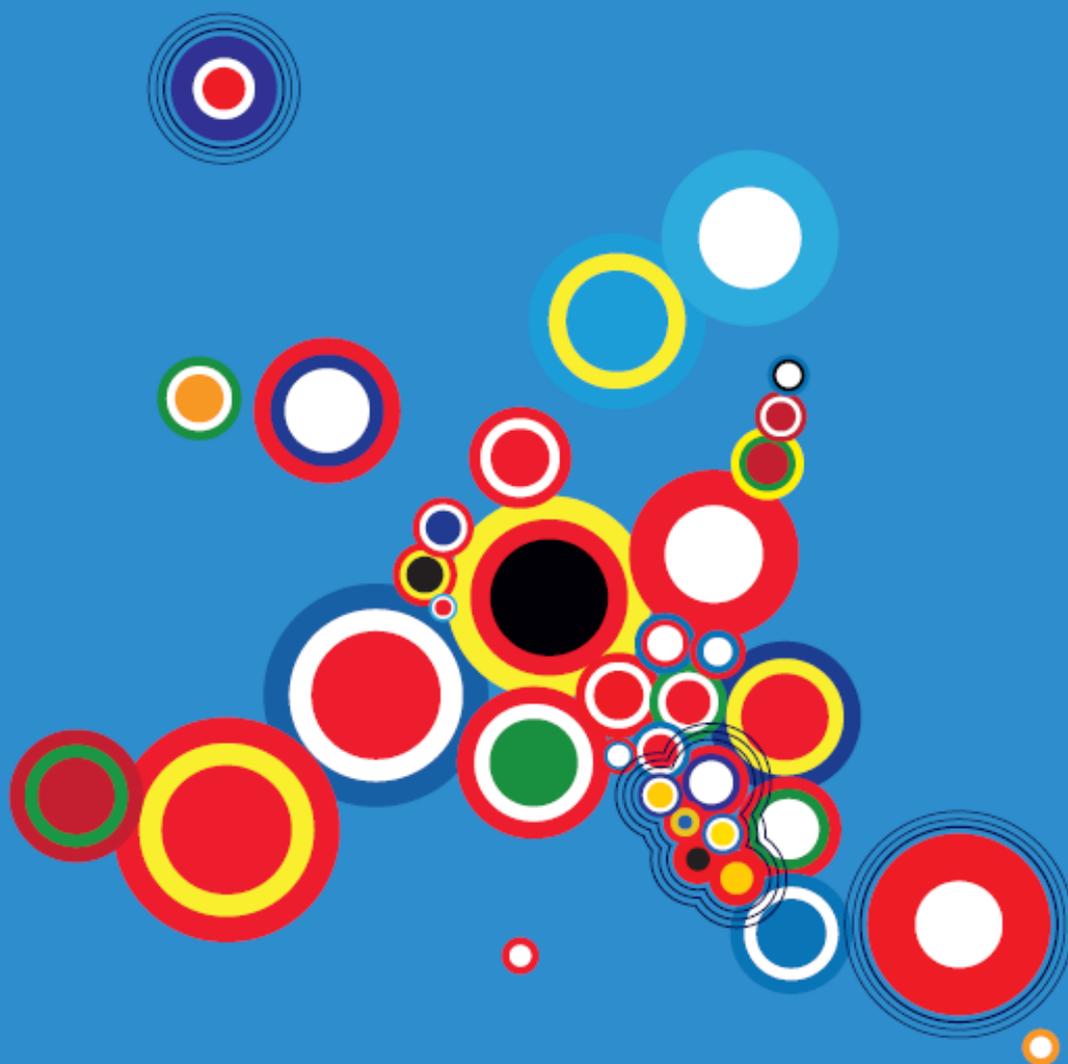




European
Commission

Kosovo* Progress Report



October 2014

Enlargement

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

*In its Communication 'Enlargement Strategy and Main Challenges 2014-15'¹,
the Commission put forward the following
conclusions and recommendations on Kosovo:*

Completion of the negotiation of a Stabilisation and Association Agreement with Kosovo and its initialling in July is a milestone on Kosovo's European integration path. It will be the first comprehensive agreement between the EU and Kosovo. The SAA provides for enhanced political dialogue, closer trade integration, including opening EU markets to Kosovo's industrial and agricultural products, and new forms of cooperation. The Commission now looks forward to its signature and conclusion. Following the elections in June, there has been an increasingly polarised political environment and Kosovo has come to a situation of political deadlock, delaying certain key reforms.

Kosovo has made progress in its visa liberalisation dialogue. Good cooperation with the EU rule of law mission, EULEX, has continued. Kosovo authorities have made a substantial political commitment to renew the mission's mandate whilst taking up more responsibilities, and agreed to establish a specialist court to hear cases arising out of the investigation led by the Special Investigative Task Force. To complete this process, Kosovo needs to adopt the necessary legislative changes including to its constitution. Kosovo should cooperate with the planned court and deal with the past.

Kosovo faces numerous challenges. The rule of law in Kosovo, including judicial independence, and limited results in the fight against organised crime and corruption remains a major concern. More needs to be done to address shortcomings raised in the visa dialogue, including mitigating the security and migratory risks of potential visa liberalisation. The need for structural economic reforms addressing the high level of unemployment is becoming urgent. Important reforms such as electoral reform and public administration reforms need to be undertaken as a priority and the protection of minorities addressed.

Kosovo needs to actively work on its EU reform agenda and the priorities highlighted in the 2012 Feasibility Study and most recent Progress Reports. Under the SAA, Kosovo has committed to comprehensive reform and legislative alignment with the EU *acquis*, including in sectors such as the rule of law, public administration, economy, competition and trade. Kosovo should focus on preparing the smooth implementation of the SAA including the necessary structures. The Commission stands ready to support Kosovo as it moves to this important new stage in its relations with the EU and step up its dialogue with the National Council on European Integration.

Kosovo's progress towards its European future has been possible due to the progress made by Kosovo in the reforms and its continued commitment to the normalisation of its relations with Serbia, which has seen significant progress. In this regard, the new government in Kosovo will need to maintain the commitment to regional cooperation and an active and constructive engagement in the normalisation process with Serbia. Kosovo should continue to ensure the implementation of the agreements reached in the dialogue.

The situation in northern Kosovo remains tense. All actors should cooperate with EULEX, and refrain from taking unilateral steps. EULEX should be fully supported to carry out its mandate in north Kosovo. Further efforts should be made to allow the four northern municipalities to function under Kosovo's legal framework.

¹ COM(2014)700 final of 8.10.2014

*Summary of findings of the
2014 Progress Report on Kosovo*²

With regard to the **political criteria**, the past year saw Kosovo's political agenda dominated by local and general elections and their aftermath. The June general elections were transparent and well-organised. Election day passed without major incidents and voters cast their votes freely throughout Kosovo, including in the four northern municipalities. The elections consolidated progress made in the local elections of end-2013. In both cases, the electoral process improved. There were fewer electoral fraud cases than in the 2010 elections, and they were handled efficiently. A considerable number of the 2010 cases are still pending in the courts. Kosovo still needs to address recommendations from the election observation missions and experts. These include adoption of a comprehensive electoral code and enhancing the accuracy of voters' lists. Electoral reform needs to ensure that the legal framework for elections reflects best practice in the EU. Kosovo's recent membership of the Venice Commission can help in this regard.

The failure to constitute the new legislature smoothly and in a timely manner has been a setback. The new government and the Assembly will need to re-energise Kosovo's reform agenda. Both institutions need to build on the existing political consensus in Kosovo on EU integration. Kosovo's government has demonstrated its capacity to coordinate its EU-integration agenda, notably with regard to the SAA negotiations. Building on the expertise across different departments and institutions, Kosovo's negotiators put substantial effort into scrutinising the proposed text and analysing its possible impact. This reflects a good grasp of the impact of the commitments made.

To implement and meet the obligations under the future SAA, Kosovo's executive and the Assembly need to focus on the implementation of legislation and policies. Legislative and policy plans need to realistically reflect the resources required. The new legislature provides for a good opportunity to improve oversight of the executive and the legislative process. The Assembly's role in supervising independent institutions and regulatory authorities needs to be strengthened. The independence of these bodies needs to be upheld and appointments for these bodies need to proceed without delay and be based on a fair and depoliticised selection process with objective criteria.

Good cooperation with the EU rule of law mission, EULEX, has continued. Kosovo authorities have made a substantial political commitment to the extension of the mission's mandate and agreed to establish a specialist court to adjudicate findings of the Special Investigative Task Force. To complete this process, Kosovo needs to adopt the necessary legislative changes, including to its constitution. Judicial authorities have coped well with structural challenges such as the comprehensive judicial reform adopted in 2013 and the process of the transfer of some EULEX functions to local authorities. The Structured Dialogue on the Rule of Law continued to support this process. The backlog of cases and ensuring impartial, independent justice remains a challenge. Kosovo judicial authorities need to proactively pursue indictments based on admissible evidence, and issue well-reasoned, timely judgments, irrespective of prevailing public or political opinion.

With regard to the fight against corruption and organised crime, the number of drug-related crime investigations has increased and some human trafficking groups have been dismantled. However, with a low number of actual convictions and drug seizures, Kosovo is at an early stage in its fight against organised crime and corruption. Law enforcement agencies are reluctant to initiate financial investigations and the number of cases of freezing and confiscating assets ordered by the judiciary and executed by the police continues to be low. Witness intimidation is still a major concern. The new government and parliament need to

² Annex to COM(2014)700 final of 8.10.2014

show zero tolerance towards corruption and organised crime and a clear political will to the effective fight against corruption and organised crime. Kosovo's political class needs to demonstrate its readiness to accept the outcome of independent judicial processes. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The implementation of the strategy (2010-13) and action plan (2012-14) on public administration reform has been a major challenge for Kosovo, delivering very limited results. Supported by a serious political commitment, Kosovo needs to establish a realistic strategic framework for policy making, legislative planning and the practical implementation of reforms. Completing the legislative framework for the civil service, ensuring it is depoliticised and carrying out performance appraisals of the civil service are priorities. Kosovo also needs to adopt a law on general administrative procedures, which is crucial for the development of a business-friendly environment. While some public financial management rules and regulations are in place, Kosovo should ensure a more comprehensive approach to the reforms in this field. Kosovo needs to ensure their implementation and improve follow-up to Auditor-General reports.

Human and fundamental rights continue to be broadly guaranteed by law in Kosovo. The Independent Media Commission is operational again. The perpetrators of violence against Kosovo 2.0 journal received suspended sentences. Threats and attacks on lesbian, gay, bisexual, transgender and intersex (LGBTI) activists and on journalists have continued, which remains a serious concern. The conditions for freedom of expression and media need to be put in place. Property rights need to be effectively enforced, including women's access to inherited property. Kosovo has yet to streamline its institutional system dealing with human rights protection. The respective responsibilities are not clear, which hinders the implementation of legislation and monitoring.

Land has been allocated to some internally displaced families from the Roma community living in a camp in Montenegro. The main building of the Roma camp in Leposaviq/Leposavić has been closed. The Implementation and Monitoring Council has facilitated improved protection of cultural and religious heritage. However, Kosovo needs to step up its efforts to ensure implementation of legislation and policy frameworks, including the action plan on the integration of Roma, Ashkali and Egyptian communities. Security incidents and crimes targeting persons belonging to minorities and their property need to be investigated and prosecuted thoroughly and promptly. The laws on the historic centre of Prizren and on Velika Hoča/Hoçë e Madhe need to be implemented. The Law on Velika Hoča /Hoçë e Madhe is of particular concern as no progress in its implementation has been made despite a municipal decision of February 2013 to move ahead and despite the provision of administrative instructions by the Ministry of Environment and Spatial Planning. Robust action is required to prevent illegal construction and demolition of cultural heritage sites.

On regional cooperation, Kosovo has made further progress, and it has concluded further bilateral cooperation agreements with several of its neighbours.

Regarding the **normalisation of relations with Serbia**, Kosovo has remained engaged in the dialogue and overall committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue. This has led to a number of irreversible changes on the ground, with local and parliamentary elections held Kosovo wide for the first time and the dismantling of the Serbian police and justice structures substantially advanced. A permanent solution for Kosovo's inclusion in the South-East European Cooperation Process (SEECP) was endorsed. While there have been no high-level meetings since early elections were called in Kosovo, work has

continued at technical level, leading to progress in the areas of customs collection, IBM, energy and telecoms.

However, progress in the dialogue implementation has generally slowed down. Early general elections were held in both Serbia and Kosovo. It is important that the high-level dialogue resumes. It is also essential that both sides continue to engage fully in the implementation in good faith of all existing agreements. Further progress should gradually lead to the comprehensive normalisation of relations between Serbia and Kosovo, in the form of a legally binding agreement by the end of Serbia's accession negotiations, with the prospect of both Serbia and Kosovo being able to fully exercise their rights and fulfil their responsibilities.

As regards the **economic criteria**, Kosovo made limited progress on its path to become a functioning market economy. Substantial efforts are needed to tackle structural weaknesses to cope with competitive pressures and market forces within the Union over the long term.

Economic growth remained positive at 3.4% but did not yield any improvements in labour market conditions. High external imbalances persist despite some narrowing of the trade deficit. Macroeconomic stability was broadly preserved despite significant pre-election *ad hoc* increases in current expenditure, in particular on wages and pensions. Such practice deteriorates the transparency, predictability and credibility of fiscal policy, complicates fiscal planning and shifts the composition of spending towards less growth-friendly expenditure.

Strengthening fiscal planning and effectively implementing the fiscal rule is vital. Moreover, decisions on large infrastructure projects, such as in the transport sector, should be based on proper cost-benefit evaluations to maximise economic benefits. In view of the persistent and very high unemployment, efforts should be undertaken to facilitate private-sector development through improvements in the business environment. To that end, obstacles arising from weak administrative capacities, difficult access to finance and lengthy and complex privatisation procedures should be swiftly addressed. Kosovo must ensure a properly functioning legal and judiciary system, enhance contract enforcement and effectively reduce delays in courts. Economic statistics need to be improved.

Regarding **approximation to EU laws and standards**, Kosovo institutions have demonstrated their capacity to deliver on the political priorities, such as the SAA negotiations, the visa liberalisation dialogue and the dialogue with Serbia. This was the result of strong political commitments. Delivery of results in other priority reform areas has been more uneven. The basic legal framework allowing for capital movement remains in place, but obstacles to real estate purchases by foreigners persist. As concerns competition, Kosovo's track record is limited, which is due to very weak oversight of anti-competitive practice and state aid. Kosovo needs to ensure that the competition authorities are effective and independent. The law on public procurement was amended to introduce preferences for local producers. These preferences will have to be removed within five years of the entry into force of the SAA.

There has been a steady improvement in Kosovo's energy supply with the result that power cuts are now infrequent. An explosion at the Kosovo A plant underlined the fragility of the system. Kosovo needs to prepare more actively to decommission this plant. There has been sound progress in agriculture and food safety, despite scarce resources. The transfer of inspectors to the central agency needs to be completed urgently. This is essential to enforce food and veterinary standards, which are important for trade in the context of the SAA. The lack of interest in the environment has become a serious issue for public health and the quality of life in Kosovo.



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COMMISSION STAFF WORKING DOCUMENT

KOSOVO*
2014 PROGRESS REPORT

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Enlargement Strategy and Main Challenges 2014-2015

{COM(2014) 700 final}

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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1. INTRODUCTION

1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress the countries of the Western Balkans region are making towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes relations between Kosovo* and the European Union;
- analyses the situation in Kosovo in terms of the political criteria;
- analyses the situation in Kosovo on the basis of the economic criteria;
- reviews Kosovo's capacity to implement European standards, i.e. to gradually approximate its legislation and policies with the *acquis*, in line with the Stabilisation and Association Process.

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the Kosovo authorities, the EU Member States, the EU rule of law mission (EULEX), European Parliament reports³ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Kosovo in its separate communication on enlargement,⁴ based on the technical analysis contained in this report.

1.1. Context

To date, Kosovo has been recognised by 110 UN member countries, including 23 EU Member States.

During the reporting period, the UN Secretary-General continued to provide regular updates on the implementation of the UN's mission in Kosovo (UNMIK). He reported on progress made in the implementation of the *First agreement of principles governing the normalisation of relations* of 19 April 2013, the local elections and developments in the north. He welcomed the decision of the Council to authorise the negotiations on a Stabilisation and Association Agreement with Kosovo.

The NATO-led Kosovo Force (KFOR) has continued to help ensure a safe and secure environment in Kosovo. During the reporting period, it had some 5,000 personnel.

1.2. Relations between the EU and Kosovo

Negotiations on the **Stabilisation and Association Agreement (SAA)** between the EU and Kosovo started in October 2013 and were completed in May 2014. The chief negotiators initialled the agreement in July 2014. The Commission is now preparing proposals for

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

³ The rapporteur for Kosovo is Ms Ulrike Lunacek.

⁴ Enlargement Strategy and Main Challenges 2014-2015, COM(2014) 700.

Council decisions on signature and conclusion. The future SAA will be an ‘EU-only’ agreement. Its main elements are enhancing trade between the EU and Kosovo, the obligation for Kosovo to align its legislation with the EU *acquis* in a broad range of sectors, and the possibility to develop a political dialogue between the EU and Kosovo. The development of trade and investment and modernisation of the legal and institutional setup are crucial to Kosovo’s economic restructuring and modernisation. The SAA anchors Kosovo into the mainstream of EU relations with Western Balkan countries and confirms Kosovo’s European perspective in the context of the 1993 Copenhagen criteria.

Kosovo has continued to address priorities set out in last year’s progress report and in the feasibility study for a Stabilisation and Association Agreement.⁵ In particular, progress has been made on the electoral process and on requirements of the visa liberalisation dialogue. The role of the Assembly and the government’s capacity to coordinate complex negotiations such as on the SAA and on trade issues, have been strengthened. However, electioneering throughout the year and the complex process of government formation after the June elections has affected progress in some areas.

Kosovo’s commitment to the EU-facilitated dialogue and normalisation of relations with Belgrade has been key for the advancement of its European ambitions. Kosovo needs to continue focusing on the implementation of agreements reached with Serbia and on progress in the areas identified by the feasibility study to meet its obligations under an SAA.

In the context of the **Stabilisation and Association Process**, Kosovo has remained engaged in the Stabilisation and Association Process Dialogue (SAPD). The structured dialogue on the rule of law continued. Discussions focused on political interference in the judiciary and on further developing Kosovo’s capacity to assume responsibilities to be transferred by EULEX.

The **visa liberalisation** dialogue has been one of the key priorities for Kosovo. To date, the Commission has issued two reports on Kosovo’s efforts in this process (February 2013 and July 2014). Expert missions took place in December 2013 and in March 2014. The fourth meeting of senior officials took place in June 2014.

The European Investment Bank has been discussing public investment projects with the government. In 2014, it launched a scheme of loans for small or medium enterprises (SMEs) with a local private bank. The European Bank for Reconstruction and Development supports Kosovo’s SMEs through the Western Balkans Investment Framework. Kosovo became a member of the Council of Europe Development Bank in November. In June, Kosovo became a member of the Venice Commission of the Council of Europe.

The EU has provided **financial assistance** to Kosovo under the Instrument for Pre-accession Assistance (IPA) for 2007-13, with a total allocation of €673.9 million. An additional €38.5 million was provided through IPA in 2013 to support the Pristina-Belgrade dialogue, normalisation and integration processes in Kosovo, including the visa dialogue. Under IPA II, Kosovo will continue to benefit from pre-accession assistance for 2014-20, with a total indicative allocation of €645.5 million. On 20 August the Commission adopted an indicative strategy paper for the years 2014-20, drafted in partnership with Kosovo and in consultation with all relevant stakeholders. IPA support will focus on support for the sectors democracy and governance; the rule of law and fundamental rights; competitiveness and innovation; education, employment and social policies; energy; and agriculture and rural development. Kosovo continues to benefit from support under the IPA multi-beneficiary and regional programmes and it participates in three cross-border cooperation programmes with neighbouring Western Balkan countries. The implementation of IPA is managed by the EU Office in Kosovo.

⁵ COM(2012) 602 final.

The Commission's proposal to sign and conclude the framework agreement on Kosovo's participation in **EU programmes** is pending Council approval.

In April, Kosovo agreed to the new mandate for **EULEX** until June 2016 and to the establishment of a specialist court. The court is to hear cases arising out of the investigation led by the Special Investigative Task Force (SITF). Under the new EULEX mandate, all rule of law institutions are headed by Kosovo officials. EULEX judges and prosecutors are embedded in Kosovo institutions, and mixed panels are in principle composed of a majority of Kosovo judges, with a Kosovo judge presiding. EULEX does not take on new investigations except in exceptional circumstances. During the reporting period, Kosovo has supported the work of EULEX and the Special Investigative Task Force. This needs to continue through amending key legislation, including the Constitution, to set up the specialist court and its prosecution office.

1.3. Normalisation of relations between Kosovo and Serbia

Serbia and Kosovo have remained engaged in the EU-facilitated dialogue, but progress has markedly slowed down since March 2014. Early general elections were held in Serbia in March and in Kosovo in June. Six high level meetings attended by both Prime Ministers were held between September 2013 and March 2014. Work continued throughout the reporting period at technical level.

As a result of intense work in the first months of the reporting period there has been progress in the implementation of the agreements reached in the dialogue, in particular the April 2013 '*First agreement of principles governing the normalisation of relations*'. For the first time, local elections were held Kosovo wide with the facilitation of the OSCE in November 2013 (and repeated in North Mitrovicë/Mitrovica in February 2014) and, again for the first time, municipalities in the north of Kosovo were inaugurated in conformity with Kosovo law. Kosovo Serbs from both north and south of the Ibar river took part in the early general elections in June 2014. The establishment of the Association/Community of Serb majority municipalities is still pending. There has been progress in the dismantling of the Serbian structures on police and justice. Serbia took measures to facilitate the integration of the police and judiciary following the adoption of an amnesty law by Kosovo. Integration has been completed as concerns police officers, while integration of other Serbian Ministry of Interior personnel is still pending. An agreement in principle has been reached regarding the judiciary, but its finalisation and implementation are still pending. Integration of civil protection personnel is also pending.

Some progress has been made in other important areas. Serbia played a constructive role in ensuring Kosovo's participation in the South-East European Cooperation Process (SEECP) at the Bucharest summit in June 2014. Nevertheless, the implementation of the agreement on representation and participation of Kosovo in regional fora continued to be problematic. Preparation for the implementation of the energy and telecoms agreements reached in September 2013 has continued leading up, in the energy sector, to the signing of an inter-TSO agreement, together with the approval of an action plan in September 2014.

As concerns the north of Kosovo, a development fund has been set up to collect revenue at the northern crossing points. It has received over €2.9 million to date, but its board has yet to decide on its use. Implementation of the freedom of movement arrangements has allowed the use of Serbian and Kosovo ID cards by residents to enter and exit both Serbia and Kosovo. An agreement was reached to allow residents in Kosovo to use their ID cards to travel to third countries through Serbia via six border crossing points. The setting up of new roadblocks on the north side of the main Mitrovicë/Mitrovica bridge in June 2014 increased tensions. Despite an agreement by both sides on the need for a joint solution, the roadblocks known as the 'Peace Park' are still in place. Kosovo and Serbian insurance bureaus have defined the

parameters for a commercial agreement on mutual vehicle insurance cover between Serbia and Kosovo. This progress should now be confirmed by means of a signed agreement.

Implementation of other agreements has continued, albeit at a slower pace. Regarding IBM, the six joint interim crossing points have continued to be operational and technical agreements on the exact locations and on draft layouts of the permanent IBM crossing points were reached. However, illegal crossing roads/ by-passes, in particular in the north of Kosovo, continue to be regularly used to smuggle substantial amounts of goods, as reported by EULEX. Additional measures need to be taken by Serbia to stop illegal crossings.

As concerns cadastre, Serbia continues to implement the pilot project, but legislation necessary to implement the agreement is still pending in Kosovo. The copying of Kosovo civil registry books located in Serbia has been successfully completed. The implementation of the agreement on acceptance of university diplomas has had limited results. The certification of diplomas by the European University Association has progressed well and 387 diplomas have been certified. However, Serbia has accepted only five certified diplomas so far, following an additional nostrification process. The deployment of liaison officers has had limited impact.

Serbia has continued to cooperate with EULEX, especially on war crimes, but legal cooperation on the fight against organised crime needs to improve significantly. Criticism of the handling by EULEX of several criminal cases against Kosovo Serbs is counterproductive. The Serbian authorities should refrain from statements undermining the rule of law. Kosovo needs to continue the good cooperation with EULEX.

The Serbia Constitutional Court judged the form in which some dialogue agreements have been transposed unconstitutional. Serbia needs to find legal solutions for the implementation of agreements that are sustainable over time and not vulnerable to legal challenges.

Overall, Serbia and Kosovo have remained engaged in the dialogue and committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue, leading to irreversible changes on the ground. However, progress has slowed down. Early general elections were held in both Serbia and Kosovo. New momentum needs to be generated to tackle key outstanding issues and open a new phase in the normalisation of relations. Progress in this area remains essential for advancing the European future of both Serbia and Kosovo.

2. POLITICAL CRITERIA

This section examines Kosovo's progress towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

2.1. Democracy and the rule of law

Constitution

No amendments were made to the Constitution during the reporting period. Kosovo needs to change its Constitution to reflect its commitment to the establishment of the specialist court. The Constitution also needs to be modified to ensure that a majority of Kosovo Judicial Council members are elected by their peers, in line with Venice Commission recommendations.

Elections

The past year was marked by the mayoral and municipal elections in the autumn of 2013, and the early parliamentary elections of 8 June 2014. For the first time general elections took place throughout Kosovo, including in the four northern municipalities.

The mayoral and municipal assembly elections also took place throughout Kosovo according to Kosovo law. Elections in the north were facilitated by the Organisation for Security and Cooperation in Europe (OSCE), in line with the First agreement of principles governing the normalisation of relations. With the exception of northern Kosovo, where there were several incidents involving violence, no irregularities were reported. A re-run of the election was necessary in Mitrovicë/Mitrovica North after ballot boxes were found to have been destroyed. On 11 January, municipal assembly members in the four northern municipalities took the oath of office and municipal bodies were formally established. The mayor-elect of Mitrovicë/Mitrovica North refused to take the oath, necessitating a re-run of mayoral elections on 23 February.

The overall turnout for the mayoral and municipal elections was a little above 46% (just above 45% in 2009 elections). The overall turnout for the four northern municipalities was above 25%. Candidates from the Citizen's Initiative Srpska won the mayoral positions in all four municipalities.

Polling and counting for the parliamentary elections were transparent and well-organised, consolidating the positive trend set by the 2013 municipal elections. Election day passed without incident and voters were able to cast their votes freely. Participation decreased from 46% in the 2010 general elections to just over 42%. The Democratic Party of Kosovo PDK received just above 30%, the Democratic League of Kosovo (LDK) about 25%, Vetëvendosje (VV) above 13%, the Alliance for the Future of Kosovo (AAK) above 9%, Srpska and the Initiative for Kosovo (NISMA) just above 5% each.

However, the general elections were held under a highly compressed preparatory timeframe. The short preparation time (30 days) negatively affected certain aspects of the technical process, such as raising voter awareness. It also reduced the time available to file complaints and appeals prior to election day. The elections were held under the existing (2008) legislative framework. A series of shortcomings, including improved delineation of primary and secondary legislation on elections, adequate timelines for complaints and appeals, and accuracy of voters' lists, remain to be addressed to better reflect best practice and international standards. Kosovo's recent membership of the Venice Commission can help in this regard.

Overall, Kosovo held successful general and local elections. The electoral process in both cases improved compared to previous elections. The Central Election Commission managed its responsibilities well, considering the challenging time schedule for the general elections and the political context in which the local elections took place. However, Kosovo still needs comprehensive electoral reform to address recommendations from election observation missions and experts.

Parliament

The Assembly continued to support Kosovo's efforts on European integration and demonstrated political and institutional unity on some issues of key importance, such as the dialogue with Serbia, the EULEX mandate and reform efforts. During the first half of 2014, electoral campaigning ahead of the general elections increasingly affected the work of the Assembly.

The Assembly made progress on oversight of the executive and consultation with civil society. The number of monitoring activities and level of oversight of implementation of legislation increased. The Assembly regularly reviewed committee reports on the implementation of laws and adopted recommendations to improve implementation. The practice of ministers reporting to the Assembly committees increased. The number of staff supporting the committees has gone up. The Assembly increased the number of consultations with civil society and the public through hearings. The Assembly recruited an NGO liaison officer.

Following the June elections, several attempts were made to constitute the Assembly and enable the process of government formation to begin. Disagreement on which party should have the right to nominate the Speaker of the Assembly has led to political stalemate. The Constitutional Court ruling on the outcome of the first constitutive session did not break the impasse.

The new Assembly needs to build on the positive steps taken by the previous legislature. The Assembly needs to avoid failures to reach a quorum and boycotts of plenary sessions, which result in delays in decision-making and the adoption of legislation. The Assembly and its committees still need to expand their cooperation with line ministries in the legislative and oversight process to improve the quality of legislation and ensure its implementation. Draft laws and amendments to legislation need better screening to ensure compliance with the *acquis*. The Assembly needs to further develop standards for public consultation and its committees need to apply them consistently when conducting hearings.

Further efforts by the Assembly and its committees are required to ensure control of the budget, especially in areas such as health, agriculture, social assistance, culture and education. More attention needs to be paid to the reports of the Office of the Auditor General. The committee on oversight of public finances needs to develop a mechanism to follow up the implementation of its recommendations.

The Assembly needs to improve the supervision of public companies, independent institutions and regulatory authorities. In this regard, adequate mechanisms need to be put in place, such as clear legal bases for reporting and accountability. Among the key challenges that need to be addressed are delays in the selection of board members for these institutions and authorities, and the failure to determine mechanisms for board members' accountability. Many appointments are made on the basis of political preferences rather than professional qualifications, or are delayed due to political disagreements.

The new legislature needs to adopt new rules of procedure quickly. These rules need to be in line with EU best practice and be based on the recommendations of the EU-funded twinning project. The function of the EU integration committee needs to be further enhanced to reflect its key role in Kosovo's European integration process. The independence of the Assembly's IT infrastructure still has not been ensured. Preparations of the annual budget need to reflect the need for budgetary independence of the Assembly. New legislation, including a law on the Assembly, would be helpful in this regard.

The secretariat of the Assembly needs to continue to build its expertise on technical issues to support effective policy making and the capacity to improve scrutiny of draft legislation and its implementation. The secretariat needs to ensure better coordination of input from its various departments into the work of the committees. High staff turnover remains an issue of concern.

Overall, the Assembly continued to gradually develop its capacity further and improved its role in democratic governance. The new Assembly should focus on minimising political and institutional crises. The numerous boycotts of plenary sessions became an obstacle in this

regard. The failure to constitute the new legislature smoothly and in a timely manner has been a setback. The new legislature provides a good opportunity to improve oversight of the executive and supervise the legislative process. It should also be a chance to clarify the Assembly's role with regard to the supervision of independent institutions and regulatory authorities, to develop clear rules of procedure, and to improve monitoring of the budget.

Government

Following the general elections, and the protracted negotiations on the formation of a new government, the previous government remained in office in an acting capacity.

In the course of negotiations on the SAA, the government, and in particular the Ministries of European Integration and Trade and Industry, demonstrated their capacity to coordinate technically and legally complex negotiations with the EU. The government also reached out to the Assembly and the opposition by inviting the chair of the European integration committee to take part in the negotiations.

The government continued to implement EU integration priorities. To support this process, it adopted an action plan for an SAA in December. The National Council on European Integration has continued to meet and discuss the main objectives and policy obligations of further integration with the EU. The Executive Commissions in charge of the coordination and implementation of SAP Dialogue conclusions continued to meet. The government has introduced an obligation to prepare a compliance table to cross-check draft legislation with the EU *acquis* and issued a guidance paper on the use of the tables. However, the government needs to do more to improve strategic planning and coordination among ministries. The government's agenda needs to better reflect available resources.

Efforts to further improve capacity of *local government* have continued. Following the local elections, most new municipal assemblies were constituted in a timely manner and started to carry out their duties. The Ministry for Local Government Administration (MLGA) has improved its guidance for municipalities by cross-checking the compliance of municipal acts with the overall legal framework. The legal guidance is easily accessible on the webpage of the ministry. The MLGA drafted implementing legislation on the calling and conduct of municipal assemblies and the composition of municipal assembly committees. It also prepared an administrative instruction on the review of municipal acts at central level. In the north, the conformity of municipal statutes with Kosovo law has been ensured. However, the integration of these municipalities into Kosovo's legal framework is making only gradual progress.

Municipal efforts to increase transparency in decision-making need to continue. A new administrative instruction on transparency in municipalities has been implemented in only two municipalities. At the municipal level, the capacity to budget in line with policies and implementation plans is still underdeveloped, causing diversions from planned expenditure. Priority setting and the allocation of financial resources do not always reflect strategic guidance. The implementation of decentralisation, ensuring adequate support and budget to municipalities, needs to continue. Municipalities continue to face challenges with regard to creating conditions for their successful economic development. A culture of user-friendly public service delivery needs to be developed. Further guidance from the central level on the obligations of municipalities in the European integration process is required.

Overall, the Kosovo government gave clear proof of its ability to coordinate the European integration agenda, notably with regard to negotiations on the SAA. The government also improved guidance to municipalities on implementation of legislation. Following the municipal elections, all main structures at municipal level have been put in place across Kosovo. However, at both central and local levels, Kosovo needs to focus on improving

strategic planning and the links between planning and budgeting on the basis of collected data, policy coordination and financial impact assessments. The executive needs to turn its focus to ensuring that legislation and policies are implemented in practice. Good communication with the Assembly, including regular responses of the government to parliamentary questions and strong inter-ministerial coordination will be key in this regard.

Public administration

Kosovo has a **strategic framework for public administration reform** in place with the 2010 public administration reform strategy and the action plan for the period 2012-14. The strategy is comprehensive, including the main aspects such as policy management, budgetary planning and execution, organisation of public administration and human resources management. The government adopted a roadmap for 2014 to address the remaining key reform challenges in the current action plan. The coordination structure for strategy implementation and its monitoring mechanism were reformed in 2013 to improve the tracking of policy implementation and legislation in this area. A Special Group on Public Administration Reform, established as a forum for policy dialogue between the Commission and Kosovo, met in December to discuss and monitor implementation of the reform strategy.

The implementation of the strategy has been a major challenge and there have been very limited results. In designing the new strategy, the new government needs to set more realistic objectives. These should be backed up with strong political support, clear implementation and budget planning, and be supported by adequate numbers of qualified staff.

Kosovo has made some progress regarding **policy development and coordination**. It prepared standards for public consultation on legislation and adopted a regulation on financial impact assessment. It also introduced a new action plan for the partnership for open governance (2014-16). The Office of the Prime Minister and the Ministry of European Integration are jointly responsible for ensuring sufficient policy coordination. This structure ensures a basic level of preparedness for the increase in workload related to the European integration process. The government's annual work plan has become a platform enabling the government to plan and coordinate its agenda. The structure of this document has improved, and so has ministerial input.

However, the plan needs to be made more strategic. Information included in the work plan needs to be better linked to government priorities, to sector strategies, the medium-term expenditure framework and the budget available. The capacity in ministries to plan and budget, and to scrutinise draft proposals remains limited. The work of the Office for Good Governance, Human Rights, Equal Opportunities and Non-discrimination needs to be streamlined. The main challenges for the government and other relevant institutions remain the implementation of policies and legislation, and respecting commitments under the future SAA. The government needs to build on good practices established during the SAA negotiations to address these challenges. Linking policy and legislation with budgets, and the availability of qualified staff are key to delivering on this task. In general, the interinstitutional coordination mechanisms in place need to be used better and the recommendations of the Special Group on Public Administration Reform need to be implemented.

With regard to **public service and human resources management**, political interference in public administration persists, both at central and local level. Further efforts are needed to fully implement relevant provisions on the prevention of corruption and promotion of integrity in the civil service, in particular by providing targeted training for civil servants. Secondary legislation to the laws on the civil service is still outstanding. Pending completion of the job classification catalogue, there have been further delays in implementing the laws on civil servants and on salaries of civil servants. The share and distribution of civil servants

belonging to minorities across ministries and institutions need to be in line with the legislation. A salary increase of 25 % for all public servants without any performance assessment, as introduced in the run-up to the general elections, is an issue of concern. According to the International Monetary Fund, the increase in salaries will result in significant pressure on the budget.

Very limited progress has been made to further improve **accountability and service delivery**. The laws on administrative procedures and normative acts are still to be adopted. Implementation of the law on access to public documents remains unsatisfactory. Kosovo also needs to review the organisation of public administration at municipal level, notably delegated competences and the appointments of directors.

Kosovo has not addressed **public financial management** reforms systematically, as part of a comprehensive reform plan. Rather, there have been isolated reform efforts in different public finance sub-systems, such as in revenue administration or public internal financial control, with modest results. In April, Kosovo adopted its medium-term expenditure framework, which covers the years 2015-17. The document lacks a strategic approach. The annual budgeting process is based on the line-item approach. Debt management policy has yielded some results, as debt is still low and sustainable, although domestic borrowing has increased. Implementation of public internal financial control is still at an early stage, as the managerial accountability principle has not yet been embedded in management culture. The Office of the Auditor General has continued to play an important role as an independent institution in promoting change in public financial management through its audit reports.

Overall, there has been very limited progress in this area. The new government needs to make a serious political commitment to public administration reform. The slow pace of reform in this area continues to pose one of the greatest challenges in Kosovo's European integration process. The setup and structure of the central coordinating institutions provide only a basic level of preparedness for the increase in the workload due to the implementation of the SAA. Better strategic planning and improved links with budgeting are required. Kosovo needs to finalise the legislative framework for the civil service and ensure its implementation, in particular the job catalogue and performance appraisal. Kosovo needs to adopt and enforce a law on general administrative procedures. Kosovo would benefit from engaging in more comprehensive public financial management reform.

Ombudsman

The Ombudsperson Institution in Kosovo has continued to perform and act as a defender of the rights of Kosovo citizens vis-à-vis the administration. The annual report of the Ombudsperson states that 2047 cases were received, 23 % more than the previous year. The government has taken the positive step to allocate a budget for a much needed new building for the institution.

The politicisation of the selection procedure has stalled the appointment of an Ombudsperson. The institution is currently led by an Acting Ombudsperson and the mandates of the five deputies will expire in October 2014. Pressure has been mounting in municipalities to expel the field offices of the institution from municipal buildings. This is a serious concern. Kosovo authorities both at central and local level need to ensure that the Ombudsperson's inquiries and recommendations are adequately followed up. The new government needs to ensure the budgetary independence of the institution when preparing next year's budget.

Overall, the Ombudsperson Institution of Kosovo continued to gradually improve its work across Kosovo. However, other authorities and institutions in Kosovo need to improve the quality of their responses to the institution's inquiries. A new Ombudsperson needs to be

selected on the basis of a fair and depoliticised selection process. Budgetary independence needs to be ensured.

Civilian oversight of the security forces

There has been moderate progress in the work of the Parliamentary Committee on Internal Affairs, Security and Supervision of the Kosovo Security Force. The committee increased the number of meetings and its members were better prepared. Ministers were more frequently invited to public hearings and answered concerns of parliamentarians. The committee also prepared a monitoring report on the implementation of the Law on the Kosovo Police and on expenditure by the police and the Ministry of Internal Affairs. The intelligence agency still issues security certificates to members of the committee, although the committee is responsible for the agency's supervision. In general, concerns related to unprofessional and partisan security vetting by the service remain. The Assembly needs to increase its capacity and improve its expertise to supervise this area.

Civil society

An empowered civil society is a crucial component of a democratic system and should be recognised and treated as such by Kosovo institutions. Civil society continued to participate in the work of the National Council on European Integration. The Assembly appointed an NGO liaison officer, and the Assembly's relations with civil society have improved. The government's capacity to implement the strategy for cooperation with civil society (2013-17) is still weak. The Joint Advisory Council which is to monitor its implementation only started its work in April 2014. The government has appointed its participants to the advisory council, and civil society has opened a call for expressions of interest. Cooperation and consultation between civil society and the Kosovo institutions, notably with the government, continue to be ad hoc and unsatisfactory. Civil society involvement, if requested at all, comes only at the end of the legislative process rather than at its beginning. Civil society does not systematically receive feedback on its recommendations. This needs to be improved. Plans to include provisions in the Law on Money Laundering, obliging civil society to request dispensation for all donations above €1000 from one single source and for all spending above €5000 from one single source, are a cause for concern, especially since criteria for granting dispensation are not included.

Judicial system

Kosovo's judicial structures adapted well to the 2013 structural reform. In April 2014, Kosovo agreed to the new EULEX mandate. As a rule the mixed panels (EULEX and Kosovo judges), now have a majority of Kosovo judges, and a Kosovo presiding judge. Pending full integration of the judicial system in the north, the trials at Mitrovicë/Mitrovica basic court continued to be held with panels consisting exclusively of EULEX judges and prosecuted exclusively by EULEX prosecutors.

In July, the Constitutional Court ruled that the selection process of a new chief state prosecutor, finalised in June, had to be repeated. An acting chief state prosecutor has been appointed for the following the retirement of the previous chief state prosecutor in August. Proper legal remedies against decisions of the prosecutorial and judicial councils should be introduced to avoid that the only resort against their decisions is the Constitutional Court.

Preliminary findings of the criminal justice review initiated by the Ministry of Justice concluded that discrepancies or gaps in various criminal laws would be followed up in a second report before decisions on possible amendments would be made. In cooperation with all stakeholders the Ministry of Justice prepared a rule of law assistance strategy.

Regarding judicial **independence**, budgets for both councils increased compared to the previous year. The 2014 budget for the judicial council is €20.8 million, and for the prosecutorial council €6.8 million.

Public statements by politicians about high-level corruption and war crimes cases have decreased, in particular after an open discussion in the structured dialogue on the rule of law. Harassment of judges and prosecutors in the media and the absence of an effective response from the relevant institutions continue to be a serious concern. Attempts to influence ongoing investigations and court cases need to be effectively sanctioned. This needs to be strongly supported by political will.

The new legislature needs to ensure the appointment of judicial council members. The previous legislature did not meet its constitutional obligation to appoint the last two members of the council, leaving the council with eleven instead of thirteen members. In August 2014, the mandate of three additional council positions expired. The council is now without the legal quorum of nine members. The Assembly needs to urgently appoint the five council members. A majority of the judicial council members should be elected by their peers, in line with Venice Commission recommendations.

As regards the functioning and **accountability** of the judiciary, the judicial council adopted regulations on the performance of its disciplinary committee, on the promotion of judges, and on its strategic plan 2014-19. The prosecutorial council also adopted a regulation on the performance evaluation of prosecutors.

More needs to be done to ensure the functioning and accountability of the judiciary. In order to ensure full implementation of the laws on the judicial and prosecutorial councils, both councils still need to adopt several pieces of implementing legislation. The laws on courts, the state prosecutor, the judicial council and the prosecutorial council, also need to be harmonised to address inconsistencies on issues such as dismissal, appointment, transfer, disciplinary system and procedures for the review of decisions taken by the councils. Implementation of regulations on performance and evaluation and on disciplinary procedures is important, as are transparent and merit-based nomination and selection criteria.

The prosecutorial council faces delays in hearing appeals against decisions of the disciplinary committee due to difficulties in reaching a quorum. Assessment of the legislation on the composition, chairmanship and membership of the prosecutorial council may be necessary to overcome such obstacles. The disciplinary system for judges and prosecutors needs to be aligned to international standards.

Although obliged by law, there is neither a systematic publication of court decisions, nor a systematic development of jurisprudence, raising transparency and accountability concerns.

As regards **efficiency**, the judicial council adopted a new strategy to reduce the backlog of cases. The prosecutorial council increased the number of positions for local prosecutors in the special prosecution office by three to a total of eighteen, of which twelve are filled. A local special prosecutor is the acting head of the office, while EULEX prosecutors only take on new investigations in exceptional circumstances. Four basic courts and the appeals court are now equipped with special rooms for protected witnesses.

As regards judicial alternatives to the courts, there are now 68 certified and licensed notaries. Fourteen private enforcement agents have been certified. In addition, mediation centres are having a positive impact. The number of cases referred to mediation centres has increased considerably (699 in the period September 2013-March 2014, compared to 104 in the same period a year before). The same applies to the number of cases resolved (350 compared to 38). Public awareness of mediation and mediation centres needs to be improved.

Due to stricter provisions on electoral violations in the new Criminal Code and a very proactive approach by the prosecution prior to and during election time, the courts received fewer cases in 2013 (54) and 2014 (15). These cases were treated with priority and effectively than the 2010 electoral fraud cases, of which a considerable number are still pending in court.

Although the courts and prosecution offices adapted well to the 2013 structural changes, the full implementation of reforms that should lead to more efficiency, is still pending. The case backlog is one of the key concerns. The courts are not implementing the KJC instruction on the prioritisation of backlog cases. At the end of 2013, the courts completed 419 422 cases leaving 466 255 cases pending (a clearing rate of 80.3%). The Fiscal Division of the Administrative Department of the basic court in Pristina was established only in January 2014 and is not yet fully operational. It is already facing a significant number of appeal cases against customs appeals sector decisions. The effectiveness of the special chamber of the Supreme Court (SCSC), handling privatisation cases, needs to be improved. Due to a lack of judges there are delays in the work of the SCSC; the number of active cases is around 18 000.

Neither case allocation nor case management IT systems exist, and there is no centralised criminal record database, which hampers the efficiency of the judicial system. Drafting, critical reasoning, and legal argumentation skills need to be improved and there is a lack of judges and prosecutors in key specialised areas such as financial crimes and procurement, war crimes and sexual violence. The difficulty to recruit prosecutors and judges from minority communities leaves those communities underrepresented in the courts and prosecution offices, at all levels.

As regards **access to justice**, out of a total of thirteen legal aid offices, the eight offices previously sponsored by the United Nations Development Programme (UNDP) have been closed. Kosovo authorities need to step up efforts to improve access to justice for children, women and victims of human trafficking. Implementing legislation related to the certification of court translators and interpreters needs to be adopted.

Kosovo established a network of focal points for international legal cooperation composed of eight prosecutors and seven judges. Implementing legislation on legal assistance was adopted. Bilateral agreements on legal cooperation are in place with five countries, and cooperation based on reciprocity takes place with many others. Cooperation with regard to non-recognising countries is facilitated by EULEX.

Overall, there has been some progress in the judiciary. Kosovo has started to address some of the priorities but there continue to be serious concerns regarding the independence, accountability, impartiality and efficiency of judges and prosecutors. Other challenges include the preparations for the transition of responsibilities from EULEX to Kosovo, the integration of the judicial system in the north into the Kosovo institutional structures, as well as the need for specialisation and improved quality of performance. The Kosovo judiciary needs to address the backlog, and, irrespective of public or political opinion, file indictments based on gathered admissible evidence and deliver well-reasoned judgments in a timely manner. Transparent and merit-based recruitment and evaluation of judges and prosecutors, as well as a properly functioning disciplinary mechanism, are important steps towards improving the functioning of the judiciary.

Fight against corruption

The President's anti-corruption council met four times in the reporting period. All institutions and authorities involved in the fight against corruption, as well as civil society representatives are part of the council. Following comments in last year's report its meetings are no longer held in public. The recommendations of this council merit systematic follow-up to ensure a harmonised and effective approach in the fight against corruption.

The implementation of the anti-corruption strategy and action plan fails to generate effective results, due to weak political support. The annual report shows that for the period June-December 2013, the Anti-Corruption Agency (ACA) considered that only 54% of actions were being implemented or were partially implemented. The ACA's oversight function regarding the implementation of the strategy should be strengthened. The agency lacks the necessary analytical capacity to conduct risk assessments in sectors vulnerable to corruption. The quality of pre-investigation reports needs to improve to ensure better follow-up, and the prosecution needs to continue to ensure and provide feedback to the ACA.

The Law on Declaration, origin and control of high public officials and declaration, origin and control of gift for all public officials has been aligned with the Criminal Code so that now the failure to declare assets and false declarations is classified as a criminal offence. Senior public officials are obliged to declare their property to the ACA before 31 March each year. Declarations are also required when taking or leaving office, or if the agency so requests. Out of a total of 3869 senior public officials falling under the obligation, 99.25% made a declaration. The agency has the capacity to verify the origin and veracity of the assets declared.

As regards corruption in procurement, the Anti-Corruption Agency selects and inspects procurement cases and has provided 28 opinions to the contracting authorities (public institutions) in 2013. All recommendations the agency provided on the cases it inspected were taken up and procurement activities were terminated.

The agency, in cooperation with civil society and municipalities, has developed a 'hot line' to report corruption through municipal websites. The agency needs to organise more awareness-raising campaigns encouraging citizens to report corruption.

The Law on Prevention of the Conflict of Interest in the exercise of public office still needs to be aligned with the Criminal Code. In 2013, the ACA found over 1400 cases of senior officials holding multiple functions funded by the Kosovo budget, including as board members of public enterprises. This is not a criminal offence in itself, but could present a potential risk of conflict of interest, especially for judges, prosecutors and senior officials. Regarding the Law on Declaration, origin and control of high public officials and declaration, origin and control of gift for all public officials, the number of convictions is low and sanctions imposed do not deter. A standardised declaration form and verification guidelines with objective criteria should be developed. The sample quantity should increase, giving prioritisation to 'risk groups'.

Political parties generally do not meet their obligations under the Law on Political Party Financing. Implementation and enforcement of the law is weak. The Central Election Commission office in charge of monitoring implementation lacks capacity and resources.

Relations between the criminal investigation authorities and the ACA have improved. In most cases, the ACA received confirmation from the prosecution and the Kosovo Police if criminal procedures were initiated on cases reported by the ACA.

With involvement of relevant stakeholders, the prosecutorial council developed a criminal offences case tracking mechanism and published its first annual report on 2013, including corruption cases. A report covering the period January-June 2014 included also economic crimes. The chief state prosecutor adopted an instruction defining 'high-level corruption' and assigned the special prosecution office to deal with such cases. In November 2013, the prosecutorial council made a decision to prioritise corruption cases and appointed anti-corruption focal points in each prosecution office. The judicial council issued a similar instruction to the courts.

The anti-corruption task force, consisting of four Kosovo Police officers and three special prosecutors, referred only five new criminal cases to the special prosecution office. The majority of corruption cases are handled in the prosecution office and the basic court in Pristina. It is important that these offices have sufficient staff willing to handle this extra caseload, especially with the high priority given to corruption cases. Despite the high priority, results have been limited, with very few corruption cases resulting in judicial rulings.

In the appointment procedure of the members of the Procurement Review Board the Assembly disregarded the recommendation of the Independent Selection Board, which had concerns on the list of appointees, including an ongoing corruption investigation.

Overall, Kosovo has made limited progress and is at an early stage in the fight against corruption. Even though Kosovo judicial and prosecutorial councils prioritised corruption cases there is no track record of convictions. Corruption remains prevalent in many areas, including in public procurement, and continues to be a serious problem that needs to be addressed urgently. Real political commitment is needed to translate efforts into actual results in the fight against corruption. There also needs to be further strengthening of interinstitutional cooperation. The judiciary needs to be enabled to fight this phenomenon effectively. At the same time prosecutors and judges need to demonstrate more accountability by handling cases more efficiently and delivering results.

Fight against organised crime

Kosovo has taken some steps to improve the fight against organised crime. It has continued to improve its legislative framework, notably by adopting implementing legislation on money laundering. The investigative capacity of the police is generally good. Cooperation with EULEX has intensified and is assessed as very good. The number of drug-related crime investigations has gone up and some human trafficking groups have been dismantled.

Kosovo is at an early stage of delivering results in the fight against organised crime, which continues to be a serious challenge. The total number of indictments and judgments in cases of trafficking in narcotics and trafficking in human beings remains low. Law enforcement agencies have been reluctant to initiate financial investigations. As a result, the number of confiscations and sequestrations ordered by the judiciary and executed by the police continues to be low. There is a lack of expertise among prosecutors and judges in specialist areas such as financial crime and procurement fraud. This expertise is essential to deal with corruption.

For a detailed analysis of developments in the fight against organised crime, *see 4.3 — Justice, freedom and security*.

2.2. Human rights and the protection of minorities

Through its Constitution many **international human rights instruments** are directly applicable in Kosovo and form an integral part of its legal framework. Kosovo's reporting remains ad hoc, as it is neither party to any of the international human rights instruments nor a member of the Council of Europe.

On the **promotion and enforcement of human rights**, Kosovo's next steps need to draw on the reform proposal on non-judicial human rights institutions from a joint EU/Council of Europe project. Kosovo needs to simplify the institutional framework, strengthen its capacities and clarify the roles of various civil and public service actors, reinforce the Ombudsperson Institution and ensure effective, consistent monitoring and reporting mechanisms, including with civil society. Kosovo needs to adopt the laws on anti-discrimination, Ombudsperson and gender equality as a package, so as to ensure coherence and complementarity in human rights legislation. The human rights strategy needs to be updated, including implementing mechanisms as set out in the human rights law package, to

provide for a sustainable, long-term strategic approach. Human rights issues at all levels need to be put higher on the political agenda, in particular as concerns enforcement. The government needs to become less donor-dependent in this sector.

As regards the **prevention of torture and ill-treatment** in prisons, an inspection programme that monitors the work of correctional services has been established. No violations against internationally recognised human rights standards have been identified in the reporting period. There is no systemic ill-treatment of detainees in the **prison system**. Implementing legislation has been brought in line with EU standards. The first high security prison was taken into official use in May 2014. Unjustified prolonged detention continues to be a challenge for the criminal justice system. EULEX took over three cases as the local judiciary did not finalise proceedings within the legal timeframe for detention. The detention centre in Mitrovicë/Mitrovica is still used as a prison. Corruption in the correctional services is a growing concern. The government needs to take decisive action to address it. Some detainees continued to enjoy ‘privileges’, for instance by opting for regular hospitalisation outside the correctional facility. These events had an adverse impact on significant judicial cases. Internal investigations against correctional staff involved have led to disciplinary sanctions.

On **freedom of expression**, elementary pluralism of the media landscape is provided by independent dailies and several broadcasters. The Assembly adopted a law on protection of journalistic sources and appointed four new members to the board of the Independent Media Commission, giving the board a total of five members, out of the seven envisaged. This provides the board with the quorum required to carry out its tasks. The candidates selected met the legal requirements, even if the appointment process favoured political affiliation rather than independence. These appointments ended almost two years during which the commission was without proper governance, which compromised its authority and ability to ensure market transparency. It also delayed a number of key decisions, such as digitisation of analogue broadcasts.

A verdict was reached in the ‘Kosovo 2.0’ case, in which a launch party for a special issue of the magazine on sex, sexual orientation and gender identity was attacked. All three defendants were found guilty and received suspended sentences. One of the charges was withdrawn as it was covered by the law on amnesty. There were a few defamation cases, but the journalists involved were acquitted.

There has been a change in the leadership of the local journalists’ organisation. This has the potential to improve the reputation of the organisation. Kosovo’s press council is recognised as a platform capable of further developing professional self-regulation.

However, the legislative and institutional framework in this area remains fragmented and ineffective. Issues such as the autonomy of journalists and editors, protection of professional standards in journalism, the right to conscientious objection for journalists, and the right to reply and correction for the public remain unregulated by law. Editorial codes of conduct at individual media outlets would also be helpful in this regard. Threats and attacks, also from the police and public officials, on journalists persist. Instances of hate speech continue, mostly online, including in the social media.

Economic sustainability of the media is not ensured. Kosovo does not have effective rules for media ownership transparency. This results in excessive concentration and breaches of independence. Government advertisements have had an impact on the editorial policies of some of the media. The long-term financial sustainability of Kosovo’s public broadcaster (RTK) continues to be uncertain. Its current funding comes predominantly from the state budget, which undermines its editorial independence. The RTK union has pointed to corruption and a lack of transparency in RTK’s employment and recruitment policy. (*See also 4.2.6 — Information society and media*)

Kosovo citizens have continued to exercise their **freedom of assembly and association** throughout Kosovo. There were several public protests against various levels of government during the reporting period.

There has been sustained progress in the field of **freedom of thought, conscience and religion**. The Orthodox seminary continues to function well in its historical premises in Prizren, and its student population is growing. Kosovo remains ready to support the reconstruction of Serbian Orthodox Church sites left unfinished by the Reconstruction Implementation Commission. Interaction among religious leaders of all faith traditions has become more regular. There have been no reports of serious incidents linked to the protection of historical and religious sites, for which the Kosovo Police took over responsibility from KFOR. One incident was reported at the Visoki Dečani Monastery, which is still protected by KFOR. The delay in finding a solution to an ongoing land dispute between the municipality of Deçan/Dečane and the Visoki Dečani Monastery is a concern. It contributes to persistent tensions between the monastery, the municipality and the local community. Numerous incidents of petty theft and vandalism at religious heritage sites, including Serbian Orthodox monasteries and churches and Orthodox and Muslim cemeteries, continue to be a challenge for Kosovo's authorities. These incidents need to be followed up systematically and adequately. The Law on Religion needs to be adopted.

With regard to **women's rights and gender equality**, in January the government adopted an action plan for the implementation of the UN Security Council Resolution 1325 on Women, Peace and Security. In March, the Assembly amended legislation with a view to recognising survivors of conflict-related sexual violence. In September 2013, standard operating procedures for protection from domestic violence were created by the Agency for Gender Equality and the National Coordinator against Domestic Violence. In March 2014, the Office of Good Governance launched a protocol on the prevention of violence in institutions of pre-university education. Three municipalities established coordination mechanisms on domestic violence with civil society representatives. The issue of sexual violence during the conflict is getting more attention from politics and the public. A petition on sexual violence during the conflict, asking the UN Secretary General to report about these crimes, was signed by more than 100 000 people.

Challenges remain in the field of domestic violence and gender-based violence. Kosovo needs to establish a system of regular data collection on gender-based violence across all institutions. Women's practical access to inheritance of property remains a challenge, although the law provides for it. Cadastral and registration officers need to register all co-owners of property, including women, to improve protection of their rights. Kosovo needs to develop a long-term reintegration programme to address the needs of women (and children), including relocation, subsidised housing, employment and counselling. Women's representation remains low, especially in senior positions, both in the public and the private sector. There is also a need for further training and awareness-raising, notably in rural areas. The law on gender equality needs to be adopted as part of the human rights laws package.

As regards **children's rights**, juvenile departments established in the courts and prosecutors' offices are operational. This contributes to a continuing, sustainable trend of using alternative educational measures by the probation service. Child protection case management roundtables and coordination mechanisms need to be scaled up. Child protection services need more municipal budget to help prevent and protect children from all forms of violence. The government needs to take into account the recommendations from a joint EU/UNICEF project on juvenile justice. The government should not delay payments for social schemes dedicated to children in foster care and children with permanent disabilities. The Ministry of Education,

Science and Technology needs to ensure the availability of personal assistants for children with disabilities, in line with the commitment made in its strategy.

Kosovo has improved its legal framework for the **socially vulnerable and/or persons with disabilities**. In December, the government adopted a programme on the provision of sign language (2013-16). A law on paraplegics and tetraplegics is to be adopted. Equal access to quality education for persons with disabilities and persons from the Roma, Ashkali and Egyptian communities remains very limited, despite the commitment to inclusive education. In the absence of adequate medical facilities, health care and rehabilitation services for persons of very low income, in particular persons with disabilities and elderly persons living in poverty, are inadequate. Implementing legislation for a law for blind persons is still to be adopted. The government needs to address the lack of assistant teachers for children with special needs. With stronger support from the Office for Good Governance, the disability council needs to improve its coordinating role in implementing the strategy for the rights of people with disabilities (2013-23) and its action plan (2013-15).

The Law on **Anti-discrimination** needs to be adopted and aligned with the laws on the Ombudsperson and gender equality. Cases of hate speech, targeting mainly members of sexual minorities and ethnic minorities, are rarely investigated. Preventive measures such as awareness raising remain scarce. Kosovo's political leaders need to do more to promote tolerance.

In December, the government adopted a decision to establish an advisory and coordinating group for the rights of the **lesbian, gay, bisexual, transgender and intersex (LGBTI)** community. The group still has to prove its practical impact. Threats against LGBTI activists continue. A first pride walk was held in Pristina on 17 May to mark the day against homophobia.

In the area of **labour and trade union rights**, the government and the Social Economic Council signed a General Collective Agreement that lays down rights and obligations of employers and employees. With limited human resources (50 inspectors covering both labour, and health and safety issues) the labour inspectorate carried out over 8 000 inspections and issued more than 120 fines amounting to about € 274 000 in 2013. This number is very low, considering the number of registered active businesses in Kosovo (53 335). The implementation of the Law on Labour remains unsatisfactory. Participation of women in the workforce is low and there continues to be maternity-related discrimination. Implementation of the Law on Strikes also remains unsatisfactory, due to the lack of communication between strike organisers and authorities. The representation of employees within the Social Economic Council does not have the support of the vast majority of trade unions and is therefore not representative. (*See also 4.1.8 — Employment and social policies, public health policy*)

Progress on **property rights** remains slow. The office of the property rights coordinator has been strengthened. The Law on Treatment of Construction without a Permit was promulgated in December. There has been some improvement in compliance with legal obligations during the expropriation process. Regarding the Kosovo Property Agency (KPA), which resolves property claims resulting from the armed conflict, out of a total of 42 684 claims, 1 357 remain to be adjudicated by the Property Claims Commission. The number of implemented decisions stands at 29 871. Implementing decisions in difficult cases (i.e. where illegal construction occurred) is problematic. The KPA, as highlighted in a case before the Constitutional Court, needs to develop legal mechanisms and procedures for the solution of such cases. More than 900 evictions remain outstanding, of which over 350 cannot be executed because they are in the north of Kosovo. Illegal re-occupation of properties remains a significant challenge. The funding of the KPA continues to be unsustainable.

The compensation scheme for conflicting successful claims foreseen under the regime of the KPA's predecessor is still not in place, raising human rights concerns given that most cases were filed and decided many years ago.

The strategy to regularise informal settlements still needs to be adopted. The new Law on the Kosovo Property Comparison and Verification Agency is still pending.

The (civil) courts regularly dismiss the many unresolved property compensation claims ('stayed cases') referring to the armed conflict. Other property disputes are often sent back to first-instance level for re-trial. Inter-ethnic property disputes are unduly prolonged. Overall, the courts are overburdened by the large number of pending claims.

Overall, Kosovo has made some progress on the protection of human rights. The Independent Media Commission became functional after a period of almost two years without proper governance. The perpetrators of violence against the Kosovo 2.0 journal were convicted. In general, human and fundamental rights continue to be broadly guaranteed in Kosovo. However, the main challenge is implementation of the legal framework, including at local level. The conditions for freedom of expression and media need to be put in place. Kosovo needs to effectively address persistent threats and attacks on journalists and LGBTI activists. Property rights need to be enforced effectively. The package of human rights laws needs to be adopted. Kosovo urgently needs to simplify the system of numerous bodies and institutions dealing with the protection of human rights.

Respect for and protection of minorities, cultural rights

Kosovo has a good legal framework for safeguarding and protecting its **minorities** but implementation needs to improve. In August 2014, the new members of the Community Consultative Council under the President's Office were appointed. They should continue to meet on a regular basis to discuss and address the main issues affecting communities in Kosovo. The public broadcaster's channel in the Serbian language (RTK 2) continued to broadcast. The channel also reported objectively on municipal elections and gave equal air time to each political party, as envisaged in the Law on Elections and as reported by the European Union Election Observation Mission. The Office for Community Affairs needs to continue the process of improving the employment of non-majority communities within the Kosovo civil service and public enterprises. The office launched a process to address the issue of diploma acceptance by the University in Mitrovicë/Mitrovica for potential public servants or employees of public companies.

The Office of the Language Commissioner has continued to function. The office received 45 complaints already in 2014, against twelve in 2013; 36 were resolved through mediation. The office provided language classes in Albanian and Serbian for civil servants in fourteen municipalities with the aim of improving service to the public. The language policy measures need to be adopted. Kosovo authorities both at central and local level need to focus on further improvements in the overall implementation of the law on the use of languages. This needs to be underpinned by strong political support.

The security situation for non-majority communities has remained stable. However, the majority of ethnically-motivated incidents targeted Kosovo Serbs. Theft and damage to properties were reported as the most frequent types of incidents, while those directly involving persons decreased. In Kosovo Serb return areas, the perceived or real threat to security remains an issue of concern, especially in some rural communities. Kosovo authorities need to do more to bring the perpetrators of inter-ethnic incidents to justice. The Municipal Community Safety Councils have been established throughout Kosovo. Their functioning and efficiency differ widely. The councils need to do more to address security concerns and ensure participation of all ethnic and religious communities.

A conference was held on the **Roma, Ashkali and Egyptian** communities in November. Kosovo now needs to accelerate the implementation of the action plan of the strategy (2009-15), taking into account priorities as identified in the Priorities Framework (2014-15) of April and the conclusions of the November conference. This includes applying a new framework enabling evidence-based monitoring of results achieved and developing new policy commitments for the period beyond 2015. In December 2013, the main building of Leposaviq/Leposavić camp was closed, following the resettlement of 31 families.

In general, Roma, Ashkali and Egyptian communities continue to face major challenges, notably difficult socio-economic circumstances, a lack of education, weak health care and discrimination. Regarding equal access to quality education, students from the Roma, Ashkali and Egyptian communities have lower registration rates, higher dropout rates, and poor levels of academic performance. Statistics on the dropout rates need to become more reliable. Mediators continued to engage with these communities to reduce dropouts, especially in schools with a higher concentration of pupils from these communities. Access to civil registration continues to be a concern and needs to be ensured. Kosovo needs to strengthen coordination and interinstitutional cooperation at central level and between central and local levels. The authorities need to make better use of the expertise of the relevant civil society groups. Adequate budget allocation is needed to make tangible progress in the implementation of the strategy and action plan. Allocating land in municipalities to returning Roma, Ashkali and Egyptian communities is crucial for their successful integration.

Regarding **refugees and internally displaced persons (IDPs)**, there has been some progress. In 2014, the municipalities of Klinë/Klina and Gjakovë/Djakovica allocated land to some of the IDPs from the Konik camp in Montenegro. This needs to be followed by additional government funding to facilitate the actual return and reintegration of the families concerned. The adoption of the strategy for communities and return (2014-2018), and subsequent trainings for municipal officers, marked a positive development towards sustainable solutions for returnees. The return and reintegration in some minority-managed municipalities (such as Novobërdë/Novo Brdo, Partesh/Parteš and Shtërpçë/Štrpce) have shown that returnee families are finding it easier to reintegrate in such communities.

However, the number of voluntary returns decreased in 2013 (close to 800, compared to 1 040 in 2012). The low number of returns during 2013 can be largely attributed to a lack of funding and socio-economic prospects in Kosovo. The Ministry for Communities and Returns and Municipal Offices for Communities and Return are still not collecting and maintaining data on the number and location of returnees.

Regarding **cultural rights**, the Implementation and Monitoring Council continues to facilitate cooperation between the Kosovo authorities and the Serbian Orthodox Church. Meetings have continued to take place, albeit not always regularly. Concerns of the Church and the Kosovo authorities have been addressed resulting in a number of concrete actions. An ongoing challenge for the Council is to build on results achieved to establish sustainable trust between the parties. To this end, it is key that confidential matters are not exploited for political gains by either side. An online cultural heritage database was established, providing information on monuments, archaeological sites, spiritual or movable heritage.

The special unit of the police protecting Serbian religious and cultural heritage sites in Kosovo continues to function well, covering four regions and employing 203 Kosovo Police officers. The immediate challenges facing this unit are to improve communication with the resident Orthodox clergy in monasteries and to ensure the availability of sufficient and adequate equipment, such as vehicles, camera surveillance, generators and lighting at sites.

Implementation of the Law on the Historic Centre of Prizren has been hampered by a lack of support from the municipality. Meetings of the Cultural Heritage Council took place and it

has reached a number of decisions related to building permits. However, the municipality needs to provide the Council with the necessary remuneration, equipment and staff, in order for it to function as foreseen by the law. The recently established Task Force set up to deal specifically with illegal construction in Prizren is encouraging, but its effectiveness is still to be proven. There has been no progress in the implementation of the Law on the village of Velika Hoča/Hoçë e Madhe. The village council has yet to be established and in August it was decided to further postpone the implementation of the law, even though the original deadline for implementation was February 2013. Administrative instructions were distributed in April to both municipalities to help with the implementation of both laws. Continued close guidance from central level is needed to ensure full implementation of these laws, since capacity at the municipal level is weak.

In general, frequent breaches of legislation across Kosovo negatively affecting religious and cultural heritage sites have continued. Implementation of the general legislative framework governing the protection of cultural heritage remains weak. Illegal construction is a major concern, particularly within Special Protective Zones. Punitive measures against those in breach of laws need to be applied consistently, and illegal construction which has already taken place should be dealt with in accordance with the law. Kosovo authorities, particularly at the local level, need to demonstrate a stronger commitment to protecting cultural heritage. The new government needs to engage actively in this process.

Overall, there has been some progress in the area of respect for and protection of minorities. Land has been allocated to some internally displaced persons from Montenegro. The Implementation and Monitoring Council has facilitated better protection of the cultural and religious heritage of the Serbian Orthodox Church. However, Kosovo needs to step up its efforts to ensure implementation of legislation and the policy framework, such as the Laws on the Historic Centre of Prizren and on Velika Hoča /Hoçë e Madhe and the action plan on the integration of Roma, Ashkali and Egyptian communities. Realistic policy commitments on Roma, Ashkali and Egyptian communities beyond 2015 need to be developed. Security incidents and crimes targeting persons belonging to minorities and their property need to be investigated and prosecuted thoroughly and promptly.

2.3. Regional issues and international obligations

In relation to **war crimes**, on 24 April the Assembly of Kosovo ratified the exchange of letters between the President and High Representative Ashton on the EULEX mandate. It also provided for the relocation of sensitive judicial proceedings to hear cases arising out of the investigation led by the Special Investigative Task Force, addressing the allegations of the 2011 Council of Europe Parliamentary Assembly report. Amendments to key legislation, including the Constitution, need to be adopted by the new legislature to establish the specialist court and its prosecution office. EULEX continues to investigate and prosecute war crimes. The local judiciary is still unable to fully pursue cases of this kind. Cooperation continued with the International Criminal Tribunal for the former Yugoslavia (ICTY), in investigating and prosecuting war crimes.

The government needs to approve the rules of procedure of the inter-ministerial working group on dealing with the past and reconciliation and it needs to adopt a transitional justice strategy. In general, there continues to be insufficient political support and a lack of proper mechanisms to gather information relevant for investigations regarding war crimes and missing persons. Witness intimidation continues to be a concern, although the police has made good progress establishing a witness protection directorate.

The unresolved fate of **missing persons** from the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. As of August, a total of 11 155 persons were still missing according to the International Committee of the Red Cross (ICRC). Of these,

7282 cases relate to the conflict in Bosnia and Herzegovina, 2163 to the conflict in Croatia and 1710 to the conflict in Kosovo. Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. Greater political commitment and renewed efforts are needed.

The working group on missing persons, chaired by the ICRC, remained the framework within which Kosovo pursued commitments and maintained a dialogue with Belgrade. Since October 2013, the two delegations have met three times. Exhumations in Rudnica, Raska (Serbia) started in April and were completed on 22 August 2014. It is expected that a number of additional missing persons' cases will be solved this year. The handover of identified human remains to the families concerned should be swift and professional.

The lack of information on new sites and difficulties in identification of exhumed human remains continue to be key obstacles. A lack of political support seems to underlie the fact; no new information on the fate and whereabouts of missing persons was provided by the governmental commission on missing persons. The Kosovo delegation to the working group needs engage more proactively.

The Kosovo Department of Forensic Medicine (DFM) does not have the full capacity to meet the required standards for sustainable forensic practice. The government needs to recruit and develop the necessary expertise. Concrete steps are needed to identify human remains stored at the Pristina morgue. There needs to be more and better coordination and cooperation between the Office on Missing Persons and DFM. Specific efforts are needed to integrate staff from non-Albanian minorities into both departments. The adoption of implementing legislation on the establishment of a central register, and on the closure of cases, is urgent.

Regional cooperation and good neighbourly relations form an essential part of Kosovo's process of moving towards the EU. The Kosovo authorities have continued to be active in this regard. Since June, Kosovo participates in the Migration, Asylum, Refugees Regional Initiative. Kosovo takes part in the Central European Free Trade Agreement.

Kosovo takes part in a number of regional meetings in line with arrangements on its regional representation and participation agreed between Pristina and Belgrade in 2012. For example, Kosovo takes part in the Regional Cooperation Council and is invited to participate in meetings of the South-East European Cooperation Process at all levels on a permanent basis and on equal terms. However, the agreed formula has not led to Kosovo's inclusion in all regional organisations and fora.

Regarding **bilateral relations with other enlargement countries**, Kosovo has continued to have very good relations with *Albania*, with which it signed a declaration on cooperation and strategic partnership aiming to boost economic growth. Bilateral agreements were concluded in the areas of health, tourism, culture, taxation, use of joint border customs points, energy, unification of the employment market, the opening of joint consular offices, and on collaboration on the use of the EU *acquis* translated into Albanian.

Bosnia and Herzegovina has not changed its stance on the recognition of Kosovo. Short-stay visas for Kosovo citizens are issued only by invitation from foreign diplomatic missions and international organisations accredited in Bosnia and Herzegovina, or for humanitarian reasons. As a reciprocal measure, Kosovo introduced a visa obligation for the citizens of Bosnia and Herzegovina as of January. In August, Kosovo blocked the imports of food of animal origin from Bosnia and Herzegovina; in this regard, Kosovo should not impose requirements going beyond those agreed in the context of the Central European Free Trade Agreement.

Cooperation with *the former Yugoslav Republic of Macedonia* has continued on the basis of a large number of bilateral agreements. Agreements on mutual recognition of pensions and on

strengthening cultural cooperation entered into force. An agreement for the opening of a new joint border crossing point in Belanovce-Stančik was ratified.

Concerning *Montenegro*, an agreement on recognition of pension rights was signed in December, while agreements on police cooperation, on the opening of joint border crossings, on local border traffic as well as protocols on joint border patrols and border cooperation were signed in March. The joint commission on border demarcation continued its work. A protocol on cooperation in the fight against trafficking in human beings was signed in April.

Kosovo has maintained very close relations with *Turkey*.

Overall, some progress has been achieved on war crimes and missing persons, notably with regard to excavations in Rudnica, Raska (Serbia). Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. Greater political commitment and proactive engagement is necessary. On regional cooperation, Kosovo has made further progress and has maintained good relations with its neighbours. Kosovo needs to continue to be pragmatic and constructive in these efforts. Delineation of the border with Montenegro needs to be finalised.

3. ECONOMIC CRITERIA

In examining economic developments in Kosovo, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs Council of 17 December 2013 and the Council Conclusions of 18 February 2008, where the Council asked the Commission to use community instruments to promote economic and political development for Kosovo.

3.1. The existence of a functioning market economy

Although Kosovo's economy grew uninterruptedly since 2001 much of its growth can be attributed to the low base effects as genuine sources of sustainable growth remain absent. High and persistent external imbalances, somewhat mitigated by significant inflow of worker remittances, showcase a weak production base and lack of international competitiveness. Inefficient and heavily subsidised POEs, and ad hoc decision making, characterise Kosovo's public sector. Although measures such as the introduction of the fiscal rule were enacted, their reinforcement mechanisms remain weak. The labour market is characterised by low participation and high unemployment rates. Large shares of youth, long term and unskilled unemployed show deeply embedded structural rigidities. The widespread informal economy, weak rule of law and lack of fiscal predictability remain major obstacles to doing business and improving competition and productivity in the economy. Significant further efforts are needed to develop a competitive private sector and anchor fiscal sustainability.

Economic policy

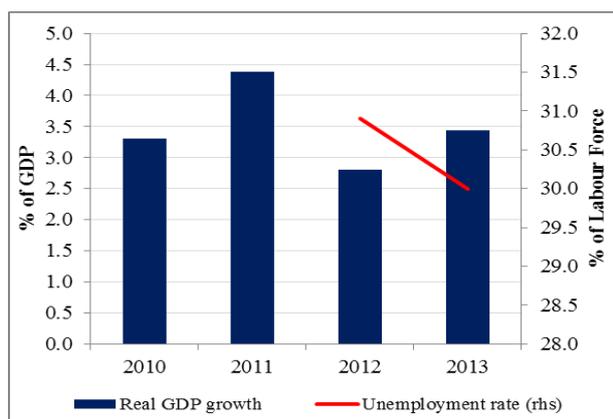
Consensus on the essentials of key economic policies was broadly maintained, though dissent between the ruling coalition and the opposition on the privatisation process of Post and Telecom of Kosovo (PTK) led to a two-month deadlock in the assembly and also delayed the adoption of the 2014 government budget. Efforts to develop relations with international financial institutions were sustained. The European Investment Bank re-launched its operations in the second half of 2013 and Kosovo became a member of the Council of Europe Development Bank in November 2013. A 20-month precautionary IMF standby arrangement (SBA) was successfully concluded in December 2013. The 2014 budget plan was the first that

complied with a fiscal rule. However, the government’s pre-election decision in March 2014 to increase salaries, pensions and other benefits to levels significantly higher than envisaged in the initial budget altered the structure of expenditure at the expense of growth-enhancing capital spending and raised questions regarding the transparency and credibility of fiscal policy. **Overall, the pursuit of market-oriented economic policies slowed and the predictability of economic policies weakened as a result of ad hoc approaches in policymaking.**

Macroeconomic stability

Economic growth rebounded in 2013 to 3.4% from 2.8% in 2012, driven by private consumption and a marginal improvement in net exports, with a negligible contribution from investments. Due to better economic performance of the main diaspora countries higher remittances underpinned private consumption. The positive net exports contribution was influenced by subdued domestic demand rather than an improvement in international competitiveness, as imports contracted substantially. A narrow and internationally uncompetitive production base, deficient infrastructure, particularly in the energy sector, discouraging business environment and significant skill gaps in the labour market impeded job creation, despite

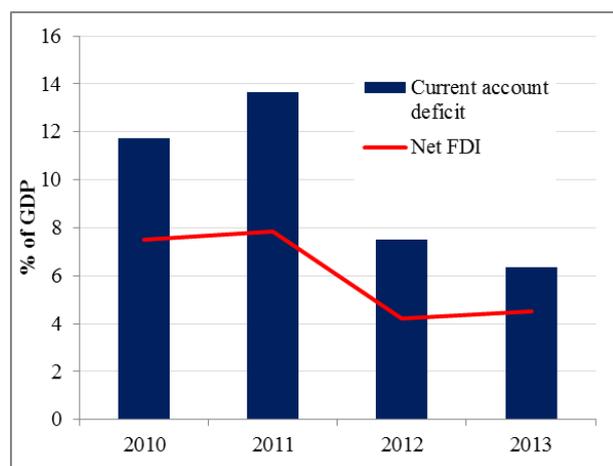
Figure 1: Real GDP and unemployment



continuous positive growth. GDP per capita⁶ reached €2800 in 2013, equal to 11% of the EU-28 average. **Overall, Kosovo’s economic growth accelerated, but long term sustainable sources of growth are lacking.**

External accounts improved in 2013, but remained heavily imbalanced. The current account deficit narrowed to 6.4% of GDP, 1.1 percentage points lower than in 2012. The trade deficit was brought down to 31.6% of GDP (2.5 percentage points lower than in 2012) as a result of contracting imports due to weak domestic demand, lower energy prices and somewhat rising goods exports. Concerns that the narrowing of the trade deficit was only temporary rather than of structural nature were reinforced in 2014 as goods exports decreased 0.4% and imports inched up 1.2% thus increasing the trade deficit by 1.4% in the first seven months of the year.

Figure 2: External position



Worker remittances rose by 6.4% and together with higher current transfers to the non-government sector helped narrow the current account deficit. Financing of the current account deficit depended primarily on net foreign direct investment, which reached 4.5% of GDP, up from 4.2% of GDP in 2012. Economic uncertainty, credit tightening, and an increase in investment abroad led to a net outflow of portfolio and other investments of 2.9% of GDP compared to the inflow of 3.6% of GDP in 2012. Net errors and

⁶ A measure using purchasing power standards is not available for Kosovo.

omissions, although notably improved (1.3 percentage points lower than in 2012), stood at 3.4% of GDP still covering a substantial part of the total current account deficit. **Overall, despite improvements in the trade deficit, significant imbalances persisted, largely due to a weak production base.**

According to the 2013 labour force survey, the labour participation rate among the working age population somewhat increased but still remains unacceptably low at 40.5%, indicating limited employment opportunities, together with low human capital endowment. Unemployment decreased slightly to 30%, but remained highest in Europe. The total number of registered job seekers however rose by 3.1% in 2013 and further 1.5% by June 2014. The share of unskilled workers among the total unemployed (57.2% in June 2014), showcases an urgent need for more active labour market policies, prequalification schemes and vocational trainings. In December 2013, the law on the Employment Agency (whose main task is defined as implementing employment and vocational training policies) was adopted. However, no budget allocation was made for the agency for 2014. Statistics regarding the labour market remained inadequate and outdated, hampering a sound analysis of the situation. **Overall, there have been limited efforts to improve labour market conditions. More efforts and funding should be made to support active labour market policies, which remained insufficient, and to produce adequate data on employment.**

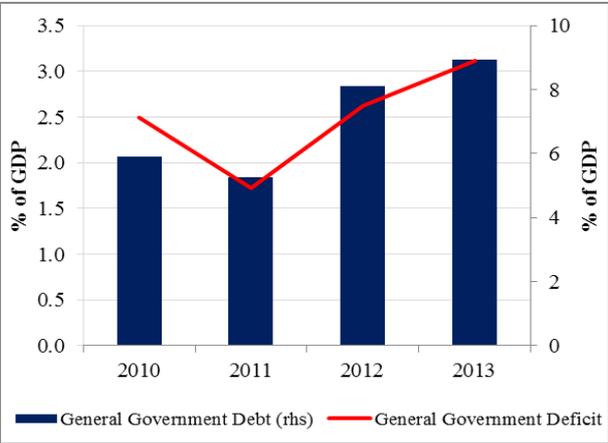
The scope of monetary policy tools is limited, as Kosovo uses the euro as legal tender without access to European Central Bank facilities. The total assets of the financial system, (excluding Central Bank of Kosovo assets) expanded by 10.5% and reached 83% of GDP in 2013 from 78% a year earlier. Due to a decline in demand and tighter bank standards, credit growth slowed down further to 2.4% by the end of 2013 from 3.8% a year earlier. Deposits growth continued at a rate of 8.3%. The loans to deposits ratio decreased from 77.4% in 2012 to 73.7% in 2013 pointing to significant scope for deeper financial intermediation and abundance of liquidity in the banking sector. Both loan and deposit average interest rates declined throughout 2013 and 2014, reaching 10.8% and 0.7% respectively in July 2014.

The annual average rate of inflation continued to moderate to 1.8% in 2013, owing to stagnant international food and energy prices. Core inflation (non-food, non-energy) remained unchanged at 1.2%. The disinflationary trend continued in 2014, bringing down the annual rate of inflation to 1% by the August.

Although fiscal performance deteriorated in 2013, compared to 2012, the budget deficit remained below the initial plan and stood at 3.1% of GDP. Total revenues declined by 0.7%, as border tax revenues contracted, due to lower volume of imports, and underperforming other

own sources of revenue (administrative taxes, fines and penalties, participation fees, licences etc.) Total expenditure increased by 1.6%, as spending cuts mostly at the expense of non-highway capital outlays offset the effect of rising current expenditure. As a result, non-highway capital spending stayed almost 25% below its projected level. Capital expenditure decreased to 9.9% of GDP from 10.9% of GDP in 2012. To finance part of the deficit, and to take advantage of excess liquidity in the banking sector, the government continued issuing domestic treasury bills with progressively longer maturities. In

Figure 3: Fiscal developments



March 2013 a two year maturity bond was issued for the first time. Thus, the total public debt (domestic and external) ratio increased by 0.8 percentage points to 8.9 % of GDP at the end of 2013 according to national data. As the PTK privatisation did not materialise, effectively stripping the government of an estimated 277 million EUR, the budget deficit was partly financed through the withdrawal of government deposits, which were reduced to 2.9% of GDP, their lowest level since 2008, and well below the 4.5 % of GDP threshold implied by the fiscal rule.

The 2014 budget was to be the first one anchored by the new fiscal rule limiting the total deficit to 2 % of GDP. However, in March, the government adopted a decision to increase salaries of all civil servants as well as social pensions by 25 % (and for retired Trepça miners by 50%) followed by spending initiatives for former political prisoners and war veterans. These increases in salaries and pensions, significantly higher than envisaged in the adopted budget, are to be funded by wage contingencies, cuts in goods and services expenditures, and by reassigning funds earmarked for civil service reform. As the financing of these initiatives relies to a significant extent on one-off effects, at the expense of delaying important reforms, it raises concerns over the accumulation of government arrears and rising government deficits in the future. These measures could also hurt Kosovo's price competitiveness by pushing up economy-wide labour costs.

Overall, macroeconomic and fiscal stability was preserved in 2013, but the unbalanced pattern of public sector wage policies with large ad hoc hikes typically occurring in election years severely deteriorates the transparency, predictability and credibility of fiscal policy, complicates fiscal planning and shifts the composition of spending towards less growth-friendly expenditure. The fiscal rule should be strengthened with stricter enforcement mechanisms to avoid a repetition of pre-electoral spending excesses in the future.

Interplay of market forces

The private sector's share in GDP has remained unchanged at an estimated 70 % in 2013. Amidst criticisms of corruption and lack of transparency in the sale of Socially Owned Enterprises (SOE) assets, the Privatisation Agency of Kosovo (PAK) continues to implement its mandate in expediting the sale and liquidation of SOEs under its administration. In 2013 PAK finalised only two liquidation processes and another six liquidation processes in 2014 (as of March). Following one failed attempt, and several delays in 2013, privatisation of the PTK was called off in December 2013, amid numerous corruption allegations and growing opposition by some opposition parties and the civil society. Furthermore, PAK's ability to operate efficiently and in accordance with its mandate was brought into question, when by August 2014, a series of board member resignations and mandate terminations, which were not adequately addressed by the Assembly of Kosovo, resulted in the lack of a board quorum.

Among centrally managed enterprises, only Kosovo Energy Corporation and PTK continued to operate with a profit in 2013. Subsidies to Publicly Owned Enterprises (POEs) in the field of energy imports, central heating, transportation and water amounted to 0.5 % of GDP, a decrease of 0.25 percentage points compared to 2012. The government control and regulation of the electricity, central heating, water supply and waste, and post-telecommunications services prices, via independent agencies, remained unchanged.

Overall, very limited progress has been achieved in privatisation and liquidation of enterprises in PAK's portfolio. The failure of the PTK privatisation and legal uncertainty surrounding PAK raise concerns regarding the future and transparency of the privatisation agenda. Some marginal improvements are exemplified by the reduction of subsidies to POEs.

Market entry and exit

Regulations adopted in 2013, and the establishment of one-stop shops, have reduced the time needed for company registration, to one day for individual businesses, and to three days for limited liability companies and joint stock companies. Kosovo would benefit from addressing numerous other obstacles to private sector development, such as weak administrative capacity, lack of access to finance, underdeveloped infrastructure especially in electricity supply, deficient rule of law, widespread informal economy and inadequate professional education. During 2013, the number of newly registered businesses declined by 1.8 % to 9 421 while the number of exits rose by 28 % to 1 508 compared to the previous year. The total number of active registered businesses stood at 68 309 in September 2014. ***Overall, amid some progress in simplifying business registration, private sector development remains hampered by numerous obstacles.***

Legal system

The basic legal framework on the purchase of real estate by foreigners is compliant with EU rules. However, further efforts are required to review the civil code, and administrative practices are still an obstacle to equal treatment. Regarding the implementation of agreements in the framework of the Pristina-Belgrade Dialogue, all certified copies of civil registry books located in Serbia were handed over to Kosovo. Legislation required to implement the agreement on cadastre still needs to be adopted. While expropriation procedures are applied in a broadly satisfactory manner, the authorities do not carry out proper consultation with displaced property owners. The judiciary system has continued to suffer from poor accessibility, inefficiency, delays and growing backlog of unresolved cases. ***Overall, despite some progress made in civil registry and cadastral records, the judiciary framework, and notably its implementation, remains underdeveloped. Ensuring a properly functioning judiciary system remains an important task. Weak institutional capacity for legal enforcement, delays in courts and prevalent corruption have continued to hinder the business environment.***

Financial sector development

The financial system of Kosovo is dominated by the banking sector, which holds 72.3 % of the total financial sector assets. The faster pace of small bank assets growth contributed to declining degree of the sector's concentration. The banking sector liquidity and capital buffers were further strengthened and remain well above their minimum regulatory requirements. On the other hand, the ratio of non-performing loans to total loans increased to 8.2 % by July 2014, compared to 7.5 % at the end of 2012. The increase was partially due to the slowdown of credit growth and relatively subdued growth in the last two years, which in turn affected the capacity of borrowers to repay loans. The announced introduction of SWIFT and IBAN codes for all bank accounts in Kosovo banks, in 2015, should enable easier and safer money transfers, full transparency and a more efficient fight against money laundering. ***Overall, the tightening of credit standards, together with foreign banks' policies towards increasing parent banks' capitalisation ratios and the decline in demand for enterprise loans decelerated total credit activity, and contributed to preserving good liquidity positions despite the increase in the non-performing loans ratio.***

3.2. The capacity to cope with competitive pressure and market forces within the Union

Human and physical capital

Very limited progress has been made in improving the quality of the education sector. Total public spending on education decreased slightly, by 0.1 percentage points, to 3.8 % of GDP in 2013, still less than the average for low and middle income countries (4.3 %). Attempts to

address the evident skills mismatch in the labour market were made when a legal framework for the establishment of the Agency for Vocational Education and Training and Adult Education was put in place. However the agency itself is not yet operational. An action plan and a framework for quality assurance have been developed to monitor the quality and performance of vocational education and training schools. Moreover, the National Qualifications Authority, an independent public regulatory institution responsible for monitoring the training and assessment institutes, has established procedures for validation and accreditation. ***Overall, insufficient funding, the low level of cooperation between vocational schools and enterprises to conduct practical learning and delays in the implementation of policies to provide the skills required by the labour market remain as the major problems.***

In 2013, total investment declined and stood at 27.6% of GDP (down from 29% of GDP in 2012) with the private share increasing as the government contracted its non-highway related investments. The construction of a highway to Tirana has been completed and the preparatory works for the new highway to Skopje have started in July 2014. Investments in the transmission and distribution networks have improved network stability and reduced technical losses. Power cuts have become less frequent, but an explosion at the highly polluting Kosovo A thermo power plant in June 2014 led to a temporary shutdown of its operations causing additional uncertainty in electricity supply. Nearly half of all incoming foreign direct investment went to the non-tradable sector, in particular real estate and construction, while the share of FDI channelled to manufacturing declined to only 7% (from 14% in 2012). There was no greenfield investment. ***Overall, there has been very limited progress in the improvement of physical capital besides road infrastructure. Higher priority should be given to sectors such as education, energy efficiency and water distribution. FDI inflows, by large degree, seem to be financing consumption rather than investment which could spell balance of payments problems in the future.***

Sectoral and enterprise structure

Kosovo's private sector seems to be fragmented and unable to benefit from efficiency gains brought by exploring economies of scale as SMEs with fewer than 250 employees account for 97% of total employment. Wholesale and retail trade continues to be the dominant sector, with a share of 30.3% of all new enterprises, followed by the service sector and real estate, with approximately 20%. The large informal sector fuelled by weaknesses in both tax policies and law enforcement continues to hinder fair competition and to harm the business environment. It also hinders improvements in productivity by constraining entrepreneurs' access to capital, broader markets and technologies. ***Overall, Kosovo's private sector remains underdeveloped. The large informal economy, low access to finance and its high cost continue to pose major challenges. Reducing the share of the informal economy remains a challenge.***

State influence on competitiveness

The government has extended the grant scheme consisting of coupled payments in agriculture sector. In addition to previously existing schemes, direct payments to agriculture were introduced. Co-financing grant schemes to micro, small and medium-sized enterprises, worth a total of €1 million were introduced. In 2014, the government declared three new free economic zones (Prishtinë/Priština, Mitrovicë/Mitrovica, Gjakovë/Dakovica and Prizren). However, this was done without the required national plan, on a rather ad hoc basis. The institutional setup to screen, approve and monitor existing and planned state aid schemes has not yet been established and no inventory of the state aid scheme is available. The Competition Authority in charge of establishing and securing a competitive environment is not operational. In June 2013, the Ministry of Trade and Industry launched a feasibility study

on the credit guarantee scheme aiming to provide credit to businesses at subsidised interest rates. However, the implementation process has not yet started due to several delays. ***Overall, the state interference in the economy remains high. There was no progress regarding institutional capacity to control state aids as subsidies are still being provided without a proper strategy and evaluation. The Competition Authority needs to become functional to enable progress towards establishing a functioning competitive market.***

Economic integration with the EU

Kosovo's openness to trade decreased in 2013 as total trade stood at 66.4% of GDP compared to 70.4% of GDP in 2012. EU and Central European Free Trade Agreement (CEFTA) countries continue to be the main trade partners with shares of total trade at 43.8% and 28.5% respectively. EU countries remain the biggest foreign investors in Kosovo, with a share of 35% of overall investment. ***Overall, the EU remained Kosovo's biggest trade and investment partner.***

4. EUROPEAN STANDARDS

This section examines Kosovo's capacity to gradually approximate its legislation and policies with the *acquis* in the areas of the internal market, sectoral policies and justice, freedom and security, in the context of the Stabilisation and Association Process. It also analyses Kosovo's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises Kosovo's overall level of preparation.

4.1. Internal market

4.1.1. Free movement of goods

The Ministry of Trade and Industry (MTI) has made gradual progress towards implementing the strategy on free movement of goods adopted in February 2013. Kosovo has continued the internal restructuring of the Ministry, which is in charge of horizontal coordination. The bodies responsible for metrology, accreditation, standardisation and market surveillance have been transformed into agencies. The division for quality infrastructure in the ministry provides policy guidance and support to align Kosovo legislation with the EU *acquis*. Staffing levels need to be increased in all agencies.

As regards **standardisation**, during the reporting period 1 575 European standards (ENs) have been adopted as Kosovo standards bringing the total number to 6 520. Standards are normally bought from the recognised National Standards Body of Albania and adopted through the cover page method. Kosovo is a member of neither ISO (International Organisation for Standardisation) nor CEN/CENELEC (European Committees for Standardisation and for Electrotechnical Standardisation). Awareness raising in the private sector on the use and importance of standards needs to be improved.

Regarding **conformity assessment**, Kosovo has adopted regulations in the area of toy safety, machinery, conformity marking and household electrical appliances. In the area of general product safety, regulations on the rapid information exchange system to products posing a risk to the health and safety of consumers were adopted in November. A regulation on technical approvals for construction products was adopted in November and basic requirements for construction works were approved in May. The notification procedure, regulation on exchange information and notification of technical regulations, conformity assessment procedures and standards have been adopted and are in use as of April.

With regard to **accreditation**, the Kosovo General Accreditation Directorate (KAD) has been transformed into an agency. The assessment of KAD carried out by the European Cooperation for Accreditation in 2012 identified a number of non-conformity issues that have now been addressed. There has not yet been a full evaluation of KAD. Four inspection bodies, 22 testing

laboratories and one calibration laboratory have been accredited by the Directorate of Accreditation of Kosovo. One accreditation was withdrawn in the reporting period due to non-conformity. Fees for accreditation go into the general budget and are not directly channelled into KAD's budget.

On **metrology**, the laboratories on mass, flow and volume, electrical measurement, precious metals, and thermometry are operational. The Agency of Metrology has improved its capacity to fulfil its supervision functions. The laboratories on time and frequency, as well as length and force, are only partially operational. In general, the level of operational capacity of laboratories needs to be raised to meet the necessary qualitative standards.

In relation to **market surveillance**, two administrative instructions have been adopted and a significant number of inspections have been undertaken by market inspectorates. Several thousand goods (including toys, electrical and mechanical equipment and sports equipment) were seized due to their non-compliance with safety requirements.

Communication and coordination mechanisms between authorities responsible for market surveillance in Kosovo need to be improved and the procedures concerning enforcement need clarification. The establishment of the National Inspection Council has been postponed.

With regard to **consumer protection**, Kosovo has enacted implementing provisions on labelling, presentation and advertising of food products to implement the law passed in 2012. The Consumer Protection Council, composed of representatives of the government, the private sector and civil society organisations, has been established and meets once a month. It is responsible for designing and monitoring the implementation of the National Programme for Consumer Protection and advises on issues concerning market surveillance. A number of awareness-raising activities were carried out, including broadcasts on the public TV channel (RTK) and major radio stations. In the reporting period, 149 complaints have been filed with the Department of Consumer Protection, of which 99 have been resolved.

Overall, Kosovo has continued to improve the alignment of its legislation with the *acquis* in the area of free movement of goods. Its administrative capacity has also improved, notably through the reorganisation of the MTI. Further efforts are needed to strengthen administrative capacity to ensure enforcement of legislation, and to provide valuable services to industry. Coordination between ministries and various agencies needs to be improved.

4.1.2. Movement of persons, services and right of establishment

On **movement of persons**, Kosovo concluded an agreement with Montenegro on insurance periods for entitlement to benefit from pension rights.

As regards the **freedom to provide services**, in November 2013 the Assembly adopted a law on licences and the permit system, establishing general rules on issuing and certifying permits and professional licensing. The database on trade of services established at MTI has been improved. A horizontal law on services still needs to be adopted and further efforts are required to ensure that sectoral legislation does not encroach on the *acquis* in the area of free movement of services.

On *postal services*, the Regulatory Authority of Electronic and Postal Communications has approved the pricelist for the universal postal services for both the Kosovo and international market. Two operators for postal services were licensed in 2014.

Regarding the *mutual recognition of professional qualifications*, only four professions (accountants, architects engineers and lawyers) are currently regulated by law. Foreign professional qualifications are recognised as long as they are certified by an authority accredited in the country of origin. Alignment with the *acquis* in the area of recognition of professional qualifications and professional training programmes is at an early stage.

In the area of **financial services**, the Law on Securities was adopted. Kosovo still has to align its legislation with the current rules on insurance and occupational pensions (Solvency I). The central bank has continued its review of existing legislation, including an assessment of compliance with the Basel II and III requirements. The market for financial services is at an early stage of development.

On **company law**, in December 2013, Kosovo adopted a law on foreign investment establishing equal treatment between foreign and local investors and no discrimination towards foreign investors on the basis of citizenship, origin, residency, and place of establishment of business or control. Business registration has been simplified further. The legal framework for *corporate accounting* and *auditing* is weak; this affects the capacity of companies to obtain loans, and slows down the development of a financial market. Kosovo needs to align the requirements concerning accounting and reporting with international standards.

Overall, there has been mixed progress in this area. Alignment with European standards in the area of movement of persons, services and right of establishment as well as company law remains at an early stage. Kosovo needs to focus on the gap analysis and alignment of Kosovo legislation with the EU *acquis*, in particular in the area of free movement of services. Kosovo needs to adopt and enforce legislation on corporate reporting, accounting and auditing. This would contribute to its economic growth.

4.1.3. Free movement of capital

Movements of capital are largely liberalised in Kosovo. Regulations on supervision of micro-finance institutions were adopted in September 2013. These address loopholes in the legislative framework. The number of foreign-owned banks in the Kosovo banking market has stayed the same, with nine foreign banks controlling almost 90% of Kosovo's banking sector. As for the acquisition of real estate, including the purchase of land, by non-Kosovo citizens, the constitutional legal framework enables foreigners to purchase real estate. However, provisions in sectoral laws and administrative practices prevent them from exercising this right. The identification of these obstacles by Kosovo is ongoing and their removal would help increase foreign investment.

Regarding the **payments system**, two regulations, on clearing and settlements of accounts, and on direct debit schemes' electronic interbank clearing system, were approved to implement the law adopted in April 2013. Further efforts are required to continue alignment with the *acquis* in the area of payment services. SWIFT assigned a country code to Kosovo in June 2013, and the Central Bank of Kosovo was connected to SWIFT in December 2013. In August, Kosovo was assigned the IBAN format registration numbers.

As regards the **fight against money laundering** and terrorism financing limited progress has been made. In general, legislative and operational structures are in place but tangible results in the fight against economic and financial crimes are lacking.

Overall, some progress took place, in particular concerning micro-finance institutions. Capital movements remain largely free, there are no restrictions regarding foreign ownership or investment in the financial sector, and the capacity of the central bank to supervise the sector is adequate. However, provisions in administrative acts, implementing acts and administrative procedures prevent foreigners from purchasing real estate. Kosovo needs to identify these obstacles and start removing them.

4.1.4. Customs and taxation

Concerning **customs**, Kosovo adopted legislation on customs relief and offence procedures. The administration continued to improve its administrative and organisational capacity. The

customs and the tax administration merged their investigation departments. Controls within the new organisational structure were streamlined in January to prevent corruption and to facilitate trade. This new approach resulted in the collection of an additional €18 million compared to the first three months of 2013, despite reduced rates and less trade. The relationship between customs, other rule of law institutions and the business community has been strengthened.

Between 1 January and 31 July 2014, Kosovo Customs opened 18 new internal investigation cases affecting 50 staff members. The customs declaration processing system (ASYCUDA) is fully operational and supports paperless customs declarations, simplified procedures and transit operations, also at border/boundary crossing points in northern Kosovo. However, registration of traders with the relevant Kosovo institutions in the north remains low. Kosovo and Albania agreed to take joint action to fight illegal trade and facilitate legitimate trade. As of December, the Systematic Electronic Exchange of pre-arrival Data (SEED) between Kosovo customs and Serbian customs became operational. However, there are still inconsistencies between the Customs and Excise Code and the Criminal Code which hinders the fight against customs crime. The administrative border/boundary line between Kosovo and Serbia remains vulnerable to illicit activities, including smuggling, particularly in the north of Kosovo.

In the field of **taxation**, a strategy for preventing and combating the informal economy, money laundering and financing of terrorism 2014-18 and its action plan were adopted in January. Regarding administrative and operational capacity, the tax administration has strengthened its human, administrative and IT capacity. Electronic services have been further developed, including submission of electronic filing for tax returns, electronic tax verification and tax payments and Business Registration Centres (one-stop-shop). In all, 19 070 businesses have been equipped with fiscal cashiers/devices. However, as the informal economy is estimated to represent 30 to 35 % of GDP, the tax administration needs to modernise its IT platform and its procedures to improve efficiency.

VAT represents nearly 49% and corporate tax 22% of tax revenues. The total tax income raised by the tax administration was 4% of GDP for 2013. A detailed risk response plan for 2014, aiming to increase the proportion of direct tax revenues, was adopted in December. Although the collection of direct taxes has increased, it is still not sustainable and in 2013, tax arrears remained too high, at more than €279 million, which is 54% of total revenues collected. Tax collection in northern Kosovo takes place on a voluntary basis. Training courses have been provided both in-house and to employees of other Kosovo institutions and agencies. In December, the mandate of the Independent Review Board was extended for a year, with the aim to address the backlog of administrative appeal procedures.

Overall, there has been limited progress in customs and taxation. Kosovo customs legislation is largely compliant with the EU's Customs Code. However, discrepancies between the Customs and Excise Code and the Criminal Code need to be urgently addressed. The fight against the informal economy and tax evasion needs to be given priority and its efficiency significantly increased, including in the north of Kosovo. The tax administration needs a new IT platform to improve its performance. The customs and tax authority should take steps to prevent any undue political influence over their institutions.

4.1.5. Competition

Regarding **anti-trust and mergers**, the Law on the Protection of Competition was amended in February so as to further align Kosovo legislation with the EU *acquis*. The provisions on mergers and acquisitions, the definition of abuse of dominant position and the scope for block exemption were amended.

The Kosovo Competition Authority (KCA) was reorganised and includes a decision-making body, the Competition Commission, and its Secretariat, the administrative and investigation body. In 2013, the KCA carried out investigations on agreements and suspected abuse of dominant position in various fields, including interurban transport ticket prices, the cement market and broadcasting. Two decisions of the KCA were appealed before the basic court in Pristina, in cases concerning the insurance sector and the fiscal cashiers sector. The court upheld the KCA decisions and imposed a € 1.2 million fine on the companies involved.

The Competition Commission has not been operational since November 2013 due to delays in the appointment of four out of five members whose mandate had come to an end. In the absence of a quorum (at least three members) of the Competition Commission, the KCA has not been able to fulfil its mandate. The KCA is inadequately staffed and most of the positions in the organigramme are yet to be filled. Staff lack appropriate training, particularly in market investigation. The KCA is still hosted in the premises of the Assembly, which puts serious constraints on its activities. In addition to fulfilling its essential needs, the KCA also needs adequate internal control systems and information systems to provide quality information to support management decision-making and to ensure that information is classified, recorded, maintained and reported in compliance with legal requirements.

The Law on **State Aid** adopted in early 2013 requires further amendments to bring it in line with European standards, in particular to ensure the independence of the State Aid Commission. The State Aid Commission has not reviewed any request regarding state aid, although its members have been appointed. The State Aid Office, currently established as a department of the KCA, is understaffed. Appointments have yet to be made, and officials lack proper premises. As a consequence, the Office does not have the capacity to screen existing aid schemes. It still does not receive information on aid schemes granted by other central or local administrations in a systematic way.

Overall, there has been very limited progress in the area of competition. The implementation of anti-trust and mergers policy remains at an early stage and is weaker than in previous years. The Kosovo Competition Authority faces substantial challenges in terms of investigative and decision-making capacity. Similarly, state aid policy remains at a very early stage and there is no track record of implementation. These gaps are a cause for concern. In view of a future Stabilisation and Association Agreement, substantial efforts are needed in these areas. Issues related to staffing, facilities and training need to be addressed as a matter of priority.

4.1.6. Public procurement

In March 2013, the Assembly amended the law governing public procurement. The new law deviates from the *acquis* by establishing a preference of 10 points to domestic bidders in tenders where the criterion of most economically advantageous tender applies, and a preference of 15 % to domestic bidders in tenders where the criterion of the lowest offered price applies. The implementing provisions of these amendments are still due.

During the reporting period, some 12 500 contracts were awarded. Of these, almost 90 % were attributed under the open procedure. The Procurement Review Board (PRB) was not operational from August 2013 to March 2014, when the Assembly appointed the board's new members. The Assembly disregarded the recommendation of the Independent Selection Board, which had concerns regarding some of the appointees, including an ongoing corruption investigation. Meanwhile, the suspension of PRB operations has created considerable delays and backlogs in processing complaints. Out of 279 complaints economic operators filed with the PRB while its operations were suspended, only 24 were reviewed (just over 8 %), while the remaining 255 were dismissed, as the deadline for their processing had expired. These cases can now only be addressed by ordinary courts, which also face

delays in adjudicating cases. The quality and transparency of the PRB's decisions remains questionable.

Since resuming its operations the PRB received 320 appeals, of which 246 were already processed. Of these, 74 cases were returned for re-evaluation, whereas in 52 cases, the review panel decided to annul the whole tender process. Irregularities in tender dossiers and in evaluations confirm that unclear technical specifications and skewed award criteria continue to be an issue of concern. More than three years after the establishment of the Central Procurement Agency (CPA), the Ministry of Finance has still not adopted the list of common items to be procured, preventing the CPA from fulfilling its core mandate. The Director of the Agency was appointed in June 2014. The Public Procurement Regulatory Commission's 2013 annual report was approved by the Assembly in April. 5 517 notifications for award of contract were published since October 2013. There are 173 contracting authorities in Kosovo. The training system needs to be improved to enable all procurement officials to benefit from capacity building activities. In May 2013, the Public Procurement Regulatory Commission began with the ex-ante monitoring of contract notices. 289 notices have been checked since the practice was introduced.

Overall, there has been very limited progress on public procurement. The legal framework has diverged from EU standards with the introduction of new discriminatory provisions for foreign bidders. The existence of many entities involved in procurement represents a risk of corruption. Accountability and transparency needs to be improved and corruption needs to be effectively addressed. The capacity of all bodies involved in the procurement system needs to be strengthened. The remedy system has been dysfunctional and the appointment procedure for Procurement Review Board members raised serious concerns. Failure to process complaints filed during the suspension of the board has adversely affected the credibility of the procurement system.

4.1.7. *Intellectual property law*

On **copyright and neighbouring rights**, the Law on Copyright was amended and aligned further with the *acquis*. However, it still requires implementing provisions on private copy schemes and digital piracy. The task force established by the government in 2013 has delivered awareness-raising activities and seized several thousand counterfeited goods. The Office for Copyright and Related Rights is adequately staffed and trained to carry out its mandate. There are two collecting societies. Negotiations on fees with broadcasters did not lead to an agreement, despite the involvement of mediators.

With regard to **industrial property rights**, amendments concerning patents, industrial designs and trademarks were adopted and aligned further with the *acquis*. The legislative framework for geographical indications is overall in place and the Agency for Industrial Property received its first applications. The Industrial Property Agency has now more staff, including a new director, but they still require adequate training to perform tasks effectively and handle the current backlog of applications. The National Intellectual Property Council was convened in March, more than a year since its last meeting.

With regard to **enforcement**, a special chamber within the commercial department of the basic court of Pristina is in charge of dealing with intellectual property rights cases. Kosovo customs have carried out operations against goods violating intellectual property rights, both in response to requests by rights holders and *ex officio*. The market inspectorate has also initiated proceedings before the competent court. The police do not have a unit specialised in intellectual property rights and its expertise in this field is limited. Legislation needs to be aligned with the new EU regulation on confiscation, storing and destruction of goods.

Overall, the legislative framework is partially aligned with the *acquis* and further action is needed to approximate legislation with the latest developments in this sector. Kosovo needs to focus on increasing human resources in intellectual property law and improving their expertise, as well as on coordination between enforcement authorities to fulfil obligations stemming from the future SAA.

4.1.8. *Employment and social policies, public health policy*

As regards **employment policy**, the employment sector strategy 2014-2020 and its action plan need to be adopted.

According to the latest Labour Force Survey (LFS), Kosovo continues to face an unemployment rate of around 30%, very low labour market participation and employment rates, especially among women (around 20% and 13% respectively). Nearly 70% of the unemployed are long-term unemployed. The unemployment rate among young people aged 15-24 was about 56%. The number of unemployed registered at the Ministry of Labour and Social Welfare remained unchanged at around 270 000 in the first half of 2014, a number substantially higher than that measured by the LFS. The number of unemployed university graduates remains high, representing 2.4% of the total number of registered jobseekers, pointing to a substantial skills mismatch. The Public Employment Service helped to find 4 729 jobs for jobseekers, out of which 1 590 went to women. The number of people trained by the employment service during this period was 2 093, of whom 945 (or 45%) were women. Compared to the previous year, there has been a slight decrease in training due to a lack of financial support to promote employment. The Law Establishing the Employment Agency was adopted. Funds have yet to be committed for its implementation, which is expected to start in 2015.

The Public Employment Service continued its reforms throughout 2013. The employment management information system is now complete and operational in all employment offices. The system is also integrated into the Kosovo Tax Administration. This allows for improved monitoring of people's labour market status, administration of social assistance payments and positioning of those in need in the relevant schemes.

Kosovo needs to step up efforts to activate jobseekers through active labour market measures to reduce structural unemployment. The budget for expanding active labour market measures remains low and is insufficient to address needs effectively.

On **social policies**, implementation of the Law on Labour remains unsatisfactory. The law needs to be amended, notably with regard to working contracts, maternity leave, medical leave and inspectorate oversight. Effective implementation of the Law on Health and Safety at the Workplace is necessary to prevent numerous deaths and injuries in the workplace. In 2013, 54 workplace accidents were reported, of which 17 were fatal. The Labour Inspectorate needs to reduce the informal part of the construction sector more efficiently.

The number of labour inspectors remains too low. Only 50 inspectors cover implementation of the laws on labour and on health and safety at work. The labour inspectorate needs to be further strengthened in terms of training, staffing and additional equipment.

On *social dialogue*, the government and the Social and Economic Council (SEC) have signed the General Collective Agreement of Kosovo, which lays down rights and obligations of employers and employees. No concrete plans or timelines for its implementation are included. The representation of employees within the SEC does not have the support of the majority of trade unions. Election and membership criteria need to be modified and the capacity and the functioning of the SEC need strengthening to improve the quality of the social dialogue.

As regards *social inclusion*, Kosovo needs to give greater priority to active labour market

measures targeting those from the most vulnerable groups, including to measures connected to the decentralisation of social services. Regular monitoring of the quality and impact of such measures is needed.

On *social protection*, licencing of individual social and family service providers have continued and preparations for licensing of legal subjects/organisations have started. The Law on Pension Schemes funded by the State was adopted. Social protection schemes have limited impact on poverty reduction due to budgetary constraints. The decentralisation of social services is still not fully or effectively implemented by the municipalities, and the budget formula for decentralisation developed in 2012 is not yet operational. Dedicated grants earmarked for all social services in municipal budgets need to be allocated to ensure means for effective decentralisation of social services. Better inter-ministerial coordination of actions and allocation of resources is required to provide effective social services.

On *equal opportunities*, maternity leave provisions in the Labour Law need to be enforced to eliminate discrimination of women at the workplace. This is considered as having a negative impact on the employment of women, especially in the private sector. The Agency for Gender Equality needs to produce a report on the implementation of the programme on gender equality (2008-13) before drafting a new programme for 2014 and beyond. The Law on Gender Equality needs to be amended and adopted as part of the so-called human rights law package. (See also 2.2 — *Human rights and protection of minorities*)

On **public health policy**, the health sector strategy 2014-2020 and the Law on Health Insurance were adopted. Administrative instructions on health data, health professionals, licensing, marketing and medical treatment were issued. The Chamber of Health Professionals was established. The Health Information System has been further deployed. Public health spending remains among the lowest in the region. This hinders implementation and enforcement of sector reforms and policies. Out-of-pocket payments continue to impede access to healthcare for all. Child mortality remains among the highest in Europe. Kosovo is not a member of the South-Eastern European Health Network.

The legislation on *tobacco control* is enforced by means of inspections. The *communicable diseases* system, infrastructure and reporting need to be further developed. The reported prevalence of HIV/AIDS remains a concern, due to the lack of reliable data. On *blood, tissues, cells and organs*, the Law on Transplantation of Tissues and Cells was adopted. On *patients' rights in cross-border healthcare*, initial activities need to be further developed. On *pharmaceuticals*, amendments to the Law on Medical Products and Devices were adopted. The supply of pharmaceuticals to secondary and tertiary levels is now decentralised.

On *mental health*, the Forensic Psychiatry Institute is now under the Ministry of Health. Mental health services and community-based mental health care based on EU guidelines and best practices need to be improved. On *drug abuse prevention*, an addiction treatment service and methadone therapy services were established in five hospitals and two prisons. Kosovo cooperates with the European Monitoring Centre for Drugs and Drugs Addiction. House-to-house vaccination campaigns, treatment for lead contamination and information campaigns are used to address *health inequalities* for Roma, Ashkali and Egyptians. On *nutrition*, primary and mother and child healthcare needs to be further developed. On *cancer screenings*, initial activities need to be further developed. The *rare diseases* action plan 2013-15 needs to be further implemented.

Overall, there has been some progress in the area of employment, social and health policies. Preparations are at an early stage and employment and social challenges remain considerable. Kosovo needs to implement and enforce the Law on Labour. Kosovo needs to adopt an employment sector strategy (2014-2020). Implementation of inspection legislation needs to be

further developed. The social protection system is still underdeveloped. In the area of public health, the health sector action plan implementing the strategy needs to be adopted.

4.1.9. Education and research

The Ministry of Education, Science and Technology (MEST) set out **education** policy priorities for 2014-2015 and complemented the legal framework for the implementation of performance assessment of teachers to support the process of teachers' licensing. Implementation of the Kosovo curriculum framework and core curriculum continued in 2013 in ten pilot schools with the aim of adding another 84 pilot schools.

Only 3% of children attend preschool education services. Education and training programmes (for both pre-university and university level education) need to improve support for applied and practical work, to complement theoretical teaching and learning practices. The government has taken actions to prevent dropping out of school, including workshops with parents, students and the community at large, but further efforts are needed. Students from minority communities have received targeted financial support. However, children from Roma, Ashkali and Egyptian communities and children with disabilities continue to face limited access to quality education.

Little progress has been made in developing a clear strategic plan for higher education institutions in Kosovo. Contested academic credentials led to protests and the resignation of the University Rectorate. Improved transparency of the University recruitment procedures of academic staff is required. In addition, the quality of higher education and its relevance to the labour market need to be greatly improved. Accuracy and availability of data in the education sector remains a serious challenge.

The government adopted a Law on Vocational Education and Training (VET). The current VET system does not properly meet the labour market needs in Kosovo. An action plan and framework for quality assurance for monitoring the quality of vocational education and training schools has been developed. The National Qualifications Authority set up procedures for validation and accreditation of vocational training programmes and made progress comparing and approximating the National Qualifications Framework with the European Qualifications Framework during the first half of 2014. The Agency for Vocational Education and Training and Adult Education for technical support became operational during the spring of 2014.

As a result of the dialogue agreement on university diplomas, graduates from Kosovo and Serbian universities can have their higher education diplomas certified by the European University Association. Kosovo participates actively in the Western Balkans Platform on Education and Training.

The Youth in Action programme continued involving young people from Kosovo in international youth activities such as youth exchanges and the European Voluntary Service and offered youth workers the opportunity to cooperate within training and networking activities.

Kosovo has taken limited action to strengthen **research and innovation** capacity. The budget for research remains too limited to create competitiveness and implementation suffers from budgetary constraints and administrative capacity needs to be strengthened. A strategy for innovation was designed, but has yet to be adopted. Kosovo's participation in the EU framework programme for research (FP7) has continued to stagnate. Linkages between research and businesses are very weak. In November 2013, Kosovo organised a successful event in Pristina on the new EU research and Innovation Programme Horizon 2020 and has expressed interest in becoming associated. Research and innovation entities from Kosovo are eligible for participation and funding as a third country. The list of Horizon 2020 National

Contact Points has been notified, indicating increased administrative capacity. Kosovo also attended the regional Horizon 2020 launch event in March in Budva (Montenegro). Kosovo has been active in cooperating at regional level and co-signed the Western Balkans Regional R&D Strategy for Innovation adopted in October 2013.

Overall, progress in the area of education has been slow. More efforts are needed to improve access to quality education for marginalised groups, including for children with disabilities and children from Roma, Ashkali and Egyptian communities. The labour market relevance and the quality of education need to be greatly improved. More efforts are needed to strengthen Kosovo's research and innovation capacity through boosting investment in the sector and by taking action to facilitate the integration of Kosovo into the European Research Area and its contribution to the Innovation Union.

4.1.10. WTO issues

Kosovo is not a member of the World Trade Organisation and has taken no formal steps to join.

4.2. Sectoral policies

4.2.1. Industry and SMEs

As regards **industrial policy** and **SMEs**, Kosovo has continued to simplify its legislation. In January 2014, a new Law on Foreign Investment entered into force. Certain aspects of the business environment have been improving over the past few years, in particular procedures to establish new companies. Online company registration is possible at 28 one-stop shops. Full online company registration has not yet been established.

Implementation of the Small Business Act needs to be prioritised. This implementation is still in an early phase. The implementation of the private sector development strategy (2013–17) and its action plan (2013–15) needs to be ensured and monitored. Consultation of the business community during the drafting of laws, strategies and impact assessments is essential. The Investment Promotion Agency of Kosovo and the Small and Medium Enterprise Agency were merged into the Kosovo Investment and Enterprise Support Agency. The business environment in Kosovo remains challenging. The main obstacles to SME development and further growth are access to finance, weak legal enforcement of contracts and business regulation, weak competition and weak judiciary, as well as the large informal economy and corruption.

Overall, limited progress was made on industrial and SME policy. To improve the business environment, Kosovo needs to improve conditions for enforcing contracts, reduce unnecessary administrative barriers, promote the fight against the informal economy and corruption, and develop a financial market. The government needs to introduce a regulatory impact assessment. The SME development strategy and action plan need to be based on clear timelines whose implementation needs to be ensured and monitored.

4.2.2. Agriculture and fisheries

Regarding **agriculture and rural development policy**, the government has continued with its payment scheme extending direct payments to some new sectors (poultry, vineyards and planting material). The volume of direct payments has almost doubled compared to 2012 and now stands at €12 million.

Kosovo needs to systematically implement its own minimum national standards for operators to benefit from national payment schemes. The management and financial control of direct payments and rural development measures needs to be strengthened by upgrading and updating the Farm Register, the Animal Register, and the Vineyard Register. The Internal

Audit Unit urgently needs to be established at the Agriculture Development Agency.

The new Law on Spatial Planning is intended to reorganise the system for urban zoning. Rural land management plans need to be established at municipal level. Coordination between stakeholders involved in construction permits and zoning needs to be strengthened to avoid illegal changes of agricultural land use. The effectiveness of land consolidation, establishing a transparent land market, enforcing sanctions and preventing illegal construction on agricultural land still remain obstacles to implementing the Law on Spatial Planning. There are still discrepancies between Eurostat and Kosovo statistics on agriculture trade. Further efforts are needed to implement the Law on Organic Production, and to establish a functioning control authority and a commission on organic production.

In the forestry sector, efforts have been made to impose sanctions on illegal logging. However, the volume of illegal logging is still too high for sustainable forest management. The institutional model for the sector has not yet been agreed.

As regards **food safety** and **veterinary** control, a package of laws (the food law, veterinary law, sanitary inspection law and livestock law) has not been approved. The Food and Veterinary Agency (KVFA) nevertheless adopted extensive standard operating procedures and guidelines for inspectors. Implementation and enforcement of existing legislation is not systematic. The annual control plan has been completed and approved, but the multiannual control plan for animal disease is still being drafted.

Inspection competences are still not transferred from municipalities to the KVFA; this should finally take place by 1 January 2015 after three years of delay. Four regional KVFA offices are now operational and a further two need to be created. There have been limited developments to improve and systematise data management in the database for animal identification, movement, and registration. Kosovo needs to achieve full registration of slaughtered animals both in slaughterhouses and on farms, and to clear the database of all dead animals.

Two vehicles were procured for transferring samples from the border to laboratories. The main KVFA laboratory has improved its technical capacity and has obtained ISO certification for a series of tests. It is well equipped, but lacks the budget for maintenance and supply contracts, as well as for the calibration of machines.

Illegal trade, particularly in animals from Serbia, continues to be a problem: 90% of the animals quarantined after illegally entering Kosovo came from Serbia. The EU has funded preparatory work to build a rendering plant to dispose of animal by-products and will fund its construction over the next few years. Kosovo has secured the co-funding and it will now have to ensure the accompanying measures, in particular the network of collection points. The process of upgrading establishments to EU standards has not yet begun and the upgrade strategy (including closing down those that are not compliant) has not been adopted, although Kosovo completed the risk-based assessment of agri-food establishments in meat processing, dairy, slaughterhouses and cold storage in 2012.

On **phytosanitary controls**, the plant protection law was amended, and it now includes the list of notifiable plant diseases. Implementing this law remains a challenge. As regards **genetically modified organisms (GMOs)**, work on a framework law was suspended. In the **fisheries** sector, most European standards do not apply to Kosovo, which has no marine fishing.

Overall, Kosovo is still at an early stage of harmonisation with the *acquis* in these areas. Kosovo has made steady progress in developing and extending its own direct payment scheme. The legal framework for food safety is mainly in place and the institutions concerned work well, despite very limited resources. Establishing the Internal Audit Unit in Kosovo's

paying agency and strengthening its management need to be prioritised. Kosovo needs to enforce its spatial planning rules and prosecute illegal construction on agricultural land. Kosovo needs to transfer food and veterinary inspection capacities to the KFVA so as to help systematise entering data into the animal identification, movement and registration database. It must also secure the budget for maintenance, supply and calibration at the main laboratory.

4.2.3. *Environment and climate change*

On **environment**, the Law on the Inspectorate of Environment, Waters, Nature, Spatial Planning and Construction was adopted in October 2013. Some administrative instructions have recently been adopted. The implementation of legislation to address increasing environmental challenges in Kosovo remains incomplete.

As regards *air quality*, the Air Quality Monitoring System, which now covers the whole of Kosovo, is fully equipped and includes an advanced analytical laboratory. However, the monthly air quality reports that the Kosovo Environmental Protection Agency (KEPA) publishes since March 2014 provide very basic information on only 10 locations. There is no air polluter's inventory and pollution from the main sources needs to be measured accurately (in particular from the Kosovo A power plant). Lack of maintenance and calibration jeopardises the accuracy of air quality monitoring.

The Ministry of Environment is drafting a master plan for *waste management* and is considering private sector involvement. The government approved secondary legislation on the state of the waste catalogue and on the cadastre of environmental pollutants. The basic waste management concepts and definitions need to be developed, including recycling and recovery. There are serious challenges to implement the 2012 law, since the capacity of municipalities, waste and landfill operators and overall funding for investments is still very low. There is no appropriate infrastructure for storing or treating hazardous waste. Therefore, Kosovo either exports its hazardous waste or mixes it with household waste in landfill sites.

In the area of *water*, Kosovo has not established River Basin Authorities or an independent water management authority (as envisaged in last year's law). Investment needs in water security are considerable (leaking pipe losses are estimated at around 75% of the water carried). Water utilities are hampered by low collection levels. The water resource monitoring system is incomplete. Kosovo does not have a groundwater monitoring system. Most of the surface water measuring stations (some provided through past EU assistance) no longer function due to stolen and vandalised equipment. Monitoring of the quality of drinking water has improved because of increased capacity (also funded by the EU) at the Institute of Public Health and an administrative instruction to monitor the chemical parameters of drinking water. However, the institute faces difficulties due to insufficient funding to operate and maintain the donated equipment.

In the area of *nature protection*, two laws on national parks were adopted last year, as well as administrative instructions and planning documents. The Ministry of Environment and Spatial Planning began measures to combat illegal construction activities in the 'Sharri' national park. Activities for the establishment of the Natura 2000 network of protected areas have not started. Institutions in this area remain weak in terms of the numbers and skills of civil servants and state inspectors for nature protection.

The new administrative instruction on cadastre of environmental pollutants was adopted in 2013, marking modest progress in the area of *industrial pollution and risk management*. Only one permit has been issued, for the main cement plant. A law on *chemicals* was adopted.

Regarding **climate change**, the climate change framework strategy, comprising the low emissions development strategy and adaptation strategy, has not been adopted. As regards legislative developments, by-laws on substances that deplete the ozone layer and on

fluorinated greenhouse gases, and on consumer information on fuel economy and CO₂ emissions of new passenger cars were adopted. Priority needs to be given to alignment with the Monitoring Mechanism Regulation. The national report on greenhouse gases (GHG) is under preparation. Interinstitutional cooperation between the Ministry of Economic Development, the Ministry of Infrastructure and the Ministry of Environment and Spatial Planning needs to be established to enable adoption and implementation of low-carbon growth policies.

Administrative capacity within the environment and climate sectors is weak. KEPA's capacity needs to be strengthened to improve, inter alia, the quality of GHG inventory and reports. The budget of the ministry remains insufficient. Funding for investments, in particular for sewage systems, wastewater treatment, and waste treatment and disposal systems, remain outside government expenditure plans. There was no progress in establishing a mechanism to finance environmental projects, in particular the operating costs of environment monitoring institutions and capital investments. An eco tax collected during car registration contributes to the Kosovo budget and is not allocated to any environmental projects.

Overall, Kosovo has not progressed beyond the very initial stages of harmonisation with the *acquis* in these areas. There has been little progress on new legislation and implementing existing laws. Environment and climate need to become government priorities. The quality of environmental reporting needs to improve to better inform government policies. Kosovo urgently needs to secure financing of monitoring institutions, particularly to ensure the maintenance of existing air and water monitoring networks, and to establish a system for GHG monitoring and reporting. Kosovo needs to adopt a climate strategy and action plan, in line with the expected EU 2030 policy framework on climate and energy.

4.2.4. *Transport policy*

Regarding **trans-European transport networks**, Kosovo has continued to participate actively in implementing the 2004 memorandum of understanding on the development of the South-East Europe Core Regional Transport Network and in the South-East Europe Transport Observatory. Kosovo should focus on the development and prioritisation of projects on the routes defined in the indicative extension of the TEN-T to the Western Balkans region. Segments 1 to 9 of the Morine-Merdare highway (Route 7) were inaugurated in November. Financing for the last segment up to Merdare has yet to be secured. A € 600 million contract to construct the Pristina-Skopje highway (Route 6) was signed in July. The new terminal at Pristina airport was inaugurated in October 2013.

The maintenance budget for national roads rose by 12 % in 2014, but it is still insufficient to ensure routine and periodic maintenance. The current transport strategy is heavily skewed towards road transport, favouring a less environmental friendly mode, to the detriment of railways. There are plans to increase investment in railway infrastructure (€10 million a year for 2014-16) but this is still below the level needed. The revised multi-modal transport strategy (2012-21) and action plan have still not been approved.

On **road transport**, the road safety strategy and its action plan need to be approved. The Law on Road Safety needs to be harmonised with the *acquis*. Kosovo needs to align with legislation on market access and the profession of road transport operator, and digital tachographs. The rate of traffic accidents remains high, particularly as regards child and pedestrian fatalities. Limited inspection capabilities, outdated vehicles, and the low quality of infrastructure outside the main roads hamper the enforcement of legislation.

In **rail transport**, the Rail Regulatory Authority (RRA) is now operational, but lacks technical capacity as well as the independence required for the licensing process and market

regulation. Several RRA board members have yet to be appointed. The regulator licensed a new entrant in March, but revoked the licence shortly under pressure from the incumbent operator. A railway safety and accident investigation body was set up in the Prime Minister's Office, but it is not yet operational due to lack of staff. Kosovo railways continue to be affected by a serious lack of human and financial resources.

In **air transport**, the implementation of the first-phase requirements of the European Common Aviation Area Agreement into national legislation is nearly complete, with nearly all legal acts still to be transposed. The Kosovo Civil Aviation Authority is still not part of the Safety Assessment of Foreign Aircraft programme. In March, the Assembly adopted the Law on the Air Navigation Services Agency, establishing the criteria for recruiting its members. Implementing legislation needs to be adopted to ensure the professionalism of air navigation and safety services. The air navigation service provider still needs to be certified. Kosovo's aviation sector continues to suffer from restrictions imposed by Serbia for flights coming in and out of Pristina. Control of the upper airspace of Kosovo was assigned to Hungarocontrol, and in April 2014 this airspace was reopened.

There was no progress regarding **intermodal transport**. Kosovo needs to develop a balanced intermodal environmentally-friendly and competitive transport and mobility system.

Overall, little progress has been made in the transport sector. Kosovo is still at an early stage of harmonisation with the *acquis*. Kosovo still cannot join many of the international or European bodies regulating transport or the relevant sector associations. The regulatory institutions need to be more independent and to be further strengthened. Further efforts to improve road safety are required. Efforts to alignment with the transport *acquis* need to be stepped up, especially in road transport. The decision to revoke a rail licence already given was a regression in Kosovo's alignment with EU standards in railways.

4.2.5. Energy

The energy sector continues to face problems, even if some progress has been made, especially in relations with Serbia. Power stability is almost constant and cuts are now infrequent. Helped by a clement winter, fuel/oil imports dropped to 11.4% of supplied demand. Following the privatisation of the electricity distribution and supply functions, information on billing collection is not publicly available. Neither the government's energy strategy 2013-22 nor the accompanying action plan 2014-16 were approved by the Assembly.

On **security of supply**, investment and maintenance continue to improve the reliability of the power transmission system and to reduce transmission losses. Distribution network losses have also decreased, but they still remain high at nearly 31%. Kosovo has no legal framework to harmonise with the *acquis* on mandatory oil stocks. An obligatory oil reserves division was established within the Department of State Reserves. Current stocks are estimated to correspond to a mere four days of consumption. In July, the Energy Community Secretariat initiated a dispute settlement procedure against Kosovo for levying customs duties on petroleum product imports. Kosovo has contributed to the energy security stress test carried out by the European Commission in the framework of the European Energy Security Strategy.

Following last September's dialogue agreement on energy, Kosovo's transmission system operator (TSO) KOSTT and its Serbian counterpart, Elektromreza Srbije, signed a framework agreement in February. An inter-TSO agreement was signed on 15 September representing a significant step in normalising energy relations between Kosovo and Serbia.

As regards the **internal energy market**, the tender for a new lignite power plant reached a critical point when the call for proposals was issued in April 2014. In October 2013, the government adopted a decision to dismantle three facilities (heating, chemical and gasification plants) at the Kosovo A power plant. Preparations for decommissioning are

suffering significant delays. The three Kosovo A working groups do not have the technical capacity to prepare detailed plans. Kosovo is highly unlikely to meet its obligations under the Energy Community Treaty to implement the large combustion plant directive, and has not prepared the national emissions plan as required by this directive. In June, an explosion at the hydrogen laboratory at Kosovo A killed two workers. Two of the three units are still out of operation, contributing significantly to a major energy gap.

Account unbundling between categories of customers has not been implemented, and legal unbundling between electricity distribution and public supply is still pending. Very little progress has been made on market opening and on enabling household customers to select the supplier of their choice by 1 January 2015. The Energy Regulatory Office (ERO) concluded the 2014 tariff review process only in July, with a 4.75 % electricity tariff increase. A further 5.18 % increase, to cover electricity imports and the repair costs of Kosovo A, was introduced from 1 September. ERO's independence continues to be undermined by government intervention and interference in ERO's budgetary process, and a failure to appoint members to the ERO board. The government has not designed a mechanism to support vulnerable customers.

The existing **renewable energy** policy framework has yet to produce significant results. The regulatory office authorised three 30 MW in hydropower projects and one 0.9 MW wind-powered electricity plant, none of which are producing power. Heavy authorising and licensing procedures continue to jeopardise Kosovo reaching its Energy Community target of producing 25 % of its energy from renewable sources by 2020. Kosovo still needs to transpose the 2009 renewables directive, and to create a mechanism to monitor progress in reaching its 2020 targets. In November, Kosovo adopted a national renewable energy action plan 2011-20. There are no developments in meeting EU requirements for the use of biofuels in transport. Kosovo has yet to establish a certification scheme and a certification body.

The Law on **energy efficiency** needs to be revised to align with the latest EU *acquis*. The government approved a mid-term energy efficiency plan 2013-15 targeting a 3 % saving. The implementation of the energy performance of buildings directive remains a challenge due to poor cooperation on construction standards between the Ministries of Economic Development, and Environment and Spatial Planning. There are still barriers to financing energy efficiency investments, despite the involvement of international financial institutions. Kosovo has still not established its own national energy efficiency fund. The combined heat and power project at the Kosovo B power plant is progressing. Lack of energy efficiency statistics continues to be an obstacle to reporting on energy savings. There has been progress in municipal energy efficiency planning, but local capacity needs strengthening.

In **nuclear safety and radiation protection**, the planned new law has not been adopted. The regulatory agency has increased staff numbers. Its licensing and inspections capacity remains limited. There is no radiation monitoring and no radiological emergency plan. Kosovo has not chosen a site to store radioactive waste, despite receiving EU assistance for this.

Overall, there was very little progress in alignment and Kosovo is still at a preliminary stage of harmonisation with the *acquis* in this area. Kosovo needs to start implementing the *acquis* on security of supply. Kosovo needs to continue its alignment with and implementation of the electricity, oil and nuclear safety and radiation protection *acquis*. It needs to step up efforts to implement its own energy efficiency and renewable energy plans and targets. Kosovo needs to strengthen its institutional capacity in the field of energy market regulation and nuclear safety, in particular safeguarding the energy regulator's independence and establishing transparent mechanisms to set energy prices.

4.2.6. *Information society and media*

Regarding **electronic communications and information and communication technologies**, the regulation on the general authorisation regime was adopted in April. Kosovo is making progress in using the excess capacity of existing communication infrastructure of public service operators (railways, energy operators and road infrastructure) for electronic communications. The regulator allowed 3G/LTE technologies to be deployed by the existing operators in December, and the incumbent operator announced the start of 3G/LTE services in September and 4G in December 2014. At the end of 2013, the privatisation of 75 % of the shares of the incumbent, Post and Telecommunications of Kosovo, collapsed, due to a failure to muster a parliamentary majority to sign the contract. The penetration rate of fixed telephony remains the lowest in the region, and it decreased to 4.16 % during the first quarter of 2014 (down 12 % compared to the same period in 2013). The fixed broadband penetration rate increased slightly to above 8 %.

The first auction for broadband wireless access spectrum was completed in December. Kosovo is implementing agreements with its neighbours to harmonise radio frequencies in cross-border areas. The regulator continues to deal with complaints on electronic communication services, and has imposed economic sanctions in four cases. The regulator has not seen any improvements in its financial and organisational independence, and experienced a 15 % cut in budget (in line with a general government decision to compensate the increase in public sector salaries with cuts in all budgetary organisations). Progress in implementing competitive safeguards remains slow.

Kosovo still does not have its own country code and continues to use three different codes for fixed and mobile telephony. Last year's agreement between Kosovo and Serbia on telecoms, which envisaged that Kosovo will be allocated a three-digit dial code from the International Telecommunications Union (ITU), has yet to be implemented as Kosovo does not agree with the modalities of the allocation of this code by the ITU.

On **information society services**, the Information Society Agency is still being consolidated. Open governance and online citizen participation is promoted through the project 'Today I Decide'. Kosovo is not able to produce Eurostat-compatible information and communication technology statistics.

On **audiovisual policy**, the Independent Media Commission (IMC) has not adopted a strategy for digitalisation. The IMC's lack of activity was partly caused by a failure to appoint members of its Council. Kosovo needs to step up efforts to prepare for the digital switchover process in 2015, including adopting the legislation and making technical preparations. Since Kosovo is not a member of the ITU, its frequencies are under the authority of Serbia. The public service broadcaster, RTK, remains dependent on state financing from the Kosovo budget, which undermines its editorial independence. Kosovo has still not found a way to ensure RTK's financial independence. The RTK Board is now complete, although political preferences were the main criteria during the Assembly's selection process.

Overall, Kosovo needs to continue efforts to complete the legal framework in this area. It is still at a very early stage of harmonisation with the information society and media *acquis*. Regulatory bodies need to be strengthened. The independence and capacity of both the telecoms regulator and the media regulator have been challenged by political interference and lack of resources. In addition, the Independent Media Commission needs to demonstrate it can carry out its tasks. As a matter of urgency, Kosovo needs to implement the digital switchover and to develop a solution for sustainable funding of the public service broadcaster.

4.2.7. *Financial control*

On **public internal financial control**, in line with the Law on Public Finance Management and Accountability, Kosovo has merged the two Central Harmonisation Units (CHU) in the Ministry of Finance, (the CHU for financial management and control and the CHU for internal audit) into one unit. To improve annual reporting on the functioning of financial management systems, the CHU issued a new self-assessment checklist, which was completed and returned by 58 out of 96 budgetary institutions in 2013. In 2014 some 60 internal auditors were certified.

On **external audit**, the National Audit Office plays an important role in the oversight of public spending and improving public financial management and good governance. In April, a new law on the Auditor General and the National Audit Office, aiming to improve the functional, financial and operational independence in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI), was not adopted by the Assembly, but sent back for review. The law would also have paved the way for the appointment of a new Auditor General. The mandate of the previous Auditor General expired in August.

Overall, some progress has been made in implementing the legal framework for public internal financial control. Substantial efforts are still required to implement managerial accountability and decentralised internal audit. The capacity of the Central Harmonisation Unit needs to be strengthened. Kosovo should ensure swift adoption of an INTOSAI-compliant law on the National Audit Office and the appointment of an Auditor General. Preparations are at an early stage in the areas of public internal financial control and external audit and have yet to be started in the area of protection of the EU's financial interests.

4.2.8. *Statistics*

On **statistical infrastructure**, the restructuring of the statistical agency is on track. In March 2014, the report on the 2013 annual plan on statistics was completed, stating that the 2013 plan was fully implemented, including the reorganisation of the statistical agency. In addition to internal procedures for measuring productivity that were already in place, baseline values were set for the performance assessment framework for productivity in 2013 and target values for 2017. This enables management to measure progress. However, the administrative capacity and financial resources of the statistical agency remain weak. This prevents the agency from taking full advantage of international support available and hampers sustainable production of core statistical products, in particular economic data. All agency staff, especially new recruits, need additional training both on quality issues and statistical methods and tools.

As regards **classifications and registers**, the introduction of the European classification of economic activities NACE Rev. 2 into the business register was completed. The extent and quality of the recoding between NACE 1.1 and NACE Rev. 2 is still to be assessed. The IT solution to handle different versions of the business register still needs to be put in place, together with procedures for updating and maintaining the register. There are not enough dedicated staff to maintain the register adequately.

On **sectoral statistics**, the agriculture census has been postponed twice, due to local and general elections. It is scheduled to take place in November 2014. There has been limited progress on other sectoral statistics. More statistics were published. Quarterly national accounts are a priority for the statistical agency although some of the primary statistics are not available on a quarterly basis. Many data are not available to the general public in electronic format. Cooperation with other producers of official statistics needs to improve to ensure consistency and comparability.

Overall, some progress has been made on the internal organisation and management of the statistical agency. In general, Kosovo is at an early stage of aligning its statistics with European standards. The agency continues to lack resources to produce reliable statistics on time and in line with European standards and international methodologies. The production of essential data on economic aggregates and employment remains limited. The independence of the Kosovo Agency of Statistics and its coordinating role needs to be further reinforced and secured in the Law on Official Statistics. Availability of essential data for evidence-based policies needs to be addressed as a priority and data needs to be better advertised and disseminated for use by the general public and investors.

4.3. Justice, freedom and security

4.3.1. Visa, border management, asylum and migration

As regards **visa policy**, from July 2013 to July 2014 a total of 1076 visas were issued, of which a fairly large number (113) were issued at one of the eight border crossing points, where legally visas can be issued only in exceptional circumstances. For reciprocity reasons, in January Kosovo added Bosnia and Herzegovina to the list of countries requiring a visa to enter Kosovo. The measure is not conducive to efficient and effective regional cooperation.

Kosovo issues biometric passports and, since December, also biometric ID cards.

The process of handing over to Kosovo all EULEX-certified copies of civil registry books (12391) located in Serbia was completed in March. Improved quality of data is important with a view to their subsequent use (i.e. in social security, election lists). The Civil Status Registration System (CSRS) introduced in February 2013 continues to be improved. Civil status certificates are issued mainly on the basis of data contained in the CSRS. By September 2014 data relating to almost 1.3 million persons were cross-checked at one of the municipal civil status registration offices. Returned certified copies need to be digitised and uploaded in the system so as to allow for the systematic verification of registered civil status data. The Ministry of Internal Affairs issued implementing legislation introducing better control over potentially abusive name changes, and adopted standard operating procedures to improve birth, marriage and death registration processes.

Corruption allegations related to the contracting of the production of biometric passports are still before the court. In February, ten persons, including a member of the Assembly, were arrested on charges of criminal activities related to the issuing of visas at the Italian embassy in Kosovo. Charges followed a joint investigation between Kosovo Border Police and EULEX, under the auspices of the special prosecution office.

More resources in the Civil Registration Agency (CRA) are needed to ensure improved and systematic supervision, inspection and spot-check audits. Management accountability needs to be enforced to ensure civil registry mistakes do not enter the system. Communication and coordination between central and municipal level needs to be improved and training for municipal officers intensified.

The CRA and the Kosovo Cadastral Agency are in the process of linking each person to an official address. In all, seventeen municipalities still need to fulfil their legal obligation to name their streets.

Regarding **border management**, the core legislation, including secondary legislation, strategies and action plans, and standard operating procedures are mostly in place. A development plan (period 2014-17) for the national centre for border management was adopted in April. A joint inter-agency training course on the Integrated Border Management (IBM) code of ethics was delivered to staff working at border/boundary crossing points. A

Joint Intelligence, Risk and Threat Analysis Unit with representatives of all three IBM authorities, was set up.

A package of bilateral agreements and protocols in the area of border control was signed with Montenegro. The three joint border control agreements signed in 2013 with Albania are being implemented and the Joint Police Cooperation Centres established at the border points with Albania are fully operational. Joint patrols are carried out with Albania, Montenegro and the former Yugoslav Republic of Macedonia. All six interim IBM BCPs with Serbia are operational. Technical agreement on their exact location and on draft designs for the construction of permanent IBM crossing points was reached. Following the entry into force on 20 March 2013 of the ‘Procedures on Mutual Legal Assistance’ (Annex to the IBM Agreement), Kosovo has sent around 2000 requests to Serbia, and received 1100 replies. Kosovo received approximately 180 requests from Serbia, and answered around 130.

First-line border checks are not always performed systematically and biometric data are often not recorded in the system, either due to power or internet failures or traffic volume. The Kosovo Police has thus far been unable to put in place a maintenance contract for the EU-funded border management IT system, which may hinder effective border control. Kosovo continues to face challenges in conducting systematic risk analysis to prevent and detect illegal cross-border activities effectively. There needs to be better communication on intelligence requirements from the central to the regional and local level. The National Centre for Border Management has yet to be made fully operational in line with the Development Plan. The border delineation with Montenegro has still not been completed.

On **asylum**, some implementing legislation was adopted. There were 50 asylum requests in the first half of 2014 (62 in 2013). Asylum-seekers are referred to the asylum centre for the entire duration of the procedure. They enjoy freedom of movement and have access to all basic services, including healthcare, legal aid and psychosocial support. The period between the submission of the application and the first-instance decision was reduced from an average of two months to three weeks. Kosovo authorities granted subsidiary protection at first instance to three persons in 2013 and one person in 2014. Most applicants leave Kosovo before the procedure is completed.

Assessments in adjudications are insufficiently substantiated. More needs to be done to identify and profile persons in need of international protection, as well as to facilitate the identification of country of origin of undocumented individuals. Availability of interpreters needs to be ensured and the possibility of remote interpretation considered. The appeals system is operational, but appeals procedures are lengthy. Judges lack training to deal with asylum appeals cases, which could become problematic in the event of an increased influx of asylum applicants.

The Ministry of Internal Affairs manages the database on migration and asylum, which is now in place, but only partially operational, as it lacks interoperability with other databases. There is a separate database on readmission and reintegration — the Reintegration Case Management System. Kosovo has adopted a strategy and action plan on **migration** as well as a migration profile

Kosovo has signed readmission agreements with 22 countries. In 2013 Kosovo readmitted 5115 persons and there were 1630 voluntary returnees. In 2014, until July, Kosovo readmitted 2174 persons, of which 1561 were forced and 613 voluntary returnees. The upgraded Department for Reintegration of Repatriated Persons (DRRP) in the Ministry of Internal Affairs increased the number of permanent employees to fourteen in 2013, with nine more posts approved. The temporary staff of the DRRP was still paid from the reintegration fund in 2013, thus decreasing the resources available to support reintegration. The appointment of regional coordinators contributed to better cooperation between central and

local authorities and enabled a more effective distribution of responsibilities. The regulation on reintegration introduced mechanisms to speed up the review of requests for assistance. It opened up the reintegration fund to implement medium- to long-term projects on sustainable measures (e.g. education and employment) by third parties. Guidelines and standard operating procedures for the implementation of the regulation on reintegration were adopted in May. More than 95 % of the fund's €3.2 million was allocated or spent in 2013.

The migration profile needs to include all relevant data on migration policy and needs to be regularly updated. Awareness of the migration profile as a migration policy tool among relevant officials needs to be improved. 2013 witnessed a surge in irregular migration from Kosovo to the EU with the number of Kosovo citizens refused entry to EU Member States doubling in 2013. The number of Kosovo citizens found to be illegally staying in Member States increased by half. The number of asylum applications lodged by Kosovo citizens doubled to 20215 and the number of rejected readmission applications tripled (albeit from a low base). Kosovo must take immediate and effective steps to address these phenomena.

Kosovo needs to take proactive steps towards concluding readmission agreements with countries of origin and/or transit. The use of the reintegration case management system needs to be expanded to ensure proper follow-up of granted assistance and persons. Municipalities are generally not proactive in providing access to assistance and information, nor in raising overall awareness. Further training for municipal return officers is needed. The transparency of reintegration fund disbursement needs to be improved. More attention needs to be paid to children who do not speak any of the local languages. Improved education of returnees continues to be a critical factor in ensuring the sustainability of the reintegration process.

There is no functional forced removal system in place; persons found to be staying in Kosovo illegally or refused asylum-seekers can be returned only on a voluntary basis. The absence of identification documents, along with missing readmission agreements with countries of origin and/or transit, are obstacles to removing unsuccessful asylum-seekers.

Overall, good progress was achieved on visa and border control by Kosovo putting in place most legislation, and focusing on its implementation. Kosovo is moderately advanced in some of these areas. The authorities have demonstrated a clear political commitment to manage migratory flows effectively, but considerable efforts are needed to address the dramatic increase in irregular migrants to the EU. Kosovo needs to step up efforts to conclude readmission agreements with migrants' countries of origin and/or transit. Kosovo continues to face challenges in conducting systematic risk analysis to prevent and detect illegal cross-border activities effectively.

4.3.2. *Money laundering*

The risk assessment on money laundering and financing of terrorism was approved by the government in December. To build up a comprehensive risk management mechanism and address the identified risks, the government established a national strategy and action plan for the prevention of and fight against the informal economy, money laundering, terrorist financing and financial crimes (2014-18). To monitor the implementation of the Strategy and its action plan, quarterly situation reports are to be prepared. The first situation report was produced in May 2014 that included relevant information and statistics concerning financial and economic crimes.

The National Coordinator for Economic Crime Enforcement was appointed in December. The Financial Intelligence Unit (FIU) appointed liaison officers to the Kosovo customs and taxation administrations to improve information exchange and operational cooperation between the offices. In February, Kosovo submitted its membership application to the Egmont

Group, sponsored by the FIUs of Finland, Senegal and Slovenia. The membership of FIU Kosovo was discussed at the Egmont Group's Plenary in June, after an on-site visit in April.

Reliable statistics on money laundering remain challenging because of their fragmentation. According to the 2013 annual report of harmonised statistics (based on the tracking mechanism developed by the Kosovo Prosecutorial Council in 2013), there were a total of 56 cases against 207 persons for money laundering offences in 2013. In total, 25 cases against 116 persons were resolved. Data on final convictions, however, are not available.

Overall, limited progress has been made in the fight against money laundering. In general, legislative and operational structures are in place. However, results in this field need to be improved considerably. Kosovo still needs to demonstrate tangible results in the fight against economic and financial crimes.

4.3.3. *Drugs*

Kosovo maintains good cooperation with EULEX, the EU and neighbouring countries, and it actively engages in joint international operations on drugs. Kosovo Police (KP) cooperated in 21 international joint drugs investigations, thirteen cases with EULEX and five with other Kosovo agencies. KP is moving from a seizure-oriented approach to more long-term, in-depth investigations. KP's prevention and investigating capacities are generally considered sufficient

Implementation of the strategy and action plan against narcotics (2012 – 2017) is ongoing. Kosovo continues to be used mainly for transit and storage of heroin and marijuana. The number of investigations in 2013 went up and there was an increase in drug possession cases, but a significant decrease in drug seizures. This is particularly striking, since trafficking routes have not shifted and the number of drug seizures has gone up in neighbouring countries. Kosovo has a very low rate of seizures compared to the region as a whole, and a relatively low conviction rate for drug-related criminal investigations.

There is no countrywide database of drug users in Kosovo. The results of the first general population survey (5000 respondents) provide data on types of drugs used in Kosovo and on the scale of the problem. This is a good basis for more evidence-based policymaking to counter the use of drugs. The number of drug possession cases increased to 428 in 2013, from 348 in 2012. A methadone programme is being implemented across Kosovo; nearly 100 people have undergone treatment in the reporting period. As regards prevention, KP has organised information campaigns, including the distribution of leaflets and talks at schools.

A National Drug Report, prepared by the Ministry of Health together with civil society representatives, has been submitted to the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). Kosovo has intensified its cooperation with the EMCDDA. However, it does not have a functional drug observatory or a national focal point.

Overall, there has been limited progress in the fight against drug trafficking. The number of investigations has increased, but the level of convictions remains low. The level of drug seizures has decreased and is among the lowest in the region. In the past few years, Kosovo has started to address the challenges in this field, notably by increasing its capacity. Results have so far been limited in terms of successful investigations, indictments, and especially in terms of actual convictions, in particular when compared to its neighbours. Kosovo must take resolute action to address drug trafficking across its borders.

4.3.4. *Police*

The Kosovo Police continues to be perceived as the most trusted rule of law institution in Kosovo. KP has developed its first training strategy (2014-18) focusing on areas such as

improving capacity and developing new expertise, and advancing cooperation with international institutions and organisations.

A witness protection directorate has been set up within KP (thirteen staff) and continues to be supported by EU and EULEX experts. In accordance with the law on witness protection, the witness protection committee, consisting of the chief state prosecutor, the head of the KP investigation unit and the director of the witness protection directorate, was established in September 2013. Kosovo needs to sign agreements for witness relocation.

More than 800 children were interviewed in the seven child-friendly interview rooms available. The KP training department distributed guidelines on child-friendly interviewing to regional stations and offices. The guidelines need to be integrated in the training academy curriculum to ensure their sustainable use. A communication strategy and action plan (2014-16) of the Association of Kosovo Policewomen was prepared. The documents aim to promote police work for women and to address the challenges women face in pursuing a career in the police. Community policing is being used more actively, but has yielded limited results.

Cooperation between the independent police inspectorate (PIK) and the KP disciplinary unit continues to be good. From September 2013 to July 2014 (PIK) handled 217 complaints resulting in nineteen arrests, 57 suspensions and nine transfers. Based on the 120 cases in which the KP disciplinary unit decided that complaints were founded, 165 officers were found guilty.

In March, Kosovo signed a police cooperation agreement with Montenegro, bringing the total number of police agreements with third countries to six. Kosovo detached Kosovo Police Liaison Officers, to Austria, France and Turkey. In 2013, the International Law Enforcement Cooperation Unit dealt with a total of 3 608 information exchanges with other countries on cross-border cases. International law enforcement cooperation involving Kosovo continues to be hampered by differences on Kosovo's status. There is no operational or strategic agreement between Kosovo and Europol. UNMIK is the formal point of contact with Interpol.

Intelligence-led policing remains weak. The current Kosovo Police Information System does not include information submitted from KP officers and does not contribute to effective analysis, essential in intelligence-led policing to expose and investigate organised crime. There is no capacity to build a strategic overview of the organised crime situation in Kosovo. A functioning intelligence model (effective gathering, analysing and dissemination of information) would help to create a comprehensive picture of organised crime, detailing threats and trends in criminal networks and groups.

Overall, Kosovo has made some progress and is moderately advanced in the area of policing. Still, challenges remain in delivering results in the fight against organised crime and corruption, further cooperation with other law enforcement authorities, and implementation of intelligence-led policing. Kosovo needs to sign agreements for the relocation of witnesses.

4.3.5. Fighting organised crime and terrorism

Implementation of the strategy and action plan against **organised crime** (2012-17) is ongoing. Since 15 June, Kosovo has taken over from EULEX the lead of special prosecution to deal with high-level cases of corruption and organised crime EULEX prosecutors are not taking on new investigations except in extraordinary circumstances. As a rule, mixed panels now have a majority of local judges, with a local judge presiding. KP drafted its first threat assessment report of serious and organised crime. The KP Department against Organised Crime increased its cooperation and joint operations with other agencies, including Kosovo Border Police and Customs.

A proactive information exchange between KP and other agencies in identifying trends and profiling possible traffickers needs to be systemised. The Law on Interception still needs to be adopted. Kosovo has neither a criminal record database nor an integrated case management system. The tracking mechanism established by the Kosovo Prosecutorial Council in 2013 has started tracking progress in corruption and organised crime cases and produces quarterly reports.

As regards confiscation of assets, the chief state prosecutor issued an instruction in January, including a simplified guide for prosecutors to identify material benefits of crime and seek confiscation. He also assigned confiscation focal points in each basic prosecution office. The tracking mechanism developed by the prosecutorial council also includes a database that records information such as prosecutors' activities to confiscate assets. In December 2013, the office of the National Coordinator for Economic Crime Enforcement was established. The coordinator reports directly to the prosecutorial council and also serves as Kosovo's representative to the Camden Asset Recovery Inter-Agency Network. Since mid-2013, KP's Department against Organised Crime has been taking action to improve the tracing of assets and to use financial investigations.

However, the lack of confiscations of assets remains a serious concern. Kosovo's law enforcement agencies temporarily confiscate assets but these most often do not result in a permanent confiscation. In 2013 only 33 assets worth a total of € 1.5 million were confiscated through a court decision. The Agency for the Management of Sequestered and Confiscated Assets organised only seven auctions, which generated just over € 32 000, lower than in 2012. The number of confiscations ordered remains low, and the prosecution makes little use of freezing orders. The criminal procedure code's 72-hour limit on asset freezing orders seriously hampers the effective freezing of assets.

As regards **trafficking in human beings**, the anti-trafficking coordinator launched a series of public awareness ('open your eyes') and information events. In 2013, the KP directorate for investigations of trafficking in human beings dismantled seven criminal groups involved in trafficking in human beings. KP identified thirteen victims and four potential victims; eleven victims were offered shelter.

The overall number of verdicts in cases of trafficking human beings remains low. Kosovo continues to be a place of origin, transit and destination of trafficking for the purpose of sexual exploitation and labour. Child trafficking and child exploitation for the purpose of begging remain high. The KP tends not to intervene in cases of child begging. Kosovo needs to focus on implementing the Law on Preventing and Combating Trafficking in Human Beings, especially with regard to compensation for victims and sustainable funding for shelters. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking needs to be developed and the identification of victims needs to be further improved. Cooperation with civil society and efforts to improve effective prevention measures need to be stepped up. Taking these elements into account, Kosovo needs to evaluate the implementation of its current strategy and action plan against trafficking in human beings (2011-14) before adopting new ones. Training courses for judges and prosecutors dealing with cases of trafficking need to be improved. Other stakeholders such as the border police or labour inspectors need to be trained on existing standard operating procedures.

KP has an operational unit dealing with **cybercrime**.

As regards the **fight against terrorism**, a large scale operation with the deployment of about 1 000 police took place in August 2014 against 40 individuals reportedly fighting with Islamic insurgents in Syria. Due to the increase in the number of fighters from Kosovo travelling to Syria to be trained for paramilitary activity, Kosovo prepared a law prohibiting citizens from joining armed conflicts outside its territory. The law did not pass the Assembly before it was

dissolved in May. Kosovo will need to step up its capacity to prevent radicalisation, including developing adequate measures to address the phenomenon of foreign fighters. Kosovo also needs to enhance cooperation with neighbouring countries to combat terrorism.

Overall, some progress has been made in the fight against organised crime. Kosovo is at an early stage of delivering results. On financial and economic crimes, law enforcement agencies are reluctant to initiate financial investigations; prosecutors are not proactive in the use of confiscation provisions. As a result, the number of permanent confiscations and sequestrations ordered by the judiciary continues to be low. There is a lack of expertise among prosecutors and judges in specialist areas such as financial crime and procurement fraud, essential to adequately deal with corruption. Witness intimidation and protection continues to be a serious concern. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems. Authorities need to show a zero tolerance approach in the fight against organised crime and corruption.

4.3.6. Protection of personal data

The strategy on personal data protection 2014-17 was adopted in January. The National Agency for Protection of Personal Data is operational and was relocated to a government-owned building, enabling more funding to be devoted to its core activities. The agency has continued to raise awareness of its work, and media coverage of its activities has visibly improved, resulting in an increase of complaints submitted to the Agency. Working relations with data protection officials appointed in central governmental institutions have been established. An IT system for registration has been developed, so there are no technical obstacles to receiving notifications by data controllers about the data files and activities processed or carried out by them. Three additional staff were hired and the number of site inspections increased, also outside Pristina, which is a positive development. The government consults the agency on some draft legal acts. The agency has been active at international level and continued to build close working relations with countries in the Western Balkans.

There is a need to develop general and specific data security provisions and to ensure their implementation. In this context, the continued lack of IT competence within the agency is an issue that needs to be addressed quickly. A more proactive approach by both the agency and the government is needed to ensure the appointment of data protection officials in the municipalities. Data-sharing concerns, in particular in the law enforcement sector, need to be swiftly addressed. Consultation of the agency on draft legislation needs to be further improved to ensure that all draft legal acts, in particular codes of procedure, are reviewed, taking data protection concerns into account.

Overall, Kosovo has made some progress, but it is still at an early stage when it comes to implementing provisions on personal data protection. This is still a developing area of expertise in Kosovo. Sufficient human and financial resources need to be provided to the personal data protection agency so that it can proactively address new challenges, in particular data security issues, and to ensure that enforcement measures are implemented.

STATISTICAL ANNEX

STATISTICAL DATA

Kosovo

Basic data	Note	2001	2009	2010	2011	2012	2013
Population (thousand)	1)	:	2 181	2 208p	1 799b	1 816	:
Total area of the country (km ²)		10 887	10 887	10 887	10 887	10 887	10 887

National accounts		2001	2009	2010	2011	2012	2013
Gross domestic product (GDP) (million euro)		1 624	4 070	4 402	4 814	5 059	5 327
GDP (euro per capita)		:	2 329	2 480	2 672	2 799	2 935
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		:	:	:	:	:	:
Real GDP growth rate: change on previous year of GDP volume (%)		:	3.6	3.3	4.4	2.8	3.4
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)	2)	:	15.1	17.1	17.5	14.9	:
Industry (%)	2)	:	18.9	17.3	16.6	20.5	:
Construction (%)	2)	:	9.5	10.1	9.9	8.2	:
Services (%)	2)	:	56.5	55.6	56.1	56.4	:
Final consumption expenditure, as a share of GDP (%)		:	103.7	102.6	103.3	105.2	104.0
Gross fixed capital formation, as a share of GDP (%)		:	27.8	29.6	30.7	26.0	24.8
Changes in inventories, as a share of GDP (%)		:	3.4	3.4	3.3	2.9	2.8
Exports of goods and services, relative to GDP (%)		:	17.1	19.9	19.6	18.2	17.4
Imports of goods and services, relative to GDP (%)		:	52.0	55.5	56.8	52.4	49.0

Industry	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		:	:	:	:	:	:

Inflation rate and house prices	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)		:	-2.4	3.5	7.3	2.5	1.8
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)		228	-374	-516	-658	-380	-339
Balance of payments current account: trade balance (million euro)		-646	-1 652	-1 752	-2 059	-2 073	-1 992
Balance of payments current account: net services (million euro)		10	232	187	266	346	308
Balance of payments current account: net income (million euro)		141	62	67	114	154	122
Balance of payments current account: net current transfers (million euro)		723	983	982	1 021	1 192	1 222
of which government transfers (million euro)		809	323	320	322	402	342
**3 year backward moving average of the current account balance relative to GDP (%)		:	9.1	11.0	11.5s	11.0s	9.2s
**Five year change in share of world exports of goods and services (%)		:	:	:	:	:	:
Net inward foreign direct investment (FDI) (million euro)		:	276.9	331.1	378.2	213.3	241.5
Foreign direct investment (FDI) abroad (million euro)		:	10.5	34.7	15.7	15.8	17.5
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	2.3	1.0	0.0	5.2	10.1
Foreign direct investment (FDI) in the reporting economy (million euro)		:	287.4	365.8	393.9	229.1	259.4
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	183.8	217.9	205.3	123.2	118.0
**Net international investment position, relative to GDP (%)		:	12.1	10.0	2.8	5.1	:

Public finance	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		:	:	:	:	:	:
General government gross debt relative to GDP (%)		:	:	:	:	:	:

Financial indicators	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)		:	7.6s	7.4s	6.6s	7.9s	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	44.5s	37.1s	33.9s	43.5s	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		971	:	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 096	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		26	1 289	1 459	1 698	1 763	1 806
**Annual change in financial sector liabilities (%)		:	:	:	:	:	:
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	3)	:	14.08	14.31	13.69	13.78	11.07

Deposit interest rate (one year), per annum (%)	3)	:	3.97	3.38	3.71	3.60	2.39
euro exchange rates: average of period (1 euro = ... national currency)		1	1	1	1	1	1
Trade-weighted effective exchange rate index (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		286	501	585	491	760	724

External trade in goods	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		:	1 934	2 158	2 437	2 462	2 422
Value of exports: all goods, all partners (million euro)		:	165	296	306	267	273
Trade balance: all goods, all partners (million euro)		:	-1 768	-1 862	-2 131	-2 195	-2 149
Terms of trade (export price index / import price index * 100) (number)		:	98	125	97	87	97
Share of exports to EU-28 countries in value of total exports (%)		:	44.4	45.5	45.5	41.1	43.5
Share of imports from EU-28 countries in value of total imports (%)		:	42.0	41.0	41.5	42.6	44.8

Demography	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		:	12.5	:	11.4bp	11.3	:
Infant mortality rate deaths of children under one year of age (per thousand live births)		:	9.9	8.8	12.1e	11.4	:
Life expectancy at birth: male (years)		:	:	:	68.0e	74.1	:
Life expectancy at birth: female (years)		:	:	:	71.9e	79.4	:

Labour market	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	:	:	:	:
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	:	:	:	:
Male employment rate for persons aged 20–64 (%)		:	:	:	:	:	:
Female employment rate for persons aged 20–64 (%)		:	:	:	:	:	:
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		16.7	27.9	:	:	25.8	:
Employment by main sectors							
Agriculture, forestry and fisheries (%)		6.2	6.2	:	:	4.6	:
Industry (%)		16.9	15.5	:	:	19.0	:
Construction (%)		8.6	7.9	:	:	9.5	:
Services (%)		68.3	67.5	:	:	65.0	:
Unemployment rate: proportion of the labour force that is unemployed (%)		57.1	45.4	:	:	30.9	30.0
Male unemployment rate (%)		51.8	40.7	:	:	28.1	26.9
Female unemployment rate (%)		69.9	56.4	:	:	40.0	38.8

Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		80.0	73.0	:	:	55.3	55.9
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		47.6	37.1	:	:	59.8	68.9

Social cohesion	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		:	:	:	:	:	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	:	:	:	:	:

Standard of living	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)		:	:	90.6p	111.2e	111.3	125.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		:	369.2	442.3	543.7	532.5	:

Infrastructure	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km ²)		:	30.6	30.3	30.6	30.6	31.0
Length of motorways (kilometres)		0	0	0	38	60	80

Innovation and research	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		:	3.6	3.8	4.1	4.0	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		:	:	:	57	:	:

Environment	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	:	:
Road share of inland freight transport (based on tonne-km) (%)		:	:	:	:	:	:

Energy	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)	4)	:	7 842	7 960	8 212	8 028	8 219
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:

Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:
Electricity generation (thousand GWh)		:	5.3	5.5	5.7	5.9	6.2

Agriculture	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)		:	262	242e	243e	276	295p
Livestock numbers: live bovine animals (thousand heads, end of period)		347	344	357e	362e	314	321p
Livestock numbers: live swine (thousand heads, end of period)		75	51	51e	51e	56	49p
Livestock numbers: live sheep and live goats (thousand heads, end of period)		230	217	229e	247e	123	160p
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: cereals (including rice) (thousand tonnes)		459	411	431e	435e	442	556p
Harvested crop production: sugar beet (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: vegetables (thousand tonnes)		169	130	239e	247e	117	185p

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) 2011: data are based on 2011 census data and estimates that the Kosovo agency of statistics (KAS) have for 3 northern municipalities who did not participate in the Census and natural growth for the period April 15-31 December 2011.
- 2) Based on NACE Rev. 1.1.
- 3) Includes disbursement fee charged by banks.
- 4) Thousand tonnes.