



EUROPEAN
COMMISSION

Brussels, 10.11.2015
SWD(2015) 215 final

COMMISSION STAFF WORKING DOCUMENT

**KOSOVO*
2015 REPORT**

Accompanying the document

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

EU Enlargement Strategy

{COM(2015) 611 final}
{SWD(2015) 210 final}
{SWD(2015) 211 final}
{SWD(2015) 212 final}
{SWD(2015) 213 final}
{SWD(2015) 214 final}
{SWD(2015) 216 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. INTRODUCTION¹

1.1. Context

On 27 October 2015, the EU signed a Stabilisation and Association Agreement (SAA) with Kosovo. This is a milestone on Kosovo's path towards a European future. The SAA constitutes the first contractual relationship between the EU and Kosovo. It completes the map of SAAs with all Western Balkan countries. The SAA provides a comprehensive framework for closer political dialogue and economic relations between Kosovo and the EU, including opening EU markets to Kosovo products.

Kosovo has demonstrated its commitment to the normalisation of relations with Serbia by reaching a number of key agreements in August. Important decisions have also been taken to pave the way towards the establishment of the Specialist Chambers. The new government has also underlined its commitment to its goal of meeting all requirements for visa liberalisation.

1.2. Summary of the report

As concerns the **political criteria**, the six-month political stalemate following elections in June 2014 delayed key reforms. It ended in December, when the Democratic Party of Kosovo (PDK) formed a coalition with the Democratic League of Kosovo (LDK) and minority parties. In August, the Kosovo Assembly voted in favour of constitutional amendments to establish the Specialist Chambers and a Specialist Prosecution Office, which are to prosecute cases of grave trans-boundary and international crimes committed during and in the aftermath of the conflict in Kosovo. The government also reached key agreements with Belgrade in August. Both decisions required strong political commitment from the government.

There has been increased polarisation between government and opposition. Members of the opposition have been involved in incidents of violence against the government, criticising it for its recent decision on the Specialist Chambers, the dialogue agreement with Belgrade, and the border demarcation agreement with Montenegro.

Many independent institutions and regulatory authorities are currently not operational or are negatively affected by delayed appointments of board members. Both the government and the Assembly need to urgently select board members for these institutions and determine mechanisms for their accountability. Appointments need to be made on the basis of professional qualifications and merit, not political patronage. The recent election of the Ombudsperson was a positive development in this regard.

The government has increased its focus on reform of the public administration, which has reached some level of preparation. Good progress was made in advancing the legal and strategic framework. The continued politicisation of the public administration, however, is a major concern. Accountability needs to improve across the administration through proper oversight. Any overlap of responsibilities of government agencies should be avoided. Parliamentary oversight of budget implementation should become more reliable and transparent. Sound financial management across public institutions should be ensured.

Kosovo's judicial system is at an early stage of preparation. A package of amendments to four core laws was adopted, taking a step towards the modernisation of the justice system.

¹ This report covers the period from October 2014 to September 2015. It is based on input from a variety of sources, including contributions from the government of Kosovo, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

However, the judiciary remains prone to political interference. Further efforts are required to ensure independence in law and in practice, to prevent and fight corruption within the judiciary, to recruit and train more qualified staff and to allocate adequate resources.

Kosovo is at an early stage of preparations in the fight against corruption. A comprehensive and strategic approach is necessary to ensure real results in fighting the endemic corruption in Kosovo. A track record of successful prosecution and convictions remains to be established. The rare investigations into high-level corruption have so far not resulted in final convictions.

Kosovo is at an early stage of preparations in the fight against organised crime. Some progress has been made in inter-institutional cooperation and information exchange among law enforcement agencies on investigations. However, the number of investigations and final convictions remain low. Asset confiscation is rarely applied. The focus on strategies and action plans should not obscure the need for real results in fighting endemic organised crime in Kosovo. Kosovo has stepped up its efforts to fight terrorism, but continues to face challenges related to radicalisation.

The adoption of the human rights law package strengthened the institutional set-up and clarifies the roles of various institutions. Increased political attention is needed, however, to ensure proper implementation and addressing the lack of resources. In the area of freedom of expression, Kosovo has some level of preparation. The legislative and institutional framework remains fragmented and partly ineffective. The public broadcaster is vulnerable to political pressure and lacks sustainable funding. Violence against women and women's limited access to property ownership hamper the full exercise of their rights. The protection of persons with disabilities and persons belonging to minorities, in particular the Roma, Ashkali and Egyptian communities, needs to be significantly strengthened.

Regarding the **normalisation of relations with Serbia**, Kosovo remained committed to the implementation of the April 2013 'First agreement of principles governing the normalisation of relations' and other agreements reached in the EU-facilitated dialogue. Key agreements were finalised in August on energy, telecoms, establishment of the Association/Community of Serb majority municipalities as well as the bridge in Mitrovicë/Mitrovica. The dialogue achieved further concrete results in the fields of justice, civil protection integration, vehicle insurance, customs collection and IBM. There were also constructive discussions to improve cooperation in tackling migratory flows from Kosovo. The steps taken gave fresh momentum to the normalisation of relations and should have a positive and concrete impact on the everyday life of citizens in both Serbia and Kosovo.

As regards the **economic criteria**, Kosovo is at an early stage in developing a functioning market economy. The persistent trade deficit reflects a weak production base and lack of international competitiveness. Reliance on remittances and widespread informal economy decrease employment incentives contributing to already low labour market participation and high unemployment, which stands at 35.3%, rising to 61% among youth. Inefficient public administration and an ad hoc approach to fiscal policy constitute significant fiscal risks. Kosovo should strengthen the medium-term fiscal framework, improve the transparency of public finance and shift budget expenditure towards growth. Kosovo should also speed up privatisation and restructuring of public enterprises and improve bankruptcy and insolvency procedures, as well as reduce reliance on customs duties by broadening domestic tax base and modernising revenue collection.

Kosovo is at an early stage in achieving the capacity to cope with competitive pressures and market forces within the Union. Major reforms are still needed to secure a stable energy supply and reducing distribution losses, close the skills gap in the labour market, and channel foreign direct investment and remittances into productive sectors.

Kosovo is at an early stage of alignment with **European standards**, including in the areas of public procurement, statistics and financial control. Legislative alignment in some areas is high but implementation is weak. Some progress was made in the area of public procurement, especially as regards the enforcement of a centralised public procurement system, but concerns about corruption persist. As regards financial control, some progress was made, especially in external audit. However, significant efforts are needed to implement public internal financial control throughout the administration and in state-owned enterprises.

2 POLITICAL CRITERIA

2.1. Democracy

Kosovo continued to consolidate the functioning of its democratic institutions. Following the elections of June 2014, a new Assembly was formed and a new government took office in December. The European Union's Special Representative in Kosovo and the European Union Rule of Law Mission (EULEX) continue to implement their mandates. EULEX' current mandate runs out in June 2016. In comparison to other years, the situation in the north of Kosovo, inhabited predominantly by Kosovo Serbs, has improved during 2015. Kosovo has made progress on integrating police and justice structures in the north and in August 2015 agreed, within the framework of the EU-facilitated dialogue with Serbia, to establish an Association/Community of Serb majority municipalities. The Assembly successfully adopted the constitutional amendments and legislation required for the establishment of Specialist Chambers and a Specialist Prosecution Office to investigate allegations of international crimes committed during and after the 1999 conflict.

Elections

The Kosovo Assembly has yet to undertake overdue electoral reforms. Kosovo's membership of the Venice Commission can help in this regard. The Assembly also needs to initiate an independent audit of political party financing and party electoral campaigning, as provided for in the law on financing of political parties. In January 2015, well-managed municipal elections were held, without incident, in Gračanica/Graçanicë, a Serb-majority municipality in central Kosovo.

Parliament

The delay in establishing a new Assembly following the 2014 elections slowed down Kosovo's reform process. Violent obstructions of recent plenary sessions by members of the opposition have adversely affected the functioning of the Assembly. Such actions go against European values. The Assembly needs to become more efficient and to comply with its own rules of procedure. It should urgently appoint competent members to regulatory and supervisory bodies to ensure the proper functioning of the state administration, on the basis of merit based, transparent and non-political selection processes.

Six months after the parliamentary elections of June 2014, a new Assembly was formed on 8 December. The Democratic Party of Kosovo PDK (35 seats) and the Democratic League of Kosovo LDK (33 seats) are in a governing coalition with the Serb Citizen's Initiative 'Srpska' (11 seats) and the non-Serb minority group '6+' (6 seats). With 85 out of 120 seats, the ruling coalition has a comfortable majority. The 'Vetëvendosje' self-determination movement and political party (16 seats) is the core of a small, but vocal, opposition.

Parliamentary work was effectively suspended from June until December 2014. However, following the agreement on the new government, the Speaker was appointed and the

Assembly began its work. It confirmed the new government and passed the 2015 budget in December. It adopted its annual work plan in February. Several important laws, including on the judiciary and human rights, were enacted, all of which was adopted under fast-track procedure. This limited the possibility for parliamentary debate, which is a matter of concern.

Many of the Assembly's deliberations were marked by a polarised atmosphere between the ruling coalition and the opposition, in particular on politically sensitive issues such as the Specialist Chambers and dialogue with Serbia. Recent disruptions of plenary sessions by the opposition, including by violent means, have adversely affected the functioning of the Assembly and have undermined confidence in the willingness of the opposition to partake in democratic debate. The Assembly is a key democratic institution and all parliamentary members must allow it to fulfil its duties.

Parliamentary debate was further affected by the lack of regular plenary sessions and frequent exceeding of time limits set under the rules of procedure. This was to the detriment of the quality of parliamentary review. There were also violations of the rules of procedure by the government arbitrarily withdrawing draft laws submitted to the Assembly. The regulatory framework for the Assembly should be improved. The new Assembly should strengthen its oversight of the executive and the legislative process and implement standards for consultations with civil society. Parliamentary checks and balances over budgetary control needs to improve. The Assembly should ensure follow-up on reports by the Office of the Auditor General and the Ombudsperson. A mechanism should be put in place to ensure that recommendations by the public finance oversight committee are implemented.

The Assembly should supervise independent institutions, regulatory authorities and agencies more closely, based on a clear mandate and with suitable reporting and accountability mechanisms. It should urgently address delays in the selection of board members for these institutions and authorities, and determine mechanisms for their accountability. Appointments need to be made on the basis of professional qualifications and merit, not political patronage.

The EU integration committee should be further strengthened to reflect its key role in Kosovo's efforts to advance on its European reform agenda. Better screening of draft legislation is needed to ensure alignment with the *acquis*. The Assembly administration needs to strengthen its technical capacity to support effective policy-making and improve scrutiny of draft legislation.

Governance

The new government continued to implement EU-related reform priorities and delivered on two major international commitments in August. The executive should ensure that legislation and policies are implemented in practice. Good communication with the Assembly, including regular replies to parliamentary questions and strong inter-ministerial coordination, are crucial in this regard. While legislation on the Ombudsperson was improved, the government undermined its effective functioning through continued failure to provide suitable premises.

The new **government** of Prime Minister Isa Mustafa (LDK) took office in December. The formation of the coalition followed a prolonged stand-off between the PDK and an alliance of parties led by the LDK. The break-up of this alliance enabled the PDK and LDK to reach a power-sharing agreement and form a grand coalition supported by minority parties. The government has 23 members, including the Prime Minister and three deputy prime ministers. There are only two women in the government. Five ministerial posts are held by minority representatives, three of which represent the Serb, one the Turkish and one the Bosnian communities.

The new government continued to implement EU-related reform priorities and remained committed to the EU-facilitated dialogue with Serbia. The government programme focuses on economic development, the rule of law, EU-related reform, education, science and culture, and healthcare. With its agreements on the establishment of the Specialist Chambers and the Association/Community of Serb majority municipalities, the government delivered on two key international commitments in August 2015.

The government has faced significant challenges, including a spike in irregular migration by a considerable number of Kosovo citizens early in 2015, a number of violent protests and strikes, as well as violent attacks by the opposition in September and October 2015. The dismissal of the Minister for Communities and Return as a result of statements made in Gjakova/Djakovica led to a three-month boycott of the institutions by the Serb 'Srpska' coalition partner. The appointment of a new Kosovo Serb Minister allowed for the return of the 'Srpska' list to the government and the Assembly.

Limited cooperation between PDK- and LDK-led ministries has in some cases hindered efficiency in making progress in key areas of governance. The government needs to meet deadlines set out in its various strategies and work plans, with better coordination and improved communication among coalition partners.

The government continued to implement European integration priorities. To support this process and in anticipation of the Stabilisation and Association Agreement, the Kosovo institutions have been involved in drafting the first National Programme for Adoption of the EU Acquis. Kosovo has also been working on a monitoring and reporting system. The National Council on European Integration has continued to meet and discuss the main objectives and policy obligations of further integration with the EU. The executive commissions in charge of the coordination and implementation of SAP Dialogue conclusions continued to meet.

Efforts to further improve the capacity of **local government** have continued. The Ministry of Public Administration is currently streamlining the number of job titles from around 8000 to 800. While these initiatives could bring about efficiency gains, their purpose and implementation should be communicated better. There has been improvement in municipal compliance with the law on local self-government. Municipal efforts need to continue to increase transparency in decision-making and strengthen municipal assemblies' oversight.

The Serb-majority municipalities in the south submitted their budgets, which were approved in line with those of other municipalities. They also took part in the agricultural census, which the northern municipalities boycotted. Some southern Serb-majority municipalities face budgetary difficulties, partly due to inaccurate population figures and political deadlock. In April 2015, municipalities in the north adopted their budgets in line with Kosovo legislation, which also included the numbers of employees in the health and education sectors.

On 3 August, the Kosovo Assembly adopted **constitutional amendments** allowing for the establishment of the Specialist Chambers and the Specialist Prosecution Office. The Constitution needs to be changed to ensure that the majority of Kosovo Judicial Council members are elected by their peers, in line with Venice Commission recommendations. Following Kosovo's membership of the Venice Commission (June 2014), two judges of the Constitutional Court were appointed as Kosovo's representatives. The Constitutional Court operates with a quorum of seven judges; however, two appointments are currently pending.

The Assembly elected a new **Ombudsperson** in July 2015. The Assembly also adopted a new Law on the Ombudsperson in May 2015, marking a significant step towards clarifying the legal framework and strengthening the independence and impartiality of the institution. In

practice, however, the government has undermined the capacity of the institution to carry out its duties due to the failure to provide it with suitable premises. In 2014, the Ombudsperson received 2 224 cases, 8.6 % more than in 2013. The Kosovo authorities at central and local level have not committed themselves to consistently following up on the Ombudsperson's recommendations. The Assembly's committee on human rights and the Office for Good Governance under the Prime Minister's Office should re-confirm and implement their commitment to do so.

Civil society

Some progress was made in improving cooperation between the government and civil society. However, input from civil society needs to be systematically sought and followed up. The government's strategy for cooperation with civil society needs to be fully implemented and monitored effectively. Additional measures should be taken to ensure that civil society organisations are properly included in public consultations. Public funding for civil society organisations has to be provided in a transparent way using clearly defined criteria.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by institutions in Kosovo. The implementation of the government's strategy for cooperation with civil society is monitored by the Council on the Implementation of the Government Strategy for Cooperation with Civil Society. To date, the Council has only managed to draw up its own work plan and set up four working groups. The lack of appropriate participation by relevant ministries, insufficient resources and capacity and an overreliance on donor-funding illustrate the absence of political will to genuinely engage with civil society. More work is required to ensure consistent implementation of the existing legal framework for cooperation with civil society. Consultation needs to be timely and the selection of civil society representatives needs to be transparent.

The manner in which public funding is provided to civil society is non-transparent and unregulated. The government should set standards and criteria governing public funding of civil society organisations so as to instil transparency, accountability and credibility in the process. Tax relief for private donations has been increased from 5 to 10 %, but the legal framework for tax deductions remains ambiguous and is not harmonised with provisions in the law on freedom of association.

Recent amendments to money laundering and anti-terrorism legislation have led to the suspension of 14 NGOs, allowing for arbitrary decisions on suspensions.

While meetings of the Assembly presidency have been made accessible to civil society, the Assembly's declaration on partnership between it and civil society has yet to produce any concrete results.

Civilian oversight of the security forces

There has been limited progress in the work of the parliamentary committee on internal affairs, security and supervision of the Kosovo security forces. The administrative staff of the committee ensured continuity in the oversight of the security sector during consecutive assembly mandates, but the committee has yet to exercise proper parliamentary control and oversight of expenditure. Close ties between individual parliamentarians and former Kosovo Liberation Army members and Kosovo Protection Corps have hindered independent assessments.

Amendments to the law on classified information and security clearance have improved the vetting process. However, vetting is still done by the Intelligence Agency instead of a separate

dedicated body. The Kosovo Security Council, which should have an advisory role on all security matters, does not hold the regular meetings provided for by its mandate.

2.2. Public administration reform

Kosovo has **some level of preparation** in the reform of its public administration. **Good progress** was made on developing a comprehensive strategic framework for public administration reform (PAR) and on improving legislation. For the first time, public administration reform has received high-level political support and commitment. Given Kosovo's ambitious reform agenda, continued strong political commitment is essential to ensure implementation of reforms. In the coming year Kosovo should in particular:

- effectively monitor implementation of the PAR strategic framework under the umbrella of the wider development strategy, ensuring a clear link between PAR and economic development;
- improve accountability through a thorough review of all agencies and improve access to administrative justice by addressing the backlog of administrative cases;
- adopt a comprehensive public financial management reform programme.

Public service and human resource management

The law on the civil service governs the employment conditions of civil servants at the central government and municipal levels. **Merit-based recruitment and promotion** are enshrined in law in line with the principles of public administration, but not systematically implemented. This is particularly so for senior civil servant positions and appointments to boards of public entities, where political influence over appointments is a matter of concern. Non-majority communities are still not adequately represented in public institutions. A major hindrance in this regard is the continued non-recognition of diplomas issued by the University in Mitrovicë/Mitrovica, which is the university attended by many students from non-majority communities.

The civil service law also regulates uniform criteria for **dismissals**. It provides for disciplinary measures, including appeal possibilities. Few recommendations of the independent oversight board are implemented – rulings are not followed up. Administrative judges are overburdened, often leading to delays in decisions. Many Ombudsperson recommendations are not implemented, often without explanation.

The Ministry of Public Administration is responsible for central coordination of **human resources management**. Resources within the ministry are very limited, preventing it from effectively promoting the uniform application of legislation and principles across the public administration. Professional human resources management is lacking due to politicisation and limited capacity. The human resource management information system is not up-to-date. The government should ensure that the system works properly.

The **remuneration system** of public servants does not ensure equal pay for equal work, even though a standardised job classification has been in place since 2010. In practice, different salary coefficients are applied to similar positions. Fairer remuneration is being held back by the delay in job classification reform. However, the recently approved job catalogue should help. A positive step was the temporary suspension of top-ups on salaries in September 2015, to ensure a more regulated and merit-based approach.

Professional development for public servants is insufficient. Systematic training is hampered by lack of resources and suitable facilities of the Kosovo Institute for Public Administration. Performance appraisals are provided for by law but in practice are treated as a formality.

Kosovo has adopted measures and mechanisms to prevent corruption and promote **integrity in the public service**. The approval of the Code of Ethics for civil servants in March 2015 is a positive development and now needs to show practical impact. Public trust in institutions is often undermined by corruption.

Policy development and coordination

The legal basis and institutional structures, including for European integration, are largely in place to ensure a consistent **policy-making system**, but in practice policy planning is fragmented and lacks prioritisation at government level. Sector strategies have rarely been financially sustainable. As of June 2015, all strategies and policies have to contain a fiscal impact analysis.

Some aspects of **inclusive and evidence-based policy and legislative development** are in place. There have been major improvements in policy development, although policy-making and legal drafting capacities, including capacity for alignment with the *acquis*, are still insufficient. Inter-ministerial and public consultations are regulated, but timelines have often been too short to allow for effective civil society input. The government should implement minimum standards for effective public consultation. Regulatory impact assessments are not used consistently, other than in a number of pilot areas.

Public scrutiny of government work is in theory possible, since the government reports annually on implementation of the key government strategic documents. The focus is however on achievement of outputs rather than on the impact of government policies. No reporting is done on the implementation of sector strategies. Parliamentary scrutiny of government work is undermined by frequent changes in the government's legislative plan.

Accountability of the administration

The overall organisation of the state administration is not conducive to ensuring the **lines of accountability**. The weak legal framework has resulted in over 70 government agencies with overlapping responsibilities and a large number of non-constitutional institutions reporting directly to the Assembly. The Assembly often lacks the powers and capacity to effectively supervise their activities. Lines of accountability within institutions are weak and there is no clear delegation of powers to middle management. Managerial accountability is not yet ingrained in the administrative culture. (*See Financial control*)

Internal and external mechanisms have been set up to protect the **citizens' right to good administration**. However, scrutiny by oversight institutions such as the Auditor General and the Ombudsperson is severely limited by the state administration paying little heed to their recommendations. The **right to access public information** is regulated in the law on access to public documents. Over the past two years, the number of refused or unanswered requests was low (only 5 % of the nearly 2 000 requests made each year).

No progress has been made on the **right to administrative justice**, as the law on general administrative procedures is not yet adopted. The increasing backlog in resolving administrative disputes is damaging public confidence in the court system. The **right to seek compensation** is not yet effectively ensured due to fragmented legislation and lack of a specific law on public liability.

Public financial management

Kosovo has so far focused on improving its public finances by addressing specific public finance areas separately, without explicitly linking them and sequencing reforms under a more comprehensive **public financial management reform programme**. However, following a public expenditure and financial accountability assessment and other relevant assessments,

Kosovo is now preparing a comprehensive strategy and action plan, to be adopted in early 2016. This should take into account the new public internal financial control strategy from April 2015 and the new public procurement strategy, which is yet to be adopted.

The annual budgeting process is based on the 'line-item' approach. Public debt is still low and sustainable, although domestic and international borrowing has been increasing. **Budget transparency** is insufficient. In particular, budget information needs to be more reliable and comprehensive to strengthen accountability. The presentation of key budgetary information in an accessible way would generate trust with the general public and contribute to an improved citizen-state relationship.

Service delivery to citizens and businesses

The government is committed to a **user-oriented administration**. However, the development of a coherent policy is often undermined by a lack of coordination and common vision between the responsible ministries. Development of e-services is slow due to lack of an appropriate interoperability framework. Legislation on equal access to services exists, but implementation is a challenge, particularly for citizens with disabilities. **Simplification of administrative procedures** is yet to be ensured, pending the adoption of the law on general administrative procedures.

Strategic framework for public administration reform

A new **public administration reform strategy** framework has been set up under the umbrella of the 2015-2020 development strategy. It includes the 2015-2020 public administration reform modernisation strategy and accompanying 2015-2017 action plan, adopted in September. The strategy sets targets and measurable indicators, including fiscal impact analysis, which is a clear step forward. The Ministry of Public Administration will need sufficient human resources to ensure coordination and monitoring of its implementation. The new framework also includes a strategy adopted in June 2015 on an integrated planning system, coordinated by the Prime Minister's Office, and the new public financial management reform strategy, which is under preparation.

Political support and commitment has visibly increased in recent months, and the Ministerial Council chaired by the Prime Minister is providing the necessary steer and coordination. The monitoring and reporting framework is in place, but remains to be implemented. Sufficient resources need to be allocated especially in the Ministry of Public Administration. **Financial sustainability** needs to be ensured in the 2016 budget and in the medium-term expenditure framework.

2.3. Rule of law

Functioning of the judiciary

Kosovo's judicial system is **at an early stage** of developing a well-functioning justice system. **Some progress** has been achieved over the past year by adopting the package of four laws (Law on Kosovo Judicial Council, Law Kosovo Prosecutorial Council, Law on Courts, Law on State Prosecutor).

However, the administration of justice is slow and there is insufficient accountability of judicial officials. Judicial structures are still prone to political interference. There are concerns that disputed appointments and unclear mandates have undermined the activities of key institutions such as the Kosovo Judicial Council, Kosovo Prosecution Offices, and the Office of the Chief State Prosecutor. Rule of law institutions suffer from a consistent lack of funding.

In addressing the shortcomings outlined below, Kosovo should in the coming year:

- implement the justice package, including timely adoption of any secondary legislation;
- step up financial and human resources to the judicial sector to ensure the proper functioning of the judicial system;
- ensure lawful and timely appointments in critical institutions, such as the Kosovo Judicial Council and the Kosovo Prosecutorial Council;
- further reduce the backlog of cases.

Strategic documents

The 2014-2019 **strategic plan** for Kosovo's judiciary, the 2014-2019 communication strategy and the national strategy for reducing the backlog of cases are being implemented, addressing substantial shortcomings in the judiciary.

Management bodies

Under the Constitution, the **Kosovo Judicial Council (KJC)** and the **Kosovo Prosecutorial Council (KPC)** are responsible for ensuring the independence and impartiality of the judiciary. Both councils have a mixed composition. In the KJC, five out of 13 members are elected by the members of Kosovo's judiciary and eight members are appointed by the Kosovo Assembly. This results in strong political interference and jeopardises the independence of the judiciary. This has not changed with the new law as it would require amending the Constitution. At the KPC, five out of nine members were elected by prosecutors, whilst the other three were non-prosecutors elected by the Council itself, and one member was *ex officio* – the Minister of Justice. The new law sets out a new composition, raising the number of members from nine to 13, ten of whom are to be elected by their peers and three by the Assembly. Also under the new law, from 1 January 2016, the KPC will be able to control its own budgetary resources. All meetings of the KJC and the KPC are open to the media and the public. Both councils draw up and approve annual reports on their work, as provided for by law, but their internal reporting mechanisms still need to be improved.

Applications have been received following vacancy notices published by the KJC and the KPC in March 2015 for Kosovo Serb judges and prosecutors, both for courts in the south and north of Kosovo, in accordance with the political agreement between Belgrade and Pristina. Some positions were filled in July 2015, a significant step forward in the integration of the judiciary in the north.

The KJC and the KPC experienced significant delays in approving strategic documents, regulations and other decisions or acts. There is still not enough capacity to draft regulations and take decisions in full compliance with the hierarchy of normative acts. There is a lack of capacity within the KJC and the KPC to monitor the implementation of their decisions.

Independence and impartiality

Court Presidents are responsible for the management and operations of their courts. Both the Constitution and laws still allow political influence over the judiciary, in particular over the KJC and related to human resources matters. The activities of KJC and the KPC were hampered by the post-electoral political crisis, notably the political pressure on the long and drawn out process of nominating the Chief State Prosecutor. Amendments to the new laws, adopted in May 2015 are in line with most EU recommendations. Additional amendments including transitional clauses are needed.

There is no functional electronic case management system. **Allocation of cases** to judges is regulated and carried out by the drawing of lots. Urgent cases are allocated to the presiding judge. Sensitive cases are being allocated, but not always dealt with. The number of judges

dealing with serious crimes remains low. The KJC, as the competent body to act in case of threats to judges, should raise awareness among judges of existing protection mechanisms to protect them.

Accountability

A **code of ethics** for judges, prosecutors and attorneys is in place. The KJC and the KPC are responsible for **disciplinary proceedings**. Further provisions on disciplinary proceedings need to be adopted, such as a law on the Office of the Disciplinary Counsel/Prosecutor (ODC/ODP) and provisions on the judicial review of disciplinary decisions taken by the Councils. The ODC/ODP initiated around 40 cases against prosecutors on disciplinary and ethical grounds. The President of Kosovo, based on recommendations made by the KJC and the KPC, dismissed from office one judge and one prosecutor. Five judicial administration officers under suspicion of abuse of power were suspended and later dismissed. In addition, one judge was suspended by the ODC due to allegations of taking bribes. Under applicable laws, judges and prosecutors are obliged to **declare their assets** and gifts received, and report any possible conflicts of interest.

Professionalism and competence

Under Kosovo's Constitution, the President of Kosovo **appoints** judges and prosecutors for an initial three-year term, at the proposal of the KJC and the KPC respectively. The entry exam for judges and prosecutors is based on merit. The new laws foresee an obligatory initial training for both judges and prosecutors after they have been appointed. The performance **evaluation** of prosecutors with a permanent mandate should be carried out by the KPC every third year, but has experienced significant delays. The evaluation of judges is carried out by the Commission for Evaluation of Judges and has proceeded as planned. To date, most judges and prosecutors that were evaluated have passed; only one judge was not proposed for permanent appointment. Merit-based performance criteria and an evaluation system within the initial term of appointment, including at the end of the initial training, need to be adopted to ensure professionalism.

Quality of justice

The Kosovo Judicial Institute (KJI) is responsible for initial and continuous **training**. However, the new laws give the KJC and KPC more responsibilities with regard to policy planning and organisation of the training courses. Out of 29 candidates who graduated from the initial legal education programme in May, 17 have been appointed as judges. The KJI, the KJC and the KPC jointly prepare annual training curricula on the basis of a comprehensive needs assessment. The curricula, which are divided into training modules according to responsibilities of departments of courts and prosecutors' offices, specify the areas to be covered by training, including training on EU law. A new curriculum for court administrators has been approved and relevant staff is being trained. Kosovo currently has 19.5 judges per 100 000 inhabitants. In total, there are 350 local judges and 33 EULEX judges.

The **budget** for Kosovo's prosecution service and court system for 2015 is around EUR 28 million, excluding some other services, such as mediation and legal aid. The total budget allocated to the justice system has increased to 1.7 % of the overall Kosovo budget. A comprehensive overview of public finances allocated to the entire judicial system is however still not publically available.

The Palace of Justice was inaugurated in March 2015, providing the necessary infrastructure to allow for the administration of justice under the appropriate conditions. To date, the Palace of Justice houses the Supreme Court, the Basic Court of Pristina, the Appellate Court, the Appellate Prosecution and the Basic Prosecution of Pristina.

There is no official court monitoring system in place. **E-Justice tools** remain under developed.

Since 2008, a **mediation** system is operational, with seven regional mediation centres and 701 mediators licensed by the Ministry of Justice, 163 of which are active. The number of cases has constantly increased – between 2012 and July 2015 the mediation system dealt with 2 598 cases. While notaries are dealing with more cases, their professional skills need to be improved. Both the mediation and notary systems require further strengthening.

Efficiency

According to the Annual Report of the State Prosecutor, at the beginning of 2015, the State Prosecutor had 120 706 cases pending. Correspondingly, according to the Department of Statistics of KJC, at the beginning of 2015 the number of unsolved cases was 91 545. Concerning the **backlog** (cases filed before 31 December 2011), 16 090 cases were completed at the end of 2014 out of a total of 41 038. The number of backlog cases at the beginning of 2015 was 24 948, out of which approximately 3 000 cases were completed during the first half of 2015.

Kosovo's courts now have a **clearance rate** of 84 % (up from 71 %) of cases resolved within a year. There are no figures on the **disposition time** (i.e. the average time from filing the case to a decision) in Kosovo's courts. The success of Kosovo's judiciary continues to be hampered by a high level of latent corruption and intimidation present in rule of law and related public institutions. The time prescribed by law to investigate cases of organised crime and corruption is too short resulting in courts not having sufficient information to come to an informed decision.

Fight against corruption

Kosovo is **at an early stage** in the fight against corruption. **Some progress** has been achieved over the past year, notably in improved cooperation between the Anti-corruption Agency and the prosecution, and in requiring officials to declare property and gifts. However, overall progress has been limited and strong political will and commitment is needed to tackle this phenomenon properly. A comprehensive and strategic approach is necessary to ensure real results in fighting endemic corruption in Kosovo. A track record of successful prosecution and convictions would represent real progress. In addressing the shortcomings outlined below, the government of Kosovo should pay particular attention in the coming year to:

- prioritising handling of high-level corruption cases, especially in public procurement, with a view to securing final convictions;
- strengthening the cooperation between police and prosecution through joint investigation teams on high-level corruption cases;
- concluding the development of an efficient system to monitor the track record of case handling from investigation to final court rulings;
- revising the conflict of interest law and all related laws and regulations to bring in line with European standards. In particular, categories of public officials should be clearly defined and measures on preventing and sanctioning conflicts of interest and regulating "revolving doors" need to be adopted.

Track record

Kosovo has not yet established a track record of **investigations, prosecutions and convictions** in corruption cases. In 2014, the Anti-corruption Agency conducted administrative procedures in a total of 304 cases, of which 56 were carried over from previous

years and 248 were new. The rare investigations into high-level corruption have so far not resulted in final convictions.

The failure to conduct effective **financial investigations** is closely linked to undue political influence and limited capacity. Kosovo's expertise in tackling complex financial investigations and to effectively confiscate **criminal assets** is still limited. Undue **political influence** on law enforcement and judicial bodies continues. Political authorities should ensure that law enforcement bodies are fully empowered to act effectively and impartially when investigating corruption allegations.

Ten political parties failed to submit their **party financing and electoral campaign financing** reports during the local elections, but all parties did so for the general elections in 2014. So far, no irregularities have been detected. Auditors at the Central Election Commission are not independent as they are selected by the Assembly. In order to prevent **conflicts of interest**, such auditing should be external. **Whistle-blowing** and **witness protection** need to be properly implemented, including better regional and international cooperation.

Declarations of assets by senior officials are made public on the Anti-corruption Agency's website and 98.3 % of senior public officials have reported their assets in 2015. Criminal charges were raised against the 71 senior public officials, who did not declare their assets. In 2015 the Anti-corruption Agency selected 20 % of officials for a review of their property ownership. This is a positive development but could be further improved by prioritising corruption-prone positions.

Kosovo should consider measures allowing it to effectively investigate inexplicable wealth.

Institutional framework

The four main institutions involved in the fight against corruption in Kosovo are the Anti-corruption Agency, an independent and specialised agency; the National Anti-corruption Council, a consultative body chaired by the President of Kosovo; the National Anti-corruption Coordinator, who is assigned by the Chief State Prosecutor; and the Directorate for Investigation of Economic Crimes and Corruption within the Kosovo police. The Anti-corruption Agency does not have full investigative powers: rather its role is in prevention and preliminary administrative investigations, in line with international standards. There is a general disconnect and lack of integration between the main anti-corruption bodies in Kosovo, which suffer from overlapping mandates and an unclear division of tasks.

On **prevention**, the Anti-corruption Agency launched an anti-corruption awareness campaign in December 2014. Citizens have been encouraged to report corrupt behaviour to rule of law agencies, but more remains to be done. While civil society is involved in developing and monitoring anti-corruption policy, consultation needs to be improved through regular, transparent and constructive communication.

Public procurement bodies have largely failed to ensure systematic monitoring and review of procurement decisions. It is essential that new competent board members are appointed to professionalise and de-politicise the procurement system.

On **law enforcement**, a prosecutor was assigned to each basic court prosecutor's office to increase coordination and communication between the State Prosecutor and the Anti-corruption Agency. Over 70 % of cases for which the Agency conducted preliminary investigations were dropped, mainly because prosecutors did not find sufficient grounds to continue investigations. The Agency's investigators need to increase the quality of their

reporting, while prosecutors need to demonstrate the necessary capacity and willingness to pursue cases.

More structured cooperation between law enforcement agencies was achieved with the appointment of a National Coordinator against Economic Crime. The anti-corruption task force with 30 investigators, eight prosecutors and five experts focusing on high-level corruption and financial crime cases, should be further strengthened to improve inter-agency co-operation. A positive step was the adoption of the standard operating procedure on prioritising serious crime cases in 2014, which resulted in nine serious crime cases being currently treated as priority, including on corruption and money laundering charges. Two of these cases have been sent to court.

Legal framework

The legal anti-corruption framework has been consolidated with amendments to the law on the financing of political parties and the law on the declaration, origin and control of the property of senior public officials and the declaration, origin and control of gifts for all official persons. The latter extended the list of persons obliged to declare their property and lowered the threshold for the value of movable property to be declared from EUR 5 000 to EUR 3 000 and has led to an increased number of declarations of properties and gifts. These laws are in line with the relevant provisions of the criminal code, ensuring that corruption-related offences are criminalised. In this way, Kosovo has aligned itself with the *acquis*.

Kosovo's law on conflicts of interest has yet to be revised. The scope of the law should not exclude certain categories of public officials such as political advisers, but instead define public officials in line with European standards. Equally, the law should indicate exact circumstances in which public officials may take on additional employment and appointments. Clear procedures to identify, manage and resolve conflicts of interest should be established in the law. Relevant legislation needs to be harmonised accordingly, in particular on the sanctioning regime, including disciplinary measures.

The regulatory framework for political party financing has undergone many changes. The closing of various loopholes has improved the process. However, major challenges remain in this area, namely shortcomings in the way rules are implemented, a lack of monitoring and the absence of regulatory bodies. In general, the financing of political parties lacks proper control mechanisms, which would improve transparency and limit misconduct by political parties.

Strategic framework

Kosovo is implementing its 2013-2017 anti-corruption strategy and action plan, under the monitoring of the Anti-corruption Agency. However, inadequate financing and a lack of any measurable impact indicators are seriously undermining results. Implementation of the 2014-2018 strategy and action plan for preventing and combating the informal economy, money laundering, terrorist financing and other financial crimes is on schedule. In addition, sector action plans are in place to fight corruption in particularly vulnerable areas (customs, police, tax administration etc.). A corruption risk assessment of the health, education, judiciary, energy, and mining sectors was published in 2015.

Fight against organised crime

Kosovo is **at an early stage** in the fight against organised crime. **Some progress** has been made over the past year in inter-institutional cooperation and information exchange among law enforcement agencies on investigations. Kosovo has also stepped up its efforts to fight terrorism and the phenomenon of foreign fighters. Overall, the focus on strategies and action plans should not obscure the need for real results in fighting endemic organised crime.

The number of final convictions and financial investigations remains low. Confiscations of assets are rarely applied. In addressing the shortcomings outlined below, the government should pay particular attention in the coming year to:

- pursuing organised crime-related investigations with the aim of securing final convictions, thus beginning to dismantle criminal groups active in Kosovo;
- systematically applying tools for financial investigations and asset confiscations in order to increase the number of permanent confiscations, and building up expertise at all levels;
- fully developing an intelligence-led policing approach and collecting, harmonising, analysing and using relevant criminal statistics, including through better inter-agency cooperation.

Track record

The rate of convictions in cases against **human trafficking** remains low, despite Kosovo being a source and transit country for trafficked women and children. Kosovo has worked closely with Europol on the dismantling of migrant smuggling networks.

On **drug trafficking**, drug seizures and conviction rates remain low. A number of investigations and arrests have been made as part of efforts to fight and prevent the spread of **terrorism** in Kosovo. Implementation of applicable laws, secondary legislation and regulations on **money laundering and financial crime** is still insufficient, despite progress on putting appropriate systems in place. There is a policy of systematic serious **financial investigations**, but results are lacking. The rate of **confiscation and sequestration of criminal assets** remains low. Statistics on sequestration and confiscation are still not sufficiently harmonised between Prosecutorial and Judicial Council, the Agency for Managing the Sequestered and Confiscated Assets and other agencies. While the overall estimated value of frozen and temporarily confiscated assets has increased, final court rulings are necessary to make sure that illicit assets are confiscated permanently.

Events in Kumanovo (the former Yugoslav Republic of Macedonia) and the involvement of Kosovo citizens in armed violence highlight the continued existence of **armed groups** in the region, threatening regional inter-ethnic stability. With military-grade weaponry, military training and command structures, such groups have the capacity to undermine stability. Their involvement in organised criminal activities, such as arms smuggling, and the apparent impunity with which they are able to operate across borders are serious concerns. The government, law enforcement agencies and the judicial system need to take swift action to dismantle these networks.

Institutional and operational capacity

Kosovo's police has around 9 000 staff, which makes an overall of approximately 500 policemen per 100 000 inhabitants. Approximately 83 % of police staff are ethnic Albanians and 13 % ethnic Serbs, with the remainder coming from other communities. Kosovo's police force is structured in a way that provides for a career path and evaluation mechanism and has also adopted a code of ethics. The Kosovo Academy for Public Safety is responsible for basic

and specialised training and offers a bachelor's programme in public safety. The Kosovo police has **specialised units** dealing with the various aspects of organised crime. The police inspectorate is responsible for the prevention, detection, documentation and investigation of criminal offences of police officers regardless of position or rank.

12 out of 15 positions for local prosecutors in Kosovo's Special Prosecution Office have been filled. However, the Special Prosecution Office does not have the required human resources to cope with the expected workload in view of the planned handover of cases from EULEX. Local prosecutors are dedicated but often do not have the necessary technical expertise, especially as concerns investigations of war crimes. Cooperation between local and EULEX prosecutors has improved.

Intelligence-led policing should be strengthened further, including with human resources and managerial guidance. The new Kosovo police information system has yet to be used by all levels of the Kosovo police, which would allow for improved risk analysis and proactive operations. Kosovo is not a member of **Interpol**, though it applied in April 2015. It currently participates in Interpol structures through UN intermediaries. Kosovo does not have a cooperation agreement with **Europol**. Kosovo's police has been involved, upon request of the leading Member States, in three cross-border operations supported by Europol.

The Kosovo Forensic Agency and its DNA and serology laboratory have all the necessary equipment and instruments to carry out DNA analysis, maintained and calibrated according to international standards. The Kosovo Forensic Agency has an internationally accessible DNA database, which enables research and electronic comparison of DNA profiles.

In December 2014, Kosovo's police, custom authorities, Financial Intelligence Unit and the Kosovo Prosecutorial Council signed a Memorandum of Understanding, agreeing on how to improve cooperation and the exchange of data. Kosovo signed agreements with Albania on cross-border cooperation and hot pursuit, while similar agreements have also been signed with the former Yugoslav Republic of Macedonia.

Legal framework

There has not yet been any assessment of the alignment of Kosovo's criminal code with European standards. An appropriate legal framework for witness protection is in place in the form of the law on witness protection and the accompanying administrative instructions. Legislation on the confiscation of proceeds of crime is mostly in line with the *acquis*, but implementation remains poor. The law on the interception of telecommunications was adopted in May 2015, setting out appropriate investigation measures to help identify and prosecute suspects involved in serious criminal offences, with due respect for relevant human rights. In January 2015, the Kosovo Assembly approved the law criminalising the joining of armed conflicts outside of Kosovo, in line with the relevant UN Resolution.

Strategic framework

Kosovo's strategies and action plans to combat organised crime are largely aligned with EU best practices. Kosovo produced a strategic organised crime threat assessment in 2013. The assessment does not fully follow Europol's SOCTA methodology, but does provide the basis for strategic decision-making and law enforcement. Training has been provided in 2015 on the Europol SOCTA methodology.

To date Kosovo has implemented some 80 % of the action plan to accompany its 2012-2017 national strategy against organised crime. Additional national strategies and action plans are in place on the prevention and combat of the informal economy, money laundering, terrorism,

radicalisation and extremism, and terrorist financing, human trafficking, cybersecurity and narcotics trafficking.

Fight against terrorism

Kosovo has been affected by the phenomenon of foreign terrorist fighters and radicalisation. Kosovo has stepped up its efforts in the fight against terrorism. As well as the law on foreign terrorist fighters, it also adopted a strategy and action plan on prevention of violent extremism and radicalisation that may lead to terrorism. The phenomenon of foreign terrorist fighters needs a dedicated approach by the intelligence and law enforcement community and a coherent judicial policy towards offenders.

2.4. Human rights and the protection of minorities

The legal framework broadly guarantees the protection of human and fundamental rights in line with European standards. **Some progress** was made in this area, notably with the incorporation of international standards into the legal framework, although Kosovo cannot currently formally associate itself with international human rights instruments or institutions. Implementation of human rights is hindered by a lack of resources and political commitment, including at local level. The adoption of the package of human rights laws strengthened the institutional set-up and clarified the roles of various institutions.

Shortcomings particularly affect the following areas:

- Gender-based violence and women's limited access to property ownership significantly hamper their full enjoyment of rights. Similarly, the rights of persons with disabilities continue to be hindered by inadequate institutional support and health services, and poor accessibility.
- Cases of verbal and physical assaults against lesbian, gay, bisexual, transgender and intersex (LGBTI) persons are rarely investigated. This needs to change.
- Legislation and strategies on the rights of persons belonging to minorities and their protection throughout Kosovo need to be rigorously implemented.
- Protection of cultural heritage, including cooperation between the Serbian Orthodox Church and Kosovo authorities, remains problematic and legislation to address illegal construction needs to be implemented and enforced.

Kosovo's Constitution provides for the direct applicability in Kosovo of many **international human rights instruments**, which form an integral part of its legal framework. Progress continues to be made in aligning legislation with such instruments and Kosovo continues its practice of ad hoc reporting.

On the **promotion and enforcement of human rights**, some progress has been made with the adoption of the package of human rights laws (the laws on the Ombudsperson, gender equality and protection from discrimination). This strengthened the institutional set-up and clarified the roles of various civil and public institutions (e.g. the Ombudsperson's Office and the Agency for Gender Equality). Proper implementation of these laws, including training and establishing a judicial track record of discrimination cases, is crucial for the effective promotion and enforcement of human rights throughout Kosovo. The human rights strategy needs to be updated. Human rights issues need increased political and financial commitment at all levels. Continued donor dependency of the government in this sector undermines ownership and effective delivery.

As regards the **prevention of torture and ill treatment**, no violations of internationally recognised human rights standards have been formally identified during the reporting period. Through amending the law on the Ombudsperson, Kosovo has aligned with the requirements of the Optional Protocol to the Convention Against Torture, establishing the role of the Ombudsperson as the National Preventive Mechanism, thereby strengthening its institutional framework with regard to the human rights of detainees.

Within the **prison system**, there is overall good compliance with the UN Standard Minimum Rules for the Treatment of Prisoners and European Prison Rules, while further efforts are necessary to ensure adequate treatment of prisoners in solitary confinement and with regards to aligning with these standards. The housing of prisoners awaiting trial and those convicted for minor offences together with long-term prisoners remains a concern. The Mitrovicë/Mitrovica Detention Centre which should only hold pre-trial detainees, still houses convicted prisoners. Recommendations stemming from inspections at Kosovo Correctional Service facilities by the Internal Inspectorate of the Ministry of Justice are not systematically addressed. Serious concerns remain over corruption and contraband goods in detention centres and some correctional centres, as well as on privileges afforded to certain high-profile detainees. The government needs to urgently address this. Inadequate staffing levels, in particular at the high security prison, remain a concern. There is also concern over the politicisation of appointments to the prison service.

The development of **protection of personal data** is at an early stage. Kosovo has an independent data protection authority – the National Agency for the Protection of Personal Data (NAPPD) – that contributes to the implementation of EU standards in the area. However, further strengthening of its capabilities including with qualified staff and financial resources is necessary. The institutional and legal framework for data protection and access to public information has to be established and regularised. Out of 38 municipalities, 35 now have data protection officers. The NAPPD carried out an increasing number of inspections and repeat inspections. A significant increase in the number of complaints from members of the public suggests increased awareness.

Legal provisions are in place in the field of **freedom of thought, conscience and religion**. The Orthodox seminary in Prizren has expanded its membership and continues to function well. Modalities on how to support the reconstruction of Serbian Orthodox Church sites, left unfinished by the Reconstruction Implementation Commission, need to be agreed upon. Interaction among religious leaders of all faiths has become more regular. Following the recent decision by the Appellate Panel of the Special Chamber of the Supreme Court, there is a need for intensified and renewed efforts to find a solution to the longstanding land dispute between the municipality of Deçan/Deçane and the Visoki Deçani Monastery, to reduce continuous tensions between the monastery, municipality and local community. There were no reports of any serious incidents linked to the protection of historical and religious sites under the responsibility of the Kosovo police. Continuing incidents of petty theft and vandalism at religious heritage sites need to be followed up effectively. The authorities have as a rule responded appropriately to such incidents, although a statement after an incident of graffiti at the Visoki Deçani Monastery aggravated inter-communal tensions.

Freedom of Expression

Kosovo has **some level of preparation** on the right to freedom of expression; over the past year there has been **no progress** in this area. There were no legislative developments on the regulation of media ownership and transparency. No solution was reached on the sustainable funding of the public broadcaster, leaving it vulnerable to political pressure and influence. Implementation remains a serious challenge. The overall environment is not conducive to the full exercise of freedom of expression. In addressing the shortcomings outlined below, in the coming year, Kosovo should in particular:

- ensure that cases of physical attacks against journalists and other forms of pressure are thoroughly investigated;
- ensure a sustainable financial solution for the public broadcaster and provide for transparent information on media ownership.

Intimidation of journalists

Three serious physical assaults against journalists took place during the reporting period. A total of 26 cases of attacks, threats and obstruction of journalists are under investigation. In one case, the editor of a newspaper and chair of the Association of the Journalists were physically attacked by the newspaper owner following the disclosure of non-payment of newspaper staff's salaries. In another case, a bomb was thrown at the premises of a Serb online portal in Mitrovicë/Mitrovica North. A more systematic response, including public denouncement, prompt investigation and timely adjudication, would strengthen the protection of journalists. Investigations are slow and the record of final convictions low, with no convictions in 2014.

Legislative environment

While freedom of media and expression are constitutionally guaranteed, and legislation on libel, hate speech and defamation are in line with European Court of Human Rights case law, effective implementation remains a challenge. The legislative and institutional framework in this area remains fragmented and ineffective. Journalists' right to conscientious objection and the public's right to reply and correction remain unregulated.

Implementation of legislation/institutions

Two members of non-majority communities were appointed, completing the board of the Independent Media Commission (IMC). The IMC still failed to take decisions in good time, undermining its targets for 2014, including timely preparation for the process of the digital switchover. The IMC needs to complete secondary legislation in line with EU Directives and more systematically monitor the content of audio-visual media. As a result of government cuts across the board, the IMC is facing difficulties in meeting its financial obligations, including for capital investment.

Freedom of expression online is not monitored by either the IMC or the Press Council. Although this creates an ideal environment for online media, it also detracts from the privacy of individuals, leading to many cases of alleged hate speech, libel and defamation.

Public service broadcaster

The public service broadcaster, Radio Television of Kosovo (RTK), is directly publicly financed. The April 2015 deadline for adopting legislation to solve the funding issue was missed. In the autumn of 2014, several protests were organised by the public broadcaster's union, which accused the RTK of mismanagement, nepotism and corruption. In April, the Assembly called on the Auditor General to carry out a detailed financial and performance

audit of the public broadcaster. In July, the Assembly appointed four out of five members to the RTK Board, amid concerns that they do not meet the required professional criteria.

Economic factors

The economic sustainability of the media is not ensured. Media ownership structures, in particular for print and online media, remain unclear. The lack of a strong private advertising industry makes private broadcasters dependent on international donors and very few are able to operate without political party support. Many Serbian-language media outlets risk closure because their advertising market is too small to be economically viable.

Professional organisations / professional conditions

The Association of Journalists of Kosovo, representing most journalists, has been very active in condemning pressures and in advocating for rights. Journalists tend to have low wages and often work without contracts, vulnerable to corruption and prone to self-censorship. The independence of journalists and editors and the protection of professional standards in journalism remain unregulated. Editorial codes of conduct at individual media outlets would be helpful.

Freedom of assembly and association is guaranteed by the Constitution and citizens have been exercising it freely, including by staging protests against various levels of government.

There was no progress on **property rights**. The government's Property Rights Coordinator position has been vacant since January 2015. A strategy on property rights is being developed which, once approved, may remove the need for a coordinator. The implementation of the Law on Treatment of Construction without a Permit faces a number of problems whereby documents required by law do not require proof of ownership over the land parcel when submitting an application for legalisation nor is the relevant Ministry obliged to check land registry records in the process of legalisation. Residents (in particular minority communities and displaced persons) were not informed in time about the process of legalisation. Concerns remain with regard to treatment of unpermitted constructions belonging to displaced persons who have failed to apply, since such properties will be included in the demolition list.

Decisions by the Kosovo Property Agency (KPA) on applications to demolish illegal constructions in private property have not been implemented due to a lack of financial resources, seriously affecting the rights of internally displaced persons. There has been some improvement on complying with legal obligations during expropriations. However, concerns remain over language compliance and notification of vulnerable groups in the expropriation process.

Kosovo needs to solve all conflict-related property claims. The Law on the Property Comparison and Verification Agency is still pending. The Property Claims Commission of the KPA has reached a decision in all cases, albeit with technical inconsistencies in some of them. The KPA continues to clear illegally occupied properties south of the Ibër/Ibar river.

The strategy to regularise informal settlements is still pending. Some relatively limited progress has been noted in addressing issues of social housing. Provision of social housing is hampered by the failure of institutions at central level to adopt a three-year Kosovo-wide strategy.

As regards **non-discrimination**, the adoption in May 2015 of the Law on the Protection from Discrimination is a major step forward. The Ombudsperson now has a mandate to act as an equality body. Hate crimes are proscribed in Art. 147 of the criminal code. The performance of Kosovo institutions in processing and investigating cases of hate speech, targeting mainly members of the LGBTI community and ethnic minorities, remains poor. The Kosovo

Prosecutorial Council's tracking mechanism needs to be extended to cover cases of all kinds of discrimination, not only those based on ethnicity.

Kosovo's legal framework on **equality between women and men** improved through the adoption in May of the Law on Gender Equality in accordance with international standards. However, significant structural challenges remain and implementation will require serious effort. The impact of the inter-institutional secretariat monitoring implementation of the action plan on UN Security Council Resolution 1325 has until now been limited. The role of the Agency for Gender Equality in policy-making needs to be enhanced. Women remain under-represented in decision-making positions, including at municipal level. At national level, the situation worsened, as only two ministers out of 22 are women and only two out of 14 chairs of parliamentary committees.

Every police station has a unit responsible for gender-based violence. Despite the recent appointment of a national coordinator for domestic violence, no progress has been made on combating domestic and gender-based violence. The absence of a system of regular data collection across institutions undermines the ability to cross-track and monitor cases in investigation and judiciary proceedings. Kosovo needs to evaluate the implementation of the 2011–2014 strategy and action plan against domestic violence before drafting a new one. The anti-trafficking and domestic violence help-line should provide assistance to non-Albanian-speaking victims, including ensuring similar services for residents in the northern municipalities. The mandate of the National Council for the survivors of sexual violence during the war was extended to address the need for comprehensive support for surviving victims. Effective implementation of women's rights to inheritance remains limited, despite the existence of legal provisions governing this issue. Further efforts need to be made by cadastral and registration officers on registration of all co-owners of property, including women, in order to strengthen the protection of their rights.

On the **rights of the child**, the legal framework is in place but implementation is weak at both national and local level. An assessment of the implementation of the 2009-2013 strategy and action plan on children's rights needs to be carried out and results taken into consideration when developing a new strategy. The successful development of policies depends on the availability of sex and age-disaggregated data. A law on child protection should avoid duplication of existing legislation on children's rights. Municipal Child Rights Co-ordinators need capacity building and sufficient budget. Awareness-raising and training on rights of the child need to continue and the Ombudsperson's Office needs to increase its activities in this field. Physical or any other form of humiliating punishment in educational and training institutions is prohibited by law but not in other settings such as public spaces or family. Increased awareness among judges and prosecutors led to a systematic reduction of pre-trial detention periods for juveniles. However, the legal framework needs to be revised to accommodate the UN Committee on the Rights of the Child recommendations on reducing pre-trial detention to six months.

On the **integration of persons with disabilities**, Kosovo needs to improve the implementation of the 2013-2023 strategy for the rights of persons with disabilities and its 2013-2015 action plan. Health services and support for the rehabilitation of persons with disabilities remain insufficient and physical access to public institutions remains a challenge. The unsubstantiated removal of more than 1 000 members of the deaf community from the disability pension scheme is a concern. The availability of personal assistants for children with disabilities needs to be ensured. The National Disability Council has so far failed to promote the rights of persons with disabilities and needs stronger support from the government's Office for Good Governance to enable it to exercise its coordinating role in implementing the strategy and action plan.

On the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the package of human rights laws has addressed gaps in legislation on the protection of sexual orientation and/or gender identity. Cases of verbal and physical assaults against the LGBTI community are rarely addressed adequately by the authorities. Despite meeting regularly, the advisory and coordinating group for the rights of the LGBTI community has yet to produce concrete results. The government has started awareness-raising training for civil servants, law enforcement officials, the judiciary, media and teachers. A pride walk to mark the international day against homophobia took place for the second time in Pristina on 17 May, with no incidents. However, Kosovo's political leaders need to do more to raise awareness and promote tolerance.

On **labour and trade union rights**, the General Collective Agreement signed in March 2014 is still not implemented due to lack of budget. This triggered a wave of protests across different sectors. Implementation of the law on strikes remains unsatisfactory, due to a lack of communication between strike organisers and the authorities. Representation of employees within the Social and Economic Council is still challenged by the majority of trade unions and amendments to the law on the Social and Economic Council need to clarify criteria and procedures. (*See also 4.1.8 — Employment and social policies, public health policy*)

On **procedural rights**, the suspected, accused persons and victims of crime in Kosovo enjoy solid protection under the legislation (the Criminal Procedure Code, Law on Police, Law on the Kosovo Police Inspectorate, Law on Crime Victim Compensation as well as the Law on Free Legal Aid). They have the right to interpretation and translation, the right to information about rights, the right to legal advice before and at trial and to legal aid, and the right for the detained person to communicate with family members, employers and consular authorities. There is a strong political will for fair implementation of these rules but more training is needed to secure Kosovo citizen's procedural rights in practice.

Kosovo's legal framework for safeguarding and protecting **minorities** is comprehensive, although implementation remains a challenge. The political impasse following the dismissal of the Minister for Communities and Return in early February 2015 affected the functioning of the ministry. Appointment of a new minister in April led to renewed commitment to identifying a durable solution for the issue of Kosovo displaced persons in the region, notably through an Inter-ministerial Commission on Returns. The Technical Working Group for the Framework Convention on National Minorities was established but has only met once in June 2015. The Office of Community Affairs needs to take on a more robust role on minority policy, including on matters dealt with by the technical working group and the post-2015 policy for Roma, Ashkali and Egyptians. The Consultative Council for Communities met regularly and set up five sector-based working groups, but urgently needs increased funding and support to function effectively and have its recommendations taken into account.

Kosovo needs to continue improving the employment of non-majority communities within the Kosovo civil service and public enterprises. A permanent solution to the issue of acceptance of diplomas of the University in Mitrovicë/Mitrovica must be found to enable members of the non-majority communities to better integrate, including through employment in government institutions. Significant challenges remain in access to services in official languages both at the central and municipal level, including languages used by minority communities. The Office of the Language Commissioner continued to carry out its duties in a satisfactory manner in spite of limited financial and human resources, including through increased cooperation with other institutions. The Office has yet to establish relations with the four northern municipalities.

Incidents at a football match between Serbia and Albania in October 2014 led to a short but sharp increase in inter-ethnic incidents. While the overall security situation for non-majority communities remains relatively stable, an increasing trend of incidents occurred targeting the Kosovo Serb community residing in western Kosovo, with frequent thefts from homes causing a heightened sense of insecurity within the affected community. Kosovo's police and judicial authorities need to develop a better understanding of what constitutes an inter-ethnically motivated incident. Efforts are still needed to further stabilise and normalise inter-ethnic relations. Incidents and crimes targeting members of minorities and their property should be investigated and prosecuted thoroughly and promptly.

As regards the **Roma, Ashkali and Egyptian communities**, the 2009-2015 strategy and action plan for the integration of Roma, Ashkali and Egyptian communities continued to be implemented. The government must demonstrate commitment in practice to continue developing and drafting credible, realistic and measurable post-2015 policy commitments. All relevant stakeholders, including civil society and members of parliament representing the three communities need to be involved and recommendations incorporated. 12 municipalities adopted local action plans on the integration of the three communities. The learning centres have played a positive role in reducing the school drop-out rates. The Roma, Ashkali and Egyptian communities have the same access to healthcare services as other citizens and the Ministry of Community and Returns sets aside budget for housing. Members of these communities continue to face difficult living conditions, social exclusion and frequent discrimination, while child labour and early marriages continue to be prevalent. Access to labour market is difficult and informal employment prevails. Active measures to include these communities in the job market need to be pursued. Progress has been made with regard to solving registration problems for children and the government extended its assistance to the registration process to over 600 displaced Roma, Ashkali and Egyptians currently in Montenegro. In the absence of identity documents, Kosovo has yet to produce reliable data on its Roma, Ashkali and Egyptian communities.

Authorities at local and central level did not do enough to facilitate return and reintegration of **refugees and internally displaced persons (IDPs)**. Illegal occupation of residential, agricultural and commercial property continues to affect the property rights of IDPs and hinders returns. Municipalities are still not taking the initiative to collect and maintain data on numbers and locations of IDPs and returnees. Greater commitment at local level is urgently needed. Figures from the reporting period show some of the lowest number of voluntary returns (around 800) since 2000. A lack of government commitment and funding, together with poor economic prospects, create an environment less conducive to returns.

On **cultural rights**, cooperation between the Kosovo authorities and the Serbian Orthodox Church within the Implementation and Monitoring Council (IMC) continues, although meetings have become less regular and the Ministry of Culture has become less involved. In the interest of sustainability, the government should plan for and allocate necessary funds for the functioning of the IMC secretariat. The Religious and Cultural Heritage Unit of the Kosovo police fulfils its mandate, in four regions, to protect Serbian religious and cultural heritage sites with 205 officers. Ongoing challenges include improving communication with the resident Orthodox clergy and the provision of sufficient equipment.

The Village Council of Velika Hoča/Hoçë e Madhe was established and a budget was allocated, marking the first step of the implementation of the law. With limited municipal capacity, central-level guidance continues to be needed to ensure full implementation of these laws. There has been progress in implementing the Law on the Historic Centre of Prizren with equipment and premises provided for the Cultural Heritage Council, although funds have yet to be allocated. Incidents of illegal demolition of cultural heritage have continued. The task

force set up last year to deal with illegal construction in Prizren, has been reinvigorated but has to date not delivered concrete action. More efforts are needed to investigate violations and sanction perpetrators. Concrete results in countering illegal construction, demolition and adverse development are needed to demonstrate the Government's commitment to protecting cultural heritage

Of particular concern was an attempt, through the introduction of a draft law on cultural heritage, to undermine legislation deriving from the Comprehensive Settlement Proposal (CSP), which establishes specific rights and privileges for the Serbian Orthodox Church (SOC). The draft was quickly withdrawn but is expected to be soon introduced again. Kosovo needs to demonstrate its commitment to respect legal provisions deriving from the CSP and offer assurances to the SOC that its rights, privileges and identity will not be challenged.

2.5. Regional issues and international obligations

In August 2015, the Kosovo Assembly adopted constitutional amendments and passed the necessary legislation creating the conditions for the establishment of the Specialist Chambers and Specialist Prosecution Office to follow up on allegations of **grave trans-boundary and international crimes** committed during and after the conflict in Kosovo, as relating to those reported in the 2011 Council of Europe Parliamentary Assembly report. The Chambers will be subject to Kosovo law, but will be located outside of Kosovo. The Kosovo authorities should now work on completing the regulatory framework.

Kosovo has set up a war crimes department within its Special Prosecution Office. However, the department does not have enough prosecutors to carry out its current tasks, which would increase when EULEX investigations and cases are handed over. The Kosovo police war crimes investigation unit has received additional staff. However, the lack of investigators with an ethnic Serb background, limited criminal intelligence analysis staff, a lack of language and translation capacity and a lack of basic equipment such as vehicles and computers mean that the unit cannot function properly. EULEX is supporting Kosovo in building up the capacity to effectively take over war crimes investigations and prosecution. In most pending war crimes cases, the suspects are ethnic Serbs residing mainly in Serbia. Given the political climate, the local unit will not be able to deal with these cases independently. In the rest of the cases (166) the suspects are ethnic Albanians and usually ex-KLA members. There is concern over the capacity and willingness to investigate these cases.

The unresolved fate of **missing persons** from the conflicts of the 1990s remains a humanitarian concern. As of August 2015, a total of 10 814 persons were still missing according to the International Committee of the Red Cross. Of these, 1 670 cases relate to the conflict in Kosovo. Ascertaining the fate of missing persons remains vital for regional reconciliation and stability. The inter-ministerial working group on dealing with the past, tasked with drafting the strategy on this issue, needs to be more active and produce concrete results, with a special emphasis on victims groups and transitional justice. The governmental commission on missing persons appointed municipal focal points. Pristina's dialogue with Belgrade, through the working group on missing persons, chaired by the International Committee of the Red Cross, has not made significant progress. The Pristina delegation to the working group is currently incomplete and the new head needs to be appointed. Kosovo needs to engage more pro-actively and provide information from its own sources. High-level political support is needed to address the issue of the fate and whereabouts of missing persons. Following the completion of the exhumation process at the gravesite located in Rudnica, Raška (Serbia), human remains were identified and transferred to Kosovo.

Kosovo's Department of Forensic Medicine (DFM) does not, despite some progress, have the capacity to meet the standards required for sustainable forensic practice, including in forensic anthropology and toxicology. Coordination and cooperation between the governmental commission on missing persons and the DFM needs to improve. Capacity needs to be strengthened and staff from non-ethnic Albanian communities integrated.

The Commission and the DFM need to find a sustainable solution and allocate resources to continue data entry in the ante-mortem/post-mortem database. The lack of progress on this issue prevents the government from assuming its responsibility to establish, maintain and manage the list of missing persons, in compliance with the law on missing persons. No progress has been made regarding the unidentified human remains stored at the Pristina morgue for which forensic action has been exhausted.

Regional cooperation and good neighbourly relations form an essential part of Kosovo's process of moving towards the EU. Kosovo participates in several regional organisations, further to arrangements on regional representation and cooperation agreed with Belgrade in February 2012. However, despite government efforts, Kosovo is still not represented in all regional organisations, for instance the Southeast European Law Enforcement Centre.

A fresh impetus has been given to regional cooperation through the '**Berlin process**' and the Western Balkan six initiative, intensifying cooperation among the Western Balkan countries and with the EU, notably regarding the **connectivity agenda**. In April, the Western Balkan six countries reached an agreement on the core transport network and in June 2015 on extending three Trans-European Transport Networks core corridors to the Western Balkans. They also identified the priority projects along sections of these corridors to be implemented by 2020. To ensure sustainability and achieve short term results, the countries agreed to implement before the next summit in Paris a number of 'soft' measures such as aligning and simplifying border crossing procedures, road safety and maintenance schemes.

Kosovo has further improved its relations with *Albania*. An agreement on mutual cooperation was signed during Prime Minister Mustafa's visit to Tirana in March 2015. The agreement includes a wide range of protocols and memoranda on regional and cross-border cooperation in a variety of sectors.

There are no official relations with *Bosnia and Herzegovina* as the latter does not recognise Kosovo's independence. A reciprocal visa regime is in place.

Relations with the *former Yugoslav Republic of Macedonia* have remained constructive. A memorandum of cooperation between the public prosecutors of both countries in combating cross-border crime and terrorism was signed in late December. An agreement on the encouragement and reciprocal protection of investments and a protocol on cooperation in the field of diplomatic education were signed in Skopje in January. Following allegations of involvement of Kosovo citizens in the attack on the border police station in Goshince (21 April) and in the incidents in Kumanovo (9-10 May), the government of Kosovo condemned the violence and called for territorial integrity to be respected. The government also called for the full implementation of the Ohrid Framework Agreement.

A joint commission on border demarcation with *Montenegro* concluded its work in June 2015 and Ministers signed the border agreement during the August Western Balkans Summit (Vienna), now pending parliamentary approval by both. There were no developments concerning the constitutional recognition of the Montenegrin minority in Kosovo.

Kosovo has maintained very close relations with *Turkey*. Negotiations on a readmission agreement are ongoing with a view to concluding it by the end of the year.

3 NORMALISATION OF RELATIONS BETWEEN KOSOVO AND SERBIA

Kosovo and Serbia have remained engaged in the implementation of the agreements reached in the dialogue, in particular the April 2013 ‘First agreement of principles governing the normalisation of relations’. Work under the EU-facilitated dialogue has continued at technical level throughout the reporting period. The high-level dialogue resumed in February 2015, and four meetings attended by Prime Ministers Mustafa and Vučić were held in April, June and August.

Key agreements were finalised on 25 August 2015. General principles/main elements on the **establishment of the Association/Community of Serb majority municipalities in Kosovo** through the adoption of its Statute were agreed. The text defines the legal framework of the Association/Community, its objectives, organisational structure, relations with central authorities, legal capacity, budget and financial support. It also provides the modalities/next steps for its establishment. In the field of **energy**, two new Serbian energy companies (one dealing with import, export and transit; the other with supply and distribution services) were established in Kosovo. These companies are proceeding with their internal organisation before being able to apply for licenses. An action plan detailing the implementation steps of the **telecoms** arrangement was also approved. Kosovo and Serbia agreed to ask the European Union to revitalise the **Mitrovicë/Mitrovica bridge** and its surroundings so that it can be reopened to all traffic by summer/not later than June 2016. In line with the same timetable, it was also agreed that the North Mitrovicë/Mitrovica municipality will revitalise its main street (King Peter Street) by turning it into a pedestrian zone.

Progress has been made in other important areas. Following an agreement in February 2015, the dismantling of the Serbian structures on justice is well-advanced. Serbia facilitated applications of Kosovo Serb judges and prosecutors in the Kosovo judiciary. The proper handling of cases in the Mitrovicë/Mitrovica Basic Court, where Serbian official statements have at times interfered with the proceedings, requires a dispassionate environment. Integration of Kosovo Serb **police and civil protection** personnel is nearing completion. An agreement on **vehicle insurance** of June 2015, providing for the recognition in each other's jurisdiction of Serbia and Kosovo's respective vehicle insurance, is being implemented. On *customs*, agreements were reached on the import of controlled goods into Kosovo, including for medicines. In the context of the **liaison arrangements**, and following an agreement reached in November 2014, all official visits are directly arranged by Liaison Officers. Progress was also reached in the field of **cadastre**: a new archives building was opened in Belgrade, where the scanning of documents pertaining to Kosovo is to be completed by June 2016. Following the Serbian Constitutional Court's rulings adjudicating that the form in which some dialogue agreements have been transposed was unconstitutional, Serbia has adjusted its regulatory framework related to these agreements, with the exception of freedom of movement. The Constitutional Court's rulings on the energy and telecoms agreements are still pending. Serbia needs to find legal solutions for the implementation of agreements that are sustainable and can withstand legal challenges.

Implementation of other agreements has continued, albeit at a slower pace. On IBM, further to the six interim facilities, two additional permanent **crossing points** were agreed, for which Serbia has initiated the expropriation process on its territory. However, illegal crossing roads/by-passes, in particular in the north of Kosovo, continue to be regularly used to smuggle substantial amounts of goods. Additional measures need to be taken by Serbia to stop illegal crossings. The processing of cases in the framework of the 2013 general modalities for **Mutual Legal Assistance** has been suspended between October 2014 and August 2015 by the Serbian authorities. The handling of over 600 pending cases has resumed in September 2015. On regional cooperation, Kosovo became a permanent participant in RACVIAC (the Centre

for Security Cooperation) and joined MARRI (Migration, Asylum, Refugees Regional Initiative). However, Serbia needs to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**.

Serbia and Kosovo also participated in constructive discussions to improve cooperation in tackling migratory flows from Kosovo early this year.

Overall, Serbia and Kosovo have remained engaged in the dialogue and committed to the implementation of the April 2013 'First agreement of principles governing the normalisation of relations' and other agreements reached in the dialogue. The steps taken gave fresh momentum in the normalisation of relations and should have a positive and concrete impact on the everyday life of citizens in both Kosovo and Serbia. Further progress in this area remains essential for advancing the European future of both Serbia and Kosovo.

4. ECONOMIC CRITERIA

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	N/A	N/A
GDP growth (%)	3.4	0.9
Unemployment rate (female; male) (%)	30 (38.8; 26.9)	35.3 (41.6; 33.1)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	46.4 (23.7; 69.5)	47.7 (24.2; 71.4)
Current account balance (% of GDP)	-6.4	-8
Foreign direct investment (FDI) (% of GDP)	4.5	2.3

Source: Eurostat

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

The monitoring of these economic criteria should be seen in the context of the increased importance of economic governance in the enlargement process. In order to improve their economic governance, in 2015 the enlargement countries were asked to prepare Economic Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at supporting the framework and boosting competitiveness. The ERPs were the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey in the Economic and Financial Dialogue meeting on 12 May 2015.

4.1. The existence of a functioning market economy

Kosovo is at **an early stage in developing a functioning market economy**. The pursuit of economic reforms received a new momentum after the post-election impasse. **Some progress** was made, particularly on facilitating business creation, improving the legal system and on financial sector stability. The persistent trade deficit reflects a weak production base and lack of international competitiveness. An inefficient public sector and ad hoc fiscal policy

decision-making constitute significant fiscal risks. Reliance on remittances and widespread informal economy additionally decrease employment incentives resulting in low labour force participation, especially among women, high unemployment rates, in particular among young and unskilled workers. Kosovo should reduce reliance on customs duties by broadening domestic tax base and modernising revenue collection.

In line with the ERP recommendations and in order to support long-term growth, in the coming year Kosovo should pay particular attention to:

- ensuring fiscal sustainability;
- speeding up the privatisation and restructuring of publicly owned enterprises;
- improving bankruptcy and insolvency procedures.

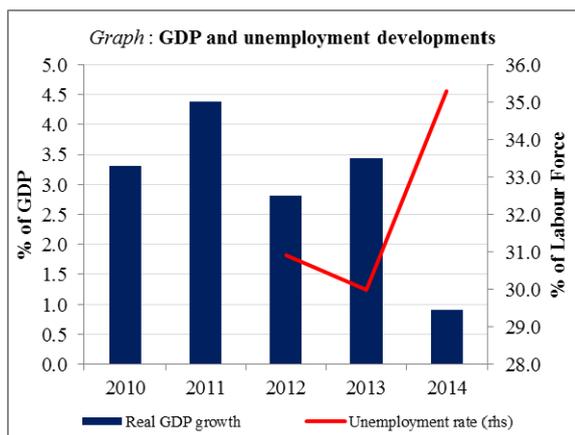
Economic policy essentials

The government's strategic documents show a strengthened commitment to pursuing economic reforms. This should be translated into determined policy implementation and an avoidance of ad hoc decision-making in economic policy. The 2014 post-election political impasse delayed the pursuit of sound economic policies, including the adoption of the 2015 government budget.

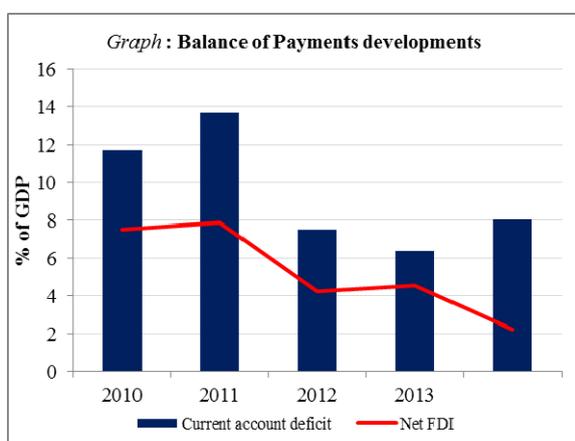
Kosovo submitted its first Economic Reform Programme (ERP) to the Commission in January 2015. Together with the new government programme, the ERP reflects a clear commitment to pursuing a stable fiscal policy and structural reforms to boost competitiveness. Following the joint adoption of the ERP recommendations, the Kosovo government has started launching ERP-based reforms. A new EUR 184 million 22-month stand-by programme with the IMF has been approved in July 2015. The programme aims at strengthening the credibility of public finances, in line with ERP recommendation 1, further enhancing financial stability and boosting competitiveness and productive capacity.

ERP recommendation 1: "Sustain the commitment to fiscal discipline and improve transparency of public finances by considering establishing an independent fiscal council, or fiscal agency, with a clear mandate to preserve sustainability of public finances, and reduce deficit bias, and by better coordination between government and parliamentary bodies responsible for budgetary processes. Improve the budget process by legislatively strengthening the role of the Medium Term Expenditure Framework and enshrine principles of cost-benefit analysis as the basis of the policy planning process. Take steps to increase government deposits to the threshold implied by the fiscal rule (4.5 % of GDP) to provide additional financing buffer."

Macroeconomic stability



capacity is poorly developed. Trade and real estate activities continued to positively influence growth while construction contracted. Preliminary results for Q1 2015 show further growth slowdown, possibly influenced by the migration outflows at the beginning of the year.



last ten years, which averaged 6.7 % of GDP. The bulk of financial inflows was informal and unrecorded (5 % of GDP). Kosovo's external debt remained relatively low at 31.6 % of GDP in 2014 and is not a cause for immediate concern.

Employment is extremely low and efforts to improve labour market conditions have been limited. Moderate economic growth over recent years has not translated into a better performance by the labour market. Kosovo has the lowest employment and activity rates in Europe (26.9 % and 41.6 % respectively); this is due to a weak production base and low competitiveness in human capital and labour costs. Reliance on remittances and widespread informal economy additionally decrease employment incentives.

The unemployment rate increased to 35.3 % in 2014 from 30 % in 2013. Labour market conditions are especially difficult for women. Only one in five women of working age were active in the labour market and only one in eight were employed. Limited job opportunities, especially for young people (61 % youth unemployment), are also putting a strain on social cohesion and encouraging emigration. Financing for active labour market policies remains fragmented and insufficient. Labour market statistics have remained inadequate and more harmonised data is needed in order for Kosovo to be able to make informed policy choices.

The macroeconomic situation remained stable but challenging, having been hit by the political uncertainties in 2014. Preliminary data shows that economic growth in 2014 dropped to 0.9 %, below the ten-year average of 3.5 %, as a result of political impasse which caused delays in capital investments. Economic growth was mainly driven by private consumption (1.2pp contribution to growth) resulting from higher remittances and increased pensions and wages in the public sector. Net exports continued to weigh on GDP growth (-1 pp). Production

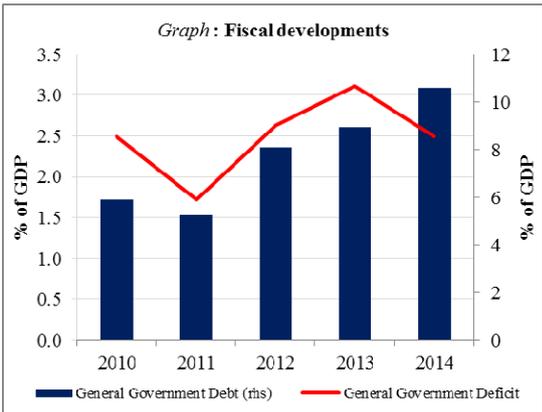
External imbalances worsened slightly in 2014, despite the continued economic recovery in Kosovo's main trading partners and diaspora countries. In 2014 the current account deficit increased to 8 % of GDP, after having fallen since 2011. This increase resulted from weaker transfers to the government from abroad caused by delays in ongoing projects due to the political impasse. Growing remittances (12.6 % of GDP in 2014) continued to offset the traditionally high trade deficit (31.6 % of GDP in 2014). The inflow of foreign direct investment (FDI) amounted to 2.6 % of GDP, the lowest in the

ERP Recommendation 2: "Address immediate fiscal risks with necessary measures aimed at

Inflation is mainly dependent on import prices, specifically food and energy prices. The consumer price index inflation in Kosovo has been on a downward trend since 2011, reaching 0.4 % on average in 2014 and declining further to -0.7 % by July 2015.

reducing unsustainably high current expenditures while preserving growth enhancing capital spending. Develop a legal framework for maintaining a sustainable public wage bill and strengthen targeting and means testing of transfers. Ensure planned increases in agricultural subsidies are directed exclusively at productivity increasing initiatives. Advance public administration reform with special attention on improving productivity and reducing costs. Take further steps in strengthening public finance management practices."

The execution of the 2014 budget was characterised by lower-than-expected revenues and ad hoc pre-election spending increases. The 2014 budget was the first budget to be subject to the new 2 % of GDP deficit fiscal rule. As a result of the April 2014 government increase in salaries, pensions and benefits, current expenditures accounted for a higher proportion of total spending at 71.3 % in 2014 compared with 63.5 % in 2013. In addition, the caretaker government committed roughly 32 % of the overall capital spending in the next four years to highway construction, thus further limiting fiscal space in the following years. Overall expenditure underperformed by 11 % compared to the plan. This decrease was due to delays in public investments.



Budget revenues underperformed by 12 %; this is due to lower-than-expected growth and the postponement of some one-off transfers. Kosovo needs to take further measures to improve revenue collection in line with ERP recommendation 3. The overall fiscal deficit stood at 2.5 % of GDP, higher than the fiscal rule threshold of 2 %. Considering however the exceptions allowed by the rule, the 2014 budget can be considered to be in conformity with it. The breach of fiscal rule was in any case only avoided due to under execution of capital spending.

Total public debt continued to increase, reaching 10.6 % in 2014. An increasing proportion of this comes from domestically issued treasury bills. Kosovo has a relatively low level of public debt. However, given its reliance on short-term domestic financing and loans from international financing institutions and its inability, in the absence of a credit rating, to issue international debt, prudent fiscal policy is crucial for Kosovo. Government deposits, maintained as an emergency source of financing, fell steadily to 1.8 % of GDP at the end of 2014, substantially below the 4.5 % threshold suggested by the fiscal rule.

ERP Recommendation 3: "Modernize revenue collection to reduce reliance on customs receipts by improving property tax collection and strengthening the legal framework for collection of tax and municipal tax arrears. Revisit local government grant financing scheme to incentivise better collection of municipal revenues. Further broaden tax base by introducing the planned mandatory health sector contributions, and reassess planned tax exemptions."

Due to the post-electoral political deadlock, the 2015 budget was adopted only in December 2014 and it was based on overly optimistic revenue projections (18.3 % rise compared to 2014 budget execution). In the July mid-term budgetary review both revenue and expenditure targets were adjusted, now standing, still ambitiously, 14.1 % and 11.5 % higher than the

2014 budget execution. By July 2015, revenues grew by 9.3 % compared to the same period in 2014 thus lagging behind the plan. To increase revenue, the government has introduced changes to excise duties and the VAT system applicable from 1 September 2015.

Successful reforms in the customs administration directed at better goods evaluation and fighting smuggling yielded a 7.4 % increase in border revenues compared to the first seven months in 2014. Spending is also lagging behind the budget plan, again mainly due to underperformance of capital spending. Without further improvements in revenue collection or additional expenditure cuts, satisfying both the fiscal rule deficit and capital spending targets will be difficult.

The fiscal rule and the law on public finance form the backbone of public finance management in Kosovo. However, their enforcement and monitoring mechanisms need to be improved. Repeated ad hoc fiscal decision-making, with a large fiscal impact is the main risk to fiscal sustainability. Budget planning procedures have not been transparent and coordinated so far, and budget spending programmes are not joined up with the government's long term priorities. The launch of a central procurement system and better checks on contracting procedures at the local level are welcome steps, but more needs to be done to meet ERP recommendation 2.

Interplay of market forces

Overall, very limited progress was achieved in the privatisation and liquidation of publicly owned enterprises. No new privatisations took place. The privatisation agency remained dysfunctional and its credibility was further tarnished amid political controversy and corruption allegations. The privatisation agency still does not have a new, credible, independent and functioning board; its merit-based management selection procedures and anti-corruption mechanisms need to be strengthened in line with ERP recommendation 4. The unresolved status of property rights and lengthy legal proceedings in dealing with financial claims on privatised assets hinder the privatisation process and delay disbursement of privatisation revenue held at the central bank.

ERP Recommendation 4: "Advance restructuring and restart the privatisation of non-essential Publicly Owned Enterprises (POEs). Take steps to improve the efficiency and corporate governance of strategic POEs. Address the lack of quorum of the board of Privatisation Agency of Kosovo (PAK) and accelerate privatisation of Socially Owned Enterprises still in PAK's portfolio."

Among centrally-managed enterprises, only two, the Kosovo Energy Corporation and Post and Telecommunications Kosovo, continued to generate a profit in 2014. Government influence on price controls for utilities and postal and telecommunications services has continued.

Market entry and exit

Some progress was made in simplifying business registration, but insolvency procedures still present an obstacle. The establishment of one-stop shops in 2014 has reduced the time needed for company registration down to three days. However, the announced online registration has still not been fully implemented. Numerous obstacles to market entry remain: a weak and unaccountable administration; insufficient access to finance; an underdeveloped infrastructure (especially in electricity supply); a deficient rule of law; extortion practices; a widespread

ERP Recommendation 5: "Address the underlying causes for high costs of bank-based financing, reduce the duration and cost of insolvency procedures by adopting the new bankruptcy law and further improve contract enforcement with a view to increase overall financial intermediation in the economy."

informal economy; and insufficient academic and professional/vocational education. Weak insolvency procedures still hinder market exit and delay payments to creditors. A draft law on bankruptcy needs to be approved in line with ERP recommendation 5.

Legal system

Despite some progress made on the legal rules governing business, their implementation has remained insufficient. Very weak institutional capacity for legal enforcement combined with widespread corruption continued to hinder the business environment. The judicial system suffers from poor accessibility, inefficiency, delays and a growing backlog of unresolved cases (400 000 in July 2015). The politically influenced appointments of judges and prosecutors limit the independence of the judiciary. More work is needed on reviewing the civil code on business lawsuits and practices and on developing register (cadastre) databases, in line with ERP recommendation 8.

Financial sector development

Financial sector stability was maintained and credit growth picked up pace. The steady credit growth in Kosovo's banking sector rebounded in 2014 (4.2 % increase) and continued to grow in 2015. Kosovo's financial system remains dominated by the banking sector (69.5 % of the total financial sector assets). The stability of the banking sector was strengthened, with the proportion of non-performing loans fully covered by bank provisions falling to 7.1 % (July 2015). Private loan enforcement agents established at end 2014 contributed to the NPL decline. The improved profitability of banks in 2014 (131.1 % rise in profits) further strengthened their capital buffers to 19 %, which is substantially above regulatory requirements. Although total lending grew, a still relatively low loan-to-deposits ratio (74.3 %) means that there is ample room for stronger banking activity. Average loan interest rates fell below 10 % for the first time, but have remained above the regional average.

The insurance sector is dominated by non-life insurance companies. The cost of car insurance is artificially high, due in part to Kosovo not being a member of the 'green card' system, but also to it not having fully liberalised third party liability insurance prices.

The Central Bank of Kosovo continued to improve the SWIFT infrastructure for international payments which is accessible and used by all banks. Since February 2015, banks in Kosovo have been using IBAN for international payments.

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

Kosovo is **at an early stage in achieving the capacity to cope with competitive pressures and market forces within the Union. No progress** was made on improving the quality of education, which is a key driver for improving long-term growth and competitiveness.

In line with the ERP recommendations and in order to support long-term growth, in the coming year Kosovo should pay particular attention to:

- securing a stable energy supply and reducing distribution losses;
- closing the skills gap in the labour market;
- channelling foreign direct investments and remittances into productive sectors.

Human and physical capital

No progress was made in improving the quality of education. Increases in public spending on education (up to 4.4 % of GDP in 2014 with 4.6 % planned for 2015) have so far been used almost entirely to cover salary increases. More funding should be directed to other aspects of education reform, as referenced in ERP recommendation 7. The establishment of the Agency for Vocational Education and Training and Adult Education (VET) should help to address the evident skills mismatch in the labour market.

ERP Recommendation 7: "Improve the quality of education by continuing to roll out teacher licencing and training as well as improving quality assurance and strengthening related incentives; improve access to pre-primary and primary school education; accelerate modernisation of vocational education, continue improve quality of higher education and improve focus on aligning the education system so as to make it more responsive to the labour market. Assure the timely operationalisation of the recently established Public Employment Service and its effectiveness in lowering the high unemployment rate."

Nevertheless, the unemployment rate among vocational graduates is 71 %. Insufficient funding, a low level of cooperation between vocational schools and businesses and delays in implementing policies remain major concerns.

Kosovo made some progress on improving physical capital, but road investments clearly dominate over energy efficiency and water distribution. In 2014, total investment continued to fall, reaching 26.2 % of GDP. Government capital spending agenda is dominated with road building, namely the construction of the Route 6 highway to Skopje. ERP recommendation 6 deals with ways of improving the assessment of major infrastructure projects.

Lack of reliable energy supply is still seen as one of the biggest obstacles to investment growth. Investments in the electricity network have improved network stability and reduced technical losses. Construction has started on the new 400kV transmission interconnector to Albania and the district heating project at the Kosovo B power plant. Negotiations with the only bidder for the construction of the new modern power plant are stalled.

ERP Recommendation 6: "Strengthen government oversight and consider setting up an advisory body to contribute to the assessment of future major infrastructure projects, including their fiscal impact and make sure they align with the regional agenda on connectivity (core network). Advance towards securing a reliable energy supply while ensuring the compliance with the EU environmental standards in the production of energy."

Almost all incoming foreign direct investment went to the non-tradable sector, in particular real estate and financial intermediation. However, a EUR 409 million contract for investment in the Brezovica ski resort was signed in April. Work is due to start in the following months and is expected to provide around 3 000 new jobs.

Sectoral and enterprise structure

ERP Recommendation 8: "Continue to improve the business environment and continue with the clearing of court backlogs, strengthening capacities of judicial system, and developing cadastre databases. Advance measures to tackle informality in line with the strategy for the prevention and fight against informal economy, including incentives to reduce undeclared work. Reduce the administrative

Kosovo's private sector continues to be fragmented and unable to benefit from efficiency gains, as micro-, small- and medium-sized enterprises account for 99 % of total employment. Although still above its regional peers, the share of agriculture in Kosovo's GDP fell to 11.4 %, compared with 14.1 % in 2009, while the share of services rose from 47 % to 49.2 % of GDP. Shifts in the employment structure away from agriculture and towards services are evident. This is in line with expected developments as part of Kosovo's transition towards a modern services-oriented economy.

burden for business by implementing the Better Regulation Strategy and the Law on Permits and Licences. Develop measures to provide targeted support for SMEs and to widen their access to finance. Step up the fight against corruption and efforts to improve public procurement, by enhancing administrative capacity, increasing efficiency and effectiveness of the Public Review Board, and implementing central procurement."

The structure of operating enterprises is dominated by trade (29.9 % of operating enterprises), followed by accommodation and food services (11 %) and industry (10.4 %, up from 5.2 % in 2013). Productivity gains are limited by poor access to broader markets and a lack of investments in new technologies. Kosovo should improve its business environment, in line with ERP recommendation 8.

State influence on competitiveness

There was no progress on developing institutional capacity to check state aid and subsidies are still being provided without a proper strategy and evaluation. Publicly owned enterprises in the energy, transport and waste/water sectors continued to be subsidised. New subsidies and direct payments to agriculture were introduced. These need to be more closely linked to increasing productivity. Tax and customs exemptions were introduced for certain sectors (agriculture, IT), but without a clear impact assessment.

The authorities continued to establish economic zones and industrial parks. However, this was done without a national plan (which was a legal requirement) and without transparent disclosure of tax and customs incentives approved to companies.

Economic integration with the EU

The EU is Kosovo's biggest trade and investment partner. However, Kosovo's export capacity remains limited. Kosovo's economy is still relatively unintegrated in global trade flows, with a trade openness of 71.1 % of GDP. However, the value of Kosovo's goods trade with the EU has been rising continuously since 2008, standing at 41.2 % of overall trade in 2014.

In spite of that increase, Kosovo's total trade volume with the EU remains very limited (EUR 98.08 million in exports and EUR 1.08 billion in imports in 2014), reflecting the low competitiveness of its products and other structural obstacles hindering this potential. The Central European Free Trade Agreement (CEFTA) countries remained Kosovo's second largest trade partner (29.6 % of total trade).

ERP Recommendation 9: "Facilitate trade by amending the Customs Code and adopting new legislation on customs enforcement of IPR."

ERP Recommendation 10: "Adopt a holistic approach to Foreign Direct Investment that anchors

EU countries are the biggest foreign investors in Kosovo (35 % of overall investment). The planned entry into force of Kosovo's Stabilisation and Association Agreement with the EU is expected to further incentivise economic ties with the EU countries. Kosovo will, however, need to continue with reforms in order to facilitate trade and foreign direct investment, in line with ERP recommendations 9 and 10.

supportive policies in a strategic framework and focus on removing existing obstacles. Increase investor protection by developing an investor after-care program and establish an investor grievance mechanism."

5. EUROPEAN STANDARDS

5.1. Internal market

5.1.1. Free movement of goods

Kosovo is at an **early stage of preparation** in the area of free movement of goods. **Some progress** was made in the last year. In the coming year, Kosovo should in particular:

- improve inter-institutional coordination to ensure that legislation is enforced;
- further improve quality infrastructure, strengthen market surveillance capacity and increase consumers' awareness of their rights.

The Ministry of Trade and Industry (MTI) has made gradual progress in implementing the strategy on free movement of goods that it adopted in February 2013.

On **horizontal measures**, as regards **standardisation**, 1 064 European standards have been adopted as a standard reference in the reporting period. The cooperation agreement concluded with the Albanian Standards Body is the way for Kosovo to adopt European standards. Kosovo's Standards Agency needs to be consolidated as an institution, and expand the online sales of standards (e-Commerce function).

In 2014 Kosovo adopted several regulations and administrative instructions, to put in place a system of **conformity** assessment. The MTI also authorised several conformity assessment bodies. Harmonisation with EU rules and the use and enforcement of conformity assessment needs to be strengthened.

As regards **accreditation**, in November 2014 the General Accreditation Directorate was the subject of a full European Cooperation for Accreditation peer evaluation. This is a crucial step towards the signing of the European multilateral agreement for accreditation of test laboratories. The recommendations are being implemented.

On **metrology**, the Agency for Metrology still lacks capacity. The laboratories for time, frequency, length and force are not operational due to lack of equipment. Kosovo is fully aligned with the Directive on Non-Automatic Weighing Instruments. Since 2014, laboratory activities have increased in the areas of mass, flow and volume, electrical measurement, precious metals and thermometry. The quality system imposed by the applicable ISO standards must be implemented and awareness-raising improved. In general, the laboratories' operational capacity needs to increase to meet the necessary quality standards.

On **market surveillance**, market inspectorates carried out 1622 inspections resulting in 145 corrective measures (fines and confiscations). A Regulation on Establishment and Functioning of the Rapid Exchange of Information System on Dangerous Products is at a very early stage of implementation. Communication and coordination mechanisms between those responsible for market surveillance need to be improved and enforcement strengthened.

As regards **consumer protection**, further efforts are needed. While a number of awareness-raising activities have been carried out, people are not sufficiently aware of their rights as consumers. Between September 2014 and September 2015 307 consumer complaints were submitted to the Department of Consumer Protection; 125 were resolved in favour of the consumer, 110 were found ungrounded and 72 have not yet been reviewed.

Some administrative instructions were adopted on the classification, labelling and packaging of chemicals. There is no evidence on alignment with the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation yet.

5.1.2. *Movement of persons, services and right of establishment*

Kosovo is at an **early stage** of preparation in the free movement of persons, services and the right of establishment. **Some progress** was made, particularly on financial services. Thorough and transparent auditing and accounting are crucial for the development of a sound financial services market and the economy at large, especially small and medium-sized enterprises (SMEs). In the coming year, Kosovo should in particular:

- further align the law with the EU services and professional qualifications directives;
- further harmonise existing regulations and procedures with EU practice, particularly in the area of corporate accounting and auditing.

As regards the **movement of persons**, no new agreements were concluded on the movement of workers and the coordination of social security systems.

On **freedom to provide services**, Kosovo is at an early stage of alignment with the services directive. A database on trade in services has been set up in the MTI to support ongoing trade negotiations on services liberalisation within the Central European Free Trade Area.

On **postal services**, Kosovo has to a large extent aligned its legislation with the *acquis*. However, universal service delivery is hindered by political difficulties in Serb-majority municipalities. In spite of some reductions in the weight limit for reserved services in previous years, these are still not in line with the *acquis*. International postal services are provided to all postal administrations except Serbia, due to lack of an agreement.

On **mutual recognition of professional qualifications**, alignment with the *acquis* is at an early stage. A Kosovo-wide framework on regulated professions still needs to be adopted. Kosovo should step up its efforts to align legislation with the services directive and the professional qualifications directive. To do this, Kosovo should draft a list of minimum training requirements for regulated professions to be included in its legislation and an action plan for harmonising professional qualifications legislation with the *acquis*.

The Central Bank of Kosovo continued to review existing **financial services** legislation, including laws on insurance, micro-finance institutions and non-banking financial institutions. Alignment of these laws with the *acquis* needs to be ensured. Kosovo is still not part of the 'green card' system so additional vehicle insurance is required for most foreign vehicles entering Kosovo. Under the future Stabilisation and Association Agreement (SAA), Kosovo must ensure development of the insurance sector based on fair competition practices and a level playing field. Amendments to the current banking regulations on mortgage loans, on real estate appraisal and on capital adequacy were adopted in February 2015, further but not fully aligning with the *acquis*. The standardised approach to credit risk and the basic indicator and standardised approach for operational risk according to Pillar I of the Basel II Regulatory Framework are in force. The central bank is working on further adoption of Basel capital standards and the capital requirements directive and capital requirements regulation. The financial services market remains at an early stage of development.

On **company law**, some administrative measures were adopted in July 2015, providing a basis for the reduction of business registration fees. The law outlining the role and responsibilities of the Kosovo Business Registration Agency has still not been adopted.

As regards **corporate accounting and auditing**, an amendment to the draft law on accounting, financial reporting and audit still needs to be adopted. The capacity of the institutional audit oversight structures needs to be strengthened considerably; enforcement remains weak and substantial efforts are needed to ensure the development of reliable and efficient financial reporting, in line with EU practice. Kosovo still needs to align its rules with international accounting and financial reporting standards.

5.1.3. Free movement of capital

There is **some level of preparation** in this area. **Some progress** was made on free movement of capital. Capital movements remain largely free, with no restrictions on foreign ownership or investment in the financial sector, and the central bank's capacity to supervise the sector remains sufficient.

Movement of capital remains largely free in Kosovo. The draft law on general insurance, covering such issues as minimum capital requirements, solvency requirements and other issues related to proper risk-based supervision requirements for insurance companies still needs to be adopted. Increased efforts are needed to achieve tangible results in the fight against economic and financial crime.

There was limited progress on the issue of acquisition of real estate, including the purchase of land, by foreign citizens. Provisions in the relevant laws, implementing acts and administrative practices are still an obstacle to equal treatment. Other difficulties, e.g. in registering property, need to be addressed.

As regards the **payment system**, regulations on issues including payment instrument statistics, the bank account standards numbering system and international payments were approved in 2014. The Central Bank of Kosovo continued to reinforce supervision of payment systems and improve the SWIFT infrastructure for international payments, following its connection to SWIFT in December 2013. In February, Kosovo started using the International Bank Account Number (IBAN) system for international payments. Further efforts are needed to continue alignment with the *acquis* in payment services.

5.1.4. Customs and taxation

Kosovo is **moderately prepared** in the area of customs and at an **early stage** in taxation, with **some progress** made in both areas. It took some initial steps towards merging the customs and tax administrations and upgrading internal controls. Customs legislation is largely compliant with the EU's customs code. In the coming year, Kosovo should in particular:

- implement customs legislation in line with EU practice;
- strengthen the Kosovo tax administration's internal IT platform, its internal performance controls and the fight against corruption;
- step up the fight against the informal economy and tax evasion and prevent any undue influence on the work of their institutions.

The **customs** service has further improved its legislative, administrative and organisational capacity. The first steps towards merging the customs and tax administrations into a single revenue agency have been taken. Despite an overall fall in imports, the 2014 reorganisation of the customs administration resulted in an increase of 3.9 % in the collection of revenues compared with 2013 and new systems reduced the scope for corruption. The merger of

investigation units also brought positive results. Kosovo Customs operate throughout Kosovo, although to a limited extent in the north. In 2015, Kosovo applied to join the Common Transit Convention and signed bilateral agreements with Albania on trade facilitation, including common transit, and on cooperation in criminal customs matters with the United Kingdom. The exchange of pre-arrival electronic information with regional customs administrations is working well. Nevertheless, inconsistencies between the customs and excise code and the criminal code continue to hinder the fight against customs crime. The informal economy and smuggling across the border/boundary lines continue to harm the economy. Following an agreement in the Pristina-Belgrade dialogue, two new co-located crossing points have been agreed.

In **taxation**, Kosovo has started to implement the 2014-2018 strategy and action plan for preventing and combating the informal economy, money laundering and financing of terrorism. The tax administration has continued to improve its human and administrative capacity. Progress has been made in introducing electronic services including online tax returns, verification and payment system and business registration centres (one-stop shop). There was no progress in modernising the administration's internal IT platform and its procedures. The capacity to enforce tax collection in northern Kosovo remains extremely limited. The existing backlog of complaints against the customs and tax administrations was finally dealt with and, as a result, the Independent Review Board dealing with such cases was abolished in December 2014.

5.1.5. *Competition*

Kosovo is at an **early stage** in the area of competition. There was **no progress** in this field as the Kosovo Competition Authority (KCA) faced substantial challenges to its investigative and decision-making capacity. In the coming year, Kosovo should in particular:

→ ensure that pending appointments are made to the Kosovo Competition Commission (KCC), that staffing, facilities and training for the KCA are appropriate, and that enforcement restarts as soon as possible;

→ approve the amendments to state aid legislation and start to enforce it without delay.

As regards **antitrust and mergers policy**, secondary legislation to implement changes to the February 2014 law on the protection of competition is still lacking.

The KCA is still not operational, lacking a quorum since November 2013 due to delays in replacing five members of the KCC whose terms of office had ended. The KCA has thus not been able to carry out its duties as new investigations have to be approved by the KCC board, and very little enforcement is taking place. Instead, it has concentrated on advocacy and providing opinions on other bodies' initiatives. Although the budget has been approved, the KCA still lacks staff and adequate premises, internal controls and information systems. Cooperation between the KCA and other regulatory authorities needs to be strengthened.

The current law on **state aid** requires further amendment to bring it into line with European standards, in particular to ensure the independence and impartiality of the State Aid Commission. The activities of the State Aid Office were limited to the distribution of notification forms to potential aid granters. The Office, currently established as a department of the KCA, is understaffed and does not have the capacity to screen existing aid schemes.

5.1.6. *Public procurement*

Kosovo is at an **early stage** in this area. Effective implementation remains a major challenge and procurement is particularly vulnerable to corruption. **Some progress** was achieved, especially in enforcement of a centralised public procurement system. However, considerable

efforts are still needed to use public procurement efficiently. It remains essential to professionalise and de-politicise the system and make it transparent and accountable, including the appointment of senior management. In the coming year, Kosovo should pay particular attention to:

- strengthening the capacity and ensuring the proper functioning of public procurement bodies, in particular through the timely appointment of competent members of boards;
- further aligning public procurement legislation with the *acquis*;
- improving implementation of public procurement processes through enhanced use of competitive tender procedures, centralised purchasing, and development of e-procurement.

Institutional set-up and legal alignment

Kosovo's **legal framework** is largely in line with the *acquis* and other public procurement principles, but does not cover all areas. The law on public procurement is broadly aligned with the directives on classical procurement and to some extent on utilities. The law on concessions and public-private partnerships is largely compatible with EU legislation. However, rules on defence and sensitive security procurement have yet to be drafted and the law on public procurement still gives preference to domestic bidders.

In 2014, Kosovo developed a **strategy** and action plan for the years 2015-2020 for the development of the public procurement system which has not yet been approved by the government.

The **public procurement administration** in Kosovo is in place and consists of three main bodies: the Public Procurement Regulatory Commission (PPRC), responsible for the overall development, operation and supervision of the public procurement system; the Procurement Review Body (PRB), an independent administrative review body examining all allegations of breaches of the public procurement law; and the Central Procurement Agency (CPA), in charge of central and coordinated purchases. Concerns remain about capacity limitations, corruption investigations and the process of appointments to the board of the PRB. Only three of the five members of the PRB board are in place, which seriously restricts its activities, including reviews of high value and complex procurement. Implementation capacity needs to be strengthened at all levels to ensure enforcement.

Implementation and enforcement capacity

The **public procurement market** stood at 8.9 % of gross domestic product (GDP) in 2014, a slight decline over the last three years. In 2014, 11 362 contracts for a total value of close to EUR 389 million were awarded. Of these, almost 73 % were awarded using an open procedure, a significant 17 % decrease. High value contracts account for 63 % of all contracts and the average number of bids per tender increased to 6.1 in 2014, compared with 5.2.

Effective implementation and enforcement is a major challenge, largely due to weak planning and corruption. Almost 30 % of contract notices were cancelled, pointing to a need to improve procurement planning. Risks and shortcomings exist at all stages of public procurement. The legal provisions on evaluating contract performance, the effectiveness and efficiency of public procurement proceedings, and contract management are in place, but implementation capacity needs to be reinforced. Ways and means to increase value for money should be explored. Some important steps have been taken to enforce a centralised system of procurement. In February 2015, a list of common items, including six categories that must be procured centrally, was approved for the first time since the CPA's establishment.

Monitoring of public procurement is insufficient. The *ex post* monitoring performed by the PPRC is still confined to non-systematic, occasional checks of completed procurement contracts. Only a small share of concluded procurement contracts is monitored. Last year, the PPRC started *ex ante* monitoring of contract notices sent by contracting authorities for publication, a positive contribution to preventing irregularities which should be expanded.

A central public procurement portal is in place. To increase transparency and promote efficiency in public procurement, the websites of all public procurement institutions need to be improved and the procurement plans of public bodies could be published. Kosovo plans to introduce e-procurement and is currently developing information and communications technology infrastructure and a contract management information system, with support by international donors. Appropriate sequencing of the steps, including the necessary legislative amendments and capacity building, needs to be determined and implemented.

As regards the authorities' **capacity to manage public procurement**, the law provides for obligatory training for public procurement officers. Training courses and exams are offered by the Kosovo Institute of Public Administration with the involvement of the PPRC. However, the certification system and capacity to manage public procurement still needs to improve.

There is a lack of rules on **integrity and conflicts of interest**, insufficient enforcement to identify and address corrupt and fraudulent practices, and lack of a risk indicator system. The perception of corruption in public procurement remains prevalent in Kosovo. There are statutory disciplinary procedures but concerns about their implementation remain. The integrity of and cooperation between all public procurement bodies need to be strengthened.

Efficient remedies system

The **right to legal remedy** is stipulated in the laws on public procurement and concessions. The public procurement law is in line with the *acquis* provisions on contract annulment and penalties, although in practice this is not frequently used. On remedies, in 2014, the PRB received and processed 537 appeals. Of these, 161 cases were returned for re-evaluation, while in 104 cases the review panel decided to cancel procurement. The highest proportion of irregularities continues to be in the evaluation of bids and irregularities in tender dossiers.

On **implementation capacity**, the PRB is understaffed and the quality and transparency of its decisions leaves room for improvement. Discrepancies between expert review assessments and actual decisions undermine stakeholders' trust in the system. Cooperation between different institutions in this field, notably between public procurement, anti-corruption, audit and other law enforcement bodies needs to be enhanced.

5.1.7. *Intellectual property law*

Kosovo has **some level of preparation** in this area. **Some progress** was made in the area of intellectual property rights. In the coming year, Kosovo should in particular:

- develop a legislative framework to implement obligations under the future SAA;
- step up efforts to ensure the enforcement of intellectual property rights;
- appoint the director and address the existing backlog of applications at the Industrial Property Agency.

On **copyright and neighbouring rights**, the Law on Copyright and Related Rights was amended and further aligned with the *acquis*. It now requires implementing provisions on private copy schemes and digital piracy, which are essential for enforcement. The task force against piracy and counterfeiting set up by the government has continued with awareness-raising. It seized several thousand counterfeit goods and brought several criminal cases to

court. The process for negotiating fees between collective management organisations and broadcasters was re-launched in 2015 but no agreement has been reached yet.

On **industrial property rights**, amendments to the laws on patents and trademarks were adopted in August 2015, further aligning them with the *acquis*. The Industrial Property Agency's administrative capacity was strengthened by allocating and training some permanent and temporary staff. However, the director of the agency still needs to be appointed. There is still a backlog of industrial property rights applications although there has been progress in the processing thereof. The Intellectual Property Council met in March 2015, but cooperation between institutions and law enforcement still needs to improve. Kosovo also needs to increase awareness among holders and users of intellectual property rights.

As regards **enforcement**, Kosovo Customs has carried out operations against goods that breach intellectual property rights, many in response to requests by rights holders. In 2014, the total number of interventions by Kosovo Customs stood at 304, and the value of goods seized at EUR 4.7 million; 280 of these interventions were based on responses to requests for action by rights holders. However, greater efforts are needed to ensure enforcement, including accessible and effective legal measures that can be undertaken by rights holders and greater administrative coordination between the institutions involved. The police still do not have a unit specialised in intellectual property rights. The draft law on customs measures still needs to be adopted and aligned with the relevant EU regulation.

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

Kosovo is at an **early stage** of preparation in this area. There has been **no progress** in employment, social and health policies. In the coming year, Kosovo should in particular:

- implement the 2014-2020 employment sector strategy, monitor the results and ensure that the new employment agency becomes operational;
- enforce the law on labour and legislation on health and safety at work. Implement inspection legislation and provide the Labour inspectorate with appropriate resources to fulfil its mandate.

On **employment policy**, the 2014-2020 employment sector strategy is in place, but implementation is lagging, pending adoption of the action plan and the allocation of funding.

Data from the labour force survey for 2014 show that unemployment increased to 35.5 % compared to 30 % in 2013. Labour market participation has seen a slight increase but remains very low at 41.6 % (40.5 % in 2013). Labour force participation and employment rates for women remained unchanged between 2013 and 2014 at around 21 % and 12.5 %. Informal employment remains high. There was also an increase in the number of long-term unemployed, from 68.9 % in 2013 to 73.8 % in 2014. Youth unemployment increased from 55.9 % to 61.0 %. The share of young people (between 15-24), who are not employed, not in education and not in training, fell from 35.3 % in 2013 to 30.2 % in 2014.

The Public Employment Service helped to find jobs for 3 % of registered jobseekers and organised training for 2.5 % of registered jobseekers, of which 38 % were women. The budget allocated for active labour market measures for 2015 has increased by 224 %. However, the funding for employment services and training and re-training remains insufficient and fragmented across several entities. The lack of funding prevents the implementation of the announced plan to merge services in the new employment agency.

On **social policies**, Kosovo still needs to amend the **labour law** to align it with the *acquis* (e.g. employment contracts, working hours) and implementation remains unsatisfactory.

Effective implementation of the law on **health and safety at work** is still needed as concerns labour inspectors, to prevent deaths and injuries. In 2014, 63 workplace accidents were reported, of which nine were fatal (during the first six months of 2015, 26 accidents with five fatalities) but incidents are under-reported. The Labour Inspectorate needs to target the informal part of the construction sector more efficiently. The number of inspectors should increase as only 50 cover implementation of laws on labour and on health and safety at work.

On **social dialogue**, the implementation of the General Collective Agreement, which lays down the rights and obligations of employers and employees, is still pending. Amendments to the law on the Social and Economic Council, still being drafted, need to provide clear membership selection criteria and procedures. The council needs to strengthen its capacity to improve the quality of social dialogue. Bi-partite social dialogue hardly exists.

As regards **social inclusion**, Kosovo needs to ensure that municipalities have sufficient resources to deliver the social services under their responsibility.

On **social protection**, the first round of licensing of individual social and family service providers has been completed and the second phase of licensing legal entities/organisations has started. In 2014, four new minimum standards for social and family services were adopted, increasing the number to 16. However the decentralisation of social services has still not been implemented by municipalities and allocation of funding from the central budget is still needed to ensure effective decentralisation. Budget constraints have delayed the introduction of the new pension scheme.

On **equal opportunities**, the law on gender equality has been adopted but implementation and enforcement of legislation needs to be improved to address high unemployment among women and under-representation of women at all levels of decision-making. Insufficient maternity leave provisions undermine efforts to tackle discrimination against women in the workplace, especially in the private sector. The Agency for Gender Equality has not assessed the implementation of the programme for gender equality (2008-2013).

On public health policy, the first phase of the Health Information System (HIS) has been completed and continued to be implemented. However, public health spending remains among the lowest in the region. This hinders implementation and enforcement of sector reforms and policies. For example, the 2014-2020 action plan to implement the health sector strategy still needs to be adopted, the law on health insurance needs to be implemented, implementation of the HIS needs to be completed to allow reliable collection of health data, the health insurance fund needs to be set up and the 2013-2015 rare diseases action plan needs to be implemented. Out-of-pocket payments continue to impede access to healthcare for all, including vulnerable groups. Child mortality remains among the highest in Europe. The health law needs to be amended following the adoption of the law on the health insurance fund.

The law on **tobacco control** needs to be enforced. The **communicable diseases** infrastructure and reporting system need to be further developed. On **blood, tissues, cells and organs**, the law on transplantation of tissues and cells needs to be implemented. Concerning **patients' rights in cross-border healthcare, pharmaceutical, mental health, drug abuse prevention, health inequalities and cancer screening**, no progress was made.

Insufficient funding for the health sector still hampers its ability to meet basic needs for maternal and child health, public health and *nutrition*, with a risk of stunting among children.

5.1.9. Education and research

Preparations in education and research are at an **early stage**. There has been **no progress** in this area over the last year. The quality of education needs to be considerably improved. In the coming year, Kosovo should in particular:

→ improve quality of education at all levels and improve access to quality education for marginalised groups, especially children with disabilities, Roma, Ashkali and Egyptian children;

→ ensure the autonomy and independent operation of higher education institutions and adopt a new law for higher education based on international standards;

→ strengthen research and innovation capacity through reform of higher education institutions and increase investment in research, both in the public and private sectors.

On **education**, the Kosovo curriculum framework and core curriculum need to be implemented. The National Teacher Licensing Council developed a professional teacher development system with performance evaluation mechanisms but the decision to allow an across-the-board salary increase for all teachers is not in line with the reform principles approved by the Ministry of Education and undermines the performance-based approach to teacher policy. In April 2014, Kosovo participated in the Programme for International Student Assessment (PISA) for the first time and results will be published in December 2016. According to government data, total public spending on education is 4.4 % of GDP.

Rates of school enrolment are comparable with countries in the region, with the exception of access to pre-school education or early childhood education. Only 4.5 % of children attend pre-school education (age 0-5). 74% of children aged 5-6 attend pre-primary education.

The government continued actions to prevent early school leaving, particularly for children from the Roma, Ashkali and Egyptian communities. However, implementation of legislation on responding to non-enrolment and early school leaving needs to be further improved. Kosovo continued work to provide access to quality education for children with disabilities but the current rate of training is insufficient to meet the target of reaching all teachers within a reasonable timeframe.

The current Vocational Education and Training (VET) system is not in tune with labour market needs. A few VET programmes possess the required standards to receive accreditation by the National Qualifications Authority. The VET school network needs to be rationalised and the VET provision needs to be revisited.

The higher education system in Kosovo has been affected by the lack of a clear strategic plan, which would be needed to avoid duplication and ensure the added value of study programmes. The operation of higher education institutions in Kosovo is not transparent, particularly as regards to recruitment procedures, which are weak and very vulnerable to politicisation at all levels and sectors of education. The education sector remains a high-risk area for corruption.

Although the Kosovo Accreditation Agency has become a full member of the European Network for Quality Assurance in Higher Education, its reputation has been significantly tarnished both inside and outside Kosovo after key members of its senior management were arrested on suspicion of corruption.

Difficulties in the implementation of the Pristina-Belgrade dialogue agreement on higher education diplomas need to be overcome for full implementation in 2016.

Kosovo continues to participate in the Erasmus+ programme for cooperation in higher education and youth sectors. Cooperation is important to help enhance competences and skills in staff and students, as well as employability of youth.

Kosovo has taken limited action to develop its **research and innovation** capacity. The capacity of universities in Kosovo to undertake research work is extremely limited, which negatively affects the quality of post-graduate programmes and innovation. The budget for research remains insufficient as the level of investment in research is still below 0.2 % of GDP. The law on scientific research activities is not being implemented due to a lack of funding. The link between research and business remains weak. Kosovo participates in the EU research and innovation programme 'Horizon 2020' but the number of projects evaluated successfully and receiving funding is very small.

5.1.10. World Trade Organisation (WTO) issues

Kosovo's preparations remain at an **early stage** and **no progress** was made in this area.

Kosovo is not a member of WTO and has taken no formal steps to join.

5.2. Sector policies

5.2.1. Industry and SMEs

Kosovo has **some level of preparation** on industry and SMEs. **Some progress** was made in this field. In the coming year, Kosovo should in particular:

- follow up on the recommendations of the 'Small Business Act' assessment;
- introduce regulatory impact assessments to reduce the administrative burden on SMEs.

As regards **industrial policy** and **SMEs**, the implementation of Kosovo's 2013-2017 private sector development strategy and the EU's 'Small Business Act' are advancing slowly. Communication between ministries and executive agencies needs to improve. To reduce administrative burden on SMEs, the government needs to introduce regulatory impact assessments. Strategies and action plans in this field need to be timed and monitored. The Kosovo Investment and Enterprise Support Agency is operational and but not yet fully staffed, so its impact is still limited. Although full online company registration has not yet been introduced, the process for registering individual businesses and companies is quick (1-3 days). Nevertheless, the main obstacles to SME development and further growth are access to finance, weak legal enforcement of contracts and business regulations, administrative barriers, unfair competition from the informal sector, inefficient judiciary and corruption.

5.2.2. Agriculture and fisheries

Kosovo has **some level of preparation** in agriculture and rural development and in food safety, veterinary and phytosanitary policy. **Some progress** was made by further strengthening the institutions responsible and increasing the budget. In the coming year, Kosovo should in particular:

- improve land consolidation;
- transfer inspection responsibilities to the Kosovo Food and Veterinary Agency;
- set up the internal audit unit in the Agriculture Development Agency.

On **agriculture and rural development policy**, the government has continued to increase spending on agriculture. The volume of direct payments has almost doubled compared to 2014 and now stands at EUR 23 million. Similarly, the amount allocated to agricultural investment grants stands at EUR 20 million. However, there are insufficient staff to ensure proper monitoring and prompt payment. The Agriculture Development Agency's Internal Audit Unit has not been set up.

Further efforts are needed to tackle illegal changes of agricultural land use, which continue to be an obstacle to implementing the law on spatial planning. Not enough is being done to implement land consolidation to rationalise land holdings, establish a transparent market in land and enforce sanctions.

Reliable agricultural data are a basic requirement for sound policy decisions. There are still discrepancies between Eurostat's and national statistics. The first agricultural census was finalised in 2015.

Implementation of the law on organic production is weak, and the establishment of a functioning supervisory authority and a commission on organic production is still pending. Kosovo lacks minimum standards and cross-compliance measures in the areas of food safety, animal health and welfare and the environment. The volume of illegal logging is still too high for sustainable forest management.

As regards **food safety** and **veterinary** sectors, progress has been made in securing co-financing and a location for a rendering plant for processing and disposing of animal by-products. However, a package of laws (the food law, veterinary law, sanitary inspection law and livestock law) has not yet been finalised. The annual inspection plan has been approved, but the multiannual inspection plan for animal diseases is out of date.

Responsibility for inspection, which should have taken place by 1 January 2015 (already three years late) has still not been transferred from municipalities to the Kosovo Food and Veterinary Agency. There have been few developments in improving and systematising data management for animal identification, movement and registration.

Illegal trade, particularly in animals from Serbia, continues to be a problem. The process of upgrading food processing establishments to EU standards should continue.

In the **phytosanitary sector**, although the law on plant protection was amended, the plant disease surveillance programme has not yet been set up. Further updates are needed to the list of plants and plant products.

5.2.3. *Environment and climate change*

Kosovo remains at an **early stage** of harmonisation with the *acquis*. **No progress** was made on environment and climate change and in the coming year, Kosovo should in particular:

→ set up an environmental monitoring network for air and water;

→ establish systematic strategic planning on climate action.

Legislation to address increasing environmental challenges in Kosovo has not yet been fully harmonised with the *acquis* or implemented. As regards **horizontal legislation**, environmental impact assessments and strategic environmental assessments need to be better implemented, especially locally. Public participation and consultation need strengthening.

The **air quality** monitoring system is equipped, but still not fully operational. Although there are advanced analytical laboratories, the lack of regular maintenance and calibration of the monitoring equipment jeopardises the accuracy of monitoring. Data collection and processing

is manual, with no automatic system to inform the public in real time. In addition, the Kosovo Environmental Protection Agency's air quality reports contain no inventory of air pollutants and pollution from the main sources is not adequately measured (in particular from the Kosovo A power plant). Air quality plans for the biggest urban agglomerations are needed.

On **waste management**, the Ministry of Environment and Spatial Planning should step up efforts to finalise a master plan for waste management and increase opportunities for investment in this sector. Basic waste management definitions and concepts such as recycling and recovery of different waste streams are not sufficiently supported by current legislation, limiting opportunities for private sector involvement. Both investment funding and the capacity of municipalities and operators to implement the 2012 law on waste remain very low. The high number of illegal landfills needs to be addressed urgently.

On **water management**, an inter-ministerial water council chaired by the Prime Minister was set up in early 2015. Kosovo lacks a water policy strategy, investment plan and strategy, and a disaster risk reduction strategy. There is no progress in setting up river basin authorities or an independent water management authority. The water resource monitoring and record system remains incomplete for underground, surface, drinking and bathing water. Maintenance or stolen and vandalised measuring equipment is an issue. Monitoring of the quality of drinking water has improved but further quality control measures compliant with EU standards are needed. A quality control system for bottled water has not been set up. On infrastructure, the need for investment to improve efficiency is considerable (leakages are estimated at around 75 % of piped water). The recommendations from a dam safety study have yet to be implemented. As a result of the introduction of checks, revenue collection has improved but is still low. Recent droughts have highlighted the need to urgently reduce free water supplies and develop alternative water resources. Regional water companies need to improve water resource management and prepare drought management plans.

On **nature protection**, there has been very little progress in implementing the *acquis*. The management plan for the "Sharri" park has been prepared but measures to combat illegal construction activities in this park have stalled. There is very little progress in starting to set up the Natura 2000 network of protected areas. Institutions in this area remain weak. Any further development of hydropower should take place in conformity with EU legislation.

On **industrial pollution and risk management**, two integrated permits have been issued, while three applications are currently under review from the total of 30 operators found to fall under the industrial emissions Directive.

No progress was made on **civil protection** (floods, draughts, forest fires and other environmental disasters).

A draft framework strategy on **climate change**, comprising a low emissions development strategy and an adaptation strategy, has yet to be adopted. It should be made consistent with the EU 2030 framework. Significant efforts are also needed to integrate climate action into all relevant sector policies and strategies. Kosovo is at an early stage of transposing and implementing the climate *acquis*. Even if there was some progress in the preparation of a country-wide greenhouse gases (GHG) inventory report for 2013, significant efforts are needed to align Kosovo with the EU monitoring mechanism regulation, and ensure that Kosovo's capacity is enhanced. By-laws on substances that deplete the ozone layer, on fluorinated greenhouse gases and on consumer information and CO₂ emissions from new cars were adopted but no practical measures are being implemented. An ad hoc decision by the government to allow the import of second hand vehicles (over 10 years old) will have an adverse impact on carbon dioxide emissions and air quality.

Administrative capacity in the environment and climate sectors remains weak. The government adopted a decision to establish the National Council on Climate Change in August 2015. Effective inter-ministerial co-operation to enable adoption and implementation of low-carbon growth policies is further needed. Significant further efforts are needed to raise awareness on environmental issues.

5.2.4. Transport policy

Kosovo is at an **early stage** of preparation in transport policy. **Some progress** was made in with the adoption of the 2015-2025 multimodal transport sector strategy. In the coming year, Kosovo should in particular:

- strengthen its regulatory institutions and ensure their independence;
- continue reforms in the railway sector;
- step up efforts to improve road safety.

Kosovo agreed to a priority list of 'soft measures' in transport presented at the Western Balkans 6 Vienna Summit and will ensure that they are all fully implemented before the WB6 Summit in June 2016. On **trans-European transport networks**, Kosovo continued to participate in the South East Europe Transport Observatory (SEETO). Kosovo played an active role in the Western Balkans 6 connectivity agenda by endorsing the agreement on the regional core transport network in Brussels in April, the agreement in Riga in June on the core network corridors and on the list of projects to be implemented by 2020 at the Western Balkans 6 Summit in Vienna and by establishing the National Investment Council.

On **road transport**, the strategy and action plan for road traffic safety was adopted in September 2015. However, the law on road traffic safety still needs to be approved. Kosovo has still not aligned its legislation with the *acquis* on market access, the profession of road transport operators and digital tachographs. The maintenance budget for motorways is still insufficient to ensure regular maintenance.

On **rail transport**, the Rail Regulatory Authority is operational, but there was no progress on strengthening its capacity. The regulator's independence needs to be ensured as regards the licensing process and market regulation. There has been no new entrant in the railway transport market during the reporting period. The decision of the regulator to revoke the licence issued in March 2014 to a private operator was found unlawful by the Basic Court in Pristina. The civil aviation and railway accident and incident investigation body is not operational. Upgrading the railway infrastructure is at an early stage of implementation.

On **air transport**, the incorporation of the first-phase requirements for the European Common Aviation Area Agreement into domestic legislation is nearly complete, pending alignment of the labour law with the *acquis* on working time. The Kosovo Civil Aviation Authority is still not part of the Safety Assessment of Foreign Aircraft programme as no board members have been appointed since September 2013. There was no progress on implementing the law on the air navigation services agency. Implementing legislation still needs to be adopted to ensure professional air navigation and safety services. The air navigation service provider does not meet the safety and financial criteria required for certification.

As regards **intermodal** transport, the 2015-2025 multimodal transport sector strategy and its 5 year action plan have been approved by the government in October 2015.

5.2.5. Energy

Kosovo remains at an **early stage** of legislative alignment with the *acquis* but there was **some progress** in the energy area. In the coming year, Kosovo should in particular:

- start implementing the *acquis* on security of supply and make a final decision as regards new generation capacity and decommissioning the Kosovo A power plant;
- continue to strengthen institutional capacity for the energy market, in particular safeguarding the regulator's independence, appointing its full board, ensuring its financial stability, and setting up transparent mechanisms to adjust energy prices.
- strengthen the capacity of the Nuclear Safety and Radiation Protection Agency, and identify a temporary storage facility for radioactive waste.

The energy sector continues to face problems, even if some progress was made. Power stability improved and cuts are now infrequent, although the situation deteriorated due to last year's explosion in the hydrogen laboratory of the Kosovo A power plant. Those units which were severely damaged by the explosion are now operational.

On **security of supply**, investment and maintenance continue to improve the reliability of the power transmission system and reduce transmission losses. Whilst distribution losses dropped, combined commercial and technical losses are high at 28.46 %. Two laws regulating the oil sector, including on obligatory petroleum reserves have still not been adopted. Current oil stocks are estimated to be only four days. There is no progress in the Energy Community's dispute settlement procedure about customs duties on imports of petroleum products.

While there was substantial progress with Serbia in terms of relations between transmission companies, little progress was made, until the August 2015 agreement, on the parts of the 2013 agreement that provide for the establishment of a Serbian power supply company in the north. The parallel management that Serbia installed at the Gazivode/Ujmani hydropower plant continues to interfere in its operation, with a risk of flooding.

As regards the **internal energy market**, the third energy package has not yet been transposed. Negotiations with the single bidder for building the new lignite power plant are ongoing and the offer still needs to be evaluated. No progress was made on decommissioning Kosovo A or refurbishing Kosovo B. Kosovo is highly unlikely to meet its Energy Community Treaty air quality obligations, and has not prepared the necessary emissions plan.

There was no progress either as regards account unbundling or phasing-out cross-subsidies between different categories of customers. In January, the power company Kosovo Electricity Distribution and Supply Company (KEDS) and the public supplier Kosovo Electricity Supply Company (KESCO) were legally unbundled. No progress was made on market opening and customer switching a legal obligation as a member of the Energy Community from 1 January 2015. The operability and independence of the Energy Regulatory Office (ERO) have long been undermined by political interference, low administrative capacity, a lack of human resources and a 17 % budget cut. The ERO board currently has only two out of five members, meaning that it cannot legally assume many of its responsibilities. The government has not yet designed a mechanism to support vulnerable customers.

The existing **renewable energy** policy framework, authorising and licensing procedures have yet to produce results or even remotely approach Kosovo's renewable energy target of 25 % by 2020. Kosovo is still not in line with the 2009 renewables directive and has no mechanism to monitor progress in reaching its 2020 targets. Any further development of hydropower should respect EU environmental legislation. There was no progress in meeting the requirements for the use of biofuels in transport.

The law on **energy efficiency** is not aligned with the *acquis*. The directive on energy performance of buildings is not being implemented. Kosovo still has not set up its own energy efficiency fund. The combined heat and power project at the Kosovo B power plant started

operating in November, resulting in lower costs to households, reduced environmental pollution and a more secure supply for Pristina residents. The Kosovo Agency for Energy Efficiency is understaffed and has no capacity to monitor, evaluate and verify progress towards targets. There was progress in municipal energy efficiency planning, but local capacity needs strengthening.

In **nuclear safety and radiation protection**, the law on protection from ionising and non-ionising radiation has still not been adopted. The staff of the regulatory agency has increased but its licensing and inspection capacity remains poor. Funding for the agency is insufficient for it to implement its mandate, in particular licensing, public health and safety aspects. There is no radiation monitoring (for example of potential depleted uranium sites). There is no control of radioactive waste and no radiological emergency plan. Kosovo should identify a temporary radioactive waste storage facility while work continues to find a permanent site.

5.2.6. *Information society and media*

Kosovo has **some level of preparation** in this area. **Some progress** was made, in particular in electronic communication and information and communication technologies. However, Kosovo needs to continue efforts to complete the legal framework. In the coming year, Kosovo should in particular:

- ensure appropriate capacity, resources and independence of telecoms and media regulators;
- implement, as a matter of urgency, the digital switchover and develop a solution for sustainable funding of the public service broadcaster.

In **electronic communications and information and communication technologies**, the Regulatory Authority of Electronic and Postal Communications (RAEPC) has completed the secondary legislation based on the 2012 law on electronic communications. Kosovo has continued efforts to use excess infrastructure capacity of the public service operators (railways, energy and road infrastructure) for electronic communications. The three mobile operators launched 4G services in December 2014. Mobile telephony penetration reached 95 % of active users. Overall internet penetration increased from 9.18 % in 2013 to 10.51 % in 2014.

RAEPC has not seen any improvements in its financial and organisational independence. This year the regulator has auctioned a new frequency band for the use of telecommunications operators. It is in the final stage of reviewing offers. A national computer emergency response team, set up in 2014, still lacks trained staff.

At the end of August 2015, Kosovo and Serbia agreed the Action Plan to implement the 2013 Brussels telecom arrangements, including arrangements for the allocation of a 3 digit dial code for Kosovo by the International Telecommunications Union (ITU).

On **information society services**, Kosovo adopted a new IT strategy. The Information Society Agency is now fully operational and serving as the central government entity for e-government services and infrastructure.

On **audiovisual policy**, Kosovo failed to meet the internationally agreed June 2015 deadline for the digital switchover, on which the law was adopted only in July. The Independent Media Commission was very late in adopting a strategy for digitalisation which leaves important issues undefined. Consequently, the preparation of necessary implementing legislation will also be delayed. Technical preparations are still at an early stage. Kosovo needs to ensure that the digital switchover process is carried out in full transparency.

Since Kosovo is not a member of the ITU, its frequencies are under the authority of Serbia. The public service broadcaster RTK remains dependent on state financing from the Kosovo budget, which undermines its editorial independence. In 2014, the public broadcaster's union organised a string of protests accusing management of nepotism, corruption and bias in favour of one political party. RTK's management responded by dismissing two leaders of the union, who were reinstated by a decision by the Labour Inspectorate. Kosovo has failed to meet its legal obligation to ensure RTK's financial independence within the required timeframe.

5.2.7. *Financial control*

Kosovo is at an **early stage of preparation** in this area. **Some progress** was made in the past year, especially with the adoption of the strategy and action plan for public internal financial control (PIFC) and in relation to external audit. However, lack of systematic implementation of managerial accountability and delegation of responsibilities within organisations hampers further development of PIFC. Significant efforts are needed to implement PIFC at all levels of the administration and in publicly owned enterprises. In addition to addressing the shortcomings outlined below, in the coming year Kosovo should in particular:

→ start implementing the activities set out in the 2015-2017 PIFC strategy and adopt the revised implementing legislation for PIFC;

→ ensure systematic follow-up to external audit findings and recommendations.

Public internal financial control

The government adopted a public internal financial control **strategy and action plan** for 2015-2019 in April 2015. The strategy provides for the setting up of a PIFC Council to monitor and report on the implementation of the strategy on an annual basis.

The **Central Harmonisation Unit** (CHU) is carrying out its duties as provided for in the law on public finance management and accountability. It needs to strengthen its capacity for training and capacity building among its 13 existing staff. The CHU provides an annual report to the government on progress on the introduction of PIFC, based on responses to self-assessment questionnaires, which is also considered by the Assembly Committee on Oversight of the Public Finances. It is, however, not followed up by conclusions or recommendations, neither by the government nor the Assembly.

The legal framework regulating **financial management and control** is largely in line with the model of the Committee of Sponsoring Organisations (COSO) Internal Control Framework and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). Further amendments to the law on public financial management and accountability and its implementing legislation are foreseen. Managerial accountability and the delegation of responsibilities within organisations is neither well regulated nor implemented coherently. Risk management is misunderstood to be a compliance exercise rather than a management tool and is rarely applied. Neither financial commitments nor use of financial resources are systematically kept within budget. The **centralised budget inspection** function still needs to be regulated in line with PIFC requirements.

The law on **internal audit** is partially compliant with international standards for the professional practice of internal auditing. 85 (out of 96) organisations required by law to set up an internal audit function have done so. A national scheme for the certification of internal auditors is in place. All auditors have undergone training for international certification and 67 (out of 149) have been certified with EU financial support. In order to ensure sustainability, Kosovo needs to allocate sufficient funds for certification and continuous professional

training. All institutions with an audit function have an audit charter and perform audits according to strategic and annual audit plans. The implementation of audit findings and recommendations varies, however, depending on the skills of auditors and their management.

External audit

On the **constitutional and legal framework**, the National Audit Office's (NAO) role is recognised by the Constitution. A new law on the NAO is being drafted which should define more clearly the functional, operational and financial independence of the General Auditor, in line with the INTOSAI standards.

On **institutional capacity**, the NAO is led by an acting Auditor General since November 2014. A candidate selected by the President was not approved by the Assembly and the President has not yet restarted the process. The NAO office is fully staffed with 146 posts, of which 120 are audit posts. Training is provided systematically, both on the job and externally. A certification programme for regularity audit is in place and implemented based on the international standards of supreme audit institutions (ISSAI).

The NAO has improved the **quality of audit work** by adopting a financial audit manual in line with INTOSAI standards over the past year. It continues to annually update its regularity audit and performance audit manuals in line with the ISSAI standards. A quality management framework is in place. A specific audit support department with six staff carries out quality assessments in addition to the quality control, which is part of the audit processes.

The **impact of audit work** needs to be further improved. The annual activity report is discussed by the Assembly Committee for Oversight of the Public Finances, but there is no systematic parliamentary follow-up to the audit report. The NAO makes all its reports available online and proactively informs the media about important reports.

Protection of the EU's financial interests

As regards **acquis alignment**, protection of the EU's financial interests remains weak. Under Kosovo's criminal code, fraud relating to EU funding is a crime. The Ministry of Finance is responsible for supporting anti-fraud and anti-corruption activities in public administration institutions and for raising awareness of fraud in general. A special regulation is in place that sets out the responsibilities and duties of ministries in this regard.

Kosovo does not yet have an **anti-fraud coordination service** (AFCOS) or AFCOS network. No regular reporting system or risk assessment tools have been developed. Policy documents, such as a strategy and action plan to prevent and combat fraud for the protection of the EU's financial interests, have yet to be developed.

With regard to **cooperation with the European Commission**, Kosovo has taken initial steps to cooperate with Commission investigators during their on-the-spot missions in the past year. There are still no clearly determined basic procedures for reporting irregularities and suspected fraud cases, and an irregularity management system needs to be set up.

Protection of the euro against counterfeiting

Concerning **acquis alignment**, the legislation establishes the competent authorities and procedures for dealing with counterfeit money. Medals and tokens similar to euro coins have not yet been regulated. **Technical analysis** of counterfeit money, including euro banknotes and coins, is mainly performed by the forensic agency within the Ministry of Internal Affairs. The Central Bank of Kosovo does not have a specific department devoted to this analysis but provides guidance on what to do about counterfeit money to the financial institutions licensed

by it. There are no formal **cooperation agreements** with the European Commission and the European Central Bank.

5.2.8. Statistics

Kosovo is **at an early stage** of aligning its statistics with European standards in some sectors, whereas in other sectors some level of preparations is visible. However, Kosovo faces difficulties in implementing its own legislation in the area. **Good progress** was made in a few areas, most notably in the implementation of the agricultural census. Nevertheless, the Agency of Statistics (KAS) faces substantial shortages in terms of administrative capacity that prevent it from producing on-time, accurate statistics relevant for evidence-based policy-making. The production of essential macro-economic and business statistics remains limited. In addition to addressing the shortcomings outlined below, in the coming year Kosovo should in particular:

→ ensure sufficient human and financial resources in the budget to allow the statistical agency to fulfil its mandate;

→ make more sector statistics available: e.g. macroeconomic and business statistics, statistics on energy and income and living conditions.

On **statistical infrastructure**, the legal framework is broadly in line with the European Statistics Code of Practice. The law on official statistics still needs to be amended and the implementation of the existing provisions requires improvement. KAS is the main producer and coordinator of statistics and in 2015 it introduced a web-based dissemination database, thereby improving the accessibility of data. However, its administrative capacity and lack of financial resources hampers the timely production of statistics and it prevents the agency from taking full advantage of international support. All agency staff, but especially newly recruited staff, need additional training, both on quality issues and on statistical methods and tools. The current premises of KAS do not allow for optimal work and use of modern technology. Data transmission to **Eurostat** should be improved. As regards classifications and registers, not all the latest versions of different classifications are in place. While the introduction of the European classification of economic activities (NACE Rev.2) in the business register has been completed, consistency problems have been encountered. The statistical business register needs to be updated and the quality of the data improved.

On **macroeconomic statistics** partial implementation of the European System of Accounts 2010 started in 2014. The KAS currently compiles annual national accounts and started publishing quarterly national accounts in December 2014, but further development of short-term statistics is necessary to improve quarterly accounts. Supply-use tables and input-output tables, are not produced nor are regional and sector accounts or fiscal notifications. Statistics on the balance of payments are compiled by the Central Bank of Kosovo and are broadly in line with the *acquis*. Government finance statistics are published annually. KAS started publishing the Harmonised Index of Consumer Prices in January 2015 and further work is required to increase compliance with EU standards.

Structural **business statistics** (SBS) and some short-term statistics are partially in line with the *acquis*, but the availability of short term statistics is limited. Industry and construction statistics are broadly in line with the SBS Regulation, while statistics on the service sector need to be developed. No data is produced on construction activities as the KAS has no data on building permits and more staff is required to provide additional quality short-term statistics. PRODCOM (list of products of the European Union) statistics have not yet been introduced. Tourism statistics are partially compliant with the *acquis*. Research and

development, innovation and information and communication technology statistics are not produced on a regular basis.

Most **social statistics** other than demographic statistics still need to be produced, in line with the acquis. A pilot survey on income and living conditions (SILC) is being conducted. Resources should be provided for SILC to become a regular survey. Some social protection statistics are produced but the unemployment scheme needs to be added and the quality of administrative data needs to be improved. An annual labour force survey is carried out but the labour cost index, structure of earnings data and job vacancy statistics are still not produced. Public health and crime statistics are not yet in line with the acquis.

In **agricultural statistics** an agriculture census was held in November 2014, albeit without the participation of the four northern municipalities. The preliminary results were published in February and final results are not yet available. Agricultural price indices and economic accounts for agriculture are produced on a regular basis, while milk and dairy and slaughter statistics are still not. The farm structure survey was carried out as part of the 2014 agriculture census and the 2013 agriculture household survey. Supply balance sheets and the agriculture labour index are not yet produced.

Energy statistics cover parts of the regulation on energy statistics. Some annual energy data and energy prices are provided to Eurostat but further improvements are needed. The lack of energy efficiency statistics continues to be an obstacle to reporting on energy savings.

On **environment statistics**, waste and water statistics are already collected but statistics on environmental protection expenditure, material flow balances and air emissions accounts are not yet produced.

5.3. Justice, freedom and security

Kosovo is **at an early stage** in the area of justice, freedom and security, but has made **some progress** over the past year. The authorities managed to successfully address and bring down the significant rise in migration flows seen earlier this year. However, strong political commitment is needed to tackle the underlying push factors of irregular migration.

Despite some operational improvements, final convictions resulting in permanent confiscation of assets obtained through crime are still rare. The number of arrests, seizures and court verdicts for drug trafficking remains low. The investigative capacity of the police is generally good, but the implementation of intelligence-led policing concepts needs to be further improved. Kosovo is actively involved in international and regional police investigations; however, its formal cooperation is limited due to status-related reasons.

In the coming year, Kosovo should pay particular attention to:

- fully implementing the intelligence-led policing approach, including by making full use of the potential of the National Centre for Border Management;
- systematically applying tools for financial investigation and asset confiscation, enhancing the capacity and expertise of police, prosecution and judges;
- pursuing organised crime-related investigations with the aim of securing final convictions, especially in the fight against drug trafficking and human trafficking, and in dismantling migrant smuggling groups.

5.3.1. Visa policy, border controls, asylum and migration

As regards **visa policy**, in line with the European Union Schengen Visa Code and with the expansion of consular missions, Kosovo managed to decrease the number of visas issued at

border crossing points. A total of 943 visas were issued from September 2014 to July 2015, of which only six were issued at border crossing points. Citizens of 88 countries currently need a visa to enter Kosovo.

An improved version of the Civil Status Registration System (CSRS) was launched in July, in line with the adopted revised legislation. Civil status certificates are issued after checking the CSRS data against the civil registry books. In August 2015, Kosovo started digitalising the civil registry books returned from Serbia in order to electronically link and match them with CSRS data. The process should be completed by mid-2016.

There was little action on the development plan for the National Centre for **Border Management** (NCBM). Based on the new law on inter-agency cooperation, a joint intelligence, risk and threat analysis unit was set up in the NCBM and a strategic threat assessment for integrated border management (IBM) produced. Within the new structure, clearer communication is needed on intelligence requirements, from central to regional and local level.

Joint patrols were carried out with Albania, the former Yugoslav Republic of Macedonia and Montenegro. A joint cooperation centre was opened in January with the former Yugoslav Republic of Macedonia. The technical work on delineating the remaining nine kilometres of the border with Montenegro was completed and Ministers signed the agreement in August 2015, which now needs parliamentary ratification by 2/3 majority. All six interim IBM crossing points with Serbia are operational and two more were agreed in principle. Technical agreements on the exact location and construction of permanent IBM crossing points were reached. There have been improvements in checks on documents. The detection rate of offences at the borders has increased across the three IBM agencies (Kosovo police, Kosovo Customs and the Kosovo Veterinary and Food Agency) due to improved risk analysis and subsequent operational actions. The Kosovo police has not yet put in place a maintenance contract for the EU-funded border management IT system; this hinders progress on effective border control.

Since June 2014 Kosovo has been a full member of the Migration, Asylum, Refugees Regional Initiative to further promote security, stability and regional cooperation in this field.

Unlike some of its neighbours, Kosovo has not been seriously affected by the refugee crisis. Though it has increased, the number of **asylum claims** filed in Kosovo is still limited. Kosovo received 98 asylum claims in 2014 and 53 from January to August 2015. The majority of asylum applicants came from Syria. Asylum-seekers are referred to the asylum centre for the duration of the procedure, where they enjoy freedom of movement and have access to all basic services. Most asylum-seekers choose to continue their journey before their claim has been decided. So far Kosovo authorities granted subsidiary protection to only one person in 2015 (one in 2014, three in 2013). The detention centre for foreigners was made operational in June 2015, providing for a more effective return policy. The accommodation centre at Pristina airport is also operational.

Kosovo has aligned most of its legislation with the *acquis* and international standards in this area. Availability of interpreters has been ensured. However, effective mechanisms to identify countries of origin and profiles of people in need of international protection need to be implemented.

December 2014 to March 2015 saw a significant increase in irregular **migration** from Kosovo via Serbia into the EU. This was mirrored in a corresponding increase of asylum seekers from Kosovo. The number of asylum applications lodged by Kosovo citizens increased to 37 905 in 2014 (from 20 215 in 2013). From January to June 2015, 62 860 Kosovo citizens applied for

asylum in the EU. This number has decreased significantly since May 2015. Still, Kosovo must address the high number of manifestly unfounded asylum applications lodged by its citizens in the EU. Kosovo undertook some effective short-term measures to curb irregular migration early in 2015. Reinforced checks on buses in Kosovo, stringent checks of licenses of bus companies, awareness-raising and Serbian border control measures at the border with Hungary resulted in a significant decline in irregular migration. The EU-sponsored dialogue with Serbia on irregular migration led to closer cooperation with Belgrade in this area. Kosovo must ensure effective long-term policies to prevent further spikes in irregular migration. Measures are also needed to tackle the underlying causes of emigration, in particular high unemployment, especially among young people. The 2013 migration profile, providing analysis and data for policy guidance on migration, was adopted in March 2015; the 2014 profile is expected to be approved by end-2015.

Many of the migrants who left Kosovo have since been returned. A functioning **readmission** process is in place and the acceptance rate from Kosovo is high (97 % in the first half of 2015). Kosovo readmitted 4 610 people in 2014, of whom 3 352 were forced and 1 258 voluntary returnees. In the first half of 2015 Kosovo readmitted 12 330 people, of whom a majority (6 834) were voluntary returnees and 5 496 forced. Kosovo has signed readmission agreements with 22 countries. Further readmission agreements, including with Turkey, are currently being negotiated and Kosovo should encourage their swift conclusion.

The regulation governing the **reintegration** fund has been amended, providing for broader access of returnees, who are economically particularly disadvantaged, to reintegration services. Central processing of repatriated people is largely efficient and emergency assistance is provided to those in need. The Reintegration Case Management System has improved. An increased number of returnees has benefited from employment schemes and start-ups of businesses. Agreements with local companies have been reached to further increase this number. The long-term integration of returnees, through access to education, employment and healthcare, remains a challenge. Kosovo needs to ensure that the budget of the reintegration fund is spent, making full use of the resources available to support reintegration. The capacity of municipalities to efficiently manage reintegration at local level should be further increased.

5.3.2. Money laundering

The action plan for the national risk assessment on money laundering and combating financial terrorism was mostly implemented on time. With regard to the criminal offence of money laundering, Kosovo's legal framework is largely in compliance with the Vienna and Palermo Conventions. However, certain gaps, for instance on the declaration of assets by senior public officials and on market manipulation, remain.

Cooperation between the Financial Intelligence Unit in the Ministry of Finance and key bodies in the anti-money laundering chain needs to be further enhanced. Better co-operation and interaction with in particular police and prosecution is vital. The anti-corruption department within the Kosovo Special Prosecution Office should be strengthened to tackle more anti-money laundering cases, in cooperation with the EU Rule of Law Mission, EULEX. There has been an increase in the number of anti-money laundering cases forwarded to the prosecution. Nevertheless, there have been few convictions to date. Cooperation between the prosecution and police should be strengthened. Kosovo should make an effort to align its legislation and practices to the FATF recommendations.

5.3.3. *Drugs*

The Kosovo police directorate for investigating trafficking in narcotics has paid some attention to prevention and supply reduction in implementing the strategy and action plan against narcotics. Operations, including house raids, led to the dismantling of some criminal groups. Further implementation of intelligence-led policing is nevertheless necessary.

Kosovo cooperates with the European Monitoring Centre for Drugs and Drug Addiction, but has yet to appoint a national focal point or an operational drug observatory. Special attention needs to be paid to raising public awareness of the consequences of drug abuse. A new training programme on the dangers of drug abuse has been developed for Kosovo police community safety officers and selected teachers. Addiction treatment services and methadone therapy services were set up in five hospitals and two prisons, strengthening drug abuse prevention and harm reduction strategies. Kosovo continues to be used mainly for transit and storage of heroin and cannabis (skunk), but drug seizures remain low.

5.3.4. *Police*

The Kosovo police continues to be perceived as the most trusted rule of law institution in Kosovo. Cooperation between the Kosovo police and Europol is currently facilitated by an EU Member State official working within EULEX. The Kosovo police has already contributed to successful joint investigations supported by Europol, including the large-scale destruction of a Europe-wide migrant smuggling network in March. Kosovo applied to join Interpol in April.

Cooperation between the independent police inspectorate (PIK) and the Kosovo police Professional Standards Directorate continue to be good. In 2014, the PIK received 1 304 complaints and information, on the basis of which 132 cases were sent to the prosecution service. Criminal indictments were filed against 28 suspects and are being processed in the competent courts.

The integration of former Serbian Ministry of Internal Affairs Units officers into the police led to unrest when others who had not been integrated into the police protested against their non-selection. Additional staff were allocated to war crimes investigations within the police, but investigations remain largely non-operational. Continued efforts remain necessary on witness protection.

5.3.5. *Fighting organised crime and terrorism*

Track record

Kosovo needs to build a track record of fighting organised crime, including confiscation and sequestration of assets and final conviction of perpetrators, but there is little concrete evidence of this so far. In 2014, the estimated value of frozen and temporarily confiscated assets was more than EUR 30 million, while the value of permanently confiscated assets, managed by the Agency for Managing the Sequestered and Confiscated Assets, was a total of EUR 128 298, covering 29 assets.

The police arrested a substantial number of people who had either joined terrorist groups in conflicts abroad or intended to do so. During 2014, the directorate against terrorism investigated and filed charges in several terrorism-related cases and conducted two operational plans and 484 raids in different regions.

During 2014, 9.3 kg of heroin, 21.1 kg of cocaine and 722.8 kg of marijuana were confiscated, and 17 criminal gangs were identified and disrupted.

Institutional and operational capacity

To boost the police's capacity to effectively tackle organised crime, police officers were trained on advanced investigation techniques for hate crime, airport security check points and strategic assessment and tactical tasking and coordination. More financial investigations were conducted compared to previous years and nine financial experts were trained and certified to further step up the capacity to conduct financial investigations. Kosovo needs to further increase the level of expertise to tackle complex criminal investigations, such as financial crime and procurement fraud, essential to dealing with corruption effectively. Kosovo institutions have to commit themselves to a zero-tolerance approach in the fight against organised crime and corruption in practice and in all decision-making processes. A new national coordinator against trafficking in narcotics should be appointed.

Legal framework

Some progress has been made and Kosovo has established the key components of the legal framework necessary for the fight against organised crime. Based on the law on preventing and combating **cybercrime**, the police department for investigating organised crime set up a sector for cybercrime investigations and staff received specialised training.

In January a law was adopted criminalising the phenomenon of foreign terrorist fighters in line with UN Security Council Resolution 2178 (2014). The criminal code does not provide a sufficient legal base for tackling the financing of terrorism and the terminology used is inconsistent. Kosovo's legislative framework for seizure and confiscation lacks specific provisions to enable the authorities to take the necessary preventive and punitive measures to freeze and, if appropriate, seize terrorist-related funds or other assets without delay, in accordance with the relevant UN Resolutions. Efforts need to be enhanced to identify, prevent and disrupt the flow of foreign terrorist fighters traveling to conflict areas such as Iraq and Syria.

The parliament adopted the law on the interception of telecommunications in May 2015.

Strategic framework

The implementation of the 2012-2017 strategy and action plan against **organised crime** is ongoing. In November 2014, the third annual review of the 2012-2017 strategies and action plans against organised crime, narcotics and terrorism took place. The assessment covered the practical implementation of the activities in the 2013-2014 action plans. A new strategy against **trafficking in human beings** (2014-2019) was adopted in May 2015.

In September 2015 Kosovo adopted the 2015-2020 strategy and action plan on prevention of violent extremism and radicalisation that may lead to terrorism. The strategy is the result of close cooperation with religious communities, social and frontline workers, the education system and youth organisations.

Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

5.3.6. Judicial cooperation in civil and criminal matters

With regard to the Hague Conventions, in particular the 1980 Convention on international child abduction, the Department for International Legal Cooperation within the Ministry of Justice only deals, albeit professionally, with the civil aspects of international child abduction cases. Kosovo needs to enhance its capacity to become an effective partner in the context of mutual legal assistance. No new bilateral agreements on judicial cooperation were concluded.

Annex I – Relations between the EU and Kosovo

On 27 October 2015, the European Union signed a **Stabilisation and Association Agreement** (SAA) with Kosovo. The SAA constitutes the first contractual relationship between the EU and Kosovo. The SAA is a comprehensive agreement that provides a framework for political dialogue and covers co-operation in a wide variety of sectors, including justice and home affairs, trade, education, employment, energy, environment and a range of other policy areas.

Kosovo has continued to address the priorities set out in last year's Progress Report and in the Commission's feasibility study for a Stabilisation and Association Agreement issued in 2012. In particular, progress has been made on the EU-facilitated dialogue with Serbia and requirements of the visa liberalisation dialogue. However, the political deadlock following the June 2014 elections only ended in November 2014 with the formation of a new coalition government. This has caused delays in a number of areas.

Kosovo's commitment to its EU-facilitated dialogue with Serbia and the normalisation of their relations has been instrumental to the fulfilment of its European ambitions. Kosovo needs to continue to focus on the implementation of agreements reached with Serbia and continue negotiating new ones.

Kosovo has remained engaged in the **Stabilisation and Association Process** Dialogue. **Visa liberalisation** continues to be one of Kosovo's key priorities. The Commission has issued two reports on Kosovo's progress towards visa liberalisation (February 2013 and July 2014). Following Kosovo's report in June, expert missions took place in July 2015.

As regards **financial assistance**, during 2014 the EU Office in Kosovo continued to work closely with the Ministry of European Integration in the preparation of the 2014 programme under the IPA II financial framework. The IPA 2014 programme was approved by the IPA Committee on 27 November 2014 with an EU contribution of EUR 66.05 million, complemented with co-financing from Kosovo for an overall budget of EUR 75.38 million. The Framework Agreement between Kosovo and the European Commission on the arrangements for the implementation of union financial assistance to Kosovo under the Instrument for Pre-accession Assistance (IPA II) was signed in April 2015. The Financing Agreement for IPA 2014 entered into force on 14 September 2015. In 2014, the EU Office signed 212 contracts for projects in Kosovo for a total of EUR 79.3 million. It continued to ensure the co-ordination of donors active in Kosovo by organising – together with the Kosovo Ministry of European Integration – regular donor co-ordination meetings.

The Commission submitted its proposal to sign and conclude the framework agreement on the participation of Kosovo in EU programmes in April 2013. This proposal is still pending Council approval.

Following the extension of the mandate of the EU Rule of Law Mission **EULEX** until June 2016, a new Head of Mission took office in October 2014. In response to allegations of corruption within the mission, the HRVP in November 2014 appointed an independent legal expert to review EULEX's handling of these allegations. The expert issued his final report in April 2015. Throughout the reporting period, Kosovo institutions maintained good co-operation with EULEX.

In August 2015 the Kosovo Assembly adopted the constitutional amendments and the law allowing for the establishment of the **Specialist Chambers and a Specialist Prosecution**

Office, which are to prosecute cases of grave trans-boundary and international crimes committed during and in the aftermath of the conflict in Kosovo.

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

During the reporting period, the UN Secretary-General continued to provide regular updates on the implementation of the UN's mission in Kosovo (UNMIK). He urged the Kosovo Assembly to adopt the legislation concerning the establishment of the Specialist Chambers swiftly. He also called for full engagement by Belgrade and Pristina in the establishment of the Association/Community of Serb majority municipalities. He expressed concern at the population outflows from Kosovo in late 2014 and early 2015.

The NATO-led Kosovo Force (KFOR) has continued to help ensure a safe and secure environment in Kosovo. During the reporting period, it had some 4 500 personnel.

Annex II – Statistical Annex

STATISTICAL DATA (as of 7.09.2015)

Kosovo

Basic data	Note	2002	2010	2011	2012	2013	2014
Population (thousand)	1)	:	2 208p	1 799b	1 816	1 821e	1 805e
Total area of the country (km ²)		10 887	10 887	10 887	10 887	10 887	10 887

National accounts	Note	2002	2010	2011	2012	2013	2014
Gross domestic product (GDP) (million euro)		:	4 402	4 814	5 059	5 327	:
GDP (euro per capita)	2)	:	2 480	2 672	2 799	2 935	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		:	:	:	:	:	:
Real GDP growth rate: change on previous year of GDP volume (%)		:	3.3	4.4	2.8	3.4	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		:	16.2	15.6	14.8	14.4	:
Industry (%)		:	20.7	19.7	19.9	20.3	:
Construction (%)		:	7.7	9.2	8.2	7.9	:
Services (%)		:	55.4	55.6	57.1	57.4	:
Final consumption expenditure, as a share of GDP (%)		:	102.6	103.3	105.2	104.0	:
Gross fixed capital formation, as a share of GDP (%)		:	29.6	30.7	26.0	24.8	:
Changes in inventories, as a share of GDP (%)		:	3.4	3.3	2.9	2.8	:
Exports of goods and services, relative to GDP (%)		:	19.9	19.6	18.2	17.4	:
Imports of goods and services, relative to GDP (%)		:	55.5	56.8	52.4	49.0	:

Business	Note	2002	2010	2011	2012	2013	2014
Industrial production volume index (2010 = 100)		:	:	:	:	:	:
Number of active enterprises (number)		:	:	:	:	32 651	33 937
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	16.1	13.6	16.8	12.4	13.7
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	13.8	12.9	12.3	8.6	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	73.7	72.1	74.2	74.5	74.1
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
Total value added (in the non-financial business economy) (EUR million)		:	:	:	:	:	:

Inflation rate	Note	2002	2010	2011	2012	2013	2014
Consumer price index (CPI), change relative to the previous year (%)		-1.0	3.5	7.3	2.5	1.8	0.4

Balance of payments	Note	2002	2010	2011	2012	2013	2014
Balance of payments: current account total (million euro)	3)	-104	-516	-658	-380	-339	-437
Balance of payments current account: trade balance (million euro)	3)	-890	-1 742	-2 047	-2 050	-1 996	-2 059
Balance of payments current account: net services (million euro)	3)	-23	176	256	324	312	336
Balance of payments current account: net income (million euro)	3)	154	67	111	154	122	114
Balance of payments current account: net current transfers (million euro)	3)	655	982	1 021	1 193	1 222	1 172
of which government transfers (million euro)	3)	661	370	329	402	342	292
**3 year backward moving average of the current account balance relative to GDP (%)	3)	:	11.4	12.0	11.4	9.5	7.4
Net inward foreign direct investment (FDI) (million euro)	3)	:	331.1	387.0	213.3	250.2	123.8
Foreign direct investment (FDI) abroad (million euro)	3)	:	37.4	5.0	15.8	30.0	27.3
of which FDI of the reporting economy in the EU-28 countries (million euro)	3)	:	1.0	0.0	5.2	21.5	10.1
Foreign direct investment (FDI) in the reporting economy (million euro)	3)	:	368.5	392	229.1	280.2	151.2
of which FDI of the EU-28 countries in the reporting economy (million euro)	3)	:	217.9	205.3	123.2	172.2	92.5
**Net international investment position, relative to GDP (%)	3)	:	10.2	2.9	5.0	7.0	5.5
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	3)	:	-0.2	0.1	3.6	2.5	11.7

Public finance	Note	2002	2010	2011	2012	2013	2014
***General government deficit / surplus, relative to GDP (%)		6.2p	:	:	:	:	:
***General government gross debt relative to GDP (%)	4)	0.0	6.1e	5.3e	8.3e	9.0e	:
Total government revenues, as a percentage of GDP (%)		:	26.8	27.1	30.4	26.8	:
Total government expenditure, as a percentage of GDP (%)		:	28.9	28.8	29.0	28.2	:

Financial indicators	Note	2002	2010	2011	2012	2013	2014
Gross foreign debt of the whole economy, relative to GDP (%)		:	31.2	29.7	30.0	30.2	32.3
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		998	:	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 126	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		86	1 459	1 698	1 763	1 806	1 882
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	5)	:	14.63	14.14	13.42	12.36	10.70
Deposit interest rate (one year), per annum (%)	5)	:	3.70	3.49	3.57	3.39	1.07
Euro exchange rates: average of period (1 euro = ... national currency)		1	1	1	1	1	1
Trade-weighted effective exchange rate index (2005 = 100)		:	:	:	:	:	:

Value of reserve assets (including gold) (million euro)		:	585	491	760	724	746
External trade in goods	Note	2002	2010	2011	2012	2013	2014
Value of imports: all goods, all partners (million euro)		:	2 158	2 437	2 462	2 421	2 538
Value of exports: all goods, all partners (million euro)		:	296	306	267	272	325
Trade balance: all goods, all partners (million euro)		:	-1 862	-2 131	-2 195	-2 148	-2 214
Terms of trade (export price index / import price index * 100) (number)		:	125	97	87	97	107
Share of exports to EU-28 countries in value of total exports (%)		:	45.5	45.5	41.1	43.5	30.2
Share of imports from EU-28 countries in value of total imports (%)		:	41.0	41.5	42.6	44.7	42.6

Demography	Note	2002	2010	2011	2012	2013	2014
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		:	:	11.4p	11.3	11.9	13.3
Infant mortality rate deaths of children under one year of age (per thousand live births)		11.2	8.8	12.1e	11.4	5.5	6.6
Life expectancy at birth: male (years)		:	:	68.0e	74.1	74.2	74.2
Life expectancy at birth: female (years)		:	:	71.9e	79.4	79.4	79.5

Labour market	Note	2002	2010	2011	2012	2013	2014
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	:	42.5	46.4	47.7
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	:	29.7	33.0	31.3
Male employment rate for persons aged 20–64 (%)		:	:	:	46.6	51.5	48.4
Female employment rate for persons aged 20–64 (%)		:	:	:	12.4	14.9	14.5
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		18.4	:	:	25.8	30.8	29.8
Employment by main sectors							
Agriculture, forestry and fisheries (%)		10.3	:	:	4.6	5.9	2.6
Industry (%)		17.2	:	:	19.0	16.8	17.7
Construction (%)		11.2	:	:	9.5	11.4	10.9
Services (%)		61.3	:	:	65.0	64.1	67.2
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	31.4s
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	68.6s
Unemployment rate: proportion of the labour force that is unemployed (%)		55.0	:	:	30.9	30.0	35.3
Male unemployment rate (%)		45.2	:	:	28.1	26.9	33.1
Female unemployment rate (%)		74.5	:	:	40.0	38.8	41.6
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		77.7	:	:	55.3	55.9	61.0
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		26.0	:	:	18.5	20.7	26.1
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	:	:	:	:	:
Unemployment rate for persons (aged 25–64)		:	:	:	:	:	:

having completed tertiary education (ISCED 5 & 6) (%)							
Social cohesion	Note	2002	2010	2011	2012	2013	2014
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		:	:	:	:	:	:
GINI coefficient — see definitions		:	:	:	:	:	:
Poverty gap		:	:	:	:	:	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	:	:	:	:	:

Standard of living	Note	2002	2010	2011	2012	2013	2014
Number of passenger cars relative to population size (number per thousand population)		:	90.6p	111.2e	111.3	125.0	158.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		:	442.3	543.7	532.5	:	487.8

Infrastructure	Note	2002	2010	2011	2012	2013	2014
Density of railway network (lines in operation per thousand km ²)		:	30.3	30.6	30.6	31.0	31.0
Length of motorways (kilometres)		0	0	38	60	80	80

Innovation and research	Note	2002	2010	2011	2012	2013	2014
Public expenditure on education relative to GDP (%)		:	3.8	4.1	4.0	:	4.4
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		:	:	57	:	:	:

Environment	Note	2002	2010	2011	2012	2013	2014
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2005 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	:	:
Road share of inland freight transport (based on tonne-km) (%)		:	:	:	:	:	:

Energy	Note	2002	2010	2011	2012	2013	2014
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)	6)	5 528	7 960	8 212	8 028	8 219	7 204
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)		3.2	5.5	5.7	5.9	6.2	5.3

Agriculture	Note	2002	2010	2011	2012	2013	2014
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)		:	242e	243e	276	295	258p
Livestock numbers: live bovine animals (thousand heads, end of period)		319	357e	362e	314	321	235p
Livestock numbers: live swine (thousand heads, end of period)		110	51e	51e	56	49	:
Livestock numbers: live sheep and live goats (thousand heads, end of period)		116	229e	247e	123	160	199p
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: cereals (including rice) (thousand tonnes)		396	431e	435e	442	540	:
Harvested crop production: sugar beet (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: vegetables (thousand tonnes)		135	239e	247e	117	185	:

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

*** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes:

- 1) 2011: data are based on 2011 census data and estimates that the Kosovo agency of statistics (KAS) have for 3 northern municipalities who did not participate in the census and natural growth for the period April 15–31 December 2011.
- 2) Population figures were revised after GDP publication. These changes will be included in the annual publication of GDP (in November 2015).
- 3) 2010–14: based on balance of payments manual edition 6 (BPM6).
- 4) 2010–13: the value of GDP is obtained from the Medium Term Expenditure Framework 2014–2016 (April 2013).
- 5) Includes disbursement fee charged by banks.
- 6) Thousand tonnes.