

**Kosovo\***

**2013 Progress Report**

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\* 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.

## Conclusions on Kosovo

(extract from the Communication from the Commission to the European Parliament and the Council '*Enlargement Strategy and Main Challenges 2013-2014*', COM(2013)700 final)

2013 has been a historic year for Kosovo on its path to the European Union. The decisions of the Council in June authorising the opening of negotiations for a Stabilisation and Association Agreement (SAA) represent the start of a significant new phase in EU-Kosovo relations. The negotiations will be formally opened this month. The Commission aims to complete these negotiations in spring 2014, to initial the draft agreement in summer and thereafter to submit the proposals for the Council to sign and conclude the agreement.

Kosovo has actively and constructively worked towards a visible and sustainable improvement of *relations with Serbia*. In April, Kosovo's engagement in the EU-facilitated dialogue resulted in the landmark '*First agreement of principles governing the normalisation of relations*' with Serbia (the First Agreement), which was complemented in May by an implementation plan. The two parties have in particular agreed that neither side will block or encourage others to block the other side's progress on their respective EU paths. This represents a fundamental change in relations between the two sides. Implementation of the First Agreement has continued and has already led to a number of irreversible changes on the ground. The parties have reached agreement on energy and on telecommunications. There has also been progress in the implementation of agreements reached in the technical dialogue, with the support of the EU rule of law mission EULEX. Kosovo needs to remain fully committed to the continued normalisation of relations with Serbia and implementation of all agreements reached in the dialogue. Kosovo needs to complete the implementation of the First Agreement in particular on police, justice and municipal elections.

The First Agreement has been met with resistance in *northern Kosovo*. Pristina's restraint and inclusive approach, together with the positive role played by Belgrade, have prevented escalation. Following the First Agreement, Serbian police stations operating in northern Kosovo have been closed; salary payments from Serbia to police officers employed by Kosovo have ceased; Serbian courts have stopped processing criminal cases in Kosovo; and municipal assemblies in the four northern municipalities have been dissolved. The municipal elections scheduled for November are also to take place in northern Kosovo. It is important that these elections are held in an orderly manner and that all people eligible to vote participate and exercise their democratic rights. On 19 September, one member of EULEX was killed in an attack on an EULEX convoy in northern Kosovo. The leadership of both Kosovo and Serbia condemned the attack in the strongest terms.

Kosovo has delivered on important policy *reforms*. In April, the Commission and the High Representative of the Union for Foreign Affairs and Security Policy confirmed<sup>1</sup> that Kosovo had met the short-term priorities on the rule of law, public administration, protection of minorities and trade as identified in the feasibility study<sup>2</sup> of October last year. In April, the Commission also issued its recommendation to the Council to sign and conclude a framework agreement allowing Kosovo to participate in European Union programmes.

In December, Kosovo became a member of the European Bank for Reconstruction and Development. In June, Kosovo signed a framework agreement with the European Investment Bank and the Council of Europe Development Bank agreed for Kosovo to join. In February, the Regional Cooperation Council decided to amend its statute to allow Kosovo to become a participant in its own right.

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<sup>1</sup> JOIN(2013) 8 final  
<sup>2</sup> COM(2012) 602 final

The *visa liberalisation* dialogue has remained very high on Kosovo's political agenda. Pristina has made efforts to ensure progress. In February, the Commission adopted its first report on Kosovo's fulfilment of requirements of the visa liberalisation roadmap.<sup>3</sup> Kosovo adopted its visa liberalisation action plan in April. To date, three meetings of senior officials have taken place. In close cooperation with the Commission, the EU Office in Pristina and EULEX, Kosovo has made progress in amending legislation as recommended in the report. Further efforts in this respect are needed. Kosovo needs also to focus on implementation of the legislation.

Broad political consensus on Kosovo's European perspective has been instrumental to the momentum of the approximation process. The National Council on European Integration has also pursued this objective. It is important that this consensus is maintained and broadened further. These efforts should prove a key contribution to the negotiations on the Stabilisation and Association Agreement.

The Commission's feasibility study sets out the priority areas that Kosovo needs to focus on to meet its obligations under a Stabilisation and Association Agreement. These are the rule of law, the judiciary, public administration, electoral reform and the Assembly, human and fundamental rights, protection of minorities, trade and internal market issues, and phytosanitary and veterinary issues.

In the context of the **political criteria**, the Kosovo government has increased its capacity to address priorities of the European integration process. It has demonstrated this capacity by its follow-up to the short-term priorities of the feasibility study and the preparations for the negotiations of the Stabilisation and Association Agreement. Steps have also been taken to improve the Assembly's oversight of the government's work. However, the decision of the Assembly to debate the outcome of a judicial case was a setback to Kosovo's efforts to strengthen its institutions of democratic governance.

Kosovo has demonstrated a commitment to deliver results in the fight against organised crime and corruption, including launching investigations and strengthening the legislative framework. First steps have been taken to produce harmonised statistics in this area. Kosovo has also continued its good cooperation with EULEX. The judicial system underwent important reform. Its coherent implementation will be essential for bringing further positive changes and will need to be closely monitored. In January, the laws on courts and on prosecution entered into force, introducing new court and prosecution structures. The new legal framework is expected to contribute to the independence, effectiveness, accountability and impartiality of the judicial system. Kosovo has also continued the readmission of persons from Member States.

Following feasibility study recommendations, the Assembly has modified the articles of the Criminal Code on criminal liability of the media and the protection of journalists' sources. The Implementation Monitoring Council, which brings Kosovo authorities and the Serbian Orthodox Church together, has been established and functions well. Public broadcasting in the Serbian language has also started. A new Language Commissioner was appointed and his office has started to perform its functions. The budget and staff of the Ombudsperson have increased so that this institution can now deliver on its role as protector of good governance and human rights in Kosovo.

Kosovo still needs to ensure that *electoral reform* is completed and the legal framework reflects best practice in the EU. The *Assembly* needs to enhance its oversight of the executive by improved scrutiny of draft legislation and by monitoring the implementation of policies and laws. The government needs to ensure adequate participation in the work of the

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<sup>3</sup> COM(2013) 66 final

Assembly. Financial independence of the Assembly has improved, but further steps are needed (for example improving rules of procedure and legislation on the Assembly) to enhance the financial and administrative independence of the Assembly.

On the *rule of law*, Kosovo needs to provide concrete evidence of results in fighting organised crime and corruption as a matter of priority, and strengthen legislation and its implementation. Kosovo needs to improve further the reliability of statistics in these areas. Kosovo needs to actively support EULEX in the implementation of its mandate, including the Special Investigative Task Force. Kosovo is progressively taking on increasing responsibilities from EULEX. The Structured Dialogue on the Rule of Law is an essential forum for Kosovo and the EU to review progress in this regard.

Political interference in the work of the *judiciary* remains a serious concern. The Judicial and Prosecutorial Councils need to strongly respond to attacks against judges, prosecutors and the judicial institutions. The Assembly and the government need to do the same. Appropriate security and protection measures for judges and court staff, as well as prosecutors, witnesses and plaintiffs, are necessary. Kosovo needs to take further measures to reduce the total backlog of cases, including the enforcement of court rulings, and ensure trials are conducted in appropriate premises and in line with court procedures. The recruitment of judges and prosecutors from minorities in accordance with the legislative framework needs to continue. Kosovo needs to ensure that the special prosecution responsible for cases of organised crime, war crimes and corruption maintains its competencies.

As concerns *public administration*, Kosovo needs to focus on the implementation of legislation, the strategy and the action plan, which requires strong political guidance. The professionalism of the civil service needs to be enhanced, and the persons belonging to minorities need to be well represented in line with the legislation. Political interference with recruitment and appointment of public employees needs to stop. In the area of *human and fundamental rights*, the complex and overlapping institutional set-up for their promotion and protection needs to be simplified. More efforts are needed in investigating and prosecuting physical attacks against journalists. The same applies to violent incidents against the lesbian, gay, bisexual, transgender and intersex (LGBTI) community. Progress is also needed in enforcing property rights, for example through decreasing the backlog of cases and improving enforcement of judicial and administrative decisions. Personal data protection legislation needs to be better enforced. The Assembly needs to design a sustainable long-term funding mechanism for the public broadcaster; appointments to its board still need to be completed.

On the *protection of minorities*, legislation on cultural heritage and the Serbian Orthodox Church needs to be implemented. Local authorities need to be further supported to continue the process of decentralisation. The strategy and action plan for the Roma, Ashkali and Egyptian communities need to be implemented vigorously, as the situation of these minorities on the ground remains a major concern. This is also important in the context of the visa liberalisation process. Attacks motivated by ethnicity or religion have to be investigated, prosecuted and perpetrators brought to justice.

As regards the **economic criteria**, Kosovo has made some progress towards establishing a functioning market economy. Considerable reforms and investments are needed to enable it to cope over the long term with competitive pressure and market forces.

The challenging economic situation in the region and the EU has started to affect Kosovo's economy, although less than in other countries of the region. Kosovo's GDP grew by 2.5% in 2012. Fiscal policy has been prudent and budget performance has been on track. A legally binding fiscal rule was introduced, to be implemented in 2014. Unemployment has remained very high. Kosovo has continued significant investments in its infrastructure.

Continuous efforts are needed to support macroeconomic stability and improvement in the social situation. Kosovo needs to improve its competitiveness and business environment, and support the private sector so as to reduce unemployment. A sound business environment demands further measures to tackle the weak rule of law and corruption. Privatisation needs to continue. The informal sector remains an important challenge.

The priorities in the area of **European standards** need to be tackled in the context of negotiations on the Stabilisation and Association Agreement. Kosovo has completed the restructuring of the Ministry for Trade and Industry so as to be able to negotiate the trade-related parts of the agreement effectively and it has completed an impact analysis. Kosovo has also undertaken efforts to prepare the agricultural census.

As regards *trade and internal market issues*, improving Kosovo's business statistics is essential. Kosovo needs to continue implementing the legal framework for trade, competition and the internal market. Kosovo needs to step up its efforts in a number of *phytosanitary and veterinary areas* that affect food safety, as defined in the feasibility study. In the *energy* sector, efforts to decommission the Kosovo A power plant need to be enhanced. The focus on the priorities of the feasibility study, on preparing the negotiations of the agreement with the EU and on the visa liberalisation dialogue has had an impact on progress in other sectors.





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**COMMISSION STAFF WORKING DOCUMENT**

**KOSOVO\***  
**2013 PROGRESS REPORT**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2013-2014**

{COM(2013) 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 and the priorities set in the Feasibility study for a Stabilisation and Association Agreement between the European Union and Kosovo.<sup>4</sup>

This report covers the period from October 2012 to September 2013.<sup>5</sup> 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 reports<sup>6</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Kosovo in its separate communication on enlargement,<sup>7</sup> based on the technical analysis contained in this report.

### 1.2. Context

To date, Kosovo has been recognised by 104 UN Member States, including 23 EU Member States.

During the reporting period, the UN Secretary-General has issued four reports on Kosovo. In his reports, he has expressed appreciation for the key role of the European Union and the High Representative of the Union for Foreign Affairs and Security Policy in facilitating the negotiations that resulted in the 'First agreement of principles governing the normalisation of relations' of 19 April. He commended the leadership in both Pristina and Belgrade for demonstrating a serious and steadfast commitment to this dialogue.

The NATO-led Kosovo Force (KFOR) has continued to help ensure security in Kosovo. During the reporting period, its presence amounted to about 5 000 personnel. The Kosovo

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<sup>4</sup> COM(2012) 602 final.

<sup>5</sup> In April 2013, the Commission and the High Representative of the Union for Foreign Affairs and Security Policy issued an *ad hoc* joint report on specific issues on which the Council had, in December 2012, requested additional information, JOIN(2013) 8 final of 22.04.2013.

<sup>6</sup> The rapporteur for Kosovo is Ms Ulrike Lunacek.

<sup>7</sup> Enlargement Strategy and Main Challenges 2013-2014, COM(2013) 700.

police has progressively been taking over from KFOR the responsibility for protecting several cultural and religious sites.

### **1.3. Relations between the EU and Kosovo**

In June, the Council authorised opening of negotiations for a **Stabilisation and Association Agreement** between the EU and Kosovo. The negotiations will be formally opened this month. Prior to this decision, Kosovo needed to address a number of priorities set out in a feasibility study (October 2012). It needed to continue to implement in good faith all agreements reached between Belgrade and Pristina and to engage constructively on the full range of issues, with the facilitation of the EU. It also needed to take steps on several short-term priorities in the area of the rule of law, public administration, protection of minorities and trade.

In April, the Commission and the High Representative issued a joint report on Kosovo's progress. The report concluded that Kosovo had met all the short-term priorities outlined in the study. On this basis, the Commission submitted a proposal for a Council decision authorising the opening of negotiations on a Stabilisation and Association Agreement between the European Union and Kosovo.

Kosovo now needs to focus on making progress in the following areas identified by the feasibility study to meet its obligations under a Stabilisation and Association Agreement: the rule of law, judiciary, public administration, electoral reform and the Assembly, human and fundamental rights, protection of minorities, trade and internal market issues, and phytosanitary and veterinary issues.

Kosovo participates in the **Stabilisation and Association Process** and it has engaged constructively in the Stabilisation and Association Process Dialogue (SAPD). The 2013 cycle of SAPD meetings was completed by a plenary meeting and a civil society plenary meeting in July. In June, Kosovo engaged in a dialogue with the EU on public administration reform through a special group on public administration reform. A Structured Dialogue on the Rule of Law was launched in 2011 to facilitate and monitor progress in the rule of law. To date, two meetings have taken place, in May 2012 and February 2013.

The **visa liberalisation** dialogue has continued during the reporting period. In February, the Commission issued a first report on Kosovo's efforts towards visa liberalisation and three meetings of senior officials have taken place.

In December, Kosovo became a member of the European Bank for Reconstruction and Development (EBRD) and an EBRD Country of Operations. In May, Kosovo hosted a donors' conference on sustainable energy. In June, the Council of Europe Development Bank (CEB) agreed for Kosovo to join. On 7 June, the European Investment Bank (EIB) signed a Framework agreement with Kosovo. The agreement allows the bank to proceed with the financing of projects in Kosovo and to provide technical assistance. The EIB's involvement will also facilitate the co-financing of projects with other donors and support the implementation of various instruments, such as the Western Balkans Investment Framework.

Kosovo receives **financial assistance** under the Instrument for Pre-accession Assistance (IPA), the Instrument for Stability (IfS) and other sources of funding. Kosovo is participating in the IPA multi-beneficiary programmes. In 2013, a total of €71.4 million was allocated to Kosovo under the IPA annual programme. EU pre-accession assistance is focusing on support for the rule of law, the economy, trade and industry, and public administration reform. IPA assistance is implemented by the Commission and the EU Office. The Kosovo government and the Commission are currently preparing a comprehensive Country Strategy Paper for the period 2014-2020, which will provide a coherent and strategic framework for financial assistance under the new Instrument for Pre-Accession Assistance (IPA II).

As a follow-up to the Commission Communication ‘Kosovo — Fulfilling its European Perspective’,<sup>8</sup> the Council authorised the Commission to negotiate a framework agreement with Kosovo to enable it to take part in **EU programmes**. In April, following Kosovo’s acceptance of the text of the framework agreement, the Commission adopted a proposal to sign and conclude this agreement. The proposal is currently being discussed by the Council.

In 2012, the EU rule of law mission, EULEX, was reconfigured. EULEX’s mandate has been extended to June 2014. The mission was downsized by some 25% and currently operates with two sections: an Executive Division, which works on the mission’s executive mandate; and a Strengthening Division, which concentrates on monitoring, mentoring and advising the Kosovo authorities. Overall, during the reporting period, Kosovo has maintained good cooperation with EULEX. It has also continued to be fully supportive of the Special Investigative Task Force investigation, consistent with their previous commitment in this regard. It thereby met the pertinent short-term priorities specified in the feasibility study. Kosovo needs to continue actively supporting implementation of the mandate of the mission, including that of the Special Investigative Task Force.

#### **1.4. Normalisation of relations between Kosovo and Serbia**

Kosovo and Serbia have actively and constructively participated in an EU-facilitated dialogue, which was upgraded to a high-level political process with the facilitation of the High Representative following the 2012 elections in Serbia. Seventeen high-level meetings were attended by both Prime Ministers since October 2012. A meeting also took place between Presidents Nikolić and Jahjaga in February and they continued meeting in the context of various initiatives in June and July. Since January 2013, the meetings of the two Prime Ministers have focused on northern Kosovo and delivering structures which meet the security and justice needs of the local population in a way that ensures the functionality of a single institutional and administrative set up in Kosovo, in line with the December 2012 Council Conclusions.

These discussions resulted in a ‘*First agreement on principles governing the normalisation of relations*’ on 19 April, complemented in May by a comprehensive implementation plan. This landmark achievement represents a fundamental change in relations between the two sides. The ‘First Agreement’ includes the following key elements: the establishment of an Association/Community of Serb municipalities in Kosovo; the principle of a single police force in Kosovo and the integration of all police in northern Kosovo into the Kosovo police service; the principle of integration and functioning of all judicial authorities within Kosovo’s legal framework; and municipal elections to be held in the northern municipalities in 2013 facilitated by the OSCE – municipal elections were subsequently convened on 3 November 2013 and will take place throughout Kosovo. The two parties have agreed that neither side will block, or encourage others to block the other side’s progress in their respective EU paths.

The parties also reached agreement on energy and telecommunications in September. Implementation of other agreements reached in the dialogue to date has continued. The agreement on representation of Kosovo was broadly implemented. Kosovo became a participant in the Regional Cooperation Council (RCC) in February. Full application of the principle of inclusive regional cooperation remains to be ensured; problems such as those encountered with the summit of the South East European Cooperation Process (SEECP) need to be avoided. As concerns IBM, joint interim crossing points have been opened at all six gates, which are up and running. December’s agreement on the protection of religious and cultural heritage sites is being implemented, but recruitment of Kosovo Serbs needs to be increased. Implementation of an agreement on liaison arrangements has started in June. The

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<sup>8</sup> COM(2009) 534.

two sides also agreed to start collecting customs duties and to set up a fund for the development of northern Kosovo. Regarding free movement, the ID card travel regime is operational. The agreement on customs stamps continues to be implemented by both sides. There has also been good progress on civil registry; implementation should be completed by March 2014. Regarding cadastre, while implementation has started on the Serbian side, the legislation necessary to implement the agreement on cadastre has yet to be passed by the Kosovo side. Implementation of the agreement on acceptance of university diplomas is proceeding smoothly.

*Overall*, Kosovo has taken significant steps towards visible and sustainable improvement of relations with Serbia, which have already led to a number of irreversible changes on the ground.

During the reporting period, a number of security incidents occurred in northern Kosovo. On 19 September, one member of EULEX was killed in an attack on a EULEX convoy in northern Kosovo. The leadership of both Kosovo and Serbia condemned the attack in the strongest terms. On 8 March, EULEX initiated a joint operation with the Kosovo police and KFOR to stop a series of hand grenade attacks in northern Mitrovicë/Mitrovica. Further unrest was reported following the initialling of the 19 April agreement. Some in the Kosovo Serb leadership called for a referendum on the agreement and threatened to boycott its implementation. Pristina's restraint and inclusive approach, together with the positive role played by Belgrade, have prevented escalation.

Serbian police stations operating in northern Kosovo were gradually closed between 14 June and 5 July with no sign of operational activity since then. Serbian authorities also ceased the payment of salaries to Kosovo Serb police officers already employed by the Kosovo police in the north. Since 15 July, parallel Serbian courts and prosecution offices stopped prosecuting and adjudicating criminal cases in Kosovo. The integration of Kosovo Serb police officers, judges and prosecutors previously employed by the Serbian authorities is ongoing. Municipal assemblies in the four northern municipalities were dissolved.

## **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**

#### *Parliament*

Steps have been taken to improve the Assembly's oversight of the government, alignment of legislative plans between the Assembly and the government, and openness of the Assembly to civil society. The Assembly has been undertaking activities to scrutinise the work of the government, notably as regards the results of the dialogue between Belgrade and Pristina. The Assembly has also been able to demonstrate political and institutional unity on issues of key importance.

In October 2012, the Assembly adopted a resolution on the dialogue for the normalisation of relations with Serbia. On 22 April, it approved a resolution on the 'First agreement of principles governing normalisation of relations'. The Assembly ratified this agreement in June and adopted the law on amnesty in July.

The Assembly has increased the number of thematic parliamentary debates and interpellations of ministers. During the reporting period, the committees have undertaken further activities to monitor the implementation of laws and have produced reports, some of them based on Assembly members' field visits.

Public consultations and hearings with civil society and independent experts to prepare new legislation are becoming a frequent feature. The Assembly has opened a position for an officer for relations with civil society and donor coordination. In April, the Assembly adopted its work programme. This programme combines the 2013 government legislative agenda, the annual work plans for parliamentary committees and an action plan for negotiations on the Stabilisation and Association Agreement.

The decision of the Assembly to debate the so-called Kiqina case (in which former members of the Kosovo Liberation Army were found guilty of murder) and an attempt to adopt a decision interfering with the judicial process was a setback for Kosovo's efforts to build strong and independent institutions of democratic governance. This is an issue of serious concern.

Kosovo needs to finalise the electoral reform process that was launched in 2011. It needs to ensure that the legal framework for elections better reflects best practice in the EU and that implementation is in line with international standards. Oversight of the government needs to be improved, including follow-up to committee recommendations to ministries. The Assembly also needs to improve its understanding of its role in the supervision of independent institutions and regulatory authorities. In this regard, adequate mechanisms need to be set up. Unclear legal bases for reporting, weak coordination with the government in the selection of board members and failure to determine mechanisms for holding board members to account are among the key challenges that need to be addressed. This would help to ensure the timely appointment of independent and professional managers and members of the boards of these institutions.

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 also needs to develop a mechanism to follow up the recommendations it gives to budgetary organisations.

The number of staff supporting the work of the committees has increased. The capacity of the committees to scrutinise draft laws remains limited. The Assembly's secretariat needs to ensure better coordinated input of its different departments to the committees. Draft laws as well as amendments to legislation need better screening for compliance with the *acquis*. The Assembly needs to improve the existing rules of procedure, especially to clarify the legal effect and meaning of various decisions made in plenary. Decoupling the vote on amendments and the final vote on a law in plenary needs to be considered. During Assembly and committee deliberations, some shortcomings and violations of the rules of procedure were noted (for example, insufficient time between tabling a proposal and its discussion in committee and in plenary).

The financial independence of the Assembly has improved. The Assembly's budget committee has increased its involvement in the government's consultation on the draft budget of the Assembly. Further steps are needed to enhance the financial and administrative independence of the Assembly, notably by improving Assembly's rules of procedure, legislation on the Assembly, including a law, and separating its IT infrastructure from the government.

*Overall*, the Assembly continues to gradually build its capacities and to improve its role in democratic governance. The debate on the Kiqina case was a setback in this regard. The Assembly and its institutions need to focus on priorities identified in the feasibility study, notably electoral reform, oversight and control functions, and the financial and administrative independence of the Assembly.

### *Government*

The Kosovo government has increased its capacity to address priorities of the European integration process. Follow-up to the short-term priorities of the feasibility study clearly shows this, as does preparation for negotiations of the Stabilisation and Association Agreement. The National Council on European Integration under the President's Office has continued to meet and pursue the objective of consensus-building on European integration.

The government adopted an ambitious legislative strategy followed by an annual work plan. The legislative agenda remains subject to frequent changes. A clear institutional setup and delineation of responsibilities have contributed to better coordination of the EU agenda and its priorities within the government. Ministries have also started to follow new requirements for inter-ministerial consultations. This is a good basis to manage the gradually increasing workload of the European integration process. The government has improved compliance with rules of procedure. The introduction of an *acquis* compliance table is a step forward and needs to be used systematically. A system of concept papers preceding draft laws and policy decisions was put in place; a number of papers have been prepared.

The government, in close cooperation with the Assembly, still needs to improve its capacity to verify and confirm *acquis* compliance of legislation. Forward planning and cost analysis of implementation of legislation remains a challenge. Strategies need to be better coordinated to avoid overlap and contradictions. The implementation of policies and legislation involving several ministries needs to be improved. The capacity to manage the EU integration agenda is unevenly spread across the government, especially in terms of quality of human resources.

The fact that members of the government still fail to attend parliamentary question sessions or relevant meetings of parliamentary committees continues to be an issue of concern. This prevents the Assembly from conducting its oversight function. Ministries also need to improve their follow-up to requests from parliamentary committees.

*Local government* has also improved its capacity. This includes examples of addressing returns and reintegration, transparency of information on management and budget, and reporting on municipal decision-making. There have been examples of improvements in the organisation of municipal administration. In October 2012, the Mitrovicë/Mitrovica North Administrative Office set up by the Kosovo authorities became operational. The office has 54 employees, of whom about 70% are Serbs, some of whom have faced sporadic threats and attacks on their possessions during the reporting period.

Municipalities would benefit from clearer guidance from central level and integrated planning (policy priorities coupled with budgeting). The work and decisions of municipalities need to be more transparent. The small and rural municipalities established in 2009 – 2010 need alternative institutional solutions so that they can deliver equitable access to services for their constituents. Land management needs to be addressed to ensure their economic development.

The November municipal elections will take place under the current legal framework in the absence of progress on electoral reform. On the basis of the 19 April agreement, the Association/Community of Serb majority municipalities in Kosovo is foreseen to be established following the municipal elections. This will require consistent efforts from all concerned.

*Overall*, the fundamental structures for governance at both central and local levels are in place. Capacity varies across different ministries. The municipal level is still weak. Data collection, financial impact assessments, policy objectives and inter-ministerial coordination need to play a greater role in the legislative process. Further efforts are needed to improve implementation of legislation, accountability and transparency of government, including at municipal level. Local authorities need more support to continue the process of decentralisation.

#### *Public administration*

Kosovo met the short-term priorities of the feasibility study in the area of public administration. It adopted secondary legislation of laws on the civil service and on salaries for civil servants. Kosovo has started implementing the strategy and the action plan on public administration. In June, through the special group on public administration, Kosovo started a dialogue with the EU on these matters. In December, the Assembly adopted an interim salary scale for selected independent oversight institutions such as the Ombudsperson, the Independent Oversight Board for the Civil Service and the Independent Media Commission.

The Office of the Auditor General has continued to focus on promoting sound financial management in public administration and accountability across government. This includes building up a sustainable performance auditing function. Regional and international cooperation of the office has increased. The Kosovo Institute for Public Administration has continued to provide training for civil servants.

The implementation of the strategy and action plan on public administration reform continues to be a major challenge for Kosovo. It requires further human and budgetary resources. The planning of activities needs to be adjusted to reflect the available resources. The implementation of the law on salaries of civil servants has been put on hold pending the finalisation of job classification. The performance appraisal for civil servants needs to start. New legislation is needed to regulate salaries for high officials and to reform the salary system in important sectors such as education and health.

Kosovo authorities need to ensure appropriate follow-up to the recommendations of the Independent Oversight Board for the Civil Service. Currently, this is not the case for a significant number of the recommendations. The share and the distribution of civil servants belonging to minorities across ministries need to be in line with the legislation. Kosovo also needs to review the organisation of public administration at the municipal level, notably delegated competences and the appointment of directors.

*Overall*, Kosovo enacted secondary legislation of laws on the civil service and on salaries of civil servants. Public administration reform continues to be characterised generally by a lack of professionalism and motivation on the part of staff. There is also political interference in the civil service. Kosovo needs to focus on priorities set out in the feasibility study, notably implementing legislation, as well as the strategy and action plan.

#### *Ombudsman*

Kosovo met the short-term priorities of the feasibility study in relation to the Ombudsperson. The number of staff and budget of the Ombudsperson institution have been increased. The government allocated new premises to the institution. It now has the necessary resources to perform its duties. The government respected the Ombudsperson's independence by not modifying the office's budget when submitting the overall budget to the parliament. The budgetary independence of the Ombudsperson needs to be made sustainable. During 2012, the Ombudsperson received 20% more petitions from the public than the previous year. Kosovo authorities need to improve their implementation of the Ombudsperson's recommendations.



### *Civilian oversight of the security forces*

The parliamentary Committee on Internal Affairs, Security and Supervision of the Kosovo Security Force has scrutinised a greater number of laws than in the previous reporting period. Oversight of the Kosovo Intelligence Agency has also improved and the relevant parliamentary committee has met more frequently. Only members of parliament with clearance issued by an office under the direct responsibility of the intelligence agency may take an effective role in the committee. Further efforts are needed to ensure adequate civilian oversight of the security forces. The Assembly needs to improve its professionalism and expertise on security matters. In July, the North Atlantic Council declared that the Kosovo Security Force had reached full operational capacity.

### *Civil society*

The task forces on European integration and the National Council on European integration have continued to involve representatives of local civil society. The government's strategy and action plan on cooperation with civil society for 2013-2017 was prepared with the involvement of civil society representatives. It was adopted in July. Cooperation between civil society organisations and the institutions of Kosovo continues to be ad hoc. Even when public consultations on draft legislation take place, follow-up is often unsatisfactory. There is limited public funding for e.g. social services delivered by civil society on behalf of the authorities. The central and local authorities need to improve cooperation with civil society, notably as regards defining and executing public policies.

### *Judicial system*

In January, a new court system was introduced and a new criminal code and criminal procedure code entered into force. The Supreme Court issued a formal opinion to rectify ambiguities concerning the retroactive application of transitional provisions regarding the admission of pre-trial evidence in cases that started before the new procedure code entered into force. Focus now needs to be on implementation of the legislation. Implementing legislation on the certification system for translators and interpreters needs to be adopted. In general, a review of the new court and prosecutorial system is needed to assess progress.

A law on the state advocacy office was adopted. The Kosovo Judicial Institute has continued to provide legal education training focusing on capacity building. In July, an entry exam for judges and prosecutors was successfully organised. Kosovo concluded bilateral agreements on mutual legal assistance with Albania and Italy. The Ministry of Justice acts on requests for mutual legal assistance received from non-recognising countries, either directly or via EULEX. The United Nations Interim Administration Mission in Kosovo (UNMIK) remains the formal point of contact with Interpol. Kosovo needs to enhance its capacities and experience to be an effective partner in the context of mutual legal assistance.

As regards *independence* and *impartiality*, cases of political interference in the judiciary were reported. This includes points made by the government and the Assembly on rulings regarding war crimes (Kleçka and Drenica group). This was also noted by the Supreme and Constitutional Courts. There was also an attempt by the Assembly to investigate a case that had been through all the steps of the judicial procedure (Kiqina case). In reviewing a criminal case (involving a municipal president) in January, the Constitutional Court, by taking up the case and referring it back to the Supreme Court for review, wrongfully suggested that it could take upon itself to act as an (additional) court of last instance.

In 2012, 0.47% of GDP was spent on the budget for the judiciary. Both Judicial and Prosecutorial Councils adopted codes of ethics. The Judicial and Prosecutorial Councils have strengthened the necessary procedures and signed memoranda of understanding with the police to ensure appropriate security and protection measures for judges, prosecutors and

other judicial staff. Kosovo still needs to do more to mitigate the risks of indirect forms of intimidation or influence on staff in the judiciary and on witnesses.

Two members of the Judicial Council still need to be appointed. To guarantee judicial independence, a substantial majority of the Judicial Council's members need to be elected by their peers. Kosovo needs to make the necessary changes to allow for this. The Constitutional Court has nine judges including three international judges. Not all positions on the Constitutional Court have been filled, which may pose a challenge to constitute the quorum of seven judges. The Judicial Council has filled 334 out of a total of 404 positions and 125 of the 146 prosecutor positions are filled. Both Judicial and Prosecutorial Councils continue to face challenges in filling vacancies reserved for persons belonging to minorities. The Judicial and Prosecutorial Councils need to ensure that persons nominated for the position of judge or prosecutor have the necessary professional experience and meet the conditions set. Passing the initial legal education programme needs to remain part of the eligibility criteria for a candidate to qualify as a judge or a prosecutor.

As regards *accountability*, the Judicial Council adopted implementing legislation on the organisation and activities of the Council, and on the appointment and evaluation of judges. A panel for the evaluation of the performance of judges has conducted the first evaluations in view of the confirmation of judges' initial mandates. Disciplinary sanctions were imposed in 14 cases by the Judicial Council (in 2013) and in 11 cases by the Prosecutorial Council (2012 and 2013). None of them resulted in dismissal. The code of conduct for judges needs to be strengthened. The disciplinary regulations in both Councils need to be adjusted to ensure that the disciplinary procedures and policies on the fight against corruption in the judiciary lead to concrete results.

As regards *efficiency*, the Judicial Council has established the new court structure. It swiftly appointed new presidents of the court of appeal and basic courts. The Judicial and Prosecutorial Councils adopted regulations on the internal organisation and operation of the courts and prosecutor's offices, thus finalising the framework for the implementation of the court reform. Delays in the transfer of cases have been kept to a minimum. The workload of the courts is under review. Court administration as well as case allocation in prosecution offices and courts needs to be improved. The current lack of available courtrooms is expected to improve in the future as a result of ongoing renovations.

The new prosecutorial system required setting up a new appellate prosecution office and a switch to a system of seven basic prosecution offices in addition to the special prosecution. The Prosecutorial Council and the State Prosecutor generally transferred case files within a reasonable time. However, some cases, including election fraud cases, were not transferred until March. There has only been limited progress with regard to cases involving fraud during the general elections of 2010. All 232 indictments have been filed, but as of September 2013, a substantial number remain to be adjudicated.

The implementation of the two-year strategy to reduce the backlog of cases accumulated until December 2008 resulted in a backlog reduction of about 65%, leaving about 63 500 cases unresolved. In addition, Kosovo needs to address the backlog of cases that has built up over more recent years. At the end of 2012, the total number of cases pending before the Kosovo basic courts was over 218 740. This increased to over 235 000 cases in 2013, partly due to court reform, which led to the inclusion of minor offences cases in the statistics. In the current case registration system, it is possible that the same case is counted several times. Case allocation and management systems still need to be fully implemented. There is a large number (over 100 000) of decisions that still need to be executed. As part of the strategy to fight corruption and organised crime, a new law on enforcement procedures introduced a

private bailiff system with the aim to reduce the execution backlog. Kosovo has to ensure an adequate oversight of these private actors.

At the Mitrovicë/Mitrovica basic court only criminal trials have been held by EULEX during the reporting period.

The work of the special prosecution has slowed down; the limited number of local prosecutors are unable to take on new cases, due to the existing workload. Seven out of fifteen positions for local prosecutors need to be filled. Kosovo needs to increase efforts to recruit them, since its work and jurisdiction are vital for the handling of important, high-level and sensitive cases. At the moment, there is a lack of capacity and commitment to investigate crimes that fall under the jurisdiction of the special prosecution.

To ensure better *access to justice*, legal aid offices have been established in 11 municipalities. Kosovo also has a mobile legal aid clinic. Kosovo authorities need to pay particular attention to access to justice for victims of human trafficking, women and children. A total of 99 mediators are licenced and six mediation centres operate across Kosovo. During 2012 and 2013, more than 300 cases have been referred to the mediation centres. Almost half of the cases have been successfully completed during the mediation process.

*Overall*, Kosovo needs to address priorities of the feasibility study. Political interference in the work of the judiciary remains a serious concern. The Judicial and Prosecutorial Councils need to respond decisively to attacks against individuals and the judicial institutions. Other branches of government need to do the same. Security needs of judicial personnel, witnesses and plaintiffs need to be addressed. Kosovo needs to ensure the efficient implementation of legislation. It needs to pay particular attention to the harmonisation of primary and implementing legislation. The jurisdiction of the special prosecution needs to be maintained and local capacity strengthened. The backlog of cases requires continued efforts. Improved data processing and case management would help in this regard.

#### *Fight against corruption*

The anti-corruption legislative framework is largely in place. Amendments to the law on political party financing were adopted addressing earlier shortcomings (e.g. regulating donations from legal entities providing goods and services to government bodies). The revised Criminal Code introduced criminal offences for conflict of interest, and for false declarations of assets by public officials, or their failure to report assets. In February, the Assembly adopted a new anti-corruption strategy and action plan (2013-2017), a short-term priority of the 2012 feasibility study. For the first time, a corruption risk assessment covering priority sectors has been attached to the strategy.

During the reporting period, the special anti-corruption department of the Kosovo police has launched six investigations in cooperation with EULEX. They covered criminal acts such as abuse of official duty, giving and receiving bribes, and fraud. The Anti-Corruption Agency has continued to coordinate implementation of the strategy, of the laws on declaration of assets by public officials and on prevention of conflict of interest. The Agency has sufficient capacity to perform its current tasks. Cooperation between the Agency and the prosecution has improved. The prosecution now provides systematic feedback to the Agency on the follow-up of cases. The Prosecutorial Council also set up a network of prosecutors coordinating corruption in six basic prosecution offices and in the Pristina office. There has been an increase in criminal cases against persons in high-level positions both at municipal and central levels. Continued efforts are necessary to ensure the accountability of high-ranking officials and politicians.

In 2012, less than 1% of public officials failed to make a declaration of assets. Pertinent cases have been sent to the prosecution. When it comes to verification, the agency first does a

preliminary systematic search for missing information or errors. Subsequently, on roughly 20% of the submissions, substantive controls are undertaken, with a focus on those categories of officials with a high-degree of responsibility or exposed to sensitive positions (such as public procurement), or on cases that appear suspicious. First steps have been taken to improve reporting on the fight against corruption. In November, the Prosecutorial Council adopted a strategy on inter-institutional cooperation in the fight against organised crime and corruption.

The main issue of concern remains the implementation of the legal and policy frameworks. Cooperation among the agencies involved continues to be weak. False declarations and conflicts of interest are still treated as administrative offences, whereas the Criminal Code provides for a criminal offence. This discrepancy needs to be addressed as a matter of priority. The number of cases followed up by the prosecution remains below 10%. Only very few cases result in a filed indictment. To improve implementation, other authorities (tax administration, financial investigation unit and prosecution) need to provide the necessary information to the Anti-Corruption Agency.

The new anti-corruption strategy is not underpinned by a budget or an estimation of necessary resources. It lacks binding mechanisms for the institutions to comply with their responsibilities. Implementation of the strategy and action plan requires more ownership by all involved actors, continuous support at the highest political level and commitment from all involved. The risk assessment of vulnerable areas needs to be revised regularly.

On prevention of conflict of interest, the agency noted that more than 800 public officials have more than two jobs (some up to five). The agency recommended that officials are not allowed to hold at the same time more than one job involving a certain degree of (financial) responsibility. There has been no follow-up on this advice. Moreover, there are still cases in which persons do not stop their active involvement in a private business, or they do not provide the Agency with the required declaration to this end when taking up a public post.

The institutional setup to deal with corruption remains complex. The system is fragmented, with unclear roles and responsibilities. There is no common system of statistics. The National Anti-Corruption Council was set up with the aim to ensure responsibility and accountability of involved institutions in the fight against corruption. However, the council does not meet regularly. Additionally, its meetings are in public and the number of participants has increased. This raises concerns with regard to its effectiveness and authority.

The anti-corruption taskforce within the special prosecution, composed of local and international prosecutors, Kosovo police investigators and anti-corruption experts, lacks two out of five local prosecutors. This considerably slows down investigations, even if two prosecutors have been allocated to the taskforce on a temporary basis. Furthermore, taskforce members from the police lack office space and essential equipment. Forensic financial accounting expertise is missing. In addition to the taskforce, local prosecution offices are also responsible for the fight against corruption. Their results have been limited.

*Overall*, Kosovo met the short-term priorities of the feasibility study. It adopted a new anti-corruption strategy and Kosovo has maintained commitment to the fight against corruption. To meet its obligations under the Stabilisation and Association Agreement, Kosovo needs to implement the legislative and policy frameworks, and provide concrete evidence of results in the fight against corruption. Effective prevention of corruption at all levels of society needs to be given higher priority.

#### *Fight against organised crime*

During the reporting period, Kosovo met the short-term priorities of the feasibility study. Its political leaders and law enforcement and judicial authorities maintained their commitment to

deliver results in the fight against organised crime. They have continued to work in partnership with EULEX on practical operational matters on a daily basis. Kosovo adopted new strategies and action plans against organised crime, narcotics and terrorism. It also has a strategy and an action plan against trafficking in human beings. The Assembly also approved a law on the confiscation of assets and revised the law on the prevention of money laundering and financing of terrorism. The Compact on joint rule of law objectives was signed in November by Kosovo, the EUSR and EULEX.

As set out in the feasibility study, to meet its obligations under the Stabilisation and Association Agreement, Kosovo needs to focus on implementing the policy and legislative frameworks. It needs to provide concrete evidence of results in fighting organised crime, especially on prevention of and fighting against trafficking in human beings, drugs (and their precursors), and weapons trafficking. The reliability of statistics needs to improve.

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

## **2.2. Human rights and the protection of minorities**

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

As regards **promotion and enforcement of human rights**, the relevant Assembly committee has been increasingly holding the government accountable. This relates in particular to the unsatisfactory implementation of recommendations issued by the Ombudsperson. The key challenge for Kosovo is to improve implementation of the existing legal framework and enforcement of decisions remedying human rights infringements. The complex and overlapping institutional setup for reporting on these rights, as well as their promotion and protection, needs to be simplified and streamlined, both at central and local levels.

Kosovo has continued to address the **prevention of torture and ill-treatment** in prisons, including the fight against impunity. The correctional services received two complaints of *torture and ill-treatment* in 2012. After investigation both cases were dismissed. In 2013, no complaints have been received. A steering committee composed of the Ombudsperson, the Kosovo Rehabilitation Centre for Torture Victims and the Council for the Defence of Human Rights is monitoring the situation in this regard in detention centres. The members of the steering committee need to further enhance their experience and resources to carry out balanced and accurate inspections.

The **prison system**, in particular the Dubravë/Dubrava Correctional Centre, continues to face significant challenges. Medical treatment is insufficient. Important concerns relate to corruption, nepotism, smuggling and discrimination in the prison system. Some prisoners enjoy 'extended privileges' and abuse the system. This increases the risk that they may be able to carry on in criminal activities from the prisons, including intimidating witnesses. Kosovo also needs to develop adequate categorisation of prisoners. The internal complaints mechanism needs to be made more efficient and effective.

On **freedom of expression**, the Assembly modified the two articles of the Criminal Code on criminal liability of the media and protection of journalists' sources, as set out in the feasibility study. Kosovo authorities (the President, the Office of Prime Minister and Minister for European Affairs) promptly condemned and demanded an investigation into attacks on the offices of the magazine Kosovo 2.0, which had published a special issue focusing on sex topics, including sexual orientation and gender identity issues. An EULEX prosecutor and a

prosecutor from the Pristina basic prosecution office filed an indictment against three Kosovo citizens for their involvement in the attack on Kosovo 2.0.

Legislation covering freedom of expression is fragmented (14 laws in total) and ineffective. The laws establish a total of ten institutions responsible for this area. Implementing legislation is necessary to define the exact scope and activities of these institutions. Currently, there is overlap. Kosovo does not have a comprehensive law on the media, leaving key areas regarding operation of the media unregulated. This includes 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 of reply and correction for citizens.

Threats against journalists and editors have continued to be reported and journalists continue to face political pressure and intimidation. The Association of Professional Journalists of Kosovo was active in condemning attacks against media and journalists throughout 2012. However, following the appointment of a new board in April, several board members left, citing close ties between the chairwoman and business and political representatives. Professional standards in both broadcast and print journalism need to be improved, with a particular focus on online media.

The independence of the Independent Media Commission has been hindered by a lack of resources, and political interference in the appointments of the commission and its board of appeals. One member of the commission and two members of the board of appeals were appointed despite their ineligibility. One member of the commission is still to be nominated. Much of the commission's work was paralysed by its council's unlawful decision to dismiss the CEO. This decision was reversed by the court.

Kosovo public broadcaster's (RTK) long-term financial sustainability is still uncertain. The current funding model is based exclusively on the state budget, which undermines RTK's editorial independence. The RTK's board should have eleven members – public personalities who have demonstrated political impartiality. Three members have yet to be appointed, as a consequence of politicisation of their appointment by the Assembly. (*See 4.2.6 — Information Society and Media*)

**Freedom of assembly and association** continues to be exercised in Kosovo. During the reporting period, there have been several public protests and gatherings against the government and assembly decisions. Public and opposition movements are free to express their discontent with government policies.

**Freedom of thought, conscience and religion** continues to be exercised in Kosovo. The Orthodox seminary functions well in its historical premises in Prizren. Kosovo has been ready to support the reconstruction of Serbian Orthodox Church sites. Contacts between religious leaders of the Kosovo Albanian Catholic Church, Islamic leaders and Serbian Orthodox leaders have been more regular and relations have been improving. A Catholic cathedral is being constructed in the centre of Pristina. Kosovo police has been taking over responsibility for the protection of historical and religious sites from KFOR. To date, only Visoki Dečani Monastery remains under KFOR protection. The protection of the Peć Patriarchate was transferred from KFOR to Kosovo police in August.

A number of religious heritage sites have been subject to petty theft and vandalism, including Serbian Orthodox churches and Orthodox and Muslim cemeteries. In February, the widespread desecration of Serbian Orthodox cemeteries revealed the vulnerability of sites of value to the Serbian community in Kosovo during times of political strain. The mechanisms for reporting and following up such activities need to be improved.

As regards **women's rights and gender equality**, the government adopted implementing legislation for the law on protection against domestic violence. The Judicial Institute has

provided training on these issues for judges, prosecutors, victims' advocates and social workers. The Agency for Gender Equality prepared an action plan on the implementation of the relevant UN resolution. The aim is to strengthen the position of women in decision-making processes and in security structures, and to provide redress to survivors of conflict-related sexual violence by means of improved access to justice and rehabilitation and integration. Legislation recognising survivors of conflict-related sexual violence as civilian victims of war has not yet been adopted by the Assembly. Government funding of shelters for victims of domestic violence and trafficking is not sustainable. The law on gender equality needs to be amended. Women's representation both in the public and the private sectors remains low, especially in senior positions. The introduction of paid maternity leave of up to nine months has had a negative impact on the employment of women in some cases, especially in the private sector. *(See 4.1.8 - Employment and social policies, public health policy)*

Regarding **children's rights**, the government approved a new Kosovo youth strategy and action plan 2013-2017. The Ministry of Culture, Youth and Sports has set up 34 local youth action councils including some in municipalities established in 2009-2010. Reporting on the implementation of the strategy and action plan on children's rights 2009-2013 has improved. Juvenile departments are now established in all courts and prosecutorial offices. The Ministry of Justice has also trained 15 mediators on child offender and victim mediation. A review of child protection legislation needs to be conducted to identify gaps. With regard to child protection, the system remains fragmented, both at central and local levels. The focus needs to be on improving implementation of legislation and on decreasing dependence on international donor support.

As regards **the socially vulnerable and persons with disabilities**, Kosovo has improved its legislative framework. In August, the government adopted the strategy for the rights of people with disabilities (2013-2023) and an action plan (2013-2015). The Ministry of Education, Science and Technology adopted several administrative instructions to improve access to education for persons with disabilities. The newly-adopted law for blind persons entered into force in January. Since February, the Assembly has televised its sessions with sign language interpretation for the deaf. Public buildings in Kosovo remain largely inaccessible to persons with disabilities. Access to public spaces for persons with disabilities is inadequate. The National Disability Council of Kosovo needs to improve its functioning with the support of the Office on Good Governance. Kosovo authorities also need to improve their engagement with organisations of disabled persons when preparing policy documents and legislation. They also need to improve implementation of commitments made in respect of non-discrimination and inclusion of people with disabilities.

The law on **anti-discrimination** is under revision along with the overall institutional setup. Implementation of anti-discrimination policies is weak.

In May, the Office on Good Governance held a roundtable on **lesbian, gay, bisexual, transgender and intersex (LGBTI)** issues. This community faces major challenges in Kosovo. It continues to face discrimination, threats and violence. A religious movement, voicing hate against the LGBTI community through conventional and social media, was registered as a political party.

In the area of **labour and trade union rights**, the amended law on strikes entered into force. The Socio-Economic Council and working groups of the Ministry of Trade and Industry have discussed employment conditions. The labour inspectorate conducted over 7 000 inspections in the public and private sectors. It issued over 1 800 written warnings and over 150 punitive measures. Trade unions lack the capacity to participate effectively in decision-making,

legislative drafting and policy dialogue with the government. (See 4.1.8 - *Employment and social policies, public health policy*)

As regards **property rights**, the Assembly adopted a law on allocation for use and exchange of real estate of the municipality and laws on the treatment of constructions without permission and on spatial planning. Out of a total of over 42 500 claims recorded by the Kosovo Property Agency, over 39 000 have been adjudicated by the Kosovo Property Claims Commission. United Nations High Commissioner for Refugees offices in Serbia operate as the liaison office for the Kosovo Property Agency. The number of Kosovo Property Claims Commission decisions and cases dismissed by the Executive Secretariat stands at about 38 480 of which about 35 500 were served to claimants and about 2 000 to respondents. The number of Commission decisions implemented during the reporting period stands at nearly 20 400.

Serious shortcomings persist in the notification of displaced persons regarding the expropriation of their real estate. Implementation of eviction orders and property administration across Kosovo remains a challenge. The outstanding number of evictions stands at about 820 of which about 350 in northern Kosovo. The funding of the Property Agency remains uncertain and unsustainable. Many unresolved property compensation claims are before the courts. Second-instance courts often send property cases back to the first-instance courts for re-trial. Inter-ethnic property disputes are unduly prolonged. There is no compensation scheme for socially-owned apartments. The lack of a strategy to regularise informal settlements remains a concern. The Office of the Property Rights Coordinator in the Office of the Prime Minister has neither staff nor funding.

*Overall*, Kosovo legislation is broadly in line with international standards, although some important laws require improvement. Kosovo needs to focus on implementation. The structures dealing with the protection, promotion, enforcement of and reporting on rights need to be streamlined, both at central and local levels. Political and economic interference with the media, threats to journalists and the long-term sustainability of the public broadcaster's financing remain issues that need to be addressed urgently. The mechanisms and the overall consciousness and willingness to address anti-discrimination issues have to be further strengthened. Violent incidents against the LGBTI community need to be investigated and prosecuted. There also needs to be more focus on investigating offences against religious sites. Enforcement and protection of property rights is a key challenge and one of the priorities of the feasibility study. In particular, Kosovo's judiciary needs to improve its efforts to resolve cases rapidly. Kosovo authorities need to do more to reach out to displaced persons regarding expropriation of their real estate.

#### *Respect for and protection of minorities, cultural rights*

Following the end of supervised independence in September 2012, Kosovo's legal framework continues to guarantee **minority** representation. It upholds the rights of persons belonging to minorities, and protects vital interests and cultural rights, including those of the Serbian Orthodox Church. The Serb-majority municipalities in the south of Kosovo have been gradually strengthening their capacity. They also participate in bodies such as the Association of Kosovo Municipalities. The Office for Community Affairs increased its assistance to socially vulnerable families and infrastructure projects.

A new Language Commissioner was appointed in December. The office recruited new staff, launched its website, developed an on-line complaints form and conducted outreach activities. Language policy measures proposed by the Commissioner to the Office of the Prime Minister are still to be adopted. The slow response of law enforcement authorities, in particular the judiciary, to cases involving persons belonging to minorities increases their mistrust vis-à-vis



Kosovo institutions. Kosovo needs to increase the proportional representation of minorities in the police and judiciary.

Following the adoption of the law on the public broadcaster, a Serbian-language TV channel (RTK2) was licensed. It started limited broadcasts in June and from August has been fully operational. At the moment, the channel is only available through cable operators. Access to education for minority communities remains limited. Language barriers and the lack of relevant school materials are major obstacles to the integration of returnees and readmitted children into the education system. There has been no progress on Serbian-language instruction within the Kosovo curriculum. Serbian is still not available as a second official language outside areas predominantly inhabited by Serbs. Students from the Serbian community and a majority of Roma and Gorani students are enrolled in schools administered by Serbia.

A mid-term review of the action plan of the strategy for the integration of **Roma, Ashkali and Egyptian** communities (2009-2015) was completed in July. Three actions were identified for improvement: proper budget allocation, better cooperation between central and municipal authorities, and better cooperation between the government and civil society organisations. The Minister for European Integration formally took up the post of the chair of the inter-ministerial steering committee. The Office on Good Governance remains responsible for these issues at working level. The Osterode camp was officially closed in December.

Implementation of the strategy and action plan remains weak and inconsistent. Non-majority communities continue to face major challenges. Children suffering from lead contamination require further care. The closure of the Leposaviq/Leposavić camp still needs to be completed. Education, social service and civil registration of the Roma, Ashkali and Egyptian communities need to further improve. Municipalities have committed themselves to funding six pre-school learning centres for children from these communities. Other commitments for improving the education (e.g. support mediators helping these children to integrate into school life), are still to be implemented. The Romani language is being offered in some pilot classes in Prizren. However, the teacher concerned is working *pro bono* and there are no government-issued textbooks.

Regarding **refugees and internally displaced persons**, most of the Municipal Community Safety Councils and the Local Public Safety Councils have been set up to address the security concerns of all communities. The functioning of these councils needs to be improved.

The number of voluntary returns decreased from over 1 140 in 2011 to 970 in 2012. In 2012, a total of 220 families received housing assistance from the Ministry of Community and Return and from the international donor community. The Ministry established a working group to draft a new strategy for Communities and Return since the current strategy expires in 2013.

The sustainability of the returns process continues to be undermined by real and perceived security threats (both in Albanian majority and Serb majority communities). It is further exacerbated by ongoing incidents affecting returnees and their property, as well as religious and cultural heritage sites. Limited access to property, blocked or delayed property restitution proceedings, limited access to public services, and a lack of economic opportunities also continue to be major obstacles to sustainable return and reintegration. The obstacles to return and integration of the Roma, Ashkali and Egyptian communities are of particular concern.

As regards **cultural rights**, the Implementation and Monitoring Council, established in February, continues to facilitate cooperation between Kosovo authorities and the Serbian Orthodox Church. The council has been meeting on a monthly basis and has been addressing concerns of the Church. The main challenge for the council is to ensure its decisions translate

into concrete results on the ground. At the initiative of the Office of the Prime Minister, the Kosovo police established a special unit to protect Serbian religious and cultural heritage sites in Kosovo. It covers four regions and employs 203 Kosovo police officers. The share of Kosovo Serb police officers in the special unit needs to increase.

Implementation of the law on the historic centre of Prizren has progressed. By contrast, there has been no progress in the implementation of the law on Velika Hoča/Hoçë e Madhe. Continued guidance from the central level is needed to ensure that the laws are fully implemented. Cooperation between the relevant ministries and between central and local levels is slowly improving. It needs to be intensified and managed in a more structured way to secure sustainable progress. In general, implementation of the legislative framework governing protection of cultural heritage remains weak. Kosovo authorities need to address frequent breaches of the legislation negatively affecting the sites. They also need to demonstrate a stronger commitment to cultural heritage spatial planning. Business interests frequently prevail over interests of the cultural heritage.

*Overall*, Kosovo needs to focus on the implementation of the priorities of the feasibility study. Implementing legislation on protection of minorities and cultural rights remains an important challenge. Inter-institutional coordination, including between central and local self-government institutions, needs to improve. Security incidents and crimes targeting persons belonging to minorities and their property need to be investigated and prosecuted thoroughly and promptly. Spatial planning needs to take into account the requirements of historic and cultural heritage sites. Robust action needs to be taken to stop illegal construction and to correct illegal construction which has already taken place.

Resources and efforts need to be more focused to make progress in implementing the strategy and action plan for the Roma, Ashkali and Egyptian communities. Kosovo needs to close the Leposaviq/Leposavić camp. The focus needs to be on education, social service and civil registration of these communities. Kosovo currently relies heavily on support from the international community in this area.

### **2.3. Regional issues and international obligations**

Regarding relations with Serbia, *see section 1.4. - Normalisation of relations between Kosovo and Serbia.*

Kosovo has continued cooperating with the international community, including the **International Criminal Tribunal for the former Yugoslavia (ICTY)**, in investigating and prosecuting **war crimes**. Former Prime Minister Ramush Haradinaj was acquitted by the Tribunal in November.

The EULEX police war crimes investigation unit and Kosovo police war crimes investigation unit conducted a joint investigation in the villages of Babin Most and Vushtrri/Vučitrn. The investigation resulted in the arrest of two suspects in the Babin Most case and in a search of their residences. The Kosovo police special unit and the Kosovo police forensic unit provided operational support. Kosovo continues to face challenges in investigating war crimes with its own judicial and law enforcement authorities. EULEX, including the Special Investigative Task Force, has continued exercising its exclusive executive mandate in this area.

An inter-ministerial working group dealing with the past and reconciliation was established in March. It is to address past human rights violations and violations of international humanitarian law in Kosovo. The creation of the working group is a positive step, but its practical impact has yet to materialise.

The unresolved fate of **missing persons** from the conflicts in the 1990s is still an issue of humanitarian concern in the Western Balkans. As of July 2013, a total of 11 859 persons were

still missing as a result of the conflicts in the region, according to International Committee of the Red Cross (ICRC) figures. Of these, 7 886 cases relate to the conflict in Bosnia and Herzegovina, 2 246 to the conflict in Croatia and 1 727 to the conflict in Kosovo. The lack of information on new gravesites, due to a lack of political will, and difficulties in identifying human remains already exhumed continue to be key obstacles to solving the remaining cases of missing persons.

The working group on missing persons chaired by the ICRC has remained the framework within which the Kosovo authorities have pursued their commitments. The governmental commission on missing persons has assumed its responsibilities in facilitating the assessment and exhumation of potential new gravesites and for coordinating the actions of other stakeholders. However, it lacks high level political support. It needs to be proactive and build capacity to channel and step up the search for new information on the fate and whereabouts of missing persons. The pace of solving cases of missing persons is slow, with only 44 cases solved over a period of twelve months.

The EULEX/Department of Forensic Medicine expert review of unidentified human remains stored at the Pristina morgue were completed. The results were made public in a report in 2012. 45 persons have been identified. The report also concluded that not all the remains were a result of the conflict. Policy makers need to decide on the next steps. The Department of Forensic Medicine does not have the capacity to meet the standards required for sustainable and adequate recovery, analysis and identification of human remains. The Ministry of Justice and the Prime Minister's Office need to do more to invest in the recruitment and development of experts needed for a sustainable forensic practice. Special effort is needed to increase trust from non-Albanian communities in the department's work.

Implementation of the law on missing persons (adopted in 2011) needs to be accelerated. The resources needed to set up a central register have not yet been allocated. The adoption of implementing legislation on the central register is still pending. Increased and improved coordination and cooperation between the governmental commission and the Department of Forensic Medicine is required.

The absence of a formal agreement between Kosovo and the former Yugoslav Republic of Macedonia remains an obstacle to clarifying allegations related to unidentified human remains in the former Yugoslav Republic of Macedonia.

*Overall*, the review of unidentified human remains stored in the Pristina morgue was completed. There is a lack of political will, expertise and resources to address the issue of missing persons. Kosovo is at the early stages of investigating war crimes without international support.

**Regional cooperation and good neighbourly relations** are an essential element of Kosovo's European integration process. On 28 February 2013, the Regional Cooperation Council (RCC) decided to amend its statute to allow Kosovo to become a participant in its own right. The formula for Kosovo's participation in the RCC is a good basis for Kosovo to increase and extend its participation in other regional fora.

Kosovo participates in the South East Europe Transport Observatory (SEETO) forum, the Energy Community Treaty, the South East Europe (SEE) Centre for Entrepreneurial Learning, the Regional Rural Development Standing Working Group in the SEE, the Regional Environmental Network for Accession, and the Network of Associations of Local Authorities of the SEE.

Regarding **bilateral relations with other enlargement countries**, Kosovo has continued to have very good relations with *Albania* with which it signed agreements on the exchange and

protection of classified information, on judicial assistance in penal cases, on extradition, on transferring sentenced persons, and on cooperation on taxation and fighting tax evasion.

*Bosnia and Herzegovina* has not recognised Kosovo. Short-stay visas for citizens of Kosovo are issued only on invitation from foreign diplomatic missions and international organisations accredited in Bosnia and Herzegovina, or for humanitarian reasons.

The wide-ranging contractual framework for cooperation with *the former Yugoslav Republic of Macedonia* continued to develop with the signing of agreements on mutual recognition of pensions, on advancement and intensification of cultural cooperation, and on the opening of a new border crossing. Joint monitoring patrols along the border need to address the challenge of illegal trafficking of goods and illegal migration. A trade dispute took place in September 2013. The manner in which the situation at the border escalated over a number of days before being resolved bilaterally, outside of CEFTA procedures, is a matter of concern.

Concerning *Montenegro*, negotiations are under way to conclude agreements on extradition, mutual enforcement of judicial decisions in criminal matters, and legal assistance in criminal matters. A joint commission on border demarcation has started work.

Kosovo has maintained very good relations with *Turkey*, with which it finalised negotiations on a free trade agreement.

*Overall*, the agreements reached in the context of the Belgrade/Pristina dialogue have boosted regional cooperation. Demarcation of the border with Montenegro has yet to be completed.

### **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.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

Kosovo has further developed its relations with international financial institutions. It has continued to successfully implement the 20-month €105 million Stand-By Arrangement (SBA), negotiated with the International Monetary Fund (IMF) in April 2012. In December 2012, Kosovo became a member of the European Bank for Reconstruction and Development. In June 2013, Kosovo signed a Framework Agreement with the European Investment Bank (EIB), which allows the EIB to finance projects in Kosovo. The Fiscal Surveillance Mechanism with the European Commission has continued with meetings held twice a year. Kosovo has also launched preparations for an Economic and Fiscal Programme, which is the standard economic surveillance procedure for potential candidates. In early May, the government of Kosovo adopted its medium-term expenditure framework, covering the years 2014-2016. *Overall*, the determination to pursue market-oriented economic policies has been maintained and reforms accelerated in certain areas.

##### *Macroeconomic stability*

Kosovo's economy has been less shielded from the adverse effects of the economic crisis in Europe than in past years, with signs of an economic slowdown. The general economic situation remains challenging with very high unemployment. GDP growth came down from 4.4% in 2011 to 2.5% in 2012 and is likely to have remained subdued in the first half of 2013 as well. More prudent fiscal policy and rapidly decelerating credit growth have curbed domestic demand, suppressing the investment activity in particular. Remittances, a major driver of private consumption, started recovering only in the second half of 2012. The weak

economic prospects in a number of countries with significant Kosovo diaspora increase uncertainty. Economic statistics, national accounts in particular, remained extremely weak, hampering a comprehensive assessment of the economic situation. GDP per capita<sup>9</sup> has reached €2 721 in 2012, equal to 11% of the EU-27 average, almost unchanged over its level in 2011. *Overall*, Kosovo's economic growth has weakened and remains fragile.

In 2012, the current account deficit (including official transfers) shrank to 7.7% of GDP, down from 13.8% of GDP in 2011. Higher current transfers and lower imports of goods and services helped reduce external imbalances. On the other hand, the performance of exports of goods deteriorated (down by 1.0% of GDP), as external demand and prices for metals and metal products, Kosovo's main exports, declined. As a result, trade imbalances remained significant, with a trade deficit of 35.1% of GDP, reflecting an underdeveloped and narrow domestic production base.

The surplus on the capital and financial account (excluding changes in reserve assets) stood at 13.2% of GDP in 2012. Net foreign direct investments declined to their lowest level since 2005 to 4.3% of GDP. The structure of investments remained broadly unchanged, with about half of all incoming foreign direct investment (FDI) going to the real estate and construction sectors, 12% to financial services, and only 13% channelled to manufacturing. The deficit in portfolio investments widened to 3.8% of GDP, but strong inflows of other investments, mostly currency and deposits, boosted reserve assets, which increased by 5.4% of GDP. Net errors and omissions remained very high (4.8% of GDP), close to their level in previous years. *Overall*, external imbalances have declined, although they are still very high, especially in merchandise trade. Net inflows from foreign direct investment fell markedly and continued to be channelled mainly in non-tradable sectors.

Unemployment is very high at 35.1%, according to Labour Force Survey (January to June 2012), which, due to methodological changes, does not allow for comparisons with previous years. The unemployment registry was digitalised and launched in early 2012. The number of people officially registered as unemployed decreased by about 22%. However, the sharp reduction mainly reflects changes in the registration system, rather than an improvement in the labour market situation. Most of the unemployed are unskilled (60%) and the number of unemployed with a university education has steadily increased. Structure of the labour market signals a mismatch between the skills needed on the labour market and those provided by the education system. Formal employment in the private sector increased slightly according to data on the number of contributors to the Kosovo Pension and Savings Trust Fund. The available statistics do not provide a true picture of the labour market, particularly given the significant informal employment. *Overall*, information about the labour market is scarce and patchy. Unemployment has remained very high, with significant structural weaknesses and skill gaps in the labour market. There are few job opportunities, especially for new young entrants.

The annual average rate of inflation was 2.5% in 2012. After having been elevated for several months in the second half of 2012, year-on-year inflation fell to 1.2% in August 2013. This moderation was mainly driven by the base effect and lower food and energy prices. Energy goods had a deflationary impact for the first time in last three years. Services inflation also came down markedly. Core inflation (non-food, non-energy) has been stable, close to 1%, gravitating around its long-term average. *Overall*, inflation has declined and continued to be driven mainly by food and energy prices.

Kosovo is using the euro as its legal tender. Consequently, the Central Bank of Kosovo (CBK) has only limited policy instruments. The growth in broad money supply has declined

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<sup>9</sup> A measure using PPS is not available for Kosovo.

markedly and stood at 4.6% year-on-year by the end of July 2013, as compared to 9% a year ago. However, the monetisation of the economy, measured by the ratio of average broad money to GDP, increased from 40.7% in 2011 to 43% in 2012. The framework for providing emergency liquidity assistance became operational and the authorities funded a special reserve fund with €46 million. *Overall*, the monetary framework has continued to function relatively well.

The 2012 budget deficit turned out close to target at 2.6% of GDP. Total revenue grew by only 1.8% and decreased to 26.9% of GDP from 27.3% in 2011. As economic activity cooled down, border taxes and non-tax revenue underperformed, while savings in spending on goods and services at central level and in non-highway capital expenditure compensated for lower revenues both at central and municipal level. Nevertheless, total expenditure increased by 5.3% for the year or by 0.7 percentage points, to 29.6% of GDP. Current expenditure reached 18.1% of GDP, up from 17.4% in 2011, driven by increases in all major categories. Capital expenditure and net lending decreased slightly by 0.2 percentage points, to 11.2% of GDP and more than 40% of these were spent on a single project, the highway to Albania. Government deposits available at the central bank increased from €160 million (3.4% of GDP) in 2011 to €216 million (4.4% of GDP) at the end of 2012. In 2012, the authorities started issuing domestic treasury bills with 3- and 6-month maturity, extended to one year maturity in April 2013. Supported by excess bank liquidity and stringent budgetary execution, yields have steadily declined and fluctuated around 0.5% and 1.5% for 3-month and 6-month bills respectively, in the third quarter of 2013. Total government debt increased by €156 million, but remained low at 8.3% of GDP by end-2012, of which close to a fifth was domestic debt. Budget transparency improved further and the Ministry of Finance started publishing quarterly information on government debt level and structure on its website.

In December 2012, the Assembly adopted the 2013 budget, envisaging a €181 million (3.5% of GDP) consolidated deficit. The budget contains fiscal adjustment measures, mostly in raising additional non-tax revenue from lignite royalties and one-off sale of telecoms licences. To guard against unforeseen fiscal risks, the budget also includes a contingency reserve of €20 million in unallocated spending commitments. An allocation of about 0.5% of GDP is envisaged for launching another big, multiannual road transportation project, a highway linking Pristina with Skopje. The 2013 budget performance was broadly on track by the end of July. The consolidated deficit was €6.6 million, which is significantly lower than the corresponding period last year. Revenue growth was boosted by the base effects and domestic tax revenues. By the end of July, year-on-year increase in total expenditure was 1.3%. Even though the current expenditures, subsidies and transfers increased significantly (by 1.6% of GDP), reduced non-highway capital spending kept the total expenditure at a modest level.

In April, the winning bidder for the privatisation of 75% of the state-owned telecom PTK was selected. However, the privatisation process has experienced delays, with the ultimate completion remaining uncertain. On the other hand, a number of initiatives with potentially significant impact on budget sustainability are being prepared in healthcare, municipal finance, and benefits to war veterans and political prisoners. In that regard, PTK is a key deal expected to bring €277 million to the budget.

In July, with amendments to the law on public finance management and accountability, the parliament introduced a legally-binding fiscal rule to be implemented as of 2014. The rule envisages a 2% of GDP ceiling on the general government deficit. *Overall*, budget performance remained broadly on track, in a challenging economic and social environment, but further efforts are needed to limit budget exposure to a number of new expenditure initiatives.

In 2012, growth and domestic demand weakened, as some of the major factors that had previously supported it, fiscal expansion, strong remittances and buoyant credit growth, were curtailed or decelerated. In the framework of an IMF-supported programme, significant steps have been taken to rein in government spending and improve financial stability. However, significant domestic and external imbalances persist. Structural weaknesses and skills gaps in the labour market remain significant and there are few job opportunities, especially for young entrants, aggravating an already difficult social situation. *Overall*, Kosovo managed to broadly maintain macroeconomic and fiscal stability, despite evident signs of weakening economic growth. Fiscal policy remained prudent and the macroeconomic policy mix has improved. Further significant efforts are needed to improve the structural characteristics of the economy.

#### *Interplay of market forces*

Out of 61 state-owned enterprises, 44 are managed by municipalities. Among those centrally managed, six enterprises had operating profits in 2012. This includes the Kosovo Energy Corporation and the Post and Telecommunications of Kosovo (PTK), which also paid €45 million in dividends to the budget. A few companies in the transport, water and waste sectors have continued to suffer losses. They have remained a significant drain on the budget, although to a lesser extent than in previous years. The Privatisation of the Kosovo Electricity Distribution and Supply Company (KEDS) was successfully completed when Turkish consortium Calik-Limak took over the company in May 2013. The privatisation of 75% of shares of the state-owned telecom PTK, initially envisaged to be concluded by July, is delayed. The Privatisation Agency of Kosovo (PAK) has continued privatising mainly small businesses. Total proceeds from the beginning of the privatisation process reached €574.4 million, with 2012 proceeds contributing €16.7 million. Limited progress has been made in liquidating enterprises from PAK's portfolio. In 2012, only two liquidation proceedings were closed and 179 firms remain in the process of liquidation. Proceeds from asset sales of enterprises in liquidation reached €62.7 million, of which €11.3 million were collected in 2012. *Overall*, the privatisation of state-owned enterprises has progressed, although unevenly, while the privatisation and liquidation of enterprises from PAK's portfolio lagged behind.

#### *Market entry and exit*

During 2012, 2 261 new businesses were registered, a rise of over 20% compared to the previous year. On the other hand, 334 businesses closed, or 16.7% more than in 2011. Businesses consider the lack of access to finance, power cuts, unfair competition (among local enterprises) and corruption as the main obstacles to doing business. *Overall*, weak administration, unreliable electricity supply and deficient rule of law have continued to hinder private sector development even though some progress has been made with regard to market entry.

#### *Legal system*

The legal system has continued to suffer from poor accessibility and efficiency, delays and a backlog of unresolved cases. Weak enforceability of contracts has remained one of the main concerns of companies and investors in Kosovo. It is also one of the factors explaining the relatively high interest rates charged by commercial banks to the private sector. It has contributed to the rise in non-performing loans. There has been some progress regarding the property rights infrastructure, although the accuracy of data could be further improved. While expropriation procedures are applied in a broadly satisfactory manner and property owners are mostly compensated, the authorities do not carry out proper consultation and notification of displaced owners. Registered transactions and mortgages have continued to rise, indicating increasing use of property as collateral and acceptance by banks of cadastral records data for loan purposes. In 2012, the overall value of mortgages increased by 49%, reaching €1.3

billion. Some land registry books remain in Serbia. An agreement on cadastral records was reached within the framework of the Belgrade-Pristina dialogue. Appropriate legislation still needs to be passed to implement the agreement. *Overall*, there has been an increasing use of property as collateral. The existing legal framework is underdeveloped and its implementation has remained poor. Difficult, lengthy and costly legal enforcement and prevalent corruption has continued to hamper the business environment.

### *Financial sector development*

In 2012, Kosovo's financial sector expanded by 8.5% with assets worth €3.8 billion. The banking sector remained predominant and accounted for 74% of all financial sector assets, followed by pension funds (19.5%). The total number of banks operating in Kosovo rose to nine in 2012, as a new bank entered the market. The number of pension funds (2) and insurance companies (13) has remained unchanged. Concentration of the banking system remains high, with 70% of assets managed by the three largest banks. Almost 90% of the assets in the sector are held by banks under foreign ownership. Profits in the banking sector reached €19.2 million in 2012, a significant (46.7%) decrease compared to 2011. The proportion of non-performing loans rose to 7.6% of total loans on June, from 5.8% at the end of 2011. This is due to the deterioration in credit quality in the trade, real estate and construction sectors. Nonetheless, non-performing loans remain adequately provisioned and banks continue to hold considerable excess liquidity.

More stringent regulatory requirements as regards capital, which took effect in the autumn 2012, have put some of the banks' soundness indicators under pressure. Some banks fell below the regulatory minimum of 12% and had to be recapitalised. However, the average capital adequacy ratio stood at 16% at the end of July 2013. Amendments to the deposit insurance law, adopted in December, envisage an increase of the threshold for insured deposits from the current €2 000 to €5 000 by 2018. The capital of the Deposit Insurance Fund has been strengthened and a resolution was adopted to increase its reserve fund to 8-9% of all insured deposits over a period of 14 years.

In April 2013, the Constitutional Court issued a ruling that declared a number of articles of the 2012 law on banks, microfinance institutions and non-bank financial institutions incompatible with the Constitution. The articles in question refer to the possibility for NGO microfinance institutions to become joint stock companies. *Overall*, there have been important steps to strengthen financial stability and supervision, although there is significant scope for further improvements. Non-performing loans increased and banks' capital adequacy and profitability indicators worsened, although the system as whole has remained rather stable.

Credit activity decelerated strongly, from double-digit growth levels to around 4% by the end of 2012. However, the share of total loans and lease financing in GDP increased marginally to 36.3%. Since the beginning of 2013, commercial banks have extended €87 million in new loans, 4% less than in the corresponding period the previous year. The decline has been particularly pronounced in new investment loans for non-financial corporations, which have dropped by 29%, while consumer and mortgage loans increased strongly, by 45% and 17%, respectively.

A survey conducted by the central bank showed that banks applied stricter criteria for loans, mostly due to a negative perception of the overall economic situation. Loans to the trade sector continued to dominate the loan portfolio, accounting for 36% of it by the end of June 2013. Lending continued to be domestically financed; the loans-to-deposits ratio fell to 77.5%, limiting the risks of crisis spill-over through cross-border financing.



In 2012, deposits increased by 8.3%, amounting to €2.3 billion or 46.4% of GDP by the end of the year. By the end of July, growth in deposits decelerated and remained at 4.6%. The already good liquidity position of the banking system has improved further and commercial banks increased their holdings at the central bank to about €300 million. The average interest rate spread between loans and deposits declined slightly, but remained at a high 9.85% in 2012. In early 2013, banks' interest income growth turned negative for the first time ever, while interest expenditure and provisions have continued growing, reducing banks' profitability. *Overall*, the deposit base has continued to increase at a robust rate, while lending activity has decelerated and lending conditions have remained tight.

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

#### *Existence of a functioning market economy*

Macroeconomic stability has been largely preserved, against the backdrop of the economic crisis in Europe and persistently high domestic and external imbalances. In a difficult environment, some steps have been taken to strengthen the financial system's framework, improve the business environment and limit budget expenditure. At the same time, significant further efforts are needed to develop a competitive private sector and to anchor fiscal sustainability. *Overall*, the weak rule of law, a large informal economy and an underdeveloped policy framework have continued to hamper the economy.

#### *Human and physical capital*

Some progress has been made in the education sector, especially as regards the systems and procedures for implementing a sector-wide approach to education. In line with the vocational professional education framework, new vocational training centres have been opened, curricula have been reviewed and a standardised certificate of accreditation has been developed for several vocational occupations. Education has remained one of the largest government programmes, accounting for about 4% of GDP. However, the resources allocated to it still remain relatively low. The modernisation of the public employment service has continued and the Employment Management Information System is operational, maintaining a database of jobseekers. *Overall*, there has been some progress in the education sector. However, it is still affected by the lack of adequate facilities, maintenance and quality assurance. It is characterised by poor results which do not sufficiently meet the requirements of the labour market. Significant investment in human capital is necessary to support Kosovo's socio-economic development.

Total investment is estimated to have declined in 2012. Nevertheless, it stood at a relatively high level of around 31% of GDP. Government investments (predominantly in road infrastructure) have slightly increased and remained high at 11% of GDP, while there appears to have been a slump in private investment. There has been little involvement of the private sector in key areas such as water and wastewater, road and railway services. The construction of the highway (R7) towards Tirana has continued and is scheduled for completion in 2013. Work on a new highway to Skopje is due to start towards the end of 2013, with an allocation of €28 million (0.5% of GDP), provided the revenue of the sale of PTK is available. In the area of energy infrastructure, The Calik Limak consortium took over the Kosovo Electricity Distribution and Supply Company (KEDS) in May 2013 and has committed €300 million to modernise and operate the distribution network. Little has been done to improve energy efficiency. Information about the level and structure of private investment has remained scarce. *Overall*, besides road infrastructure, there were marginal improvements in physical capital. Government capital spending remained focused mostly on highway construction, at the expense of other sectors' needs.

### *Sectoral and enterprise structure*

Kosovo's enterprise sector remains dominated by small and micro-enterprises. Retail trade continues to be the dominant sector, with a share of 31.3% of all new enterprises, marking a small decline in the overall share in comparison to past years. There is a large informal sector fuelled by weaknesses in tax and expenditure policies and in law enforcement, including the fight against corruption and organised crime. It reduces the tax base and the efficiency of economic policies. Access to finance and its cost have remained a challenge. In 2013, the government joined an EU-financed project which supports export-oriented micro enterprises and SMEs. The project's objective is to improve their technology and increase production capacity. *Overall*, the retail trade sector became slightly less dominant in the overall enterprise structure, largely because of the growth in newly-registered enterprises in agriculture. The large informal sector continues to pose a major challenge.

### *State influence on competitiveness*

Budget subsidies and capital transfers to publicly-owned enterprises (POEs) declined slightly, to about 1.1% of GDP in 2012. Subsidies were granted to POEs in energy, railways, district heating, water and waste, and the Trepča Mines. The government has continued with the grant scheme consisting of coupled payments to cereal and livestock farmers and matching grants for the dairy, fruit and vegetables sectors at farm level. In 2013, the government extended the coupled payment to other sectors (e.g. maize, sunflower and horticulture) and extended matching grants to forestry, irrigation schemes, aromatic plants and support to less favoured areas. Within the energy sector, the energy regulator (ERO) approved an increase in electricity prices of 8.9% in 2012 and refused further increases in 2013. *Overall*, state interference in the economy has declined, but remains high. The institutional framework to monitor and approve state aid has still not been established.

### *Economic integration with the EU*

The openness of the economy, measured by the value of imports and exports of goods and services in relation to GDP, has remained stable around 71.2%. The share of exports to EU Member States decreased in comparison to 2011. It accounted for almost 39.6% of total exports of goods (43% in 2011). The share of exports to Central European Free Trade Agreement (CEFTA) countries increased significantly to approximately 37.8% of total exports (26% in 2011), especially on account of increased exports to Albania and Montenegro. EU and CEFTA countries have remained the main origin of Kosovo's imports, with shares of about 39% and 34% respectively. With about one third of overall investments, EU countries remain the biggest investors in Kosovo. *Overall*, economic integration with the EU remains significant.

## **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*

In February, the Ministry of Trade and Industry adopted an overall strategy on free movement of goods, which prioritises the adoption of regulations in this area. Implementing legislation on the Professional Council of **Standardisation** was adopted. A database system for standards was put in place. Memoranda of understanding were signed with the standardisation

agencies of Albania, the former Yugoslav Republic of Macedonia and Turkey. During the reporting period, nearly 1 200 European standards (ENs) were adopted as Kosovo standards. Most of these standards, however, have not been translated into Kosovo's official languages.

As regards **conformity assessment**, fourteen regulations were adopted on technical requirements (nine covered by new approach directives, five under the old approach directives). Two regulations were adopted on products that pose a risk to consumers (notification and rapid exchange of information). One inspection body for oil products (ISO 17020) and fifteen testing laboratories were accredited in accordance with EN/ISO standards. Two testing laboratories and two inspection bodies were certified in accordance with EN/ISO in the field of petroleum-based liquid fuels.

With regard to **accreditation**, implementing legislation was adopted on the form, content and usage of the accreditation logo. Two accreditations have been withdrawn because the accredited bodies did no longer conform with the legislative requirement. Staff of the Accreditation Directorate has increased by two accounting officers to a total of five.

On **metrology**, a law on precious metals and several administrative instructions were adopted, including on agency fees, weights and other requirements for testing. Memoranda of understanding were signed with Turkey and Albania. In December, the department in charge of metrology, industrial and scientific metrology and metrological supervision within the Ministry of Trade and Industry was designated as an agency. Its capacity has also increased. Fifteen out of twenty vacancies have been filled. The capacity of staff to take full advantage of the technical assistance provided remains limited. Several laboratories were established in Pristina and Prizren, but their operations are not fully in line with the necessary qualitative standards.

Regarding **market surveillance**, the law on the market inspectorate and the law on general product safety were amended in May. The market surveillance department was reorganised and transformed into an agency. Cooperation agreements with customs for verification of non-food industrial products, and with the Ministry of Culture, Youth and Sports on the protection of intellectual property rights and combating piracy were concluded. During the reporting period, over 1 500 inspections have been carried out. Over 60 cases have been taken to court. The courts took six decisions.

Amendments to the law on **consumer protection** were adopted in November. The law covers areas previously not addressed, including labelling, auction sales, discounts, advanced payments, door-to-door contracts, financial services (consumer credit, interest rate), contracts for overdrafts and credit cards, unfair consumer contract terms, unfair commercial practices, misleading commercial practices, aggressive commercial practices, comparative and misleading advertisements and purchase, and sales over the internet. Implementing legislation on labelling and declaration of goods was also adopted.

The consumer protection department within the Ministry of Trade and Industry was restructured. It has three posts, one of which still needs to be filled. The respective roles of the consumer protection department and market inspectorate are defined. The structure of the Consumer Protection Council was updated. It comprises seven members, including the Ministry of Trade and Industry, the Food and Veterinary Agency, representatives of business, civil society and one independent expert.

Nearly 220 complaints have been filed over the reporting period. About 120 have been resolved. The office for consumer protection developed a new database and an advanced website aimed at improving communication with customers. A programme of awareness-raising for consumers was implemented.

Overall, Kosovo has taken steps to improve alignment with the *acquis*, notably with regard to consumer protection. Further efforts are still required in the area of product safety legislation. Administrative capacity, professionalism and expertise need to be improved to ensure better implementation of legislation. Ministries and various agencies active in this area need to improve their coordination.

#### 4.1.2. *Movement of persons, services and right of establishment*

On **movement of persons**, Kosovo negotiated bilateral social security agreements with Austria, Germany and Switzerland. It concluded an agreement on insurance periods on entitlement to benefit from pension rights with the former Yugoslav Republic of Macedonia. Considerable efforts are required to ensure alignment and implementation of legislation by Kosovo in this area.

As regards the **right of establishment and the freedom to provide cross-border services**, the Assembly adopted a number of laws in 2012: the law on external trade (including trade in services), the law on safeguard measures on imports and the law on consumer protection (covering the sale of products and provision of services as well as consumer financial services).

The Ministry of Trade and Industry set up a database of trade in services. Alignment with the *acquis* is at a very early stage and there are several restrictions for third country nationals to providing services in Kosovo. Kosovo is currently negotiating the liberalisation of trade in services within CEFTA. The Qualifications Authority of Kosovo has approved and registered six professional qualifications in Kosovo's system, which is aligned with the European qualifications framework. The Qualifications Authority has accredited twelve providers of professional training programmes. Alignment with the *acquis* on the **mutual recognition of professional qualifications** and professional training programmes is still limited.

The law on **postal services** foresees a reserved area for letter/parcel under one kilogram. Efforts to further liberalise the market are ongoing, but need to be intensified to ensure full liberalisation of the sector. Kosovo is also undertaking steps to ensure competition in the electronic communications market. A total of nineteen new telecommunications service providers and one operator for postal services were licensed in 2012.

Regarding **financial services**, the law on deposit insurance was amended in December. The change allows for a gradual increase in the size of insured deposits (from the current €2 000 to €5 000 in 2018) in parallel with the growth expected in the deposit insurance fund. The revised law reduces the maximum timeframe for repayments to insured depositors from 60 to 30 days. It also improves information-sharing and collaboration between the deposit insurance fund and the central bank.

Implementing legislation introducing some of the Basel II risk requirements was adopted. The changes include the regulation on liquidity risk management, the regulation on operational risk management and the regulation on bank capital adequacy. The central bank needs to finalise its review of existing legislation. The insurance sector expanded in 2012. Its weight in the overall financial sector remains relatively low, comprising only 3.4% of total financial assets. At the same time, the insurance market represents 2.7% of GDP.

Concerning securities, an electronic trading platform established by the central bank became operational. The government successfully issued 3-month, 6-month and 12-month treasury bills. External debt represents 6.5% of GDP. Domestic debt is 1.4% of GDP. All borrowing activities, including external and domestic debt, have been in line with the annual debt strategy. During the reporting period, the debt-to-GDP ratio reached 8.4%.

On **company law**, the business registration process has been simplified. The provision requiring the deposit of minimum start-up capital for limited liability companies was removed. The start-up capital for joint stock companies was reduced to €10 000. A business registration fee was also abolished. The Kosovo Business Registration Agency carries out the registration of all businesses. Foreign-owned companies are allowed to open and run a business under the same conditions as locally-owned businesses as long as they are registered with the agency. In an effort to decentralise and facilitate setting up and registering a business, 28 one-stop-shops now offer services in different municipalities.

*Overall*, alignment with European standards on movement of persons, services and rights of establishment, as well as company law, is still at a very early stage. Administrative capacity and a gap analysis are needed, especially on the free movement of services. Alignment and administrative capacity in financial services are more advanced.

#### *4.1.3. Free movement of capital*

**Movement of capital** is largely liberalised in Kosovo. A new foreign-owned bank entered the banking market in November 2012. Currently, nine foreign banks control almost 90% of Kosovo's banking sector. In 2012, overall foreign direct investment decreased significantly (by 41.9%) compared to 2011, standing at 6.6% of GDP.

A law on **payments systems** was adopted in April. It aims to establish a legal infrastructure for licensing, authorisation, supervision and regulation of payment institutions, operators of payment, and clearing and securities settlements systems. In June, SWIFT attributed a code to the central bank.

The basic legal framework is liberal and non-discriminatory in the area of **real estate purchase** by non-Kosovans. Administrative provisions prevent non-Kosovo citizens from actually exercising this right.

*Overall*, the system for capital movements is very liberal. There are no restrictions regarding foreign ownership or investment in the financial sector. Administrative restrictions exist concerning immovable property. This needs to be addressed. The capacity of the central bank to supervise the sector is adequate. More emphasis needs to be put on a risk-based approach.

#### *4.1.4. Customs and taxation*

Concerning **customs**, Kosovo has further improved its infrastructure, administrative capacity and international cooperation. The Automated System for Customs Data (ASYCUDA) has been fully operational since autumn 2012. In early 2013, customs was internally restructured to streamline controls and to make audits more effective. This process also sought to improve cooperation with the Kosovo Tax Administration and to avoid duplication of efforts through joint operations and controls.

Kosovo customs signed cooperation agreements with Austria, Poland and Italy, reaching a total of eleven mutual assistance agreements. Since late 2012, the Systematic Electronic Exchange of Data (SEED) has been fully operational between Kosovo customs and the customs of Albania, the former Yugoslav Republic of Macedonia and Montenegro. Kosovo is encouraged to sign and ratify the Pan-Euro-Med Convention on rules of origin.

Customs procedures between Kosovo and Serbia have further progressed with the opening of joint interim crossing points in December 2012 and January 2013 at six locations, including the two crossing points in northern Kosovo, as per the IBM agreement. The establishment of these co-located crossing points has allowed daily cooperation between both administrations and regular exchange of information. On 17 January 2013, both parties concluded an agreement for the restoration of customs controls at the two crossing points (gates 1 and 31). The adoption of the Kosovo law on budget in July allowed for the establishment of a

development fund for the north, which is to be financed by levies to be collected at the two crossing points. In the meantime, the administrative border/boundary line between Kosovo and Serbia remains vulnerable to illicit activities.

Kosovo customs collected revenue worth approximately €844 million in 2012. This is 2.2% more than in 2011, but €32 million below projected revenues, partly due to a reduction in imports. In the first six months of 2013, €360 million in revenue was collected, approximately 2% more than in 2012, but 7% less than projected. In the same period, customs imposed fines in the amount of about €261 000. This is significantly less than over €886 000 collected in the same period of last year.

The new Criminal Code introduced some changes as regards competence and the qualification of offences. Since more offences are now qualified as criminal there is a bigger role for the prosecution in the investigative phase. Customs can apply discretion in dealing with minor offences by the application of administrative fines.

Concerning **taxation**, a number of laws were amended in 2012. This includes legislation on tax administration and procedures, personal income tax, value added tax, games of chance and corporate income tax. The tax administration and Business Registration Agency signed a memorandum of understanding to facilitate business registration. Efforts have been made to increase voluntary compliance with taxation. Claims for returns on VAT, withholding tax and pension contributions can now be filed electronically.

Revenue collected by the tax administration amounted to €396.9 million in 2012, a 9% increase on 2011. This is still insufficient to represent a sustainable source of revenue. Additionally, it represents a smaller percentage of GDP than in 2011. In the first half of 2013, the collected revenue amounted to €148.1 million. VAT represents the highest percentage of tax collected at about 47%, with corporate tax at just over 22%, followed by tax at source and tax on individual businesses.

Regarding **administrative and operational capacity**, the on-line system is increasingly used by tax payers. The tax administration is connected to the information systems of government institutions such as customs, the central bank and some ministries. The tax administration's investigation unit has fourteen officers following the move to other duties of part of the investigation unit's staff in February. It has achieved limited results during the reporting period. In 2012, it issued seventeen fines worth a total of about €6 800. The tax intelligence unit has two staff. The tax administration needs to modernise its IT platform and its procedures to improve efficiency.

The Independent Review Board for appeals by businesses and taxpayers against the tax administration and customs has taken steps to tackle the backlog of cases. Its efficiency has improved since the beginning of 2013. The board treated 690 cases in six months. However, the backlog is unlikely to be cleared by the end of the year. In July, there were still nearly 1 200 cases pending. The government still needs to extend the mandate of the board.

*Overall*, Kosovo legislation on customs is largely in compliance with the EU's Customs Code. Good efforts have been made on the collection of customs duties and on the international cooperation. Intelligence gathering, investigations and risk management are improving, as staff gains experience. Customs and tax administration need to continue in building their administrative capacities further. Enforcement of tax legislation remains a major challenge. Collection of direct taxes has increased, but remains below sustainable levels. The tax administration needs a new IT platform to improve its performance. The fight against the informal economy and tax evasion needs to be prioritised and its efficiency significantly increased.

#### 4.1.5. Competition

Regarding **anti-trust and mergers**, some implementing legislation was issued. The Kosovo Competition Authority adopted several decisions. This includes decisions on prohibited agreements in interurban transport ticket prices, on determining and raising the price of bread and flour, a decision concerning the suspicion of abuse of dominant position in the cement market, and two merger decisions in the dairy and electricity distribution sectors.

The authority has also issued non-binding opinions and recommendations to the government on specific drafts of legislation and decisions. This includes the laws on tobacco and public transport, and decisions to protect the production of cement in Kosovo. The authority has also monitored the banking and insurance sector for possible collusive behaviour. It found none, but issued a warning to insurance companies to prevent such practices.

The authority needs to continue increasing its capacity, notably as regards the expertise and experience of its staff. The authority is still housed in the Assembly building and does not have its own premises. Furthermore, management of the authority and its procedures need to be significantly improved. These shortcomings put serious constraints on the authority's activities. They need to be addressed as a matter of priority. More needs to be done to increase awareness of competition rules and their advocacy.

The law on **state aid** has been in force since January and forms the basis of Kosovo's state aid regime. Rules of procedure and notification format entered into force in October 2012. The State Aid Commission and the State Aid Office (within the Competition Authority) were established. State aid control legislation needs to be completed with secondary legislation on the basis of the *acquis*. Internal rules of procedures to prevent potential conflicts of interest between the requesting and granting authority are still needed. The members of the State Aid Commission have been appointed, but the office is not yet operational due to the lack of suitable premises. No request regarding state aid has been addressed to the State Aid Office during the reporting period.

*Overall*, implementation of the anti-trust and merger policy is still at a very early stage. The competition law is partially aligned with the *acquis*. The administrative capacity of the Kosovo Competition Authority is insufficient for the tasks assigned to it. Alignment of state aid policy is at a very early stage and there is no track record of implementation.

#### 4.1.6. Public procurement

Implementing legislation accompanying the law on public procurement was adopted. The Procurement Review Body and the Central Procurement Agency adopted their internal work regulations. The Public Procurement Regulatory Commission submitted its 2012 Report to the Assembly for approval. Over 12 000 contracts were signed in 2012. Economic operators are adequately informed about public procurement legislation.

Nearly 380 complaints have been received and about 330 have been processed. This is a slight decrease in comparison to the previous reporting period. The number of cases returned for re-evaluation and retendering in conjunction with violations found by the review body indicates that unclear technical specifications continue to be issued in Kosovo. Currently the review body is not operational since the mandate of three out of the four members of the board has expired in August.

The Central Procurement Agency carries out procurement on behalf of contracting authorities for internationally-funded projects, but not for central purchasing, although it is part of its core mandate. The agency has fifteen staff, of which seven are certified procurement officers.

There are 166 contracting authorities in Kosovo. All procurement officers have received some training provided by the Kosovo Institute for Public Administration. Out of 600 officers, 530

are certified. However, the current training system needs to be expanded to enable all procurement officials to attend training as required by the law on public procurement.

In high level trials in which EULEX judges and prosecutors are engaged, nine people were found guilty for procurement-related corruption charges. EULEX has several ongoing investigations into public procurement-related corruption. Corruption in public procurement is a recurring issue and public perception of the transparency and fairness of public procurement has deteriorated.

*Overall*, the legal framework generally complies with EU standards and is non-discriminatory. The capacity of all bodies involved needs to be further improved. It is important to avoid long periods during which key positions are not filled. Contract management and planning capacity need to be strengthened. Awareness needs to be raised as regards public procurement procedures and their implementation, and corruption needs to be addressed more effectively by Kosovo authorities.

#### 4.1.7. *Intellectual property law*

On **copyright and neighbouring rights**, the law on mediation and the regulation on private copy schemes were adopted to improve alignment with the *acquis*. However, their key implementing provisions are still missing. The government adopted a strategy against piracy in October 2012, and set up a task force to implement it. The aim of the task force is to tackle copyright infringements, to increase the productivity of the creative industry and to fight the informal economy. The task force, which is composed of public bodies, market operators and organisations with economic and social interests in copyright, took its first actions in August. It seized 10 000 CDs containing music, films, video games and computer programmes. The market inspectorate has initiated procedures and cases will be filed with the competent courts.

The Office for Copyright and Related Rights is adequately staffed. Seven mediators were recruited under the current law to facilitate contacts between collecting societies and broadcasters. Staff needs further training to improve its expertise. In practice, two licences were granted to collecting societies, one for music and the other for audio-visual works. Both organisations are in the process of tariff negotiations.

As regards **industrial property rights**, new legislation on geographical indications was adopted in May. Implementing legislation was also adopted in relation to the Industrial Property Office Appeals Committee, registration of patents, industrial designs and trademarks. The Industrial Property Automation System is fully functional. The Committee of Appeals was established. The National Intellectual Property Council is in place, but it has not been meeting regularly. Procedures are still lengthy, especially for trademarks, and there is a persistent backlog of applications, as the Industrial Property Office does not have enough staff.

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. The customs unit for intellectual property rights has drawn up an action plan with specific objectives and duties. The police do not have a unit specialised in intellectual property rights and the expertise of police officers in this field is limited. The legislation on enforcement is not aligned with the new EU regulation on confiscation, storing and destruction of goods.

*Overall*, the legislative framework is largely aligned with the *acquis*, with the exception of enforcement. Administrative capacity in this area remains weak, especially within the Office for Copyrights and related Rights and the Industrial Property Office, despite the number of staff in place. Enforcement continues to be a challenge, notably as regards human resources, coordination, legislation and infrastructure. First promising enforcement actions have taken place recently.



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

Regarding **employment policy** and service delivery, the employment management information system was technically upgraded and it was launched in April. This allows the employment offices to carry out better profiling and targeting of the most vulnerable groups and aims to contribute to more efficient job-matching.

The Ministry of Labour and Social Welfare has continued to implement active labour market policies through its network of seven regional employment centres and 23 municipal employment offices, and its Vocational Training Centres in cooperation with private sector enterprises. Software for the labour market information system has been developed, but is not yet operational. Intermediary databases were created and installed within institutions that already had internal databases. Employment policies are to benefit from the 2012 labour force surveys conducted by the statistical office. To improve the links between the labour market and educational institutions, the Ministry of Education, Science and Technology adopted a strategy and an action plan for professional practice.

The capacity of ministries and other institutions to conduct a thorough analysis and to design policy and programme interventions remains limited. Technical capacities, human resources or physical infrastructure are the constraints. Budget allocation for active labour market measures (less than 1% of the consolidated budget) is insufficient to effectively address the needs. The implementation of active labour market measures remains funded by donors, with very limited support from the Kosovo budget, and therefore lacks sustainable financing.

The situation for youth has largely remained the same, especially for those most marginalised. This group is negatively affected by the lack of appropriate government mechanisms to implement existing policy. The most recent survey has shown that 75% of young people want quality education (formal and informal) as a matter of priority. In the survey, carried out by the Ministry of Culture, Youth and Sports in the course of the development of the new youth strategy and action plan 2013-2017, 25% of interviewees said that informal education had a key role in their professional development. Youth unemployment (for those aged 15-24) is estimated at 73%, with 30% of youth seeking financial and institutional support for starting up businesses. Low activity and employment rates overall, notably among women, the high share of informal sector, and very high unemployment remain serious concerns for Kosovo's socio-economic development.

On **social policies**, the *labour law* needs to be amended and its implementation needs to be supported by adequate financial resources. The law on *health and safety at work* was adopted in May. The labour inspectorate organised training for health and safety inspectors. In 2012, 62 workplace accidents were reported (seventeen fatalities, 45 serious bodily injuries). The labour inspectorate has 49 inspectors. This is insufficient.

In terms of *social dialogue*, administrative instructions were issued that will allow registration of collective agreements. The law on strikes was amended. Budget has been earmarked for the Social Economic Council. However, social partners, especially trade unions, have limited capacity. Most trade unions, with the exception of those in health and education, lack basic management and advocacy skills. There is also insufficient legal expertise to assist in the legislative process.

With regard to *social inclusion*, Kosovo needs to focus on improving the regular monitoring and assessment of results-oriented outcomes of current social policies, including development of evidence-based policies. Local capacity needs to be considerably strengthened. This also applies to social partners for policy development, implementation and monitoring in the employment and social inclusion policy areas.

As regards *social protection*, the licensing of social services providers has started and the 2013–2017 Strategy for Decentralisation of Social Services was adopted. However, decentralised social services are not effectively implemented. Municipalities are not fully implementing responsibilities for social service decentralisation 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 effective decentralisation. Better inter-ministerial coordination of actions and allocation of resources is required to provide effective services.

On *equal opportunities*, the Kosovo Programme on Gender Equality (2008-2013) will end at the end of this year. The government needs to evaluate its implementation carefully and to take into account lessons learnt as it begins drafting the next programme and action plan in this area. The provision of the labour law that introduces paid maternity leave of up to nine months has had a negative impact on the employment of women in some cases, especially in the private sector.

On **public health policy**, an amended health law entered into force in May. The perinatal mortality rate has continued to decline following improvements in maternal and child health services. Those from the Roma, Ashkali and Egyptian communities affected by lead contamination continue to receive medical support. However, insufficient financial resources hamper implementation of the overall health-related legal framework and policies. The lack of statistical data on health, especially on mother and child health, remains a concern. The capacity and functioning of the Health Information System needs to be improved to ensure reliable statistical health data at central and municipal levels. Covering the entire territory remains a challenge.

The amended *tobacco control* law, adopted in April, introduced 100% smoke free public spaces. It complies with the WHO guidelines of the Framework Convention on Tobacco Control. With the exception of the ban on oral tobacco, tobacco legislation has been brought closer to the European standards.

In the field of *communicable diseases*, the National Institute of Public Health reports 95% immunisation coverage, except among Roma, Ashkali and Egyptian communities.

On *patients' rights in cross-border healthcare*, bilateral agreements are being implemented.

As regards *mental health*, stigmatisation of those affected needs to be addressed. Further investment in training, infrastructure, community mental healthcare and inter-ministerial cooperation is needed.

In the field of *cancer screenings*, initial activities have taken place. Further efforts, including a cancer control programme and additional funding, are needed before screening programmes can be started. An action plan for 2013–2015 addressing the issue of *rare diseases* has been developed.

In general, the health sector is not considered a priority. Public spending on health remains the lowest in the region and allocations are inefficiently managed. Out-of-pocket expenditure is high (40-60%). This continues to hamper the fulfilment of basic needs for mother and child health, nutrition and public health. Further investment in the health sector (infrastructure, quality and delivery) is required to ensure access to health services for all citizens. The principles of accountability and distribution of responsibilities, and the process of drafting, reviewing, implementing and enforcing legislation and allocating budgets need to be reinforced. Planned reforms need to be adopted and implemented.

*Overall*, Kosovo faces major challenges in these areas. The focus needs to be on continuous improvement of legislation, and more efficient, better targeted use of limited financial

resources allocated to these areas. Particular attention needs to be paid to improving prospects of employment, especially for young people.

#### 4.1.9. *Education and research*

The government adopted an adult **education** law in December and revised the law on vocational education and training in February. The law on higher education was complemented by eleven administrative instructions finalised in 2012. In February, in the context of the second joint annual review for education, the Ministry of Education, Science and Technology produced a sectoral progress report and an *aide memoire* setting out policy priorities for 2013-2014.

Government expenditure on education rose slightly to 4.1% of GDP, primarily due to an increase in teachers' salaries, while spending per pupil remains low. At the end of 2012, the ministry finalised the Kosovo core curriculum. Ten schools are involved in a pilot of the Kosovo curriculum framework and the core curriculum. In higher education, a ministerial decision on quality reform of teacher training programmes of Pristina University was adopted. Pristina University prepared a concept on how to introduce these reforms over the next five years. A new public university was opened in Peja/Peć. Implementation of the agreement on the acceptance of university diplomas, reached in the Belgrade/Pristina dialogue in July 2011, has been progressing.

Regarding equal access to quality education, students from the Roma, Ashkali and Egyptian communities have lower registration rates, higher drop-out rates, and poor levels of academic performance. The same applies to children with disabilities.

Pre-school education is not adequately supported. Half of registered schools work in two shifts; many others in three shifts. Schools lack science laboratories, sports facilities and appropriate school building maintenance. The ministry allocates a larger budget to the Vocational Education and Training (VET) centres of competence than to other VET schools, which receive insufficient resources. In higher education, greater efforts are needed to increase quality of the undergraduate and post-graduate programmes, and to ensure that education programmes are better suited to the needs of the labour market. Data availability remains a challenge.

As regards **research and innovation**, the law on scientific research activities was revised and adopted in March. The law foresees an increase of the national research funding to 0.7% of the annual budget. Kosovo has taken some steps to strengthen capacity. Kosovo has continued to seek cooperation opportunities under the seventh EU research framework programme and with other EU networks. However, Kosovo's level of participation in the research framework programme has stagnated compared to 2012. The financial resources, the administrative capacity and commitment are still too weak to successfully cooperate on research and innovation within the EU. More needs to be done to stimulate participation of private enterprises in research, development or innovation activities.

*Overall*, quality development and quality assurance remain a challenge across the education sector. Capacity at municipal levels needs to be strengthened. Closer cooperation with the private sector would help to improve the relevance and quality of training programmes and research activities. Much more emphasis is needed on improving access to and quality of education for marginalised groups, especially for children from the Roma, Ashkali and Egyptian communities, and those with disabilities. On research and innovation, some encouraging developments have taken place. More efforts are necessary to strengthen Kosovo's research and innovation capacity and to facilitate Kosovo's integration into the European Research Area.

#### 4.1.10. WTO issues

Kosovo is not a member of the WTO 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 the simplification of its legislation. In February, the Assembly adopted a law on economic zones. The law defines the role of the government and municipalities in establishing free economic zones, referring in particular to free zones, industrial parks, technological parks and business incubators. In March, the government adopted a strategy on private sector development 2013 – 2017 aimed at developing a competitive private sector. To this end, the strategy identifies strategic industrial sectors and prioritises for alignment with EU rules in the area of free movement of goods and trade.

Kosovo has been implementing the Small Business Act. Company registration fees are inexpensive and company registration certificates are issued within a few days. Kosovo has eliminated business registration fees and minimum capital requirements for limited liability companies. Minimal capital requirements for joint stock companies have been reduced from €25 000 to €10 000 and the business registration process has been streamlined. Compliance costs remain quite high. The protection for investors has increased with the introduction of a requirement for shareholder approval of related-party transactions.

Regular meetings of trade policy-related working groups have contributed to better coordination and cooperation among agencies for SME development, investment promotion and chambers of commerce. Other actors such as the broader business community still need to be more involved in policy setting.

Bankruptcy legislation is in place. It is not systemic and its implementation is at an early stage.

The business environment in Kosovo remains challenging. Access to finance is considered one of the main obstacles hindering SME development. Weak legal enforcement of contracts and business regulation hinder further growth. Online company registration is only possible at 28 ‘one-stop-shops’ or municipal business centres. Elsewhere, companies need to comply with notification procedures and obtain a municipal licence to start a business.

*Overall*, the business environment has been improving over the past few years. However, it remains a challenge, especially for SMEs. The government needs to introduce regulatory impact assessment. Kosovo needs to focus more on enforcing contracts, reducing unnecessary business regulation and creating an environment that facilitates access to finance. The authorities need to continue developing the institutional framework for SME policy implementation. Implementation of the SME development strategy and action plan needs to continue and needs to be better monitored.

#### 4.2.2. Agriculture and fisheries

Regarding **agriculture and rural development policy**, Kosovo adopted ten laws and thirteen administrative instructions to improve alignment of its legislation with the *acquis*. The budget of the Ministry of Agriculture, Forestry and Rural Development has risen by 10% compared with 2012. The government has continued its payments scheme, which consists of coupled payments to cereal and livestock farmers. This was extended to new sectors including dairy, fruit and wine. Specific rural development projects were granted to assist the restructuring of the sector. The paying unit of the ministry was upgraded to an agency managing and controlling aid. Kosovo has taken steps to create a risk guarantee fund to facilitate loans to

farmers and agri-food processors. Use of data from the Farm Accountancy Data Network has increased.

To implement both the strategy on land consolidation 2010-2020 and the law five administrative instructions were issued. Land consolidation schemes have taken place in three municipalities. Illegal construction on agricultural land remains a challenge. Advisory services for farmers are not systematic and are hampered by a lack of secondary legislation. Last year's law on organic agriculture has not been implemented in the absence of a control authority and commission on organic production. There are persistent discrepancies in statistics between those of Eurostat, Kosovo's statistical office and the ministry, on EU-Kosovo agriculture trade.

In the forestry sector, a forest management board was established. Two new national park laws have changed the framework of operations for the state forest sector. The government still needs to take a decision on the institutional model for the sector. The level of illegal logging remains a major concern despite last year's law strengthening sanctions. A lack of coordination between bodies puts at risk Kosovo's efforts to fight forest fires.

As regards **food safety** and **veterinary** control, a number of laws, (the food law, veterinary law, sanitary inspection law and livestock law) were amended. They were accompanied by extensive standard operating procedures and guidelines for inspectors. However, implementation and enforcement of legislation is lagging behind. The annual and multiannual control plan for animal disease is incomplete and outdated.

The transfer of inspection competences from municipalities to the Kosovo Food and Veterinary Agency has not yet been finalised. Some steps have been taken to set up an animal identification, registration and movement control system. At the same time, the level of reporting of animal movements and their recording in the database needs to be improved.

The Kosovo Food and Veterinary Agency needs to implement its control measures on animal smuggling and illegal slaughtering. The budget of the agency remains low. Equipment and staffing at the Kosovo Food and Veterinary Laboratory have improved, but the laboratory has not yet been accredited. The range of testing services it can provide is limited. There is no system for collecting and processing animal by-products. The assessment of dairy and meat processing establishments, slaughterhouses and cold storage warehouses was completed in 2012. The strategy to upgrade these establishments needs to be established.

On **phytosanitary** control, the plant protection law was amended. The list of plant diseases present in Kosovo has not been finalised. As regards **genetically modified organisms**, 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 authorities have a sufficient legal framework to exercise their tasks and obligations. They now need to focus on implementation. Improvements in the capacity of veterinary and phytosanitary authorities are necessary. The limited budget allocated to food safety, veterinary and phytosanitary control remains the main challenge. The Ministry needs to strengthen the paying agency's administrative capacity to administer and control coupled payments and grant schemes. It also needs to use the coupled payments and matching grants systems to encourage beneficiaries to comply with other obligations (such as the animal identification, registration and movement control system, farm and land register and implementation of food safety standards). The extension of support to other subsectors of agriculture and rural development needs to be assessed carefully to avoid spreading the schemes' limited resources too thinly and overburden already limited administrative capacity.

#### 4.2.3. *Environment and climate change*

Alignment of Kosovo's **environment** legislation has been limited to the adoption of the law on water and adoption of a number of administrative instructions on waste and industrial pollution. New staff (mainly environment inspectors) at both central and local levels were recruited. However, the lack of technical staff at both levels is still a significant challenge.

Additional *air quality* monitoring stations were installed and the network now covers the whole territory. However, the system's operation and maintenance need to be improved and qualified technical staff needs to be recruited, particularly to process and publish the data. The air polluters' inventory needs to be compiled and pollution from the main sources accurately measured, especially pollution from the Kosovo A power plant. Substantial efforts are needed to implement EU standards.

With regard to *waste management*, a number of implementing acts to manage end-of-life vehicles were adopted. Capacity at municipal level related to management of waste including both landfill and waste separation and recycling is still very low. Implementation of European standards on waste management is at a very early stage.

On *water quality*, a new law on water was adopted. The law will need adaptation to be in line with the EU's water framework directive. Vulnerable and protected areas were designated, but the implementing legislation is incomplete and monitoring needs to be improved and expanded to cover all sources of pollution. Use of fertilisers and their impact on water resources need to be regulated. The drinking water supply system remains poorly developed and a significant part of the population is still not connected. Investment in this sector is insufficient.

Regarding *nature protection*, laws designating two national parks ('Bjeshkët e Nemuna' and 'Sharri') were adopted. However, there are as yet no implementing rules and there is still no monitoring of the protected areas. The legislative framework for nature protection and biodiversity needs to be adjusted to comply with the Environmental Impact Assessment and Strategic Environmental Assessment. Implementing legislation (identifying protected areas and species) for the existing nature protection law has still not been approved.

Kosovo adopted *industrial pollution prevention control* guidelines. It also adopted a set of administrative instructions on the form and content of an application for an integrated permit and on procedures for the development and approval of Best Available Techniques.

Regarding *chemicals*, Kosovo adopted an administrative instruction on risk assessment. There are no developments to report on *noise*, *civil protection*, and *horizontal legislation*.

Kosovo has neither a comprehensive **climate** policy nor a strategy, and there are no developments to report regarding alignment with the climate *acquis*. Six stationary installations for the purpose of future implementation of an emissions trading system were identified and an inventory of greenhouse gases (2008-2009) was prepared.

Kosovo needs to undertake concrete steps to align with and implement the EU climate *acquis*, starting from the monitoring mechanism legislation. In line with the EU Green Paper on 'A 2030 framework for climate and energy policies' Kosovo is invited to start reflecting on its climate and energy framework for 2030. Inter-institutional cooperation with the Ministry of Economic Development and the Ministry of Transport needs to be established to enable the adoption of low carbon growth policies. Kosovo participated actively in the work on the climate under the Regional Environmental Network for Accession. Efforts are needed to raise awareness at all levels and to promote cooperation among all relevant stakeholders.

**Administrative capacity** within the environment and climate change sectors remains weak. Inter-institutional cooperation is fragile and inconsistent. The quality of environment

reporting needs to be improved. There is no financial mechanism to support investment in environmental projects. Capital investment, in particular for sewage systems, wastewater treatment plants and waste treatment and disposal systems remains outside the government's expenditure plans.

*Overall*, preparations in the fields of environment and climate change are still at an early stage. The legal and institutional framework to implement EU standards is partially in place. The capacity to implement and enforce legislation at central and local level needs to be strengthened. The budget allocated to the sector is insufficient. Environmental and climate standards are not mainstreamed into other policies, particularly energy, transport, forestry, agriculture and industry. Kosovo lacks sufficient human, administrative and capital capacities to implement EU environmental and climate standards. The power sector is the main source of air, water and soil pollution. Heavy investment is required to connect Kosovo's citizens to drinking water and waste water networks. There is a lack of capacity to process waste. Kosovo needs to adopt its environmental strategy, to establish a climate strategy and a system for greenhouse gas monitoring and reporting, and to complete its greenhouse gas inventory.

#### 4.2.4. *Transport policy*

Regarding **trans-European transport networks**, Kosovo has continued to participate actively in implementing the 2004 memorandum of understanding on development of the South-East Europe Core Regional Transport Network and in the South-East Europe Transport Observatory. The construction of the Morine-Merdare segment of Route 7 is under way. The tender for the Pristina-Skopje highway (Route 6) is under way. Financing for the last segment of Route 7 (which connects to Merdare) has not yet been secured.

The budget for infrastructure maintenance of national roads rose by 15% in 2013 but is still insufficient. The current transport strategy, with a heavy emphasis on building new roads, only adds to the imbalance in the transport sector, in favour of the least environmental friendly mode and crowds out investment for other modes of transport, particularly railways. The revised multi-modal transport strategy (2012-2021) and action plan (2012-2016) have not yet been approved.

In **road transport**, the law on road transport was adopted in May and the law on transport of dangerous goods was adopted in March. The law on road transport foresees alignment with legislation on driving hours as well as the use of digital tachographs. The road safety strategy and action plan have not been approved, due to their cost. The law on road safety needs to be harmonised with the *acquis*. The rate of traffic accidents remains high particularly as regards fatalities of children and pedestrians. Limited inspection capabilities, outdated vehicles, and the low quality of road infrastructure beyond the main roads hamper the enforcement of legislation.

In **rail transport**, the unbundling of the railway infrastructure manager (Infrakos) and the train operator (Trainkos) is complete. Both entities are licensed and certified for safety by the railway regulatory authority. The 2013 network statement and infrastructure charging scheme was approved. The national vehicle register and the infrastructure register are complete. The rail authority is now operational, but it lacks capacity. Its budget is insufficient for it to carry out its tasks effectively as railway infrastructure and passenger operations were funded on the basis of service contracts only. Infrakos cannot set its own user charges as required by the EU *acquis*. A railway safety and accident investigation function needs to be set up. 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 complete. Civil aviation inspectors have now participated in international training programs and received international

certification. The Kosovo Civil Aviation Authority is still not part of the Safety Assessment of Foreign Aircraft (SAFA) programme. However, the authority enacted a SAFA regulation on ramp inspections on third-country aircraft and participates in information collection and exchange. The Air Navigation Services Agency law has still not been adopted. The continued lack of certification of the Air Navigation Service Provider is an issue of concern. Kosovo's aviation sector continues to suffer due to overflight restrictions imposed by Serbia for flights coming in and out of Pristina. The control of the upper airspace of Kosovo is in the process of being designated to Hungarocontrol.

*Overall*, alignment with the EU transport *acquis* has continued. Kosovo has made progress in the railway and aviation sectors. Kosovo (including its transport operators) cannot join many of the international or European bodies regulating transport or the relevant sector associations. The regulatory institutions need further strengthening. Further efforts to improve road safety and to increase investment in the railway sector are required. Adoption of the Air Navigation Services Agency law is an urgent priority.

#### 4.2.5. Energy

The energy sector continues to face challenges even if power cuts are now less frequent. Electricity distribution suffers from significant technical losses, and investment in energy efficiency and renewable sources of energy is insufficient to meet Kosovo's 2020 goals.

On **security of supply**, Kosovo has not started preparing to implement the *acquis* on mandatory oil stocks. Current stocks are estimated at a level of four days of consumption. Investment and maintenance have improved the reliability of the power transmission system.

In September 2013, Kosovo and Serbia reached an agreement on energy under the EU-facilitated dialogue. The agreement sets out the way to resolve the long-standing dispute between the two on Kosovo's electricity transmission system operator's (KOSTT) complaint against its Serbian counterpart for breach of the applicable regional mechanisms in which the Energy Community secretariat found against Serbia. The agreement provides that KOSTT and its Serbian counterpart, Elektromreza Srbije, sign an operational agreement within three months of the agreement. It also foresees that a Serbian power supply company will operate legally in the north of Kosovo.

As regards the **internal energy market**, the tender for building a new lignite power plant was revised to exclude the existing Kosovo B plant. The procedure is suffering significant delays and is unlikely to be concluded within the planned time framework. In December, the government re-launched the activities of three working groups to prepare for Kosovo A's decommissioning. However, there has been no operational progress in advancing the process. Kosovo has not submitted the roadmap for implementing the large combustion plant directive to the Energy Community Secretariat.

The government finalised privatisation of the electricity distribution and supply functions in May. The legal deadline to unbundle the distribution and supply functions has been missed. All non-household customers are now legally eligible to purchase electricity from the supplier of their choice. They continue to be supplied at regulated tariffs following a decision by the Energy Regulatory Office that the market is not sufficiently competitive.

The corporation's performance on billing and collection has improved, but the proportion of power supplied that is paid for remains low: losses (technical and non-technical) account for about 34% of all energy available for sale. The level of bill collection has improved to 91% of all electricity billed. However, the corporation's employees are regularly exposed to violence and physical attacks when performing their tasks in the field.



The Energy Regulatory Office completed the review of energy tariffs for 2013-2017, and maintained existing electricity tariffs for 2013. The decision, made after government intervention, has undermined the office's independence. The government needs to design a financial mechanism to target vulnerable customers that cannot afford rises in electricity prices. Steps have been taken on eliminating cross subsidies between consumer categories.

On **renewable energy**, in January, the government adopted its national renewable energy targets for 2013-2020, committing it to a 29.4% target share of energy from renewable sources in gross final consumption by 2020. This is even higher than the binding 25% target which follows from the Energy Community renewable energy obligation for 2020. The renewable energy action plan still needs to be approved by the Ministry of Finance. The regulatory office licensed some 67 MW in small hydroplant capacity and 30 MW of wind capacity in December. To achieve the targets, further support measures (smooth administrative procedures and financial schemes) are needed.

The law on **energy efficiency** was adopted. The energy efficiency fund has still not been established. The national mid-term energy efficiency plan 2013-2015 still needs to be approved by the Ministry of Finance. Implementing legislation promoting energy efficiency by end-users was adopted in November. New legislation which aligns with the framework directive on energy labelling has also been adopted. Implementation of the combined heat and power (co-generation) project at the Kosovo B power plant started in October. Lack of energy efficiency statistics is the main obstacle to reporting on energy savings. Energy efficiency planning at local/municipal level has improved slightly. However, local capacity remains weak.

In **nuclear safety and radiation protection**, Kosovo is adopting its framework law to prepare to implement the EU nuclear safety and radiation protection *acquis*. The Radiation Protection and Nuclear Safety Agency needs to increase its capacity for regulatory measures and to recruit more staff. Storage for radioactive waste needs to be established. There is no responsible organisation for radioactive waste management.

*Overall*, Kosovo needs to begin alignment with the *acquis* on security of supply. It needs to continue its alignment to and implementation of the electricity, oil and nuclear safety and radiation protection *acquis*. Efforts to decommission Kosovo A need to be accelerated. 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. The agreement on energy reached with Serbia offers a unique opportunity to resolve a number of Kosovo's energy issues. Kosovo needs to implement its side of the agreement.

#### 4.2.6. *Information society and media*

Regarding **electronic communications and information and communication technologies (ICT)**, the law on electronic communications was adopted in October 2012, aiming to transpose the 2009 EU regulatory framework. The government adopted a decision for further liberalisation of the mobile market by making the 900 and 1 800 MHz bands technology neutral, which allows deployment of new wireless broadband services. The government is in the process of privatising 75% of the shares of the incumbent, Post and Telecommunication Kosovo. The telecom regulator made progress in implementing competitive safeguards, such as carrier selection. In March, the government adopted the Digital Agenda for Kosovo 2020, a policy document covering electronic communication and ICT. The fixed broadband penetration rate per population remains low at 8% according to the latest available data

Issues related to Kosovo's status hamper its ability to implement the *acquis* fully. Kosovo does not have an internet domain name. It is not a member of the International

Telecommunication Union (ITU) and therefore has an insufficient allocation of spectrum, including for digital switchover.

Kosovo does not have its own country code and continues to use three different country codes for fixed and mobile telephony. This creates additional costs, reduces Kosovo's control over its system and is an obstacle, e.g. to implementing EU rules on number portability. However, in September, Kosovo and Serbia reached an agreement on telecoms under the EU-facilitated dialogue. The agreement provides for Kosovo being allocated a 3-digit dial code from the ITU as of 2015. It also provides for Telekom Srbija to operate legally in Kosovo until 2015.

On **information society services**, the Digital Agenda for Kosovo document outlines the main priorities and objectives of the national information society policy, aligning with the Digital Agenda for Europe strategy. A new law on e-governance entered into force in May. Last year's law on information society services aims to facilitate usage of electronic transactions, payments and e-signatures. The April law on information society government bodies established an Agency for Information Society at the Ministry of Public Administration. In general, administrative capacity in this field remains weak. Effective cooperation among the relevant government bodies needs to be strengthened. There are no concrete plans to start collecting information society statistics.

On **audiovisual policy**, the Independent Media Commission has not legislated on must-carry requirements for cable operators. Most cable operators carry Kosovo-wide and local TV stations on a fee basis (and drop them in case of late payments). This seriously limits the audience's right of access to terrestrial free-to-air channels. The strategy for digital switchover prepared by the Commission is not aligned with the *acquis* and did not provide a sufficient technical and financial framework for a transparent and open process. It was returned to the Commission for completion. The work of the Commission has been severely hampered by political interference in appointments to its board and its appeal body, and a lengthy and unlawful attempt to dismiss its CEO (*see Political criteria 2.2 - Human rights and the protection of minorities*).

The public service broadcaster, Radio and Television Kosovo (RTK) remains dependent on financing from the Kosovo budget. The Assembly has still not provided for sustainable financing of the RTK. One year after the adoption of the law, the RTK board is still not complete (with three members out of eleven missing). The election of the majority of the RTK board was overshadowed by political interference, as were appointments to its management. RTK's second TV channel (in Serbian language) has been fully operational from August, although it is currently available only through cable operators. The Minority Media Fund has not distributed any financing since 2012. The Fund lost its regular funding when the RTK subscription fee was suspended in 2009.

*Overall*, Kosovo needs to continue efforts to complete the legal framework in this area. 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, low salaries and lack of resources. As a matter of urgency, Kosovo needs to ensure efficient implementation of digital switch-over and to develop a solution for the sustainable funding of the public service broadcaster. In addition, the Independent Media Commission needs to have its independence from political interference preserved but also to demonstrate it can carry out its tasks. The agreement on telecoms reached with Serbia offers a unique opportunity to resolve a number of Kosovo's telecoms issues. Kosovo needs to implement its side of the agreement.

#### 4.2.7. *Financial control*

On **public internal financial control**, implementing legislation on certification of internal auditors in the public sector was adopted in January. It includes general eligibility requirements, but makes no reference to a specific training curriculum or to an examination for certification. The number of operational internal audit units in the public sector has increased to over 65, with over 130 internal auditors in total. However, most internal audit units are staffed with only one or two auditors and are therefore too small to be effective. A total of 48 audit committees were established.

Understanding of the concept of managerial accountability for internal control is low. The legal framework is only partly applied in most budget organisations. The Central Harmonisation Unit for Financial Management and Control has been involved mainly in the development of procedures for budget organisations and in preparing the annual report. Due to its current position and mission statement, the unit has limited capacity to lead financial management and control reform. The position and staffing of the unit still have to be brought to the same level as the Central Harmonisation Unit for Internal Audit to advance public internal financial control reform.

On **external audit**, the Office of the Auditor General is an independent institution that plays a role in fighting corruption and promoting change in public finance. The office now has 140 staff. In 2012, 115 audit reports were prepared. Emphasis is being placed on consolidating the quality of financial audit and improving management and performance audit. The implementation of the new development strategy has started in May accompanied with a one-year plan expiring in September 2014. The strategy focuses on the sustainability of the institution and the achievement of EU best practices.

*Overall*, the basic legal framework for public internal financial control is in place, but substantial efforts are required to implement the concept of decentralised managerial accountability and internal audit. The Central Harmonisation Unit for Financial Management and Control needs to be repositioned to advance the reform of public internal financial control. The staffing of internal audit units requires further attention. On external audit, efforts need to be maintained, especially on implementation of the new development strategy.

#### 4.2.8. *Statistics*

With regard to **statistical infrastructure**, restructuring of the statistical agency has started, as envisaged by the law on official statistics. Four of the five new staff foreseen were recruited by August. The management of the statistical agency has been strengthened through the establishment of performance indicators. In January, a strategic plan 2013-2017 was adopted as well as an annual work programme. The administrative capacity of the statistical agency remains weak and this hampers the production of core statistical products.

On **classifications and registers**, the introduction of the European classification of economic activities NACE Rev. 2 into the business register has started. The business register is operational, but the routines of keeping the registry need to be improved. Further efforts are needed to implement the NACE Rev. 2.

As regards **sectoral statistics**, the law on the agriculture census was adopted in December 2012 and the agriculture pilot census was successfully implemented in November 2012. Preparations for the agriculture census are progressing well. Results of the population and housing census held in 2011 were published successfully.

On other sectoral statistics, there have been limited results. The macroeconomic statistics of the Ministry of Finance were prepared in a timely manner, but significant improvements are

necessary in the area of economic statistics, especially in national accounts and business statistics.

Cooperation between the statistical agency and other institutions has improved. However, many data are not yet available electronically. Better cooperation among data collecting institutions is necessary to ensure that specific needs are integrated in the system of data collection, and that the use of classifications and nomenclatures ensures consistency. Administrative capacity of the agency remains weak and hampers the production of core statistical products.

*Overall*, Kosovo has undertaken efforts to prepare the agricultural census and to improve the statistical infrastructure. Due to the limited resources of the statistical agency, there have been modest results in other areas. The administrative capacity of the statistical agency needs to be strengthened to fulfil its role as a data provider for evidence-based decision and strategic policy making. Because of limited resources, the agency continues to face challenges in producing reliable statistics on time, and in line with European standards and international methodologies. To strengthen the management capacity of the agency, it is important to guarantee the continuity of top management of the agency in the long-term. In the short-term, recruitment and appointments need to be based on professional competences.

### **4.3. Justice, freedom and security**

#### *4.3.1. Visa, border management, asylum and migration*

Kosovo's new **visa regime** entered into force in July. The new regime establishes a common list of countries whose citizens must hold a visa or are exempt from the visa requirement when entering Kosovo. Visas are to be issued by consulates. Only by way of derogation and subject to conditions can visas be issued at border/boundary crossing points. There are no bilateral seasonal visa waiver agreements in place with third countries. New implementing legislation was issued on the passport application procedure. It requires the authorities to take fingerprints from children over the age of 12, in line with the *acquis*.

As of July there are over 1 470 000 valid Kosovo ID-cards, over 772 000 valid Kosovo passports (without chip) and over 270 000 valid Kosovo biometric passports (with chip). A new contract for the production of biometric passports (with chip) was signed in April. A contract for biometric ID-cards was signed in August.

Implementing regulations, such as rules of procedure regarding visas issued at the border/boundary crossing points, need to be drafted. The investigation into corruption allegations related to the contracting of production of biometric passports (the disappearance of €1.4 million from the Ministry of Internal Affairs in October 2012) is still ongoing.

The visa liberalisation dialogue, launched in January 2012, has continued. In February, the Commission issued a first report with a focus on legislation. Following its recommendations, Kosovo amended six laws and adopted two new laws. Document fraud and irregular migration to certain EU Member States has significantly increased in 2013. Kosovo is encouraged to adopt and implement the necessary reforms, including in these two areas.

A total of ten pieces of implementing legislation have been adopted for the law on **civil status** of 2011. A new civil status system has been launched in February. It introduces one central database for civil status data, merging the electronic data from the previous civil registry and civil status databases. Registration of civil status events is now linked to individual citizens with the PIN as a unique personal identifier. Certificates will be issued using the civil status data from the central database. The Civil Registration Agency and the Kosovo Cadastral Agency are in the process of linking each individual to an official address. The process of handing over EULEX-certified copies of civil registry books located in Serbia is ongoing and

over 6 300 books were certified by the end of July. The copies allow for the verification of civil status data.

The uniform implementation of the law on civil status and the newly-introduced civil status registration system give rise to numerous challenges that need to be addressed, including difficulties with the new certificates. Training for municipal officers is required as well as increased supervision and inspections. More resources need to be deployed to carry out spot-check audits of the processes to ensure they are consistent with procedures and instructions. To ensure that mistakes do not enter the system, the accountability of the management levels needs to be enforced. Improved communication and coordination between central and municipal level is essential in this regard. The lack of consistent registration of deaths, especially in rural areas, remains a concern.

Regarding **border management**, most of the structures for integrated border management (IBM) are now in place. The three border agencies involved in integrated border management (border police, customs and the Food and Veterinary Agency) cooperate through the National IBM Executive Board under the guidance and direction of a national coordinator. In January, the National Centre for Border Management was officially opened. A new law on integrated border management cooperation, a revised strategy and an amendment to the law on border control and surveillance were adopted. Implementing legislation and standard operating procedures have not yet been adopted. As part of the Dialogue on the implementation of the IBM protocol, Kosovo and Serbia agreed on a procedure for mutual legal assistance. The procedure entered into force in March and is facilitated by EULEX.

The EU-funded border management IT system (BMS) is fully operational at all crossing points as well as in regional and central police command centres. The new joint control centre at Vermicë/Vermica houses both Kosovo and Albania border police. Six co-located crossing points with Serbia have been opened. EULEX maintains its presence there. Freedom of movement has been implemented at all six points, and cooperation from both sides is positive and constructive. There are regular joint and synchronised border police patrols with Albania, the former Yugoslav Republic of Macedonia and Montenegro.

The Centre for Border Management is open but not yet fully operational and cooperation between agencies is weak. The police have yet to sign a maintenance contract for the border management IT system. The border demarcation with Montenegro still needs to be completed.

The law on **asylum** was revised to better reflect international standards and the *acquis*. Information leaflets in nine languages are distributed at relevant crossing points, police stations and offices that deal with foreigners. The asylum centre has adequate capacity and satisfies technical standards for accommodating asylum seekers. There were 41 asylum requests in the first half of 2013 (45 in 2012).

The implementing legislation needs to be updated in line with the new asylum law. There is no reliable database for asylum-seekers and no functional migration database. There is therefore no link between the Department of Citizenship, Asylum and Migration and the police responsible for the initial screening. This opens the possibility for asylum seekers who have left Kosovo to come back and request asylum with a different identity. Comparison of fingerprints for identity verification cannot be processed during the initial screening. There are also concerns about the data protection of asylum seekers. This is due to the absence of a reliable database and the incorrect implementation of the provisions as concerns the authority to input data into the database.

Lacking information on the origin of refused asylum seekers and the absence of identity documents remain major obstacles to the removal of unsuccessful asylum seekers. There is a lack of appropriate interpretation services. This hampers communication with asylum seekers

during their initial case screening. Cooperation between institutions involved in the return policy needs to be improved at all levels.

Kosovo has not granted a refugee status to anyone. The majority of asylum seekers leave Kosovo before a decision is taken. In April, the second instance body, the National Commission for Refugees, granted for the first time subsidiary protection to one asylum seeker whose claim had been rejected at first instance. Kosovo has yet to develop protection-sensitive entry mechanisms to manage mixed migratory flows and to allow individuals truly in need of international protection access to asylum procedures. There is a lack of communication between the different institutions and a lack of capacity and training. The Asylum Centre needs adequate funding and trained staff.

On **migration**, Kosovo amended the law on foreigners. A strategy on migration and a migration profile is still to be adopted. The revised regulation on the reintegration of repatriated persons was adopted in August. Twenty-one countries are now covered by bilateral readmission agreements. The lack of readmission agreements with countries of origin or transit is a concern when it comes to determining the origin of an asylum seeker who is refused and/or has no identity documents.

Kosovo readmitted nearly 4 200 nationals in 2012 (over 2 500 from Western Europe). Up until July 2013, over 2 000 persons were repatriated (over 1 400 forced and nearly 600 voluntarily, over 730 from minority communities).The airport reintegration office of the Ministry of Internal Affairs has operated well. Awareness campaigns targeting irregular migration have been organised and need to continue.

The new department of reintegration lacks adequate staffing and capacity. There is a lack of coordination and communication between the airport office and the ministry's division for readmission. Not all arrivals are announced in time, leaving some repatriated persons unregistered upon arrival. Salaries for some staff in the reintegration office were paid from the 2012 reintegration fund, a practice which needs to stop. The reintegration case management system developed by the Ministry of Internal Affairs has been introduced, but is not yet fully operational. Harmonisation of the implementing legislation with the revised law on foreigners remains outstanding.

Kosovo needs to pay more attention to the challenges faced by readmitted persons from non-majority communities. This includes limited access to healthcare, education, social assistance and adequate housing. Cooperation between sending countries and the Kosovo authorities needs to be strengthened to address shortcomings in the civil registration process. This issue persists for a limited number of individuals (born in the country of asylum) for whom an original birth certificate is not supplied.

*Overall*, Kosovo has adopted new legislation and policies in this area. Implementation is at an early stage and many challenges remain to be addressed. With regard to integrated border management, Kosovo needs to improve intra- and inter-agency cooperation. Information gathered needs to be made suitable for strategic threat assessments. With regard to reintegration, sufficient human resources need to be allocated to the new department of the Ministry of Internal Affairs. Coordination needs to be significantly improved between ministries, but also between central and local levels. Kosovo authorities need to pay more attention to the needs (notably education, employment and housing) of persons from non-majority communities. Further efforts are necessary to ensure that databases/case management systems for migration and reintegration are reliable and functional.

#### *4.3.2. Money-laundering*

A strategy for the prevention of money laundering was adopted in 2012. Amendments to the law on prevention of money laundering and financing of terrorism entered into force in

March. The revised law broadens and strengthens the mandate of the financial intelligence unit (FIU). The police and the FIU signed a memorandum of understanding in February. The appointment of the police liaison officer is still pending. The FIU signed a memorandum of understanding with the NGO registration department within the Ministry of Public Administration to enable better monitoring of financial obligations of reporting entities. The FIU has strengthened its relations with banks in Kosovo. It signed a memorandum of understanding with the Central Bank of Kosovo allowing for joint inspections of the Bank and Unit.

In 2012, the police investigated 120 cases involving money laundering; 150 suspects were arrested, 800 criminal charges were pressed and over 460 cases were sent for prosecution. There are no statistics on the total estimated damage caused. During the reporting period the FIU dealt with over 120 cases of potential money laundering/terrorist financing. About 40 cases were finalised and close to 80 cases are still under investigation. The police directorate for economic crime and corruption opened 200 new cases in the first half of 2013. In the same period, the FIU received over 100 requests for information from other agencies, such as police, customs and tax administration. There has been an increase in the number of reports on suspicious transactions (about 130 in 2011, just over 200 in 2012 and over 120 to date).

Cooperation between the FIU and customs is good. Illegal activity in the import and export of large amounts of money at Pristina airport has been incorporated into the routine work of customs. This has been made a priority. There was a reduction in seizures of cash in 2012 compared to 2011 as a result of an intensive awareness campaign leading to an increase in declarations of cash at departure.

The action plan for the strategy on the prevention of money laundering has not yet been adopted. Implementing legislation and standard operating procedures are needed to enhance the implementation of the new law on prevention of money laundering and financing of terrorism. The cooperation and coordination between the relevant public sector institutions on these issues need to be standardised. In addition, awareness of and participation by the private and third sector need to be enhanced. The FIU's analytical and investigative capacity needs to be strengthened. An assessment of internal and external money laundering/terrorist financing threats needs to be carried out. Considering the nature of the data handled by the FIU, the internal and external security system needs to be improved. Due to the complexity of economic and financial crimes and anti-money laundering, the expertise of judges, prosecutors and staff working on such cases needs to be improved.

*Overall*, Kosovo has continued to improve its legislation in this area. However, enforcement now needs to be improved. Law enforcement and judicial institutions need to improve their expertise to be able to tackle this complex type of crime.

#### *4.3.3. Drugs*

Kosovo adopted the 2012-2017 strategy and action plan on the fight against drug trafficking. There was a significant increase in drugs seizures by the police from 2011 to 2012, notably as concerns heroin, cocaine and cannabis. For 2013, there is a relative decrease of seized quantities. Small but regularly recurring seizures of synthetic drugs have been recorded. The number of drug-related cases increased from nearly 290 in 2011 to just over 400 in 2012. There are now eighteen drug detection dogs in Kosovo.

As regards prevention and harm reduction, the government decided to establish a 'drugs observatory' within the Ministry of Internal Affairs to promote and support research and monitoring of drugs. Once established, it will report to the European Monitoring Centre for Drugs and Drug Addiction. The involvement of the police in the prevention of drug use has increased. Awareness campaigns in secondary schools have been organised in cooperation

with the Ministry of Health and EULEX. The methadone programme is being implemented in five locations. During the first half of 2013, nearly 120 persons have been undergoing methadone treatment.

Kosovo continues to be a transit and storage region primarily for heroin involving local organised crime groups. The significant increase in seizures of cannabis in 2012 suggests that Kosovo is a transit route for the trafficking of cannabis from plantations in Albania. The customs administration needs to make continued and sustained efforts to detect and seize narcotics at the border/boundary.

*Overall*, the increase in police resources dealing with drugs has had some positive results in terms of seizure of drugs. Separate financial investigations or investigations combined with criminal investigations into trafficking or the possession of narcotics need to be reinforced by appointing more analysts and financial investigators.

#### 4.3.4. *Police*

The police is widely perceived as the most trusted ‘rule of law’ institution in Kosovo. It established a special unit to protect and secure cultural and religious sites. The police has become more proactive in creating and maintaining partnerships with all communities. The basis for this approach is the community policing strategy and action plan for 2012-2016 and the municipal community safety councils. Most municipal community safety councils have been set up. Some need to enhance their activities.

Kosovo, EULEX and other EU experts are working together on a witness protection directorate within the police. The directorate is operational, but requires additional resources and capacity building. Implementing legislation on witness protection was adopted and a memorandum of understanding between the police and EULEX was signed. The police also established child-friendly interview rooms in seven regional stations. An association of women in the police was established to promote police work for women and addressing challenges women face in pursuing a career within the police. A strategy on intelligence-led policing was adopted in February.

The division of responsibilities between the independent police inspectorate and the disciplinary standards unit of the police are clear and cooperation is good. In 2012, the inspectorate received nearly 1 080 complaints against police officers. Criminal reports have been filed in over 120 cases and over 770 cases have been referred to the disciplinary unit. Enforcement of disciplinary measures is still a challenge and some important criminal investigations are not seriously addressed.

Child-friendly interview rooms in police stations are left unused. This is due to a lack of specialised officers and the absence of a holistic approach on dealing with children as suspected offenders, victims or witnesses of crime. More adequate resources are needed in this field. Implementation of the community policing strategy has started, but capacities and awareness need to be built up further. The border police also needs to be part of the community policing programme. Community policing is not yet used effectively as a source of information for intelligence led-policing. In general, implementing intelligence-led policing remains a challenge.

Links between the political level and management of the police are close. The law on international legal cooperation in criminal matters was adopted in July. The International Law Enforcement Cooperation Unit in the Ministry of Justice continues to perform its functions in a professional manner. It processed over 1 600 information requests in the reporting period. The Interpol Liaison Office is under UNMIK’s responsibility. A Kosovo police officer has been seconded to this office. In 2012, the UNMIK Liaison Office facilitated 31 International Arrest Warrants against internationally-wanted persons for provisional arrest (compared to 27



in 2011). Twelve extraditions from/to Kosovo were carried out in 2012. In 2013, ten extraditions and one deportation have been facilitated.

*Overall*, Kosovo has put in place new structures within the police, notably the witness protection directorate. It has also improved structures to deal with community policing. The police need to focus on delivering results in the fight against organised crime (including drugs, trafficking in human beings and weapons), and the fight against corruption. More resources are needed for witness protection. Implementing intelligence-led policing remains a particular challenge. Enforcement of disciplinary measures needs to be ensured.

#### *4.3.5. Fighting organised crime and terrorism*

During the reporting period, the Assembly adopted four strategies and action plans on the fight against **organised crime**, terrorism, drugs trafficking and on crime prevention. In November, the Kosovo Prosecutorial Council approved a strategic plan for inter-institutional cooperation for fighting corruption and organised crime. A data base (tracking mechanism) was set up in cooperation with the Judicial Council, police and other agencies. The aim is to ensure overview of investigations, prosecutions and final court rulings in cases relating to criminal offences of organised crime, corruption, trafficking in human beings, arms trafficking, trafficking of drugs and money laundering.

The law on extended competences for confiscation of assets was adopted in February. The Agency for the Management of Sequestered and Confiscated Assets has continued to function and the volume of confiscated assets has increased slightly. Kosovo became a member of the Camden Asset Recovery Inter-Agency Network (CARIN) in 2012. Local police and prosecutors cooperate well with their EULEX counterparts at operational level.

Organised crime remains a serious concern in Kosovo. Witness intimidation continues to be a concern. The most sensitive organised crimes and corruption trials continue to be presided over by mixed panels of local and EULEX judges. The Special Prosecution is in the process of gradually transferring responsibility for high-profile prosecutions from international to local ownership. Kosovo enforcement agencies and institutions need to cooperate in a more structured way with the objective to be more efficient and effective in investigations.

Kosovo needs to establish a sound legal framework for the interception of telecommunications. A clear distinction between judicial interception and interception for intelligence purposes needs to be made. This is to avoid possible political influence in criminal cases and to ensure adequate judicial oversight.

Law enforcement agencies demonstrate hesitation to initiate financial investigations. As a result the number of confiscations and sequestrations ordered by the judiciary and executed by the police is low. The judiciary, specifically the prosecutors, need to use the provisions on confiscation more proactively. The mandate and the chain of responsibilities of the Agency for the Management of Sequestered and Confiscated Assets need to be clarified to all stakeholders involved in the process. Cooperation between these stakeholders needs to improve considerably.

Considerations related to the status of Kosovo continue to influence international cooperation in the fight against organised crime. At the same time, the police was part of a joint operation with EUROPOL in early 2013.

The new law on preventing and combating **trafficking in human beings** and protecting victims of trafficking, was adopted in July. In nearly 100 cases the police directorate for the investigation of trafficking in human beings made 180 arrests in the reporting period and 60 victims were identified. Prosecution and courts have solved only a limited number of the criminal reports and cases in the same period. Participants of nine criminal groups involved in

human trafficking have been arrested. There were 19 information exchanges with other countries. A standard operating procedure on victim care has been established and is implemented. Awareness raising campaigns were organised in 2012 and are planned for 2013-2014.

In April, in the *Medicus* case on illegal organ transplants a mixed panel of two EULEX judges and one local judge at the Pristina basic court found five persons guilty. They were sentenced for a total of twenty years for criminal offences of organised crime, trafficking in human beings and inflicting grievous bodily harm.

Kosovo remains a place of origin and transit for victims of trafficking for the purpose of sexual exploitation with an increase in the number of under-age victims. Child trafficking and child exploitation for the purpose of begging also remain high. The rate of convictions for these crimes is low. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking needs to be developed and identification of victims needs to be further improved. Appropriate, sustainable government funding for shelters and reintegration of victims is essential. Victims need to have unhindered access to assistance, support and protection, including the re-integration of victims upon return. Cooperation with civil society as well as efforts towards effective prevention measures need to be stepped up.

The police established a cybercrime investigations unit in 2011. Cybercrime cases are identified as criminal offences relating to interference in the computer system or credit card fraud. They are therefore not registered as specific cybercrime cases. Since its establishment the unit has investigated 30 cases and provided assistance to other investigations.

Kosovo's strategy on the **fight against terrorism** mirrors the 'prevent, protect, pursue and respond' strands of the EU's counter-terrorism strategy. The threat of terrorism is low, even though there are some concerns with regard to radicalisation and extremist groups and their financing. This needs to be monitored.

*Overall*, a legal framework is largely in place, but implementation is limited. This is partly due to a lack of capacity. Kosovo needs to improve the level of expertise to tackle complex criminal investigations. An increase in resources for the police in its fight against trafficking in human beings has not yet led to improvements. Coordinators of the strategies and action plans need to cooperate better and focus on implementation. Kosovo needs to establish a sound legal framework for the interception of telecommunications. More proactive implementation of the new law on confiscation of assets is needed. Cybercrime is an issue for which Kosovo needs to be better prepared, even if it does not yet occur often. Equally, there needs to be better preparation and monitoring when it comes to the fight against terrorism.

#### *4.3.6. Protection of personal data*

The Agency for Personal Data Protection is almost fully staffed and all pieces of implementing legislation were adopted. The agency has made determined efforts to raise awareness of its work through a number of outreach activities targeting public and private bodies. It has conducted a series of direct, ex officio and general inspections. The agency also provided comments to draft laws. The agency maintains one staff member full time in the police.

The agency continues to face difficulties in recruiting staff from minority communities. The agency's operational activities increased, but have yet to gain momentum. The agency needs to build up its capacity and expertise further. The agency needs to take a proactive and independent approach to checks in both private and public sectors. Personal data protection concerns in the police need to be swiftly addressed.

*Overall*, personal data protection in Kosovo is in its early stages. The agency needs to support the implementation of legislation in both public and private sectors. It needs to be more proactive and act independently.

## Statistical Annex

### STATISTICAL DATA Kosovo

<b>Basic data</b>	Note	2001	2008	2009	2010	2011	2012
Population (thousand)	1)	:	2 153	2 181	2 208p	1,799	1,816
Total area of the country (km <sup>2</sup> )		10 887	10 887	10 887	10 887	10 887	10 887
<b>National accounts</b>		2001	2008	2009	2010	2011	2012
Gross domestic product (GDP) (million euro)	2) 3)	1 624	3 940e	4 008e	4 291e	4 776e	:
GDP (euro per capita)	4)	:	2 291e	2 293e	2 418e	2 650e	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:
GDP per capita in PPS (EU-27 = 100)		:	:	:	:	:	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)	5)	:	7.2	3.5	3.2	4.5	:
Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:
Real unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors (%)							
Agriculture and fisheries		:	15.1	15.1	17.1	17.5	:
Industry		:	17.3	18.9	17.3	16.6	:
Construction		:	9.4	9.5	10.1	9.9	:
Services		:	58.3	56.5	55.6	56.1	:
Final consumption expenditure, as a share of GDP (%)		:	110.3	107.3	106.2	105.2	:
Gross fixed capital formation, as a share of GDP (%)		:	23.8	25.6	27.8	28.8	:
Changes in inventories, as a share of GDP (%)		:	4.0	3.4	3.5	3.3	:
Exports of goods and services, relative to GDP (%)	6)	:	15.5	16.4e	19.5	20.1	:
Imports of goods and services, relative to GDP (%)		:	53.5	52.8	56.9	57.3	:
<b>Industry</b>	Note	2001	2008	2009	2010	2011	2012
Industrial production volume index (2010=100)		:	:	:	:	:	:
<b>Inflation rate</b>	Note	2001	2008	2009	2010	2011	2012
Annual average inflation rate (CPI, % change on previous year)		:	9.4	-2.4	3.5	7.3	2.5
<b>Balance of payments</b>	Note	2001	2008	2009	2010	2011	2012
Balance of payments: current account total (million euro)		228	-461	-374	-516	-658	-380
Balance of payments current account: trade balance (million euro)		-646	-1 650	-1 652	-1 752	-2 059	-2 073
Balance of payments current account: net services (million euro)		10	152	232	187	266	346
Balance of payments current account: net income (million euro)		141	164	62	67	114	154
Balance of payments current account: net current transfers (million euro)		723	873	983	982	1 021	1 192
of which government transfers (million euro)		809	224	323	320	322	402
Net foreign direct investment (FDI) (million euro)		:	342	281	331	379	216
Foreign direct investment (FDI) abroad (million euro)		:	-25	-11	-35	-16	-16
of which FDI of the reporting economy in EU-27 countries (million euro)		:	-9	-2	-1	0	-5
Foreign direct investment (FDI) in the reporting economy (million euro)		:	366	291	366	395	232
of which FDI of EU-27 countries in the reporting economy (million euro)		:	212	184	218	205	86
<b>Public finance</b>	Note	2001	2008	2009	2010	2011	2012
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	:
General government debt relative to GDP (%)		:	:	6.2	6.1	5.3e	:
<b>Financial indicators</b>	Note	2001	2008	2009	2010	2011	2012
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	7.7	7.6	6.7e	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	3.6	6.9	4.6	4.6	5.0
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	1 183	1 289	1 459	1 698	1 763
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	7)	:	14.8	14.1	14.3	13.7	13.8
Deposit interest rate (one year), per annum (%)	7)	:	4.2	4.0	3.4	3.7	3.6

euro exchange rates: average of period - 1 euro = ... national currency	2)	1.000	1.000	1.000	1.000	1.000	1.000
Effective exchange rate index (2005=100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		286	670	577	635	575	:

#### External trade

	Note	2001	2008	2009	2010	2011	2012
Value of imports: all goods, all partners (million euro)		:	1 930	1 934	2 146	2 492	2 488
Value of exports: all goods, all partners (million euro)		:	196	165	292	319	270
Trade balance: all goods, all partners (million euro)		:	-1 734	-1 769	-1 854	-2 173	-2 218
Terms of trade (export price index / import price index)		:	1.0	1.0	1.2	1.0	:
Share of exports to EU-27 countries in value of total exports (%)		:	47.7	43.1	45.1	42.8	39.6
Share of imports from EU-27 countries in value of total imports (%)		:	36.2	39.0	38.5	38.0	39.0

#### Demography

	Note	2001	2008	2009	2010	2011	2012
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		:	12.7	12.5	:	11.4bp	11.3
Infant mortality rate: deaths of children under one year of age per 1000 live births		:	9.7	9.9	:	12.1e	11.4
Life expectancy at birth: male (years)		:	:	:	:	68.0e	69.0
Life expectancy at birth: female (years)		:	:	:	:	71.9e	71.0

#### Labour market

	Note	2001	2008	2009	2010	2011	2012
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	:	:	:	:	:
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	:	:	:	:	:
Employment rate male (20-64) (%)		:	:	:	:	:	:
Employment rate female (20-64) (%)		:	:	:	:	:	:
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		16.7	23.8	27.9	:	:	:
Employment by main sectors (%)							
Agriculture		6.2	8.0	6.2	:	:	:
Industry		16.9	15.4	15.5	:	:	:
Construction		8.6	8.6	7.9	:	:	:
Services		68.3	65.3	67.5	:	:	:
Unemployment rate: share of labour force that is unemployed (%)		57.1	47.5	45.4	:	:	35.1
Share of male labour force that is unemployed (%)		51.8	42.7	40.7	:	:	:
Share of female labour force that is unemployed (%)		69.9	59.6	56.4	:	:	:
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		80.0	73.0	73.0	:	:	:
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		47.6	38.9	37.1	:	:	:

#### Social cohesion

	Note	2001	2008	2009	2010	2011	2012
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)		:	:	:	:	:	:
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	:	:	:	:	:

#### Standard of living

	Note	2001	2008	2009	2010	2011	2012
Number of passenger cars per 1000 population		:	74.1	:	90.6p	111.2e	111.3
Number of subscriptions to cellular mobile telephone services per 1000 population		:	376.2	369.2	:	:	:

#### Infrastructure

	Note	2001	2008	2009	2010	2011	2012
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		:	:	30.6	30.3	30.6	30.6
Length of motorways (km)		:z	:z	:z	:z	:z	60

#### Innovation and research

	Note	2001	2008	2009	2010	2011	2012
Spending on human resources (public expenditure on education in% of GDP)		:	:	:	:	:	:
* Gross domestic expenditure on R&D in% of GDP		:	:	:	:	:	:
Percentage of households who have Internet access at home (%)		:	:	:	:	:	:

#### Environment

	Note	2001	2008	2009	2010	2011	2012
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:
Electricity generated from renewable sources in% of gross electricity consumption		:	:	:	:	:	:
Road share of inland freight transport (% of tonne-km)		:	:	:	:	:	:

<b>Energy</b>	Note	2001	2008	2009	2010	2011	2012
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)	8)	:	5 466	7 842	7 960	8 212	8 028
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

<b>Agriculture</b>	Note	2001	2008	2009	2010	2011	2012
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	:	:	:
Total utilised agricultural area (thousand hectare)		539	:	:	:	:	:
Livestock: cattle (thousand heads, end of period)		347	342	344	357e	362e	314
Livestock: pigs (thousand heads, end of period)		75	27	51	51e	51e	56
Livestock: sheep and goats (thousand heads, end of period)		230	180	217	229e	247e	123
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		:	:	:	:	:	:
Crop production: cereals (including rice) (thousand tonnes, harvested production)		459	438	411	423e	430e	428
Crop production: sugar beet (thousand tonnes, harvested production)		:	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		169	176	144	248e	254e	135

: = not available  
 :z = not applicable  
 b = break in series  
 e = estimated value  
 p = provisional  
 \* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

**Footnotes:**

- 1) The number of population is based on recent census year 2011 and estimates that KAS have for 3 north municipalities who didn't participate in the Census and natural growth for the period April 15-31 December 2011.
- 2) Euro is the currency in use.
- 3) The figures for the years 2008 - 2010 has been revised due to the revisions of BoP data.
- 4) GDP figures are revised based on the data of Census Population in april 2011.
- 5) 2008 - 2010, figures are revised due to the revision of BOP data in CBK (December 2011) for the years 2008-2010. These changes had influenced in the growth rate of GDP for the mentioned years.
- 6) Values distorted by a very high ratio of imports to exports of goods and services.
- 7) Since January 2008 interest rate on loans includes disbursement fee charged by banks.
- 8) Local production of coal in thousand tones.