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KOSOVO POLITICAL ECONOMY ANALYSIS

FINAL REPORT

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Prepared by

Management Systems International (MSI), A Tetra Tech Company

200 12th St South, Suite 1200

Arlington, VA, USA 22202

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CONTENTS

- Acronyms..... ii**
- Executive Summary iii**
- I. Introduction..... 6**
- II. Methodology..... 7**
 - A. Foundational Factors 7
 - B. Rules of the Game 7
 - C. The Here and Now 7
 - D. Dynamics..... 8
 - E. Conceptual Approach 8
- III. Findings..... 9**
 - A. Foundational Factors 9
 - B. Rules of the Game 13
 - C. The Here and Now 23
 - D. Dynamics..... 38
- IV. Conclusion..... 41**
- Annex 4. Bibliography..... 43**

ACRONYMS

AAK	Aleanca për Ardhmërinë e Kosovës (Alliance for Kosovo’s Future)
AKR	Aleanca Kosova e Re (New Kosovo Alliance)
ASM	Association of Kosovo Serb Municipalities
CMT	Cut-Make-Trim
CSO	Civil Society Organization
CVE	Countering Violent Extremism
ERA	European Reform Agenda
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOK	Government of Kosovo
GOS	Government of Serbia
ICK	Islamic Community of Kosovo
ICT	Information and Communications Technology
IFES	International Foundation for Electoral Systems
KLA	Kosovo Liberation Army
KFOR	Kosovo Force
LDK	Lidhja Demokratike e Kosovës (Democratic League of Kosovo)
MP	Member of Parliament
NATO	North Atlantic Treaty Organization
NISMA	“Initiative” (in Albanian)
OSCE	Organization for Security and Cooperation in Europe
PAN	PDK-AAK-NISMA
PDK	Partia Demokratike e Kosovës (Democratic Party of Kosovo)
PISA	Program for International Student Assessment
SAA	Stabilization and Association Agreement
UN	United Nations
UNDP	United National Development Program
US	United States
UNMIK	United Nations Mission to Kosovo
USAID	United States Agency for International Development
VET	Vocational and Educational Training
VV	Vetevendosje (Self-Determination Movement)

EXECUTIVE SUMMARY

When Kosovo came under international administration by the United Nations Mission in Kosovo (UNMIK) in 1999, it faced many challenges, including limited experience with self-rule, low levels of economic development, and a population and infrastructure badly damaged by years of war, oppression, and ethnic hostilities. Under UNMIK's transitional administration, leaders of the liberation movement – especially the Kosovo Liberation Army (KLA) – quickly established power in the nascent provisional self-government. Many of these leaders used their newfound governing power to establish and expand informal networks of influence through filling positions in the civil service with political supporters and favoritism in the allocation of state resources to the private sector in areas such as procurement and privatization. To preserve stability, the international community largely tolerated these practices. For years, informal and formal institutions interacted in a system where voters chose parties due to credentials gained during the liberation movement or regional loyalties, rather than their performance in office.

Eighteen years later, and a decade since Kosovo's unilateral declaration of independence, this situation is beginning to change. As the war of liberation and oppression under Serbia recedes in memory and a new generation of Kosovo youth are reaching adulthood and voting age, concerns around elite impunity and lack of economic opportunity are emerging as major political issues. Voters in Kosovo today are growing increasingly frustrated with a political system that offers significant benefits to the lucky few who are able to gain entry into informal networks of power, but little to the vast majority of citizens whom these networks exclude. Along the same lines, the international community, especially the European Union (EU), is losing patience with Kosovo's weak record on economic and political reforms.

As a result, the *status quo ante*, where political elites could largely take voters for granted and avoid accountability to external actors on issues such as completing statehood and fulfilling EU integration related reforms, is coming to an end. On one hand, major international actors, especially the EU and the U.S., are increasingly consumed by other global crises, requiring Kosovo to take greater ownership to find its place in an uncertain world. On the other hand, voters are increasingly less easily manipulated by political leaders and are demanding political change, especially greater accountability for corruption and abuse of power, as well as a more inclusive society. The consequence is rising government accountability and responsibility.

One substantial challenge that Kosovo faces is a lack of economic development. Kosovo's economy remains heavily consumption-led, with remittances and government expenditure accounting for approximately 40 percent of its GDP. A weak investment climate, insufficient supply of electricity, political favoritism in allocation of economic opportunity, and an inadequately skilled workforce deter investment and impede the development of a competitive private sector. The result is high rates of unemployment, low rates of labor force participation, and a high current account deficit. The practical manifestation is growing exasperation among large parts of the population and a strong desire among many, especially the country's large youth population, to leave the country for perceived better opportunities elsewhere.

A second challenge is elite impunity. Widespread abuse of power is no secret in Kosovo. Recent leaks of recorded telephone conversations among high-ranking elected and party officials confirmed the worst fears of many. While voters are voicing their anger by casting their ballots against the party that allegedly has most benefited from elite impunity and informal networks of

power, the Partia Demokratike e Kosovës (Democratic Party of Kosovo or PDK), Kosovo's judicial system has not yet been able to hold elites accountable because many key enforcement institutions, such as the Office of the State Prosecutor, are politically compromised. More broadly, since many of the figures who have most benefitted from exploiting informal networks of power retain high positions in government and/or businesses that fund political campaigns, achieving elite accountability in Kosovo will require the existing beneficiaries of the system to prosecute themselves and/or people close to them. For these reasons, greater political change may likely be a necessary precondition for greater institutional change.

A third challenge is identity. Kosovo is a multi-ethnic state with a history of ethnic tensions, especially between the country's Albanian and Serb communities. Kosovo's ethnic minorities live in their own communities and many Kosovo Serbs retain loyalty to Serbia, due to a combination of ethnic solidarity, material benefits the Government of Serbia provides to Serb communities, and coercion. This divide is especially pronounced in northern Kosovo, which is effectively isolated from the rest of the country. While Kosovo's Constitution defines the country as a multi-ethnic state, the concept of a distinct Kosovo identity is elusive to many and is emerging only slowly among the post-independence generation. Many Albanian youth in Kosovo find that Islam provides a sense of identity as the only aspect unaltered by the shift from an ethnic Albanian identity under Yugoslavia into the constitutionally constructed (but still unrealized) Kosovo civic identity. Religion also helps provide a sense of meaning to many of the country's youth, who are disillusioned with the *status quo* described above.

Kosovo also has a large list of challenges to greater international recognition as a sovereign and independent state. Kosovo faces three distinct impediments to becoming a potential EU candidate. First, five EU member states still do not recognize Kosovo, in part, because they do not want to legitimize unilateral declarations of independence due to disputes they face in their own countries. Serbia is exploiting this situation to destabilize Kosovo and keep the country internationally isolated. The Government of Serbia (GOS) can directly undermine Kosovo's sovereignty because it has substantial control over the Serb List, the main Serbian party in Kosovo. The Serb List is a member of the current ruling coalition and has substantial power in its very narrow majority in the National Assembly. Since the EU does not currently recognize Kosovo, it need not require Serbia to do so as a condition for the latter to join the union. Second, the Stabilization and Association Agreement Kosovo has signed with the EU contains several difficult economic and governance reforms the former will need to implement to even be considered as a potential candidate. Three, even if the Government of Kosovo (GOK) manages to address the previous two issues, the EU's interest in admitting new members is questionable due to rifts and strains among existing members. While it is an exaggeration to say that Kosovo has no chance to join the EU, it is not an exaggeration to say it will be a long and difficult process. Kosovo faces an equally challenging prospect for joining the United Nations (UN) since Russia, which as a member of the Security Council can unilaterally block any country from joining the organization, remains opposed due to its own interests to perpetuate frozen conflicts in its regions of influence.

In addition, the GOK needs to officially demarcate its border with Montenegro to unblock its path to visa liberalization within the Schengen Zone. While citizens of Kosovo strongly desire visa liberalization due to their sense of isolation over limited international recognition and weak economic prospects at home, this remains a very contentious issue. It has little popular support and is opposed by many political parties, including the current prime minister's. It is unclear if

the current government can gather the requisite two-thirds support in the National Assembly to ratify the agreement on border demarcation.

Despite this long list of challenges, signs of optimism exist in Kosovo today. The country has held three relatively free and fair elections since independence and had three peaceful turnovers in power. Along the same lines, there is a large amount of turnover in elections for members of the National Assembly even within parties. In addition, the GOK has made significant progress in improving macroeconomic policy and public financial management.

Arguably the most promising sign of change in Kosovo today is the shift in people's mindset. No longer content with impunity for abuse of power and excuses for the country's insufficient progress on needed economic and governance reforms, people are voting for change and looking for new leaders who demonstrate professional competence and personal integrity. To their credit, some parties are hearing this message by recruiting better candidates and developing more coherent ideologies and policy positions. At the same time, signs suggest that some politicians are channeling citizen frustration in more contentious and confrontational ways. The battle between these two forces will likely hinge on tangible progress – or lack thereof – on the salient issues described above.

As Kosovo enters its second decade of independence, it is undergoing two transitions: a domestic political one where voters are demanding a more inclusive economy and political system, and an international one where Kosovo is receding in importance and the GOK needs to take responsibility for holding elites accountable and achieving greater recognition as an independent and sovereign state. Many in Kosovo wonder whether the country's elected officials are prepared to assume these responsibilities and begin to act as leaders of an independent state. Few doubt that it is time for them to do so.

I. INTRODUCTION

As Kosovo approaches 10 years of independence, the country can point to many notable successes. One is real progress in democratic consolidation. Kosovo has held three elections in its post-independence period and experienced peaceful transfers of power after each one. Along the same lines, elections at the national and local level are becoming increasingly competitive. Growing voter sophistication is also forcing political parties to develop clearer ideologies and increasing pressure on the government to implement needed economic and governance reforms. In addition, the Government of Kosovo (GOK)'s capacity to make and enforce its own policies is rising in certain key areas, most notably in macroeconomic management, where the government has put in place strong rules to enforce a high level of fiscal discipline. Similarly, the GOK has made notable progress in improving public financial management.

At the same time, there remain significant unmet expectations, especially among Kosovo's large youth population, in regards to the international recognition of Kosovo as a sovereign and independent state, economic development, widespread poverty, improving governance, and combatting corruption. The latter is especially evident from the results of recent elections, where citizens voted decisively for change, and from public opinion polls showing low confidence in many key government institutions. Kosovo's citizens are also feeling increasingly isolated due to lack of progress toward European Union (EU) integration and UN recognition. Currently, the status of both seem highly uncertain. Five EU members still do not recognize Kosovo and the country needs to undertake a range of very difficult reforms to become a candidate for EU membership. Along the same line, Russia, which, as a member of the U.N. Security Council, can block entry into the organization, stands opposed to Kosovo's potential membership. In addition, Kosovo's sovereignty remains incomplete as the Government of Serbia continues to block Kosovo's membership in international organizations and exerts substantial influence on its domestic politics. Finally, there exists growing frustration with an economy that provides substantial benefits to those with the right political connections, but widespread unemployment and lack of economic opportunity for those who lack them.

As it approaches its 10th year as an independent state, Kosovo appears to be entering two transitional phases. The first is growing public pressure for political change, fueled by widespread perceptions of state capture, slow economic growth, high rates of unemployment, and external isolation. The second is rising demands from the international community on the GOK to make and enforce its own policies as levels of external support and attention decline. Both present significant challenges, and it remains unclear whether the GOK is prepared to enforce the elite accountability necessary to implement voter-demanded reforms or to undertake the difficult changes required to become a candidate for EU membership. There are signs of optimism, however, as some rising political leaders understand parties must change to meet rising public expectations through internal reform and more coherent policy positions. Yet, these changes may be slow, as older leaders across many parties are not yet prepared to cede power to a younger generation.

The Political Economy Analysis of Kosovo explicates these trends and identifies opportunities and challenges to needed reforms. Section II discusses the methodology of the report. Section III provides findings on current foundational factors, rules of the game, here and now, and dynamics. The final section presents the conclusions.

II. METHODOLOGY

The team employed the approach outlined in USAID’s Applied Political Economy Analysis Field Guide, focusing on foundational factors, rules of the game, the here and now, and dynamics. This section will explain each category and subsequently describe the team’s approach for answering the listed questions.

A. Foundational Factors

Foundational factors, for the most part, are conditions that can change only slowly. The key foundational factors the Mission asked us to address are:

- Past events that influence state formation, legitimacy, power relations, economic structures;
- Vulnerability to external pressures;
- Formal institutions and informal power networks;
- Constraints to economic growth, equity, integration, and stability; and
- Economic integration.

B. Rules of the Game

Rules of the game are the formal and informal institutions that shape state-society interactions and/or state-business relations. This level of analysis focuses on structures and norms of power and how they influence action by various stakeholders; the quality of governance; the divergence between formal laws/procedures and the way the government and private sector operate in practice; and how these factors affect policymaking and implementation. The Mission requested that the team address the following key rules of the game:

- Which informal norms and cultural/social traditions have influence? Are they changing? How do they affect power distribution, social justice and equity, economic processes, service delivery, governance, etc.? How are rents and patronage created, and allocated and maintained?
- How does political competition take place?
- How do formal institutions interact with informal institutions?
- Are the political executive and powerful actors constrained by the formal law and/or by informal norms?
- To whom are powerful actors accountable, how and why? What is the role of civil society and the media?
- How do international drivers influence domestic politics?

C. The Here and Now

This is an analysis of how important recent events affect constraints and opportunities in the areas where USAID would like to work in the upcoming CDCS. The key issues and questions on the here and now that the Mission asked the assessment to address include:

- Significant recent events and how they affect rules, norms, and decision-making;

- The distribution of economic and political power;
- Stability of the current governing coalition;
- Dominant ideologies and beliefs and main political parties;
- Ethnic and class relations;
- Regional dynamics;
- Development processes and progress; and
- Relations with key regional states and development partners.

D. Dynamics

Dynamics focus on recent trends and how they may affect the distribution of political power and/or ability and willingness of the government to implement needed reforms. To the extent possible, dynamics also attempted to explicate potential scenarios (e.g., stable government, early elections) as well as their approximate probabilities.

The key questions on dynamics the Mission asked the assessment to address are:

- Which factors are in flux and why? How likely will that impact development and reform?
- Are key actors (groups, individuals, and classes) emerging or disappearing, and are their relationships changing? How and why? Are changes linked to the economy, politics, or other factors? What is the likely outcome of these changes?
- Are reform champions, development entrepreneurs, or elite coalitions for reform identified? What are their interests and motivations?

E. Conceptual Approach

The assessment team followed a three-stage methodological approach to answer the questions above:

- 1) Completed a literature review to determine existing knowledge and gaps.
 - Reviewed existing diagnostics, reports, and assessments from recognized experts, as well as prominent domestic and international organizations.
 - Identified foundational factors, rules of the game, the “here and now,” and dynamics for supporting and/or blocking economic and political reform.
 - Determined gaps in knowledge.
 - Identified key stakeholders to consult.
- 2) Filled knowledge gaps through consultations with stakeholders.
 - Filled gaps in knowledge identified in stage one.
 - Assessed interests of key stakeholders in the government, the private sector, civil society, and external agents, including development partners and neighboring states.
- 3) Determined challenges and areas of opportunities for economic and political reform in Kosovo.

The team held a two-day workshop prior to initiating fieldwork. The purpose of the workshop was for USAID to guide the assessment team in designing the field research methodology,

finalizing the questions to be answered, identifying informants to interview and field sites to visit, and preparing a research and data management plan.

The team gathered information through document review, key informant interviews, focus groups, and site visits. The team conducted approximately 100 key informant interviews at the national and local levels with government officials, political parties, civil society organizations, the media, the private sector, and donors between November 2 and November 21, 2017. The team made a special effort to interview women and ethnic minorities. In addition, the team conducted a number of focus groups with ethnic minorities, women, and youth to obtain the perspectives of these parts of the population. It also conducted site visits to Gračanica/Graçanicë (a Kosovo Serb municipality near Pristina), Krusha (a rural village), North Mitrovicë/Mitrovica (the main Kosovo Serb majority municipality), Pejë/Peć, and Prizren (the second-largest and most ethnically heterogeneous city in Kosovo) to gather views from on economic, political, and social conditions in Kosovo today from diverse perspectives.

III. FINDINGS

A. Foundational Factors

I. A History of Ethnic Divisions

The most contentious foundational factor for state consolidation in Kosovo is the legacy of ethnic divisions and hostilities which precludes the emergence of an overarching national identity and orientation toward a common good. Although Kosovo's ethnic makeup is diverse, the Kosovo Albanian community which makes up over 90 percent of the population (estimated less than 2 million in 2015) and Kosovo Serbs constituting about 7 percent of the population are the main ethnic groups. Historically, Kosovo Albanians and Kosovo Serbs have had very different interpretations of what Kosovo is or ought to be. Despite periods of stability and inter-ethnic co-existence under Yugoslavia (1974-1981), relationships between the two main communities have historically been fraught with tension and divisions. In the post-independence period, while Kosovo Serb and Kosovo Albanian political elites cooperate in formal state governance and share resources at the central and local levels, ordinary citizens from the two main communities live in separate worlds with minimal contact and communication. Divisions and distrust are further exacerbated by the spatial segregation between Kosovo Serb and Kosovo Albanian communities and language barriers among postwar youth reinforced by the educational segregation of post-war generations.¹

Since 2010, the Kosovo Serb community in southern Kosovo has pragmatically engaged with Kosovo institutions. State legitimacy is more openly contested in the four northern municipalities adjacent to Serbia, however. Although the agreements reached through the Brussels Dialogue in 2013 and 2015 provide for their gradual incorporation into the Kosovo system, this process has been delayed for more than two years.² Kosovo's inability to extend its full sovereignty in northern Kosovo and the uncertainty over the future status of Kosovo Serb majority

¹ Kolsto (2014); Strategies of Symbolic Nation Building in South Eastern Europe.

² BIG DEAL Report Series No. (2016), "Awkward juggling: Constitutional insecurity, political instability and the rule of law at risk in the Kosovo-Serbia dialogue" retrieved online from <http://prishtinainsight.com/wp-content/uploads/2016/04/BIRN-Report-2016-ENG.pdf>, Columbia University's Institute for the Study of Human Rights (2017), "Implementation Review of the Kosovo-Serbia Dialogue" retrieved from http://www.humanrightscolumbia.org/sites/default/files/2017_09_05_kosovo-serbia_report.pdf

municipalities constitute a persistent source of interethnic conflict with potential consequences for interstate conflict between Kosovo and Serbia.

2. Limited Experience with Self-Rule

For hundreds of years prior to independence, Kosovo had no experience with self-rule. It became part of the Ottoman Empire in the 15th century. Following World War I, it was integrated into the Kingdom of Serbs, Croats, and Slovenes. During WWII, large parts of Kosovo were integrated into Greater Albania (1941-1943) and German-occupied Albania (1943-1944). With a notable exception of the short-lived period of autonomy (1974-1987) granted by the Yugoslav constitutional reforms in 1974, the lack of self-rule continued both under communist Yugoslavia and subsequently Serbia, following the disintegration of the former. Parallel institutions established by the Albanian community during the decade of nationalist tensions (1989-1999), enjoyed widespread support among Albanians but operated in an atmosphere of increased state pressure, widespread discrimination, and violence under Serbia. Following the armed conflict of 1998-1999, the United Nations Mission to Kosovo (UNMIK) established self-governing institutions from scratch in 1999, for the most part relying on the strong local power holders in the liberation movement. Many of these leaders had little experience in government and viewed state institutions as alien. Kosovo's limited experience with self-rule is reflected in the weak capacity of various governments to proactively establish and implement policies to address key issues such as building state institutions, integrating the Kosovo Serb minority, achieving solid economic growth, tackling high unemployment, combating rampant corruption, strengthening democracy, and improving public services.

3. Contested Statehood

Kosovo's statehood is contested as it still lacks official recognition by many countries, most importantly Serbia and five members of the EU.³ It has not gained membership in the United Nations (U.N.) due to strong Russian objections, and in 2015 narrowly failed a bid to join the United Nations Educational, Scientific, and Cultural Organization (UNESCO).⁴ Due to the failure of the five EU member states to recognize Kosovo, the EU as an organization has adopted a "status neutral" policy toward Kosovo, although the EU maintains a large presence and is the largest provider of external aid.⁵

Since 2011, the EU's role has been instrumental in facilitating the Brussels Dialogue on the normalization of relations between Kosovo and Serbia. After some progress achieved in 2013 and 2014, the implementation of agreements has been less successful since then due to prevailing misinterpretations from both parties over key terms in the negotiated agreements (e.g., justice integration, Association of Kosovo Municipalities) and diminishing public support. EU pressure continues to be instrumental in pushing forward the Brussels Dialogue, but its achievements are neither stable nor irreversible.⁶ Despite the recent progress in moving forward with long-delayed

³ Spain, Greece, Romania, Cyprus, and Slovakia.

⁴ The Guardian(2015), "Kosovo Fails in UNESCO membership bid," retrieved from

<https://www.theguardian.com/world/2015/nov/09/kosovo-fails-in-unesco-membership-bid>.

⁵ Montanara, L. (2009): The Kosovo State-building conundrum: Addressing fragility in a contested state. FRIDE, retrieved from http://fride.org/download/WP91_Lucia_Montanaro_Kosovo_Statebuilding_Conundrum_3dic.pdf;

⁶ EU External Action Service Press Release (2017) Federica Mogherini meets with President Thaçi of Kosovo and President Vučić of Serbia in the margins of UNGA, <https://eeas.europa.eu/headquarters/headquarters->

integration of the justice institutions in the Kosovo Serb majority municipalities in northern Kosovo, the status of the Association of Kosovo Serb Municipalities (ASM) remains highly controversial within Kosovo. Both the ASM and the transformation of the Kosovo Security Force into a full-fledged army are linked with core issues of statehood and will continue to be controversial issues in relations with Serbia. Particularly, the failure to establish the ASM may be used by Serbia to renege on its promise to discontinue support to illegal structures of governance in Kosovo Serb majority municipalities which have yet to be fully dismantled.

Some groups benefit from Kosovo's contested statehood. For example, Kosovo Serb municipalities obtain funds from the Government of Kosovo (GOK) as well as financial support from the Government of Serbia, although this has decreased in recent years. Additionally, some criminal organizations can operate smoothly in the northern municipalities and have vested interests to maintain the *status quo*.⁷

4. Economic Stagnation

Kosovo's economy is underdeveloped. Historically, it served as an exporter of natural resources and agricultural products. In the socialist era, the state undertook limited development of industry. Stagnation of industrial production and post-war reconstruction turned Kosovo into an import-dependent economy with a very large trade deficit, financed in part through foreign assistance and remittances. Since independence, Kosovo has not structurally transformed its manufacturing or service sectors. In addition, its infrastructure was badly damaged following the dissolution of Yugoslavia and the fight for independence.

With international assistance, Kosovo privatized a majority of its state-owned enterprises and opened its economy. However, corruption and weak rule of law severely undermined the effectiveness of privatization in Kosovo.⁸ Powerful politicians used their influence to enrich themselves as well as strengthen their patronage networks. As a result, many privatized state-owned enterprises ceased operating, leading to deindustrialization. In addition, political instability, lack of investment, and inadequate infrastructure remain severe impediments to private sector development. Most domestic companies struggle to compete in local, regional, EU, and international markets. Kosovo's EU Stabilization and Association Agreement will place additional competitive pressure on domestic firms as it requires the GOK to further open its economy to the EU.

Kosovo remains one of the poorest countries in Europe and has the lowest level of per capita gross domestic product (GDP) in the Western Balkans. Despite recent progress in the Doing Business Ranking, the business environment in Kosovo is weak mainly due to poor governance, an erratic and insufficient supply of electricity, and lack of an adequately trained workforce.⁹ The

homepage_en/32457/Federica%20Mogherini%20meets%20with%20President%20Tha%C3%A7i%20of%20Kosovo%20and%20President%20Vu%C4%8Di%C4%87%20of%20Serbia%20in%20the%20margins%20of%20UNGA.

7 Kosovo Police. 2016. *Serious and Organized Crime Assessment*. Pristina: Kosovo Police, http://www.kosovopolice.com/repository/docs/SERIOUS_AND_ORGANISED_CRIME_THREAT_ASSESSMENT_-_SOCTA_2014-2015.pdf.

8 Group for Policy and Legal Studies (2016); *Assessing Privatization in Kosovo* <http://legalpoliticalstudies.org/wp-content/uploads/2016/03/Panic-Selling-Assessing-the-main-challenges-and-deficiencies-of-Kosovos-Privatization-Process.pdf>.

9 World Bank RKS Systematic Country Diagnostic (2016) <http://documents.worldbank.org/curated/en/282091494340650708/Kosovo-Systematic-Country-Diagnostic>

weak economy has resulted in a youth unemployment rate of 58 percent and labor force participation rate of 25 percent.¹⁰

5. Strong Influence of External Governments and Organizations

Kosovo is still characterized by strong dependence on international actors like the EU, U.S., and North Atlantic Treaty Organization (NATO). The role of international development partners has been significant in all the critical junctures of postwar Kosovo, such as setting up the post-conflict self-governing structures (1999), overseeing the final status development (2006-2008), drafting the constitution, gaining international recognition, arbitrating and negotiating between various political parties and organizations, and intervening to break political deadlocks and avoid civil unrest. While international actors have been instrumental to maintain ethnic peace, and steering the country toward statehood, such strong dependence on them for resolving critical statehood and sovereignty issues has resulted in weak foundations for the long-term stability and development of Kosovo.¹¹ This dependence derives in part from external financial support, reliance on the international community for security, and need for economic integration due to the small size of its domestic market.

Kosovo's supervised independence formally ended in September 2012, but the country is still dependent upon KFOR, the EU, the U.N., and the U.S. to provide protection and help resolve key problems.¹² The limited experience of self-rule and failure to achieve full international recognition undermine the ability of Kosovo's political leaders to make independent decisions and take ownership over major developmental priorities.¹³ The weak capacity to govern independently slows down decision-making and undermines the legitimacy and credibility of state institutions. Kosovo is also destabilized by political uncertainty mainly caused by perceptions that it will not be allowed to become a member of the U.N. and join the EU. While international influence in the region remains relatively high, major international actors like the EU and U.S. are dealing with other global crises, which has shifted attention and resources away from Kosovo.¹⁴

6. Persistent Gender Inequity

Kosovo has a very advanced constitutional and legal framework on gender equality. For example, its Constitution mandates gender equality and a minimum of 30 percent women representation in Parliament. Its legal framework and mechanisms toward gender equality, political participation, and non-discrimination also are comprehensive.¹⁵ Nevertheless, the

10 World Bank RKS Systematic Country Diagnostic (2016)

<http://documents.worldbank.org/curated/en/282091494340650708/Kosovo-Systematic-Country-Diagnostic>

11 Visoka, G. (2017), *Shaping Peace in Kosovo The Politics of Peacebuilding and Statehood*, Palgrave McMillan

12 Coelho, J. (2015); *Building State Failure in Kosovo? Contemporary South-eastern Europe*, 2015, 2(2), page 7-15, Visoka, G. (2017), *Shaping Peace in Kosovo The Politics of Peacebuilding and Statehood*, page 97, Palgrave McMillan Montanaro, L. (2009);

State Building Conundrum; Montanara, L. (2009): *The Kosovo State-building conundrum: Addressing fragility in a contested state*. FRIDE, retrieved from http://fride.org/download/WVP91_Lucia_Montanaro_Kosovo_Statebuilding_Conundrum_3dic.pdf

13 Coelho, J. (2015); *Building State Failure in Kosovo? CIDOB* (2016) *Kosovo: The Limits of International Post-Conflict Governance*, pp 4-5

14 USAID Report (2017) *Western Balkans & Eastern Europe: Regional Instability and Resilience to External Shocks* available at http://pdf.usaid.gov/pdf_docs/PA00MOP5.pdf, Milan Nič (2017) *EU disturbed by new Balkan instability and geopolitics: hidden contradictions*, GLOBSEC Policy Institute

15 Constitution of the Republic of Kosovo (with amendments I-XXIII); Articles 104, 108, 110, and 114. Kosovo had a Law on Gender Equality since 2004 and legal protections have been further strengthened in the post-independence legislation such as; the Law on Gender Equality (LGE) and the Law on Anti-Discrimination.

influence of patriarchal social and cultural tradition stifles strengthening gender equality. Despite the affirmative measures entrenched in the constitutional and legal provisions, research from international and local organizations has shown that areas of gender inequality include women's access to education, economic opportunity, legal discrimination in property and inheritance issues, political participation, and representation in media.¹⁶ Following the local elections of 2017, none of the 38 municipalities of Kosovo is run by female mayor and the new government has only two female ministers (of 22).

No country in Europe has a lower proportion of women in the formal labor market than Kosovo, with just 18 percent of women participating in the labor force compared to 55 percent of men.¹⁷ The exclusion of such a high proportion of the population from formal economic activity is a large fiscal strain and major impediment to increasing Kosovo's economic competitiveness.

Gender inequality is also widespread in property ownership and inheritance. Recent USAID surveys indicate that the number of females with property registered in their name now represents 20 percent of the population.¹⁸ The inequality extends to property inheritance as well as the number of women who reported inheriting property that is now registered in their name in 2017 is only 7.5 percent.¹⁹ USAID and other donor interventions appear to have achieved progress in raising awareness but deeply embedded cultural norms of a patriarchal society continue to be seen as the key obstacle to achieving gender equality in practice.

B. Rules of the Game

I. Voters Are Beginning to Speak; Will Leaders Listen?

The Constitution of Kosovo provides for extensive freedoms and democratic elections, and ensures political representation for women and minority communities. Widespread consensus suggests that elections are the only legitimate way to gain power to form a government. Kosovo has held three generally free and fair elections since its independence, in 2010, 2014 and 2017. Moreover, Kosovo has established a pattern of peaceful turnovers of power, with those three elections producing prime ministers from three different parties: PDK in 2010, LDK in 2014 and AAK in 2017.²⁰ Turnover is similarly high among members of Parliament (MPs). Election shortcomings remain, however. The EU Observer Mission to the 2017 general election found "inaccurate voter lists that are vulnerable to fraud, an unreasonably short timeframe for early elections, a largely defective system for Out-of-Kosovo voting, an insufficiently precise and

16 USAID Kosovo (2015), Gender, Property and Economic Opportunity in Kosovo, retrieved from https://www.land-links.org/wp-content/uploads/2017/05/USAID_Land_Tenure_PRP_Report_January-2015.pdf

USAID Kosovo (2015), National Property Rights Baseline Survey, retrieved from <https://www.usaid.gov/sites/default/files/documents/1863/1.%20National%20Baseline%20Survey%20for%20Property%20Rights%20in%20Kosovo.pdf>

17 Kosovo Country Gender Profile (2014), www.swedenabroad.com/.../Orgut_Kosovo_Gender_Profile_FINAL_2014-05-08.PDF; The Cost of the Patriarchy (2015), Democracy for Development, <https://rs.boell.org/en/2015/01/25/cost-patriarchy>;

18 USAID Kosovo Property Rights Program (PRP) (April 2017), Midterm National Survey on Property Rights in Kosovo, pp. 8, USAID Kosovo Property Rights Program (PRP) Kosovo (April 2017), Midterm National Survey on Property Rights in Kosovo retrieved from http://pdf.usaid.gov/pdf_docs/PA00MQKC.pdf;

19 Ibid, pp. 9

20 Partia Demokratike e Kosovës or Democratic Party of Kosovo, Lidhja Demokratike e Kosovës or Kosovo Democratic League and Aleanca për Ardhmërinë e Kosovës, or Alliance for the Future of Kosovo, respectively.

transparent process at the Count and Results Center and an insufficient response to violence and intimidation in Kosovo Serb areas.”²¹

Nevertheless, citizens in Kosovo are becoming increasingly pessimistic about the quality of political processes and are losing trust in government and politicians. The United Nations Development Program’s (UNDP’s) Public Pulse opinion polls show that close to 70 percent of respondents are dissatisfied with the political direction of the country, a pattern that has remained largely persistent since 2010. Its democratization index, a composite measure of satisfaction with democracy, shows a similar trend. Along the same lines, its most recent poll in 2016 found that only about 20 percent of respondents were satisfied with the performance of the Prime Minister, the National Assembly, central institutions and the judiciary. On the positive side, perceptions that the National Assembly and civil society are providing effective government oversight are growing, albeit from a low baseline, rising from about 20 percent agreeing with that statement to just over 30 percent during the past decade.²²

Voter sophistication is also rising as elections are becoming increasingly issue-based and competitive, even within parties. In particular, the open-list proportional representation electoral system permits voters to select a party or five members of the same party. Across all major parties, many MPs with low rankings on their party list have defied the leaders of their parties by winning seats through cultivating voter support outside party structures.

2. Getting by with a Little Help from Friends

Despite its progress in building formal institutions, Kosovo still has many elements of a neo-patrimonial state where access to economic and political opportunities flow through informal networks of power. Four factors explain the persistence of informal networks of power in Kosovo today. One, UNMIK coopted the KLA leadership in self-governing institutions after 1999, which allowed the latter to gain significant political and economic power at that time. Two, a lack of well-structured pre-existing elite networks greatly facilitated the ability of KLA legacy parties to create new networks after UNMIK took control of Kosovo in 1999. Three, pervasive poverty and unemployment on the eve of independence allowed PDK to extend its influence as more powers were transferred from international authorities to the GOK. Four, stability has been paramount to international actors although the price is seen by many as too high for democratic accountability and impunity of political elites. As elsewhere in the Balkans, international reliance on political strongmen to maintain stability has amplified the role of political leaders often having a chilling effect on potential dissenters and making access to patronage networks and state positions as an incremental path to fast upward social mobility.²³

The ex-KLA political, military and intelligence structures remain the main beneficiaries of this situation and have expanded their patronage networks beyond their clan, party membership and friends to strengthen their power in the post-independence period. As economic opportunity is concentrated among a narrow group of elites with close ties to political parties, many people see gaining entry to informal networks of political power as the main way of advancing in society (see subsections “Significant Constraints to Economic Growth” and “Weak Private Sector

21 European Union Election Observation Mission. 2017. Final Report Kosovo Legislative Elections 2017. Brussels: European Union. Page 1.

22 UNDP. 2016. *Public Pulse XII*. Pristina: UNDP/Kosovo.

23 Centre for European Policy Studies (2016), “Is the EU turning a blind eye to the ‘new strongmen’ of the Balkans?”

Development and Investment” in “The Here and Now” for additional information on the links between the government and the private sector).²⁴

Contemporary informal power networks in Kosovo initially developed around war friendships and familial ties with geographic bases closely matching KLA operation zones, and some had ties to transnational criminal organizations.²⁵ The Drenica operational zone emerged as the most powerful group serving as the nucleus for the creation of PDK in 2000 by the senior ex-KLA political, military and intelligence figures.²⁶ Since the international presence has downsized, networks gravitating around PDK’s leadership have vastly expanded beyond party membership, familial ties or war friendships. These larger patronage networks give insiders preferential access to public sector jobs, government contracts, privatization deals, construction permits and licenses for new business initiatives in exchange for money and political support.²⁷

Having been in power for most of the time since 1999, PDK has the largest patronage and clientelist network, extending from the public sector – which employs over 90,000 people or about 25 percent of the total employment – to state-owned enterprises and private businesses closely connected to the party’s leadership. Patronage networks are maintained by allocating state resources to cultivate informal networks of power.²⁸ Wiretapping scandals have shown that support from PDK-led patronage networks can translate into personal success, such as receiving a government job without even applying, undeserved promotions in the justice sector, appointments to the governing boards of important publicly owned enterprises, or lucrative positions in public universities and other state institutions.²⁹ Such benefits are particularly valuable as public jobs often come with substantially higher salaries than similar jobs in the private sector and, therefore, are an important commodity for many people in Kosovo.³⁰

LDK has established a similar, but less extensive network of power compared to PDK, as it has not held the same degree of political influence and has only led the GoK for three years since 1999. LDK also has a larger loyal base of supporters not connected to patronage networks, owing mostly to the followers of Ibrahim Rugova during the years of the non-violent resistance movement from 1989 to 1999. AAK works as a tightly knit and closed network, with family ties and regional connections coming from the Dukagjini area, which has shown similar traits of using state resources for political advantage. NISMA,³¹ a small party created in 2013 by senior

24 Interview with civil society organization (CSO) representative in Pristina, November 2016.

25 Briscoe, Ivan, and Megan Price. 2011. *Kosovo’s New Map of Power*. The Hague: Netherlands Institute of International Relations.

26 Perritt, H (2008), “Kosovo Liberation Army: The Inside Story of an Insurgency,” Illinois University Press, Petiffer, J. (2014), “Kosovo Liberation Army” Oxford.

27 Youth Human Rights Initiative (2010), *State of Constriction*; Briscoe, I., (2011) *Kosovo’s New Power Map*, Abit Hoxha et al (2016); *Informal Power Networks, Political Patronage and Clientelism in Serbia and Kosovo*, pp 79; *Impunity for Inexplicable Wealth* (2014): KIPRED.

28 Anten, L, Briscoe, I & Mezzer, M (2012): *The Political Economy of State-Building in Situations of Fragility and Conflict: from Analysis to Strategy*, retrieved from http://issat.dcaf.ch/content/download/37996/562389/file/cru_political_economy.pdf. Briscoe Ivan (2011), *Kosovo’s State of Constriction*, KIPRED, *Informal Power Networks*, YIHR (2010), “*State of Constriction? Governance and Free Expression in Kosovo*,” retrieved from

http://ks.yihr.org/public/fck_files/ksfile/STATE%20of%20CONSTRUCTION%20read%20only.pdf. SeCons (2016), “*Informal Power Networks, Political Patronage and Clientelism in Serbia and Kosovo*,” edited by Slobodan Cvejić, retrieved from <http://crdp-ks.org/wp-content/uploads/2016/05/Informal-Power-Networks-Patronage-and-Clientelism-in-Serbia-and-Kosovo-1.pdf>.

29 Prishtina Insight (12 August 2016), “*Kosovo’s soap opera of corruption*”, available at <http://prishtinainsight.com/kosovos-soap-opera-corruption/>

30 Information collected during the fieldwork in Pristina, November 2017.

31 Albanian for “initiative.”

ex-KLA figures who served in high positions of the PDK-led governments, has passed the electoral threshold for National Assembly representation twice, but has not built a nationwide power base since control for power and not disputes over party program were the genesis of its split from PDK. AKR,³² another small political party where power centers on the party leader, has also struggled to develop a political identity beyond its own small network. Vetëvendosje (VV, meaning “Self-Determination”) is the only major party that has not been in government. It manifested some signs of patronage in governing the Pristina municipality, but no major corruption.

Patronage networks extend from political parties to large parts of the public sector, the judicial system, the police, boards of independent agencies, large business conglomerates, and allegedly criminal organizations.³³ Clientelism is more direct at the local level, where mayors can use their significant discretionary powers to cultivate networks of influence often benefitting from the central government capital investment projects channeled by the Prime Minister or powerful ministers belonging to the mayor’s political party. Given that informal power networks radiate from political parties, changes in informal power networks, for the most part, flow from changes in party control, as the latter brings and expands its own networks of influence. This situation is beginning to change as public pressure to fight corruption grows and fiscal space for expanding patronage networks is increasingly limited (see subsection D, “Government Lives within its Means; Families Live without Jobs”).

Informal networks of power remain an overwhelmingly male domain. While the National Assembly requires women to hold no less than 30 percent of seats, “Women lack access to networking opportunities that men routinely use to raise their profiles. ... Environments in which local political discourse is common ... have typically been the domain of men and are less accessible to women. Decisions about which candidates parties will support are often made in such environments, again disadvantaging women candidates unable to attend.”³⁴

3. For Friends, Everything; For Enemies, the Law

Over the past decade, the GOK has made significant progress in consolidating governing institutions. Progress is especially notable in improving public financial management.³⁵ The National Auditor’s Office comprehensively monitors government finances and makes its reports public.³⁶ In addition, while judges in lower levels of the judiciary continue to face political interference in their work, capacity to hear and close cases is growing rapidly.

32 Aleanca Kosova e Re or New Kosovo Alliance.

33 Brisco and Price (2011) discuss historical ties between some powerful politicians and criminal organizations, although they note these ties have atrophied over time. The analysis team heard many allegations that political parties still have close links with criminal organizations, but found no evidence to document it, and it’s possible that the sources were using “criminal” as a euphemism for “corrupt.” A recent Serious and Organized Crime Threat Assessment (SCOTA) notes that the presence of weak institutions allows criminal organizations to operate relatively freely in Kosovo, but does not implicate any political parties for having ties to organized crime networks. See Republic of Kosovo. 2016. *Serious and Organized Crime Threat Assessment (SCOTA) 2014-2015*. Pristina: Republic of Kosovo.

34 National Democratic Institute. 2015. *Kosovo: Overcoming Barriers to Women’s Political Participation*. Washington, DC: National Democratic Institute. Page 16.

35 AECOM International Development Europe. 2016. *Republic of Kosovo, Central Government Repeat Public Expenditure and Financial Accountability Assessment*. Madrid: AECOM International Development Europe.

36 See <http://www.zka-rks.org/en/publications/>.

While the GOK has established the necessary ministries and agencies needed to govern the country, processes for hiring civil servants and ensuring institutional coherence remain problematic. This is largely because the logic of governing predominantly revolves around serving the imperatives of solidifying patronage networks and creating stable governing coalitions among parties with disparate interests. Two deleterious results are a civil service hired more by political loyalty than merit, and a fragmentation of responsibilities across a growing set of government ministries and agencies. A recent GOK review of institutions and agencies of the central government and the National Assembly concluded that the “rapid proliferation of agencies has resulted in a fragmented organization of central government, loss of accountability and reduced effectiveness in executing public policy.”³⁷

After starting with a small government of only 12 ministries in 2002, various coalition interests have driven the proliferation of ministries and agencies, particularly since independence. For example, the AAK-led government from 2004 until 2007 had 14 ministries and one Deputy Prime Minister, but the following PDK-led government from 2007 until 2010 increased the number into 15 ministries and 2 Deputy Prime Ministers. The current AAK-led government has 22 ministries, 6 DPMs and about 70 deputy ministers, a very large cabinet where many ministries have yet unclear roles and responsibilities. A large number of deputy ministers, which usually act upon instruction of the ministers or replace them in their absence, have similarly undefined roles. Fragmentation of mandates is more widespread over economic policy issues where five ministries led by five different political parties have varying degrees of responsibility over economic development.

Government Size 2002-2017

Cabinet	Ministers	Deputy Prime Ministers	Deputy Ministers
2002-2004	12	0	20
2004-2007	14	1	30
2007-2010	15	2	42
2010-2014	18	5	52
2014-2017	19	3	57
2017-present	22	5	68

The expansion of independent and semi-independent agencies is also becoming an endemic problem. In addition to the large number of ministries, Kosovo currently has about 80 independent agencies supervised by either sectoral ministries (47) or Assembly of Kosovo (32), all of which are governed through governing boards composing 3 to 13 members and employing altogether about 27,000 employees or more than one fourth of Kosovo’s public service.³⁸ Public sector wages and benefits constitutes about 24 percent of the budget, which is 10 percentage points higher than the EU average of 14 percent.³⁹

Another key governance challenge is fighting corruption and strengthening the rule of law. A recent study by the Kosova Democratic Institute, for example, concluded:

37 Ministry of Public Administration. 2016. *Review of Institutions and Agencies of the Assembly and Central Bodies of the Government*. Pristina: Ministry of Public Administration, Government of the Republic of Kosovo. Page 51.

38 Ministry of Public Administration of Kosovo (December 2016), *Review of Institutions and Agencies of the Assembly and Central Bodies of the Government*, p.23-27, available at <https://map.rks-gov.net/getattachment/1d5a601b-3d46-4028-a5ad-b7ba07d9b109/Review-of-institutions-and-agencies-of-the-assembl.aspx>

39 OECD-SIGMA Programme (2014), “Public Administration Reform Assessment of Kosovo” p.19. available at <http://www.sigmaweb.org/publications/Kosovo-Assessment-2014.pdf>

Central to the problem is the government itself, where political and financial power is concentrated and from which it spreads to other sectors. ... The judicial system...is not...fighting corruption. ... Prosecutions are only brought against officials who are less influential and not politically connected, hence the reason why the majority of corruption cases involve petty corruption.”⁴⁰

A recent European Commission report on Kosovo noted similar weaknesses.⁴¹

The continued politicization of the public administration ... remains a serious concern. The organization of the state administration is fragmented and does not ensure effective lines of accountability. ... The judiciary is still vulnerable to undue political influence ... corruption remains prevalent ... and continues to be a very serious problem. ... Kosovo is at an early stage in the fight against organized crime.

A recent public opinion survey on governance came to similar conclusions, singling out the judicial system and the Office of the State Prosecutor as particularly deficient.⁴² Its survey on corruption further revealed that more than six in 10 respondents believe that most or all political party leaders, MPs, ministers, customs officials and judges are involved in corruption. EULEX, the EU’s Rule of Law Mission to Kosovo, is partly to blame for these results as well. EULEX’s mandate was to prosecute high-level corruption and organized crime until GOK institutions gained these capacities. Unfortunately, it failed to execute its functions effectively, in part due to high levels of staff turnover, lack of cohesion among member states on its mission and mandate, and political interference in its work. Some of its judges have also become entangled in corruption scandals. This has led to low confidence in EULEX and impeded its work with the GOK judiciary.⁴³

Surveys of the business community suggest widespread “tenderomania” (i.e., extensive corruption in public procurement).⁴⁴ Fifty-eight percent⁴⁵ of respondents to a survey on procurement claimed that they have encountered corruption in this area. The most common types of corruption are favoritism, bribery, and extortion. Another 52 percent state that businesses give bribes to guarantee the success of their bids.⁴⁶

Corruption in Kosovo flows from the public sector to the private sector and vice versa. The result is that government usually listens to strong lobbies who can capture decision making and push for government policies which are favorable to their sector due to their economic power and capacity to fund political campaigns. Specific examples experts provided during our fieldwork were targeted debt relief for certain firms, the Law on Strategic Investments, and lucrative

40 Kosova Democratic Institute. 2015. *National Integrity System Assessment Kosovo*. Pristina: Kosova Democratic Institute. Pages 18-19.

41 European Commission. 2016. *Kosovo 2016 Report*. Brussels: European Commission. Pages 4-5.

42 Riinvest Institute and Southeast European Leadership for Development and Integrity. 2016. *Assessment of Corruption in Kosovo*. Pristina: Riinvest Institute.

43 Group for Legal and Political Studies. 2015. *Rock and Rule: Dancing with EULEX*. Pristina: Group for Legal and Political Studies.

44 AmCham Study “Public Procurement in Kosovo: Challenges of the Business Community available at <http://www.amchamksv.org/wp-content/uploads/2017/01/Public-Procurement-in-Kosovo-.pdf>; European University Institute. 2015. *Anti-Corruption Policies Revisited*. Florence: European University Institute.

45 [Ibid](#)

46 [Ibid](#)

contracts (see below under Weak Private Sector Development for additional details). The interaction between state employees (initiators), procurement bodies (brokers), and private businesses (implementers) is often referred to by many as the “golden triangle of procurement” through which public funds flow to private businesses close to ruling parties.⁴⁷ Powerful politicians have also exploited privatization to enrich themselves as well as strengthen their patronage networks.⁴⁸

The lack of effective rule of law and accountability mechanisms enables the entrenched elites to enjoy impunity although the origin of their wealth is often inexplicable. The Kosovo Anticorruption Agency (ACA) is responsible for monitoring the declaration of assets and conflicts of interests of publicly elected institutions, but the law on declaration of assets does not require politicians to provide evidence for the origin of their disclosed properties. Lacking a strong legal mandate, the ACA does not conduct comprehensive plausibility checks of politicians’ declarations of assets but, rather, limits itself to merely reporting on compliance by politicians of the statutorily required declaration of assets. Although ACA has been in existence for more than a decade, it is generally perceived as a weak institution lacking clear enforcement powers, institutional support, and cooperation from other state institutions. Many of the cases referred for prosecution are not acted upon since the ACA cannot investigate the origin of properties although the pace for the accumulation of property raises suspicions. A package of legal amendments to strengthen the role of the ACA has been pending approval in the Assembly since 2013. Prosecution and courts, including the EULEX, have also been ineffective in punishing corruption of high level officials, therefore creating a culture of “untouchables”.

The public is increasingly distrustful of the rule of institutions due to the very low level of convictions for corruption related crimes involving senior politicians.⁴⁹ Arguably, decreasing citizen tolerance for corruption has been among the most effective mechanisms for fighting corruption. Voters increasingly show their frustration with the inability of the judicial system to root out corruption among the country’s established political elite by voting against them.

4. Government Lives within Its Means; Families Live without Jobs

The GOK has established sound macroeconomic management. In particular, the fiscal rule, stating that budget deficits may not be more than 2 percent of gross domestic product (GDP), and the debt rule, placing a ceiling of the debt-to-GDP ratio of 15 percent, impose substantial fiscal discipline. Adopting the Euro also removes monetary policy as a tool for economic management. According to knowledgeable officials, the international community, including USAID, deserve significant credit for building the capacity of the Ministry of Finance to carry out effective macroeconomic policy planning, although this capacity has been diminishing with declines in external support. Yet, political incentives cause the government to breach the fiscal rule at times, such as increasing public salaries by 25 percent ahead of 2014 elections and inflating the number of veterans receiving government benefits to ensure their political loyalty. Between 2013 and

47 Information collected during fieldwork in Pristina, November 2017.

48 Group for Policy and Legal Studies (2016); Assessing Privatization in Kosovo <http://legalpoliticalstudies.org/wp-content/uploads/2016/03/Panic-Selling-Assessing-the-main-challenges-and-deficiencies-of-Kosovos-Privatization-Process.pdf>

49 Corruption of nepotism are consistently among top concerns of the citizens the quarterly surveys support by the UNDP and USAID “PULSE” shows, see multiple report at http://www.ks.undp.org/content/kosovo/en/home/operations/projects/democratic_governance/PublicPulse.html.

2015, the percent of the budget allocated to wages, salaries, transfers, and subsidies rose nearly 20 percent and the budget deficit somewhat exceeded the fiscal rule in 2014 and 2015.⁵⁰

Kosovo's economy suffers from high rates of unemployment, low labor force participation rates and a high current account deficit. Women face an especially large challenge securing a job, as the unemployment rate for women is 60 percent compared to 40 percent among men.⁵¹

Economic growth in Kosovo is largely consumption led as remittances and government expenditure currently account for about 40 percent of GDP. Kosovo's trade deficit has widened in the last three years from 7.2 percent of GDP in 2013 to 11.5 percent in 2016.⁵² Remittances⁵³ in 2016 amounted to €691 million, about 15 percent of GDP, and are expected to remain at the same level for the next few years, although they are mainly used for family consumption with little impact in economic development.

The GOK has limited fiscal space for needed capital expenditures. High levels of recurrent expenditures, mainly for public sector employees and recipients of public support, combined with the debt and fiscal rules, severely limit funds that the GOK can allocate for capital expenditure without broadening the tax base.⁵⁴ While foreign assistance could help fill part of this gap, levels have declined from around 10 percent of GDP in 2010 to around 5 percent in 2015.

5. Anxiety over Losing International Friends

External relations strongly influence politics, economics, and security in Kosovo. As a small, landlocked country without a military, Kosovo's sovereignty, security, and prosperity depend on its ability to forge strong external alliances, especially with the EU and the United States. The former is necessary for normalizing relations with Europe and providing a large market for Kosovo's exports, while the latter, through the US presence in the Kosovo Force (KFOR),⁵⁵ provides the country with security from potential inter-ethnic clashes and hostilities from Serbia. While cross-party convergence strongly concludes that Euro-Atlantic integration has no alternative, the GOK's relationship with the EU currently is somewhat tense because many, including the country's political elite, believe that the EU is placing higher burdens on Kosovo than other countries for visa liberalization, is biased toward Serbia on the Brussels Dialogue, and/or will not allow Kosovo to join as a member (see below under EU Integration/UN Recognition). While further enlargement of the EU remains uncertain, Kosovo participates in the Berlin Process Germany launched in 2014 to maintain progress on EU membership for Western Balkan countries.

Serbia's continued opposition to Kosovo's independence undermines Kosovo's sovereignty. While relations have slightly normalized since the EU-facilitated dialogue was launched in 2011,

50 IMF. 2017. *Republic of Kosovo: Second and Third Reviews under the Stand-By Arrangement, and Request for Program Extension*. Washington, DC: IMF.

51 <http://www.womensnetwork.org/?FaqlD=28>

52 WB Country Partnership Framework: <http://documents.worldbank.org/curated/en/297951496160148830/Kosovo-Country-partnership-framework-for-the-period-FY17-FY21>.

53 Central Bank of Kosovo Annual Report 2016: bqk-kos.org/repository/docs/2017/CBK-17-08-2017_eng_AR_2016.pdf.

54 IMF. 2017. *Republic of Kosovo: Second and Third Reviews under the Stand-By Arrangement, and Request for Program Extension*. Washington, DC: IMF.

55 Kosovo Force is a NATO-led international peacekeeping force designed to ensure Kosovo's security from external threats as well as maintain internal order. Kosovo has its own police, but no military.

most agreements have not been implemented.⁵⁶ Serbia still does not recognize Kosovo's passports or its airspace, challenges its energy independence, blocks movement of goods and services, and claims ownership over important natural resources, such as the Trepca Mining Complex, Gazivoda Artificial Lake, and Brezovica Skiing Resort stifling potential investment. Serbia also asserts significant influence over domestic politics in Kosovo through its control of Srpska Lista, the main Serbian political party in Kosovo. The Government of Serbia (GOS) dedicates a large amount of resources to maintain service delivery to the Kosovo Serbs. It entirely funds the health and education system in Kosovo Serb areas and, until recently, funded justice, security, and paramilitary institutions in the northern municipalities. Many Kosovo Serbs who are close to the retirement age cannot risk their pensions in Serbia to integrate into Kosovo's institutions, where state paid pensions are substantially lower than in Serbia. However, financial incentives only partially explain the control of Serbia over the Kosovo Serbs as a large majority feel strong loyalty to Serbia and continue to view it as their own state. The Srpska Lista also has ties to Russia as they share an overlapping interest in maintaining Kosovo's incomplete recognition as a sovereign a state and blocking UN recognition of Kosovo.⁵⁷

Since the current format of the EU facilitated dialogue has run its course without producing a long-lasting agreement on full normalization of relations, the presidents of Kosovo and Serbia are currently holding preparatory talks to launch a new phase. The dialogue with Serbia is a very unpopular topic among Kosovo's Albanian population, and opposition political parties will attempt to undermine the government during the next phase of the dialogue. Kosovo's political leaders have requested U.S. involvement in the next phase of the dialogue to gain the confidence of Kosovo Albanian voters because they generally trust the U.S. to be a strong and effective advocate for Kosovo.

As Kosovo's place in the EU remains uncertain, other regional powers, particularly Turkey, have recently achieved varying degrees of political, cultural and economic influence over Balkan countries and populaces.⁵⁸ External influences can also be traced to non-state entities and Islamic relief organizations from Saudi Arabia, Qatar, Kuwait and more recently Iran, but the sources of such influence are primarily religious and have not achieved significant success as they lack solid institutional basis.⁵⁹ The influence from Turkey is multi-faceted and is part of a systematic and state-led project of revitalizing cultural, religious, economic, political and military ties with Muslim communities in the Balkans, formerly part of the Ottoman Empire widely referred to as the "Strategic Depth Doctrine" announced in the early 2000s.⁶⁰

Turkey's influence in the cultural, religious and economic spheres has increased significantly over the past few years.⁶¹ The Turkish Cooperation and Coordination Agency (TIKA) has an office in Kosovo, and focuses mostly on the restoration and rebuilding of monuments of

56 Columbia University's Institute for the Study of Human Rights (2017)

57 Express Online (September 13, 2017), "Rakic to consult Moscow ahead of local elections," available online at <http://www.gazetaexpress.com/en/news/rakic-to-consult-moscow-ahead-of-kosovo-local-elections-172982/>.

58 Bechev, D (2016). "The Influence of Russia and Turkey in the Balkans" <https://europeanwesternbalkans.com/2016/07/01/the-influence-of-russia-and-turkey-in-the-western-balkans/>

59 Information obtained during fieldwork in Pristina, November 2017.

60 The "Strategic Depth" Doctrine" was designed by former Minister of Foreign Affairs Davutoglu who also served as a Prime Minister (2014-2016). In Davutoğlu's view, Turkey is a Middle Eastern, Balkan, Caucasian, Central Asian, Caspian, Mediterranean, Gulf and Black Sea country and should use its influence strategically in all this region to become a global geopolitical actor.

61 KIPRED (2016), "What happened to the Kosovo Albanians? The impact of religion on the ethnic identity in the state-building period."

Ottoman historical legacy such as mosques and bridges. The small amount of aid declared by TIKA has given rise to suspicions that Turkish funding may also come through undeclared routes.⁶² In addition, the Turkish Cultural Institute “Yunus Emre” has an office in Kosovo and actively promotes Turkish culture and learning Turkish. In 2010, Turkey’s Ministry of Education requested revisions to Kosovo schoolbooks and other historical documents to present a more positive account of the Ottoman period. A joint committee of Turkish-Kosovo Albanians has already submitted the proposed alterations in the school year 2012.⁶³ Kosovo also has attracted the highest level of FDI originating from Turkey in the Western Balkans. Of the €316.3 million of foreign investment in 2015, for example, Turkey accounted for €54.1 million. Only Switzerland, with €70.3 million, had higher levels of FDI in that year. Cumulative investment in Kosovo for 2004 to 2014 amounts to €360 million or 12 percent of total foreign investments of Kosovo for that period.⁶⁴ Turkey also bought two highly strategic investments, the Pristina International Airport in 2013 and Kosovo Electro-Distribution System in 2014, for under-market value allegedly due to bribery and kickbacks to Kosovo senior politicians.⁶⁵

Turkey is also important in Kosovo’s security sector having been part of the KFOR with 1000 soldiers since 1999 and currently participating in EULEX by providing police and customs personnel. In 2008, Turkey and Kosovo signed a Defense Industry Cooperation Agreement. More recently, Turkey offered significant military assistance for the transformation of the Kosovo Security Force into a fully-fledged army, including free weapons, military equipment, maintenance, and a training program for KSF personnel. Although Kosovo leadership was allegedly willing to seriously consider the Turkish offer, it was not taken up due to the constitutional and political issues over the transformation of the KSF and upon advice from the US and EU.⁶⁶

Following the failed coup in Turkey in 2016, the Turkish authorities have increased political pressure on Kosovo to crack down on Gulenist supporters within Kosovo but have met with resistance from the state authorities.⁶⁷ Immediately after the coup in the summer of 2016, the Turkish Ambassador to Kosovo requested the arrest of two Kosovo journalists who have allegedly offended Erdogan on their personal Facebook accounts. Although the requests were rejected by Kosovo authorities, the incident has provoked an anti-Turkish sentiment in large segments of Kosovo society.⁶⁸ While Turkey has significant economic and cultural influence, and may continue to be an influential regional power due to Kosovo’s uncertain path toward EU integration, its attempts to assert political control over Kosovo are being resisted in the higher echelons of Kosovo’s state institutions.⁶⁹

62 Information obtained during fieldwork in Pristina, November 2017. The Central Bank of Kosovo shows TIKA invested less than €3 million in Kosovo from 2009 until 2014 – of that, €1.2 million was invested in the Sinan Pasha mosque in Prizren alone.

63 SWP Berlin (December 2016), “Turkey’s Role in the Western Balkans” pp 13-23

64 Ibid.

65 Information collected during fieldwork in Pristina, November 2017.

66 Information collected during fieldwork in Pristina, November 2017.

67 Key informant interviewees stated that the Kosovo’s resistance is a reaction to Turkey’s harsh intervention and diplomatic bullying and not the support of the Gulenist networks in the Kosovo’s political establishment.

68 Information collected during fieldwork in Pristina, November 2017.

69 For more on Turkish influence see Policy Paper No. 1 by KIPRED (2016), “What happened to the Kosovo Albanians? The impact of religion on the ethnic identity in the state-building period.”

C. The Here and Now

I. Progress in Democratic Transformation

Kosovo's path toward democracy is promising, especially for a young country with a history of ethnic repression, lack of autonomy, and violent conflict. Kosovo's elections are also becoming extremely competitive due to rising voter sophistication and pressure to demonstrate results:

- In the 2017 election for the National Assembly, no party or coalition secured more than a third of the total vote;
- From 2010 to 2017, PDK has gone from the largest and most powerful party, in large part due to its role in Kosovo's liberation war, to a distant third party at the national level; and
- In the 2017 local elections, VV beat LDK in Prishtinë/Priština and Prizren, the country's two largest cities, by less than 1 percent. Previously, they had been LDK and PDK strongholds, respectively.

The unambiguous message from the 2017 elections is that voters want change. In particular, the electorate dealt a severe rebuke to PDK. While its coalition with AAK, NISMA and other smaller parties won a plurality of seats in the elections for the National Assembly, PDK lost 16 seats. It also lost ground in local elections including former strongholds such as Mitrovicë/Mitrovica, Prizren and Vushtrri / Vučitrn. VV, by contrast, secured major victories at the national and local levels. This victory is best interpreted as a protest vote. As characterized by Pristina Insight, "Kosovo's electorate, in particular its youth, seem to have lost trust in the older political parties that have been characterized by unprincipled politics, political greed and inertia."⁷⁰ The party doubled its representation in the Assembly and is now the largest party in the opposition. VV's showing was still more impressive as it was the only major party that stood alone in the election instead of joining a coalition. It also did well at the local level, holding onto the capital and taking Prizren from the PDK. LDK did not do well in the national elections, in part because of its decision to join a coalition with PDK after the 2014 election. New voices in the party looking to rebrand it stemmed its losses. LDK made an impressive showing in local elections, winning more municipalities than any other party and coming within 0.5 percent of regaining control of Pristina. Local elections revolved around local issues of service delivery and competence instead of broader ideological ones (the section on Electoral Competition discusses the latter).

The 2017 national elections produced a largely inconclusive mandate for forming a governing majority. A 2014 Constitutional Court ruling requires that the party with the largest number of seats must be part of the government.⁷¹ This led to pre-election coalitions among all major parties except VV. PAN, a coalition of PDK, AAK, NISMA and other smaller parties, secured the greatest number of seats, yet fell far short of the 61 needed to secure a majority. With neither LDK nor VV willing to join the coalition, PAN cobbled together an unwieldy and narrow majority that gives minority parties, especially the Serb List, a much stronger voice than they had in previous coalitions. While the Constitution mandates that minority parties are always part of the government, this is the first time since independence that they have been necessary to form a majority. The Serb List is likely to use its power to push for completion of previously concluded

70 Krasniqi, Gezim, 2017. "Spectacular Winners and Losers in Kosovo Elections." *Pristina Insight*, June 28.

71 Constitutional Court decisions KO 119/14 and KO 103/14.

Brussels Dialogue agreements, especially the one on the establishment of the Association of Serb Municipalities (ASM; see below). It is unclear whether they wish to press the issue to resolve it or provoke political instability.

PAN's one-vote majority and large number of coalition partners suggest that the current government will likely encounter difficulties in tackling corruption, implementing key economic reforms and addressing statehood issues, such as border demarcation with Montenegro and resuming the Brussels Dialogue to normalize Kosovo's relationship with Serbia. Signs of these strains already are obvious, as the government is very large by Kosovo standards; it has 22 ministers, six deputy prime ministers and about 70 deputy ministers. Strengthening the rule of law and fighting corruption may become controversial as government efforts could curtail the power of some members of the ruling coalition. Addressing key statehood issues will also be politically complex, not only because some of them have the potential to create unrest (see below), but also because the current prime minister opposed the ASM and the proposed border demarcation. These challenges notwithstanding, the coalition is stable for now, as neither LDK nor VV is trying to bring down the government. This is due in part to the key statehood and economic challenges the current government faces. Both LDK and VV believe they are better off at this point trying to grow their base of supporters rather than taking responsibility for addressing difficult issues.

2. Rising Electoral Competition

Kosovo has organized seven local and six national elections since 1999. Electoral competition is based on an increasingly free and fair electoral process without major claims of irregularity since 2010. Nevertheless, voter turnout continues to decline (41 percent and 40 percent in the 2017 national and local elections, respectively) due to prevailing disappointment and alienation among voters.⁷²

The power base of PDK, hitherto the strongest party in Kosovo, is shrinking at both the national and local level due to allegations of corruption and mismanagement. Its leadership seems to be aware of the causes of decreasing support and would like to respond with major party reforms. However, it is unclear if it can reinvent itself to becoming a party with credible leaders and a coherent ideology in the face of the rising opposition and potential indictments by the Specialist Chamber on unresolved war crimes (see below).

LDK appears to have overcome the rebuke it suffered after joining the PDK coalition in 2014 and is currently trying to rebrand itself as the responsible opposition, and a pro-EU/West and center-right political party. However, voters have shown little confidence in the current LDK leadership and the party will need to undergo major changes to position itself as a leading party in Kosovo. New faces in LDK have ideas for reforming the party, but they are contested by older party members.

VV is growing both at the national and local levels due to its anti-establishment message, yet has never been tested in central government. To expand its appeal, VV is transforming itself from a nationalist party into a social democratic party, advocating for social justice and pledging to fight corruption. VV has strong central leadership combining several political streams with diverse

⁷² See Central Election Committee data, available at http://www.kqz-ks.org/Uploads/Documents/1.%20Statistikat%20e%20p%C3%ABrgjithshme%20-%20General%20Statistics_lvxcuouox.pdf

political orientations and is building extensive diaspora networks, but has struggled to create a strong set of leaders at the local level. VV's support among diaspora communities derives from a range of factors, including their general exclusion from networks of influence, their sense that change is possible due to the own experiences, and the party's nationalist orientation.⁷³

Since its creation in 2001, AAK has been a stable political party, regularly securing about 10 percent of the national vote. Despite this small vote share, it has been a key coalition partner in many governments and won eight municipalities in the last local elections, a historic high for the party. Recent gains are attributed to the leadership of Prime Minister Ramush Haradinaj and credible candidates. AAK's growth is constrained by coalition fragility and limited room for big reforms under the current government, but could benefit from PDK's decline if it can secure accomplishments that the previous government could not. NISMA and AKR are key parties in the current coalition, but are mainly interested in political survival and are not expected to play a significant political role beyond extending their networks while in government.

Srpska Lista largely operates as a state project of Serbia and is not primarily interested in addressing concerns of the Kosovo Serb community. It has three power centers formed around the leaders of the largely defunct Independent Liberal Party (Serbian: Samostalna liberalna stranka), mainly from Gračanica/Graçanicë, Sterpce and the four Kosovo Serb majority municipalities in northern Kosovo. The northern group is currently the most powerful one due to its close ties to President Vucic of Serbia. EU election observers have reported that it has used threats and voter intimidation.

3. Growing Capacity in Civil Society, but Continued Reliance on External Support

The legal and political environment in Kosovo allows civil society to have relative freedom of operation, but funding presents a challenge for non-governmental organizations (NGOs). Most NGOs depend on foreign donors whose funding levels for Kosovo are shrinking. In the absence of external support, it's not clear if they can maintain their current levels of activity as they lack domestic sources of financial support.⁷⁴ While approximately 10,000 NGOs are registered in Kosovo, only about 1,000 of them are active. Most organizations have only a small number of members and rely heavily on external funding.

Policy impact is also a challenge for civil society. During the course of field research, the analysis team met with many impressive individuals from CSOs and think tanks. These think tanks are active in research on economic development, European and international relations, governance and political reform, and religion. They have significant potential to improve the quality of public debate in Kosovo. At the same time, the GOK rarely consults them due to its perceived lack of interest in evidence-based policy development. As affirmed by the Kosovar Civil Society Foundation, "Civil society maintains good communication with public institutions relevant for their area of work, yet this does not translate into sufficient access to information and involvement in public consultations in the policymaking process."⁷⁵

73 <http://kosovotwopointzero.com/en/kosovo-diaspora-dreams-political-change/>

74 Kosovar Civil Society Foundation. 2016. *Kosovar Civil Society Index 2016*. Pristina: Kosovar Civil Society Foundation.; USAID. 2017. 2016 CSO Sustainability Index. Washington, DC: USAID.

75 Kosovar Civil Society Foundation. 2016. *Kosovar Civil Society Index 2016*. Pristina: Kosovar Civil Society Foundation. Page 8; USAID. 2017. 2016 CSO Sustainability Index. Washington, DC: USAID.

4. Vibrant, but Not Independent, Media

Print and online media in Kosovo is vibrant and active, although not always independent and free from political threats. Freedom House has noted that media freedom has decreased constantly since 2014 although it continues to be qualified as “partly free.”⁷⁶ The looming threat is maintaining the political space with which they operate without international support and leverage.

Anticipated further decline of international assistance and attention to the media is viewed by many media professionals as a bad sign for the future of professional and independent journalism in Kosovo. For example, even under current conditions, “government officials, business interests and media owners have issued verbal threats against journalists and their employers, and have otherwise obstructed reporters’ work. Given decreasing funding and attention from the international community, some prominent journalists are joining political parties, arguably diminishing their overall impact, reinforcing perceptions of limited space for independent work. Journalists who criticize public officials are often denounced, sometimes as traitors or Serbian sympathizers. Editors have barred reporters from publishing or broadcasting stories that are critical of the government or particular officials due to the outlets’ political leanings.”⁷⁷ In addition, reliable media sources face significant competition from unreliable social media and online platforms.⁷⁸ International support for investigative journalism has been crucial in exposing corruption. While this has yet to result in greater accountability, UNDP Public Pulse surveys show that the media strongly shapes citizen perceptions on the extent of corruption in Kosovo.⁷⁹ Independent journalists would benefit from a strategic litigation fund to address increasing threats to journalists, lawsuits, and obstacles to freedom of information requests.⁸⁰

5. Significant Constraints to Economic Growth

Kosovo faces numerous challenges to economic development, including strong import competition, low levels of productivity, high levels of informality (labor informality is estimated at between 50 to 70 percent of total employment⁸¹), energy supply shortages, and a poor regulatory environment. The 2017 World Bank Systemic Country Diagnostic identifies the following as high priorities for accelerating economic growth: reducing energy bottlenecks; improving governance, the rule of law, and the business climate; improving the allocation and efficiency of public expenditure; strengthening natural resource management; and improving ICT connectivity.⁸²

Insufficient domestic electricity generation, erratic supply, and slow progress in expanding generation capacity are challenges for economic growth. Even though the GOK has made some improvements in the supply of energy, in large part through importing expensive electricity, the

76 Freedom House. 2017. *Freedom of the Press 2016*. Washington, DC: Freedom House. <https://freedomhouse.org/report/freedom-press/2016/kosovo>.

77 Freedom House. 2017. *Freedom of the Press 2016*. Washington, DC: Freedom House. <https://freedomhouse.org/report/freedom-press/2016/kosovo>.

78 Surroi, Veton. 2017. *The Gorillas We Didn't See*. Pristina: Koha.

79 UNDP Kosovo. 2016. *Public Pulse XII*. Pristina: UNDP Kosovo.

80 Information collected during field interviews in Pristina, November 2017.

81 Friedrich Ebert Stiftung (FES): http://www.fes-pristina.org/wb/media/Publications/2013/BUSINESS_INFORMALITY_ENG_FINAL.pdf.

82 WB RKS Systematic Country Diagnostic: <http://documents.worldbank.org/curated/en/282091494340650708/Kosovo-Systematic-Country-Diagnostic>.

country still faces significant challenges in increasing domestic generation capacity and Serbia still controls all of Kosovo's cross-border transmission interconnections.⁸³ An unreliable energy supply costs Kosovo's businesses around €300 million⁸⁴ each year in lost productivity. A German-funded €40 million transmission line between Kosovo and Albania could decrease Kosovo's energy dependence, but it has not yet become operational, in part due to disputes with Serbia over ownership of the infrastructure, as well as Serbia's obstruction in the operations of the Kosovo Electricity Transmission, System and Market Operator (KOSTT).⁸⁵ Despite Germany's repeated requests, Serbia does not recognize Kosovo as an independent energy entity and refuses to recognize Kosovo's energy borders until Kosovo allows a separate Belgrade-run energy distribution system for the Kosovo Serb majority areas in the northern Kosovo.⁸⁶ Even if the GOK were to permit Serbia to establish such an entity in northern Kosovo, the GOS also has no incentive to register it as long as the GOK supplies free electricity to the area. These issues may be addressed as part of the future Brussels Dialogue.⁸⁷

Lack of skilled labor, especially soft skills and critical thinking, are an additional constraint to more rapid economic development. For example, only Algeria and the Dominican Republic scored lower than Kosovo of in the most recent Program for International Student Assessment (PISA) assessment in 2015.⁸⁸ The World Bank's Enterprise Surveys confirm this finding as close to 26 percent of firms identified an inadequately educated workforce as a major business constraint, close to double the average rate for Europe and Central Asia as well as the Western Balkans.⁸⁹ Poor skills development contributes to Kosovo's high youth unemployment rate, which was 58 percent in 2015, compared to 33 percent for the overall population. According to the World Bank, an "inadequately educated and skilled workforce limits employment growth, especially among large and rapidly growing firms. The current education system has not yet succeeded in equipping students with the specific skills, including soft skills, necessary to thrive in the changing labor market."⁹⁰

The GOK has attempted to improve the business environment in Kosovo by focusing on improving the country's ranking on the World Bank Doing Business Indicators.⁹¹ Kosovo has moved from 126th place in 2012 to 40th place in 2018. This took a strong commitment from the GOK to improve the business climate for private sector development.⁹² However, Doing Business Indicators are not an indicator for real business attractiveness as they mainly measure the existence of legislation and regulations, not their implementation. The latter remains problematic as governance in Kosovo is weak in comparison to its regional peers. For example,

83 Kosovo has been striving to develop a new coal-fired power plant since 2006. Under current plans, it is projected to come online in 2023, yet the GOK has not secured funding for it and the plant remains in the development stage.

84 EBRD Strategy for Kosovo 2016: www.ebrd.com/documents/strategy-and-policy-coordination/strategy-in-kosovo.pdf.

85 DTT News Agency (2017), Albania-Kosovo interconnection power grid still blocked by Serbia; Ministry of Economic Development, 2016, *Kosovo Takes over the Chairmanship of the Energy Community Treaty Secretariat for 2017*: <http://mzheks.net/en/news/kosovo-takes-over-the-chairmanship-of-the-energy-community-treaty-secretariat-for-2017-#.WjasmLpFy3A>.

86 Balkan Energy News (September 2016) "Germany asks Energy Community to help resolve dispute between EMS and KOSTT"

87 Commercial close with Contour Global for the Kosova e Re project was completed on December 20, 2017.

88 PISA is an international assessment administered by the OECD every three years, measuring the skills of students in their knowledge of science, reading and mathematics in 72 countries.

89 <http://www.enterprisesurveys.org/data/exploretopics/workforce>

90 WB RKS Systematic Country Diagnostic: <http://documents.worldbank.org/curated/en/282091494340650708/Kosovo-Systematic-Country-Diagnostic>, page 55.

91 World Bank Doing Business Report: <http://www.doingbusiness.org/reports/global-reports/doing-business-2018>.

92 Central Bank Report of Kosovo: http://bqk-kos.org/repository/docs/2017/CBK-17-08-2017_eng_AR_2016.pdf.

Kosovo is the worst performer on the World Bank's Worldwide Governance Indicators in Government Effectiveness, Regulatory Quality, and Rule of Law, and next to last Control of Corruption among all countries in the Western Balkans.

Weak rule of law, corruption, and property disputes deter investment and business expansion. For example, development of the Trepca Mining Complex, an industry with high export potential, is impeded by ownership disputes with Serbia.⁹³ Although most of the Trepca facilities are within Kosovo's territory, Serbia's resistance and threats over the future of Trepca discourage potential investors.⁹⁴ In addition, according to the most recent World Bank Enterprise Survey of Kosovo, unfair competition from the informal sector is the biggest business environment obstacle for firms in Kosovo and corruption is the third largest one.⁹⁵

Economic policy development is also fragmented and poorly coordinated⁹⁶ among line ministries, as well as among the GOK, business associations and the private sector. The large number of ministries and agencies involved in economic policy development, and the poor coordination among them, is one manifestation of the fragmented policymaking process identified above. In addition, competition for financial resources and influence limits their cooperation. These ministries and agencies also suffer from low levels of human capacity, emphasized during meetings the team had with GOK officials, business associations and the private sector.

6. Weak Private Sector Development and Investment

Private sector investment is weak in Kosovo. While private fixed investment in Kosovo was 18 percent of GDP in 2015, above the average rate of 16 percent for the Western Balkans in the same year, the bulk of these investments were in non-tradeable sectors, such as construction, real estate, and retail which have limited capacity to develop the economy.⁹⁷ Rather, as a small economy, export-led growth is necessary for to achieve this objective, but the production capacity of the private sector is limited. For example, only 1200 companies in Kosovo export any products and the most common manufactured export, plastics, is sold by just about 250 companies or just over 20 percent of exporters. The export market is also highly concentrated as 5 percent of exporters, or about 60 firms, account for about 85 percent of Kosovo's exports.⁹⁸ Likewise, the domestic private sector is comprised of very small firms. In 2013, over half of all registered firms in Kosovo were sole proprietors. Just under 95 percent of all firms had less than 10 employees. Only 47 companies, or 0.1 percent of all firms had more than 250 employees.⁹⁹ At the same time, these data are typical for a country at Kosovo's level of development. For example, the number of firms that export is close to the average for countries with economies

93 US Department of Commerce. 2017. US Country Commercial Guides Kosovo. Washington, DC: US Department of Commerce.

94 B92 (7 December 2017). "Serbia will fight for Trepca mine in Kosovo – President Vucic says"

95 <http://www.enterprisesurveys.org/data/exploreeconomies/2013/kosovo>

96 Statement by high-ranking public official during the team's fieldwork interviews.

97 WB RKS Systematic Country Diagnostic: <http://documents.worldbank.org/curated/en/282091494340650708/Kosovo-Systematic-Country-Diagnostic>, page 55.

98 <http://databank.worldbank.org/data/databases/edd>

99 European Investment Bank. 2017. Kosovo Assessment of Financing Needs of SMEs in the Western Balkans Countries. Zurich: Business & Finance Consulting.

similar in size to Kosovo's.¹⁰⁰ Likewise the distribution in firm size is close to the European average.¹⁰¹ The key challenge is accelerating the rate of business formation and expansion.

Kosovo also struggles to attract foreign investors. The Central Bank of Kosovo estimated foreign direct investment (FDI)¹⁰² dropped by about one-third from 2015 to 2016, €309 million to €216 million. Foreign investors perceive Kosovo to have a poor investment climate and be prone to political instability. For example, the US Commerce Department's 2017 Commercial Guide to Kosovo states the country suffers from "political instability; corruption...and a tenuous rule of law, including a lack of contract enforcement."¹⁰³ Similarly, a recent review of the investment climate from the Group for Legal and Policy Studies found that "Foreign investment inflows have also been hindered by high degrees of corruption, slow and ineffective business environment reforms, lack of transparency...negative perception by foreign investors and diaspora populations, and the failure of institutions to implement and achieve their set objectives."¹⁰⁴ In their survey of foreign investors operating in Kosovo, 95 percent had a negative view of the political situation and quality of the rule of law in Kosovo.

Political favoritism and close ties between some large private sector companies and political parties impede the creation of a competitive private sector in Kosovo. According to the aforementioned survey of foreign investors operating in Kosovo, "discrimination, ongoing unfair tendering procedures, bribes, clientelism, and...politically affiliated businesses are very common."¹⁰⁵ The Kosovo Competition Authority, the agency responsible for ensuring fair competition, is politically compromised and "has not lived up to expectations, having demonstrated only modest commitment toward and success in fighting illegal competition in the market...it has not addressed or investigated many key sectors and businesses operating in Kosovo's market which are prone to unfair competition and prohibited agreements."¹⁰⁶ The result is a very unbalanced economy where "a cluster of favored firms funded by procurement and preferential treatment" in return for political support operate alongside a much larger set of firms that must contend with "arbitrary demands of officials."¹⁰⁷

Existing research also has documented in detail how government officials use their power to cultivate and strengthen their ties to the private sector. For example, at least 250 senior executive public positions have gone to party supporters for consolidating political patronage.¹⁰⁸ Along the same lines, during the period from August 2007 to May 2014, donors to political parties received €220 million in public tenders.¹⁰⁹ Winning political parties also initiate public expenditures

100 <http://databank.worldbank.org/data/databases/edd>

101 European Investment Bank. 2017. Kosovo Assessment of Financing Needs of SMEs in the Western Balkans Countries. Zurich: Business & Finance Consulting.

102 Ibid.

103 US Department of Commerce. 2017. US Country Commercial Guides Kosovo. Washington, DC: US Department of Commerce. Page 46.

104 Pula, Ezera, Abrexha Loxha, and Delfine Elshani. 2017. How 'friendly' is Kosovo for Foreign Direct Investments. Pristina: Group for Legal and Political Studies. Page 7.

105 Pula, Ezera, Abrexha Loxha, and Delfine Elshani. 2017. How 'friendly' is Kosovo for Foreign Direct Investments. Pristina: Group for Legal and Political Studies. Page 31.

106 Group for Legal and Policy Studies. 2017. The Performance of the Kosovo Competition Authority. Pristina: GLPS.

107 Briscoe and Price (2011): 31.

108 Preportr – Employment Party: http://preportr.cohu.org/repository/docs/Employment_10_Party_541680_963129.pdf

109 Preportr – Over 220 Million to Political Parties' Financiers: http://preportr.cohu.org/repository/docs/1509-Preportr14ENG_290445_606574.pdf

based on the support they have received from businesses in certain municipalities in order to reward their supporters in the private sector.¹¹⁰

Kosovo's diaspora to date has not played a major role in strengthening links to external markets nor does the GOK have a strategy for forging these ties despite the former's potential to facilitate market linkages. Instead, political elites see them as a source of finance, political legitimation and electoral support, not as a driver of economic change, despite their links to external markets and more sophisticated business skills.

There are a few potential export sectors where Kosovo could develop a comparative advantage. Agriculture¹¹¹ and food processing have growth potential, but remain underdeveloped and fragmented, and suffer from low productivity. In addition, a weak regulatory system as well as lack of power undermine the profitability of some existing food producers.¹¹² Donor support, including from USAID, has improved productivity and strengthened key supply chain links. Challenges remain in improving and sustaining collaboration among critical value chain participants, especially between large aggregators and collection centers, producer associations, and buyers. Producers also need access to modern technologies and equipment, as well as assistance with quality certifications.

Kosovo also has lengthy experience in the wood processing industry. Several producers now employ skilled workers and use modern production technologies. USAID facilitated some diaspora linkages and helped establish export markets in Austria, Germany and Switzerland.

As a labor-intensive industry, textiles could assist in reducing Kosovo's high rates of unemployment, especially among women. Currently, lack of machinery and management skills, low productivity, and strong import competition prevent growth in this sector. Cut-Make-Trim (CMT) services for foreign companies are a promising option, as the skills and management gaps are easier to fill than for more complex modes of production.

Kosovo's increasingly multilingual population could help develop an export-oriented information technology (IT) industry. At the initial stage, there is potential for back office operations and professional services, such as bookkeeping and accounting. The main challenge to more rapid development of the sector is the lack of modern telecommunications infrastructure and human capacity, as well as a better regulatory framework.

Finally, Kosovo has a large supply of natural resources. Its mineral wealth is valued between €12.5 billion and €25 billion. Beyond addressing the aforementioned governance and energy constraints, the GOK further needs to resolve property rights disputes with Serbia and develop mining policies for licenses and permits prior to securing investment in this sector.¹¹³

7. Underperforming Education System

Kosovo's education system is divided along ethnic lines from the pre-school to university level. Currently, Kosovo has 1139 educational institutions (43 preschool, 969 elementary and 119

¹¹⁰ KFOS/Forum 2015 – The Weakest Link of Kosovo's Democracy: <http://kfos.org/wp-content/uploads/2011/10/the-weakest-link.pdf>

¹¹¹ World Bank: <http://documents.worldbank.org/curated/en/297951496160148830/Kosovo-Country-partnership-framework-for-the-period-FY17-FY21>.

¹¹² Information obtained during fieldwork in Pristina, November 2017.

¹¹³ Millennium Challenge Kosovo Office. 2017. Kosovo Constraints Analysis. Pristina: Millennium Challenge Kosovo Office.

secondary) teaching in Albanian, Serbian, Turkish, Gorani and Bosniak languages. Education in Kosovo Serb areas is exclusively done in Serbian language with school textbooks and educational curricula of Belgrade authorities and Kosovo Albanian schools teach exclusively in Albanian. Educational segregation extends to the university level, where University of Pristina and University of Pristina in North Mitrovica teach only in the Albanian and Serbian languages, respectively. The University of Pristina in North Mitrovica is financed through the Republic of Serbia and offers tertiary education for about 146,128 Serbs estimated to reside in Kosovo constituting around 7.8 percent of Kosovo's population.¹¹⁴ The University of Pristina in North Mitrovica also provides higher education to members of other non-majority communities of Kosovo namely Kosovo Bosniaks (28,933) and Kosovo Gorani (10,945) who prefer Serbian as their language of instruction.¹¹⁵

Kosovo's education system suffers from a range of shortcomings. Decentralization at the primary and secondary levels is one source of the problem. Under the current decentralized system, the Municipal Education Directorate hires teachers, so they tend to get hired on the basis of party affiliation, not merit, and there is a lack of monitoring and evaluation. Under the Law on Pre-University Education, school boards should conduct hiring, not the Municipal Education Directorate; thus, the implementation of this component could help de-politicize the hiring process. The 2015 PISA results reveal that Kosovo "significantly lags behind major averages" of the Organization for Economic Cooperation and Development (OECD), EU and the Europe and Central Asia region in science, math and reading.¹¹⁶ The GOK initiated a Reform of Teacher Education and Training to address these shortcomings, but has not yet implemented it, allegedly due to resistance from teachers, lack of strong pressure from parents and pupils, and unwillingness of political parties to press for reforms.¹¹⁷ Likewise, while the Kosovo Education Plan 2017-2021 was adopted through a participatory process, the GOK has not committed to providing adequate financial support for it.¹¹⁸

University enrollment has expanded dramatically over the past decade. Kosovo now has approximately 6600 students per 100,000 inhabitants, which is nearly double the EU average.¹¹⁹ Despite the four times increase in student enrolment, the number of full-time faculty remained unchanged at around 1,000, resulting in the teacher student ratio increasing from approximately 28 students to one teacher in 2004 to more than 56 students per teacher in 2015.¹²⁰ Most observers note that the rapid increase in the number of students has contributed to a dramatic decline of higher education quality. This is confirmed by Kosovo's low graduation rate (only 39 percent of the enrolled students graduate during within their terms), by far the lowest in

114 OSCE Community Rights Assessment Report, page 12. See full report at <http://www.osce.org/kosovo/209956?download=true>

115 As of December 2017, the University of Pristina in North Mitrovica does not have a license or accreditation certificate by the Kosovo Accreditation Agency (KAA) and operates based on an Accreditation Certificate issued by the Ministry of Education of Serbia in 2014 which is valid until 2019. The University of Pristina in North Mitrovica (UNM) is the central institution offering higher education in Serbian language for the Serb community Kosovo. Funded by the Republic of Serbia, the UNM operates as part of the education system of Serbia which is a member of the European Cultural Convention and a signatory of the Bologna Declaration of June 1999.

116 <http://blogs.worldbank.org/education/testing-testing-how-kosovo-fared-its-first-international-assessment-students>.

117 Progress Report Reform of Teacher Education and Training of Kosovo: https://ec.europa.eu/education/sites/education/files/wbalkans-2017/wbalkans-2017/teacher-training-report-kosovo_en.pdf.

118 Information collected during fieldwork in Pristina, November 2017.

119 Kosovo Higher Education Strategy 2015, page 16

120 Ibid

Europe.¹²¹ A mismatch of skills is also a significant problem. For example, currently, about 70 percent of students study social sciences and by 2020, Kosovo will have 20,000 lawyers and 30,000 economists.¹²² By contrast, less than 20 percent study engineering, science, and medicine. In part this is because wages tend to be higher, working conditions are better, and jobs are easier to secure in the public sector and donor-supported projects than in the private sector.

8. Frustrated Youth

Kosovo has a young population, with over half of its population under 30 years old. High levels of unemployment at 58 percent, a lack of opportunities, low education quality, and the lack of freedom of movement are among the key challenges Kosovo's youth encounter. Even those with a tertiary level of education struggle to find a job. Kosovo's youth feel isolated and frustrated because of high rates of unemployment and visa requirements. They also have low levels of trust in the existing political elite.¹²³ Furthermore, many youth do not feel they play a role in decision-making processes. According to the IFES Program on the Role of Youth in Political Entities in Kosovo,¹²⁴ 41 percent of youth surveyed were dissatisfied with youth political influence and 28 percent stated that no political party represents their views.

Kosovo's youth increasingly feel left aside. Thus, reactions of young people to the real and perceived sense of exclusion are highly dispersed and vary based on the social and family contexts. Overall, Kosovo youth increasingly seek opportunities to either study (if their families can afford the expense) or work abroad,¹²⁵ with many ready to leave at the first opportunity offered. Others, particularly those who are jobless, are increasingly drawn by religion both in urban and rural areas.¹²⁶ The GOK policies to address youth employment concerns remain underdeveloped. Youth departments of GOK ministries have limited influence, and youth organizations are aware of this.¹²⁷ While a large number of youth are dissatisfied with "politics as usual," observers cannot identify a set of social issues that would enable more cohesive political participation or mobilization of youth.¹²⁸ Due to prolonged isolation, unemployment and underemployment, and a lack of socialization opportunities, youth are becoming more inward looking, conservative, traditional and religious compared to earlier generations, although the consequences of this social reality have yet to produce long-lasting political impacts.¹²⁹ Political parties, particularly VV, are trying to use widespread youth dissatisfaction to increase pressures for economic and governance reforms.¹³⁰

121 Higher Education in the Western Balkans from Education to Employment 2016, page 17-19

122 Kosovo Education Strategic Plan: http://www.kryeministri-ks.net/repository/docs/KOSOVO_EDUCATION_STRATEGIC_PLAN.pdf.

123 IFES/USAID. 2016. *Voter Turnout among Youth of Kosovo*. Washington, DC: USAID.

124 USAID IFES Program on the Role of Youth in Political Entities in Kosovo: https://www.ifes.org/sites/default/files/2016_ifes_the_role_of_youth_in_political_entities_in_kosovo_eng.pdf.

125 Deutsche Welle: <http://www.dw.com/en/youth-are-deserting-balkan-countries/a-36891266>.

126 Interviews with researchers held in November 2017 confirmed that youth from rural and urban backgrounds are more religious than their parents' generations.

127 Youth Policies and Youth Work in the Countries of South East Europe, Eastern Europe & Caucasus – Kosovo: http://www.youthpolicy.org/national/Kosovo_2011_Youth_Policy_Review.pdf

128 Information collected during fieldwork in Pristina, November 2017.

129 Kosovo 2.0 (2015), "Kosovo's Conservative Youth," citing Fridriech Erbert Stiftung Study "Kosovo youth study forward looking, grounded in tradition" published in 2012.

130 <https://www.rferl.org/a/kosovo-vetevendosje-capitalizes-on-desire-for-change/28559391.html>

9. Contentious Border Demarcation

Since August 2015, demarcation of the border between Kosovo and Montenegro has become a salient issue for the GOK because, along with meeting outstanding criteria on corruption, it is necessary to unblock Kosovo's path to visa liberalization.¹³¹ While some political parties in Kosovo, including the current prime minister's, have attempted to exercise greater autonomy from the international community on this issue by running on platforms of renegotiating the border, no external partners support the GOK in this position, including the US. The GOK's new Demarcation Commission has created more confusion around the issue by giving the impression that renegotiating the border remains a possibility. In addition, ensuring two-thirds support for ratification in the National Assembly will be a challenge.

Political leaders in Kosovo have been irresponsible in linking demarcation to immediate visa liberalization to increase support for the controversial agreement. The EU confirms that it was the leadership of Kosovo during the PDK and LDK coalition that proposed to include this criterion. The proposal to strategically couple the ratification of the border demarcation with visa liberalization arguably miscalculated that the public pressure for the visa free regime would lead the opposition parties to soften their position and approve the demarcation agreement. In addition, the EU's position has always been that the demarcation deal is only one of the remaining conditions that Kosovo needs to fulfill to benefit from a visa free regime in the Schengen zone, with fighting organized crime and corruption also ranking as important issues. Contingent on border demarcation and meeting outstanding criteria on corruption, Kosovo can move forward in the process of visa liberalization. Gaining visa liberalization would also require securing successful votes within the European Commission and among EU members, and there is no firm timetable for when these votes need to occur. As a result, the public may be surprised that demarcation doesn't immediately lead to visa liberalization and some leading politicians may use it to reinforce the message that the EU treats Kosovo unfairly.

10. Uncertainty over Future of Brussels Dialogue

Progress in the Brussels Dialogue and establishing the ASM is a highly contentious issue that is only partially under the control of the current Prime Minister due to the strong influence of the Serb List in the current government. A large majority of Kosovo's Albanian population have a negative attitude toward the ASM, and VV, AAK and NISMA have argued that the ASM will make Kosovo ungovernable because it introduces a new level of government for Serb majority municipalities outside the authority of the GOK. The government will encounter numerous difficulties if it tries to implement the ASM. First, some opposition parties, most likely including VV, will seek to generate significant public opposition to its establishment. Second, the Constitutional Court has stated that several principles of ASM may not be fully compliant with 13 constitutional principles. Leaders of the Serb List are aware of these problems, but are pressing to adopt the ASM as it is. If this occurs, it could trigger a challenge in court and/or protests in Kosovo Serb municipalities.

The overriding complication for the GOK is that while the Government of Serbia (GOS) is better positioned to achieve its goals than the GOK in this area, Serbia's desired achievements remain unclear. For example, it is possible that Serbia wants to give the appearance that it is making progress in negotiations with Kosovo to ease its entry into the EU as well as keep open the

¹³¹ European Commission. 2016. Kosovo 2016 Report. Brussels: European Commission.

possibility of a closer alliance with Russia to secure more favorable treatment from the EU.¹³² If Serbia gains entry into the EU without recognizing Kosovo, the EU will lose significant leverage over Serbia to force further negotiations. What is clear is that the EU does not need to mandate that Serbia recognize Kosovo to enter the EU, as neither the union nor five constituent members recognize it.

II. Unpopular and Potentially Disruptive Specialist Court

The Kosovo Specialist Chambers and Specialist Prosecutor's Office were established after the approval of the Council of Europe report on the KLA's alleged crimes in Kosovo from 1998 to 2000. They are largely operational and will start adjudicating cases in 2018.¹³³ Indictments would most likely affect ex-KLA leaders in at least four political parties: PDK, AAK, NISMA and VV. While 76 percent of Kosovo Albanians see the court as ethnically biased against the Kosovo Albanian liberation movement, only 36 percent are willing to act to prevent its establishment.¹³⁴ Rather, some people may be happy to see some of these individuals go to prison due to abuse of power in the post-independence period.

Although most political parties, with the notable exception of VV which has consistently opposed the court as an effort to criminalize the KLA,¹³⁵ have supported the establishment of the court due to international pressure, the indictment of top commanders who are now senior businesspeople and politicians may destabilize Kosovo.¹³⁶ Depending on who (if anyone) is indicted and the sequence, former KLA leaders may attempt to get supporters to protest. The overall impact on the security situation remains unclear, as destabilization efforts may not be effective. Three potential scenarios are possible. First, PDK and other KLA legacy parties may try to organize demonstrations using war veterans to mobilize supporters against the court. Second, PDK leaders may try to influence pending court cases against VV leaders accused of violence in 2015-2016 to stir civil unrest. PDK and other indicted parties, in turn, could use threats of civil unrest as leverage against the operation of the court. Third, given the current unfriendly public sentiment toward the EU, ex-KLA leaders may attempt to organize anti-EU demonstrations or orchestrate small-scale incidents against the EU's presence to intimidate the court. The above scenarios are likely to be set in motion only with planning and organization by political actors, and they cannot be ruled out as strategies for political survival.¹³⁷

132 Serbia's multiple foreign policy options are recognized by the EU. For more details on how Serbia's foreign policy is viewed in Brussels see a study of the EU (November 2017) "Serbia's cooperation with China, the European Union, Russia and the United States of America," p. 5

133 Bytyci, Fatos (2017), Kosovo War Crimes Court Ready for First Indictments, available at <https://www.reuters.com/article/us-kosovo-court/kosovo-war-crimes-court-ready-for-first-indictments-chief-judge-idUSKBN1D0199>.

134 Unpublished data from PAX, CPT, Impunity Watch, and Integra, 'Public Perception of the Kosovo Specialist Court', Pristina, April 2017, p. 1, cited in Pax International (2017), Assessing the Impact of the Specialist Court, page 27 at footnote 109.

135 VV's position reflects popular perceptions that the court is a biased against Kosovo Albanians.

136 Pax International (2017), Assessing the Impact of the Specialist Court, retrieved from http://www.impunitywatch.org/docs/IW_PAX_REPORT_Specialist_Court_ENG.pdf

137 The National Assembly attempted to abrogate the Law on the Special Court on December 22, 2017.

12. Islam Rises as a Social Force, but Widespread Violent Extremism Evidence Is Limited

Kosovo's three main religions, Islam, Roman Catholicism and Serbian Orthodox, have long coexisted in Kosovo. Under Yugoslavia (1945-1999), religion was marginalized from public space and Albanian nationalist mobilized for nationalist, educational, and linguistic rights and not religious ones. After the war, religiosity and religious radicalization among Kosovo's population have rapidly increased in a new social and political context. Since 1999, numerous reports have documented the external influences driving the rise of non-traditional Islam in Kosovo, singling out the support of non-state entities from Kuwait, Qatar and Saudi Arabia.¹³⁸ This influence is enabled by the precarious socio-economic situation that much of Kosovo's population encounters, as well as the failure of UNMIK and consecutive governments of Kosovo to adopt a solid legal basis on the registration and functioning of religious communities. This has made the Islamic Community of Kosovo (ICK) particularly vulnerable to external financial and ideological influences. The ICK is crucial for coordinating and leading attempts to counter non-traditional Islamic teachings and rituals as it oversees about 800 mosques, religious schools in Prishtinë/Priština, Prizren, and Gjilan/Gnjilane, and the Faculty of Islamic Studies in Prishtinë/Priština.

The potential threat from violent extremism became clear following the revelations that about 300 of Kosovo's 1.8 million citizens participated in the armed conflicts in Syria and Iraq after 2012, the highest per capita number of foreign terrorist fighters in Europe and one of the largest in the world.¹³⁹ These developments caught national institutions and international actors off guard, and pressured law enforcement agencies to immediately respond with a large crackdown on some imams, Islamic non-governmental organizations and others allegedly involved in recruitment efforts. The GOK seems to have an inadequate understanding of the problem and lacks a proactive approach to addressing religious radicalization, although it did adopt a national strategy on CVE in 2015.

The root causes of extremism in Kosovo are not well understood, potentially leading to wrong remedies and unintended consequences.¹⁴⁰ The inadequate understanding is driven in part by the availability of external funding opportunities to study the issue.¹⁴¹ Existing research shows no correlation between external sources of funding and radicalization. Rather, it appears to derive from a complex mix of socio-economic factors, age and level of education.¹⁴²

138 Crisis Group (2000), "Religion in Kosovo," available at <https://d2071andvip0wj.cloudfront.net/105-religion-in-kosovo.pdf>; KIPRED Research Series No. 2 (June 2005), "Political Islam Among the Albanians: Are the Taliban coming to the Balkans?" available at http://www.kipred.org/repository/docs/Political_Islam_Among_the_Albanians-Are_the_Taliban_coming_to_the_Balkans_137060.pdf

139 Kursani, Shpend (2015), "Report inquiring into the causes and consequences of Kosovo's citizens' involvement as foreign fighters in Syria and Iraq," available at <http://www.qkss.org/en/Occasional-Papers&year=2015>. See also UNDP (2015), "Comprehensive Assessment to Counter Violent Radicalization in Kosovo."

140 For example, in 2016, a New York Times article reported: "Saudi money and influence have transformed this once-tolerant Muslim society at the hem of Europe into a font of Islamic extremism and a pipeline for jihadists." The team found no evidence to support such as strong claim. See Gall, Carlotta. 2016 "How Kosovo Was Turned into Fertile Ground for ISIS." The New York Times. May 21.

141 For example, six of the nine reports the Kosovo Center for Security Study undertook in 2017 address the threat of violent extremism in Kosovo, while only one is on Serbia. See: <http://www.qkss.org/en/Reports&year=2017>.

142 Cara Richardson, Katherine M. Berlouis, Paul A. Cameron, Journal of Deradicalization, No. 11 (Summer 2017), "Radicalization of Young Adults in the Balkan States: Counter-Measures, Healthcare Provision and Community Involvement," pp 86-111.

The public role of religion is also rapidly changing. Although Kosovo is secular, previous research and longitudinal surveys confirm that religion is rising as a social force, particularly among youth.¹⁴³ The rising role of religion in Kosovo derives in part from widespread unemployment and lack of economic opportunity, pervasive corruption, low trust in government, a weak educational system, and a prevailing sentiment of Kosovo's isolation.¹⁴⁴ Moreover, focus group research supported by USAID and conducted by UNDP in 2017 shows that one of the reasons for the heightened role of Islam among Kosovo Albanians is instability around their sense of national identity stemming from the establishment of the Kosovo state.¹⁴⁵ The creation of a civic "Kosovar identity" has strong international support, but it is a nascent identity that many people associate with unmet expectations of an independent Kosovo. Data from surveys conducted by University of Oslo in 2014 confirm that a large majority of Kosovo Albanians still identify with Albanian national symbols, although a new Kosovar identity, manifested as loyalty to the newly created state of Kosovo, is slowly taking root among them.¹⁴⁶

These sudden identity shifts have led to a heightened sentiment of belonging to Islamic community among many Kosovo Albanians, since being Muslim is the only identity layer unaltered by efforts to construct a new identity. Thus, Islam has been growing as major constitutive element of personal identities, which may undermine efforts to create a civic and multi-ethnic Kosovo identity, particularly if the new state fails to meet expectations for prosperity, social equality, and justice.¹⁴⁷ Observance of Islam increased sharply in recent years among Kosovo's youth.¹⁴⁸ Regional patterns indicate a more religious Muslim community in municipalities bordering Macedonia (Hani i Elezit/Elez Han, Kaçanik/Kaçanik, Gjilan/Gnjilane, Viti/Vitina, Kamenicë/Kamenica) as well as in Mitrovicë/Mitrovica, Vushtria, Fushe Kosove and Prishtinë/Priština. Roma communities in Fushe-Kosovo, Gračanica/Graçanicë and Mitrovicë/Mitrovica have started to practice Islam, allegedly due to financial incentives from Islamic relief organizations.¹⁴⁹

While religious observance is growing in Kosovo, a monolithic religious constituency has not emerged and religious parties have failed to achieve significant support in elections. In recent years, political entrepreneurs have tried to engage religious voters by making issues based on religion increasingly important in political competition. These voters share three key concerns. First, many claim that the Islamic community is discriminated against compared to those that are Catholic and Orthodox. Second, religiously active groups advocate for public displays of religious symbols in public institutions, such as claiming that the headscarf should be allowed in all state institutions. Third, pressure is growing for the inclusion of teachings on religion in public schools, which over 95 percent of students attend at the primary and secondary level.¹⁵⁰

143 UNDP (June 2017), Public Pulse Analysis on Prevention of Violent Extremism in Kosovo, pp 7, See also Kosovar Center for Security Studies. 2016. "Kosovo Security Barometer Special Edition: The citizens' views against violent extremism and radicalization in Kosovo." Kosovar Center for Security Studies. Pristina/Pristina. See also USAID Kosovo (2015), "Kosovo Violent Extremism Risk Assessment" based on fieldwork conducted in April-May 2015.

144 UNDP (June 2017), Public Pulse Analysis on Prevention of Violent Extremism in Kosovo, pp 4-6.

145 UNDP (June 2017), Public Pulse Analysis on Prevention of Violent Extremism in Kosovo, pp 8-9

146 Kolsto, p (2014). "Strategies of Symbolic Nation-building in South Eastern Europe", Ashgate

147 KIPRED Policy Paper 1/16 (June 2016), "What happened to Kosovo Albanians: The impact of religion on the ethnic identity in the state-building period."

148 Information obtained during fieldwork in Pristina, November 2017.

149 Interview with a researcher in Pristina, November 2017.

150 According to the GOK, approximately 380,000 students are currently enrolled in primary and secondary school in Kosovo of which about 700 are in private schools. Of the approximately 120,000 students enrolled in universities, about one-third

13. Uncertain Paths to EU Integration and U.N. Recognition

Kosovo faces significant challenges to EU integration and U.N. recognition. The key challenge to the latter is gaining support from the U.N. Security Council. Russia is strongly opposed to Kosovo's statehood and has an interest in perpetuating frozen conflicts in its periphery, as well as blocking further EU and NATO expansion. Kosovo theoretically has a path toward EU integration that begins with fulfilling conditions of the Stabilization and Association Agreement (SAA) with the EU. The SAA entered into force April 1, 2016, and requires Kosovo to satisfy conditions in a range of areas:¹⁵¹

- Strengthened democracy and the rule of law;
- Political, economic and institutional stability, as well as regional stability;
- An appropriate framework for political dialogue;
- Economic development;
- International and regional cooperation; and
- Development of a free trade area between the EU and Kosovo.

Subsequently, in November 2016, the EU and the GOK launched a dialogue on the European Reform Agenda (ERA). The ERA targets priority actions for the SAA and exists to help speed its implementation. It identifies “22 priorities and 130 actions, in the areas of governance, rule of law, economic growth, competitiveness and education and job creation.”¹⁵² A recent ERA tracking report documents that the GOK is making slow progress on implementing the ERA.¹⁵³

While the domestic reform agenda is long and ambitious, Kosovo faces an equally large diplomatic challenge for EU integration as five existing EU member states, Cyprus, Greece, Romania, Slovakia and Spain, do not yet recognize Kosovo and the country cannot join the EU without their agreement. Cyprus and Spain do not recognize Kosovo because they do not want to legitimize unilateral declarations of independence due to territorial disputes within their own countries. The GOK has not yet conducted aggressive diplomatic outreach to persuade them to reverse their position. Rather, recent independence movements in Catalonia and Scotland have strengthened anti-secession sentiments within EU making it highly unlikely for the non-recognizing countries to change their position even if Kosovo authorities and its allies boosted their diplomatic efforts. Serbia, by contrast, has been effective not only in advancing its own candidacy within EU, but also in portraying Kosovo unfavorably internationally. For example, in November 2017, Suriname and Guinea Bissau rescinded their recognition of Kosovo allegedly at Serbia's request.

attend private ones. See: Republic of Kosovo. 2016. *Education Statistics in Kosovo 2015/2016*. Pristina: Government of the Republic of Kosovo. The Islamic Community of Kosovo manages four schools (madrassas) with separate educational facilities for boys and girls and the Faculty of Islamic Studies based in Pristina.

151 Council of the European Union. 2015. *Stabilization and Association Agreement Between the European Union and the European Atomic Energy, of the One Part, and Kosovo, of the Other Part*. Brussels: Council of the European Union.

152 Rashiti, Naim. 2016. *European Reform Agenda for Kosovo*. Pristina: Balkan Policy Research Group. Page 2.

153 Balkans Policy Research Group. 2017. *European Reform Agenda – Good Governance and Rule of Law: Progress Report*. Pristina: Balkans Policy Research Group.

D. Dynamics

I. Increased Political Competition

The political landscape in the short and medium terms will likely remain fragmented. This will make consensus on important issues related to the Brussels Dialogue and statehood issues, as well as economic and governance reforms, hard to achieve, even in the face of international pressure.

PDK is likely to continue to suffer significant losses due to allegations of state capture, failure to address key economic and governance issues and its poor record in fighting corruption. Yet PDK has a strong network that will try to rebuild the party. If it manages to overcome the indictments by the Specialist Court, PDK will try to reform by bringing in new voices and refining its message as a center right party. Most likely, a reformed PDK will try to appeal to middle class and wealthy individuals who have been the main beneficiaries of its long stay in power.

Being in opposition and distancing itself from PDK will help LDK solidify its electoral gains of 2017. At the same time, disputes over its leadership are expected among three loosely organized groups: (1) supporters of the current leader who are attempting to orchestrate controlled change; (2) the old guard consisting of long-time leaders in various municipalities who want to see the current leader out of politics; and (3) a small but popular group of young faces who are a serious threat to the two other groups. If it can address its internal rifts, LDK is well positioned to grow, as it is the only major party that has survived leadership changes and is still seen as responsible, non-violent and pro-EU. In the next four to five years, a reformed LDK may become a dominant party and a key partner with the international community.

VV's growth is likely to continue due to its anti-establishment message, its image as a party not tainted by corruption, and its diaspora ties. However, various factions within the party have incompatible political objectives which are striving for control over political program and party structures. These disputes may strain party unity even before it gains power at the national level. If it survives these internal challenges, VV is expected to become the largest party in Kosovo because of its social justice message, good organizational structure, and media-savvy leadership. Despite moderation in some areas, VV's views on economic policy, relations with Serbia and unification with Albania differ sharply from those of other political parties, which may negatively affect the international community's sentiment toward Kosovo.

AAK will continue to be influential if its leadership is not affected by the Specialist Chamber's activity. It may even benefit from the decline of PDK. However, its ability to grow suffers from underlying structural problems as a KLA legacy party with a solid, but limited regional stronghold and increasing competition from VV to capture the votes of dissatisfied ex-PDK supporters and war veterans.

The Serb List's political hegemony is undisputable in the short term. However, in the longer term, it is vulnerable to exogenous political shocks in Serbia and may suffer a backlash from Albanian nationalists if it overthrows or undermines the Haradinaj government. The Serb List may also be challenged by new political forces in Kosovo's Serb community that are more connected to their needs, rather than the interests of the Serbian government. Early challenges to its hegemony are expected to include established politicians dissatisfied with Serbia's instrumentalist approach toward Kosovo's Serbian community and younger, more pragmatic

Serbians who have been exposed to working with international organizations and Kosovo institutions.¹⁵⁴

2. Governance Likely to Improve...Slowly

The GOK appears to be reaching a transitional stage in self-governance with major deficiencies remaining in the ability of its judicial system and international rule of law assistance in this area receding. EULEX has stopped hearing new cases and is transitioning itself either into a diminished role focused on mentoring or potentially ending its mission in June 2018.¹⁵⁵ This is a challenge and an opportunity for the GOK. On the one hand, there is limited evidence that oversight agencies and the justice system in Kosovo can hold elites accountable. On the other hand, EULEX has not lived up to its expectations and the GOK needs to take responsibility for strengthening its own institutions. The main cause for optimism that governance will improve is growing public pressure on the GOK to fight corruption due to a combination of voters' demands for reform as well as increased coverage of the issue from media and civil society. Along the same lines, the current government faces a strong opposition in the National Assembly that is likely to press for these reforms.

Nevertheless, enforcing elite accountability is likely to remain a challenge. External assistance has yielded limited ability to reform these practices. Some achievements in increasing justice sector capacity have not resulted in more elite accountability, allegedly due to political influence, but past technical capacity successes remain relevant and will likely become more critical at the higher levels of the judiciary as EULEX transforms its mission. Given that elite accountability is likely to remain elusive in Kosovo for the foreseeable future, efforts to strengthen the ability of media and civil society to perform effective public oversight as well as help ensure media freedom also remain critical areas where the international community can still provide crucial assistance. International support for investigative journalism has been particularly successful in exposing corruption and needs to be sustained in order to expose the extent of state capture and abuse of political power.

3. Signs of Economic Transformation, but Starting from a Low Base

Kosovo's private sector is growing, albeit from a weak base. Nevertheless, some productive sectors are showing growth potential. For example, the number of exporters grew by one-third between 2011 and 2014, from about 900 to just over 1200 firms. The number exporting furniture rose from 98 to 163 from 2012 to 2014. Growth in the number of firms exporting plastics showed a similar pattern, rising from 155 in 2011 to 249 in 2015.¹⁵⁶

Donor assistance to improve market and supply chain linkages as well as enhance product quality also have met with some success. These programs are likely to remain beneficial in areas such as technology acquisition, facilitating linkages with foreign markets, and improving product quality. Assistance with planning, coordination, reducing fragmentation through collection and aggregations centers is also likely to remain useful. Firm surveys suggest that progress in food processing and basic manufacturing could occur more rapidly through better dissemination of

154 Information collected during field research in Pristina, North Mitrovica, Gračanica, and Cagllavica, November 2017.

155 Telegraf News Portal (November 24, 2017), Statement of Kosovo Minister of Justice Abelard Tahiri, "EULEX will end its mission on 28 June 2018."

156 <http://databank.worldbank.org/data/reports.aspx?source=exporter-dynamics-database-%e2%80%93-indicators-at-country-year-level>

factors that account for the success of existing exporters. These include knowledge of markets and regulatory systems; access to electricity, finance, and modern production facilities; and a skilled workforce.¹⁵⁷ Another sector with growth potential is information and communications technology (ICT), as Kosovo's young and multilingual population could undertake back office services for foreign companies. These sectors also have the potential to support the interests of existing firms. For example, growth of the agriculture and food processing could serve the interests of food importers if they can source local products more cheaply than imports. Kosovo's diaspora shows few signs to date of helping to accelerate these processes.

Improvements to investment climate, energy supply, and quality of education are occurring, but slowly. Currently, the GOK is focused on improving its position in the Doing Business Indicators, however that has not translated into investment and job creation, in part, due to poor policy implementation. As a result, policy dialogue between government and the private sector needs to focus on barriers to the latter. Business associations could play a much more assertive role through enhanced outreach to the GOK and members of the National Assembly.

4. Religion Will Continue to Rise as a Social and Political Force

The role of religion as a social force and a political resource in the Albanian community will continue to rise due to unmet social needs and external influences. Religious identification among Kosovo Albanians is becoming more pronounced, although recent surveys show that a very high number (65.6 percent) of those surveyed still identify as Albanian first and then Muslim, compared to 34.4 percent who identify as Muslim first and then Albanian.¹⁵⁸ At present, religious voters are not concerned with political representation *per se*, but are content to incrementally push forward a set of religious issues, such as building a big mosque in the center of Pristina or allowing religious teaching in schools. Such demands bring together an otherwise diverse and loosely connected set of religious voters. Previous failures of religious political parties suggest a slow growth strategy, conscious of the potential that a more active political Islam may trigger a backlash from secular and nationalist forces, as well as repression by state institutions.

The situation on religious radicalization is not alarming yet, but is rapidly changing and risk assessments should be conducted frequently. Returning Foreign Terrorist Fighters might need to be monitored and properly reintegrated through multifaceted interventions combining countering terrorist narratives, grassroots intervention and re-socialization programs. Prison radicalization, which currently exists, may potentially become more widespread due to the increasing numbers of arrests and convictions of returning Foreign Terrorist Fighters and those radicalized within Kosovo.¹⁵⁹ Donor and GOK diaspora engagement programs should incorporate strong cultural and social components to preempt radicalization of diaspora youth.

5. International Attention Likely to Wane

Kosovo will continue to face a difficult path to EU integration and U.N. recognition. Kosovo is likely to remain low on the EU's agenda whose interest in expanding is not clear given the challenges it faces among existing members. In addition, the likelihood of Kosovo being

¹⁵⁷ Riinvest Institute. 2016. Economic Potentials in Region Center. Pristina: Riinvest Institute.

¹⁵⁸ Most people interviewed find this high percentage alarming and the data of the KIPRED surveys controversial. See the KIPRED Study of 2016 "What happened to the Kosovo Albanians" p. 71-72

¹⁵⁹ Radio Free Europe (March 2017), "Kosovo Seeks to Root Out Radical Islam In Prison System"

recognized as a sovereign state by EU is likely falling due to the hardening of anti-secessionist position of Spain and other countries in the aftermath of Catalonia's failed bid for statehood. Along the same lines, Russia is likely to remain opposed to admitting Kosovo into the U.N. for the near future. While the GOK understands the obstacles in each area, it is not clear if the government has a strategy to address them. For example, it has not developed a diplomatic strategy to reach out to EU members that do not recognize its independence and gain support for its membership within the EU more broadly. Improving its image within the EU through improved governance and enhanced diplomatic outreach is likely the GOK's best strategy for advancing progress on EU integration. Stalled progress on EU integration may cause political entrepreneurs to turn public resentment toward the EU into political projects. The GOS could also exploit reduced international attention to foment instability in Kosovo. Strengthening KFOR's capacities and/or allowing Kosovo to build its own military may become increasingly necessary to deter Serbia's growing assertiveness. Due to the significant economic and cultural influence, Turkey may become one of the potential sources of external support for such anti-Western political projects.

Strong support from the US Government in helping Kosovo gain independence and providing for its security may have inadvertently sent a signal to the GOK that the US would assist them to get into the EU. Future US support to Kosovo should push the GOK to act more independently and take ownership over the pressing international challenges that Kosovo faces.

IV. CONCLUSION

As Kosovo approaches 10 years of independence the country can celebrate many achievements, yet still faces some daunting challenges. Transforming the economy, implementing needed economic and governance reforms, and securing its status as a sovereign and independent state will remain salient and complex issues for the foreseeable future. At the same time, the country's notable accomplishments to-date demonstrate how positive change is, and may continue to occur in Kosovo in its second decade of independence. Such understandings are crucial as Kosovo seems to be entering two transitional phases. The first is a change in patterns of political competition from a system based on patronage deriving from liberation credentials and/or regional ties to one based more on issues and performance. The second is decreasing international attention and influence. Some of the more salient consequences will be greater responsibility for the GOK to (1) enforce elite accountability and (2) take a leading role in addressing the country's challenges to sovereignty and international recognition.

The strongest demands for positive change stem from growing frustration with widespread perceptions of state capture, slow economic growth, and external isolation among large parts of Kosovo's population. While patronage networks have led to the rise of wealth among people with the right political connections, they have also created a much larger group of people who are excluded from these networks and, therefore, lack meaningful economic opportunity. Lack of opportunity is especially severe among Kosovo's large youth population who are just becoming first time voters. The main underlying source of change in Kosovo is growing pressure from those who are excluded from the relatively closed networks of power to create a more inclusive polity and economy.

There already are some signs of how demands for a more inclusive economy and political system will manifest themselves in changing the nature of political party competition. Voter frustration

and unmet expectations is leading to rising issue-based competition and erosion in the capacity of parties to use patronage alone to secure political loyalty. The result is an ongoing process where existing elites continue to lose support in elections, driven, in part, by a more dissatisfied, assertive and self-confident youth who are committed to improving governance and creating greater economic opportunity. This is driving coalitions for reform within some of Kosovo's main political parties, especially LDK, PDK, and VV. They are trying to strengthen their parties by recruiting a new generation of dynamic leaders, as well as developing clear ideologies and policy platforms to address salient voter demands. These changes may allow the media and civil society organizations to have greater policy influence than they have achieved in the past.

Not all those who are frustrated with the politics as usual are interested in political or collective action, however. Many individuals are looking for their own solutions to deflect from their disenfranchisement, either through becoming more religious or looking for opportunities to leave Kosovo. If existing political parties are not able to implement needed reforms to create a more dynamic economy, the current generation of frustrated youth could become increasingly alienated and less committed to work for positive change.

A second source of change is an increasingly resilient domestic private sector. It is growing slowly from a weak base and faces numerous challenges, yet agriculture, food processing and basic manufacturing are showing some signs of promise. While the total number of exporting firms is small, it is about the number one would expect given the size of its economy. Kosovo's private sector also has very little experience competing in market economies, so faces a steep learning curve. Surveys suggest that firm success is a function of skill, experience, and access to finance.¹⁶⁰ Disseminating knowledge from existing exporters, strengthening critical market and supply chain linkages, and improving access to electricity and finance can help accelerate this process. Growing private sector sophistication can also help strengthen the quality of policy dialogue between the GOK and the business community, as well as increase pressure on the former to implement needed reforms.

The outcome of Kosovo's second transition remains less clear. Greater public pressure for reform could provide the impetus for the GOK to begin holding elites accountable for corruption and abuse of power. At the same time, given the strong ties between political parties and the private sector and the former's continued reliance on the latter for campaign finance, reduced international presence in Kosovo could permit these ties to strengthen. How the GOK will react to the need for a larger role in gaining greater international recognition and meeting conditions for EU candidacy remains similarly unclear. While a growing sense of isolation could provide an impetus to reform, protracted international isolation and internal exclusion of youth may manifest in more conservative, traditional and religious political movements in the future. Opportunistic politicians could use these frustrations to spark a backlash against the EU. Reduced international attention could also allow the GOS to play a more destabilizing role in Kosovo triggering ethnic violence and/or inter-state conflict. These scenarios reinforce the need for Kosovo and Serbia to achieve a comprehensive agreement that would remove the threats to peace and security. Since the GOK has an enormous amount of trust in the USG, the USG still plays a crucial role as a GOK advocate for greater international recognition, as well as a trusted advisor for what the GOK must do to achieve these objectives. Over the next few years, the latter is arguably more important than the former.

¹⁶⁰ Riinvest Institute. 2016. *Economic Potentials in Region Center*. Pristina: Riinvest Institute.

ANNEX 4. BIBLIOGRAPHY

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U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523