

**Kosovo's new map of power: governance  
and crime in the wake of independence**

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May 2011



**Acknowledgements:** The authors would like to thank Bob Deen for his huge contribution to the preparation of this paper, and also Lucia Montanaro and Robert Schupp for their astute comments on earlier versions. We are also very grateful to everyone in The Hague, Kosovo and elsewhere who provided us with their time, insights and contact books.

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## Abbreviations

AAK	Alliance for the Future of Kosovo
CCK	Coordination Centre for Kosovo and Metohija
CSP	Comprehensive Proposal for the Kosovo Status Settlement (“Ahtisaari Plan”)
DS	Democratic Party
DSS	Democratic Party of Serbia
EU	European Union
EULEX	EU Rule of Law mission in Kosovo
ICJ	International Court of Justice
ICO	International Civilian Office in Kosovo
ICR	International Civilian Representative, head of the ICO.
ICTY	International Criminal Tribunal for the former Yugoslavia
KEK	“Korporata Energjetike e Kosovës”, the energy corporation of Kosovo
KFOR	Kosovo Force, a NATO-led international peacekeeping mission
KLA	Kosovo Liberation Army
KP	Kosovo Police
KPC	Kosovo Protection Corps
LDK	Democratic League of Kosovo
NATO	North Atlantic Treaty Organisation
OSCE	Organisation for Security and Cooperation in Europe
PDK	Democratic Party of Kosovo

POE	Publicly owned enterprises
PTK	Post and Telecommunications of Kosovo
(K-)SHIK	Former intelligence wing of the Kosovo Liberation Army
SLS	Serbian Liberal Party
SRS	Serbian Radical Party
SRSG	Special Representative of the Secretary-General
UDI	Unilateral Declaration of Independence
UN	United Nations
UNMIK	UN Interim Administrative Mission in Kosovo

## Executive summary

The nationalist euphoria that greeted Kosovo's declaration of independence in 2008 has given way to a bitter aftertaste. Within the small Balkan country, in Brussels and in the capitals of its main foreign supporters, deepening disenchantment has taken hold. At the core of this disappointment is the performance of the first leaders of post-independence Kosovo. Alleged corruption, abuses of power, murky ties between politicians and business, authoritarian reactions to the media and the continuing existence of inter-ethnic tensions in the flashpoint of north Mitrovica seemingly amount to serious weaknesses in the country's capacity for responsible and accountable governance. Recent reports of senior politicians' involvement in wartime atrocities have only served to deepen the gloom.

But this portrait of the country, while accurate in certain respects, obscures a series of other crucial developments. On the one hand, there is the ongoing (though still far from complete) consolidation of Kosovo's status in the international community following the International Court of Justice's ruling in 2010. On the other, there are clear signs of change in the attitudes of the Kosovo citizenry towards malfunctioning institutions and the leaders who emerged from the trauma of Serbian oppression, civil war and international intervention. Despite its many ambiguities and contradictions, this change of attitude gives donors new opportunities to support locally led, sustainable processes of state-building.

This paper examines exactly how post-independence Kosovo is governed. It starts by exploring the origins of the country's institutional character through a focus on the structural bases of state fragility. Of particular significance is the way in which the UN peacekeeping force UNMIK decided soon after its arrival in 1999 to work with the dominant power-holders in the post-conflict landscape: the leadership of the Kosovo Liberation Army (KLA). This effectively incorporated in the new institutional arrangements a number of allegiances and informal alliances – including criminal networks – from the armed resistance. At the same time, the parlous state of the post-conflict economy did little to build an independent class of business leaders, or to free society of its expectations of patronage.

However, the results of the December 2010 elections confirm that the current political landscape is in the throes of change.

The leading party is the Democratic Party of Kosovo (PDK). Its head, prime minister and former KLA leader Hashim Thaçi, is dogged by allegations of war crimes and corruption aimed at him and his associates. Despite retaining power in the elections, the PDK has experienced over the last two years a dizzying fall in public trust. As the glory of independence fades, and international actors relinquish more authority to domestic leaders, Kosovar citizens have become increasingly impatient with the government's slow progress in development and public service delivery. A protest group that recently became a political party, Vetëvendosje, won over 12 per cent of the December 2010 poll after presenting itself as a nationalist alternative to the established forces.

Flagging legitimacy, however, has not yet provoked a shift of power, and growing disaffection has not resulted in the steady emergence of a more engaged and demanding citizenry. Regional and clan loyalties remain highly significant sources of political affiliation. Electoral victory also depends increasingly on a combination of control over the media and on buying the support of influential local leaders. Discretionary spending is used to convince voters that it is in their best interests to join the client network of the leading party; access to money for patronage is widely seen as the key to political survival.

This more fluid, monetized patronage is reinforced by corruption and political capture of both the public and the private sector – a process that has caused particular alarm across the European Union (EU), and which is discussed in depth in Chapter 4.

A similar tension between the impulse to change and the force of inertia can be found in Kosovo's Serb communities. Increased participation among the southern Serb community in Kosovo's political system has been demonstrated in recent local elections, but the trend is not robust, and nor is it Kosovo-wide. International efforts to integrate the north within an independent Kosovo have so far been stifled by the risk of new instability, and Mitrovica has become in effect a frozen conflict zone.

On the basis of a close analysis of these and related trends in Kosovo's political economy, the report offers key recommendations for future international policy that fit the country's context and dynamics, while adopting a realistic attitude regarding the likelihood of full EU recognition of the country's sovereign status. These proposals aim to strengthen Kosovo's mechanisms for domestic accountability so as to ensure that demands for better governance can be articulated and channelled. The recommendations include:

- Support domestic capacities for public accountability: establish legal frameworks and training to strengthen independent media, nurture a supportive domestic environment for civil society and move away from direct foreign funding of NGOs.
- Strengthen local government through robust decentralization: capacity-building of municipal staff in public service delivery, encouragement of new reformist leaders (especially in Serb communities), and pressure on Belgrade to withdraw support for parallel structures. The EU Rule of Law mission, EULEX, is strongly advised to open a special municipal department to track suspected abuses of local power.



- Build domestic capacity to fight corruption through a two-pronged approach: support for technical capacity to tackle corruption cases, and implementation of strong international conditionality to curb political tolerance of graft. Given the new political landscape, parliamentary oversight procedures should be urgently reinforced.



# 1. Introduction

Rarely has a small territory sparked such controversy and bitter disagreements within the international community as Kosovo has, with its population of a little over two million people.<sup>1</sup> The story is well known: the debates over the legality of NATO's military intervention in 1999 were just the start of a lengthy process of international bickering over the status of this contested Balkan territory, which unilaterally declared its independence in February 2008.

The coalition of countries that supports Kosovo's claim to statehood has stretched the boundaries of international law, investing vast financial and political capital with the aim of establishing a viable new republic that would set in place what is often referred to as the "last piece of the Balkans puzzle". An array of international organizations is present in the country, including the UN and its various agencies, the EU, NATO, the Organisation for Security and Cooperation in Europe (OSCE) and an International Civilian Office (ICO). The different mandates of these missions reflect wider international disagreement over the future of Kosovo. Both the UN Security Council, where Russia would veto recognition of independence, and the EU, where five countries oppose it, are hamstrung with regard to their approach to the fledgling sovereign state. By early 2011, 75 countries recognized independent Kosovo;<sup>2</sup> for the rest, and for the UN and the EU, the framework within which relations are conducted is still that of the UN Security Council Resolution 1244 dating from 1999.

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<sup>1</sup> The uncertainty over the precise population of Kosovo stems from the lack of a comprehensive census of the country since 1981 (Judah 2008, p. 2). A new census of Kosovo was carried out in April 2011, with results expected later this year.

<sup>2</sup> Recognition by a total of 128 countries is needed for a country to become a member of the UN. On recent Kosovo recognitions, see Balkan Insight, 7 February 2011, "Oman Recognizes Kosovo" at: <http://www.balkaninsight.com/en/article/oman-recognised-kosovo-s-statehood#>.

This state of affairs may be modified somewhat by the flurry of diplomatic activity following the 22 July 2010 International Court of Justice advisory ruling, which declared that Kosovo's Unilateral Declaration of Independence (UDI) "did not violate general international law". Both Serbia and Kosovo aspire to membership of the EU – even though neither is on the immediate accession track – and this fact is sure to play an important role in any future understanding between the two, as well as in forging an eventual global consensus on Kosovo's status. Meetings between Belgrade and Pristina are planned, pending the formation of a new Kosovo coalition government, and international moderators are already busy preparing their roles. Even so, staunch opponents of the country's independence are unlikely to change their position in the near future.

Yet even if major progress is made in inserting Kosovo in the international community, the country's future looks far from bright. After the initial euphoria following the declaration of independence, Kosovar society is rapidly becoming disillusioned with its rulers. The government led by prime minister Hashim Thaçi, a former commander and representative of the Political Directorate of the guerrilla Kosovo Liberation Army (KLA), is tarnished by high levels of corruption. Political elites increasingly resort to autocratic measures and use of patronage networks to consolidate control over the public and private sectors. Kosovo's formal economy is in a dismal state, with a gross domestic product (GDP) per capita of €1,766 – although the size of the illegal economy and the extent of unrecorded remittances can make this a misleading guide to the country's living standards.

Some 45 per cent of the population lives below the poverty line, and nearly half of the working population is unemployed (IMF 2010, p. 23; World Bank 2007, pp. 4–5). Kosovo's ethnic Serbs still harbour high levels of distrust and resentment towards Kosovo's institutions, with some instead relying on parallel Belgrade-run institutions. The north of the country is *de facto* outside the control of the government in Pristina, turning North Mitrovica and the surrounding areas into a contested territory that provides ideal conditions for smuggling.

While recent advances in state-building theory stress that this process is primarily driven by domestic conditions (OECD 2010; Anten 2009; Ghani and Lockhart 2008), since 1999 the international community has consistently played a fundamental role in shaping Kosovo's system of governance. The effectiveness of the international administration in this respect has already been extensively studied and criticized in a wide range of publications (see, for example, Derks and Price 2010; King and Mason 2006; Knudsen and Laustsen 2006; Montanaro 2009; Narten 2009; Van Willigen 2009).

However, the circumstances of post-independence Kosovo differ in crucial ways from the period following the war. The international presence has recently been downscaled across the territory, including the NATO-led peacekeeping force KFOR.<sup>3</sup> As a result, an exclusive focus on the tensions between international influence and local actors runs the risk of overlooking the main emerging trends in Kosovo's political life, which now derive from the informal

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<sup>3</sup> At the end of 2010 KFOR deployed 8,454 troops, down from a peak of 50,000. It is set to be reduced further in 2011 to 5,000 troops.

alliances and practices of local power-holders. Patron–client networks, changing dynamics in political parties, electoral competition, civil society mobilization and economic opportunity exert ever-increasing influence, sometimes surreptitiously, on the decisions and actions of Kosovo’s new governing bodies.

The effects of this transition resonate far and wide. Whereas the international community’s emphasis on regional and geopolitical stability once undermined aspirations to build a representative and accountable state in Kosovo, there is now reason to argue that the relation has been inverted: long-term stability in the Balkans does not so much compete with state-building as depend upon it.

This paper thus turns the spotlight on the emerging political landscape of a country that, after a decade of international administration, has now assumed control over its key governing functions. While not wishing to deny the continuing importance of the international presence (most notably that of the ICO, the European Union Rule of Law mission [EULEX] and the UN mission in Kosovo [UNMIK], all of which retain executive powers in some areas), this paper argues that these organizations do not envisage maintaining a permanent presence, that they are reluctant to use their prerogatives of intervention (despite ongoing campaigns against high-level corruption and recent evidence of top-level involvement in wartime atrocities), and that domestic processes are reconfiguring political competition in a way that will prove crucial to how tensions in the post-communist Balkans are managed in the future.

### **Key questions**

This paper is part of a broader programme of research by the Clingendael Institute’s Conflict Research Unit into governance in post-conflict and fragile states, including case studies of Afghanistan, the Democratic Republic of Congo, Guatemala and Pakistan. In the case of Kosovo, the insights gleaned from over 30 interviews with government, opposition, civil society and international actors in Pristina, Mitrovica, Peja, Strpce and Gracanica in May 2010, as well as phone interviews with country experts, have been combined with extensive desk research on Kosovo, as well as on recent theories regarding patron–client networks and state capture.

Four objectives guided the research. In the first place, the aim was to identify the main structural causes of state fragility in Kosovo. Second, the research sought to map the interests and characteristics of the leading figures in the current political landscape. On that basis, the emerging trends in governance were dissected, particularly from a political economy perspective. Lastly, the question was raised as to whether the international community’s approaches are the most appropriate for responding to these new conditions, and how a more cohesive and responsive form of government could be promoted in Kosovo.

On the basis of the findings from these four areas of research, the paper outlines four separate trends that are emerging in post-independence Kosovo: society’s growing disaffection with a government that exhibits authoritarian tendencies, and signs of

mobilization at the level of civil society; a more fluid, monetized form of patronage strengthened by increased corruption and capture of both the public and the private sector; increased pragmatism among the Serb community in the south regarding its participation in Kosovo's governance process; and the emergence of the contested region of north Mitrovica as a frozen conflict zone.

The current dynamics of governance in Kosovo point to a concentration of power in the hands of the ruling Democratic Party of Kosovo (PDK) and its supporters, who are accused of links to networks of corruption and other criminal activities. However, the PDK's hegemony is unstable, and is countered by the need to reach an accommodation with emerging sources of discontent, dissonant local political trends, a growing population of swing voters, the demands of southern Serb enclaves, corruption investigations against some key figures and the requirements laid down by the EU. In spite of a wave of acute concern over the rise of an authoritarian and corrupt regime in Pristina, there are a number of reasons to suspect that the bases for this new political hegemony are more brittle than they may at first appear. Opportunities exist to support a more responsive and democratic state, even as the international intervention is gradually scaled down.

### **Structure of the paper**

The following section of the paper will outline some of the main sources of institutional weakness that are at the root of Kosovo's current problems, such as its history of conflict, its underdeveloped and largely informal (including criminal) economy, and the approach towards state-building that was adopted by the United Nations Interim Administration Mission to Kosovo (UNMIK). Chapter 3 identifies the current key power-brokers within Kosovo's political life and the characteristics of the country's political culture, while Chapter 4 focuses on the country's emerging system of governance. The last chapter aims to round off the analysis by bringing these trends together, and identifying the possible future paths for democratic governance in Kosovo.

## 2. Sources of state fragility

Underlying the constraints on constructing a stable and effective system of governance in Kosovo are four factors, which together help shape the routines, systems and expectations around political life.

First, the country's long history of conflict and inter-ethnic strife will be explored, with a particular focus on the unilateral peace settlement and the decade of international administration that established the foundations of contemporary Kosovo. Second, the enduring uncertainty over Kosovo's ultimate status divides the international community, and has undermined international state-building efforts. Third, the underdeveloped economy, the prevalence of a large informal sector and the role of organized crime make it difficult to consolidate Kosovo's statehood. Finally, historic and economic legacies have given the country a political culture oriented towards the distrust of institutions.

### **A history of conflict and impunity**

One root cause of Kosovo's current fragility is its long history of conflict, virtually all of which is deeply contested. Competing historical narratives still have political significance today, with both Albanians and Serbs claiming ownership of the territory on the basis of different interpretations of historical events that go back many centuries. There is a long tradition of separation of the two communities: for example, intermarriage rates between Serbs and Albanians were the lowest in the former Yugoslavia, at a mere five per cent in 1982 (King and Mason 2006, p. 3). Grievances run deep, as both sides have committed atrocities over the past centuries, deliberately attacking each other's cherished cultural sites and engaging in a spiral of revenge and reprisal violence.<sup>4</sup>

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<sup>4</sup> For a comprehensive overview of Kosovo's divided history, see Judah 2008. For a more detailed analysis of the waves of reprisal violence in Kosovo after 1999, see Boyle 2010.

One of the key moments leading up to the most recent war of 1998–99 occurred in 1989, when Serbian president Slobodan Milosevic, riding a wave of Serbian nationalism and responding to complaints of Albanian harassment of Serbs in the 1980s, abolished the autonomous status that Kosovo had obtained within the Federation of Yugoslavia in 1974. There had already been calls for Albanian independence during Yugoslav times, most notably following riots in 1981, but the 1989–90 Serb crackdown on the Kosovar Albanians led to an intensification of their political mobilization. Ethnic Albanians were entirely purged from the public sector and in response formed their own parallel institutions. The newly formed Democratic League of Kosovo (LDK), led by leading Albanian intellectual Ibrahim Rugova, initiated a period of peaceful resistance to the Milosevic regime and began to collect informal taxes among Albanian businesses and the sizeable Kosovar Albanian diaspora to provide services such as healthcare and education. During this period the Albanians also expanded the already existing shadow economy in Kosovo. This tradition of parallel institutions and economy still flourishes in present-day Kosovo (Strazzari 2008).

As Serbian rule became increasingly oppressive the Albanian community split between moderates who stuck to the LDK's strategy of non-violent opposition and more radical elements who advocated the use of force. The latter gained ground after the Dayton Peace Accords settled the conflict in Bosnia-Herzegovina by legitimizing the *fait accompli* of ethnic segregation (Yannis 2003). In the mid-1990s a group of former political prisoners, radical émigrés and militants formed the Kosovo Liberation Army (KLA, also known in Albanian as the UÇK), a loose coalition of insurgents financed by contributions from the Albanian diaspora and by clandestine income from organized crime. While the KLA was first and foremost a force of armed resistance to oppressive Serbian rule, its rise coincided with the expansion of criminal networks, as the international sanctions against Serbia and the general collapse of social norms across Yugoslavia provided ample opportunities for smuggling, including trafficking of drugs, weapons and humans.<sup>5</sup> In addition, the lawlessness that swept across neighbouring Albania, following the collapse of the pyramid savings schemes in 1997, caused a large quantity of weapons to flood into Kosovo, and into the hands of the KLA (Bekaj 2010, p. 19; King and Mason 2006, pp. 41–44).

Meanwhile, the territory as a whole was in ferment. Increasingly brutal repression of the Kosovo Albanian majority by Milosevic's regime in Serbia provoked in May 1998 a full-scale uprising, cutting western Kosovo off from Pristina, prompting a refugee crisis and leading that summer to the deployment of international diplomatic and verification missions. However, the violence against ethnic Albanians continued to escalate. The Yugoslav army responded to the civilian unrest and the KLA insurgency with a heavy crackdown that eventually spurred an international military intervention by NATO in 1999, forcing Milosevic to pull all Yugoslav security forces out of Kosovo by June 1999.

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<sup>5</sup> The link between the KLA and organized crime has been asserted by numerous experts, although hard evidence of the exact sources of financing is difficult to obtain. For more detailed information as well as references to Interpol, Europol and other sources of information, see Glennly 2008; ICG 2000, pp. 14–18; Yannis 2003, p. 176; Strazzari 2008, p. 158.



The anarchy that ensued after the Yugoslav withdrawal and before the international community could stabilize Kosovo gave rise to a series of retaliation attacks by the returning Albanian population against non-Albanian ethnic groups, particularly against ethnic Serbs but also against Roma, Bosniaks and other communities. Approximately half the ethnic Serb population left Kosovo in the period between June and November 2009, and the remaining inhabitants grouped themselves in defensible pockets of territory that became enclaves guarded by NATO soldiers. An estimated 600 to 800 Serbs were killed in the first year of the international administration alone (King and Mason 2006, p. 53). Reprisal attacks continued in 2000 and 2001 while NATO troops and senior commanders were reluctant to take a strong stand against the violence and unwilling to confront the KLA. Many senior-level officials had implicitly acknowledged that a certain degree of retaliation for wartime atrocities was inevitable (Boyle 2010, p. 210).

The most recent large-scale ethnic violence occurred in March 2004, when thousands of Kosovo Albanians went on a two-day rampage throughout Kosovo in which over 4,000 Serbs fled, 19 people died, hundreds of homes were damaged and Serbian Orthodox churches and cultural sites were attacked. NATO and UNMIK were generally unable to contain the violence as the angry mobs also turned against the international administration, targeting UN buildings and vehicles (Judah 2008, pp. 108–110). Very few prominent Kosovar leaders acted to stop the violence and many condoned it; most perpetrators were never brought to justice. The 2004 violence was more than just the latest episode in a series of inter-ethnic clashes. It demonstrated that, in spite of the international community's efforts, a state was being built on the cleavages caused by deep inter-ethnic grievances and past atrocities, in a general context of impunity and lawlessness (Mertus 2009, p. 472). These cleavages continued to permeate virtually all aspects of public life in Kosovo and strongly shaped the state-building process.

### **A legacy of contested status**

In addition to its divisive history, many of Kosovo's current governance problems emanate from the fact that the conflict of 1999 has never been resolved through a power-sharing agreement involving all of the key actors, either at the international level or the local level. The compromise that became UN Security Council Resolution 1244 was imposed on Serbia through an international military intervention. In other words, there has never been a full consensus among ruling elites on the nature of Kosovo's status and future direction. The attempts in 2007 by UN envoy Martti Ahtisaari to secure agreement for his Comprehensive Settlement Proposal (CSP) failed over the zero-sum approach taken by all sides towards the issue of Kosovo's sovereignty, with neither the Serbian nor the Kosovar side willing to compromise over the question of independence.<sup>6</sup>

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<sup>6</sup> Report of the Special Envoy of the UN Secretary-General on Kosovo's future status (S/2007/168), presented to the UN Security Council on 26 March 2007 (<http://www.unosek.org/docref/report-english.pdf>).

Following Belgrade's rejection, no consensus could be reached within the Security Council or within the broader international community. The Russian Federation, China, five EU member states and many other states refused to legitimize Kosovo's secession from Serbia. This failure to reach a compromise between Pristina and Belgrade has cemented conflicting claims of sovereignty over the territory, which still permeate Kosovo's society, divide the international presence on the ground, and thereby continue to fragment the state.

Four effects of this dispute over sovereignty on the state-building process stand out. Firstly, the status issue that had already dominated Kosovar politics for nearly a decade allowed the Pristina government to deflect criticism over its performance in service delivery by blaming Serbia and the international community. Moreover, the attainment of independence itself was seen by Kosovar society as such a momentous achievement that the current government essentially had a 'free rein' during the first, euphoric year, according to a number of interviewees.<sup>7</sup>

Second, the lack of consensus at the international level over Kosovo's status severely complicates the state-building efforts of the international community, which effectively are split down the middle between the 'status-positive' and the 'status-neutral'. The UN, the OSCE, NATO and the EU continue to operate within the framework of UN Security Council Resolution 1244, which recognizes Kosovo as part of Serbia but places it under a UN-led international administration. The five EU member states that do not recognize Kosovo have blocked consensus within the EU, forcing the European bodies present such as the European Commission Liaison Office (ECLO) and EULEX to remain status-neutral. On the other side of the status divide, the United States, a handful of the 22 EU member states and other countries that have recognized Kosovo's independence instead work to build the capacity of the Kosovar government and adhere to the notion of 'supervised independence' as put forward by Ahtisaari. For these countries, the ICO is the main state-building mechanism. Led by its head, the International Civilian Representative (ICR),<sup>8</sup> it aims to assure Kosovo's compliance with the Ahtisaari Plan, which is formally recognized and adopted by Kosovo in its Constitution.

Third, Serbia was able to exploit the lack of international consensus by means of an exit strategy that has sought to undermine Kosovo's process of state formation. The Kosovar Serbs, who make up approximately 6 per cent of Kosovo's society (Judah 2008, p. 3), were used by Belgrade as spoilers and asked to boycott Kosovo's institutions. Serbia instead set up parallel institutions inside the enclaves that competed with Pristina on service delivery, mostly in education, healthcare and social services, and ensured the loyalty of the Serbs through their provision of relatively generous financial transfers.

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<sup>7</sup> Interviews with a journalist, a newspaper editor and a think-tank representative, Pristina, 26–28 May 2010.

<sup>8</sup> To add further complexity, the ICR, Dutch diplomat Pieter Feith, is double-hatted as the European Union Special Representative, requiring him to schizophrenically switch between status-positive and status-neutral, according to the context. For an analysis and concise overview of the current, complex international presence in Kosovo, see Derks and Price, 2011.

As a result there were effectively two conduits for state–society relations in Kosovo: one between Pristina and the Albanians, and a second between Belgrade and the Kosovar Serbs in the enclaves and the north.

Finally, the dual claims of sovereignty gave rise to contested spaces, most notably the Serb-dominated area north of the Ibar river where Pristina was unable to gain or exercise effective control and where EULEX struggles to restore the rule of law. The continued existence of a legal vacuum in the still UNMIK-administered north impedes the consolidation of the Kosovar state and increases opportunities for organized crime to thrive. As a result, the north of Kosovo is a potential flashpoint that can undermine stability in Kosovo, as illustrated by bomb explosions, shootings and unrest on Mitrovica bridge in May 2010 at the time of the parallel Serbian elections.

These four status-related factors that are unique aspects of the Kosovar context continue to shape governance today, although some of them are in flux and will be explored in subsequent sections of the paper.

### **Co-option of wartime leaders**

Reintegrating and involving former fighters is a key challenge for state-builders in all post-conflict societies. Sidelining or confronting the key power-brokers and entrepreneurs in violence jeopardizes the entire state-building project in the short term, as it could turn them into spoilers who increase the risk of a relapse into violence. On the other hand, co-opting these potential spoilers and legitimizing their hold on power by bringing them into the institutional framework increases the chances for short-term stability, even while also posing long-term risks to good governance.

The international state-builders' choice in this 'spoiler dilemma' in Kosovo was clearly to pick the winners (Narten 2009, pp. 260–262), regardless of the KLA's alleged links with organized crime and involvement in the ethnic reprisals after Serbia's withdrawal. Straight after the end of the conflict, UNMIK made a conscious choice to co-opt already powerful local figures and pre-war elites such as KLA commanders and LDK leaders, rather than build up new political actors. This legitimizing of the existing powers on the ground was mostly driven by the perceived need to preserve stability and to maximize operational effectiveness.<sup>9</sup> After the withdrawal of Yugoslav forces, and for a period lasting six months, the KLA had seized key state assets and formed a 'provisional government' led by Hashim Thaçi that ran many of the country's municipalities. Even though UNMIK was initially wary of the unelected provisional government, the KLA enjoyed strong popular support, and held a virtual monopoly on the legitimate use of violence within the Albanian community.

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<sup>9</sup> US influence on UNMIK's policy in this respect is reported to have been significant (interview with former UNMIK municipal administrator, 16 January 2011).

Disarming and demobilizing the KLA and transforming it into a Kosovo Protection Corps (KPC) and later funnelling former fighters into the Kosovo Police Service (KPS) were the key priorities for UNMIK and NATO. Agim Çeku, formerly the KLA chief of staff, became head of the 5,000-strong KPC, which was supposed to become a civilian force but was popularly regarded as a ‘Kosovo Albanian army in waiting’; he was later elected prime minister. The political branch of the KLA was transformed into political parties, the most prominent being the Democratic Party of Kosovo (PDK), led by Thaçi, and later the Alliance for the Future of Kosovo (AAK), founded by his main competitor in the KLA Ramush Haradinaj. Whether in political parties, the police, the KPC or in municipalities, large numbers of former militia fighters were recycled into formal state and security personnel. According to one former municipal administrator for the UNMIK, this transition involved a clear political bargain, agreed at the highest level, between the international presence and the KLA, who were regarded as “reliable partners”, owing to their “organizational and political capacity”.<sup>10</sup>

A second aspect of the co-option strategy of the international state-builders was the aim to build coalitions between the ex-KLA parties and the inheritor of the non-violent resistance movement, the Democratic League of Kosovo (LDK). The LDK had won a landslide victory with 58 per cent of the votes during the municipal elections in 2000 and originally emerged as the dominant political force in post-war Kosovo. However, it won insufficient votes in the November 2001 elections to form a majority government, and faced a steady decline in popularity thereafter. After several months of political deadlock in 2002 the UN Special Representative and US diplomats brokered a coalition agreement between the LDK, the PDK, the AAK and a Serb and Bosnian party, with Ibrahim Rugova assuming the presidency and the PDK’s Bajram Rexhepi becoming prime minister (Van Willigen 2009, p. 135). The fact that the LDK over the past decade has always had to form coalitions together with an ex-KLA party attests both to the LDK’s increasing weakness and to the perceived necessity of bringing both these parties into the governance process.

UNMIK’s choice to work with the KLA leadership effectively incorporated in the new institutional structure a number of allegiances and informal structures that had formerly belonged to the armed resistance. Some of these were used by former commanders to establish a base for the development of patron–client networks; they have arguably also served to undergird a clan-based network of personal relations that connects current political leaders with criminal activities (Montanaro 2009; Strazzari 2008).

More broadly, the international community may be seen to have backed down on numerous occasions in the face of demands and threats of violence by radicalized groups, whether Albanians protesters in the 2004 riots or the Serb faction of “bridge-watchers” in Mitrovica North, both of which groups drew on considerable support from their broader ethnic communities (Narten 2009, pp. 272–274). In this respect, it is notable that the international administration abandoned its policy for Kosovo of “standards before status” – namely, that the country should comply with certain norms in governance and public life before seeking independence – in the wake of the 2004 riots. Implicit in this change of approach was the recognition that the potential for ethnic destabilization was so great as to justify fundamental

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<sup>10</sup> Interview with former UNMIK municipal administrator, 16 January 2011.

concessions to separatist demands, thereby conferring a certain legitimacy, in the eyes of Kosovo's Albanians, on the leadership of the more radical factions (Hehir 2009, p. 139).

According to one recent analysis, in Kosovo and elsewhere in the Balkans, the result of such concessions has been to consolidate an understanding of sovereignty that is based on aggressive, mono-ethnic regimes, which are unable "to establish a meaningful regional basis for cooperation and development" (Fawn and Richmond 2009, pp. 229–233).

### **The formal and informal economy**

Kosovo's economy has a number of features that set it apart from that of other fragile states, and they have a significant impact on state-building. The economy in Kosovo can be characterized by a general lack of economic opportunities, a lack of investment in infrastructure, high unemployment, reliance on remittances from a diaspora<sup>11</sup> and the existence of a large informal and criminal sector. Each of these will be explored in turn.

Throughout its history as part of the Roman and Ottoman empires and the former Yugoslavia, the landlocked province fulfilled an economic role as supplier of cheap raw materials from mining and agriculture. It depended predominantly on inputs from outside, and received little investment in infrastructure or industry.<sup>12</sup> As a result, Kosovo remained Yugoslavia's poorest province, with GDP per capita that was only 28 per cent of that of Yugoslavia overall in 1988 (Yannis 2003, p. 173). Many of the economic problems facing Kosovo today in terms of road and energy infrastructure can be traced to decades of neglect, disinvestment and mismanagement during the communist era (Demekas, Herderschee and Jacobs 2002; Yannis 2003, *ibid*). In addition, as a legacy of its limited domestic production capacity, Kosovo continues to rely heavily on imports: its trade deficit stood at 43 per cent of GDP in 2009, and increased in the first half of 2010 (EC 2010, p. 23).

Kosovo's already weak economy was hard hit by the collapse of Yugoslavia: its industrial production and mining output plummeted, and GDP contracted by over 50 per cent between 1989 and 1994. The conflict of 1998–99 devastated what was left of Kosovo's economy, severely damaging the country's transport and telecommunications infrastructure and destroying an estimated 30 per cent of homes, while leaving approximately 750,000 people without accommodation and almost a million displaced. The humanitarian relief effort by the international community was impressive but could not stem an outflow of human capital, mostly ethnic Serbs who had held most of the managerial and professional positions before the war.

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<sup>11</sup> There are no conclusive figures on the size of the Kosovar Albanian diaspora; Judah estimates that in the 1990s the largest numbers resided in Germany (230,000–350,000), Switzerland (150,000), Sweden (30,000) and Austria (20,000) (Judah 2000, p. 69).

<sup>12</sup> Some investments were made after 1945, most notably in the Trepca mining complex in the north and in the manufacturing, metallurgy and energy industries, but these collapsed once Yugoslavia's economy began to decline under the weight of its burgeoning external debt.

Large-scale international assistance and reconstruction programmes managed to shore up the Kosovar economy, but as aid flows started to drop the economic revival slowed. Economic statistics are notoriously unreliable as a guide to living standards (Judah 2008, p. 106), but the IMF estimates the current GDP per capita at only 6.9 per cent of the EU-27 average. The World Bank estimated in 2007 that approximately 45 per cent of Kosovo's inhabitants lived in poverty, while 16.7 per cent lived in extreme poverty (World Bank 2007). Naturally, there is no broad-based capitalist class nor a stable taxpayer base in Kosovo.

In addition, high unemployment has been a consistent feature of Kosovo's economic underdevelopment. As far back as the 1970s and 1980s, many inhabitants emigrated from Kosovo in search of a better life elsewhere in the Federation or outside, leading to the emergence of a sizable and well-connected Kosovar Albanian diaspora (Tütsch 2005, pp. 10–12). The abrogation of Kosovo's autonomy in 1989 and Belgrade's exclusion of ethnic Albanians from the public sector led to a surge in unemployment, estimated to have reached 70 per cent in 1995 (Yannis 2003, p. 174). This massive rise in joblessness among ethnic Albanians fuelled the conflict in two ways: by exacerbating already existing economic inequalities between Albanians and Serbs, and by providing the KLA with a rapidly growing pool of angry young men willing to fight for an independent Kosovo.

The combination of insufficient employment opportunities and rapid demographic growth continues to pose problems. More than 70 per cent of the youth population are unemployed and more than 80 per cent of the current total jobless are registered as long-term unemployed (EC 2010, p. 24). Although some of the unemployed may work in the large informal sector, the labour market is simply unable to absorb around 30,000 new entrants per year. Labour migration therefore remains an indelible part of the economic landscape: remittances constituted 12.9 per cent of GDP in 2009 (Ibid).

Finally, the combination of international sanctions against Yugoslavia, large-scale unemployment, Serb control over the public sector and the aforementioned need of Kosovar Albanians to finance their parallel institutions caused a sizeable informal economy to flourish in Kosovo during the Yugoslav era (Dziedzic et al. 2002, p. 9). From this time onwards, Kosovo's 'informal economy' involved both legal economic activities deliberately hidden to avoid taxation, and criminal activities such as drug dealing, smuggling and prostitution. All of these boomed in the same period as a result of the rapid increase in the size of the Kosovar diaspora across Western Europe, affording close-knit Albanian networks opportunities in the heroin trade. One estimate, emanating from Interpol, suggested that half the funding for the KLA may have come from drug trafficking (Dziedzic et al. 2002, p. 10; UNODC 2008, p. 52). A study commissioned by the European Agency for Reconstruction estimated the value of the entire informal economy at between €605 and €793 million annually from 2004 to 2006, representing approximately one-quarter to one-third of Kosovo's total GDP. About half of this was estimated to derive from illegal activities (EAR 2007).

*The criminal economy*

Global figures, however, conceal the features of the informal and criminal economies that are most relevant to the state-building process. While accurate information on the size of these clandestine sectors is hard to come by, and sometimes speculative, it is still possible to track the broad changes in criminal activity, the nature of the connection between informal economies and public political life, and trends that may alter these linkages. These issues are made all the more important by acute domestic and international concern over the origins of much of the current Kosovar political class. In particular, what relevance must be given to the alleged criminal activities in the 1990s, and beyond, of militia commanders and their allies who are now in positions of supreme political power in Pristina?<sup>13</sup>

While much of the evidence remains circumstantial, numerous experts in intelligence and political analysis concur that the former leaders of the KLA, including current prime minister Thaçi, and AAK opposition leader (and former prime minister) Ramush Haradinaj, forged strong links with the criminal underworld. Reports from foreign intelligence agencies, including KFOR intelligence,<sup>14</sup> as well as the recent ‘Marty report’ for the Council of Europe,<sup>15</sup> have asserted that Thaçi and other members of his government were leaders of Kosovo’s criminal rackets, and as a result were involved in a number of barbaric acts, including a scheme to harvest and sell human organs.

The war period of the 1990s, when funds to buy weapons depended on transnational crime, constituted a high point for the political–criminal nexus. However, the period immediately after the retreat of Serbian forces is possibly more significant for the future character of the Kosovar state. The KLA at this time began the process of turning into a formal political force, running municipal affairs and demobilizing its troops into the KPC. At the same time, the absence of clear authority and the slow build-up of UNMIK capacity enabled criminal activity rooted in these municipalities to flourish and local economic assets, such as real estate and public services,<sup>16</sup> to be seized. The western Dukagjin region, controlled by groups linked to Haradinaj, was a centre for petrol and cigarette smuggling. Drenica fell under the authority of Thaçi’s allies, becoming a locus for factional and ethnic violence. Gniljane, in the east, came under the control of KLA commander Shaban Shala, a close ally of Thaçi. It was known at the time as the entry point for heroin into Kosovo (ICG 2000).

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<sup>13</sup> For a brief synopsis of EU policy options in the light of recent developments, see ‘Time for Justice in Kosovo’. *CEPS Commentary*. 6 January 2011. Available online: [www.ceps.eu/book/time-justice-kosovo](http://www.ceps.eu/book/time-justice-kosovo)

<sup>14</sup> See, for example, “Report identifies Hashim Thaçi as ‘big fish’ in organized crime”. *Guardian* 24 January 2011.

<sup>15</sup> A Council of Europe report compiled by Dick Marty, presented on 16 December 2010, alleged that a Drenica KLA group (under Thaçi) was responsible for the murder and organ harvesting of Serbs and Albanians. The result of two years of investigation, this report draws upon interviews, several intelligence sources, and previous investigations completed by other countries, including Germany and Serbia. Available online: <http://assembly.coe.int/ASP/APFeaturesManager/defaultArtSiteView.asp?ID=964>

<sup>16</sup> Including municipal buildings, waste collection, cemeteries and market areas. Interview with former UNMIK municipal administrator.

One possible interpretation of this conjunction between crime and local militia leadership is that an enduring rent-seeking link formed between the two, persisting in current Kosovar political life. A leaked report from the German intelligence service asserted in 2005 that there were “close links between politics, economics and internationally operating crime structures in Kosovo”, and that organized crime in the region constituted “a high threat potential for Europe” (German Intelligence Service 2005). EULEX, meanwhile, has made combating organized crime one of its top priorities. The ICR has described it as “the principal challenge in the establishment of the rule of law”.<sup>17</sup> Rhetorical zeal for tackling organized crime in Kosovo contrasts starkly with the alleged ambivalence of the domestic political class. Tellingly, European Commission’s 2010 progress report stated – in no uncertain terms – “Political interference ... hinders effective fight against organised crime.” (EC 2010a, p. 55).

In spite of the apparent strength of this evidence, the supposition that political leaders and criminals enjoy a fluid collaboration based on strong and lasting mutual interests needs to be nuanced. In the first place, the post-war situation in the KLA-dominated municipalities was one of limited real authority, in which new leaders had to manage local affairs in the absence of any formal security or judicial apparatus, and in the presence of powerful militia interests. These contexts favoured the emergence of rival interests and factions, which local leaders would support, or merely tolerate, out of political necessity. A parallel can possibly be found with the reformist Serbian prime minister in 2000, Zoran Djindjic, who has admitted that he had no option but to engage in negotiations with organized crime (Glenny 2008, p. 54). One member of Thaçi’s team of advisers likewise maintains that the prime minister is eager to push a process of political modernization and renewal, but is constrained by the power of more traditional factions within the PDK.<sup>18</sup>

A second consideration is also crucial. The links between politicians and crime fluctuate according to the nature and extent of criminal activity. Substantial evidence, assembled by the United Nations Office on Drugs and Crime (UNODC), points to a sharp reduction in Albanian involvement in the drug trade to Western Europe and in human trafficking over the past decade. Ethnic Albanians, of which Kosovars constitute a large part,<sup>19</sup> were estimated by Interpol to control 70 per cent of the heroin market in Germany and other Central European countries in 2000 (UNODC 2010, p. 252). However, from 2000 to 2006, the number of suspected Albanian traffickers in Germany fell by a factor of five (Ibid). Neither Albanians nor Balkan groups are even mentioned in recent police analyses of organized crime in Germany (Ibid), although the Balkan route remains a major channel for the entry of heroin into Western Europe.<sup>20</sup> Similar downward trends are found in ethnic Albanian involvement, both as victims and as culprits, in human trafficking and illegal migration.

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<sup>17</sup> Speech to the American University of Kosovo, 27 April 2010.

<sup>18</sup> Interview, Pristina, 31 May 2010.

<sup>19</sup> Ethnic Albanians from Kosovo make up roughly one-third of the ethnic Albanian population in the Balkans (*CIA World Factbook. 2011*). Of the ethnic Albanians in Western Europe, migrants from Albania are the most important group in Italy, while Kosovars are dominant in many other countries (UNODC 2008, p. 65).

<sup>20</sup> An estimated 87 tonnes of heroin passes through South-East Europe every year, suggesting that corruption of law enforcement and local officials is endemic across the region. Despite the apparent reduction in the activities of the transnational ethnic Albanian mafia, Albanians are still heavily involved in heroin markets in Italy and Switzerland (UNODC 2010, pp. 119–125).



In short, an array of police and judicial evidence indicates that the face of crime in Kosovo is changing, and with it the nature of its relations with the political class and state authorities. At the same time, the European Commission (EC 2009), expert analyses (YIHR 2010; IKS 2010), opinion surveys (Transparency International 2010) and numerous interviews have iterated the growing popular perception within Kosovo and the EU that corruption within the public sector is on the rise. According to one international official involved in criminal investigations in Kosovo, the career tracks of some middle- and high-level officials in the KLA have proceeded from wartime accumulation via transnational trafficking to political power, and from then into business and to white-collar organized crime.<sup>21</sup> Unfortunately, the lack of judicial and police capacity make it very difficult to track this evolution, or the precise roles played by individual figures.

The characteristics of this new style of corruption will be discussed in depth in Chapter 4. However, it is worth noting two general points here. First, analysis of criminal activity from the late 1990s onwards indicates that there has been a trend towards rent-seeking in an enlarged state sector through the use of informal networks between public and private interests. As a result, the political–criminal nexus – if we are to assume that this exists, and has remained over time – has changed its activities, its use of violence and its outlook on the state. In sum, it can be regarded as having undergone a major transformation.

At the same time, the Kosovar state currently displays a marked unwillingness to hand over audit powers to neutral arbiters, lighten the regulatory burden for new businesses, strengthen the judiciary or encourage the development of an independent private sector (World Bank, *Doing Business 2011*; OECD 2010c, p. 278). In these respects, the current political leadership appears reluctant to divest itself of the sort of powers, mechanisms of personal allegiance and pursuit of mutual profit that it is able to exercise within an informal economy.

### **Expectations about state–society relations**

Kosovo has considerable experience in handling dual systems of governance, in which formal and informal rules and economies coexist. Centuries of Ottoman imperial and Yugoslav socialist rule shaped assumptions about the citizen–government relationship that persist in contemporary Kosovo, including a general distrust of institutions, a preference for unofficial economic transactions and reluctance to participate in the political process.<sup>22</sup>

Structures of political authority were superimposed on a set of Albanian social relations, the so-called *kanuns*, that were more geared towards customary codes of behaviour and loyalty, and were regarded by inhabitants as more binding than Ottoman or Yugoslav law (Montanaro 2009, p. 8). When joined to the experience of imperial or authoritarian rule

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<sup>21</sup> Interview with EULEX official, 25 August 2010.

<sup>22</sup> Kosovo's historical trajectory that influences its governance system today far precedes the period of state-building after 1999 but unfortunately goes beyond the scope of this paper; for excellent overviews of the impact of Kosovo's past on its present, see King and Mason (2006); Judah (2000) and others.

from remote metropolises, this set of traditional social norms, emphasizing above all else the integrity and honour of the community, encouraged the emergence of local patrons and overlords able to rule localities and negotiate with the central power.

Poverty served to perpetuate this system. As Mushtaq Khan and other political scientists have argued, the level of economic development of a country shapes the way political entrepreneurs organize and mobilize supporters. Where the structure of social classes associated with industrialization and capitalism is weak – as it is in Kosovo – the possibilities for organizing broad social coalitions in support of a programme of economic redistribution are also weak. Instead, the preference for factional client networks is strong. “The only viable redistributive strategy for developing country political entrepreneurs in the absence of any fiscal or regulatory space is to organize enough organizational muscle to be able to capture resources through a combination of fiscal, off-budget and even illegal means” (Khan 2005, p. 718). The rise to prominence of such ‘entrepreneurs’ in a context of armed insurgency and transnational crime served to consolidate these approaches to accumulating political power early in Kosovo’s transition.

A competitive political system, which emerged in post-conflict Kosovo primarily through the rivalry of the PDK and LDK, also correlates with the deepening of patron–client ties. But it is the tradition of politicized and partisan control of the economy that is essential to the perpetuation of parties and organizations that are anchored in client-based networks (Kitschelt and Wilkinson 2007, pp. 36–40). As Chapter 4 shows, recent evidence indicates that discretionary control of the levers of economic governance are becoming the mainstay of the ruling party’s client network.

Patron–client ties thus appear to be underpinned by a cluster of factors in Kosovo. There is a firmly held public conviction that the ‘real decisions’ are taken outside the formal institutional framework, either by an external actor or by powerful figures who may not even hold important positions within government. This belief has been reinforced by more than a decade of international administration and supervision, during which officials were not accountable to Kosovo’s population but rather to their respective headquarters in Western capitals.

While it is clear that reformist political forces are now emerging (see next chapter), and that citizens and political leaders bear primary responsibility for the decisions they take, widespread and engrained distrust of the state means that public goods tend to have little credibility; it is simply assumed that private individuals will eventually acquire these for their private benefit.<sup>23</sup> Kosovo’s population is not used to holding politicians to account. Its expectations of government are either unrealistic or overly cynical, or even both at the same time: as one interlocutor put it, “people have high expectations but also expect to be disappointed”.<sup>24</sup>

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<sup>23</sup> Montanaro 2009, p. 9.

<sup>24</sup> Interview with international official, Pristina, 25 May 2010.

### 3. Political competition in Kosovo

Kosovo's main political parties are essentially personality-driven patronage networks that buy or secure the loyalty of clients in various ways (Khan 2005, pp. 718–719). A number of these parties are also led by pre-war and wartime elites who have been institutionalized under international tutelage.<sup>25</sup> As a result, they display some characteristics that are reminiscent of their experience of armed conflict. Nearly all the main parties have intelligence services that date from the war and are widely believed to link public leaders with shadowy business activities. At the same time, these organizations also operate in formal political life, participating in numerous official institutions and competing in a political marketplace that appears to be open to new entrants and operates through a fair electoral process (Global Integrity 2009, pp. 30–31).

The current leading party is the Democratic Party of Kosovo (PDK), headed by prime minister and former KLA leader Hashim Thaçi, who prevailed in the snap elections of December 2010. PDK was the incumbent leading party, after winning the elections of 2007 and subsequently forming an uneasy coalition with the Democratic League of Kosovo (LDK). The coalition was abruptly dissolved in early November 2010 after the leader of the LDK, Fatmir Sedjii, resigned as president.<sup>26</sup> After the 2010 elections, the PDK and the LDK re-emerged as the country's leading parties, with 34 and 27 seats respectively.<sup>27</sup> The elections also brought a new party into parliament: Lëvizja Vetëvendosje (Self Determination).<sup>28</sup> Vetëvendosje rose to the third position by gaining 14 seats, narrowly edging out the Alliance for the Future of Kosovo (AAK) with 12 seats. Alliance for a New Kosovo (AKR), founded by millionaire businessman Behgjet Pacolli, gained 8 seats and appeared to be the only party willing to form a coalition with the PDK. However, this was on

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<sup>25</sup> The clear exception to this is Lëvizja Vetëvendosje (Movement for Self-Determination) Party, which opposes international supervision and institutions formed under international auspices, including the CSP.

<sup>26</sup> The Constitutional Court had ruled that Sedjii could not simultaneously lead his party and be president.

<sup>27</sup> The Kosovo Parliament has 120 seats, with 20 seats reserved for minority representatives.

<sup>28</sup> Vetëvendosje campaigned on a platform of strict sovereignty, socio-economic development and state-building. Its political programme (in English) is available online:

[www.vetevendosje.org/repository/docs/Programi\\_i\\_shkurte\\_anglisht.pdf](http://www.vetevendosje.org/repository/docs/Programi_i_shkurte_anglisht.pdf)

the strict condition that Pacolli would become president, a demand to which the PDK eventually acceded. Pacolli was later forced to step down, although the coalition survives.

While most parties claim to occupy the centre-right of the political spectrum, they generally lack any distinguishing ideology; the most relevant divide is between those parties that have their roots in the Kosovo Liberation Army (KLA) and those that do not (YIHR 2010, p. 14). The main parties are complemented by a range of smaller parties, representing Kosovo's non-Albanian communities such as the Serbian Liberal Party (SLS) or particular interest groups such as the Democratic League of Dardania (LDD), a splinter group from the LDK led by former parliamentary speaker, Nexhat Daci.

In recent years the PDK has clearly emerged as the leading political force in the country with influence that far exceeds its formal power base of 34 seats. Most previous research locates the PDK's source of loyalty in the valley of Drenica, in central Kosovo. Yet the results in the November 2009 and December 2010 elections show that the PDK has successfully extended its reach to other areas throughout the country, including the strategically important Prizren and Gnjilane. In 2009, it gained control of 14 out of 36 municipalities, against 7 held by the AAK and 7 held by the LDK, and won the largest number of nationwide votes, with 32 per cent of the ballot (Freedom House 2010, p. 278). In 2010, official results show the PDK having expanded even farther, winning 21 of 38 municipalities.<sup>29</sup>

The PDK has professionalized itself and tried to shed its thuggish ex-KLA image, hiring an Israeli public relations company and co-opting many Pristina-based intellectuals and influential regional figures to expand its voter base and client network beyond the rural population of its Drenica heartland. The PDK's expansionism has led to a divide within the party between traditional hardliners and modernizers. This divide is uneasily straddled by Thaçi, who tries to retain tight control together with a small group of individuals from his KLA past.<sup>30</sup> As will be discussed in more detail in the next chapter, the PDK has managed to capture both the public and the private sector through the strategic appointment of party loyalists and personal allies of the leaders (ÇOHU 2008, YIHR 2010). However, the PDK's increasingly authoritarian methods – evident, for example, in recent battles to control the news agenda through selective government advertising in pro-PDK news outlets<sup>31</sup> or outright intimidation of journalists<sup>32</sup> – and the perceived moves of its leaders to accumulate wealth through misuse of public funds have caused public discontent. Possible investigations by EULEX into the atrocities allegedly committed by high-ranking KLA commanders under Thaçi could in principle endanger an even larger part of the PDK's leadership.

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<sup>29</sup> The LDK came closest to this number, but still managed to control only five municipalities across the country. Results by municipality are published by the Central Election Commission online: <http://www.kqz-ks.org/SKQZ-WEB/en/zgjedhjetekosoves/rezultatetzp.html>

<sup>30</sup> Interview, Pristina, 31 May 2010.

<sup>31</sup> For an overview of the politicization and governmental patronage of print media, see OSCE 2010.

<sup>32</sup> In October 2009 the Director of the European Broadcasting Union wrote a strongly worded letter to Thaçi reproaching the government for its overt interference in and political pressure exerted on the media. Available online: [http://www.ebu.ch/en/union/news/2009/tcm\\_6-66520.php](http://www.ebu.ch/en/union/news/2009/tcm_6-66520.php).

The LDK (27 seats) is the main non-KLA party in parliament and used to be Kosovo's largest political party under the leadership of the iconic Albanian leader Ibrahim Rugova. The LDK operated the Albanian parallel institutions in Kosovo during Milosevic's rule from 1991–99 and in this way inherited a broad-based party structure. Initially profiting from Rugova's immense popularity in the immediate aftermath of the war, it was widely supported by urban Kosovars and held most of the major cities. However, after Rugova's death in 2006 the party struggled to identify a successor and began to fragment; as a result, the LDK has lost much of its sway to the PDK, which increasingly co-opted local leaders and gained ground in formerly LDK-dominated urban centres such as Prizren and Gjilan/Gnjilane.<sup>33</sup> Its current leader, Fatmir Sejdiu, is challenged internally for inaction and externally for his complicity with the rampant corruption associated with the Thaçi government.

Another major party on Kosovo's political scene, the Alliance for the Future of Kosovo (AAK), has its power base in the Dukagjini region in the west of the country and, like the PDK, it has embraced modern campaign and marketing techniques.<sup>34</sup> It is essentially built around the popular figure of Ramush Haradinaj, an ex-KLA commander who was indicted for war crimes by the International Criminal Tribunal for the former Yugoslavia (ICTY) but acquitted in 2008. The AAK was in government from 2004 to 2007 and was accused – like all governing parties in Kosovo – of widespread corruption and punished by voters during the 2007 elections for the Kosovo Assembly, in which it retained only 12 seats. The 2010 elections brought the party no gains; it held on to its 12 seats but slipped from 3rd to 4th place among the main political parties. Its funding network is based around five major private companies, including the supermarket chain ETC and the influential Dukagjini Corporation, which supports the AAK's campaign through its media holdings and direct party finance.<sup>35</sup> The bitter rivalry that has developed between the PDK and the AAK in general, and between their leaders Thaçi and Haradinaj in particular, has seriously disrupted the political process, putting both parties on a trajectory of increasingly acrimonious confrontation that includes the use of violent language and threats, even in parliament (YIHR 2010, p. 9). The re-indictment of Haradinaj by the ICTY in July 2010 on the grounds that witnesses at his previous trial had been intimidated came as a major blow to the AAK.<sup>36</sup>

However, additional political forces are emerging and deserve particular mention. One is the radical movement for self-determination "Vetëvendosje" that was founded by activist-cum-politician Albin Kurti in 2005. The party has vociferously campaigned against all forms of international supervision in Kosovo (specifically, EULEX and the ICO) and backed instead an "organic relationship" between the state and ethnic Albanians.<sup>37</sup> Vetëvendosje was originally a fringe group pushing a nationalist agenda through street protests and damage to the cars and property of international agencies. More recently, it has gradually become a broader political movement that uses symbolic actions (such as spray-painting the Kosovo

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<sup>33</sup> Interview with investigative journalist, Pristina, 26 May 2010.

<sup>34</sup> Interview with AAK campaign manager, Pristina, 27 May 2010.

<sup>35</sup> Interview with AAK campaign manager, Pristina, 27 May 2010.

<sup>36</sup> Haradinaj was arrested and escorted to The Hague for an initial court appearance on 21 July 2010.

<sup>37</sup> Interview with Vetëvendosje Head of the Committee for Politics and Legal Affairs, 27 May 2010.

Assembly with sewage) to express widespread popular dissatisfaction. Presenting itself as an alternative to the tainted political elite, it won more than 12 per cent of the poll in December 2010, becoming the country's third-largest party and an influential actor on the nationalist side of the political spectrum.

Finally, there is a wide range of civil society actors who criticize the government. Among them, some of the more prominent NGOs and media professionals are forming coalitions that have emerged as nascent political forces. A coalition of 14 NGOs, including the think-tanks KIPRED, the Foreign Policy Club, Kosovo Women's Network, the Institute for Advanced Studies (GAP) and others sent a joint letter to EU's High Representative for Foreign Affairs and Security Policy Catherine Ashton in February 2010 imploring her to ensure that "EULEX has sufficient capacities and political support to fulfil its mandate", particularly with regard to corruption and organized crime.<sup>38</sup>

In principle, these NGOs are non-political actors that aim to form a countervailing power to the government. But there are indications that some crossover between civil society and political opposition is taking place. Fryma e Re (FER) or "New Spirit", led by former GAP executive, Shpend Ahmeti, and by the previous head of KIPRED, Illir Deda, emerged as a political entity in October 2010, just before the snap elections. Despite gaining some support in Pristina, FER failed to reach the 5 per cent threshold required for parties to participate in government. The drawback facing these organizations is their limited financial and electoral power base, which is mostly confined to the urban environment of Pristina and therefore competes with the LDK; they are not likely to make major inroads into the more rural areas and lack resources to fund electoral campaigns that can compete with the existing parties. Thus, the barriers to entry into Kosovar politics are high. Many prominent and credible NGOs may opt to stay out of politics and continue to lobby the international community to intervene on their behalf.

### **Zero-sum political competition**

The animosity between the two ex-KLA commanders epitomizes the zero-sum and hyper-masculine nature of Kosovar politics, in which there is very little space for women to contribute. Kosovo has traditionally been a patriarchal society in which women are mostly confined to the domestic sphere while men act as decision-makers and protectors.

Formally there is a wide array of mechanisms to promote inclusion of women, including a 30 per cent quota for women in the Kosovo Assembly and a number of laws on gender equality, anti-discrimination and even a Kosovo Programme for Gender Equality, adopted in 2008. However, regardless of these formal structures and a host of international and UN agencies that work on gender mainstreaming,<sup>39</sup> women's political participation remains at a low level,

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<sup>38</sup> The letter can be found on KIPRED's website: <http://www.kipred.net/web/eng.php?cid=2,10&id=23>

<sup>39</sup> For detailed coverage of the mechanisms and international organizations promoting participation of women in Kosovo, see Kosova Women's Network 2009, as well as Qosaj-Mustafa 2010.

They are generally not included in the highest decision-making echelons and tend to be marginalized within political party structures. For example, out of the 17 ministries that existed in 2009, only two were headed by women.

Furthermore, the war-torn past of Kosovo and the emergence of its state and national elite through an armed insurgency has contributed to the creation of a testosterone-driven political culture, in which violence and militarized struggle are glorified as parts of the national narrative. These norms are replicated and passed on through the generations via the education system, radical Albanian outlets in the media, mechanisms of remembrance such as new KLA monuments – notably that to the KLA martyr Adem Jashari in Skenderaj, Drenica – and the ubiquitous images of Kalashnikov-bearing warriors pasted on buildings or etched into gravestones. The political vernacular in the Balkans in general, and Kosovo in particular, is one of striving for zero-sum dominance, rather than mutual respect and compromise. Some interlocutors referred to a ‘macho culture’ in which imposing one’s will on a weaker party is seen as the political ideal.<sup>40</sup> This becomes evident in the attitude of the Kosovo Albanian regime towards Kosovo’s minority communities, who are begrudgingly tolerated because of heavy international pressure but are nonetheless occasionally reminded of Albanian supremacy. Examples of rash unilateral actions are the dismantling of Serbian telecommunication towers in May 2010,<sup>41</sup> or symbolic stabs such as the glorified scenes of Albanian national myths in the building of the Kosovar assembly (Xharra 2005).

In addition, this non-compromising attitude is also seen in intra-Albanian political behaviour. The media, particularly the many news outlets that are part of the network of patronage of political parties, are prone to use hate speech and even incitement to violence; some papers linked to the PDK such as *Epoka e re* and *Infopress* have a tendency to smear opponents of the regime as Serbian collaborators.<sup>42</sup>

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<sup>40</sup> Interview, Kosova Women’s Network, Pristina, 26 May 2010.

<sup>41</sup> Interviews with ethnic Serbs in Gracanica, May 2010.

<sup>42</sup> One infamous case involved cryptic death threats printed in *Infopress* against Jeta Xharra, journalist and director of Balkan Investigative Reporting Network (BIRN), after she produced an investigative report of – ironically – the government’s control over the media.





## 4. Key trends in governance

The independence of Kosovo, and the rapid assumption of sovereign powers by Pristina, have fundamentally altered the character of relations between the state and the population. Kosovo's institutional, political and economic inheritance, discussed in Chapter 2, raises serious obstacles to the process of building an open and accountable state, and appears to underpin a continuation of patronage politics, in which serious fraud and other crimes are protected under a blanket of impunity.

This legacy is undoubtedly a component part of the current landscape of governance: according to the European Commission, "corruption remains prevalent in many areas in Kosovo and continues to be a serious concern" (EC 2009, p. 11). But it is also indisputable that the declaration of independence has deprived certain political actors of some of their symbolic recourses and scapegoats. Competition for electoral support, the rapid modernization and creation of party political structures, the rising opposition to authoritarian styles of government and the southern Serb enclaves' new approach to Pristina (though not embraced by the north) all constitute steps on the way to a more dialogue-based and performance-focused approach to democracy in Kosovo. Last of all, the future possibility of EU membership may act as a powerful incentive on politicians and public alike.

In short, this analysis will suggest that there are sharply contrasting dynamics in the Kosovo polity, and that the current anxiety over the closure of the political space should not obscure future possibilities for improvements to governance.

### **A deepening crisis of legitimacy**

A lack of legitimacy contributes to state fragility because it undermines state capacity and authority (OECD 2010b). As in many states, the sources of legitimacy of Kosovo's state are multifaceted and vary over time. In the period up to the declaration of independence, the legitimacy of the institutions was 'internationalized', and Kosovo's then Provisional Institutions of Self-Government (PISG) were in the comfortable position of being able to blame the international community and the unresolved status issue for any lack of progress. Even when UNMIK had started to transfer to the PISG a wide range of competencies in service delivery, such as healthcare and education, Kosovar politicians were not too keen to

debate bread-and-butter governance questions, preferring to focus instead on status-related issues (King and Mason 2006, pp. 120–121). Society's expectations of its own politicians were minimal during this period. Any anger about the lack of economic opportunities or quality of public goods could easily be directed towards international state-builders, Serbia or Kosovo's minority ethnic communities, as became obvious in the 2004 riots. Kosovar politicians made good use of the accountability vacuum to strengthen their patronage networks through illicit means, a habit that the international administration was unable and unwilling to stop out of fear of jeopardizing stability. In the words of a Kosovar anti-corruption analyst, "it was this confusion concerning the lines of accountability that was the reason why Kosovo became probably the most extreme case of corruption and organized crime in the Balkans".<sup>43</sup>

In late 2007 and early 2008, failure by these political forces to provide sound public services was more than compensated for by the attainment of Kosovo's single most awaited objective: independence. For a period of little over a year, virtually all layers of Kosovar society rallied behind Thaçi's PDK as the party that led Kosovo to independent statehood, regardless of other weaknesses or indiscretions. A wide number of sources make it clear that for Kosovo's society the 'honeymoon period' has given way to deep disappointment and disaffection with its rulers (YIHR 2010, p. 18). The United Nations Development Programme's regular 'early warning' polls of trust in Kosovar institutions show a precipitous decline in citizens' satisfaction: the approval ratings for the government plummeted from 56 per cent in September 2009 to 29 per cent in April 2010, while those for prime minister Thaçi have been halved, from over 70 per cent in May 2008 to 36 per cent in April 2010 (UNDP 2010). In the words of an adviser to the PDK, "there is a severe legitimacy crisis in Kosovo that revolves around Thaçi".<sup>44</sup>

Both of the government's scapegoats are losing relevance rapidly. Belgrade's opposition and the non-participation of Kosovo's Serbs are no longer accepted as excuses for poor government performance, as the Serbs in the enclaves increasingly cooperate and Serbia's ability to operate parallel structures recedes. The second strategy of deflecting blame on the internationals also no longer resonates (UNDP 2010a, p.13). Thaçi is still opposed to the 'supervised' aspect of Kosovo's independence, claiming in July 2010 after the ICJ ruling that the role of the international presence in Kosovo should change from supervisory to supportive. In the run-up to the snap elections, Thaçi unexpectedly announced that the government would raise public sector wages by between 30 and 50 per cent. The move, which many criticized as a thinly veiled and fiscally irresponsible attempt to gain popularity, was met with strident disapproval from the IMF, the ICR and the European Commission's Directorate-General for Economic and Financial Affairs. After much international diplomatic pressure to reconsider, the government rescinded the ruling, announcing on 3 February 2011 that a decision on the wage increase would await the approval of the new budget. As Thaçi had supposedly executed the decision on 6 January, this reversal came as a shock to many and left yet another stain on the PDK's integrity.

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<sup>43</sup> Interview by John Rosenthal with Avni Zogiani for *World Politics Review* on 2 February 2008, <http://www.worldpoliticsreview.com/articles/1559/corruption-and-organized-crime-in-kosovo-an-interview-with-avni-zogiani>

<sup>44</sup> Interview, Pristina, 31 May 2010.

Nevertheless, nearly all competencies have been transferred to the government, and both the ICO and EULEX are reluctant to use their executive authority. With the exception of a few high-profile investigations, EULEX's main investment of resources has been in "monitoring, mentoring and advising" security and judicial systems (Derks and Price 2010). ICO officials engage in frequent formal and informal dialogue with government leaders, but its director Pieter Feith's explicit aim is an "end state of the ICO in perhaps two years, three years".<sup>45</sup>

The receding sources of international support and symbolic legitimacy mean that the authorities should derive their entitlement to govern increasingly from service delivery and genuine citizen participation. This is happening to some extent, owing to large-scale government investment in infrastructure: for example, many kilometres of road are being built (1,000 km from 2008 to 2009, according to the Ministry of Transport), albeit particularly in areas supportive of the PDK.<sup>46</sup> However, the population grumbles as the quality of service delivery is compromised by rent-seeking in the use of public funds. For example, there are many complaints over low-quality asphalt being used so as to increase the profits from highway construction. Approximately 73 per cent of respondents to Transparency International's Global Corruption Barometer in 2010 perceived that the level of corruption had increased in the past year, with political parties and the judiciary being considered the most corrupt institutions (Transparency International 2010). Upon news that the offices and home of Fatmir Limaj, the Minister of Transport and Communications, were being raided following corruption allegations, the website of newspaper *Koha Ditore* received over 1,500 comments, some of them calling for the minister to be lynched.<sup>47</sup>

Deep unhappiness with the performance of its government, however, has not translated smoothly into a more engaged and demanding citizenry. The wave of wage protests in February 2010 was a rare exception, as police and health workers and other public sector employees, mobilized by increased trade union activism and new, more militant leadership, took to the streets to protest against low salaries. Teacher walk-outs briefly flared in February 2011 at the stalling of promised public wage increases, but agitation was calmed after the government told the teachers' union that increases might be paid retrospectively after a decision is taken on the budget. The vulnerability and dependence of public sector employees in light of the country's dire economic situation still restricts their bargaining power (YIHR 2010 p. 41).

The limits to this incipient public mobilization are considerable. The Kosovo authorities do not rely on the population for taxation purposes, given the absence of a stable taxpayer base and the large informal economy, and this limits any sense of a negotiated settlement between political authorities and the country's citizenry (OECD 2008). Tax income is just a small part of the state budget, with as much as 65 per cent of state revenue derived from customs duties. Remittances (12.9 per cent) and official transfers (6.4 per cent) together make up nearly one-fifth of Kosovo's GDP (EC 2010a, p. 24). This disconnection between state and

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<sup>45</sup> Speech to American University of Kosovo, 27 April 2010.

<sup>46</sup> Marzouk, Lawrence. 2010. "Fatmir Limaj, Kosovo's Road-builder". *Balkan Insight*, 6 May 2010.

<sup>47</sup> Interview with Flaka Surroi, editor *Koha Ditore*, 26 May 2010.

society leads to a spiral of mutual detachment, as the population does not really expect to receive public services and the state does not really intend to deliver them. Within this context, a deepening of the reliance on patron–client networks is both an ingrained expectation and a rational response by the elite and the general population. The state might not have a reputation for delivering public goods, but it is still a recognized source of privately negotiated benefits.

The international state-builders face a difficult choice when trying to increase the legitimacy of Kosovo’s institutions. Confronting the government’s patronage networks head-on through direct international involvement and the use of the ICO’s and EULEX’s executive authority could stir nationalist sentiment and deflect blame for any state failings towards the international presence. Not interfering, on the other hand, leaves Kosovo with an underperforming public sector that is preyed on by political networks and increasingly mistrusted by Kosovo’s society. For the moment, international officials appear to be adopting a strategy of tolerance towards low-level graft, in terms of commissions on public contracts and kickbacks, allied to much harsher treatment of larger-scale corruption (“we can accept five per cent, but 20 per cent is too much”<sup>48</sup>).

The key challenge for state-builders is to increase the capacity of Kosovo’s society to hold its own government to account, both through the use of formal and institutionalized checks and balances and through lobbying and non-violent political mobilization. Ironically, a radical protest movement such as Vetëvendosje seems to be considerably more effective at applying social pressure on the authorities than internationally sponsored civil society organizations, which still tend to complain to the internationals instead of to their own authorities.

### **Corruption and patronage: Kosovo’s new political marketplace**

Both the sources of loyalty and the voting patterns within Kosovo are becoming more fluid and volatile. Six years ago the AAK and the PDK were still characterized as “virtually regional parties”, and the then Rugova-led LDK as the only real ‘national’ Kosovo Albanian party (ICG 2005, p. 12). At that time, voters mostly cast their ballots along regional and clan lines. Many interlocutors confirm that these traditional affiliations are being gradually replaced by access to state revenues and power as the key lever of patronage. The results in the December 2010 elections showed that regional and clan ties still play a substantial role in politics, with the AAK managing to win its western strongholds in the Dukagjini region, the LDK maintaining control of Pristina and its surrounding areas, and the PDK unassailable in its Drenica heartland. However, electoral victory increasingly depends on a combination of buying the support of influential local leaders, heavy financial investment in electoral campaigns, control over the media and manipulation of the voting process through intimidation and physical control over polling stations.

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<sup>48</sup> Interview with senior international official, Pristina, 26 May 2010.

The PDK has excelled at all of these techniques, thanks to its control over the public purse strings and, since early 2009, the media. Its ability to provide employment in the public sector through patronage, and the superior knack of the party's intelligence service, SHIK, to influence key individuals are other assets that the PDK wields. Thaçi himself intervened in the 2009 election campaign by promising extra government investment in PDK-controlled municipalities, in an overt show of patronage. Past evidence suggests that municipalities led by the governing parties obtain more government funding than those run by the opposition: the municipality of Skenderaj, ruled by ex-KLA fighter and prominent PDK mayor Sami Lushtaku, received 15 times its municipal budget in central government expenditure. Only PDK-dominated villages in the western AAK stronghold of Peja receive infrastructure investment from the national budget (YIHR 2010, pp. 40–41). An analysis of the 2010 municipal budget allocations showed that PDK-led municipalities received on average €91 per capita, while LDK- and AAK-led municipalities received €82 and €86 respectively.<sup>49</sup>

This type of discretionary spending seeks to convince voters that it is in their best interests to join the client network of the winning party, while also spreading the message that access to monetized patronage is crucial for political survival. One effect of this shared political understanding can be found in parliament where, despite frequent exchanges of accusations over corruption, deputies tend not to pursue these cases too far. In the past the Kosovo Assembly has obstructed the Anti-Corruption Agency's formal presentation of its yearly results by refusing to allow its director to speak in 2008, and by walking out and depriving the assembly of a quorum in 2007 (IKS 2010, p. 19). In the opinion of one anti-corruption research institute, "the interests of political parties of Kosovo are interlinked regardless of who is in power and who in opposition" (ÇOHU 2008, p. 9). This impression is shared by the deputy mayor of Peja, and former member of the presidency of the Kosovo Assembly, Gazmend Muhaxheri. Having set up the only independent commission of inquiry into corruption in the parliament's history, in 2006, Muhaxheri now believes it is impossible to muster the 40 votes required to establish an investigative body for a similar case.<sup>50</sup>

In order to make and honour spending commitments to target voters in a resource-poor country such as Kosovo, political networks must resort to a variety of informal methods of economic governance, which are considered one by one in the section below.

These include discretionary state spending, rent-seeking within the public sector, and control of the economy (including ownership of private firms, and manipulation of markets and investment). Lastly, the role played currently by organized crime is also examined.

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<sup>49</sup> See Xharra, Besiana. 2010. "PDK Municipalities Financially Favoured", *Balkan Insight*, 19 July 2010, available on <http://www.balkaninsight.com/en/main/analysis/29524/>

<sup>50</sup> Interview, Peja, 30 May 2010. Muhaxheri, who was a member of the now defunct ORA party, initiated the commission to investigate alleged corruption by the speaker of the house, Nexhat Daci from the LDK. Daci was dismissed from his post, but the case was shelved once the commission passed its report to a prosecutor, allegedly on orders from Hashim Thaçi.

*Public procurement as a source of rents*

Kosovo's economy grew by 4 per cent in 2009, decelerating from 5.4 per cent in 2008. Whereas previous growth had been driven by private consumption and public investment (which in 2008 had increased by 194 per cent compared with 2007), growth in 2009 and the first half of 2010 was essentially propelled by government consumption and investment. Private consumption growth slowed to 2.1 per cent, while government consumption shot up by 16.4 per cent (EC 2010a, pp. 23–28). Public procurement has doubled to nearly 22 per cent of Kosovo's GDP, and is an increasingly important source of discretionary spending and rents for political elites in control of public coffers.

One of the first actions of the PDK once it assumed power was to embed allies in key government institutions and publicly owned enterprises (POEs) with large procurement budgets – a job that it did methodically, while public attention was absorbed by the euphoria over independence. These early seizures of power included establishing a powerful party presence in the Kosovo Agency for Privatization, the Kosovo Tax Administration and the Procurement Review Body, and on the boards of various state firms: Post and Telecommunications of Kosovo (PTK), The Kosovo Energy Corporation (KEK) and Pristina Airport (ÇOHU 2008, IKS 2010). This prompted concern within the donor community about the government's increasing role in the economy (EC 2010a, p.29). Meanwhile, control was also secured over the most profitable ministries, which regularly issue large tenders for capital investment in infrastructure. The PDK controlled ministries with capital investment budgets of approximately €300 million in 2009, compared with around €50 million controlled by the smaller coalition party LDK (YIHR 2010, p. 40).

The PDK's focus has been on road and communications infrastructure, with the Ministry of Transport and Communications at the heart of decision-making. This ministry, which spent around 10 per cent of Kosovo's annual budget in 2009, is currently headed by the number two on the PDK's electoral list: Fatmir Limaj, a KLA war hero and ex-indictee of the ICTY who is now under investigation for money-laundering, blackmail, fraud, abuse of office and organized crime. A high-profile investigation by EULEX into corruption in tenders for road-building resulted in a raid on the ministry and the minister's home on 29 April 2010. The ongoing investigation saw more action in early 2011. EULEX raided companies in the municipalities of Peja, Prizren, Prinstina and Gnjilane and interrogated the Transport Ministry's head of procurement, a close associate of Limaj, all in relation to the alleged corruption racket.

Limaj's proximity to Thaçi (both operated in the Drenica region during the KLA offensive), and the reported sums involved in the fraud, could potentially compromise the prime minister and several leading figures in the regime. A relative of the prime minister is responsible for procurement by the electricity company KEK, while others close to the Thaçi family have been awarded lucrative contracts by the same firm through single-source procurement, the use of which has risen sharply since 2007.<sup>51</sup> Recent complaints to the

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<sup>51</sup> Closed procedures represented 15 per cent of the value of public procurement, according to the European Commission. However, negotiated procedures have fallen to 11 per cent (EC 2010a, p. 35; IKS 2010, p. 8).

Kosovo Anti-Corruption Agency (ICG 2010a, p. 4) and a number of investigative reports (Marzouk and Collaku, 2010; YIHR 2010, pp. 40–44; IKS 2010, pp. 9–12) indicate that discretionary selection of tenders has become a commonly used mechanism to reward ‘loyal’ companies, some of which are created overnight and staffed by associates of leading members of the Pristina government.

The international community in Kosovo has backed many efforts to strengthen control over the procurement process, including an amendment to the Law of Public Procurement in 2007 and the establishment of various institutions to oversee and regulate the process. However, the European Commission still noted in 2010 that “administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption” (EC 2010a, p. 35). The 154 procurement officers in municipalities, government institutions and POEs are indeed the weakest link in this process: they are often poorly trained and are not insulated from political pressure. Procurement officers have been dismissed without access to appeal, and some have reportedly been physically intimidated (IKS 2010). Regulatory and oversight bodies such as the Procurement Review Board and the Public Procurement Regulatory Commission, as well as the Kosovo Anti-Corruption Agency and the Office of the Auditor-General, have been unable to address the problem of corruption within public procurement – in effect, handing responsibility for further investigation to EULEX.

#### *Employment in the public sector*

Given Kosovo’s extremely high unemployment rate, the public sector is one of the main sources of jobs. Out of the estimated 300,000 formally employed workers in Kosovo, 75,000 are directly employed by the government as civil servants (including teachers, healthcare workers and police), while another 15,000 work in publicly owned enterprises such as KEK and PTK (YIHR 2010, p. 38). Recruitment for these public sector positions has traditionally been a source of patronage in Kosovo. Kai Eide, the UN envoy who reviewed Kosovo’s compliance with governance standards concluded in 2005 that:

“The development of new institutions is undermined by a strong tendency among politicians to see themselves as accountable to their political parties rather than to the public they serve. Political parties tend to consider new institutions and the civil service as ‘their’ domains. Appointments are regularly made on the basis of political or clan affiliation rather than competence.” (Eide, “Standards Review”, quoted in King and Mason 2006, p. 235).

This practice has continued unabated and, if anything, has accelerated following the phasing-out of the international presence, with the ICO now able and willing to intervene only at the highest levels of government and publicly owned companies. In 2008, the International Crisis Group concluded that “progress made in the last three years toward consolidating the civil service is being undone. Partisans of the PDK are replacing technocrats and the previous government’s political appointees at the helm of public institutions and companies”. (ICG 2008, p. 20). In its most recent report on Kosovo, Freedom House likewise concluded

that “nontransparent hiring and appointment practices represent a growing culture of clientelism that has led to the creation of dysfunctional institutions staffed by unskilled and unprofessional public servants” (Freedom House 2010, p. 275).

Publicly owned enterprises are also being used increasingly as a means of distributing patronage in the form of work. The telecommunications provider PTK and the energy company KEK are the two main sources. The PTK sharply increased its staff from 2,500 in 2008 to 3,200 in 2009. Although there is no hard evidence linking this rise to patronage, it nonetheless contrasts sharply with the company’s decline in profits and its previous recruitment of approximately 50 people per year from 2005 to 2008 (IKS 2010, p. 15). According to one interviewee, the PTK is increasingly disposed to hiring war veterans and PDK supporters: for example, out of 80 new jobs created within the post and telecoms firm in AAK-controlled Peja, 72 were filled with candidates from Fatmir Limaj’s home town of Malishevo shortly before the municipal elections in 2009.<sup>52</sup> One of the most blatant examples was the appointment of Adnan Merovci, a PDK party member and former bodyguard, as PTK chief executive in July 2008, with strong support from Minister Limaj. Merovci resigned shortly afterwards, formally for personal reasons. He was widely suspected of being forced out under heavy pressure from the international community (IKS 2010, p. 13).

#### *Political interventions in the economy*

Strategies aimed at turning the powers and resources of the state to the advantage of the incumbents in government have been detected in numerous other fields, such as control of the media, manipulation of the judicial system, or discretionary support for municipalities.

In addition, recent initiatives from the government have appeared to some observers to constitute an effort to wrest control over Kosovo’s private sector, or at least to subordinate this sector to the will of the country’s political masters. Private businesses in the country, and leaders of the Kosovo Chamber of Commerce, have denounced the creation of a web of regulations that depend on the discretionary decisions of high officials, or which are so poorly composed as to allow for multiple opportunities for corruption (YIHR 2010, p. 44). In a similar fashion, the World Bank’s yearly report on the business environment, *Doing Business*, has tracked a decline in Kosovo’s performance. The country now stands at 119 in the list of 183 countries, down from its position in 2010 at 113. Of particular concern is its rating for protecting investors, where Kosovo stands in the 173rd position (World Bank 2010).

Business in Kosovo has long been accustomed to corruption. One survey conducted by the American Chamber of Commerce in Kosovo in 2008 revealed that 39.4 per cent of firms had been faced with corruption – although this may well be an underestimate. When asked whether they had themselves offered bribes, 52 per cent of firms refused to respond, while 14 per cent admitted they had done so (American Chamber 2008, pp. 14–17).<sup>53</sup> But current trends in regulation of trade, taxation, quality control and licensing reform would appear to represent a more systematic effort by the government to create a cluster of favoured firms funded by procurement and preferential treatment, alongside a larger group of other

<sup>52</sup> Interview with Gazmend Muhaxheri, 30 May 2010.

<sup>53</sup> Perhaps the most revealing reply was that to the question of whether respondent believed corruption was necessary in order to achieve ‘high business efficiency’. Over 47 per cent of firms said it was.



businesses that must conform to the arbitrary demands of officials (YIHR 2010, pp. 44–49). Long-standing failures in the judicial system and other anti-corruption bodies are left to languish, allowing informal economic control and for fraud to proliferate (IKS 2010, p. 21; ICG 2010a).

These concerns have resonated through the formal institutions of the private sector, notably the Chamber of Commerce, as well as in the international community. At the same time, US Ambassador Christopher Dell has given strong support to privatization as a means to cleanse the country of corruption, declaring that “while its overly large role in the economy suffocates private enterprise, the state also suffers by being distracted from its primary task, governance, as well as by opening itself up to the greed and corruption which are inevitably associated with large, cash-generating public enterprises”.<sup>54</sup> Some experts argue that privatization is an inappropriate method to address corruption,<sup>55</sup> while others suggest that promoting it exploits growing domestic frustration as a means of serving international policy goals (Knudsen 2010, p. 46). Moreover, the privatization process has long been accused of being sullied by numerous acts of fraud, demands for kickbacks and efforts by politicians to ensure sub-contracts from privatized utilities for favoured companies (YIHR 2010 pp. 36, 49; Knudsen 2010).

Foreign business interest in Kosovo’s programme of public works, and its agenda for future privatizations, has certainly not diminished in recent years. Bechtel, a US construction firm, in alliance with the Turkish company ENKA, in January 2010 was handed the €650 million contract to build the Kosovo-based part of a highway running between Pristina and Albania. In May 2010, a French–Turkish consortium won a tender to run Pristina’s International Airport for the next 20 years, with investment totalling \$126 million. Foreign companies also have a strong interest in the privatization process, eyeing lucrative assets such as PTK and KEK. Regardless of the concerns expressed by the European Commission and by local opposition parties over the opacity of the privatization process, the Kosovo government declared in August 2010 that it would privatize 75 per cent of the shares of PTK. This sale would yield an estimated €300 million to €600 million, and would serve to partially cover the costs of the Bechtel–ENKA deal.<sup>56</sup>

While there is growing evidence that the domestic economy is being politicized, and thereby milked for resources and support by partisan government officials, the nuances and complexities of this process must be acknowledged. Just as foreign companies continue to bid enthusiastically for Kosovo government tenders, domestic companies remain active players in the political marketplace as funders and sponsors of parties. In addition, the apparent efforts to undermine the independence and efficiency of the private sector belie the vocal interest of the Kosovo government in pursuing eventual EU membership. It is thus uncertain whether

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<sup>54</sup> Christopher Dell, as quoted in *Balkan Insight*, 29 June 2010.

Online: <http://www.balkaninsight.com/en/main/news/29107/>

<sup>55</sup> Interview with Isla Mulaj, cited in Knudsen 2010, p. 46.

<sup>56</sup> See “Kosovo Telecoms Firm to be Sold”, *Balkan Insight*, 10 August 2010.

Online: <http://www.balkaninsight.com/en/main/news/29887/>.

government policy represents a systematic offensive against private sector activity, or rather an intense and opportunistic period of accumulation by the incumbent regime – with the tacit support of domestic and foreign business – in the face of a competitive political environment and mounting unpopularity.

### *Organized crime*

International assessments and recent studies characterize Kosovo as rife with organized crime and corruption, and point to close links between organized crime, private enterprise and political actors (Strazzari 2008; Montanaro 2009; Phillips 2010, p. 8). In the view of one expert, the government has become a “joint criminal enterprise”.<sup>57</sup> According to these interpretations, government policy-making is repeatedly diverted by the strategic and financial needs of criminal actors working ‘behind the scenes’ in Kosovo.

Contrary to some perceptions the Kosovar state is not entirely ‘captured’ by criminal elements, but neither does organized crime operate entirely separately from political and social organizations. The years since organized criminal groups bankrolled the KLA insurgency have seen a radical change in Kosovar Albanians’ role in transnational crime networks, as discussed in Chapter 2. There is also evidence that the symbiotic relationship between political leaders and criminals has been modified. The most significant trend is the major, and arguably pan-regional, shift in the character of illicit activity: “The region has moved on from the chaos of wartime to a period of transition, where opportunities in a rapidly growing economy and the possibility of European integration may prove more attractive than criminal rackets” (UNODC 2010, p. 255).

Two exceptions to this trend can be found. The first is that of smuggling activities in Mitrovica North, whose unresolved status, lack of a functioning judiciary and poorly patrolled boundaries resemble the conditions of Kosovo in the immediate post-conflict period. A second exception is allegedly that of SHIK, the private intelligence service of what was the KLA and an heir to the shadowy spy networks that once linked criminals and political leaders in every party after the war. Part of this network’s activities involve intimidation of opposition leaders and other critical voices in Pristina and the region: one leader of the civil society group Vetëvendosje reported that his organization was infiltrated by a SHIK spy in 2005, while a prominent critic of the government reports having been made offers of foreign postings by emissaries of the agency. At the same time, the agency is alleged in one recent US report to earn “\$200 million per year via bribery, extortion, racketeering and protection services” (Phillips 2010, p. 8). The importance of SHIK was nevertheless downplayed by a representative of the government.<sup>58</sup>

Although it is likely that some links to transnational criminal networks persist in contemporary Kosovo, most interlocutors for this report confirm that over the last two years the state budget and political control over the economy have become the most lucrative sources of income and patronage for Kosovo’s political actors.

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<sup>57</sup> Quote from Illir Deda, head of the think-tank KIPRED, in “Kosovo: Time to go straight”, *The Economist*, 19 March 2010.

<sup>58</sup> Interview, Pristina, 31 May 2010.

### **A north–south divide: the changing perspectives of ethnic Serbs**

To judge from its institutional set-up and policy declarations, Kosovo appears to be a state where respect for diversity and multi-ethnicity are entrenched. Heavy pressure by the international community has led the Albanian majority to formally relinquish any claim to an ethnic nation-state and to provide ample opportunities for political participation by other ethnic groups. Minority rights (called ‘community rights’ in Kosovo) are firmly enshrined in Kosovo’s Constitution, and in a separate Law on the Promotion and Protection of Rights of Communities and their Members, which entered into force in June 2008. The declaration of independence itself states: “We declare Kosovo to be a democratic, secular and multiethnic republic, guided by the principles of non-discrimination and equal protection under the law. We shall protect and promote the rights of all communities in Kosovo.”<sup>59</sup> Although these sweeping ambitions are at odds with Kosovo’s history of inter-ethnic strife and with the situation on the ground, the goal of securing the participation of non-ethnic Albanians has become a litmus test of Kosovo’s governance.

Institutional engineering by the international administration has led to the establishment of an array of mechanisms to promote minority participation. For example, at the national level there is a quota of 20 seats in the Kosovo Assembly for non-Albanian communities, 10 of which are reserved for ethnic Serbs, and there are a number of consultative bodies such as the Committee on the Rights and Interests of Communities (CRIC) within the Assembly, and a Community Consultative Council (CCC) under the auspices of the president. Nearly all municipalities have a communities committee and a municipal communities safety council, while in those municipalities where minorities constitute more than 10 per cent of the population, two additional posts are mandatory: a deputy chairperson of the assembly with specific responsibility for community affairs, and a deputy mayor for communities (OSCE 2009). There is no shortage of other institutions, provisions and procedures designed to safeguard and promote minority participation.<sup>60</sup> The challenge is getting ethnic Serbs to use the mechanisms and participate in the political process.

Most importantly, a distinction has to be made between the various Serb-inhabited areas of Kosovo. The west, where the fighting was particularly fierce, has the least number of remaining enclaves and ethnic tensions are still high. The number of Serbs who return to western Kosovo remains low, and there are still reports of incidents of violence against returnees.<sup>61</sup> In the centre of Kosovo the main enclave is Gracanica, a settlement just outside Pristina that after the conflict became the main hub of Serbs in Kosovo south of the river Ibar. Most Serbs working in Pristina live in Gracanica and there is considerable engagement with both the private and the public sector of Kosovo, although demographic trends indicate that highly educated and younger Serbs are now increasingly moving to Serbia or to North Mitrovica, where living conditions and employment opportunities are better.<sup>62</sup> The eastern

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<sup>59</sup> Kosovo’s Declaration of Independence, as quoted in Judah 2008, p. 144.

<sup>60</sup> For a highly critical overview of the different aspects of minority participation, see Stevens 2009.

<sup>61</sup> Interview, Visoki Decani monastery (western Kosovo), 30 May 2010.

<sup>62</sup> Interview with ethnic Serbs in Gracanica, 29 May 2010.

and southern enclaves such as Strpce and Novo Brdo were less affected by the war and the 2004 riots than the west and north were, and are generally more open to cooperation with Pristina. Strpce in particular is an interesting case as it is a multi-ethnic municipality in which the Serbs constitute the majority. The situation in northern Kosovo is completely different, as neither Pristina nor the international community has been able to consolidate control and the population is oriented predominantly towards Belgrade.

The situation before and after the declaration of independence marked the nadir of Serb participation. Nearly all Serbs boycotted Kosovo's national and local elections in November 2007, on strict instructions from Belgrade. Faced with mono-ethnic Albanian municipal assemblies and mayors governing Serb-inhabited municipalities, UNMIK saw no other option than to extend the mandates of Serb local officials who had worked within official municipal structures until 2002. At the national level, the main ethnic Serb party that has consistently cooperated with the Pristina institutions, the Serbian Liberal Party (SLS), gained a paltry 701 votes (KIPRED 2009a, p. 7).

After the UDI hundreds of Serbs who had previously worked in the Provisional Institutions of Self-Government and within UNMIK resigned, upon assurances from Belgrade that they would be put on the payroll of the Serbian government, although many returned later and quietly started to cooperate with Pristina. The Belgrade-organized local elections of 11 May 2008 put parallel and competing structures in place that aimed to isolate the Kosovo Serbs as much as possible from the official Kosovar institutions. The two hardline Serbian parties, the DSS and the SRS, overwhelmingly won the polls inside Kosovo and consolidated their control over financial flows from Belgrade. Tensions ran high as UNMIK declared the Serbian parallel institutions illegal under resolution 1244, and a stand-off emerged in many municipalities as both Pristina-based and Belgrade-based institutions competed for authority and over service delivery. Kosovo Serbs were pressurized to boycott the Kosovar institutions through financial incentives from Belgrade, and also through outright intimidation and peer pressure by hardliners within the enclaves (ICG 2009).

A turning point, however, appeared soon after in the form of a surprisingly high turnout by ethnic Serbs in the November 2009 local elections. Although there are no hard figures on exactly how many voted, a Kosovar think-tank estimates that approximately 10,000 out of the 80,000 Serbs south of the Ibar cast their ballots, mostly in the enclaves of Gracanica, Strpce and Klokot, where between 24 per cent and 31 per cent of Serbs voted (KIPRED 2009a). While still lower than the average turnout, this nonetheless represented nearly a ten-fold increase compared with the previous elections in 2007. In the mayoral run-off in Strpce, more Serb voters cast their ballots than in the Belgrade-organized elections of 2008.

The trend towards increased turnout is not robust, nor is it Kosovo-wide: other enclaves saw considerably lower turnouts, including Novo Brdo. However, numerous Serb community leaders confirmed that the population south of the river Ibar is increasingly turning to Pristina for service delivery, and that the trend is towards greater Serb participation. In the words of a senior Serb official in the new Strpce municipal administration, the relations with Pristina and neighbouring ethnic Albanians are determined by pragmatic mutual interest:

“We don’t need to love each other, we just need to work together.”<sup>63</sup> It is notable that the new municipal administration is based on a coalition between the SLS and the PDK party.

*Belgrade’s waning influence and engagement south of the Ibar*

Two main causes have spurred this shift from boycott to engagement: the reduced interest and influence of the Democratic Party (DS)-led government in Belgrade, and the positive results of the decentralization process and service delivery by Kosovar institutions.

The importance of parallel institutions in Kosovo is waning as Serbia’s leverage over the enclaves south of the Ibar diminishes. The loyalty of Serbs to Belgrade has been based predominantly on financial transfers such as pensions and social benefits, as well as employment in parallel municipal institutions. According to some estimates, in 2009 Serbia paid the salaries of approximately 5,200 employees in local municipal institutions, 6,744 healthcare workers and 4,211 schoolteachers. Until late 2008, Serbs working in Kosovo received 200 per cent of the salary of regular Serbian public sector employees. Even though this salary supplement was cut to 150 per cent in December 2008, salaries paid by Serbia still far exceed those paid by Pristina.<sup>64</sup> Transfers from Belgrade therefore are still a lifeline for Kosovar Serbs: in the words of an inhabitant of Gracanica, “the parallel municipality is the means of our survival”.<sup>65</sup> Others even expressed frustration at their dependence, claiming that employees of the ‘parallel mayor’ of Gracanica, Nebojsa Nikolic, are “slaves to Belgrade” and are afraid of losing their jobs.<sup>66</sup> The OSCE nevertheless concluded in December 2009 that “the ongoing boycott of Kosovo’s institutions by a considerable number of Kosovo Serb employees in some municipalities has not only left the Kosovo Serb community severely under-represented, but has also affected their access to services” (OSCE 2009, p. 5).

Recent interviews and reports confirm that Belgrade is focusing its attention and resources on north Mitrovica rather than on the enclaves in the south. This reduced financial support for the enclaves is often attributed to the effects of the economic crisis on the Serbian government budget. While this undoubtedly plays a role, there are also indications that Belgrade is frustrated by the results of its assistance programmes to the enclaves and by the corruption that plagues them. The Serbian Minister for Kosovo and Metohija, Goran Bogdanovic, openly voiced suspicion at an annual expenditure of €500 million for a population of 120,000 Serbs. Up to one-third of the funds channelled by Belgrade to the parallel institutions allegedly directly flow back to Serbia, as a result of widespread corruption, including claiming of expenses for infrastructure projects implemented by KFOR or even the Kosovar authorities themselves.<sup>67</sup>

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<sup>63</sup> Interview, Strpce, 29 May 2010.

<sup>64</sup> For a detailed overview of the developments within the parallel institutions and Belgrade’s leverage over the enclaves, see ICG 2009.

<sup>65</sup> Interview, Gracanica, 29 May 2010.

<sup>66</sup> Ibid.

<sup>67</sup> Interview with ex-Serb mayor of Strpce, 29 May 2010. For several telling examples of corruption within Belgrade-financed infrastructure projects, see ICG 2009, pp. 19–20.

The salary payments were the subject of much controversy in the Serbian press, with allegations of abuse and patronage in recruitment procedures. Some Serbs still hold several positions within the parallel institutions and also receive multiple salaries from Belgrade and from Pristina. Attempts by Serbia to control this process by forcing Serbs to close their Kosovo bank accounts have failed, and instructions not to work with Pristina-based institutions are increasingly ignored (ICG 2009, p. 20).

The previous Democratic Party of Serbia (DSS)-led government in Belgrade, which seized control over the Serb institutions, budgets and associated patronage networks in Kosovo in 2004, turned a blind eye to these practices.<sup>68</sup> However, the new DS-led government coalition that defeated the DSS in the 2008 Serbian parliamentary elections was considerably less inclined to keep pumping money into a territory run by its political opponents; it cut its Kosovo budget by 36 per cent in 2009, and announced that it would no longer tolerate abuse of public funds in the name of ‘patriotism’.

These messages were not lost on the Serbs in Kosovo. They quickly realized that many of the promises made by Belgrade were not going to be implemented, including the promise to put those who resigned from Kosovar institutions on the payroll of the Serbian government. Several ethnic Serb interlocutors in Gracanica and Strpce voiced frustration with Belgrade’s ‘abandonment’, but equally expressed a realization that the Serbs in Kosovo have to take their fate in their own hands.<sup>69</sup>

This realization was further strengthened by the ambiguous signals made by Serbia in the run-up to the November 2009 elections, which many Kosovar Serbs interpreted as a ‘quiet nod’ towards their participation. Several of the parallel structures south of the Ibar were split between election participation and vehement opposition: for example, the Serb National Council in Gracanica eventually expelled one of its prominent members, the health clinic director Rada Trajkovic, who had actively called for Serbs’ participation (KIPRED 2009a, pp. 6–7). Participation has thus created deep divisions among the Serbian community, but the scales are slowly tipping towards engagement rather than boycott as a survival strategy.

#### *Decentralization process and efforts by Pristina*

The second major factor underlying increased participation by Serbs is improved service delivery from Pristina through the decentralization process. As part of efforts to achieve a compromise, the Ahtissari Plan provided for “an enhanced and sustainable system of local self-government” as a way to maximize the autonomy of Serbs within Kosovo, and included mechanisms through which Belgrade could provide technical and financial assistance to Serb-dominated municipalities.<sup>70</sup> Owing to its highly politicized nature, the starting conditions for the process were far from promising: it is widely unpopular with the Kosovar Albanians, who perceive it as undermining Kosovo’s sovereignty and ceding autonomy to Serbs. The Vetëvendosje movement was particularly raucous, organizing demonstrations and petitions against what it saw as a surrender of sovereignty to Serbs without recognition of

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<sup>68</sup> They may have even benefited from them, given that many of the recipients were affiliated to the DSS and that appointments were managed by structures under its control.

<sup>69</sup> Interviews 29 May 2010.

<sup>70</sup> Chapter III of the CSP.

Kosovo in return. The Serb community originally rejected decentralization altogether since it was part of the status-positive CSP, but later expressed more openness to engage provided it was possible to avoid going beyond certain red lines, such as the introduction of Republic of Kosovo flags.

Regardless of the political controversies, decentralization has progressed considerably since the November 2009 elections. The process is being implemented by Kosovo's Ministry for Local Government Administration (MLGA), with heavy support from the international community, and includes a combination of transfer of competencies and financial support for infrastructural projects within municipalities. As of early 2011 there were 37 municipalities functioning within Kosovo, with the Serbian-dominated municipalities of Gracanica, Ranilug, Klokot and Partesh newly established and the municipality of Novo Brdo expanded, in line with the plan laid out in the CSP.<sup>71</sup> In the multi-ethnic municipality of Strpce, a young, progressive Serb mayor from the SLS party was elected in the mayoral run-off in December 2009 with 65 per cent of the vote. The progressive Serbs of the SLS, who are branded by some cynics as 'Thaçi's Serbs' and by others as being on the payroll of the US embassy, nonetheless have begun to deliver real results on the ground (MLGA 2010a, 2010b; KIPRED 2009a, p.7). Backed by the funds of the international community they are becoming a credible alternative to the strategy of denial that is still exercised by many Serbs.

The decentralization process remains fragile, however, and it is too early to judge its outcome. Many legal, practical, political and financial obstacles remain.<sup>72</sup> Municipal budgets are small, and approximately 80 per cent of their revenue derives from direct government grants; inhabitants are waiting to see if the promises made by the mayoral candidates are going to be fulfilled, and some degree of disappointment is inevitable. Some services that are delivered by Belgrade are bound to remain superior to those provided by Kosovo, particularly in the field of healthcare and education, and many Serbs will remain dependent on financial transfers provided by the parallel institutions. Brazen actions by Pristina meant to underline Albanian hegemony, such as the April 2010 attempts to dismantle Serbian-operated mobile phone networks,<sup>73</sup> or cutting off electricity, undermine the elected Serb mayors. Likewise, the government in Pristina views its financial support for the Serb municipalities south of the Ibar as an instrument to deliver sovereignty over the crucial contested territory of north Mitrovica – a goal that would appear for the moment to be remote.<sup>74</sup>

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<sup>71</sup> Interview with Besnik Osmani, Permanent Secretary of the Ministry for Local Government and Administration (MLGA), 27 May 2010.

<sup>72</sup> For a detailed analysis by two local Kosovar organizations, see Kosovo Local Government Institute 2009 as well as KIPRED 2009b.

<sup>73</sup> Action by the Telecommunication Regulating Authority to dismantle antennae of Serbian companies that it claims to be operating in Kosovo illegally was met with rebukes from local Serbs and international humanitarian actors, worried that interrupted coverage was a safety concern in remote communities. *Balkan Insight* online: <http://www.balkaninsight.com/en/article/serbian-mobile-firms-still-in-business-in-kosovo#>

<sup>74</sup> Interview with Besnik Osmani, Permanent Secretary of the Ministry for Local Government and Administration (MLGA), 27 May 2010.

## The contested north

The pragmatic engagement of Serbs south of the Ibar contrasts sharply with the situation in the north. The three municipalities of Zubin Potok, Leposavic and Zvecan and the northern part of the municipality of Mitrovica have an estimated population of between 45,000 and 72,000, of whom 95 per cent are Serbs (ICG 2010b). These municipalities are *de facto* integrated into Serbia, which organized parallel municipal elections in May 2008 and May 2010, and continue to resist all forms of engagement with Pristina and international organizations, such as the ICO, that recognize Kosovo's independence. Any links to the central administration in Pristina that existed during the period of UNMIK administration were severed after Kosovo's declaration of independence; the Kosovo Police is now the only major institution in the north that reports to Pristina, although it does so through the mediation of EULEX, while nearly all Serb police officers are reported to receive salaries from Belgrade.<sup>75</sup> According to one international official, "it is likely that their loyalty is more with their community than with their uniform".<sup>76</sup> In practice, Serbia also exercises control over the territory through its plainclothes Ministry of Interior (MUP) forces.

The rule of law in the north is extremely weak, as the pursuit of criminal justice has fallen victim to political struggles over status issues and to violent resistance. The lethal clashes of March 2008 around the Mitrovica courthouse are a case in point: hardline Serbs had occupied the courthouse in order to prevent it from being integrated into Kosovo's justice system and resisted UNMIK attempts to take it over by force, causing three deaths. Four EULEX judges began in December 2009 to hear a handful of cases – at a rate of approximately two a month – but face many practical and political obstacles. There is a backlog of between 100,000 and 140,000 cases,<sup>77</sup> and dealing with this is made even more problematic by an insistence by both Serbs and Albanians on being tried only by international judges. Progress towards establishing an operating multi-ethnic court in the region appears to have stalled (UN Security Council 2010, p. 3), and both civil society activists and representatives of the international community express concern that serious crimes, including murder, are not properly investigated or prosecuted.

The absence of the rule of law appears to have played to the interests of the hardline Serb leadership, including the Serb National Council (SNC) of Milan Ivanovic and local DSS strongman Marko Jaksic, who have profited from the legal and political vacuum and have been able to run the north like a personal fiefdom. Besides leading the SNC, Ivanovic heads Mitrovica hospital, the north's biggest employer. Jaksic, a commanding Kosovo Serb figure, has been a fiercely outspoken opponent of the Pristina government and its attempts to integrate the north into an independent Kosovo. His attempt, shortly after the UDI, to establish a separate Serb parliament failed to gain Belgrade's backing but succeeded in catching media attention, putting a face and voice to pro-Belgrade Kosovo Serbs.

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<sup>75</sup> Interview, EULEX offices in north Mitrovica, 28 May 2010.

<sup>76</sup> Interview with international official, Mitrovica, 28 May 2010.

<sup>77</sup> November 2010; the Kosovo Judicial Council Secretariat estimated that between one-half and two-thirds of the 200,000+ cases pending in Supreme, District, Commercial and Municipal Courts have been waiting adjudication or resolution for longer than the standard time for case processing. See "Kosovo Judicial Council approves landmark National Backlog Reduction Strategy" (online): <http://www.drejtesia-ks.org/?cid=2,15,127>



In recent statements, Dr Jaksic has acknowledged Belgrade's declining role in Kosovo in light of possible EU accession, stating: "[B]etween Kosovo and the EU, it will choose Brussels."<sup>78</sup>

Although impunity persists in the north, there are some indications that the situation is improving. The formerly rampant smuggling operations have been somewhat reduced as a result of tightened EULEX and Serbian government controls at the two border gates 1 and 31, although there are still many paths into the north from Serbia that provide smugglers with alternatives. There are also some positive signs of political moderation in the north. While in the Serbian-sponsored local elections of May 2008 the hardline coalition of the DSS and the radical SRS still won over 60 per cent of the vote, in the May 2010 poll the hardliners fared poorly: the SRS and the Serb National Council of Milan Ivanovic did not make it past the threshold needed to gain seats in the parallel municipal assembly, while the DSS lost 10 per cent of its vote. Instead, the parties of the more moderate government in Belgrade gained 47 per cent of the poll, showing that the local population itself is increasingly tired of the lawlessness and impunity that tends to benefit the hardliners.<sup>79</sup>

A host of small-scale cross-border projects financed by international donors may have built more confidence at the local level. However, disaggregating the data by ethnicity revealed a deep split in public opinion between Kosovo Albanians and Kosovo Serbs, the latter notably less optimistic (UNDP 2010b, p. 15). A project to establish an international business college on both banks of the Ibar may generate some positive effects, and help to address the dire economic circumstances and unemployment that were widely identified by the Mitrovica population as the most troubling problems they face.<sup>80</sup>

However, efforts by the international community and the Kosovar authorities to integrate the north within an independent Kosovo have, to date, proved unsuccessful. The ICO operates according to the Ahtisaari Plan, which foresees the establishment of a municipality of northern Mitrovica, but its ambitious 'Strategy for Northern Kosovo' which it prepared together with the Kosovar government, was dead in the water once it was leaked in January 2010. The ICO's plans to extend the decentralization process to the north and to sideline Serb parallel structures were soon caught up in the fierce status debate, leading the EU and the UN to distance themselves from the strategy.<sup>81</sup> It has since been supplanted by a more cautious 'comprehensive approach' (Foreign Policy Club 2010) that prioritizes consultation over confrontation.

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<sup>78</sup> Quote taken from International Relations and Security Network, *Kosovo and Serbia Resolve*, July 2010. Available online: <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?id=118306b>

<sup>79</sup> For an analysis of the local election results, see Florian Bieber, "Moderation in Mitrovica", 23 June 2010, <http://fbieber.wordpress.com/2010/06/23/moderation-in-mitrovica>

<sup>80</sup> This project is implemented by a Dutch NGO, SPARK, and financed by the Swedish, Danish and Dutch governments; for more information, see <http://www.ibcmitrovica.eu/>

<sup>81</sup> In his 6 April report to the Security Council 2010 (S/2010/169), UN Secretary-General Ban Ki-Moon stated that UNMIK was "neither consulted in the drafting of the strategy nor included in its planned implementation"; and EU spokesperson Karin Lindal told Tanjug news agency in January 2010 that the document was "not an EU strategy", rejecting reports that Pieter Feith's involvement was as head of the EUSR, not as head of the ICO.

Pristina has tried several strategies of engagement and coercion, including removing the north from its electricity grid in winter 2009, which only caused the region to switch its power supply to Belgrade, and opening a Kosovo 'community service centre' in Bosniak Mahala, an ethnically mixed area of north Mitrovica, in July 2010, which led to fierce protests in which one person died (UN Security Council 2010, p. 4).

The risk of new instability has so far stifled all international efforts to integrate the north, making it Belgrade's most effective spoiler in the Kosovar state-building process and the main bone of contention in Kosovo–Serbia relations. Furthermore, and notwithstanding the scepticism of Marko Jaksic, it is likely that Serbia will continue to use the region as its geopolitical trump card in any new talks over Kosovo's sovereignty status or in negotiations over contested borders in the Balkans, particularly in the run-up to Serbia's possible accession to the EU. While Kosovo's leaders sometimes flirt with the idea of claiming the Albanian-populated Preshevo valley in southern Serbia, Belgrade can retaliate with its own claims to an ethnic enclave across the border. The Serbian government is thus in a position to perpetuate a situation of mutual deterrence, and establish a guarantee that the current status quo in the Balkans will not be altered so as to weaken or diminish the Serbian nation-state any further.

As a result, it is likely that the issue of the north will continue to present a considerable obstacle to the consolidation of Kosovo's statehood, even if some positive trends of reduced smuggling, increased political moderation and promising cross-border initiatives can be discerned. The key priority for the international community should be to establish a cordon sanitaire around the north, preventing a spillover of violence and crime, until EULEX is able to consolidate its position, end the prevailing impunity and tackle some of the more high-profile criminal abuses.

## 5. Conclusions and recommendations

For all its unique features, Kosovo is a telling case that shows the limits of imposing an institutional model on a highly divided, complex post-conflict society where client–patron networks pervade political life. Even though the international community directly administered Kosovo for almost a decade, and continues to enjoy unparalleled leverage over the governance process, it has not yet succeeded in building a well-governed and genuinely multi-ethnic state that can deliver economic growth or adequate public services.

The obstacles to state-building are many, and are not limited to the well-documented problems which include a divided history of conflict and the unresolved status issue. Kosovo's ruling PDK party, led by a faction of former KLA commanders co-opted into the governance process by UNMIK, is barely constrained by institutional checks and balances. Instead, it strengthens its grip on power through a variety of authoritarian and informal means, including tightening control over the media and the use of patronage to purchase political loyalty. Its historical links with organized crime raise serious concerns over the motives and objectives of an independent Kosovar state.

Kosovo's political elite now regard control of the public sector as the key source of rents, and thus power. While rent-seeking in public procurement or political control over the economy existed prior to Kosovo's independence, the receding international presence and growing government budgets have accelerated this trend. Some fear that a PDK-led state could bring about a period of democratic closure, and a terminal corrosion of formal state institutions.

For many, Kosovo appears to be a fledgling state overrun by ethnic hardliners with a criminal past (and possibly present). However, two countervailing dynamics suggest that this portrait may not constitute the whole story. First, Kosovar society increasingly expects its government to deliver. The legitimacy of the Thaçi government, which originally derived mostly from the KLA's legacy and the conquest of independence, is being sapped. A lack of genuine civil engagement in the governance process and a widespread perception of mismanaged and inadequate service delivery have led to rising levels of dissatisfaction among voters. The elections of December 2010 confirmed that the PDK's hold on power, although stable at present, is vulnerable to the encroachment of new parties with critical views and loud voices. The increasing participation of Serbs is likely to further stimulate the growing

public demand for an institutional culture based on performance rather than on nationalist symbolism and bravado. As a result, this report's recommendations place stronger mechanisms of domestic accountability at the core of any future improvement in governance.

At the same time, Kosovar society is ambivalent in its expectations of the government and the international community. The Yugoslav legacy has instilled a certain apathy among Kosovars, and a tendency to rely on informal patron–client networks rather than on official structures, particularly in an unfavourable economic context.

A second factor, whose significance is also difficult to discern, relates to the international community, particularly the European Union. Although the international presence on the ground has been substantially reduced, Kosovo remains strategically important because of its role in many spheres of acute regional and geopolitical concern – involving the Balkan settlement, relations between NATO countries and Russia, partnership between Europe and the United States, and the overarching threat of organized crime. It is still possible, albeit unlikely, that the demands involved in attaining the standards necessary for EU membership and concerns over the authoritarian direction taken by Pristina will prompt a major institutional and judicial intervention by foreign powers. In this scenario, a much more politicized EULEX would play a hugely important role. However, without EU-wide recognition of Kosovo, improved relations with Serbia and a peaceful inclusion of Serb enclaves in Kosovar public life, an emphasis on stabilization and quelling international differences over Kosovo's sovereignty will most probably continue to colour policy-making regarding the country.

### **Policy recommendations**

This analysis has disaggregated and described several issues that collectively influence Kosovo's political and economic development. This in turn allows for the identification of potential entry points and policy advice.

Recommendations must be grounded in a realistic appraisal of the tools the international community has at its disposal. That said, the current trends in Kosovo's political development provide a clear opportunity to consolidate internal accountability mechanisms and enhance their influence over Kosovar government and public offices. Thus, efforts should concentrate on building domestic capacities to demand good governance.

The following policy options bear in mind both the limits and the assets of international support to state-building in Kosovo. Attention is also directed, where appropriate, toward the political implications that these actions might entail, and the need to manage the risks that could emerge.

#### *1) Support domestic capacities for public accountability*

Regardless of the immense support provided by the international community, ultimately the Kosovo government must remain accountable and responsive to its constituent population. The channels that typically sustain such a relationship – such as tax-based public revenue and public service delivery – are not yet fully viable. However, there are nascent forms of informal state–society interaction that could benefit from prudent external assistance.

- Bolstering the integrity and capacity of reporters and editors to provide reliable and unbiased information to the public, specifically on issues pertaining to good governance, could help enhance the dialogue between the state and its citizens. Efforts made by the European Broadcasting Union and the OSCE underscore the relevance of developing legal and structural frameworks that secure the financial and editorial independence of the Kosovar media.
  - The donor community could take on this endeavour through sponsoring professional development programmes, conducting trainings in impartiality, acquiring access to public records and analyzing data within public documents. Enhancing the quality of reporting could also increase readership and work to reduce financial dependence on government patronage.
- Kosovar civil society and research community has become increasingly vocal and politically engaged. These institutes and organizations are generally funded by the donor community, and thus their attention is directed to external actors rather than to a domestic base of mobilized concerned citizens. This trend may be corrected, however, by adjusting donor approaches to supporting independent academic and research institutes, and non-governmental organizations.
  - Rather than supporting NGOs exclusively through direct funding or tendering grants, international support should help to create a domestic environment conducive to hosting a robust and transparent civil society by increasing the sustainability and professionalism of these organizations.
  - Training researchers and NGO staff to propose, draft and critically review legislation would add a politically influential dimension to their work. Similarly, assisting researchers in effectively tracking parliamentarians' voting records is a relatively simple and straightforward way of supporting a public accountability mechanism. This could also serve to open more direct channels of dialogue and negotiation between Kosovar citizens and their government, which currently are routed via the international community.
  - Providing NGOs and institutes with training in constituency-building and lobbying offers another form of indirect support. Assisting organizations to diversify their funding strategies (in particular, domestic fundraising) and defining long-term development goals will provide an alternative to chasing short-term international projects, which do not necessarily reflect the demands and priorities of Kosovo society.

## *2) Strengthen local government structures through robust decentralization*

Municipalities across Kosovo are in the front line of service delivery and inter-ethnic tensions, as well as being crucial to the strategies of national political parties seeking to build winning majorities. This makes them a central part of efforts to build the effectiveness and

legitimacy of the Kosovo state, and a bellwether of the progress that can be made in replacing patron–client networks with a more responsive and accountable public sector. A number of initiatives would help to improve local level governance.

- Technical capacity-building among municipal staff and administration, particularly with regard to new and extended competencies, and to the management of spending, will be crucial for enabling local governments to deliver public services that can compete with or outperform informal and parallel structures. Mentoring programmes, such as the Twinning projects sponsored by European Commission Liaison Office, could give early support to municipal institutions and local public servants.
- Economic development makes the strongest impression, and has the largest impact on daily life. As this competency has been or will be conferred on municipalities, it should remain a primary focus of international support with a more micro-level focus.
- In addition to technical assistance, astute support must also anticipate and devise ways to manage the political and social tensions that will inevitably arise between entrenched community power-holders and new reformist authorities. The Office of Community Affairs has had success in building the confidence of local Serbs (KIPRED 2009a, p. 7) and should be supported to continue such work.
  - In the best cases, local elites will be motivated to join and participate in the new structures. Their incumbent authority will provide the process with more legitimacy and stability. (For example, Strpce mayor, Branislav Nikolic, dissolved the parallel Serbian structures and convincingly asserted his authority. His popularity among both Serbs and Albanians facilitated the transition.)
  - The leaders of the decentralization process (and its international supporters) must be careful not to sacrifice long-term development for interim stability. It would be prudent of the donor community to monitor the process closely so as to ensure that apparent tranquillity is not actually masking the dominance of a single group or patronage network over another. The persistence of parallel structures, disproportionate representation in public offices or voter turnouts, and the rapid improvement of services to a single group could all signal incipient forms of state capture at the municipal level. A special municipal office should be created in EULEX’s justice component to track and act upon suspected cases of abuse of power and mishandling of resources at the local level.
- While Kosovo remains a contested territory for many donors and multilateral agencies, diplomatic lobbying for Serbia to endorse or even cooperate with the decentralization process could help new municipalities in Serb-dominated areas establish Kosovar Serb institutions backed by Pristina.

- A more aggressive approach by the EU could make Serbia's advancement towards accession conditional on its gradual withdrawal of support to parallel structures. This would require comprehensive support from the Pristina government and the international community to deliver comparable services, specifically in healthcare, education and security, so as to avoid relative deprivation if Serbian-backed institutions disappear. This will take more time to develop and should not be implemented hastily.

### 3) *Build domestic capacity to fight corruption*

Dealing effectively with corruption and political engagement in criminal networks is also central to state legitimacy. Technically competent, effective domestic investigation and politically impartial prosecution capacities, when jointly brought to bear, have the potential to disrupt and dismantle criminal systems. A well-designed approach to fighting corruption would therefore combine criminal enforcement and technical expertise with a tenacious and robustly independent approach towards investigation and prosecution.

Technical reform could include the following approaches.

- International actors have recently shown willingness to back their condemnations of corruption with action, launching high-profile investigations into fraud and organized crime. However, these have been exclusively carried out by internationals, namely EULEX investigators and prosecutors, without the notification or assistance of domestic law enforcement. Future investigations must strengthen domestic legitimacy and capacity by involving local law enforcement actors.
- One clear (and familiar) avenue for international engagement has been developing and strengthening effective criminal investigation bodies. In light of the corruption in Kosovo's political landscape, financial crime investigation would be particularly constructive. Deployment of Italian Guardia di Finanza units to Albanian borders as well as within UNMIK and EULEX has already given an example of a European asset aptly applied to Kosovo's current challenges.
- Providing sufficient resources and diplomatic backing to the Anti-Corruption Agency, Ombudsperson and their associated offices will help ensure that their reports and analyses serve as a reference point for citizens and civil society in their engagement with government.

Given that the primary access to resources is through (connections with) public office, political pressure is likely needed to address corruption and opaque patronage politicking.

- Stricter conditionality is warranted. It is crucial that the international community shed its fear, and adopt a more demanding approach towards the Kosovar authorities on issues of corruption and authoritarian practices. This conditionality will depend on using the levers of financial aid and backing for wider recognition of the country's

sovereign status. It will require consistency, coordination (above all between the US and the EU states that have recognized Pristina), and the ability to withstand manipulation of domestic unrest and political instability.

- Strengthening parliamentary oversight of the executive branch of government. Given the recent increase in the opposition parties' strength in parliament, this body must act as the primary counterweight to the executive branch. Ethics committees, and oversight committees should be promoted and supported with technical advice and assistance. The progress of their work should be made publicly available.
- Appointment procedures should be carefully monitored. Parliamentary as well as independent oversight should be required for all appointments to public office or boards of public enterprises as well as media and broadcasting boards.
- Kosovo's justice system is crippled by a lack of protection for judges and witnesses, as well as a scarcity of judges able and willing to adjudicate sensitive cases and prosecute 'big fish'. Allocating sufficient resources (human and financial) to the Kosovo Judicial Council and the EULEX justice component could help expedite progress and should be prioritized.
- White-collar crime can also be addressed through existing laws requiring public officials to disclose financial assets and business portfolios to independent auditing bodies. The international community would do well to press for strict enforcement of the Law of Declaration of Assets by Public Officials, and similar legislation, by providing technical assistance and scrutinizing compliance in progress reports.

Hopes of reducing corruption within the state's ministerial and legislative bodies cannot be disproportionately loaded on to either new institutions or the emergence of virtuous political leadership. Given their enmeshed relationship, the integrity of institutions and politicians is likely to be strengthened as part of the same process rather than one sequentially leading the other. Again, this is a process that must be continually coaxed and prodded, and observable gains should not be expected in the near future.



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