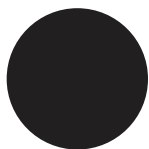


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The Balkans' Underbelly

David L. Phillips

PRISHTINA, Kosovo—For nearly two years Kosovo, the world's newest nation, has struggled to be recognized as a sovereign state. On July 22, 2010, the International Court of Justice [ICJ] removed uncertainty about Kosovo's status since its declaration of independence from Serbia on February 17, 2008—concluding that the declaration did not violate international law. But Kosovar Albanians knew long before the court's opinion that their freedom from Serbia was, and remains, irrevocable. They would never stand for the return to Serbian control.

Bread, Butter and Business

While the ICJ opinion was a defining moment, Kosovar Albanians are more focused on bread-and-butter issues, like the country's moribund economy. Legitimacy is not just a legal matter—Kosovar Albanians

want their leaders to focus on state building. Like many post-conflict and post-communist nations, Kosovo suffers from crime, corruption and ineffective governance. This is the poorest country in Europe, with an average annual per capita income of only \$2,500. Forty-five percent of the country is poor, while some 15 percent of Kosovo's citizens live in extreme poverty. Corruption compounds economic problems by corroding Kosovo's economic development.

According to Transparency International, between 13 percent and 22 percent of those surveyed indicated that they had bribed a public official in 2009. A total of 38 percent believe that the judiciary is Kosovo's most corrupt institution. Contracting and licensing, especially at the local level, is highly politicized. Businesses must navigate a dizzying array of officials, many of whom take care of those who take care of them.

Beyond individual rights, the rule of law must regulate economic activity and counter corruption. Its cornerstones include an independent judiciary and prosecutors who operate independently from the government. In Kosovo, government loyalists are too often named as prosecutors to important anti-corruption positions. Anti-corruption investigations are used to intimidate or discredit opponents of the government. Dr. Ilir Tolaj, the former permanent secretary of the Ministry of Health and a prominent government critic, was charged with owing back taxes while far more serious offenders walk free.

Watchdog groups report that an increasingly narrow clique of government-related friends and family control the procurement of contracts for ministries. The same clique controls government-owned enterprises poised for privatization. Perceptions of corruption and cronyism are sharpened by the government's reluctance to take action against high-profile violators, including ministers in the Cabinet, deputy ministers and political party apparatchiks. Fatmir Limaj, the Transportation Minister, has a notorious reputation for self-dealing as does the governor of Kosovo's Central Bank.

Culture of Corruption

Locals maintain that the Kosovo Information Service [SHIK] is largely responsible for the culture of corruption and criminality in Kosovo. SHIK is the underground intelligence agency of the Democratic Party of Kosova [PDK], the leading member of Kosovo's coalition government. Though loyal to the PDK, SHIK is ultimately accountable to no-one. This is the root of the nation's problems.

As a clandestine organization, there is no documentation on SHIK's activities. Credible sources—including former members of the Kosova Liberation Army [KLA] and

three former prime ministers—affirm that SHIK members permeate public and private life in Kosovo, generating inestimable sums from bribery, extortion and racketeering.

The business model is simple. Those who cooperate are rewarded. Critics are targeted. Journalists who report on corruption are harassed and threatened. The Kosovo government pressures Radio-Television of Kosovo, and officials use economic leverage to dissuade advertisers from doing business with independent media such as *Koha Ditore* and *Zeri*. Staffers on one television program that has been most critical, "Life in Kosovo," received death threats after airing a report critical of a PDK mayor. A prominent member of civil society who referred to the government as "a joint criminal enterprise" was labeled "anti-state" by the government spokesman. Critics are reflexively accused by *Infopress* and other government mouthpieces of being "Serbian spies," leaving them open to harassment, or worse. I was personally accused of being a Serbian spy after publishing a report on Kosovo's problems. If the government's defenders don't like the message, they go after the messenger.

Despite a limited circulation, *Infopress* has more lucrative, government-sponsored advertising than any other newspaper. Its publisher is a PDK member of Parliament. Responding to questions about SHIK, Parliament Speaker Jakup Krasniqi, a prominent PDK member, issued public declarations insisting that SHIK was formally disbanded two years ago, though its continued existence is well-known.

In the Shadows

SHIK is part of a shadowy underworld of political intelligence agencies that have long dominated internal security in Kosovo. It was established by Kosovar Albanians from the Drenica Valley in the 1990s to complement activities of the KLA.

Initially, SHIK was financed by funds left over from the 1999 war, particularly the “Homeland Calling” fund that raised revenue from the Albanian diaspora to finance the KLA’s guerilla fight for independence from Serbia.

Kosovo’s other political parties also set up intelligence services during the war with Serbia. The Democratic League of Kosovo [LDK] formed its own intelligence wing, known as the Institute for Researching Public Opinion and Strategies. With 300 personnel at its peak, the Institute was partly financed by earmarked donations from Kosovar Albanians living abroad. It also received a percentage of bribes paid to the LDK by local business people hoping to win contracts for reconstruction and other work. Though each party had its own underground intelligence network, SHIK became the largest and most professional—ultimately absorbing other groups.

The KLA morphed into several political parties after the war. The current prime minister, Hashim Thaci, formed the PDK, which benefitted from its ties to SHIK. In turn, SHIK’s initial post-war activities included the protection of party officials, as well as gathering information on, and intimidating, political opponents. In the immediate aftermath of the war it seized goods left behind by Serbs as they hurriedly withdrew. SHIK also joined the real estate business, occupying abandoned Serb-owned apartments and demanding a fee to release them to would-be home buyers.

During the war and thereafter, Kadri Veseli was the undisputed head of SHIK. While SHIK had more than 100 core employees at its peak, up to 750 more were paid on performance and for information services. Personnel are mostly KLA fighters who worked in 1990s for the Council for the Defense of Human Rights and Freedoms, a grassroots organization whose main focus was collecting evidence of

human rights abuses by Serbian security forces. Kosovar Albanians who worked for the Internal State Security Service [UDBA], Serbia’s feared intelligence agency, were also co-opted. SHIK’s pyramid structure allows each person to benefit from the activities of affiliates—gaining money, power and influence.

Though Veseli has never had an official role within the government, he has close ties to Prime Minister Thaci. Veseli and

Truckloads of bootleg cigarettes and gasoline are waived across the Kosovo-Macedonia border each day.

his principal deputies—Azem Sylja, Fatmir Xhelili and Latif Gashi—have amassed large personal fortunes. SHIK members have built extravagant homes in Kosovo and reportedly go on gambling sprees in casinos around Europe. SHIK’s funds are also used to finance the PDK’s activities. To make sure its cronies hold decision-making positions, SHIK liaises with its PDK cohorts to influence employment decisions for senior posts in the government.

SHIK monitors more than half of the state’s procurements and receives kick-backs when contracts are awarded. This practice is widespread, but not pervasive. Limaj, who is under investigation for corruption by the European Rule of Law Mission in Kosovo [EULEX], had a falling out with SHIK for resisting SHIK’s intrusion into his ministry’s contracting system. Donations to SHIK are provided by Kosovo businessmen who benefit both from its protection and facilitation of contracts. A former KLA leader from Peja, who is now a businessman, maintains that nearly two-thirds of Kosovo businesses have paid

bribes to SHIK over the past decade. SHIK also has a mutually beneficial relationship with large publicly owned enterprises like the Kosovo Airport, the Kosovo Post and Telecom, the Kosovo Electric Corporation and petrol refineries.

In addition, SHIK has extensive ties with Kosovo's border control—working with a variety of criminal gangs to facilitate smuggling of cigarettes and drugs through border crossings. SHIK controls the two major customs posts in North Kosovo along the border with Serbia and has operational links with organized crime in neighboring countries (Macedonia, Serbia, Albania, Greece and Montenegro). At least 10 truckloads of bootleg cigarettes and gasoline are waived across the Kosovo-Macedonia border each day. SHIK and its Greek partners are also extensively involved in smuggling meat products, which launders its illicit funds through legal businesses like Kosova Petrol. Lucrative corner gambling establishments and gaming machines, which are widespread in Kosovo, are also controlled by SHIK. SHIK has a political agenda, too. It reportedly cooperates with the International Criminal Tribunal for Yugoslavia [ICTY] and has provided witnesses to the ICTY prosecutor targeting political opponents of the PDK.

SHIK's Utility

SHIK is well-known to the United States. Back in 1999 its operatives were identifying targets for NATO air strikes. After the war, SHIK played a helpful role by preventing Salafi extremists from penetrating Kosovo via Islamic charities and service organizations. SHIK comprises four directorates, one of which works with western intelligence agencies on counter terrorism. SHIK also draws on working relations with Serbian intelligence. Criminal gangs, also controlled by SHIK, keep things calm in Mitrovica, a divided city

along the Ibar River and a potential flash point for the resumption of hostilities between Serbs and Kosovar Albanians.

More than two years ago, Veseli issued a press release announcing that SHIK was discontinuing its activities. His surprise announcement sparked a debate about integrating SHIK and other intelligence organizations into a formal state security structure. The Kosovo Intelligence Agency [KIA] was established in 2009. Some of SHIK's members were hired to leadership positions in the KIA. Others have obstructed the KIA's work to ensure that it does not compete or interfere with SHIK's ongoing activities. SHIK members have spread their network throughout the government, especially the Ministry of Internal Affairs and other ministries with a procurement function. SHIK's network has penetrated the Kosovo Security Force and the Kosovo Police. It also has considerable influence over members of the judiciary. It is unclear whether SHIK still exists as a body, but clearly SHIK cannot be transformed into a professionally-run and accountable agency without excising its criminal elements.

An honest reckoning with SHIK should not overshadow Kosovo's considerable progress or the PDK's successes. Prime Minister Thaci deserves credit for maintaining stability and stewarding Kosovo's peaceful emergence in the family of nations. Kosovo's constitution enshrines the so-called Ahtisaari principles on minority rights, cultural autonomy and decentralization for Kosovo's Serbs. Named for Finland's former president and Nobel Peace Prize winner, Martti Ahtisaari, the principles guarantee the rights of various communities, such as Serbs and Roma. Thaci has also expanded infrastructure and undertaken an ambitious privatization program. Last year, Kosovo became a member of the World Bank and the International Monetary Fund—important steps in efforts to secure foreign aid and gain greater global

recognition. In 2008, some €1.2 billion was pledged at a donor's conference. On July 21, 2010, the IMF approved a loan package of \$140 million. In addition, the World Bank and European Commission pledged nearly double the IMF package.

In July, 2010, Vice President Joe Biden warmly welcomed Prime Minister Thaci to the White House, where Thaci pledged "zero tolerance for corruption." But even Kosovo's staunchest supporters believe that its government should be judged by accomplishments toward achieving that goal—deeds rather than words. SHIK members insist that allegations of criminality are unfair. They see themselves as patriots who fought and sacrificed to liberate Kosovo, and now feel entitled to the benefits. Still, there is no place for an underground intelligence network in a nascent democracy and struggling free-market economy.

Responsibility for combating corruption rests with the Kosovo government, which should demonstrate that it is serious by taking the initiative to dismiss or arrest corrupt ministers and hold other high-level violators accountable. Family members of government officials should not be exempt from such standards. Kosovo's political leaders must strengthen the Anti-Corruption Agency. The Kosovo Parliament needs to address legislative gaps for fighting organized crime while harmonizing legislation to conform to EU standards.

Prosperity is the Best Medicine

Prosperity is the best antidote for Kosovo's ills. To this end, the government should seek to reduce its role and empower private initiative. Kosovo needs to improve its business environment, especially for the small and medium-sized enterprises that are the engine of market-led economic growth. "One-stop shops" for business

registration and licensing, including online registration and tax payments, would further streamline the process of conducting business, depoliticize the registration process and counter corruption. At the municipal level, measures are needed to standardize registration procedures, unify rules for construction permits and make contract enforcement effective.

SHIK members have spread their network throughout the government, especially the Ministry of Internal Affairs.

Kosovo's independent media needs to be bolstered, not suppressed. Members of the U.S. Congress should condemn the harassment of journalists, sending a strong signal to the Kosovo government, which places great stock in its reputation on Capitol Hill. A donor-funded grant program for civil society anti-corruption watchdog groups could also be established. Even the KIA has its own critical role to play. While it should be accountable to the parliament, prime minister or president, international monitoring is needed to make sure it does not turn into a tool for party politics.

There is much more the international community can do to help the government crack down on corruption and criminality. In 2008, the EULEX was established, with executive powers to investigate, prosecute and adjudicate specific categories of crimes including corruption. However, it got off to a slow start. Hamstrung by a lack of consensus in Brussels, EULEX has been risk averse and process oriented, pursuing consensus to the point of inaction.

Roy Reeve, Deputy Head of the EULEX mission, wrote in a letter on June 28 that "investigations into corruption and orga-

nized crime take time, and over the last few years we have shown that the Mission is starting to book positive results after just over 18 months of operations. EULEX prosecutors on a district court level are involved in 55 cases related to corruption... the Government, with the support of EULEX, has recently established an Anti-Corruption Task Force.”

Indeed, EULEX has recently taken a more robust approach. On July 14, 2010, a mixed panel of judges convicted a Prishtina District Court judge for accepting bribes. On July 15, EULEX and the Anti-Corruption Task Force searched eight locations, including government offices and private residences. Eight days later, the task force arrested the governor of the Central Bank. EULEX investigators searched Limaj’s home and office, as well as the premises of the PDK chief executive officer.

These overdue measures will have a positive impact on Kosovo’s economy. More than 40 percent of Kosovo’s citizens are unemployed, and the unemployment rate for persons age 15 to 24 is 70.5 percent. Of these, 96.3 percent have never held a job. About 30,000 people join the job market each year, with little to no prospect of employment. Growth fell to 4.4 percent in 2009, from 5.8 percent the previous year. The nation’s economy depends heavily on public expenditures, which grew 39 percent from 2008 to 2009 and represented 60 percent of GDP in 2009.

The U.S. and Kosovo

Kosovo and the United States have a special relationship. Former presidents Bill Clinton and George W. Bush are widely respected here—Clinton for leading NATO’s military action that freed Kosovo from Serbian rule, Bush for stewarding Kosovo’s coordinated declaration of independence. Kosovar Albanians have a deep affection for all things American. Next to billboards reading: “Thank you, NATO. We love you” are posters advertising a recent Snoop Dogg concert in Prishtina.

The ICJ opinion will surely galvanize greater global recognition of Kosovo. As before, the United States is taking the lead, urging countries to establish diplomatic relations. However, the case for recognition would be stronger if Kosovo improved its governance and cracked down on corruption.

The partnership between Kosovo and the United States would be enhanced, not diminished, by a more frank and open dialogue. Kosovo’s democracy would be strengthened if Kosovar Albanians saw that America was willing to highlight both the strengths and shortcomings of its elected officials. The Obama administration believes that respect, access, and demand are the key elements to the rule of law. It should make clear that nobody stands above the law—even in the Balkans. ●