

BTI 2010 | Kosovo Country Report

Status Index	1-10	6.48	# 38 of 128
Democracy	1-10	6.95	# 40 of 128
Market Economy	1-10	6.00	# 56 of 128
Management Index	1-10	5.33	# 59 of 128

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	2,42	HDI	-	GDP p.c.	\$	1464
Pop. growth	% p.a.	1,5	HDI rank of 182	-	Gini Index		-
Life expectancy	years	69	UN Education Index	-	Poverty ²	%	-
Urban population	%	37	Gender equality ¹	-	Aid per capita	\$	-

Sources: United Nations Statistics Division | The World Bank, Sitesources | Statistical Office of Kosovo.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The period covered in this report (2007 – 2009) was heavily dominated by the agenda of the final status of Kosovo and with managing overall political and security stability in the country. Most of 2007 was spent on international management on finding modalities to push for Kosovo's independence. In March 2007, the United Nations Special Envoy for Kosovo, former Finnish President Martti Ahtisaari, presented his plan for Kosovo's final status to the U.N. secretary-general. This plan comprised two documents: the Report of the Special Envoy of the Secretary-General on Kosovo's Future Status and the Comprehensive Proposal for the Kosovo Status Settlement. Ahtisaari recommended that "Kosovo's status should be independence supervised by the international community." The plan envisaged the end of U.N. Resolution 1244, provided for the departure of the U.N. Interim Administration Mission in Kosovo (UNMIK) and the transfer of its remaining competences to the Kosovo government. It also mandated the European Union to deploy a political mission – the International Civilian Office/European Union Special Representative – to oversee the settlement's implementation, a police and justice mission to strengthen the rule of law and a continuing military mission to guarantee overall security under a NATO-led international military presence. Due to Russia's threat to use its veto power, if Ahtisaari's proposal was to be tabled at the U.N. Security Council, the U.N. secretary-general mandated a "troika" (of the United States, the European Union and Russia) for another four-month round of negotiations with Pristina and Belgrade on Kosovo's final status. The troika's mandate ended in December without achieving an agreement between the parties.

On 17 November 2007, the Kosovars elected a parliament for the third time since the end of Serbian rule. The Democratic Party (PDK) led by Prime Minister Hashim Thaci emerged as the largest single party. It was followed by the Democratic League of Kosovo (LDK) of President Fatmir Sejdiu. The PDK and LDK formed a coalition with some deputies representing ethnic minorities. The new coalition government succeeded in maintaining stability and preventing violence.

In coordination with the United States and Brussels, Kosovo's Assembly adopted a declaration of independence on 17 February 2008, declaring Kosovo a sovereign and independent state. This ended the almost decade-long United Nations protectorate. Fifty-five states have recognized the independence of Kosovo, including 22 of the 27 EU member states. Kosovo's authorities pledged to fully implement the provisions of Ahtisaari's Comprehensive Status Proposal. The Assembly invited the European Union to deploy its rule of law mission (EULEX) and to establish the International Civilian Office (ICO) to supervise the implementation of Ahtisaari's plan. U.N. Secretary-General Ban Ki-moon declared that the United Nations and its Kosovo mission, UNMIK, would operate under a "status neutral" framework days before Kosovo's constitution entered into force in June.

Serbia reacted to Kosovo's move by instigating Kosovo Serbs in northern Kosovo to burn border posts in the area and pressured them to abandon Kosovo's institutions, including the police force. On 11 May 2008, Belgrade organized "municipal elections" in Kosovo Serb areas, which were declared illegal by UNMIK and the government of Pristina. In June 2008, the radical forces, which won the elections, created the Assembly of Association of Municipalities of Kosovo and Metohija, a body envisaged to oppose possible moderation in Belgrade and keep the status quo in northern Kosovo.

On 8 October 2008, the U.N. General Assembly (GA) adopted a resolution submitted by Serbia requesting the International Court of Justice (ICJ) to issue a non-binding advisory opinion on whether the Kosovo's declaration of independence was in accordance with international law. Serbia claimed a diplomatic victory and a success in freezing further recognition of Kosovo's status, but seven countries recognized Kosovo's independence after the GA vote, including Montenegro and Macedonia.

The reconfiguration of the international presence in Kosovo met with many problems in 2008. Three different international institutions – UNMIK, ICO and EULEX – kept functioning with different mandates. EULEX began its full deployment in early December following months of negotiations between the United Nations, the European Union and Serbia. The end of these negotiations risked the stability of Kosovo, which was almost excluded from the arrangements and was not pro-active in setting the political agenda. On 24 November 2008, the U.N. Security Council issued a presidential statement calling for EULEX's deployment in Kosovo under U.N. Security Council Resolution 1244. However, the legal mandate of EULEX from the EU Joint Action Plan of 4 February 2008 gives EULEX the mandate to support the implementation of the final status of Kosovo when it comes to the rule of law. EULEX deployed successfully on 9 December 2008 throughout the entire territory of Kosovo and, on that day, UNMIK transferred all of its legal authority to the new EU mission.

In 2008, Kosovo's governance changed from the previous decade, with the central powers now resting with the central government, which was heavily assisted by the ICO and foreign embassies in Pristina. With the adoption of Kosovo's constitution in June 2008 and the creation of the Ministry of the Security Force, the Security Force of Kosovo, the Kosovo Intelligence Agency and the Kosovo Security Council in early 2009, the institutional framework of the state was completed. These institutions are heavily overseen by NATO, the ICO and EULEX.

History and Characteristics of Transformation

Kosovo became an independent state on 17 February 2008 with its declaration of independence and subsequent recognition by most Western countries. Thus, it became the last country to emerge from the 17-year process of dissolution of the former socialist state of Yugoslavia.

In 1912, Kosovo was occupied and annexed by Serbia and then integrated into Kingdom of Yugoslavia (1918) and, later, the Socialist Federal Republic of Yugoslavia (1945). These historic events did not include the consent of Kosovo Albanians, who constituted the vast majority of the territory's population. In post-World War II Yugoslavia, Kosovo was an autonomous province, and its status was gradually enhanced in the period between the Federal Constitution of 1946 and the Federal Constitution of 1974. Beginning in 1974, Kosovo enjoyed rights of veto at both the federal and Serbian level. Kosovo's consent was required for all executive, legislative and judicial decisions at both levels. In all aspects, Kosovo's status as an autonomous province was virtually the same as that of the other republics, and it remained part of Serbia in name only.

In 1989, in violation of both Kosovo's and the Federal Constitution, Belgrade abolished Kosovo's autonomy and established a repressive police and military regime in Kosovo. Kosovo Albanians were expelled from the public service. Throughout the 1990s, Kosovo was ruled directly from Belgrade, with the local Serbian community playing a significant role in implementing Serbia's rule over Kosovo. The majority of Kosovars, led by the Democratic League of Kosovo (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 to provide a way out and political solution combined with increasing repression by Belgrade culminated in the emergence of the Kosovo Liberation Army (KLA) and armed conflict in 1998. The conflict was brought to an end through NATO's 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 (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 democratic elections on 17 November 2001. It also represented Kosovo internationally. Serbia still recognizes UNMIK alone as being legally empowered to negotiate with it on behalf of Kosovo.

Interethnic clashes in March 2004 left many Serbs fearful for their future. The experience of the March riots led to a growing belief in much of the international community that a continued failure to resolve the final status of Kosovo would lead to yet more insecurity and instability.

The result was the 2005 report by U.N. Special Envoy Kai Eide, a Norwegian diplomat, who recommended independence as the best way to promote stability and security in Kosovo in the long run. The Ahtisaari Plan built on this report.

The period under international administration has been characterized by competing goals when it comes to state building. The international administration was guided by a vague aim to establish substantial autonomy, which was also ambiguously stipulated in U.N. Security Council Resolution 1244. Kosovo was administered under the authority of Chapter VII of the U.N. Charter in the name of pacifying a threat to international peace and security and less in terms of genuine state building. This factor was not only in conflict with the aspirations of the Kosovo Albanian majority, but it has also hampered genuine institution building efforts and the empowerment of the local citizenry. During the UNMIK administration, Kosovo established democratically elected institutions of self-government, but the special representative of the U.N. secretary-general retained so-called reserved powers, that is, exclusive legislative authority in sovereignty-related matters.

Transformation Status

I. Democracy

1 | Stateness

Despite Kosovo's declaration of independence, its democratic institutions do not have a full monopoly on the use of force and, instead, share authority with the international security presence in the country. From June 1999 to June 2008, the U.N. Interim Administration Mission (UNMIK) in Kosovo was designated as the authority holding civilian responsibility over Kosovo, whereas NATO's presence in Kosovo (KFOR) was responsible for the security portion of this international mission. During this period, in addition to the UNMIK police, the Kosovo Police Service (KPS) was created and made fully operational. UNMIK police ceased to exist in December 2008 with the deployment and activation of EULEX. In January 2009, a gendarmerie unit – the Kosovo Security Force – was created under the auspices of NATO.

Monopoly on the use of force

The shared monopoly of Kosovo's authorities and international security presence is seriously challenged by the illegal operations of Serbia's police and intelligence operatives. The situation is critical in the divided city of Mitrovica and Serbian-controlled areas north of Kosovo. This area suffers from a total lack of the rule of law, which is reflected in the inefficiency of the international community and Kosovo government institutions to impose its rule and order there. Moreover, Serbia reacted to Kosovo's declaration of independence by instigating Kosovo Serbs in northern Kosovo to burn border posts in the area and pressed them to leave Kosovo's police force and all civil-service posts. Belgrade organized "municipal elections" in Kosovo Serb areas on 11 May 2008, which were declared illegal by UNMIK and the government in Pristina. In June 2008, the radical forces, which won the elections, created the Assembly of Association of Municipalities of Kosovo and Metohija in order to pursue possible partition of Kosovo along ethnic lines.

Kosovo is an ethnically diverse state in which Albanians constitute 90%, Serbs 6% and Bosniaks, Turks, Roma, Ashkali and Egyptians together the remaining 4% of the population. Kosovo's constitution guarantees the highest standards for all communities. The nature of the state, as enshrined in the constitution, declares Kosovo a multiethnic state with a civic character.

State identity

All inhabitants of Kosovo who have lived within its territory since 1 March 1998 have an automatic right to citizenship and are also entitled to double citizenship. The Albanian majority community and non-Serb minority communities accept the Kosovo state as legitimate. Most of the Serbian community opposes the statehood of Kosovo.

Kosovo is defined as a secular state, and religious dogmas are excluded from political life. Nevertheless, there are two minor parties that have a religious aspect, the Roman Catholic-based Albanian Demo-Christian Party of Kosovo and the Islam-based Justice Party of Kosovo. Even so, the religious agenda is not part of political discourse within the Albanian community. On the other hand, the political influence of the Serbian Orthodox Church among the Serbian community is significant, and it enjoys special treatment under the laws resulting from Ahtisaari's proposal. Tax and other benefits that the Serb Orthodox Church enjoys have created an inequality in the treatment of various religious communities, which is becoming a matter of concern and causing grievances among other religious institutions.

No interference of religious dogmas

The state's basic infrastructure extends throughout most of the territory of Kosovo, but its performance is still weak. The infrastructure suffers, in particular, from widespread corruption and the low technical skills of the civil service.

Basic administration

While the state cannot fulfill its proper function of having jurisdiction over all parts of the country, in northern Kosovo and most Kosovo Serb areas, "parallel institutions" in health care, education, justice and social services have been functioning since 1999. These receive massive aid from Serbia and are largely under its control. There is no coherent strategy on how to dissolve these parallel institutions, and the political elite and the international community are hoping that successful decentralization will abolish them.

2 | Political Participation

Since 2000, Kosovo has followed a tradition of credible free and fair elections. The last general, municipal and mayoral elections were held on 17 November 2007. Although some 40 percent of the Kosovar electorate voted, the Kosovo Serb community in large part boycotted the elections.

Free and fair elections

These elections changed the political landscape of Kosovo. The Democratic Party of Kosovo led by Hashim Thaci garnered 34.3% of the vote, the most for any party. The late President Ibrahim Rugova's Democratic League of Kosovo (LDK) won 22.6%, losing for the first time after 18 years of being the largest Kosovo Albanian political party. These two parties created a coalition government led by Thaci, while Fatmir Sejdiu of the LDK was re-elected as Kosovo's president. With its declaration of independence, Kosovo's authorities assumed responsibility over the Central Election Commission (CEC). The adoption of the new electoral laws – the

Law on Local Elections and the Law on General Elections – and the constitution’s entering into force in June 2008 ended the OSCE’s executive responsibility for organizing and implementing elections in Kosovo.

At the end of 2008, major disagreements occurred between the government and the opposition parties regarding the timeline for the next national elections. Kosovo’s president decided that the next national elections would be held in 2011, while the opposition was asking for the elections to take place in 2009, as was envisaged by Ahtisaari’s proposal. Peter Faith, the head of the International Civilian Office (ICO), ended the debate by supporting the position of Kosovo’s president.

Democratically elected representatives have the effective power to govern within the framework of “supervised independence.” Possible veto powers, such as powerful businessmen or former groupings of the Kosovo Liberation Army (UCK), have so far not threatened the elected government’s authority from outside the system but have, instead, generally chosen to operate within it. The new multiethnic Kosovo Security Force (FSK) is subordinate to KFOR and widely seen as the precursor to a future Kosovo army. For now, it is a civil defense organization and is intended to mark a clear break with UCK structures and traditions.

Effective power to govern

The international community and national politicians used to promote the freedom of association and assembly as a key pillar of Kosovo’s new democracy. Nevertheless, despite the fact that these rights are guaranteed by law, they have been violated by law enforcement agencies on several occasions. The most notorious cases are the killing of two activists from the pro-independence movement Vetvendosja by a Romanian contingent of the UNMIK police during demonstrations in February 2007 and the subsequent arrest of the movement’s leader, Albin Kurti. These events have largely shaken the public’s confidence in UNMIK’s and Kosovo’s system of justice and the freedom of association. However, in the meantime, there have been no recorded significant violations of the rights of political organizations and the rights of civic groups to associate.

Association / assembly rights

The freedom of media in Kosovo is protected by an advanced legal framework, and there is a rich diversity of media outlets. Nevertheless, legislative and institutional mechanisms do not prevent political pressure on the media. On several occasions, the OSCE has accused Kosovo politicians and political parties of treating the media as a “mouthpiece.” The media’s financial dependence on government advertisement calls into question its editorial independence. Disproportionate paid advertising by the government and its agencies to newspapers close to selected political parties is quite a common practice, while the independent newspapers are often threatened with being excluded from such advertisements if they publish certain “critical reports.” Similar pressure is reportedly exercised by the government on the public broadcaster Radio Television of Kosovo (RTK). Such developments create an environment that discourages critical debate and investigative journalism and confines the media to a mere reporting or transmitting role.

Freedom of expression

3 | Rule of Law

Kosovo has in place a constitutionally well-defined system of checks and balances between the legislative, executive and judiciary branches. Nevertheless, it is difficult to state that this really happens in practice. The Assembly of Kosovo is relatively weak in terms of adopting legislation and overseeing the work of the executive. Legislation deriving from Ahtisaari's plan has passed in the Assembly with special procedures according to which the MPs have not had a chance to debate this package of laws. Likewise, with the two main political parties being in the governing coalition, the opposition has been left voiceless and powerless in its role in the Assembly.

Separation of powers

The judiciary is formally separated from the executive and legislature, but there are widespread perceptions of corruption and political interference in the criminal justice process. Furthermore, the judicial system is among the least advanced in Kosovo and, as such, it faces difficulties in its operational structure. It is also exposed to political influence from the government in its operations and does not have the ability to ensure independent and unbiased judgments. Likewise, the judicial system is not entirely independent insofar as it depends on the government and also on the EULEX mission for cases dealing with war crimes and corruption as well as those of a highly sensitive nature.

The judicial system has been regarded as being the weakest of Kosovo's institutions. As a result, the European Union decided to deploy the EULEX mission in Kosovo in order to strengthen the rule of law in the country. The EULEX mission holds a number of executive powers that supersede those of the Kosovo government in the fields of corruption, organized crime and interethnic crimes. Dozens of cases of war crimes and grave human rights breaches remain unaddressed.

Independent judiciary

Corruption and general criminality are widespread problems in Kosovo. Adequate protection of witnesses is a serious deficiency of the judicial system. Serious violations of human rights, such as those related to the right to a tribunal established by law, a trial within a reasonable time and access to justice, continue to characterize the judiciary.

Among the major concerns are: an extreme backlog of cases coupled with a lack of oversight and case management tracking mechanisms in courts; virtually non-existent witness-protection and relocation mechanisms in an environment where regular incidents of witness intimidation have taken place; a lack of qualified judges and prosecutors; passive investigative practices; poor coordination between the police, prosecutors and judges; poor collaboration between international and national elements of the system; problematic detention and sentencing practices: the structure of the courts; an inadequate allocation of judges and prosecutors; the

malfunctioning of court administration; insufficient professionalism; and corruption. The absence of a constitutional court creates legal uncertainty as to the interpretation of law.

Government structures in Kosovo have not been very reliable in terms of promoting the rule of law and respecting the independence of the judiciary. There have been cases where political authorities have visited with prisoners convicted of war crimes and where campaign stickers in support of indicted war criminals have been seen on government premises.

Nevertheless, the judicial system in Kosovo has seen some positive changes in recent years. The Kosovo Special Prosecutor's Office became operational in the spring of 2007 after six prosecutors were appointed. Cooperation between the judiciary, the treasury and the private banking sector has improved, which has improved the enforcement of judgments. The establishment of an automated court management system has been completed in all five district courts for the management of penal cases. Witness protection equipment and ISDN links have been installed in all district courts so as to enable video conferencing. District courts in Pristina and Prizren now have the capacity to allow witnesses to testify by video conference, even from outside Kosovo. Important improvements, such as smoother proceedings for civil disputes and sexual assault cases, have been recently noted.

The prosecution of office abuse in Kosovo is more a rarity than a rule of governance. It is the main cause of the spread of corruption and the perceived impunity of elected officeholders and civil servants. The Office of the Auditor General (OAG) has reported unexplained losses in the Kosovo budget of €0.5-1.5 million per ministry per year. Neither the government nor the Office of the General Prosecutor has launched any investigations aimed at explaining these findings.

Prosecution of
office abuse

Although laws on anti-corruption and asset declaration are in place, their implementation has and continues to face obstacles. For this reason, in 2006, the Kosovo Assembly established the Anti-Corruption Agency, which became operational in 2007. The agency has proven to work quite efficiently within a short time of its founding. A considerable number of investigations of political officeholders and civil servants has been completed and submitted to the appropriate courts, but the justice system has yet to react. In 2007, a political adviser to then-Prime Minister Agim Ceku as well as the head of a bank were arrested on money laundering charges.

As a consequence of the flawed judicial system, civil rights continue to be poorly respected and not properly implemented throughout the country. Although the Covenant on Civil and Political Rights has been part of the applicable law in Kosovo since 1999, the situation vis-à-vis access to effective legal remedies and the fair trial guarantees in Kosovo has been perceived as being highly critical.

Civil rights

The complexity of the applicable law, ambiguities within available legal texts and the diverging practices of applying the legal corpus have created substantial legal uncertainty. This results, in particular, from failures to specify which provisions of the formerly applicable law were replaced by those of UNMIK and, subsequently, by Kosovo's constitution and other laws adopted by the Kosovo Assembly (the constitution entered into force on 15 June 2008).

The number of missing persons remains high. The commitment of the authorities at all levels is not sufficient for carrying out objective and efficient investigations in this area, regardless of the ethnic background of the missing persons.

Cases of domestic violence are quite widespread. The persistence of male-dominated attitudes within Kosovar society, the underreporting of incidents of domestic violence, the low numbers of convictions related to domestic violence, the limited capacity of victim-assistance programs and the absence of a comprehensive evaluation of the effectiveness of measures to combat domestic violence are aggravating circumstances.

Despite the deficiencies already mentioned, a number of positive developments can be mentioned, such as the establishment of various advisory bodies on human rights as well as of human rights units within the ministries. In the area of access to justice, a legal aid commission charged with administering and monitoring the legal aid system is in place.

There is no clear evidence of efforts to prevent torture and ill treatment as well as to fight against impunity. However, professional standards units that investigate alleged procedural and minor offences by the police have been established and are operating in the Kosovo Police Service (KPS). All residents have the right to complain to them and, in several cases, police officers have been dismissed as a result of such complaints.

4 | Stability of Democratic Institutions

Kosovo's democratic institutions perform their fundamental functions, but much work remains to be done regarding their coordination and capacity building for planning and implementing policies. Kosovo's institutions are new and have only been in the process of development since 2000. The institutional framework was completed in February 2009 with the establishment of a Kosovo Intelligence Agency and a Kosovo Security Council. However, Kosovo institutions are not the sole governing structures of the state. The International Civilian Office (ICO) is mandated with overseeing the implementation of the Ahtisaari Plan, while EULEX is in charge of assisting, monitoring and advising institutions in charge of implementing the rule of law. EULEX also has executive powers for fighting

Performance of
democratic
institutions

corruption, organized crime and war crimes. UNMIK has not played an administrative role since December 2008, but it still represents Kosovo in multilateral forums where the independence of Kosovo has been a contested issue. It also reports to the U.N. Security Council on political developments and aims to facilitate dialogue with Serbia. The biggest challenge in implementing the Ahtisaari Plan and the constitution is the implementation of decentralization and the inclusion of northern Kosovo within Pristina's legal authority.

The reconfiguration of the international presence – that is, ending UNMIK's mandate and fully establishing the ICO and EULEX – has faced many challenges. UNMIK has not been able to transfer its authority to the Kosovo government, the ICO and EULEX because the U.N. Security Council did not endorse the Ahtisaari Plan and the contested issue of statehood. Nevertheless, U.N. Secretary-General Ban Ki-moon informed U.N. Security Council members on 12 June 2008 that he would initiate the reconfiguration of UNMIK and thereby enable EULEX's deployment under "a U.N. umbrella." The secretary-general placed the United Nations and UNMIK under a "status neutral framework" in Kosovo and adjusted the role of the U.N. mission so as to focus on the following functions: monitoring and reporting; facilitating arrangements for Kosovo's engagement in international agreements; fostering dialogue between Pristina and Belgrade on issues of practical concern; and exercising functions related to dialogue concerning the implementation of the provisions of the six points for discussion between the United Nations, the European Union, Belgrade and Pristina: the police, the courts, customs, transportation and infrastructure, boundaries and Serbian patrimony.

On 26 November 2008, the U.N. Security Council issued a presidential statement effectively authorizing the deployment of EULEX under a "U.N. umbrella" according to the framework of U.N. Security Council Resolution 1244/1999. This decision leaves an open question as to the law that applies to EULEX and that it will enforce in northern Kosovo, that is, whether it is the law of Pristina, of Serbia or of UNMIK.

The deployment of EULEX under this "status neutral" framework also leaves an open question regarding the future role of the International Civilian Office. The ICO's current head, Pieter Faith, has a "double head" – that of International Civilian Representative (ICR) overseen by International Steering Group (ISG), which is composed of the more than 20 states that have recognized Kosovo's independence, on the one hand, and of the European Union Special Representative (EUSR) in Kosovo, who is "status neutral" toward Kosovo and overseen by Brussels, on the other. Furthermore, the head of EUSR and EULEX should consult with each other, but the added component of ICR makes such consultation problematic.

In general, all the political parties have declared that they accept the democratic process of state building in Kosovo, its institutions and the system in place (a system established according to the Ahtisaari Plan, with local institutions coupled

Commitment to
democratic
institutions

with an international presence). However, there is a division among the Serb minority in terms of accepting the democratic institutions in Kosovo. Even though there are two Serb political parties that take part in the governing PDK/LDK-led coalition and accept the democratic institutions of Kosovo, some Serbian political parties did not participate in the elections of November 2007 and do not recognize the democratic state institutions.

5 | Political and Social Integration

The political party system in Kosovo is quite new and does not have much experience. As a result, political parties in Kosovo have not developed to the point where they compete for seats in parliament while offering different solutions based on different values and ideologies. While there are some signs of such affiliations, one can also note that the political parties in Kosovo have not developed clear profiles. Although various surveys show that major political parties have a leftist orientation, they camouflage themselves behind rightist rhetoric. On the other hand, voters are not very well-informed about the parties' programs, ideologies and political discourses. They don't feel well-represented and, consequently, tend to consider political parties nontransparent and undemocratic. For voters, it is difficult to differentiate between political party programs whose content is very similar. This could be a reason why the turnout in elections has continued to decline since the first set of elections.

Party system

The political landscape appears to be stable in the wake of the 2007 election. The split of the well-established Democratic League of Kosovo (LDK) into two parties – the LDK and Nexhat Daci's Democratic League of Dardania (LDD) – a year after the death of its longtime leader, Ibrahim Rugova, in early 2006 was perhaps predictable and has not affected the fundamental stability of the party system. Broadly speaking, the LDK, LDD and Ramush Haradinaj's Alliance for the Future of Kosovo (AAK) are conservative or centrist parties, the New Kosovo Alliance (AKR) is centrist, and the Democratic Party (PDK) led by Prime Minister Hashim Thaci has its roots on the left. Thaci and Haradinaj are both former senior UCK commanders. Rugova and the LDK long symbolized passive, political resistance to Serbian rule, a policy that was ultimately discredited during then-Serbian President Slobodan Milosevic's crackdown in favor of the UCK's program of armed resistance. Rugova nonetheless retained widespread respect and the presidency until his death, and the well-established LDK remained a single party as long as he was alive.

In the 2007 elections, the PDK led by Thaci won 37 seats. It was followed by the LDK, with 25 seats, and the AKR, with 13 seats. The LDD took 11 seats, followed by the AAK, with 10 seats.

Kosovo's landscape of interest groups is relatively weak and fragmented. Most of the interest groups are organized in the form of trade unions and employers' associations. Unions and employers' associations have been quite active in pressuring governments in Kosovo since 2004, with the Union of Trade Unions of Kosovo initially demanding a collective wage contract as well as individual trade unions demanding better pay for the workers they represented. Most vocal of all was the Trade Union of Education Science and Culture (SBASHK), which held strikes related to pay for teachers.

Interest groups

In addition, some interest groups (e.g., the Vetvendosje movement) are driven by general political motives, while others (e.g., the War Veteran Organization, or OVL) seek to protect the KLA war veterans' rights and dignity. The Vetvendosje movement has organized several demonstrations in Kosovo with broad political objectives, either rejecting the Comprehensive Proposal for a Kosovo Status Settlement (i.e., the Ahtisaari Plan) or the policies of the government or so-called unity team, which is comprised of the members of all the main political parties. However, the ability of the government to accommodate the demands of these interest groups is rather limited, which in turn weakens their capacity to mobilize support.

Consent to democratic norms and processes has seen much fluctuation. This is seen in the light of political and ethnic problems versus the socioeconomic problems and issues that demand government attention.

Consent to
democratic norms

The issues of interethnic relations, the instability of northern Kosovo and the refusal of the Kosovo Serb minority and Serbia proper to accept the situation and institutions established after the independence of Kosovo are the main challenges to democratic norms and institutions. There are also groups that do not accept the international supervision of Kosovar independence and oppose the positive discrimination of the Serb minority in view of past atrocities carried out by Serbian forces and the Serbia's refusal to recognize the state of Kosovo and its institutions.

According to the latest research, socioeconomic problems have seen significant worsening as well. Data shows that, in general, Kosovars are more worried about poverty and unemployment than political issues and are more likely to protest about economic than political issues. Of the population, 80% is dissatisfied with socioeconomic conditions and are willing to protest against current conditions, whereas only 60% is dissatisfied with the political situation and is willing to protest against it.

However, in general, the acceptance of state institutions has improved and is seeing continuous improvement. The November 2008 UNDP Early Warning System poll showed that 71% of respondents have confidence in the president, 63% are satisfied with the prime minister, but only about 20% have confidence in the courts. The poll

suggests that Kosovars are now somewhat more satisfied with their own institutions and are increasingly holding those institutions, rather than the UNMIK, responsible for the overall economic situation.

There are over 4,600 NGOs registered with the Ministry of Public Services, of which about 529 are active in the field of minority rights. Some 280 NGOs are entitled to receive public funding. Most of civil society continues to be funded by foreign donors, who largely determine the agenda. Local NGOs point to their growing achievements in many fields, such as voter awareness and anti-corruption programs.

Associational
activities

In addition to a heavy reliance on social assistance and societal indifference toward associational activities, the level of interpersonal and interethnic trust is rather limited. Postwar periods have a negative impact on the establishment of a positive and reasonable social mentality. The entire societal drive is seen more in the light of individual gain rather than social benefit. As a result, voluntary associations aimed at self-help have yet to emerge in Kosovo.

II. Market Economy

6 | Level of Socioeconomic Development

Poverty in Kosovo is widespread. According to all relevant research on this issue, about 15% of the population is estimated to be extremely poor, which is defined as individuals who have difficulty meeting their basic nutritional needs. In its 2007 poverty assessment, the World Bank noted that 45% of the population lived below the national poverty line (which is equivalent to €43 per adult per month in 2002 prices). The Ministry of Labor and Social Welfare has reported that the vast majority of unemployed citizens are long-term unemployed who have little prospect of finding work in the near future.

Socioeconomic
barriers

Kosovo is in last place in the Balkans region in terms of the Human Development Index. The scores for Kosovo indicate that there has been little positive change. Kosovo's overall HDI score saw only miniscule increases in 2007 and 2008.

The poor tend to be concentrated in rural areas with large families and have a low level of education. Some regions are more affected than others. Poverty tends to be on the decrease in urban areas and growing in the countryside. Kosovo's "slow and volatile growth" makes it difficult for families to work their way out of poverty or

for the government to have a sufficient revenue base to provide an appropriate social safety net. Many people live just above or below the poverty level. Most of those living in poverty are thus close to lifting themselves out of it, while at the same time many just above the line are vulnerable to sinking below it in times of adversity.

The informal sector is large, and tax collection is poor. Unemployment is at serious levels by any standard; registered unemployment stands at 43% of the economically active population. Women, minorities and young people remain vulnerable in the labor market. Some 30,000 young people enter the job market each year, and unemployment rates are at five times the EU average. The economy obviously cannot absorb the new job seekers at current growth rates.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	3070	2988	3104	3543
Growth of GDP	%	-0,9	-1	3,1	3,5
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	46.3

Sources: United Nations Statistics Division | International Labour Organization, Key Indicators of the Labour Market Database.

7 | Organization of the Market and Competition

The institutional foundations ensuring market-based competition have been put in place. Although there are a number of institutions in place, they are fraught with low institutional capacities, corruption and sometimes selective implementation of the rule of law.

Market-based
competition

There are no formal entry or exit barriers for businesses. In some areas, specific licenses are required for import-oriented businesses in particular, but no specific barriers are imposed on applicants. There is also no notable discrimination toward companies on the basis of size, but small businesses are subject to lower taxes, as they are assumed to face higher compliance costs. The main problems arise from the relatively large informal sector, which exposes the formal economy to unfair competition in the market.

Bazaar capitalism, micro enterprises and the large informal sector remain important. In December 2008, local media quoted Ministry of Trade and Industry officials as

saying that about half of Kosovo's 90,000 registered businesses are not operating. Chamber of Commerce official Safet Gerxhaliu said that the figure is evidence that "business in Kosovo is in crisis." He added that: "We do not have institutional protection, and therefore we have all of these phantom firms." He called on the government to devise and execute a policy to support businesses. The government has a strategic plan that sets priorities for the economy, including growth and good governance, but it has sometimes sacrificed it and fiscal policy for short-term political gains.

There are several monopoly industries in Kosovo that are descendants of the operators that functioned during socialist times. Those operators are now mainly regulated as publicly owned enterprises (POEs), such as the Kosovo Electricity Corporation (KEK), Kosovo Railways, Post and Telecommunications of Kosovo (PTK), Pristina International Airport and the like. These industries are protected from competition through legal barriers, although there have been signs of increased liberalization in these markets. Initially this was done in the case of the GSM operators and was continued in the energy sphere, although the process has been somewhat slow. UNMIK entrusted the Kosovo Trust Agency (KTA) with administering these companies and their respective industries. However, following the resolution of the issue of Kosovo's political status and the approval of the Kosovo Constitution, the competences of KTA over the administration of POEs were handed over to the government of Kosovo.

Anti-monopoly
policy

Foreign trade has been extensively deregulated, and there is no fundamental state intervention in free trade. This particularly applies to the treatment of foreign investments and stockholding. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits.

Liberalization of
foreign trade

The UNMIK signed Kosovo up for membership in CEFTA prior to independence, but Serbia and Bosnia-Herzegovina, where the Serbian entity has a veto over many state policies, have blocked the import and transit of goods from the independent Kosovo since 3 December 2008. Kosovar businessmen said two weeks later that the blockade cost them losses of up to 20% in the regional market. They called on the government to impose a similar ban on Serbian and Bosnian goods, which took effect on 1 January 2009, but no measures were taken to prevent imports from Serbia or Bosnia-Herzegovina.

CEFTA and EU member states each accounted for about 37.5% of Kosovo's total trade in the first half of 2008. CEFTA aspires to establish a regional free trade zone by the end of 2010.

Kosovo's financial sector has been built on completely new foundations since 1999. The Banking and Payments Authority of Kosovo (BPK) established in November 1999 is an independent body that successfully regulates the banking and insurance

Banking system

sectors. In August 2006, the BPK was transformed into the Central Banking Authority of Kosovo (CBAK), which was a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo.

Following the constitution's entry into force, in June 2008, the CBAK was transformed into the Central Bank of Kosovo (CBK). It took over the authority to license, supervise and regulate financial institutions. All of Kosovo's banks are now private, and some are foreign-owned. There are more than seven registered banks, 10 savings and credit associations, 12 micro-finance institutions, four other non-banking financial institutions and eight insurance companies. The Pro Credit Bank, which was established on the initiative of several leading international financial institutions, and the Raiffeisen Bank of Austria have the largest market share in Kosovo. Three of the foreign-owned banks hold 83% of total assets.

8 | Currency and Price Stability

Since January 2002, Kosovo has used the euro as its official currency, despite the fact that it is not a member of the European Monetary Union and does not issue its own euro coins. Using the euro eliminates exchange-rate risks but also rules out the possibility of devaluation.

Anti-inflation /
forex policy

The CBK is officially described as an "independent institution which reports to the Assembly of Kosovo." There have been no reports in the media of possible threats to its de facto independence from the government or the Assembly.

Government policy has not been particularly focused on inflation, but inflation could have serious political and social implications if the international economic situation continues to worsen. Inflation remained low for many years but picked up in mid-2008 to reach about 14% owing to increases in commodity prices. In August, it dropped to about 7.8%. Unlike inflation differentials between Kosovo and the euro zone, interest rate disparity continues to be significant. While the bank deposit rates quickly came down to the euro-zone levels, loan interest rates continue to be higher. These hover at around 9-14% and are higher than they are in most Western countries. The contributing factors are the level of risk faced by lenders, a continued lack of reliable accounts and a somewhat weak legal framework.

The government applied to join the IMF in July 2008 and, later, for membership in the World Bank. The poor availability of statistics makes it difficult to assess the real economic situation. Nevertheless, in May 2008, the IMF concluded that real GDP grew in 2007 by an estimated 4.4% after an increase of 3.9% in 2006.

Macrostability

Despite a formal commitment to stability, the government has not proved itself to be immune to the temptation of engaging in populist spending policies. Decisions on wages in the public sector and subsidies for state-owned companies could

jeopardize macroeconomic stability. It is still too early to make any judgment on the possible impact of public debt since the assumed debt has not yet been determined. For this reason, the government has decided on a contingent fund in its annual budget for 2009 in order to meet eventual requirements for servicing its foreign debt.

As of January 2009, the government had not shown much concern about the possible effect of the global economic crisis on Kosovo. Nevertheless, economic experts at home and abroad have warned that the crisis may have a major impact, especially if there is a substantial drop in worker remittances. Remittances accounted for 11.6% of GDP in 2006 and 12.9% in 2007. Some estimates put the 2008 figure as high as 20% of GDP.

9 | Private Property

Property rights and property acquisition in Kosovo are regulated by an adequate legal framework that defines and protects the acquisition, use, benefits and sale of property. However, there are several issues that have yet to be resolved which stem mainly from the constant amendment of UNMIK regulations and the lack of clarity in terms of how pre-UNMIK laws and UNMIK regulations interact. These issues complicate the legal framework and cause confusion regarding how to apply and implement property laws.

Property rights

Serbian officials took most of the property records with them to Belgrade when they fled Kosovo in 1999. The authorities in Pristina have repeatedly asked for the documents to be returned, so far without success. Serbian officials do not allow officials from independent Kosovo access to the records, which could especially hurt the claims of Serbs to properties in Kosovo. The situation is further complicated by the usurpation of a large number of properties – and mainly those of Kosovo Serbs – in the postwar period. The authorities in Kosovo, as well as some from the U.N.-Habitat program, are working to clarify property-ownership issues, but progress is slow, and the legal situation is often unclear. The number of unresolved cases today is smaller than it was in 1999, but many cases are still being processed.

Private companies are the backbone of the economy and appear to have turned Kosovo into a beehive of activity. Basic legislation aimed at fostering the private sector has been enacted. Despite the fact that the legal framework is competitive in regional terms and fully in line with EU regulations, several obstacles still hamper the development of the private sector.

Private enterprise

Privatization in Kosovo is in its final stages. By mid-June 2008, the KTA had tendered 551 new companies. Nevertheless, this process has been followed by a

large number of irregularities and has failed to yield the amount of foreign investment that had been anticipated. Workers from enterprises that are privatized receive 20% of the revenues from their privatization or liquidation, including any interest revenues.

Forceful action in the banking system has resulted in renewed investor interest in the banking sector. The retendered second mobile-phone license was successful and resulted in significant receipts and – what is arguably even more important – an opportunity for more competitive and less costly telecommunications services to emerge.

10 | Welfare Regime

Social networks are well-developed in part, but they do not cover all risks for all strata of the population. Considerable portions of the population are still threatened with poverty. Centralized social protection programs are in place to provide pensions, assistance to the needy, payments to veterans and their survivors, and job-finding assistance.

Social safety nets

The pension system consists of three pillars that reflect World Bank recommendations. Pillar I is a basic inflation-protected flat pension financed from general government revenues. Pillar II is a mandatory, fully funded and defined contribution pension scheme financed by monthly payroll contributions by both employees and employers. Funds are managed by the Kosovo Pension Savings Trust, which is under the supervision of the CBK. Pillar III is a voluntary supplemental system of contributions to private pension providers.

Poor households are entitled to social assistance. In addition, there are schemes for disability pensions and benefits to war invalids.

In its November 2008 report, the European Commission concluded that “the social protection system is financially unsustainable, not organized efficiently” and liable to fraud. The study noted that 45% of the population lives in poverty and 18% in extreme poverty. The social protection system covers 325,000 people in a country without any properly trained professional social workers. There is one government official in the employment assistance office for every 1,600 people looking for work. The assembly has yet to pass legislation setting up a health insurance system, which has huge implications for the quality of access to health care and the potential incidence of catastrophic expenditures.

During the postwar period, the majority of Kosovo’s population was dependent upon charity organizations for much of their basic survival items. As a result, a culture of reliance on such support has emerged at a number of levels and particularly at the most impoverished ones. This group relies heavily on social

assistance provided by the government and the ever-diminishing donations of the many charitable organizations operating in Kosovo.

Kosovo has developed an extensive legal framework for the protection of rights to equal opportunities. In terms of gender equality, Kosovo has managed to develop a solid legal framework and other mechanisms to achieve gender equality. A number of institutional mechanisms have been established at the federal and local levels, and a good legal framework is in place to ensure gender equality in Kosovo.

Equal opportunity

Nevertheless, a report by UNMIK's Office of Gender Affairs has noted that women face "persistent gender gaps and sizeable obstacles" in public life, including in the political parties, where they are underrepresented. The NGO Kosovo Women's Network was set up in 2000 to bring women's organizations from all over Kosovo together and to work with women's organizations abroad.

The Council of Europe's Framework Convention on the Protection of National Minorities has been implemented in Kosovo, and its principles have been well-integrated into the second chapter of the constitution. Minority communities are guaranteed representation in parliament.

The Law against Discrimination provides a legal basis for the promotion and protection of human rights. This law was further complemented with secondary legislation that established institutional mechanisms for its implementation. In order to protect and promote human rights, the principle of non-discrimination and the protection of equal opportunities, the government has established human rights cells within all the ministries as well as within most municipalities.

Nevertheless, the situation is not so perfect when it comes to equal opportunity for groups that are not protected. The administration is plagued with nepotism, political bias and everyday corruption. The process of bidding and hiring in public institutions is very fragile and easily exposed to a lack of fair play. Despite institutional and legislative achievements, there is still a lack of capacity to ensure equal opportunity for all.

11 | Economic Performance

Kosovo faces a broad array of challenges when it comes to economic performance, ranging from issues of a technical nature, such as lack of qualitative data and census data, to inconsistent policies.

Output strength

Prior to the declaration of independence, the economy participated in the regional economic upswing; and, in contrast to earlier periods, growth had become more sustainable as exports had been rising briskly and domestic production had started to make more efforts toward replacing imports. This process was derailed by the

declaration of independence, but it is expected to be put back on track and enhanced once disputes with Serbia and Bosnia-Herzegovina on the trade agreements signed by UNMIK have been settled.

Economic growth has been supported by large flows of remittances and foreign direct investment, a sustained donor presence and higher deposit-financed credit growth. In turn, according to the IMF, expansion has been accompanied by an acceleration of inflation. Kosovo's gross domestic product is estimated to have grown steadily since 2007; but, contrary to government's claims, this increase has actually resulted from underreporting. GDP figures for the period between 2004 and 2006 have been revised to address the underreporting of private-sector consumption. Estimates indicate that, for this period, nominal GDP averaged €3.0 billion rather than €2.3 billion.

Despite attempts to finance the rehabilitation of damaged and neglected infrastructure, which would allow for an enhancement of sustainable economic growth, there has recently been only a limited number of encouraging signs of progress.

Since 1999, Kosovo has suffered from a severe trade imbalance. Although it is constantly increasing, there is only a very small amount of exports and an enormous number of imports. To illustrate this fact, data from the SOK indicate that there was a trade imbalance of €191.8 million in December 2008 as compared with the €143.7 million figure from December 2007. Reducing the relative cost of production in Kosovo is the only way to ensure that Kosovar products can more successfully compete in international and domestic markets. To this end, there is a lack of policies that directly target an improvement in physical and human capital through public investment.

Since donor aid has been reduced over the last two years, economic activity has been increasingly determined by domestic factors and private-sector dynamism, which have nevertheless remained at a moderate level. Together with the weak implementation of the capital budget, unreliable energy supplies continue to be a major drag on investment and growth.

12 | Sustainability

Although they do exist, efforts aimed at environmental protection do not rank high among governmental priorities of the government. The large number of social and economic problems affecting the country has forced the government to neglect environmental policy priorities. Nevertheless, Kosovo has continued its efforts to align its regulations with EU environmental legislation, institutions and standards, and it has made progress in several areas. The government approved an

Environmental
policy

Environmental Protection Strategy in 2004. The Ministry of Environment and Spatial Planning has drafted a five-year environmental action plan for Kosovo, and the government has managed to develop an environmental legislative framework. Progress in mainstreaming environmental issues has been slow and has had only partial success in the energy field. Kosovo signed the South East Europe Energy Community Treaty.

The Environmental Impact Assessment Regulation is in force and is being applied, as are several bylaws on specific aspects of environmental impact assessment. However, there are no particular developments in strategic environmental assessments or environmental liability legislation, which is regulated by the Law on Environment Protection. At the same time, a number of institutions have been created to monitor, promote and provide information about environmental protection.

The Ministry of Environment and Spatial Planning has also undertaken systematic campaigns to raise awareness among citizens about the environmental situation in Kosovo. However, civil society activities in the environmental field remain at a low level of development, which limits possibilities for participation. Civil society remains at odds with the government when it comes to the government's plan to develop new power plants.

The European Partnership priorities provide a basic framework for Kosovo's efforts toward approximating EU environmental legislation. Kosovo has pursued approximation to EU environmental standards and has made important advances in terms of air and water quality. However, there has been limited progress when it comes to other European environmental standards.

Since the end of the 1999 conflict, education in Kosovo has undergone many reforms that affect every part of the system. The education structure in Kosovo consists of preschool education, primary education, secondary education and higher education (undergraduate and postgraduate). Primary schooling in Kosovo is treated as a universal right for each child. The law provides for compulsory basic education from age 6 to 15, and non-attendance entails consequences for parents. Secondary education in Kosovo consists of grammar schools and vocational schools. Higher education (undergraduate and postgraduate) in Kosovo is of a mixed nature; over the past three years, there has been a flourishing of private universities, which now number 33. Attempts to ensure a baseline level of quality are currently being made and should be finalized by the end of this year, once the institutional set-up and legal framework governing this sector have been established.

On the other hand, the current education system in Kosovo has more or less failed to meet the needs of the labor market and to ensure better education and capable workers, and governments have not been very successful at improving conditions

Education policy /
R&D

for youth employment. There is little evidence of a clear and long-term determination to create social, educational, cultural, material and other conditions for the permanent well-being of youth and their active participation in society.

Transformation Management

I. Level of Difficulty

With regard to structural socioeconomic conditions that shape the political process in the present and short term, the government is faced with different challenges. Since the declaration of independence, the current government has been faced with challenges of state recognition, ethnic divisions, territorial control, poverty, low economic development, unemployment, enforcing the rule of law, corruption, ineffective state institutions, complex international administrative structures with overlapping mandates, and weak political and civil society.

Structural
constraints

Since its declaration of independence, there has been a wide consensus among the majority of Kosovo's population (i.e., Kosovar Albanians and some other minor ethnic groups) that forming a state takes time. The inherited socioeconomic problems have, so far, not caused major public disobedience. However, different groups have publicly shown their dissatisfaction with work and pay conditions through strikes, which could spread from one sector to another.

Kosovo's NGO culture has its roots in the history of the shadow state of the 1990s, and NGOs are present in large numbers. The shadow state was closely bound up with the internal politics of the LDK, but it also provided those involved in it with experience in organizing schools and other basic civic activities independently of state authorities, a point acknowledged by many veteran NGO personalities today.

Civil society
traditions

The active participation of civil society in public life in a more organized manner was initiated after the 1998 – 1999 war. This was made possible due to the openness of the political system installed by the United Nations' administration of Kosovo.

However, public perception and civil society engagement are very low in Kosovo. This is shown by a very low participation rate in the elections organized in Kosovo in the past nine years. In the most recent elections, participation was at the lowest level ever recorded in Kosovo; only 43% of the eligible voters participated. Likewise, trust in public institutions is quite low.

Kosovo is faced with two intense conflicts. First, interethnic issues and the opposition shown toward it by the Serbian minority and Serbia proper have continued to be very problematic since the country's declaration of independence. This is evident especially in northern Kosovo, which has a large ethnic Serb community. In Kosovo as a whole, the Serbian minority makes up about 5% of the population. According to the UNHCR, 165,000 of them fled to Serbia or Montenegro in the wake of the 1998 – 1999 conflict.

Conflict intensity

Secondly, socioeconomic dissatisfaction among the general population is rising. Kosovo is the poorest state in Europe and annual per capita income is at about €1,500. Approximately 15% of the population lives in extreme poverty, and the unemployment rate is above 40%.

II. Management Performance

14 | Steering Capability

Since the parliamentary elections of 17 November 2007, a coalition government led by Prime Minister Thaci's PDK and the LDK has been in office. Thaci's government has to deal with a range of issues – from political, economic and social problems to maintaining the overall stability of the country and preserving the territorial integrity and increasing international legitimacy of the new state. The government has been unable to translate its priorities into policy actions. Long-term objectives are subordinated to short-term political juggling and party benefits. This refers to the entire political elite – in the government, the Assembly and the opposition parties. The opposition has failed to propose alternative policies because it lacks skills and political support.

Prioritization

The overall priority of the government is fostering economic growth, decreasing unemployment, improving social conditions and fighting poverty. The governmental strategy to achieve these aims is focused on the following fields: the rule of law, transport, energy and mines, education, agriculture, tax policies and administration, and the financial sector – all of which are controlled by Thaci's party. Despite its declared priorities, the government is not producing policies to address them. There is, for example, no poverty-reduction strategy, although half of the population lives in poverty (48% in poverty; 15% in extreme poverty). There is no strategy for absorbing the 30,000 new workers who will enter the labor force each year, and there is an overall unemployment rate of more than 40%. Instead, policies are drafted in an ad hoc manner by international consultants and donor

agencies in Kosovo. The government turns to populist strategies to maintain high approval ratings and to shield itself from growing criticism and social discontent.

Kosovo's reform agenda is mainly driven by the European Union, which sets reform priorities for the government through the European Partnership. The EU Commission publishes annual progress reports that identify the state of affairs in the reform agenda vis-à-vis EU standards. These progress reports are translated into concrete goals through the European Partnership Action Plan (EPAP).

In addition, the international presence missions in Kosovo lack coordination among themselves and with the government. The usual pattern of behavior is competition and excessive control among various international actors instead of proper assistance in state building. The international actors are directly involved in interethnic dialogue, implementing provisions of the constitution, setting priorities for the privatization of profitable public companies and maintaining peace and stability with policies that tend to undermine the endogenous development of domestic democratic institutions and the rule of law.

The consistency and reliability of the government's economic policies remain fragile and indicate the existence of an ad hoc approach to fiscal policy. While a political consensus on the fundamentals of market-oriented economic policies has been maintained, a strategic medium-term approach has yet to be incorporated into government action.

In the absence of an independent monetary policy, the budget is the only instrument for macroeconomic policy in Kosovo. However, the practice of budgeting in Kosovo has so far not contributed to policy predictability. Instead, it just responds to ad hoc spending pressures. Due to poor budgetary planning and implementation, the overall policy mix remains inadequate, and budgetary volatility has increased.

Kosovo has made progress in implementing the macroeconomic and structural policies that are prerequisites for creating employment and improving the economy's sustainability.

Implementation

However, it has turned out to be difficult to implement the European Partnership Action Plans in a cohesive manner due to the lack of coordination between line ministries and municipal governments. Owing to the lack of appropriate policy-making capacities, these action plans have not been translated into feasible policy actions. This structural weakness also reflects on the poor implementation and weak performance of the public administration.

Lack of capacity coupled with weak administrative performance remains fundamentally the largest obstacle to a successful performance of state institutions. For example, there are contradictory policies even within individual ministries. The deficiencies in policy implementation are affecting the legislative framework of Kosovo and the social objectives the laws strive to achieve.

Kosovo's political leadership and institutions are undergoing a continuous policy-learning process through direct international assistance. The policy learning has two elements: building new institutions and reforming the institutions that were established during the period of UNMIK. However, the leadership is not a single factor in this process due to international supervision and forms of international administration. This makes the learning process more difficult, especially since the leadership is not "allowed" to make mistakes. Therefore, a culture of dependency on foreign advice and policy-making is being reinforced even after the declaration of independence. The government's policy initiatives are first discussed and approved (or rejected) by international stakeholders in Kosovo – and only afterwards with the public and other local actors. Laws are not even drafted on the basis of policy deliberation, nor do they reflect the specific needs and reality of Kosovo. Instead, civil servants copy and combine laws from foreign countries, often from different legal and social traditions. In certain cases, the government has been forced to defend policies it has not created from criticisms from the opposition, civil society and the media.

Policy learning

Well-respected technocrats are not given a major role in assisting the government. Instead, the government tends to employ weak advisers and senior public servants without expertise and experience in policy-making. Since party politics is more influential than professionalism, the government is not capable of replacing failed policies with feasible ones.

15 | Resource Efficiency

None of the Kosovo governments since the re-establishment of democratic institutions in 2001 have optimally used the available economic and human resources. Due to the economic devastation during the 1990s and the 1998 – 1999 war, the public administration became the main source of employment. Subsequently, the privatization process of socially owned and public enterprises has been mismanaged and delayed due to status issues. This process has been managed by EU Pillar IV of UNMIK. There has been no strategy for attracting foreign investors and utilizing privatization for sustainable economic growth. Employment is largely dominated by the public sector (35%); small and medium-sized enterprises and the service sector entail the rest. Public employees have not been recruited according to professional criteria but, instead, based on political loyalty, partisan affiliation and nepotism-related connections. There have been cases in which ministers have threatened to fire civil servants if they refused to join the political parties. In addition, low salaries in the public service do not attract highly qualified experts to become part of the government. This has severely impacted the use and management of human and budgetary resources.

Efficient use of assets

All governments have consistently abused the budgetary line of goods and services by excessively spending on expensive vehicles and office equipment. This has created a culture of luxury that does not correspond with the overall poor budget of Kosovo. Likewise, capital investments have been largely misused and, more importantly, have not been properly prioritized so as to meet the soaring demands for the development of the state. To make matters worse, there are large budgetary surpluses recorded each year, which range from 20-40% of the total budget. This indicates disastrous public finance management.

The fragility of fiscal policies can be illustrated by the revised budget proposed in the mid-year budgetary review carried out in July 2008, which deviated substantially from the Medium-Term Expenditure Framework. When coupled with the persistent lack of coordination between line ministries, the failure to follow procedures set out in the relevant laws indicates an ad hoc approach to fiscal policy that has been consistently followed by all its governments. Politics remains the major determinant of economic performance.

The ongoing process of decentralization is still not accompanied by solid funding of the administrative structures, and it is highly politicized due to its implications for the distribution of power among ethnic groups.

Policy development in Kosovo is largely fragmented between and among national institutions and international stakeholders. Unlike previous governments, which used to be largely decentralized in terms of decision-making, the Thaci government is becoming increasingly centralized. This centralization has not improved steering capacity due to the lack of policy-making and coordination. However, the government lacks a central policy-making mechanism that would reconcile conflicting objectives into a coherent policy. At the same time, the government must coordinate its policy planning with the international presence, which is not always coordinated. This leads to conflicting policy priorities among all stakeholders in Kosovo, which in certain cases paralyzes policy-making altogether. Political agreements between the government and most powerful diplomatic missions in the country often resolve these states of paralysis. Moreover, the international community does not have comprehensive donor coordination in policy assistance and institution building. In the rare cases when it does happen, donor coordination affects only narrow sectors.

Policy
coordination

The government has adopted the plan for European Integration 2008 – 2010, which aims to improve intergovernmental coordination and communication. A number of relevant institutional structures were established in September 2008. The former Agency for European Integration has been enlarged and renamed the Agency for the Coordination of Development and European Integration, and its chief executive officer was elected in early 2009.

Corruption in Kosovo is widespread and remains a major problem. This is due to insufficient legislative and enforcement measures as well as the judicial system's lack of determination and general weakness. Likewise, there is no political will to fight corruption within the government and among the political parties in Kosovo. The legal framework is inconsistent in terms of how it defines corruption in the Law on Suppression of Corruption and the Provisional Penal Code. The Government launched the Anti-Corruption Strategy in early December 2008, but the action plan has yet to be implemented. Also, the Assembly of Kosovo approved the Law on the Prevention of Conflict of Interests and the Law on the Declaration and Origin of the Property of Public Senior Officials. However, it has still not approved the final draft of the Law on the Declaration of Assets. The Anti-Corruption Agency of Kosovo (AKK) is an independent body and the main institutional instrument for preventing and fighting corruption as well as for coordinating anti-corruption policies. It has been established based on the Law on the Suppression of Corruption, which also provides for the AKK's financial independence through a separate budget line in Kosovo's budget. Although it was established in July 2006, the AKK only became operational in February 2007 and continues to lack sufficient financial and human resources. Nevertheless, although with limited internal capacity, the AKK has continued to perform its tasks. For example, the AKK has submitted 35 cases to prosecutors, who have initiated seven criminal proceedings.

Anti-corruption
policy

16 | Consensus-Building

All political parties and social groups in Kosovo agree on building democracy and a market economy. All actors agree that Kosovo's strategic aim is membership in the European Union and NATO. This broad consensus is fully accepted by society, which is willing to undertake sacrifices to fulfill the criteria demanded by these strategic aims. In 2006, the main ethnic Albanian parties formed a five-member Unity Team to present a united front in negotiating with the international community and Serbia over Kosovo's future status. In April 2007, the Unity Team signed the Pocantico Declaration at an American-sponsored conference in the United States, where the Unity Team agreed to continue working together toward implementing key aspects of the Ahtisaari Plan during the country's first 120 days of independence. After the 2007 elections, members of the team reaffirmed their intention to maintain unity until independence was declared in February 2008 and the constitution took effect in June.

Consensus on goals

There are no anti-democratic actors in Kosovo. Police and the security forces are under civilian and political control. Furthermore, the police force and judicial institutions are monitored and overseen by EULEX, while the Kosovo Security Force is trained and controlled by NATO.

Anti-democratic
veto actors

Conflict management in Kosovo is a matter of coordinated efforts between the political leadership and the international community. There are continuous social tensions in society, and the leadership has proved to be ineffective at resolving the issues. However, the government has a dialogue with most disaffected groups and has continued to preserve the status quo.

Cleavage /
conflict
management

The interethnic divisions in Kosovo's society go back a few decades. The political leadership believes that the completed legislative framework is sufficient for addressing these divisions. Due to the pressure coming from Serbia, the ethnic-Serbian community is reluctant to fully enter into dialogue with Kosovo's political leadership. The decentralization process, which foresees the creation of new municipalities in which ethnic minorities will constitute a majority with enhanced municipal powers, is due at the end of 2009. This process might be an opportunity to bridge interethnic tensions and provide a single legal framework throughout the state. Nevertheless, the Serbian-majority municipalities refuse to take part in the decentralization process because it was envisaged by the Ahtisaari Plan, which called for the independent Kosovo state that they reject.

Kosovo's political leadership is divided over the issue of democratic legitimacy of the incumbent government. The PDK and its coalition partner LDK have established a rather stable coalition government that has effectively controlled institutions and marginalized the opposition. The opposition has called for new elections, arguing that the Ahtisaari Plan envisaged elections within nine months after the declaration of independence. The expiry of this period would deprive the government of its constitutional mandate. The governing parties have contested this argument, claiming that the Ahtisaari Plan had not been approved by the U.N. Security Council. Instead, the governing coalition has insisted on holding the next elections in 2011.

Civil-society actors are largely ignored by the political leadership. Even in rare cases when the government "consults" with civil society, this is often done to legitimize decisions already made rather than to solicit input. At the same time, most NGOs are lacking in terms of their profiles and are facing conceptual in addition to financial challenges. Both civil society and the government have a fundamental problem with building relationships with their own constituencies. Nevertheless, civil society is present in all public debates and often facilitates them. A political culture has been created to always present the views of civil society on various fundamental issues of public concern.

Civil society
participation

Kosovo emerged from the war of 1999 with huge intra-Albanian and interethnic hostilities. Hostility among Albanians was the result of political clashes over power grabbing between the moderate Democratic League of Kosovo (LDK) led by the late President Ibrahim Rugova and political forces that emerged out of the Kosovo Liberation Army (KLA), namely, the Democratic Party of Kosovo (PDK) and the

Reconciliation

Alliance for the Future of Kosovo (AAK). A number of killings of prominent LDK members in the period between 1999 and 2002 have yet to be clarified, which has led many to believe that they were carried out by former KLA members. The situation began improving with the creation of the first government of Kosovo in 2001 – 2002 composed of the LDK, PDK and AAK. Subsequently, the LDK-AAK coalition government in 2004 erased the dividing line between LDK and the former KLA.

Interethnic reconciliation remains a larger problem. The Albanians and Bosniak, Turkish and Roma/Ashkali/Egyptian (RAE) minorities have reconciled due to the full political participation of minority parties in the political processes in Kosovo. Reconciliation has not taken place with the Serbs. Two main reasons are behind this rift. On the one hand, there is the Kosovo-Serb participation in the oppression of Albanians during the 1990s and their role in the 1998 – 1999 war, which was followed by a period of Albanian revenge-seeking between 1999 and 2002. Then, on the other hand, there is the continuous destructive role of Serbia and Belgrade's political instrumentalization of the Serbian minority in Kosovo. Ironically, after the declaration of independence, tensions between the Albanians and Serbs have significantly decreased on the ground, but this positive development has not evolved into a credible reconciliation process. This reconciliation is hostage to a lack of political will in Pristina and to Serbia's attitude toward Kosovo's independence.

The AAK leader and former UCK commander Ramush Haradinaj, who had been indicted for crimes against humanity and violations of the laws or customs of war by the International Criminal Tribunal for the Former Yugoslavia (ICTY), was acquitted for lack of evidence in April 2008. He then returned to Kosovo and to active participation in politics. While his followers have hailed him as a hero, the Serbs have argued that his release is proof that the ICTY is biased against Serbs and in favor of those who fought against them.

17 | International Cooperation

The political leadership fully complies with bilateral and multilateral international donors and wisely uses international assistance. On 11 July 2008, representatives of 37 countries and 16 international organizations attended a donors' conference in Brussels. They pledged a total of more than €1.2 billion, which the Kosovo government plans to use to fund its Medium-Term Expenditure Framework for 2008 – 2011. The donors were instrumental in building institutions and introducing democratic governance in Kosovo. This is a gradual process because the institutions in Kosovo were created from scratch by the international community, which held all administrative and executive powers in the early stages. With the empowerment of Kosovo's institutions, administrative and executive powers were transferred

Effective use of support

accordingly. But this transfer of competencies has not resulted in full government ownership and independence in the domestic agenda reform. On the contrary, it has created an alarming dependence that casts doubt on the sustainability of local institutions once the international community leaves Kosovo. The international community has effectively paralyzed any domestic moves for greater autonomy in the decision-making process.

The government is a credible and reliable partner in relations with the international community. Tensions with Serbia are kept low due to heavy international interventions, the aim of which is to mitigate Serbia's destabilizing role in Kosovo.

Credibility

In one form, Kosovo is a trusteeship of the international community. In this regard, due to the lack of full international legitimacy and contested statehood, UNMIK represents Kosovo and its interests in a number of multilateral forums.

On 8 October 2008, the U.N. General Assembly (GA) adopted a resolution submitted by Serbia requesting that the International Court of Justice (ICJ) issue a non-binding advisory opinion on whether Kosovo's declaration of independence is in accordance with international law; 77 members voted in favor, while 74 abstained and six voted against it. Serbia claimed a diplomatic victory and a success in freezing further recognition of Kosovo's status, but seven countries recognized Kosovo's independence after the GA vote, including Montenegro and Macedonia.

Kosovo has been recognized as an independent state by almost all regional states, apart from Serbia, Bosnia, Romania and Greece. The latter, however, fosters diplomatic and economic cooperation with Kosovo and doesn't block Kosovo's representation and EU integration process. Through UNMIK, Kosovo is a full participant in almost all regional cooperation initiatives, such as CEFTA, the Regional Cooperation Council (RCC) and regional energy treaties. However, Kosovo does not participate in regional cooperation initiatives related to security and defense issues. Kosovo has excellent relations with the regional states that have recognized its independence.

Regional
cooperation

Strategic Outlook

Kosovo's independence has raised expectations among the population, and it has imposed upon the political leadership responsibilities they never exercised in the past. Contrary to certain expectations, the independence of Kosovo has stabilized the entire region of Southeast Europe. Nevertheless, regional stability is still undermined by the fragility of Bosnia, Macedonia and the Serb-controlled northern part of Kosovo. The next three-to-five years are critical to overall regional stability and the successful completion of state building and Kosovo's prospects for integrating itself into Europe.

In the medium term, Kosovo's government and the international presence should ensure full implementation of Ahtisaari's Comprehensive Status Proposal. This is not dependent only on internal actors, but also on the behavior of Serbia and the five remaining EU states' recognition of Kosovo's independence. In the long-term, overall reforms are needed so as to strengthen the rule of law, to facilitate sound and sustainable economic development, to reconcile the skill structure of the labor force with the needs of the labor market, to fully integrate the Serb community within Kosovo's institutions, to increase investment in strategic R&D areas and to reform public administration, health and education. These much-needed reforms should not be sacrificed owing to the perceived threat of instability. The political leadership should develop a more autonomous policy-making capacity and gradually free itself from its dependence on the international presence in Kosovo.

The transformation strategy should focus on the following key elements:

- **Strengthening statehood:** The Kosovo government should develop a comprehensive plan that would outline and specify a realistic strategy for including northern Kosovo within a single legal and political framework. Simultaneously, this plan should also address the empowerment and development of Serb settlements in other parts of Kosovo. The international community should sincerely commit to solving these problems, and it should not undermine Kosovo's stability and development in order to preserve the power of the political leadership in Serbia. The ICO and EULEX should resolve their differences on Kosovo's status and rigorously stick to executing their mandates in support of Kosovo's statehood.
- **International legitimacy:** The political leadership should utilize all of Kosovo's capacities to create and implement a credible foreign policy strategy as well as to open channels of communication with countries that have yet to recognize it. The International Steering Group (ISG) supervising independence must adopt a comprehensive strategy to strengthen Kosovo's international legitimacy in addition to its supervision of Kosovo's authorities. The European Union should quickly reach consensus on Kosovo's tangible European integration path, which should be in line with formal association and stabilization processes and accelerate Kosovo's process of catching up with other countries in the region.

- **Strengthening the rule of law and the judiciary:** Kosovo's political leadership should quickly move from rhetoric to concrete action in fighting corruption, even within its own ranks. Likewise, it should ensure the judiciary's full independence from political interference and provide the judiciary with all the support and security it needs to effectively combat corruption. EULEX should act in strict accordance with its mandate and not compromise its operations with political bargaining.
- **Sustainable economic development:** The government should develop a credible and diverse national development strategy. This strategy should focus not only on a raw-materials-based economy, but also on the strategic development of competitive advantages Kosovo's society has in comparison with other countries of the region. Furthermore, it should reform the education system to create a labor force that can meet the development demand and needs of the larger European market.