the means to force the government to really assess the auditor's findings, find those who made the mistakes or violated criteria, and take corresponding measures. The government has committed itself to establishing a rules-based fiscal framework limiting the budget deficit. In 2016, the National Assembly adopted a comprehensive public financial management strategy and a law on general administrative procedures. 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 static and has not been reduced contrary to the international community's

Efficient use of assets

4

'06 '18 10

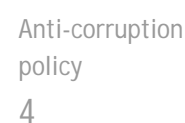
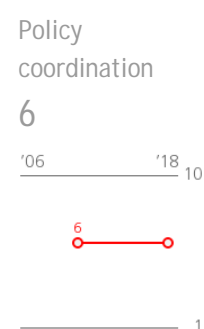
4

1

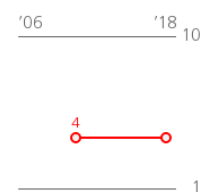
recommendations. Civil servants' low wages, which were between €170 and €250 per month, were increased by Prime Minister Thaçi's government, a decision sharply criticized by the IMF as incompatible with the country's difficult economic situation. A sustainable public administration reform is urgently needed, including necessary funding and staffing, as recruitment is still heavily politicized. Party loyalty is often more important than professional competence. In 2001, the first Law on Civil Service in Kosovo named core principles such as equity, accountability, transparency and merit. In 2016, Kosovo still had a rather politicized civil service which explains why Kosovo is considered a captured state. The number of minority members in public posts is still disproportionately low.

The current government of Prime Minister Mustafa realized that given the tight fiscal and economic situation, and the political desire to accelerate the EU integration process, a more effective planning is urgently needed. The government wants to improve the planning system in order to avoid fragmentation and duplication between the government's general policy and financial planning processes. A strategic planning framework and a budget planning framework was established and five core processes are to be addressed, among them EU integration, public investment and integrated monitoring. The implementation of the Strategy for Improving Policy Planning and Coordination is projected for the period 2016 to 2018. The EU integration process proposed a process that should already have been implemented. A lack of a coordinated political strategy is exacerbated by the EU accession process and deficits of economic development. The government of former prime minister Thaçi had tried to coordinate conflicting objectives, but friction, redundancies and gaps in task assignment were significant. The former government often had to balance the contradicting views of Thaçi's PDK, the AKR and several ethnic minority parties. Political coordination was achieved through informal meetings of the party leaders. While there were efforts to address conflicting priorities, the allocation of ministries as fiefdoms to coalition parties inhibited a constructive cooperation. Political coordination has become more difficult in the government of Prime Minister Isa Mustafa, which took office in December 2014, because it represents a sharp bipolarity between PDK and its long-term rival of roughly equal political strength, the LDK. The prime minister's office, the Ministry of Finance and the Ministry of European Integration are charged with inter-ministerial coordination. A cabinet committee, the Ministerial Council, was established to coordinate EU-related policies. There is a Steering Group for Strategic Planning and an office for strategic planning at the prime minister's office, designed to coordinate policy planning, but both lack political weight.

Kosovo has made the fight against corruption a key national priority, and has established institutions and legal mechanisms to tackle corruption. The number of bodies responsible for tackling corruption is in marked contrast to results. Corruption is an issue given prime importance by the national media. The Ministry of Finance is responsible for supporting anti-corruption activities in public administration. But

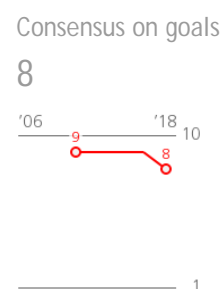


cases are not investigated thoroughly enough and are often inhibited if political interests are touched upon. The legal framework concerning corruption exists, but coordination of the organizations involved in fighting corruption has long been lacking. The Kosovo Anti-Corruption Agency (ACA) founded in 2006 is the most visible institution, but lacks the necessary legal mechanisms, staff and budget to exercise the necessary corruption-related activities. The consultative forum of NGOs found the new anti-corruption strategy and action plan, approved by the National Assembly in February 2013, so weak that instead of fighting corruption the strategy legitimized corruption. 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. Public procurement remains affected by corrupt officials who divert public funds for personal gains. The fact that a variety of institutions (e.g., the office of the state prosecutor, the anti-corruption task force, the office of the auditor general and also the EULEX mission) are involved in fighting corruption has only resulted in spending without a coherent strategy. The National Assembly should supervise the anti-corruption agencies, a function weakened by the ongoing clashes between political parties. 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. Consisting 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. The council seeks to contribute to the government's anti-corruption strategy and the implementation of anti-corruption laws, and to propose new corruption-related laws. The political will to clean up public institutions and the decision-making processes is lacking. Anti-corruption policy in Kosovo therefore 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.



16 | Consensus-Building

Since 2008, the year of the declaration of independence, all major political actors in Kosovo saw democracy and a working market economy as goals to be achieved and continuously improved on. Integration into the European Union was welcomed as an acknowledgment of Kosovo's attempts to become a European liberal democracy. This was in marked 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 was the precondition. The dialog between Serbia and Kosovo is presently supported by the Serbian government as well as the new Kosovan government formed in December 2014. The overall goal is clear and supported by a majority, but the road toward this goal is more contested now than ever. Opposition



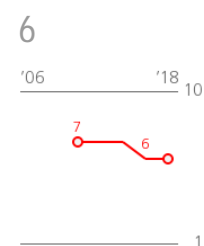
parties accuse the government of misusing its powers in an authoritarian way, thus eroding the Kosovan democracy.

The concept of market economy is not principally contested by any of the important political parties and civil society groups in Kosovo. The malfunctions, low wages or the effects and conditions of the privatization process are criticized and reforms demanded.

During the period under review, moderate political elites in Kosovo have been able to limit the influence of radical political actors that reject the constitutional order of Kosovo and the Brussels Agreement. One of the driving motives of the Brussels Agreement for the Kosovan government was the dissolution of the so-called Serbian parallel structures. The Kosovo-Serb minority had maintained these parallel structures out of a deep distrust of the Kosovo-Albanian political elite and a principal opposition to a Kosovan statehood. However, the government considered these structures to be unconstitutional, illegal and opposed to a democratic, independent Kosovan society. Mainly northern Kosovo with its large Serbian population, but also the Serbian enclaves in the south, received financial, logistic and political support from Belgrade. Pristina considered the case of northern Kosovo and Mitrovica to be a form of separatism, and an attempt to undermine Kosovo's democratic republic. Serbian representatives defended their position by pointing to the dire situation of the Serbian minority and argued that the Kosovo declaration of independence was itself an act of separatism. The Kosovan nationalist VV movement exerts considerable influence on the democratic process via street protests against the Brussels Agreement which turned violent in 2016. The traditional demand of VV is to disrupt the Kosovo-Serbia dialog process, a precondition for EU accession. 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 government if the dialog process would be interrupted. According to estimates of the Ministry of Interior published in 2016, more than 300 young Kosovans have joined the Islamic State terror group since the beginning of the conflicts in Syria and Iraq. There are serious concerns that returnees from this war will form violent radical groups in Kosovo. The government has signaled its firm intention to keep up the dialog process, irrespective of opposition from radical groups, and maintain a keen eye on Islamist activities in Kosovo.

While ethnic cleavages could be reduced to a certain extent due to the agreement with Belgrade, social divisions were always present and religious divisions have become more defined recently. Patterns of international religious radicalization are increasingly influencing Kosovan society. Kosovo's government is committed to defending the country's tradition of religious tolerance. After the Kosovo conflict, inter-ethnic tensions had been constantly present, but had been largely contained by the presence of the international actors, KFOR, UNMIK and recently EULEX, as much as their success is being contested. Still, Kosovan political elites have been

Anti-democratic actors



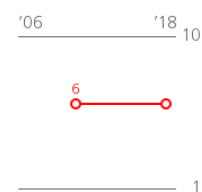
Cleavage / conflict management

6

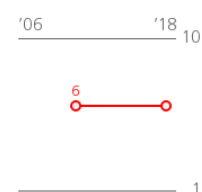
unable to prevent occasional outbreaks of violence. Poverty, the persistent high unemployment rate and the emergence of the radical VV movement (which recently became a political party) have opened up a new political cleavage. Though the number of Kosovo Serbs is progressively declining, the creation of the Association of Kosovo-Serb Municipalities as a consequence of the Brussels Agreement provoked violent clashes and tear gas attacks on the National Assembly in 2016. The government has prevailed so far, with international support. Prime Minister Mustafa presented international integration as the only viable option for Kosovo to achieve a better future. The old government's neglect of a consistent reform policy tended to deepen cleavages. The emigration of thousands of Kosovan citizens toward the end of 2014 was a direct result of deepening cleavages. Serbian enclaves' participation in national institutions increased after the Brussels Agreement, in spite of occasional disruptions. Parts of the political elite continue to propagate divisive notions, such as interpreting Kosovan culture as homogenously Albanian, thus excluding the role of other ethnicities. This is done in contradiction to the official commitment to a multiethnic society.

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 confrontation and criticism. Religious organizations sometimes complain about a lack of interest in their concerns. Kosovan politicians prefer to stress their commitment to a secular society. The variety of NGOs and civil society organizations has increased visibly since 2008, with a strong focus on the legal system, good governance and minority rights. Cooperation between the political elite and NGOs has increased, and most NGOs who seek cooperation find ways to do so. Joint cooperation rarely results in action. The importance of a civil society for Kosovo is emphasized in official documents, but not consistently reflected in the political decision-making process. Some civil society initiatives have at least proved successful (e.g., the anti-tobacco movement).

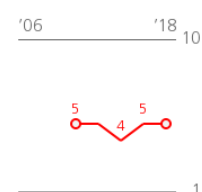
In 2016, U.S. Vice-President Joe Biden urged Kosovan officials to seek reconciliation with Serbia and work toward normalizing relations, in spite of the painful reminiscences of Serbian oppression and the Kosovo conflict. This would accelerate EU accession. President Thaçi and Prime Minister Mustafa have shown a commitment to advance the process of dialog with Serbia so far. In the years after the conflict, the political elite has not really addressed historical acts of injustice and has made limited efforts to initiate a process of reconciliation. In April 2014, the National Assembly approved the creation of a special court to adjudicate on crimes committed by Kosovo Albanians during and after the 1998-1999 Kosovo war. The court is presided over by international judges and located in the Netherlands. Also in 2014, an EU Special Investigative Task Force (SITF) headed by Senator Dick Marty, set up in 2011, claimed that groups including senior Kosovo-Albanian guerillas had been involved in killing Serb and Albanian prisoners, and removing their organs to sell them. The allegations have not succeeded in initiating a broad internal debate about



Civil society participation
6



Reconciliation
5



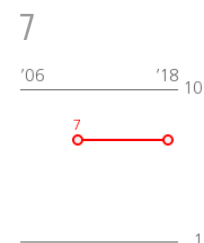
KLA crimes. The War Veterans' Organization, VV and opposition parties protested the prosecution of KLA veterans suspected of crimes against minorities in Kosovo, thus inhibiting reconciliation. The efficient prosecution of war crimes continues to be constrained by the intimidation of witnesses, who are also insufficiently protected. The government has begun to pay out compensation to the political prisoners, and a new law will compensate war veterans.

17 | International Cooperation

Kosovo still relies to a certain extent on support from the international community. The United States and the European Union have provided economic and political assistance since the end of the conflict and declaration of independence. After 2008, as international support was progressively reduced, successive Kosovo governments have increasingly had to rely on Kosovo's political, economic and intellectual resources, which remain inadequate. Generally, the efficient use of international support is inhibited by a non-constructive political dialog between political parties, a lack of transparency, corruption and the deficient rule of law. Since the start of EU accession talks and regular Pristina-Belgrade meetings in order to improve the neighborhood policy, additional support is provided by the new negotiating partners. The international community, the military and civilian missions in Kosovo helped Kosovo significantly in creating institutions, infrastructure and judiciary. The EULEX legal mission was the last in a long series of different forms of international assistance. Within the European Neighbourhood Policy, under IPA II, Kosovo will receive €645.5 million in EU funding between 2014 and 2020 to achieve results in priority sectors like democracy and governance, the rule of law, fundamental rights, energy, competitiveness and innovation, education, employment and social policies, and regional and territorial cooperation initiatives. According to a 2012 report of the European Court of Auditors, Kosovo received €16 per capita in EU assistance in 2011, more than twice the per capita assistance granted to other western Balkan countries in 2011. EU per capita assistance provided since 1999 has been more than that of any other recipient country in the world. More than half of this aid was given to support the rule of law (police, prosecutors, judicial system) 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 supported by most of the political actors as long-term.

The number of U.N. member states that recognize Kosovo as a sovereign country has increased from 75 out of 192 countries in 2010 to 99 out of 193 countries in 2013 to 113 out of 193 countries in 2016. Five EU member states (Romania, Slovakia, Spain, Greece and Cyprus) still refuse to recognize Kosovo. The U.N. Security Council Members Russia and China also still refuse to recognize Kosovo, because they consider the Kosovo case a destabilizing example for other breakaway regions in the world. As Kosovo is still blocked by the five EU member states that refuse to

Effective use of support



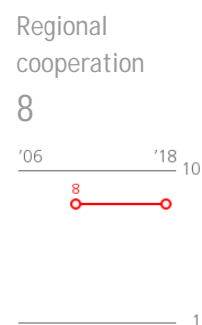
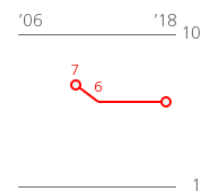
Credibility

6

recognize it, it cannot join EU's police information-sharing network, Europol, and is struggling to join Interpol. Prime Minister Mustafa has recently toured Europe and the United States to build confidence and further international integration. His predecessor's reputation was tainted by allegations of corruption and crimes he had committed as KLA commander. In political respects, Thaçi was perceived as a credible and reliable partner, but some international actors still expressed doubts. The SAA signed in 2014 is the EU's recognition of Kosovo's reform efforts and the progress made toward better relations with Serbia. 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 Kosovo's government induced the European Union to downscale the mandate of its rule of law mission EULEX. The European Union still retains its visa obligation for Kosovan citizens.

Kosovo, a landlocked state with scarce energy resources and a young population, is very much dependent on regional cooperation. The deputy Foreign Minister of Kosovo, Valon Murtezaj, on a meeting of the Southeast Europe Cooperation Process (SEECP), expressed his country's commitment to contribute to strengthening regional cooperation and peace, and boost economic development. Several EU member states and neighboring countries (Bosnia, Serbia, Romania, Slovakia, Cyprus and Greece) still refuse to recognize Kosovo as an independent state. The refusal does not primarily reflect Kosovo's deficient minority policy, but the respective nations' internal problems with their minorities. Kosovo's government has sent official letters to the Migration, Asylum, Refugees Regional Initiative (MARRI) and to the Regional Anti-Corruption Initiative (RAI) requesting membership. Although the EU office in Kosovo attempted to facilitate the negotiations with MARRI this remains a challenging task. By January 2017, Kosovo had only obtained an observer status in RAI Steering Group.

In March 2013, Kosovo became a full member of the Regional Cooperation Council, the main umbrella organization for regional cooperation in southeastern Europe, with 46 members, which is considered the main instrument of EU pre-accession and regional cooperation. Serbia and other regional actors still refuse recognition because they fear that the recognition of the breakaway republic has already set a dangerous precedent for other European regions with separatist ambitions. The dialog between Belgrade and Pristina is considered to be a model for other strained relations in the region.



Strategic Outlook

The dissatisfaction of Kosovo's citizens with democratic and social regression prompted almost 100,000 Kosovans to leave Kosovo for the European Union between August 2014 and early 2015. The number of migrants from Kosovo seeking asylum in the European Union has increased by 40% since December 2014. The National Assembly passed a special resolution to prevent illegal migration and the European Commission urged Pristina to increase border supervision. Prime Minister Mustafa called migration a heavy burden and promised to undertake measures to prevent further emigration, including the improvement of living conditions in Kosovo. Kosovo is the only western Balkan country without a visa-free arrangement with the European Union. Therefore, many Kosovans applied for Serbian passports, as Serbia still considers Kosovo part of Serbia and Serbia has a visa-free arrangement with the European Union. A solution to Kosovo's political crisis is hindered by the deadlock between the government and opposition over the Brussels Agreement with Serbia establishing Serb-majority municipalities and integrating them into Kosovan institutions, which is an important step toward EU membership for both countries. The ratification of the deal on border demarcation with Montenegro is also important for regional stability, but splits Kosovan society, and even Prime Minister Mustafa's coalition parties and ministers. Kosovo President Thaçi committed to the implementation of these agreements which, he said, were in the interest of Kosovo, the region and the Euro-Atlantic future of Kosovo. Thaçi and Mustafa consider reconciliation the only way to achieve EU integration. On the other hand, two substantial burdens continue to undermine development in Kosovo: the high unemployment rate, particularly among young Kosovans; and corruption, which reduces citizens' faith in government and limits investment needed for economic growth. Political progress, reconciliation, and a progressive social and economic policy for Kosovo were also inhibited by the political rift between government and opposition parties. In 2016, demonstrations against the implementation of the controversial but prudent agreements turned violent. If Kosovo wants to continue its path toward EU integration and further democratization, it must implement effective strategies against corruption, and increase the transparency of political, administrative and economic structures in Kosovo. Kosovo is a landlocked country that needs strong regional and international cooperation. A wise neighborhood policy initiated under the Thaçi government and continued under Prime Minister Mustafa attempts to persuade more countries to recognize Kosovo as a sovereign country, secure Kosovo's integration into international organizations and open access to international labor markets for Kosovo's young population. The attraction of radical Islam in Kosovo results from the political and social dissatisfaction of Kosovo's youth. Kosovo's post-conflict history was also marked by nationalism, xenophobia and stagnation as a result. The preconditions for a better future were laid in recent years. The reforms initiated recently in response to socioeconomic problems and the EU integration process aim to improve the functioning of Kosovo's democratic institutions, characterized by cooperation and compromise rather than political strife. Only the effective rule of law will attract FDI. Kosovo in the last year showed a different picture, but there is also the promise of change in the political will expressed by the new government for substantial reform. Kosovo stands at a turning point in its short post-conflict, post-independence history.

Kosovo as a decidedly pro-U.S. society feared that the election of the U.S. Republican party presidential candidate, Donald Trump, might be disadvantageous for Kosovo. In northern Kosovo, the Serbian majority was generally favorably inclined toward Trump. Some expected him to encourage Kosovo to reintegrate into Serbia. An understanding between Trump and the Russian president, Kosovo Albanians feared, could be followed up by a reduction in U.S. protection for the Balkans, and an intensification of Serbian and Russian influence.