

Kosovo: Current Issues and U.S. Policy

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Summary

On February 17, 2008, Kosovo declared its independence from Serbia. The United States and 22 of the 27 European Union countries have recognized Kosovo's independence. The Kosovo government claims that 98 countries in all have extended diplomatic recognition to it. EULEX, a European Union-led law-and-order mission, is tasked with improving the rule of law in Kosovo. KFOR, a NATO-led peacekeeping force that includes more than 700 U.S. soldiers, has the mission of providing a secure environment.

Serbia strongly objects to Kosovo's declaration of independence. It has used diplomatic means to try to persuade countries to not recognize Kosovo. It has retained parallel governing institutions in Serb-majority areas in Kosovo. Since March 2011, the EU has mediated negotiations between Serbia and Kosovo. The agreements reached include ones on free movement of persons, customs stamps, recognition of university diplomas, cadastre (real estate) records, civil registries (which record births, deaths, marriages, etc. for legal purposes), integrated border/boundary management, and on regional cooperation. However, the accords have not been implemented or only partly implemented.

On April 19, 2013, Kosovo and Serbia reached a key agreement on normalizing relations. The agreement calls for the abolishing of the parallel institutions and the establishment of an "Association/Community" of Serb-majority municipalities within Kosovo, which would function according to Kosovo's laws. Most Kosovo Serb leaders are strongly against the agreement, and its implementation is uncertain.

Kosovo faces other daunting challenges, aside from those posed by its struggle for international recognition and the status of its ethnic minorities. According to reports by the European Commission, the country suffers from weak institutions, including the judiciary and law enforcement. Kosovo has high levels of government corruption and powerful organized crime networks. Many Kosovars are poor and reported unemployment is very high.

The United States has supported the EU-brokered talks between Serbia and Kosovo, but has stressed that it is an observer, not a participant in them. On September 10, 2012, the White House issued a statement by President Obama hailing the end of international supervision of Kosovo. He said Kosovo has made "significant progress" in "building the institutions of a modern, multi-ethnic, inclusive and democratic state." He added Kosovo had more work to do in ensuring that the rights enshrined in the country's constitution are realized for every citizen. President Obama also called on Kosovo to continue to work to resolve outstanding issues with its neighbors, especially Serbia. U.S. officials hailed the April 19, 2013, agreement between Serbia and Kosovo on normalizing relations.

Since U.S. recognition of Kosovo's independence in 2008, congressional action on Kosovo has focused largely on foreign aid appropriations legislation. For FY2013, the Administration requested a total of \$57.669 million for Kosovo. Of this amount, \$42.544 million is aid for political and economic reforms from the Economic Support Fund, \$10.674 million from the International Narcotics Control and Law Enforcement account, \$0.7 million in IMET military training aid, \$3 million in Foreign Military Financing, and \$0.75 million in NADR aid to assist non-proliferation and anti-terrorism efforts. In its FY2014 budget, the Administration aid request for Kosovo includes \$41 million in ESF funding, \$10.7 million from the INCLE account, \$0.75 million in IMET aid, and \$4 million in FMF.

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Background: An Independent Kosovo

On February 17, 2008, Kosovo declared its independence from Serbia, sparking celebration among the country's ethnic Albanians, who form over 90% of the country's population. Serbia and the Kosovo Serb minority heatedly objected to the declaration and refused to recognize it. Serbia continues to view Kosovo as its province.

The United States recognized Kosovo's independence on February 18, 2008. The Kosovo government claims their country has been recognized by 98 countries, a majority of UN member-states. Of the 27 EU countries, 22 have recognized Kosovo, including key countries such as France, Germany, Britain, and Italy. Five EU countries—Greece, Cyprus, Slovakia, Romania, and Spain—have expressed opposition to Kosovo's independence. These countries are either traditional allies of Serbia, or have minority populations for whom they fear Kosovo independence could set an unfortunate precedent, or both. Kosovo joined the International Monetary Fund and World Bank in 2009.

Russia has strongly opposed Kosovo's independence. Russian opposition will likely block Kosovo's membership in the United Nations for the foreseeable future, due to Russia's veto power in the U.N. Security Council. Kosovo seeks to eventually join the European Union and NATO, although this is at best a distant prospect, due to the non-recognition of Kosovo by several NATO and EU states, as well as the country's poverty and weak institutions.

When it declared independence, Kosovo pledged to implement the Comprehensive Proposal for the Kosovo Status Settlement, drafted by U.N. envoy Martti Ahtisaari. The provisions of the plan were incorporated into Kosovo's constitution. The status settlement called for Kosovo to become an independent country, initially supervised by the international community.¹ The plan bars Kosovo from merging with another country or part of another country (a tacit reference to Albania or parts of other neighboring countries populated mainly by ethnic Albanians).

The document contained provisions aimed at safeguarding the rights of ethnic Serbs and other minorities. The plan called for six Serbian-majority municipalities to be given expanded powers over their own affairs. They have the right to form associations with each other and receive transparent funding from Belgrade. Local police are part of the Kosovo Police Service, but their composition has to correspond to the local ethnic mix and the local police commander is chosen by the municipality. Central government bodies and the judiciary also have to reflect Kosovo's ethnic composition. Kosovo's constitution and laws have to guarantee minority rights. Laws of special interest to ethnic minorities can only be approved if a majority of the minority representatives in the parliament votes for them. Serbian religious and cultural sites and communities in Kosovo must be protected.

An International Civilian Representative (ICR) was appointed by an international steering group of countries to oversee Kosovo's implementation of the plan. The ICR's mandate ended in September 2012. The EU Special Representative in Kosovo, currently Samuel Zbogar of Slovenia, continues to provide advice to Kosovo on the reforms needed to move closer to eventual EU membership.

¹ Ahtisaari's report to Secretary General Ban Ki-Moon on the plan can be found at http://www.un.org/Docs/sc/unsc_presandsg_letters07.htm.

EULEX, which operates under the EU's European Security and Defense Policy (ESDP), monitors and advises the Kosovo government on all issues related to the rule of law, specifically the police, courts, customs officials, and prisons. It has the ability to assume "limited executive powers" to ensure that these institutions work effectively, as well as to intervene in specific criminal cases, including by referring them to international judges and prosecutors. In the past, critics have charged that EULEX hasn't been effective in fighting organized crime and corruption and that some of its efforts, particularly in the area of witness protection, have been amateurish.

Due to the lack of unanimity within the EU on Kosovo's independence, EULEX functions as a "status-neutral" organization, providing assistance on rule-of-law issues to local authorities without endorsing or rejecting Kosovo's independence. EULEX has undergone substantial reductions in personnel and funding. Most of the cuts have come in the police side of the mission rather than the judiciary, where the need for assistance appears to be greatest. EULEX's mandate will end in June 2014.

KFOR, the NATO-led peacekeeping force in Kosovo, has the role of ensuring the overall security of Kosovo, while leaving policing duties to local authorities and EULEX. KFOR also plays the leading role in overseeing the training of the 2,500-strong Kosovo Security Force (KSF) called for by the Ahtisaari plan. NATO and the United States are providing assistance and training to the KSF, which possesses small arms but not heavy weapons such as artillery and tanks.

At a June 2009 NATO defense ministers' meeting, the Alliance agreed to gradually reduce KFOR's size to a "deterrent presence." The ministers decided that reductions were justified by the improved security situation in Kosovo. The decision may have also been provoked by the strains on member states' resources posed by deployments to Afghanistan and other places, as well as by the global economic crisis. Tasks previously undertaken by KFOR, such as guarding Kosovo's borders and key Serbian cultural and religious sites, have been gradually handed over to the Kosovo police.

In January 2013, KFOR had 5,134 troops in Kosovo, of which 773 were U.S. soldiers.² Further cuts in KFOR's size are on hold until the security situation in the country appears stable enough to permit it. In December 2012, press reports claimed that France proposed that KFOR be replaced by a smaller, EU-led force in late 2013. The idea was reportedly shelved after some NATO member states expressed opposition to the idea because of the still-unsettled situation in northern Kosovo. If the report is true, some NATO countries could revisit the idea of drawdowns if an April 2013 agreement on normalization of relations between Kosovo and Serbia shows promise in stabilizing the situation in the north.

The Kosovo government wants NATO to certify this year that the KSF is fully operational. It wants the KSF to assume responsibility for Kosovo's security, with continuing assistance from the Alliance to prepare the country for eventual NATO membership. However, KFOR, like EULEX, functions as a "status-neutral" body, given that a few NATO member states do not recognize Kosovo's independence. Kosovo is seeking to join the U.S.-led Adriatic Charter as a full member. The Adriatic Charter encourages countries in the region to improve their military capabilities and cooperation with other Charter countries, with the goal of eventual NATO membership.

² "KFOR website, at <http://www.aco.nato.int/kfor/about-us/troop-numbers-contributions.aspx>

Kosovo-Serbia Negotiations

Serbia and Kosovo Serbs reject Kosovo's independence as illegitimate, and continue to assert Serbia's sovereignty over its former province. Serbia seemed to have won a diplomatic victory when the U.N. General Assembly voted on October 8, 2008, to refer the question of the legality of Kosovo's declaration of independence to the International Court of Justice (ICJ). However, in July 2010, the ICJ ruled that Kosovo's declaration of independence did not contravene international law.

After the ICJ ruling, the EU pressed Serbia to agree to hold EU-facilitated talks with Kosovo on technical issues, rather than on the question of Kosovo's status. The talks began in March 2011. In July 2011, the two sides reached an agreement on freedom of movement. However, frustrated at the failure to secure Serbia's agreement to the free movement of goods bearing Kosovo's customs stamp across the border, Kosovo blocked Serbia's goods from entering Kosovo. Saying that EULEX refused to implement this policy, on July 25, 2011, Kosovo sent a special police unit to seize control of two customs posts in Serbian-dominated northern Kosovo. Local Serbs responded by erecting barricades blocking the routes to the posts. During the operation, a Kosovar policeman was killed by a sniper. On the 27th, one of the posts was burned by a Serbian mob. KFOR then moved to take control of the two border posts. A "cat-and-mouse" game between KFOR and local Serbs over roadblocks and bypass routes to allow Serbs to avoid the customs checkpoints has continued sporadically until the present, although with less violence than occurred in 2011.

In October 2011, the European Commission released a report on Serbia's qualifications to become a member of the EU. The Commission recommended that Serbia be given the status of a membership candidate if it re-engages in the dialogue with Kosovo and implements in good faith agreements already reached. The Commission recommended that Serbia be given a date to begin membership negotiations if it achieved further steps in normalizing its relations with Kosovo. These include "fully respecting the principles of inclusive regional cooperation; fully respecting the provisions of the Energy Community Treaty; finding solutions for telecommunications and mutual acceptance of diplomas; by continuing to implement in good faith all agreements reached; and by cooperating actively with EULEX in order for it to exercise its functions in all parts of Kosovo."³ In December 2011, the EU Council endorsed these recommendations.

In March 2012, the EU accepted Serbia as a membership candidate. However, the EU reiterated that the granting of a date for the EU to begin negotiations with Serbia would depend upon reaching agreements on energy and telecommunications with Kosovo and the implementation of the accords already agreed to.

In May 2012, Serbia held presidential and parliamentary elections, which led to the victory of the nationalist Progressive Party and the Socialist Party of Serbia, once led by Slobodan Milosevic, the chief instigator of the wars in the region of the 1990s. However, both parties have moderated their public stances in recent years. Prime Minister Ivica Dacic of the Socialist Party said the new government is committed to implementing the agreements the previous government reached with

³ Commission Opinion on Serbia's Application for Membership of the European Union, October 12, 2011, at http://ec.europa.eu/enlargement/pdf/key_documents/2011/package/sr_rapport_2011_en.pdf.

Kosovo and to continuing the Kosovo negotiating process, as well as beginning EU membership negotiations.

In an effort to make better progress in the talks, in October 2012, the first high-level meeting between the two sides took place between Prime Minister Dacic and Kosovo Prime Minister Hashim Thaci. Such meetings become a regular feature of the negotiations in the following months.

The agreements reached from the beginning of the talks until the end of 2012 included ones on free movement of persons, customs stamps, mutual recognition of university diplomas, cadastre (real estate) records, civil registries (which record births, deaths, marriages, etc. for legal purposes), integrated border/boundary management (IBM), and on regional cooperation. Implementation of most of these accords has lagged. A technical protocol on IBM went into effect at the end of 2012, with the opening of several joint Kosovo/Serbia border/boundary posts. The two sides also agreed to exchange liaison personnel (to be located in EU offices in Belgrade and Pristina) to monitor the implementation of agreements and address any problems that may arise.

Northern Kosovo

An issue that has proved particularly difficult to solve in the talks has been the status of the four Serbian-majority municipalities in northern Kosovo. The area, which borders directly on Serbia, is overwhelmingly ethnically Serbian. Belgrade exercises de facto control over the region through what the Kosovo government, the United States, and many EU countries call “parallel institutions.” These range from municipal governments to healthcare and educational facilities to representatives of Serbian military and intelligence agencies, although the last of these are not formally acknowledged to be deployed there.

In the talks, the Kosovo government has demanded the dissolution of the parallel institutions and insists that the region come under its control. Kosovar leaders claimed that the area would enjoy the same level of decentralization enjoyed by Serb-majority municipalities in the rest of Kosovo under Kosovo’s constitution. The United States, Germany, and other countries that have recognized Kosovo have demanded the dismantling of Serbian military and intelligence structures in Kosovo. They have called on Belgrade to make its funding of healthcare, education, and other institutions in northern Kosovo more transparent. In December 2012, EU member states agreed that any agreement should ensure that Kosovo has a “single institutional and administration set-up.”

In the EU-mediated dialogue, Serbia pushed for the linking of Serb-dominated municipalities in northern Kosovo with Serbian enclaves in ethnic Albanian-dominated southern Kosovo in an association of Serb municipalities that would have executive powers. Kosovar leaders didn’t dispute the right to form such an association but rejected giving it significant powers. Otherwise, Kosovar leaders feared, the association could result in the de facto partition of Kosovo, much as some observers see the existence of the Republika Srpska, the Serb-dominated largely autonomous “entity” within Bosnia and Herzegovina.

A complicating factor has been the position of the Kosovo Serbs themselves. Kosovo Serb leaders in northern Kosovo have rejected even a symbolic Kosovo government presence in the area. In February 2012, Kosovo Serb leaders in the north organized a local referendum (which

was not monitored by international observers) that rejected Kosovo government institutions by an overwhelming margin.

Partition Proposals

Some observers have called for Kosovo to be formally partitioned, with northern Kosovo formally recognized as part of Serbia and the rest of the country remaining part of Kosovo. It is often proposed that, in exchange for the Kosovars' formally ceding northern Kosovo, Serbia could cede the ethnic Albanian-majority areas in the Presevo valley in southern Serbia. These ideas are strongly opposed by the Kosovo government and by the international community. The United States and other countries fear that partition could destabilize the region by tempting some leaders, particularly in Bosnia and Macedonia, to try to redraw borders along ethnic lines, which could lead to armed conflict.

In the past, Serbian leaders repeatedly and openly discussed the possibility of partition, but did not make formal proposals. However, they have refrained from raising the idea of partition in recent months, due to strong pressure from the United States, Germany, and other EU countries that have recognized Kosovo. The key EU countries have made clear to Serbia that continuing to discuss partition as a viable option would jeopardize Belgrade's EU membership prospects.

"First Agreement of Principles Governing the Normalization of Relations"

On April 19, 2013, in the 10th round in their EU-mediated dialogue, Serbian Prime Minister Ivica Dacic and Kosovo Prime Minister Hashim Thaci initialed a "First Agreement of Principles Governing the Normalization of Relations" between Kosovo and Serbia. The 15-point agreement calls for the creation of an "Association/Community of Serbian-majority municipalities" in Kosovo. This "Association/Community" will have "full overview" of the areas of economic development, education, health, urban and rural planning, and any others that Kosovo's central government in Pristina grants. The police in northern Kosovo will form part of Kosovo's unified police force, and will be paid only by Pristina. The police commander in the north will be a Kosovo Serb selected by Pristina from a list of nominees provided by the mayors of the four Serb municipalities in the north. The ethnic composition of the local police in the north will reflect the ethnic composition there.

The situation in the judicial system is to be resolved in a similar manner. The judicial system in northern and southern Kosovo will operate under Kosovo's legal framework, but the Appellate Court in Pristina will have a panel composed of a majority of Kosovo Serb judges to deal with all Kosovo Serb-majority municipalities. A division of the Appellate Court will be based in northern Mitrovica, the largest town in northern Kosovo.

The agreement also calls for new municipal elections in the north in 2013, under Kosovo law and with the assistance of the Organization for Security and Cooperation in Europe. The two sides agreed that "neither side will block, or encourage others to block, the other side's progress in their respective EU path."⁴

⁴ The text of the agreement has not been officially released. However, identical unofficial texts have appeared in many media sources. For example, see <http://www.rferl.org/content/text-leaked-copy-serbia-kosovo-agreement-brussels/24963542.html>

On April 21, Kosovo's parliament overwhelmingly approved the agreement by a vote of 89 to 5. The Serbian government approved the agreement on April 22. Initial opposition in Serbia to the agreement was very sharp but limited in scope. The agreement was denounced by the Holy Synod of the Serbian Orthodox Church, and by many Kosovo Serb leaders. Several thousand people have held peaceful demonstrations against the accord in Belgrade and northern Kosovo. Nevertheless, the Serbian parliament approved the government's report on the negotiations with Kosovo on April 29 by an overwhelming vote of 173-24. In addition to support from the government parties, the report was also approved by most of the opposition parties as well. Opposing it was the nationalist Democratic Party of Serbia, and several other members of parliament, mainly those from Kosovo.

On April 22, in part as a result of the signing of the agreement, the European Commission recommended that the EU grant Serbia a starting date for its EU membership talks. The Commission also recommended that the EU start talks on a Stabilization and Association Agreement (SAA) with Kosovo, which would enhance EU-Kosovo cooperation in many fields. EU member states will make decisions based on these recommendations at their next EU Council summit in late June.

Despite approving the agreement, Serbia still refuses to recognize Kosovo as an independent state, considering it to be an autonomous province of Serbia. Belgrade's position could be viewed perhaps as a convoluted effort to present the "Association/Community" of Serbian-majority municipalities in Kosovo (at least to itself) as an autonomous entity within another autonomous entity within Serbia. For their part, Pristina and the Serbian government's opponents have portrayed the agreement as Serbia's de facto recognition of Kosovo as an independent country.

The agreement faces serious challenges to its implementation, including the strong opposition of most Serb leaders in northern Kosovo. Prime Minister Dacic has said that, although he wants northern Kosovo leaders to voluntarily agree to implementation, the government also has the ability to bring pressure to bear, such as by cutting off salaries to those who refuse to cooperate. Dacic and other Belgrade leaders warn that the implementation process must be well underway before the end of June, when the EU Council will decide on whether to grant Serbia a date to begin membership negotiations. Key EU countries are particularly insistent that progress be made as soon as possible on dismantling Serbian security structures in Kosovo.

Holding new local elections in northern Kosovo later this year under Kosovo laws also appears challenging. Turnout among Serbs may be very low, which could impair the perceived legitimacy of those institutions.

KFOR is expected to play an important role in the agreement's implementation. During the talks, Serbia demanded that Kosovo pledge not to deploy the Kosovo Security Force or its special police units in northern Kosovo without the consent of local leaders. Pristina has not made such a formal pledge, but Prime Minister Dacic has said that during the talks he received a letter from NATO Secretary General Anders Fogh Rasmussen pledging that such deployments would not be made without KFOR's consent, and then only in cases of natural disaster and in consultation with local Serbian leaders.

Kosovo's Other Challenges

Kosovo faces daunting challenges as an independent state in addition to those posed by its struggle for international recognition and the status of its ethnic minorities. Kosovo suffers from the same problems as other countries in the region, but is in some respects worse off than many of them. Kosovo's problems are especially severe as it has had little recent experience in self-rule, having been controlled by Serbia and/or Yugoslavia until 1999, and by the international community from 1999 until 2008.

Kosovo suffers from weak institutions, particularly in the area of the rule of law. In 2012, the Organization for Security and Cooperation in Europe released a report on Kosovo's judiciary. While praising the adoption of legislation on the courts, the vetting of judges, and on judges' salaries, the report noted serious problems, such as a legacy of strong executive influence, threats against judges and their families, and poor court infrastructure and security arrangements. Reports from the European Commission and other sources note Kosovo's severe problem with organized crime and high-level corruption.

Kosovo's image suffered a blow as a result of a report approved by the Parliamentary Assembly of the Council of Europe (PACE) in January 2011. The report, authored by human rights rapporteur Dick Marty of Switzerland, linked Kosovo Prime Minister Hashim Thaci and others with the alleged murder of prisoners during the Kosovo Liberation Army's war with Serbia in the 1990s, and the extraction of their organs in Albania for sale on the international black market. Thaci and other former KLA leaders strongly deny the charges. An EULEX-appointed prosecutor, (name redacted), an American, is conducting an investigation into the charges. He expects to conclude his investigation in 2014. In April 2013, a Kosovo court convicted five persons in another organ trafficking case, involving the Medicus clinic in Pristina. EULEX prosecutors are now investigating the possible complicity of high-level Kosovo government officials in the case. Marty claimed he had proof of close links between the crimes in the Medicus case (which occurred in 2008) and organ trafficking during the war in the 1990s. He was called to testify in the Medicus case, but did not, due to the failure of PACE to lift Marty's parliamentary immunity.

As noted above, despite the differences between member countries on recognizing Kosovo's independence, the European Commission recommended on April 22, 2013, that the EU open negotiations on a Stabilization and Association Agreement (SAA) between Kosovo and the EU. An SAA would establish closer, contractual relations between Kosovo and the EU and has in the past been a steppingstone to eventual EU membership. The recommendation was in part a "reward" for Kosovo's signing of an agreement on northern Kosovo with Serbia. The EU Council will decide whether to accept this recommendation in June 2013.

Kosovar leaders criticized EU decisions to permit visa-free travel to the EU for the citizens of other countries in the region in 2010, while continuing to require visas for Kosovo. In addition to the practical inconveniences involved, Kosovars may view the decision as a blow to the prestige of their country. Moreover, the country's European integration may be hindered if Kosovars, particularly young people, find it difficult to travel to the EU and see how EU countries function at first hand. In January 2012, the EU launched a dialogue with Kosovo on visa-free travel. However, Kosovo is unlikely to receive visa-free travel in the near future, given that the EU will likely demand substantial improvements in rule of law and border controls first. Moreover, several EU countries have complained about a surge in asylum-seekers from the region since 2010, and the EU has threatened to suspend the whole program unless the problem is resolved.

Kosovo's Political Situation

Kosovo's current government was formed in February 2011, after the December 2010 elections. Hashim Thaci, leader of the Democratic Party of Kosovo (PDK), was reelected as prime minister. In addition to the dominant PDK (which has 34 seats), the government, which was approved by 65 of the 120 members of the parliament, also includes the New Kosovo Alliance, led by wealthy construction magnate Behgjet Pacolli (8 seats). Most of the remaining coalition parties represent Serbs and other ethnic minorities.

As part of the deal to set up the government, Pacolli was elected president of Kosovo by the parliament in February 2011. However, in March 2011, the Kosovo Constitutional Court ruled that Pacolli's election was illegal because not enough members of parliament were present for the vote. Pacolli resigned, and in April 2011 Atifete Jahjaga was elected as president of Kosovo. A non-political, compromise figure, Jahjaga was formerly deputy director of the Kosovo Police Service. The reportedly prominent role played by the U.S. ambassador in pushing for her election sparked some controversy in the Kosovar press.

The acquittal of Ramush Haradinaj of war crimes charges at the International Criminal Tribunal for the former Yugoslavia in November 2012 has led to a rapprochement between his opposition Alliance for the Future of Kosovo (AAK) party and the ruling PDK. This has provided a more stable political basis for the government's negotiations with Serbia. Kosovo may hold early parliamentary elections in 2013, but will likely have to pass electoral reforms acceptable to the international community first. Kosovo's previous elections have been marred by fraud. The parliament could also agree on changes to the constitution, including to make the presidency a popularly elected post, and to hold early presidential elections along with ones for a new parliament.

Kosovo's Economy and International Assistance

Poverty, unemployment, and a lack of economic opportunity are serious problems in Kosovo. Kosovo is one of Europe's poorest countries. According to the World Bank, 34.5% of Kosovo's population fell below the country's poverty line in 2009. Poverty is particularly severe in rural areas and among Roma and other ethnic minorities. Unemployment in Kosovo is over 40%, according to the European Commission's October 2012 report on Kosovo, which notes that data on the subject is scarce and often unreliable. Youth unemployment is even higher, at about 70%. The unemployment is largely structural in character, with about 80% of the unemployed without work for a year or more.

Small and inefficient farms are the largest employers in Kosovo. The country has little large-scale industry and few exports. However, Kosovo does have significant deposits of metals and lignite. Kosovo has to improve its investment climate in order to stimulate growth and attract foreign investment, according to the European Commission and World Bank.

Due to a surge in government spending (including a sharp increase in government salaries) and a failure to rein in its budget deficit, the IMF cut off funding from a stand-by loan in 2011. This also led to the interruption of macro-financial funding from the EU. However, a new 106.6 million Euro stand-by arrangement was approved in April 2012, and Kosovo has received several tranches of the loan since then.

Kosovo has been dependent on international aid and expenditures by international staff in Kosovo. These sources of income have declined in recent years. Kosovo is also dependent on remittances from the large number of Kosovars abroad. The first makes up about 7.5% of Kosovo's Gross Domestic Product, and the latter about 10%, according to the 2013 CIA World Factbook. However, Kosovo has not been as strongly affected by the global economic crisis as other countries, due to its low level of integration into the global economy. The IMF estimates that Kosovo's real Gross Domestic Product (GDP) grew by 2% in 2012. It expects GDP growth of 2.9% in 2013 and predicts 4.3% growth for 2014.

In 2013, Kosovo is slated to receive 71.4 million Euro in aid under the EU's Instrument for Pre-Accession Assistance (IPA). The aid provides support for the rule of law, the economy, and for public administration reform. The EU hopes to determine by the end of June the amount to be allocated for Kosovo and other aid recipients for the period 2014-2020.

U.S. Policy

The United States recognized Kosovo's independence on February 18, 2008, one of the first countries to do so. The United States has urged other countries to extend diplomatic recognition to Kosovo, with mixed success. In December 2008, President Bush announced that Kosovo had been included under the Generalized System of Preferences, a program that cuts U.S. tariffs for many imports from poor countries. (Kosovo also receives similar trade privileges from the EU.)

Vice President Joseph Biden set the tone for the Obama Administration's Balkans policy when he visited Kosovo in May 2009, after stops in Bosnia and Serbia. He received a hero's welcome in Kosovo, where he declared that the "success of an independent Kosovo" is a U.S. "priority." He offered U.S. support to Kosovo in dealing with its many challenges, including building effective institutions, fighting organized crime and corruption, and improving ties with ethnic minorities. He said he stressed to Serbian leaders the United States' own strong support for an independent Kosovo and urged them to cooperate with Kosovo institutions and EULEX instead of setting up separate institutions for Kosovo Serbs.⁵ On the other hand, when he was in Belgrade, Biden told Serbia's leaders that he did not expect them to recognize Kosovo's independence in order to have improved relations with the United States.

Although strongly supporting the Serbia-Kosovo talks, U.S. officials have said the United States is a "guest," not a participant or mediator. However, the U.S. role is still significant, given that Kosovar leaders view the United States as their country's most powerful and reliable ally.

On September 10, 2012, the White House issued a statement by President Obama hailing the end of supervised independence in Kosovo. He said Kosovo has made "significant progress" in "building the institutions of a modern, multi-ethnic, inclusive and democratic state." He added Kosovo had more work to do in ensuring that the rights enshrined in the country's constitution are realized for every citizen. President Obama also called on Kosovo to continue to work to resolve outstanding issues with its neighbors, especially Serbia. U.S. officials have also urged Serbia to come to terms with Kosovo's independence, including by normalizing ties with Pristina and dismantling parallel Serbian institutions in Kosovo.

⁵ A text of Vice President Biden's speech to the Assembly of Kosovo can be found at the White House website at http://www.whitehouse.gov/the_press_office/Remarks-By-The-Vice-President-To-The-Assembly-Of-Kosovo/.

Secretary of State Hillary Clinton visited the region in late October and early November 2012, stopping in Bosnia, Serbia, Kosovo, Croatia, and Albania. In a move that underlines the U.S. focus on coordination with the EU, she visited Bosnia, Serbia, and Kosovo jointly with EU foreign policy chief Baroness Catherine Ashton. At every stop, Clinton emphasized the solidarity between Brussels and Washington on Balkan policy.

During visits to Serbia and Kosovo, Clinton stressed the importance for both sides to negotiate in good faith in the EU-brokered talks aimed at normalizing their relationship so that they can integrate with the European Union. She praised Kosovo Prime Minister Hashim Thaci for meeting in Brussels with Serbian Prime Minister Ivica Dacic and Ashton. Clinton stressed that the United States regards Kosovo's sovereignty and territorial integrity as completely non-negotiable. Although most EU countries would agree with the statement, Ashton could not make such a comment, as the EU is divided on the issue of Kosovo's independence.⁶ Clinton's statement may have been aimed at offering reassurance to Thaci for the talks, which are about as controversial in Kosovo as they are in Serbia. It is considered likely that Kosovo will face pressure from Serbia and possibly from some EU countries to agree to wide-ranging de facto autonomy for Serbian-dominated northern Kosovo.

On April 19, 2013, Secretary of State John Kerry issued a statement hailing the agreement on northern Kosovo, and calling on both sides to speedily implement it and the other agreements they have reached. Kerry also commended Baroness Ashton for her role in facilitating the talks. He said the United States remained deeply committed to seeing Serbia and Kosovo and the region achieve their goals of integrating into a Europe whole, free, and at peace.

On April 24, the Subcommittee on Europe, Eurasia, and Emerging Threats of the House Foreign Affairs Committee held a hearing on Kosovo-Serbia relations. Acting Deputy Assistant Secretary of State Jonathan Moore expressed strong Administration support for the April 19 agreement and underlined that close U.S.-EU policy coordination helped bring it about. Subcommittee Chairman Representative Dana Rohrabacher expressed strong skepticism about the viability of the agreement. He reiterated his long-standing support for referendums to be held in Serb-majority areas of northern Kosovo and ethnic Albanian-majority areas of southern Serbia on which country the populations there want to belong to. Such referendums would likely result in a swap of territories between the two countries. Moore repeated the Administration's opposition to this approach, claiming it could lead to further conflict in the region.

U.S. Aid to Kosovo

U.S. aid to Kosovo has declined significantly in recent years. According to the FY2013 Congressional Budget Presentation for Foreign Operations, in FY2012, Kosovo received an estimated \$67.45 million in U.S. aid. For FY2013, the Administration requested a total of \$57.669 million for Kosovo. Of this amount, \$42.544 million is aid for political and economic reforms from the Economic Support Fund (ESF), \$10.674 million from the International Narcotics Control and Law Enforcement account (INCLE), \$0.7 million in IMET military training aid, \$3 million in Foreign Military Financing (FMF), and \$0.75 million from the Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) account. In its

⁶ See the State Department website at <http://www.state.gov/secretary/trvl/2012/199645.htm>

FY2014 budget, the Administration aid request for Kosovo includes \$41 million in ESF funding, \$10.7 million from the INCLE account, \$0.75 million in IMET aid, and \$4 million in FMF.

U.S. aid programs include efforts to support the Kosovo Police Service and strengthen the judicial system and local government in Kosovo. U.S. aid is used to provide police officers and judges to EULEX. Technical assistance is used to build the capacity of Kosovo's government and parliament. U.S. aid also assists Kosovo in improving its system of higher education. A significant part of U.S. aid is targeted at promoting the integration of the Serbian minority into Kosovo's government and society. Foreign Military Funding (FMF) and IMET military training aid help improve the capabilities of the Kosovo Security Force. Assistance from the Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) account is aimed at boosting the capacity of Kosovo border police to fight proliferation and trafficking.

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