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



EUROPEAN  
COMMISSION

Brussels, 9.11.2016  
SWD(2016) 363 final

## **COMMISSION STAFF WORKING DOCUMENT**

### **Kosovo\* 2016 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**

#### **2016 Communication on EU Enlargement Policy**

{COM(2016) 715 final}

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

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## 1. INTRODUCTION<sup>1</sup>

### 1.1. Context

On 1 April 2016, the EU-Kosovo Stabilisation and Association Agreement (SAA) entered into force. This is the first contractual relationship between the EU and Kosovo, a comprehensive framework for closer political dialogue and economic relations.

Kosovo has faced serious domestic challenges, which have hampered EU-related reforms in some areas. It should now focus on implementing the SAA, guided by the European Reform Agenda, to further strengthen its rule of law and reform its economy.

Kosovo has delivered on wide-ranging rule of law reforms, allowing the Commission to issue a formal proposal in May 2016 to transfer Kosovo to the Schengen visa-free list. This is now in the hands of the European Parliament and Council, pending Kosovo's fulfilment of the remaining two requirements. Kosovo remains committed to the normalisation of its relations with Serbia. It has met its remaining obligations on the establishment of the Specialist Chambers and has extended the mandate of the European Union Rule of Law Mission (EULEX).

### 1.2. Summary of the report

As concerns the **political criteria**, the polarisation between government and opposition continued. Normal parliamentary functioning was prevented for parts of the reporting period, including through the use of violent means by opposition members. All political parties should show responsibility and re-engage in a constructive dialogue, with parliament as the key forum for political debate. The recent return of opposition members to parliamentary activities is a welcome step.

Kosovo institutions fulfilled the remaining obligations on the establishment of the Specialist Chambers and Specialist Prosecution Office to investigate allegations of international crimes committed during and after the 1999 conflict. The procedures on the bilateral agreement with the host country of the Specialist Chambers (the Netherlands) were finalised. The mandate of EULEX was extended until June 2018.

The assembly completed most of the outstanding appointments to independent institutions and agencies. However, appointments were often subject to political influence. This

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<sup>1</sup> This report covers the period from October 2015 to September 2016. 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.

undermines the independent functioning and effective management of these bodies. Greater efforts are needed to ensure that appointments are based on merit.

There is some level of preparation in the area of public administration reform. Good progress included the adoption of a comprehensive public financial management strategy and of the law on general administrative procedures. The continued politicisation of the public administration, however, remains a serious concern. The organisation of the state administration is fragmented and does not ensure effective lines of accountability, and the overlap of responsibilities of government agencies needs to be addressed. Parliamentary oversight of government activities should increase. The recommendations of oversight institutions should be followed, to ensure improved governance and accountability.

Kosovo's judicial system is at an early stage. Important positive steps have been taken during the reporting period with the adoption of amendments to the constitution and most secondary legislation necessary to implement the 2015 justice package laws. Kosovo has also appointed most members of key institutions and continued to increase its clearance rate of cases. However, administration of justice is slow and inefficient, and there is insufficient accountability of judicial officials. The judiciary is still vulnerable to undue political influence and rule of law institutions suffer from lack of funding and human resources.

Kosovo is at an early stage/has some level of preparation in the fight against corruption. Kosovo has strengthened its institutional capacities to fight corruption and organised crime, with the establishment of multi-disciplinary investigative teams, the set-up of a tracking mechanism for high level corruption and organised crime cases, as well as the fostering of serious crime department of basic courts. This has led to an increased number of high-level cases being investigated and prosecuted. However, corruption remains prevalent in many areas and continues to be a very serious problem. A stronger political will to tackle this in a comprehensive manner is necessary.

Kosovo is at an early stage in the fight against organised crime. The number of investigations and final convictions remains low. Gaps in the legislation remain and enforcement needs to be improved in particular for money laundering, confiscation and seizure of assets, and financial investigation. Undue influence over investigations and the lack of strategic political commitment hamper the fight against organised crime. Kosovo continued its efforts to fight terrorism, but still faces challenges in this area.

Some progress was made in the area of human rights, with steps taken to implement the 2015 package of human rights laws and declarations of support for the rights of LGBTI persons. However, implementation continues to be hindered by a lack of resources and political commitment, in particular at local level. More needs to be done to effectively guarantee property rights and address the issues of return and reintegration of displaced persons, protection of cultural heritage and against gender-based violence. The protection of the rights of persons belonging to minorities and persons with disabilities need to be significantly strengthened. Kosovo has some level of preparation in the area of freedom of expression. There have been worrying developments during the reporting period, including a number of threats against journalists. The assembly shows limited commitment to finding a solution for sustainable funding of the public broadcaster, leaving it vulnerable to political pressure. There were no legislative developments on the regulation of media ownership and transparency.

Regarding the **normalisation of relations with Serbia**, Kosovo remained committed to the implementation of the agreements reached in the EU-facilitated dialogue. Progress was

limited, also due to the electoral process in Serbia and the domestic situation in Kosovo. However, momentum was regained in August 2016 with the start of the work on the Mitrovica/Mitrovicë bridge and freedom of movement. Continued efforts are needed to implement the agreements already reached. The steps taken should have a positive and concrete impact on the everyday life of citizens in both Kosovo and Serbia.

As regards the **economic criteria**, Kosovo is at an early stage in developing a functioning market economy. Some progress was made, particularly on supporting export-oriented businesses, improving contract enforcement, especially within the financial sector, and access to finance. However, the fiscally unsustainable decisions related to war-veterans' benefits may have a negative effect on the macroeconomic stability of Kosovo and its relations with international financial institutions. The persistent trade deficit reflects a weak production base and poor international competitiveness. Reliance on remittances and the widespread informal economy additionally decrease employment incentives, resulting in low labour force participation, especially among women, and high unemployment rates, in particular among young and unskilled workers.

Kosovo is at an early stage in building 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.

Kosovo is at an early stage of alignment with **European standards**. Legislative alignment has continued in some areas but implementation is weak. Some progress was made in the area of public procurement and competition. Good progress was made in the area of customs, especially in fighting corruption, collecting revenue and reducing the administrative costs of exports, but Kosovo should step up the fight against the informal economy and tax evasion. The energy sector continues to face problems, with no progress having been made on decommissioning the Kosovo A power plant or refurbishing Kosovo B, and very little progress made on renewable energy.

## **2. POLITICAL CRITERIA**

### **2.1. Democracy**

Since 2008, Kosovo has consolidated the functioning of its democratic institutions. However, the past year brought serious challenges due to the ongoing deep polarisation between the government and the opposition. Divisions over issues such as the border demarcation agreement with Montenegro and the Dialogue with Serbia, dominated Kosovo's political agenda, leading to a protracted political stalemate. Greater efforts by all actors are needed to build consensus across the political spectrum to advance Kosovo on key EU-related issues.

Despite the difficult circumstances, EU-Kosovo relations have strengthened. The Stabilisation and Association Agreement entered into force on 1 April 2016, establishing a first contractual relationship between the EU and Kosovo. Kosovo has delivered on wide-ranging rule of law reforms, allowing the Commission to issue a formal proposal in May 2016 to transfer Kosovo to the Schengen visa-free list.

The situation in the north of Kosovo has remained largely calm and communication between mayors in the north and central institutions improved. Construction work on the Mitrovica bridge, a highly symbolic issue, started in the summer with the aim of opening the bridge for all traffic in January 2017. Kosovo met the remaining obligations in relation to the establishment of the Specialist Chambers and Specialist Prosecution Office to investigate allegations of international crimes committed during and after the 1999 conflict. The mandate of EULEX was extended until June 2018.

## **Elections**

Kosovo's electoral framework is mostly in line with international standards, however electoral reform, guided by advice from the Venice Commission, remains necessary. Independent audits of political party financing and party electoral campaigns, as provided for in the law on financing of political parties, have not been conducted for the last three years. This should be done, by the latest, in advance of the next elections. The assembly needs to start an institutional debate, involving all political parties, with a view to ensuring transparency and accountability of political parties' finances and campaign contributions.

## **Parliament**

The assembly must play a key role in guaranteeing proper checks and balances necessary in a parliamentary democracy. It is the responsibility of all parliamentarians to ensure that the assembly can fulfil this role. Boycotts and continuous violent obstructions of parliamentary work have adversely affected parliamentary activities during parts of the reporting period. Breaches of parliamentary procedures continue to be a concern.

Normal parliamentary functioning was prevented for parts of the reporting period by violent means, including teargas, by some opposition members. This has led to tensions and the arrest of a number of opposition parliamentarians at the assembly's premises. All political parties should show responsibility and re-engage in a constructive dialogue, with the assembly as the key forum for political debate. The recent return of opposition members to parliamentary activities is a welcome step.

Despite the serious political polarisation, the European agenda remained a unifying element across the political spectrum. In November, the assembly ratified the Stabilisation and Association Agreement (SAA) with the EU. In May 2016, the first meeting of the EU-Kosovo Stabilisation Association parliamentary committee took place, in which members of the opposition took part. The assembly elected two Constitutional Court judges in November 2015 and appointed the Auditor General in March 2016.

During the reporting period, the assembly completed most of the outstanding appointments to independent institutions and agencies. However, appointments were often subject to political influence. Appointments should be made on the basis of merit-based and more transparent



selection procedures to ensure the independent functioning and effective management of these bodies. The assembly failed to properly supervise independent institutions, regulatory authorities and agencies, whose reports were often adopted without, or without fully considering the results of, debates. The absence of clear mandates, suitable reporting and accountability mechanisms, as well as institutional fragmentation, continue to present a problem for oversight and effective reform.

Several important laws were enacted using the fast-track procedure. Breaches of the rules of procedure occurred frequently. The absence of parliamentarians often led to the lack of a quorum and irregular plenary and committee sessions. The sessions that were held had very heavy agendas. Such practices are not conducive to comprehensive parliamentary debate and risk diminishing the assembly's oversight role.

The regulatory framework for the assembly should be improved. Parliamentary checks and balances and budgetary control need to be strengthened and there is still no mechanism to ensure that recommendations by the public finance oversight committee are implemented. The assembly needs to strengthen consultations with civil society, especially on important laws. The assembly should take a stronger role in ensuring that reports and recommendations of the Office of the Auditor General and Ombudsman are followed up by the government.

Assembly committees continued their work on monitoring the implementation of laws and held regular public hearings with ministers. The capacity of the EU Integration Committee should be increased to reflect its key role in advancing EU-related reforms. Better screening of draft legislation is needed to ensure alignment with the *acquis*.

In March 2016, the assembly presidency adopted a strategic plan 2016-2020 that contains concrete objectives to boost the assembly's ability to fulfil its constitutional role.

## Governance

The ongoing political polarisation between the government<sup>2</sup> and the opposition<sup>3</sup> strained governance in Kosovo. There were also increased tensions in the governing coalition. Challenges in strategic planning at the centre of government hindered delivery on EU-related reforms and key areas of governance. Greater prioritisation, particularly in the context of implementing the SAA, should help focus reform efforts.

Polarisation across the political spectrum in Kosovo has presented serious challenges to governance. Following the election of Hashim Thaçi as President on 26 February, there was a change in the government with the appointment of a new Deputy Prime Minister and Foreign and Justice Ministers.

In December 2015, the **government** adopted an ambitious legislative agenda and an annual work plan for 2016. It also produced both a National Development Strategy 2016-2021 and an Economic Reform Programme. In December 2015, the government adopted a National Programme for the Implementation of the Stabilisation and Association Agreement, outlining short and medium-term priorities. The adoption of these documents is a welcome step and they should guide Kosovo in its socioeconomic structural reforms. However, weak political

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<sup>2</sup> Governing coalition: Democratic Party of Kosovo (PDK), Democratic League of Kosovo (LDK), Serb Citizen's Initiative 'Srpska' and non-Serb minority group '6+'.

<sup>3</sup> Opposition parties: Vetëvendosje (VV), Alliance for the Future of Kosovo (AAK) and Initiative for Kosovo (NISMA).

focus and lack of cooperation between ruling parties remain obstacles to making progress on much-needed reforms. The government continues to face difficulties meeting deadlines set out in its strategies and work plans. Ad hoc decisions with significant budgetary impact have undermined financial sustainability and reduced the government's ability to focus on real priorities. A strong focus on key priorities, especially on the European Reform Agenda, and strong inter-ministerial coordination are crucial in this regard.

The pre-selection of candidates for appointments to various boards made by the government, and nominations to independent agencies, are often based on political affiliation and not sufficiently on professional criteria. Selection and appointment procedures need to be clearly regulated and made more transparent. The recent allegations of political interference in recruitment to and decision-making processes in public bodies, based on leaked telephone intercepts, raise concern and should be fully investigated. Ministers' non-attendance at plenary sessions and failure to answer parliamentary questions undermines transparency, accountability and communication with the assembly, in particular with the opposition. The government should consistently follow up on recommendations contained in assembly reports.

Care should be taken to ensure that laws are in line with European standards and meet SAA obligations. Ministers need to follow up on each piece of legislation until it is adopted and should provide timely explanations to the assembly. The legislative agenda remains subject to frequent changes. The practice of repeated amendment of the laws undermines the stability of the legislation and reveals shortcomings in planning and coordination at the heart of government which weaken parliamentary oversight.

Progress has been made on **local government**, particularly on relations between central and local government, including northern Serb-majority municipalities. There has been further improvement in municipal compliance with the law on local self-government. The Ministry of Local Self-Governance has spearheaded the drafting and implementation of municipal plans concerning EU-related obligations for the 38 municipalities. Adoption of the law on the census for northern Serb-majority municipalities has been postponed due to lack of support at the central and local levels.

Municipalities' legislative and executive bodies need to continue to increase their transparency and their public accountability, and the municipal assemblies need to strengthen their oversight role. With 38 municipalities, a large number given the size of Kosovo, steps should be taken to rationalise local governance, with the aim of encouraging efficient and democratic service delivery and strengthening responsible governance.

During 2015, six municipalities, including the four northern municipalities, failed to approve their 2016 budgets within the ceilings set by the Ministry of Finance. Instead, the municipalities in the north adopted their budgets in line with the legal framework only in February 2016, once they received assurances for an increase during the mid-year budget review 2016.

The **Ombudsman** began implementing the 2015 law on the Ombudsman, with increased and improved reporting, thereby strengthening the institution. Secondary legislation still needs to be adopted. In 2015, the Ombudsman received 1 995 cases, 10 % less than in 2014. While follow-up to the Ombudsman's recommendations has increased, central and local level institutions need to do so more consistently. The government provided adequate premises for the Ombudsman Institution in August 2016. The assembly and government need to ensure the

financial, functional and organisational independence of the Ombudsman Institution, in line with international standards on national human rights institutions. The Ombudsman still needs to appoint deputies.

### **Civil society**

Some progress was made in improving cooperation between government and civil society. Minimum standards for public consultations were adopted and now need to be implemented across all levels of government. Lack of political will means the participation of civil society in policy-making remains uneven. The lack of transparency in public funding for civil society remains a concern.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by institutions in Kosovo. Civil society needs to continue to play a crucial role in the democratic debate and in participating in the design and implementation of public policy.

Under the current legal framework, the possibility of unwarranted interference in the internal governance and activities of NGOs, including suspensions, remains an issue. Care should be taken to ensure that decisions on suspension by an administrative body can be appealed in a court of law in a timely and transparent manner. The government and assembly did not adequately consult civil society with a view to ensuring that restrictive provisions affecting money laundering and anti-terrorism legislation do not unduly inhibit NGOs' effective ability to operate.

Progress has been made with the adoption in April of minimum standards for public consultations, which were designed in an inclusive and transparent manner. The lack of engagement by many ministries and insufficient capacity and budgetary resources undercut efforts to implement the strategy on cooperation with civil society and continues to cast doubt on the underlying political will. The capacity of civil society in Kosovo to effectively engage remains uneven.

A regulated model to ensure transparent mechanisms for distribution for public funding for civil society organisations has been identified. Information on all public funds disbursed to civil society organisations should be made easily accessible to the public. Legislation and administrative instructions covering all relevant levels of government should be adopted. The legal framework on tax deductions for donations remains ambiguous.

### **Civilian oversight of the security forces**

Due to the political impasse and the boycotts in parliament, there has been limited progress in the work of the parliamentary committee on internal affairs, security and supervision of both the Kosovo Security Forces and the oversight committee for Kosovo's Intelligence Agency. The parliamentary committee organised hearings on the laws pertaining to police and civil registry but did not exercise any oversight on expenditure, including expenditure by the Kosovo Security Forces. Close ties between individual parliamentarians of the relevant committees and the leadership of the Kosovo Security Forces continue to hinder independent oversight. The vetting process continued to improve, but is still carried out by the Intelligence Agency rather than a separate body. In June 2016, the Security Forces published integrity plans.

The Kosovo Security Council met with increased regularity; its secretariat coordinates the implementation of Kosovo's strategy on the prevention of violent extremism and radicalisation leading to terrorism for 2015-2020.

## 2.2. Public administration reform

Kosovo has **some level of preparation** in the reform of its public administration. **Some progress** was made with the adoption of a comprehensive public financial management strategy and of the law on general administrative procedures. However, Kosovo did not address the Commission's recommendations in the area of accountability. Non-merit-based recruitment continues to adversely affect effectiveness, efficiency and professional independence of public administration. The first monitoring reports on implementation of the public administration reform package indicate considerable delays. There are also serious concerns about the financial sustainability of the reforms. Given Kosovo's ambitious reform agenda, continued strong political commitment is essential to ensure its implementation. In the coming year, Kosovo should in particular:

→ review all independent bodies and start implementation of the recommendations of the review in order to enhance accountability, eliminate overlapping competencies and ensure a more streamlined public administration;

→ ensure that the planned legislative package covering civil service, salaries and organisation of state administration is prepared in a coordinated way in an inclusive and evidence-based process on the basis of concept notes agreed at the government level;

→ address the issue of the growing backlog of administrative cases in the Basic Court of Pristina, by ensuring funding to increase the number of judges and by improving the working conditions of the Court (e.g. facilitating implementation of the electronic case management system).

### Policy development and coordination

The legal basis and institutional structures for coherent and coordinated **policy-making system**, including for European integration, are largely in place. Kosovo has adopted a National Development Strategy and National Programme for the Implementation of the SAA, but the latter is only partially aligned with the government's annual work plan. Policy planning is inconsistent and is not given priority at central level. Sector strategies lack quality control, are rarely aligned with the mid-term expenditure framework and are thus financially unsustainable. Although all strategies and policies should contain budget impact analyses, they are not always carried out. Their scope is limited to assessing whether expenditure is within budget, not whether proposals are cost-effective.

Some aspects of **inclusive and evidence-based policy and legislative development** are in place. Regulatory and budget impact assessments differ in quality and are not yet used consistently. Internal and external consultations are regulated, and progress was made with the adoption in April 2016 of minimum standards for **public consultations**. Effective and systematic implementation is needed, especially because short timelines for public consultations hinder effective civil society input. Limited consultations on laws and strategies of specific political or economic interest remains a concern (*see civil society*).

A lack of detailed reporting on the implementation of the government's annual work plan and sector strategies hinders effective **public scrutiny of government work**. Parliamentary scrutiny of the government is also insufficient.

### Public financial management

In June 2016, Kosovo adopted a 2016-2020 **public financial management (PFM) reform strategy**. It is one of four strategies that form a 'strategic package' for public administration reform. It is also complemented by the public internal financial control and public procurement strategies. The PFM system supports aggregate fiscal discipline, but macroeconomic and revenue forecasting has to be improved. Public debt is comparatively low, although domestic and international borrowing has been increasing and budget commitments need to be controlled to limit arrears. One of the main challenges for PFM reform will be merging the tax and customs administrations. Improvements to the quality of medium-term budgeting, budget preparation and capital investment information are being given priority to boost the credibility of the budget (*see financial control*).

**Budget transparency** is limited but improving. Budget information (the budget document, monthly statements, quarterly reports, the mid-year report and the annual financial report) is available to the public on the Ministry of Finance website. The 2015 budget document was difficult to understand for the general public. Budget information needs to be more accessible and comprehensive to strengthen accountability. Budget documents are often not comparable, as budget itemisation is not consistent. Scrutiny of public finances is the responsibility of the Office of the Auditor General. Its reports are published regularly and there is a mechanism for assuring implementation of audit recommendations, but it does not work properly. A key weakness in transparency is that there are frequent changes to the budget during the calendar year without transparent disclosure or explanation of these variations.

### Public service and human resource management

The law on the civil service establishes a single, unitary system of public service at central government and municipal levels. The current law formally provides for **merit-based recruitment, promotions and dismissals** based on objective criteria but loopholes in the law allow contradictory practices, notably on the conversion of temporary staff into permanent civil servants without public competition. The Ministry of Public Administration does not have sufficient capacity to actively supervise recruitment procedures, which are done on a decentralised basis. Political influence over appointments and dismissals continues to be a serious concern, especially on the selection of senior management. Non-majority communities are still not adequately represented in central public institutions.

The Independent Oversight Board is not sufficiently used to monitor implementation of the civil service law, and does not have sufficient capacity. Around 75 % of its recommendations and rulings are implemented. Administrative judges are overburdened, which often leads to delays in decisions.

The Ministry of Public Administration is responsible for central coordination of **human resources management**, but its resources are very limited. A job classification system is being rolled out since January 2016 and is expected to lead to a more uniform application of legislation and principles. Progress has been made in extending the human resource management information system to all institutions, but the system is not up-to-date and does

not perform all the mandatory tasks set out in the legislation. There is generally a lack of professional human resource management due to politicisation and limited capacity.

The **remuneration system** does not ensure equal pay for equal work. Different salary coefficients are applied to similar positions. This undermines parity and does not provide incentives for retaining and recruiting professional staff. However, the suspension in 2016 of the salary top-ups system is a step towards fair and transparent remuneration. **Professional development** of public servants has progressed, but training does not reach all of them. Performance appraisals are still not systematically implemented, and they have little impact on career development.

Kosovo has adopted measures and mechanisms to prevent corruption and promote **integrity in the public service**. Little progress was made in setting up an information system on disciplinary measures and in monitoring implementation of the code of ethics.

#### Accountability of the administration

The state administration is organised in a fragmented way which does not ensure effective **lines of accountability**. The law on state administration has allowed 46 government agencies to be set up, some of which have overlapping responsibilities. Furthermore, over 30 non-constitutional institutions report directly to the assembly, which lacks the powers and capacity to effectively supervise them. Many of these institutions and government agencies do not comply with the civil service law, therefore contributing to further fragmentation of the administration. Lines of accountability within many institutions are weak and there is no clear delegation of responsibilities to middle management (*see financial control*). The government has committed itself to developing the law on organisation of state administration in conjunction with the law on civil service and the law on salaries, in order to ensure a more accountable and depoliticised public administration.

**Citizens' right to good administration** is being addressed by oversight institutions such as the Auditor General and the Ombudsman. Their recommendations are not systematically implemented by all institutions, although there has been some improvement during the reporting period. The **right to access public information** is regulated in the law on access to public documents. Over the past two years the number of requests unanswered or refused was low. The new law on general administrative procedures, adopted in May 2016, aims to improve the **right to administrative justice**, together with the planned new law on administrative disputes. The increasing backlog in resolving administrative disputes is damaging public confidence in the court system. The backlog stood at 5 380 unresolved cases at the end of 2015, an increase of 1 341 from 2014. The **right to seek compensation** is not yet secure because the legislation is fragmented and there is no specific law on public liability.

#### Service delivery to citizens and businesses

The government is committed to **user-oriented administration**. However, coherent policy-making is often undermined by a lack of coordination and common vision between the ministries responsible. The development of e-services is slow for want of an appropriate interoperability framework. Legislation on equal access to services exists, but applying it is a challenge, particularly for persons with disabilities. Good progress has been achieved with the simplification of **administrative procedures** thanks to the adoption of the new law on general administrative procedures. However, implementing the law requires a parallel

inventory of special administrative procedures, which need to be either abolished or brought into line with the law.

### Strategic framework for public administration reform

The **public administration reform strategy framework**, under the umbrella of the National Development Strategy 2015-2020, consists of strategies on better regulation, policy planning and coordination, modernisation of administration and public financial management. The 2015 annual monitoring reports on the first three strategies indicate either over-ambitious targets or lack of appropriate indicators, which explain delays in implementation. The government has agreed to address these shortcomings by the end of 2016. **Political support** for public administration reform and effective steering by the Ministerial Council continues to be necessary to ensure an effective implementation. **Financial sustainability** of the reforms needs to be ensured in the 2017 budget and in the medium-term expenditure framework.

## **2.3. Rule of law**

### **Functioning of the judiciary**

Kosovo is at an **early stage** in developing a well-functioning judicial system. **Good progress** has been achieved over the past year by adopting amendments to the constitution and most secondary legislation necessary to implement the 2015 justice package laws. Kosovo has also appointed most members of key institutions and continued to increase its clearance rate of cases, thus partly meeting two of the 2015 recommendations. However, administration of justice is slow and inefficient, and there is insufficient accountability of judicial officials. The judiciary is still vulnerable to undue political influence and rule of law institutions suffer from lack of funding and human resources. In addressing the shortcomings outlined below, Kosovo should therefore in the coming year:

- continue to implement the justice package, including adoption of the remaining secondary legislation;
- strengthen financial resources for the judicial sector and continue to strengthen the capacity of judges, prosecutors and support staff, to ensure proper functioning of the judicial system and the administration of courts;
- replace current provisions included in the laws on the Judicial and Prosecutorial Councils by adopting the law on the Office of the Disciplinary Counsel to strengthen accountability;
- step up efforts to reduce the backlog of cases, including by using alternative dispute resolution tools.

### Strategic documents

The implementation of the **2014-2019 strategic plan** for Kosovo's judiciary, the 2014-2019 communication strategy and the strategy for reducing the backlog of cases continues, with the aim of improving the overall functioning of the judiciary. The strategic plan of the Kosovo Prosecutorial Council for 2016-2018 was adopted in February 2016.

### 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. In February, following Venice Commission and European Commission recommendations, the assembly adopted a constitutional amendment on the composition of the Kosovo Judicial Council, whereby the majority of its members are to be elected by their peers – 7 out of 13 members now being appointed by judges, and the other 6 by the assembly. The amendment strengthens judicial independence from political influence, a welcome step. Out of the 6 members appointed by the assembly, 2 shall be from the Kosovo/Serbian community and 2 from the other minority communities. One of the 6 non-judicial members is still to be appointed. Following amendments to the law on the Kosovo Prosecutorial Council in December 2015, 10 out of 13 members of the Prosecutorial Council were appointed by prosecutors, while the other 3 still remain to be elected by the assembly. As of January, the Prosecutorial Council controls its own budgetary resources. The Judicial Council submits its budget directly to the assembly. Meetings of both Councils continue to be open to both the media and the public. Both Councils draw up and approve annual reports and publish them online, but their reporting mechanisms still need to be improved. The KJC issued its report with a significant delay, while the KPC report has yet to be presented.

In line with the agreement between Belgrade and Pristina, the KJC and KPC published a second vacancy notice in March 2016, and are recruiting 14 Kosovo Serb judges, 115 support staff, 6 prosecutors, and 34 prosecution support staff. This is a major step forward.

The Judicial and Prosecutorial Councils continue to approve strategic documents, regulations, decisions and other acts, with significant delays. They still need to approve 9 out of 35 regulations and instructions, required under the July 2015 justice package laws. The Councils still lack capacity to draft regulations and take decisions in compliance with the hierarchy of normative acts. They also lack capacity to monitor the implementation of their decisions.

The mandate of the current international judges of the Constitutional Court remains unchanged within the framework of EULEX mandate.

### Independence and impartiality

Legal **safeguards** on the independence and impartiality of judges and prosecutors are enshrined in the constitution, the law on courts and the legislation governing the Judicial and Prosecutorial Councils. Strong concerns remain with regard to public comments by high-level officials on ongoing court proceedings that are tantamount to interference with the judiciary. There are many corruption-related offences involving members of the judiciary and prosecution service.

Court Presidents are responsible for the management and operation of their courts. Under the March 2016 amendments to the law on the Kosovo Judicial Council **judges can be transferred** to other courts by the KJC with the approval of the Court President, for a reasonable period of time, in order to ensure the efficient functioning of the courts and in other extraordinary circumstances. They may appeal a transfer before the Supreme Court. This allowed the understaffed serious crime departments in the Basic Courts to be reinforced. The transferred judges received a pay rise. A sustainable solution, by allocating the appropriate numbers of judges to each Court, needs to be found.

**Case allocation** is managed by drawing lots. Urgent cases are allocated by the Courts' Presidents. Sensitive cases are allocated, but not always dealt with.



The KJC and KPC are responsible for taking action if judges or prosecutors are threatened. They should continue to raise awareness of existing protection mechanisms and procedures, in close cooperation with the police.

### Accountability

Implementation of **codes of ethics** for judges, prosecutors and attorneys is weak. **Disciplinary procedures** are in place. The Judicial and Prosecutorial Councils are responsible for these procedures, while the Office of the Disciplinary Counsel (ODC) conducts preliminary disciplinary proceedings and submits appropriate motions to the Councils. Certain procedural aspects of the status and operations of the Office of the Disciplinary Counsel still need to be clarified. Procedures for appointing and dismissing judges and prosecutors comply with international standards. Judges and prosecutors may be dismissed by the President on a proposal by the KJC/KPC for a number of criminal and disciplinary offences, and they are entitled to appeal.

The law on the Office of the Disciplinary Counsel, replacing current provisions included in laws on the Judicial and Prosecutorial Councils, is yet to be adopted. The performance of the ODC needs to improve. From September 2015 to April 2016, it managed to process and submit only 5 cases against judges and 10 cases against prosecutors to the relevant Disciplinary Committees of the Judicial and Prosecutorial Councils. So far, out of these cases, none of the judges and prosecutors or their judicial officers has been dismissed. No judges and 2 out of 4 prosecutors were suspended by the Councils following allegations of bribery. The overall number of judges and prosecutors under investigation by the ODC in 2015 was high, exceeding 250. The Prosecutorial Council has terminated 7 cases and the Judicial Council terminated 6 cases on the basis of expiration of statutory limitations. Judges and prosecutors are obliged by law to **declare their assets** and gifts received, as well as report any possible conflict of interest to the Anti-Corruption Agency. In 2015, all Kosovo judges and prosecutors timely submitted their assets declarations.

### Professionalism and competence

The President of Kosovo **appoints** judges and prosecutors for an initial three-year term, following a proposal from the KJC or the KPC respectively. The recruitment process and entry exams for judges and prosecutors are organised by the Judicial and the Prosecutorial Councils respectively and are merit-based. The authority taking decisions on the **selection of judges** should be independent of the executive and the legislative powers.

The Prosecutorial Council is required to carry out **performance evaluations** for prosecutors with a permanent mandate every third year, but this has again experienced significant delays. The Judicial Council failed to adopt the regulation on performance evaluation of judges. Judges continue to be evaluated by the Judges' Performance Assessment Committee. To date, most judges and prosecutors have passed the evaluation; 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, are in place since 2015 to ensure professionalism. The level of **professionalism and competence**, especially of prosecutors, is still a matter of concern; some are inadequately trained and some are unwilling

to apply the training received and to take full responsibility for their cases. Training needs should be assessed as part of an in-depth annual evaluation of judges and prosecutors.

### Quality of justice

The Kosovo Judicial Institute (KJI) is responsible for delivering initial and continuous **training** for judges and prosecutors based on the annual training curricula jointly prepared by the KJC, KPC and KJI following a comprehensive needs assessment. Trainings are funded from Judicial Institute's own budget and by international donors. The new justice package laws provide for an obligatory initial 12-month training period for both judges and prosecutors after they have been appointed. Both Councils have yet to conduct such training. The curricula, which are divided into training modules according to the responsibilities of the departments of courts and prosecutors' offices, specify the areas to be covered by training, including training on EU law. If relevant, the KJI includes staff from other ministries and agencies in specific training courses (e.g. Ministry of Interior and Customs Service on issues concerning money laundering). The KJI also prepared an orientation training programme for the judges and prosecutors from the Serbian community. To further strengthen the capacity of judges, as well as prosecutors and support staff, training is needed, in particular in specialised areas such as economic crimes and public procurement.

Kosovo currently has 19.5 judges per 100 000 inhabitants. In total, there are 350 local judges and 39 EULEX judges.

The **budget** for Kosovo's prosecution service and court system for 2016 is around EUR 30 million, excluding some other services such as mediation and legal aid. Compared to 2015, the total budget allocated to the justice system has increased to 2.38 % of the overall national budget. A comprehensive overview of public finances allocated to the judicial system was made publically available in December.

A centralised criminal records registry, which is crucial for the quality of justice, is not in place. There is no official court monitoring system in place. **E-justice tools** remain underdeveloped. However, the Judicial Institute set up an online database of legislation with jurisprudence and legal commentaries to assist judges and prosecutors in their everyday work. This is particularly relevant for the publication of Supreme Court decisions. The database needs continuous updating and promotion among legal practitioners.

A **mediation** system has been operational since 2008, with 7 regional mediation centres and 163 active mediators licensed by the Ministry of Justice. In April 2016, 21 candidates for mediator positions (17 from the Kosovo Serb community) passed the necessary training and are awaiting certification. Public awareness and familiarity with alternative dispute resolution tools remains low, but the number of cases are continuously increasing: between 2012 and July 2015, 2 598 cases were dealt with through mediation. While notaries deal with more cases, their professional skills need to be improved. Both the mediation and notary systems require further strengthening.

### Efficiency

Kosovo still needs to improve its efficiency in dealing with the **backlog of cases**. According to the Judicial Council's Department of Statistics, at the beginning of 2016, the number of pending cases at court level was 440 627, the number of cases received was 400 982 and

cases solved was 397 059. The clearance rate is increasing and Kosovo courts now have a clearance rate of 99.02 % of cases received and resolved within a year.

There are no figures on the **disposition time** (i.e. the average time taken from filing indictment to a judgment) in Kosovo's courts. 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. There is no working electronic case management system. A positive exception is the tracking mechanism for high-level corruption and organised crime cases set up recently (*see fight against corruption*).

The efficiency of the judiciary is seriously hampered by the shortcomings of criminal legislation; many provisions in the Criminal Procedure Code are too cumbersome and formalistic to permit robust and successful investigation and prosecution. Due to insufficient capacity and staffing and limited financial resources, as well as a heavy backlog of cases, the judicial system is slow in delivering justice. Kosovo's size and social structure makes the efficiency of the judiciary vulnerable to influence.

### **Fight against corruption**

Kosovo is at an **early stage/has some level of preparation** in the fight against corruption. **Good progress** has been achieved over the past year. With the establishment of a multi-disciplinary investigative team, headed by the Special Prosecution Office and the introduction of a tracking mechanism for high-profile corruption and organised crime cases, Kosovo has fulfilled two of last year's recommendations. This has led to an increased number of high-level cases being investigated and prosecuted. However, Kosovo must continue to strengthen its track record in the fight against corruption and organised crime. Corruption remains prevalent in many areas and continues to be a very serious problem. The political will to tackle this in a comprehensive and strategic manner needs to be improved. The efficiency of investigations continues to be hampered by political influence. In the coming year, Kosovo should in particular:

→ amend the legal framework on conflict of interest bringing it in line with European standards, including clear definitions of categories of officials and regulating compatibilities of functions during and after office;

→ review and adopt legislation governing public officials charged or convicted for serious or corruption-related crimes;

→ carry out independent audits of political party finances for 2013-2016 and ensure the financial reports of political parties are published as required by law;

→ increase the number of prosecutors in the Special Prosecution Office investigating and prosecuting high-level corruption cases, and provide training to strengthen their capacity to conduct financial investigation, confiscate assets and effectively protect witnesses, with a view to delivering results on the track record.

### Track record

In December 2015, Kosovo established an advanced IT tracking mechanism of all stages of the criminal proceedings for **high-level corruption cases and high-profile serious organised crime**, including asset seizure and confiscation cases. A multidisciplinary team

was established to effectively coordinate efforts to deal with these cases. Out of the 33 high-level cases currently in the system, there have been 21 indictments (17 for corruption and 4 for organised crime) involving 150 defendants (including a number of political and senior public officials). There have been convictions in three cases for corruption-related offenses, including a case against a prosecutor. The **Anti-Corruption Agency (ACA)** continued to be active in conducting administrative investigations, checking asset declarations, monitoring conflicts of interest and public procurement activities and improving awareness. Since it was established the Agency has sent 677 cases to the prosecution. The prosecution offices have filed indictments on 87 cases, based on the ACA referrals. The quality of the reports that the ACA submits to the prosecution needs to be improved, as does the prosecutors' capacity and willingness to pursue cases. The ACA lacks tools to check assets declarations. These checks would require closer cooperation with the police, the tax administration, the Financial Intelligence Unit, the land registry and municipal authorities.

Undue influence and limited capacity still hamper the conduct of effective **financial investigations**. Financial investigations are not yet systematically launched in cases of corruption and organised crime. There are too few specialised prosecutors, especially in the Special Prosecution Office, with the required level of training and competence to deal with financial cases, including procurement cases. **Asset freezing and seizures** have increased but final confiscations remain low. In 2015, the estimated total value of frozen, sequestered and confiscated assets was EUR 20.6 million. The value of permanent confiscations increased from EUR 130 000 in 2014 to EUR 450 000 in 2015. From January to June 2016 the total estimated value of temporary sequestered assets was EUR 1 million, whereas the total value of permanent confiscations was EUR 236 000 (totalling EUR 1.2 million). There were also pending requests for final court confiscation in the amount of EUR 25 744.

Kosovo law does not lay down any mechanism for automatic suspension or removal from office of officials charged with and convicted of corruption, with the exception of a newly amended law on public procurement and the law on the civil service.

Lack of trust hampers effective implementation of **witness protection mechanisms**, in addition regional and international cooperation needs to be improved. The current law on informants is not in line with international standards as it does not meet minimum **whistle-blowing** mechanisms or protection requirements.

Independent audits of political parties finances have not been carried out since 2013. In 2016, the assembly failed again to conduct an **audit of the financing of political parties** and most political parties do not publish their financial reports as required by law. The Central Election Commission also did not ensure that reports on political party finances were published on time. Transparency and accountability of funding for political parties and campaign financing remains to be ensured.

Kosovo should also consider measures allowing effective investigation of **inexplicable wealth**, i.e. by allowing the burden of proof to be reversed for asset confiscation, separating the money laundering offence from the predicate offence, prohibiting the transfer of criminal assets to third persons, and providing the Anti-Corruption Agency with more effective inspection powers to audit asset declarations.

Officials from the north of Kosovo do not meet their obligations regarding the submission of asset declarations to the ACA. **Corruption in the north of Kosovo** is not being tackled properly by law enforcement agencies.

In 2015, out of 4 200 officials obliged to submit annual **assets declarations**, 57 failed to do so, which represents only 1.4 %. Twenty-six cases against 184 persons were sent for prosecution by the Anti-Corruption Agency. Most concerned non-reporting or false reporting of assets, abuse of official position or authority, or accepting bribes. In 2015, the Agency handled 306 cases of conflicts of interest, of which 4 were submitted for the minor offences procedure and 3 were sent to the prosecution service for criminal investigation. In 160 cases, the conflict of interest was prevented and in 49 cases the Agency gave an opinion to the institutions responsible. Most cases dealt with local governmental officials. The Anti-Corruption Agency found 1 552 officials holding two or more positions, thus creating the situation of a potential conflict of interest. In 2015, the Agency handled 112 cases on prevention of corruption in public procurement and issued 81 opinions, of which only 7 were not considered.

### Institutional framework

Anti-corruption work is fragmented in Kosovo and the main anti-corruption bodies are not well integrated, their remits overlap and the division of tasks is unclear. Kosovo needs to strengthen inter-institutional coordination mechanism and bodies.

On the **preventive side**, the main body remains the independent and specialised Anti-Corruption Agency. Other bodies with controlling and auditing powers are: the Auditor General, who carries out financial audits of all public institutions at central and local level; the tax authorities, which gather and check financial information from individuals and various collective bodies; and the customs authorities, which check on customs procedures. The Financial Intelligence Unit in the Ministry of Finance gathers and analyses information on and flags up suspicious financial transactions carried out for the purpose of money laundering or terrorism financing. All these bodies appear to lack a proactive role in the fight against corruption. Access to public information is guaranteed by the law on access to public documents adopted in 2010. Corruption risk assessments in the health, education, judiciary, energy, and mining sectors were published in 2015. These areas remain particularly prone to corruption and conducting risk assessments in a more systematic manner is a first positive step that should lead to further measures to effectively address corruption. There is no particular public policy to prevent corruption in the private sector. In case of alleged corruption instances, citizens in general report to police as most perceive this institution as the first responder.

In **law enforcement**, there are bodies specialised in fighting corruption: the anti-corruption coordinator nominated by the Chief State Prosecutor, and the Police Directorate for the Investigation of Economic Crimes and Corruption, which maintains anti-corruption units at both police stations and at headquarters. These units conduct preliminary investigations and cooperate on a daily basis with the prosecutors. Each basic prosecution office has an anti-corruption prosecutor and two prosecutors are appointed by the Special Prosecutor to handle high-level corruption cases. Considering the continuous increase in workload and EULEX's downsizing, the number of prosecutors in Special Prosecution Office dealing with corruption needs to be increased. High-level corruption cases are dealt with by the serious crimes departments of the Kosovo Basic Courts, which have recently been allocated more judges and support staff.

The appointment of a National Coordinator against Economic Crime in November 2015 helped improve coordination and cooperation between law enforcement agencies.

## Legal framework

Criminal law provisions on corruption, mainly in the criminal code and criminal procedure code, are generally in line with relevant European standards. However, there are areas that require urgent rectification such as the confiscation provisions, which are too cumbersome and complex to use, and the unreasonably short deadlines for investigations. The legal framework has been further aligned with the *acquis* with amendments to 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.

Regulation of **political party and campaign finances** is hampered by the lack of effective regulatory oversight and the lack of political will to enforce the legal framework. Reviewing the legislation could help to increase transparency, accountability and effective auditing of **political party and campaign finances control**.

The **law on conflict of interest** needs to be amended to bring it in line with European standards. Categories of public officials covered by the law are currently not clearly defined, neither measures nor procedures to prevent and sanction situations of conflict of interest. Compatibilities and incompatibilities of functions during and after office are not regulated. Suspension and removal of public officials indicted and convicted for serious or corruption-related crimes is not foreseen.

The law on **public procurement** was amended in March 2016, further aligning it with the EU *acquis* (see 5.1.6 – public procurement).

## Strategic framework

Kosovo is implementing its 2013-2017 anti-corruption strategy and action plan, monitored by the Anti-Corruption Agency. Most of the expected results have not been achieved. A revised anti-corruption action plan for the prosecution service and its role in combating corruption was adopted in December 2015. Inadequate financing and a lack of any measurable impact indicators are seriously undermining prospects of achieving the expected 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 has begun smoothly. Action plans are in place to fight corruption in vulnerable sectors such as customs, the police, and the tax administration. Civil society is being involved in drafting anti-corruption policies. Regular and transparent consultations should be held to monitor implementation.

## Fight against organised crime

Kosovo is at an **early stage** in the fight against organised crime. **Good progress** has been made in the past year, notably with strengthening institutional specialisation and cases tracking mechanism (cf. same as under box fight against corruption) and due to improved coordination. This has led to an increased number of high-level cases being investigated and prosecuted. The number of final convictions, financial investigations and final asset confiscations remains low, while asset freezing and seizures have increased. Organised crime goes unpunished in the north of Kosovo. Overall, there has been little progress in the fulfilment of the recommendations identified last year. Kosovo has stepped up its efforts to fight terrorism, including measures to tackle radicalisation and prevent Kosovo terrorist fighters joining conflicts abroad.

In the coming year, Kosovo should in particular:

→ revise the Criminal Procedure Code and the law on extended powers for confiscation of proceeds of crime with a view to making them effective tools to combat organised crime;

→ increase the number of prosecutors in the Special Prosecution Office investigating and prosecuting high-profile organised crime cases, and provide them with robust training to strengthen their capacity to conduct financial investigations, confiscate assets and effectively protect witnesses, with a view to delivering results on the track record;

→ develop an intelligence-led policing approach and strengthen capacity to collect, harmonise, analyse and use relevant criminal statistics, including through better inter-agency cooperation.

### Track record

Organised crime in Kosovo is mainly human and drug trafficking, financial crime and money laundering, and terrorism-related activities. The main factors facilitating organised crime are primarily Kosovo's geographic location on the 'Balkan route', high unemployment and other economic factors, and specific social and family structures. The IT tracking mechanism for **high-profile cases**, including organised crime is operational (*see fight against corruption*). However, a tracking mechanism for all criminal cases still needs to be developed in order to increase inter-institutional cooperation and information exchange between all rule of law actors in Kosovo.

The success rate for investigations, prosecution and final convictions in organised crime cases including human trafficking, drug trafficking, terrorism, money laundering and other forms of financial crime remains very low. Financial investigations are not effective. While, overall, the estimated value of frozen and temporarily confiscated assets has increased, the rates of confiscation and final sequestration of criminal assets remain low.

Large-scale usurpation of socially-owned properties is endemic in Kosovo, providing a huge source of illegal wealth. In April 2016, a Kosovo Police operation, assisted by EULEX, was launched, during which 47 premises were searched and 8 suspects were arrested in relation to organised crime usurpation scheme, including an assembly member.

The **witness protection system**, while having appropriate capacity, does not have currently any witnesses under protection, due to lack of trust in the system. Implementation and international cooperation needs to be strengthened.

The involvement of armed groups in organised criminal activities, such as arms smuggling, and the apparent impunity with which they are able to operate across borders is of serious concern. The Kosovo police have been involved in several **cross-border operations** supported by Europol at the request of Member States leading investigations into such groups. The government, law enforcement agencies and the judicial system need to take swift action to dismantle these groups.

Since September 2015, there been no new reported cases of Kosovars joining the war in Syria. Over the past year, the police have arrested an increasing number of people joining terrorist groups in conflicts abroad or intending do so.

### Institutional framework

The main institutions involved in the fight against organised crime in Kosovo are the national coordinator, the Ministry of Internal Affairs, the Ministry of Finance (customs, the Financial Intelligence Unit, the tax administration), the Ministry of Justice, the Kosovo police, the prosecution service, and the courts. The **National Coordinator on Organised Crime** monitors the implementation of the strategy and action plan against organised crime.

An organised crime directorate in the **police** headquarters is complemented by specialised units to combat drugs and human trafficking at regional level, assisted by forensic units. In the **prosecution service**, the main role in fighting organised crime lies with the Special Prosecution Office, which is staffed with prosecutors specialised in investigating and prosecuting this type of criminality. It needs both training and staff reinforcements.

**The customs, the Financial Intelligence Unit (FIU) and the tax administration** are responsible for monitoring and controlling the internal and cross-border flow of goods, materials and capital aimed at activities related to all forms of organised crime. The FIU specifically assists with analysing and disseminating information on money laundering and terrorism financing, exchanging information with all law enforcement institutions. It also has the capacity to freeze suspicious financial transactions.

**Cooperation and coordination** among all these institutions in day-to-day handling of corruption and organised crime cases depends more on the individual capacity and commitment of the officials responsible than the system as such, with the prosecution service being the weakest link.

**Intelligence-led policing** remains weakly implemented. The new analytical tool assisting in exposing and investigating organised crime, the Kosovo Police Information System, is not yet fully utilised. Kosovo regularly exchanges information with Europol and Interpol via EULEX or UNMIK. Kosovo applied to join Interpol in April 2016.

The Kosovo Forensics Agency and its laboratories have technical equipment capable of conducting the relevant forensic analyses. The Agency's staff requires in-service training and assistance from EULEX. Its ability to ensure adequate forensic pathology remains very weak. Continuous funding of the Agency must be secured.



## Legal framework

Criminal code and criminal procedure code provisions for combating organised crime are mostly in line with European standards. Nonetheless, some need to be revised, such as the provisions on confiscation and on investigation deadlines, the provisions responsible for the imbalance between the defence and prosecution at trial, the provision for a multitude of appeal possibilities, the unclear provisions on admissibility of evidence, and the search and seizure provisions. The newly amended law on money laundering and terrorism financing is not fully in line with EU and international standards. The main flaws are the unclear system of FIU and central bank supervision of the financial sector; extensive reporting requirements for NGOs; the lack of provision allowing the prosecutor or court to continue freezing of a suspicious transaction in line with FIU orders; and the narrower scope of the definitions compared with those required by Financial Action Task Force recommendations.

## Strategic framework

The 2012-2017 national strategy and action plan against organised crime is the main strategic document in place. Additional strategies and action plans are in place on prevention and combating of the informal economy, money laundering, terrorism, radicalisation and extremism, terrorism financing, human trafficking, cybersecurity and narcotics trafficking.

## Fight against terrorism

Kosovo authorities stepped up efforts to **counter violent extremism and radicalisation**, by implementing the law on foreign terrorist fighters, and the strategy and action plan on prevention of violent extremism and radicalisation. The number of Kosovo citizens engaged in the Syria/Iraq conflict is decreasing. Nonetheless, challenges remain with the lack of programmes for de-radicalisation and reintegration, considering the high number of Kosovo citizens returned from the conflict zones. The phenomenon of foreign terrorist fighters needs a dedicated approach by the intelligence and law enforcement community and a coherent judicial policy on offenders together with social, community-based responses aimed in particular at marginalised young people. Improved cooperation among intelligence services, especially between countries in the Western Balkans, could also help to counter the threat of extremism and radicalisation.

Specialised training on investigation techniques for prosecutors and police is needed. Kosovo law enforcement agencies also lack expertise and equipment to investigate complex terrorism cases.

## **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, for instance on data protection and high-level political support for the rights of LGBTI persons. However, the limited progress on the effective guarantee of property rights and the return and reintegration of displaced persons remain a concern, as is the protection of cultural heritage. Implementation of human rights continues to be hindered by a lack of resources and political commitment, including at local level. Some steps are being taken to implement the package of human rights laws adopted last year but important challenges remain.

Shortcomings particularly affect the following areas:

- Gender-based violence and women's limited access to property ownership significantly hamper women's full enjoyment of their rights. Similarly, the rights of persons with disabilities continue to be hindered by inadequate support and health services, and poor access to existing services.
- Strategies and legislation on the rights of persons belonging to minorities and their protection throughout Kosovo are not sufficiently implemented.
- The protection of cultural heritage, including cooperation between the Serbian Orthodox Church and Kosovo authorities, remains a challenge. Legislation to address illegal construction needs to be fully implemented and enforced.

**International human rights instruments** form an integral part of Kosovo's legal framework and are directly applicable, as provided for in the constitution. Kosovo continued to align legislation with these instruments and maintained its practice of ad hoc reporting.

On **promotion and enforcement of human rights**, progress needs to be made on effective implementation of human rights legislation. Further efforts are needed in particular on establishing a track record of taking discrimination cases to court. The Advisory Office for Good Governance, under the Prime Minister's Office, lacks the necessary human resources and capacity to manage its workload effectively. It needs to focus on coordination and monitoring of policy commitments; line ministries should assume responsibility for implementation. The establishment of the Inter-Ministerial Coordination Group for Human Rights in May 2016 is a first step in establishing high-level coordination to devise an overarching human rights strategy and to steer its implementation effectively. The Ombudsman should play an important role in designing, monitoring and advising on this work. Strong political leadership is required to ensure that the Group delivers on its mandate. Increased financial commitment to human rights protection at all levels is needed, while donor dependency should be reduced.

As regards **prevention of torture and ill treatment**, there were no reports of violations of internationally recognised human rights standards. In January 2016, in compliance with the Optional Protocol to the Convention against Torture, a National Preventive Mechanism against Torture was established. This is a separate body within the Ombudsman Institution responsible for inspecting all places in which persons are deprived of their full liberty.

In the **prison system**, compliance with the UN Standard Minimum Rules for the Treatment of Prisoners and European Prison Rules has continued. There is an urgent need to provide inmates with meaningful activities and work opportunities. The issue of housing detainees awaiting trial and those convicted of minor offences together with long-term prisoners is a concern. There is a need to establish separate accommodation serving the north of Kosovo to ensure a long-term solution. No progress has been made concerning setting up a prison complex in North Mitrovica. Recommendations stemming from the inspections of Kosovo Correctional Service facilities by the Internal Inspectorate of the Ministry of Justice are not systematically addressed. Serious concerns remain over privileges for certain high-profile detainees. In August, all cases of suspensions of sentence on medical grounds were revoked resulting in all 8 prisoners, including 3 high-profile, returning to the prison. Inadequate staffing levels, in particular at recently constructed facilities, remain a concern. The authorities will need to address the forthcoming recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment.

Some progress has been made on **data protection**. Public awareness of the right to the protection of personal data has improved, resulting in an increase in the number of complaints received by the National Agency for the Protection of Personal Data. Additionally, the Agency has performed more inspections. The Agency needs to prepare for challenges in implementing and enforcing the data protection rules as a result of the Stabilisation and Association Agreement. It needs more financial resources and strengthened human capacity, including the re-appointment of its supervisor, to deal with the increasing number of complaints. Amendments to the laws on data protection and access to information are necessary and the institutional framework is not yet clarified.

Legal provisions on **freedom of thought, conscience and religion** are in place and interaction among religious leaders of all faiths continues. However, the draft law on freedom of religion needs to be adopted and include the Venice Commission's recommendations. The Orthodox seminary in Prizren continues to function well. The Ministry of Culture is engaging with the Serbian Orthodox Church on ways to support the reconstruction of its sites left unfinished by the Reconstruction Implementation Commission. However, modalities need to be clarified to ensure the Serbian Orthodox Church can exercise full discretion in the management of its properties, while following legal procedures. Kosovo should demonstrate that it respects this right in practice. In May 2016 the Constitutional Court issued a final judgement on the land dispute case involving the Visoki Dečani monastery in Dečan / Dečane municipality confirming legal ownership of the land by the monastery. While the judgement brings closure to this long-standing case, its implementation remains a challenge and local resistance, including overt defiance by municipal officials, raises concerns. There were no reports of 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, including swift investigations into the incident involving the placement of explosive materials at the mosque in Drenas/Glogovac and the burning of a mausoleum in Pejë/Peć. Municipal authorities in Pristina should demonstrate full respect for the rights of religious communities as stipulated by law, and need to allocate land for a graveyard for members of the Protestant community.

### **Freedom of expression**

Kosovo has **some level of preparation** in the area of freedom of expression. There has been **no progress** in this area. Threats and attacks against journalists have increased. The assembly shows limited commitment to finding a solution for sustainable funding of the public broadcaster, leaving it vulnerable to political pressure and influence. There were no legislative developments on the regulation of media ownership and transparency. Implementation of legislation remains a challenge, in particular with regard to the law on the public broadcaster. The majority of last year's recommendations have not been addressed.

In the coming year, Kosovo should, in particular:

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

### Intimidation of journalists

During the reporting period, 12 incidents were reported to the police. Incidents involved a physical attack on a journalist from South Mitrovicë / Mitrovica, the police deleting recordings of journalistic material without a judge's decision and journalists being expelled from court hearings, involving high-profile cases. In August 2016, a bomb exploded near the public broadcaster Radio Television of Kosovo (RTK) premises and another one at the house of the RTK Director General. Both attacks were condemned by the government and all political parties.

Investigations into these cases are slow and there were very few final convictions. A more systematic response, including prompt investigation and timely adjudication is needed to strengthen the protection of journalists.

### Legislative environment

Freedom of expression and the media are constitutionally guaranteed, and legislation on libel, hate speech and defamation is in line with the European Court of Human Rights case-law. 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. Police, prosecutors and judges need proper training on the standards established by the Council of Europe and the European Court of Human Rights for dealing with sources and journalistic materials. The right of access to public information is undermined by the authorities' fragmented and unclear approach.

### Implementation of legislation/institutions

Effective implementation of legislation and ethical standards remains a challenge, with the law on the public broadcaster presenting the biggest challenge. The Independent Media Commission failed to make preparations for the digital switchover. It systematically monitors the content of audiovisual media but lags behind in initiating cases and implementing fines for legal breaches. As a result of budget cuts, it is facing difficulties in meeting its financial obligations, including capital investment.

Freedom of expression online is not monitored by either the Independent Media Commission or the Press Council of Kosovo. Although this creates an unhindered environment for online media, it also undermines the privacy of individuals, leading to many cases of alleged hate speech, libel and defamation. Such cases need to be thoroughly followed up (*see 5.2.6 – information society and media*).

### Public service broadcaster

RTK is directly state funded, which undermines its independence, weakens its long-term sustainability and leaves it prone to political influence. The assembly has yet to find a sustainable financing solution for the RTK, with the legal deadline having expired in April 2015. The tendency of the assembly to make state funding a permanent solution contrary to the law is a concern. A solution for the premises of the public broadcaster is yet to be found. In May, the Privatisation Agency requested the RTK to pay for the public premises it is using or face eviction. No such requests have been made to other media that use public premises under similar conditions.

The RTK Board is complete but its performance needs to be improved, as pointed out in last year's performance audit of the public broadcaster, carried out by the Office of the Auditor General at the assembly's request.

The appointment of a new director of the Serbian language RTK channel in May 2016 was later annulled because it breached relevant legal provisions.

#### Economic factors

The media are generally not economically sustainable. Information on media ownership structures, in particular for online media, remains unclear and often fictitious, as most media do not provide information on their finances or real ownership. The lack of a strong private advertising industry makes private broadcasters dependent on other sources of funding and few are able to operate without strong links to political and business interest groups.

#### Professional organisations/professional conditions

There are several associations and unions for journalists, divided along ethnic lines. They generally do not enjoy wide support across the journalistic spectrum. Journalists often work without contracts and they are vulnerable to corruption as well as prone to self-censorship. Protection of professional standards in journalism is governed by codes of ethics but implementation is weak. Neither the Independent Media Commission nor the Press Council has brought any cases against the media for breach of the codes of ethics.

**Freedom of assembly and association** is guaranteed by the constitution and citizens have been making ample use of their right, including by staging demonstrations and protests against various levels of government. The law enforcement authorities have handled violent protests professionally.

Responsibility for overall coordination of **property rights** lies with the Ministry of Justice. A strategy for property rights is being developed. The law on the establishment of the Kosovo Property Comparison and Verification Agency, the successor to the Kosovo Property Agency, adopted in June, is now being challenged before the Constitutional Court. Lack of funds continues to hinder the implementation of the Property Agency's decision to demolish illegal private property constructions. There are currently 29 cases pending and the total cost involved is around EUR 50 000. This also seriously affects the rights of displaced persons. Following the identification of over 350 000 constructions built without permit, the Government is revising its policy and the law on treatment of constructions without permit. Illegal re-occupation of properties, on which the Property Agency has already ruled, continues to be a concern. The strategy on legalising informal settlements has not yet been adopted. The government has not allocated the funds to set up a compensation scheme related to socially owned residential property. There has been limited progress in the adoption of a three-year social housing plan by municipal authorities which in turn prevents central authorities from concluding a Kosovo-wide strategy on social housing.

As regards **non-discrimination**, legislation to implement the law on protection from Discrimination has not been adopted. In the reporting period, the Ombudsman Institution received complaints in similar numbers to previous years and more than doubled the number of ex officio investigations on discrimination grounds. The Kosovo Prosecutorial Council's tracking mechanism still needs to be extended to cover cases of all kinds of discrimination, not only those based on ethnicity. The performance of institutions in processing and

investigating discrimination cases remains poor. Following the example of the Police Academy, which already has a specific anti-discrimination module in its training for newly recruited police officers, the government should take forward the Training of Trainers programme and involve licensed anti-discrimination trainers from key institutions such as the judiciary, the prosecution service, the police, the public administration and the education ministry.

Kosovo's legal framework for **equality between women and men** is broadly in line with international standards. Efforts to align existing legislation by drafting a unified civil code are an opportunity to bring it fully into line with European standards. Implementation of the law on gender equality is slow and secondary legislation has yet to be adopted. The fact that the vacancy for the Head of the Agency of Gender Equality has not been filled has hampered implementation of the action plan to implement UN Security Council Resolution 1325 on women, peace and security, and the Agency's role in policy-making needs to be further strengthened.

Gender-based violence, including domestic violence, is a challenge with severe limitations in protection systems for victims of domestic violence highlighted by the tragic death of a woman in Suharekë/Suvareka in October 2015. A positive development is the anti-trafficking and domestic-violence helpline which is now also providing assistance to Serbian speakers in the north. The new Strategy and Action plan 2016-2020 on Protection from Domestic Violence needs to be adopted. The lack of a system of regular data collection across institutions undermines the ability to cross-track and monitor cases in investigation and judiciary proceedings. Units for gender-based violence need to be set up in the northern municipalities. Authorities need to improve reintegration programmes for survivors of domestic violence. The Commission dealing with survivors of sexual violence during the war needs to start verifying the status of survivors to enable and ensure access to individual benefits. In March 2016, measures were adopted to regulate the registration of joint immovable property in the name of both spouses, thereby strengthening legal protection of women's right to inheritance. In practice, implementation remains limited, which directly undermines women's economic empowerment.

On the **rights of the child**, Kosovo's legal framework is largely in line with international requirements but implementation remains a challenge. Authorities must ensure an adequate budget for the new draft law on child protection to be effective, once adopted. Data and monitoring mechanisms to assess progress in implementing child rights need to be improved. While Child Rights Officers have been appointed in most municipalities, their impact is limited. The Ministry of Labour and Social Welfare must ensure adequate financing for shelters housing children who are victims of violence and trafficking. The Ombudsman Institution should further engage in promoting the rights of children.

The Juvenile Justice Code is guided by the principle of the 'best interests of the child' enshrined in the UN Convention on the Rights of Child. The foundations of a justice system for children are in place and juvenile departments have been set up in all Basic Courts and prosecutor offices. As regards children's access to justice, little progress has been achieved in legal and capacity development for proper implementation of child-friendly proceedings in civil and administrative cases. Good progress has been made through a referral protocol to ensure free legal and professional services for child victims and witnesses. While current provisions in the Juvenile Justice Code are not in line with the UN Committee on the Rights of the Child concerning pre-trial detention (12 months instead of 6), in practice in the last 2

years no juvenile has been detained for more than 6 months. As a result, deprivation of full liberty has become a measure of last resort and is used for the shortest appropriate time.

On the **rights of persons with disabilities**, implementation of the strategy for 2013-2023 remains limited and the government now needs to draft a new action plan for 2017-2019. The Ministry of Labour and Social Welfare still needs to find a solution to address the situation of the more than 1 000 members of the deaf community who were removed from the disability pension scheme in 2013. The law on paraplegic and tetraplegic persons was adopted in May 2016. The National Disability Council appointed the President of the Kosovo Disability Forum as its Co-chair, making the Council more inclusive and transparent. It should meet regularly and take a more proactive role to improve the wellbeing and promote the rights of persons with disabilities. The authorities need to improve the inclusion of children with disabilities in the education system by increasing the number of professional staff and personal assistants. Access to public buildings and public transport remains problematic.

There has been some progress on the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons. On 17 May, for the third year in a row, a peaceful march was organised in Pristina to mark the international day against homophobia, transphobia and biphobia with senior politicians in attendance, including the President. Cases of verbal and physical assaults against members of the LGBTI community should be properly investigated. The advisory and coordinating group for the rights of LGBTI persons needs to take a more proactive role by providing concrete advice and recommendations to relevant institutions.

Issues of **labour and trade union rights** are covered in section 4.1.8.

Regarding **procedural rights**, persons suspected or accused or victims of crime have the right to solid protection under the Criminal Procedure Code, the law on police, the law on the Kosovo Police Inspectorate, the law on crime victim compensation and the law on free legal aid. They have the right to interpretation and translation, the right to information about their rights, the right to legal advice before and during trials and to legal aid, and the right to communicate with family members, employers and consular authorities. There is strong political will to apply these rules, but financial resources and more training is needed. In April, the Kosovo police, the Judicial and Prosecutorial Councils and the Kosovo Bar Association signed a memorandum of understanding to create a coordination mechanism for providing criminal defence free of charge.

Implementation of the legal framework on **minorities** continued to be challenging. The institutional set-up and mechanisms for protecting minority communities are in place at central and local level. In the north, Municipal Offices for Communities and Return and Community Committees have been established and have started to work. Municipal Safety Councils, introduced in 2009 to improve community safety and stability, also need to be established in the north to further strengthen the protection of minority communities. Kosovo institutions must assume ownership and focus more on implementation by increasing interaction between the Kosovo central and local institutions and minority communities. The Office of Community Affairs needs to be fully involved in developing and taking forward policy-making on the protection of national minorities.

In May 2016, a technical working group published a report on the implementation of recommendations of the Council of Europe's Advisory Committee on the Framework Convention for the Protection of National Minorities. The report is incomplete, data is limited, and indicators for monitoring progress are lacking.

In March 2016 the second round of an internship programme for minority communities in public institutions was implemented. However, the employment of members of minority communities in the civil service and public enterprises remains very challenging. Progress was made with a regulation enabling graduates of the University of Mitrovicë/Mitrovica to have their diplomas certified for the purposes of employment, professional licensing and admission to professional exams in Kosovo institutions. As a result of affirmative measures and quotas, more students from minority communities were able to enrol in public universities. This represents a positive step towards effective inclusion of minority communities in Kosovo.

Stronger commitment and support by government institutions in mainstreaming language policies is needed. Implementation of the law on official languages remains low. Kosovo/Serbian language interpretation and translation, including translation of laws, is often substandard. The Office of the Language Commissioner continues to work in a satisfactory manner and is now also starting to work in the northern municipalities. However, it needs political and financial support.

The Consultative Council for Communities has further strengthened its role and has seen increased interest in participation from the Serbian community. To put this body on a firm footing, increased budget is needed and its recommendations need to be taken into account by ministries.

The overall security situation for minority communities remains relatively stable and largely unchanged. However, there are recurring incidents of property theft, damage and related crimes targeting Kosovo Serb returnees and other members of minority communities. Such incidents increase the feeling of insecurity, negatively impact on their livelihood and society as a whole, and deter other potential returnees. Law enforcement and judicial authorities should make every effort to bring the perpetrators to justice and counter a perception of impunity in order to restore confidence among victims and in society as a whole. Hate crimes targeting minority communities need to be more resolutely dealt with. Further work is required to take account of Article 147 and 74 § 2.12 of the Criminal Code. Additional recruitment of police officers from minority communities in affected areas, in particular in the west of Kosovo, is needed.

The situation of the **Roma**, Ashkali and Egyptian communities<sup>4</sup> remains challenging. Following up on the 2009-2015 strategy, the government aims at finalising the new policy commitments, focused on the inclusion of these communities in society, before the end of 2016. While the consultation process was inclusive, only some recommendations by civil society and international organisations were taken on board. Municipalities are encouraged to renew, approve and implement Local Action Plans. Recommendations from the November seminar on Roma, Ashkali and Egyptian Communities need to be implemented.

Learning centres continue to play an important role in reducing the significantly high number of school dropouts and in allowing for the Roma, Ashkali and Egyptian communities' further integration in the education system. The government continues to provide free textbooks in the Romani language. The Roma, Ashkali and Egyptian communities continue to enjoy the same access to healthcare services as other citizens. Budget for housing needs to be allocated. Some municipalities have continued to allocate land to these communities. Kosovo has

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<sup>4</sup> All these groups are considered under the wider "Roma" umbrella term under the EU framework for National Roma Integration Strategies.



continued to take affirmative measures with Montenegro and with the former Yugoslav Republic of Macedonia to ensure access to civil registration for displaced Roma, Ashkali and Egyptian communities. Active measures to include these communities are needed to combat exclusion in the labour market. Child marriages and child labour continue to be prevalent. Kosovo should take full ownership of the measures needed to support the Roma, Ashkali and Egyptians communities with a view to reducing donor dependency.

The pace of the return and reintegration of **refugees and internally displaced persons** (IDPs) is slow and returns are decreasing year on year. Return figures for this year are the lowest figures to date. Sustained efforts are needed to collect and maintain data on numbers and locations of IDPs and returnees. Usurpation of properties belonging to displaced populations, coupled with illegal construction on their land and the non-execution of the Constitutional Court decision from April 2014 related to these matters, is hindering the return process. In the absence of an effective response by municipal authorities on this issue, stronger central level supervision and inter-ministerial cooperation is required.

On **cultural rights**, relations between Kosovo authorities and the Serbian Orthodox Church were strained during the reporting period, notably due to Kosovo's failed bid for UNESCO membership. The church withdrew from regular cooperation with the Implementation and Monitoring Council (IMC). On several occasions the authorities called for cooperation to recommence and, following a 10-month period of inactivity, a meeting was held in April. It is important that the IMC is used to resolve difficulties in co-operation between the Ministry of Culture and the Serbian Orthodox Church. The government should increase its efforts to ensure the sustainable functioning of the IMC's 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. Improving communication with the resident Serbian Orthodox clergy remains a challenge.

Kosovo authorities have begun to take steps to adopt legislation to reinstate all the substantive provisions included in Annex V of the Comprehensive Status Settlement Proposal (CSP), regarding the management and protection of Serbian religious and cultural heritage in Kosovo. The government proactively liaised with the EU in drafting the National Cultural Heritage Strategy and the same is expected for the drafting of the law on amending and supplementing the law on cultural heritage, which should take place without delay and accurately reflect all of Kosovo's commitments under Annex V of the CSP.

The Village Council of Velika Hoča / Hoçë e Madhe is functioning in accordance with the law. The Cultural Heritage Council in Prizren has been integrated into municipal structures and is functioning in accordance with the law on the historic centre of Prizren. The government increased its cooperation with civil society on the management of cultural heritage. In June 2016 Prizren municipality assigned two additional inspectors for the Historic Centre of Prizren. Incidents of illegal demolition of cultural heritage have continued and sanctions against perpetrators have not been enforced. The systematic degradation of heritage, particularly in Prizren, is of great concern and poses an increasing risk to public safety. The task force set up in 2014 to deal with illegal construction in Prizren has had minimal impact. Intensified efforts to ensure adequate protection and management of cultural heritage throughout Kosovo are needed.

## 2.5. Regional issues and international obligations

Kosovo continued working to fulfil the remaining obligations related to following up on allegations of **international crimes** committed during and after the conflict in Kosovo, laid out in the 2011 Council of Europe Parliamentary Assembly report. The constitutional and legislative amendments needed to create the conditions for the establishment of the Specialist Chambers and Specialist Prosecution Office have been adopted. The Chambers are subject to Kosovo law, but are located outside Kosovo. In February, the President finalised the procedure related to the bilateral agreement allowing the Specialist Chambers to be hosted in the Netherlands, thus completing Kosovo's obligations.

Kosovo has set up a **war crimes** department within its Special Prosecution Office. However, the department has only two local prosecutors for a workload which will further increase when more EULEX cases are handed over. The Kosovo police war crimes investigation unit has received additional staff, vehicles and computers. However, the limited experience, and the lack of investigators with an ethnic Serb background, criminal intelligence analysis staff and language and translation capacity, has an impact on the work of the unit. EULEX is supporting Kosovo in building up the capacity to effectively take over war crimes investigations and prosecution. In cases where the suspects are ethnic Serbs, residing mainly in Serbia, mutual legal cooperation with Serbia is effectively non-existent. There is an overall concern about capacity and willingness to handle war crimes cases involving former KLA members.

The unresolved fate of **missing persons** from the 1990s conflict remains a humanitarian concern, the resolution of which is vital for reconciliation and stability in the region. As of July, a total of 10 593 persons were still missing according to the International Committee of the Red Cross (ICRC). Of these, 1 665 relate to the 1999 conflict. The appointment of the head of the Pristina delegation to the ICRC-led working group on missing persons is a positive step. The working group faced serious challenges, with only four cases solved in 2015, the lowest number since the end of the conflict. The government needs to appoint a file holder for the issue of missing persons and show greater political commitment and renewed efforts. Lack of information on gravesites yet to be uncovered remains an obstacle to resolving the issue. Kosovo needs to engage more proactively and provide information from its own sources. Politicisation of the process, including unhelpful statements in the media and a further weakening of the process due to interinstitutional disputes, needs to be avoided.

The Kosovo Institute of Forensic Medicine continues to have insufficient capacity to meet the required standards for sustainable forensic practice, including forensic anthropology and archaeology. The authorities need to address this issue urgently. Coordination and cooperation with the government's commission on missing persons remains limited. Both need to allocate resources and resume data entry in the central register of missing persons, which stopped in August 2014. The lack of progress on this issue prevents the government from assuming its obligation to establish and manage the list of missing persons. The authorities need to adopt secondary legislation on the establishment of a central register, and on the closure of cases, to support the implementation of 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. When developing a strategy for dealing with the past, the inter-ministerial working group on dealing with the past needs to conduct a gender- and victim-sensitive and transparent transitional justice consultation process, which would include all communities and marginalised groups. The process requires

increased active engagement by the Ministry of Justice as well as a financial contribution from the government.

**Regional cooperation and good neighbourly relations** form an essential part of Kosovo's process of moving towards the EU. They contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. Kosovo applied for Interpol membership and applied for, but failed to achieve, membership in UNESCO. Kosovo took a more active role in several regional organisations, notably in the Regional Cooperation Council. Kosovo is still not represented in all regional organisations that fall within the scope of the agreement on the arrangements on regional representation and cooperation as agreed with Belgrade in 2012.

The impetus given through the **Berlin process** and the Western Balkan Six initiative, notably regarding the connectivity agenda, has continued to foster increased regional cooperation. Building on the results of previous Summits the June 2016 Paris summit saw further advances on the connectivity agenda but also opened co-operation in new areas, notably through the establishment of the Regional Youth Cooperation office (RYCO) to be established in Tirana. Kosovo has participated actively. The pending measures in the area of transport include improvement of the implementation of the IBM guidelines and mutual recognition of train driver licenses among others. On energy, Kosovo should phase out price regulations, finalise discussions with Albania to link with its power exchange, finalise the technical procedure to establish a functioning and balanced market and adopt a compatible energy law, which will allow progress on a number of other measures. Kosovo's Electricity Transmission Company is not in a position to take full advantage of the regional electricity market as agreed in Paris.

Kosovo remained constructively committed to **bilateral relations with other enlargement countries and neighbouring EU Member States**.

Kosovo has continued to deepen its relations with *Albania*. In May, the Ministry of Trade and Industry signed a bilateral agreement with the Albanian counterpart on enhancing and protecting investment, to intensify economic cooperation and create favourable conditions for investment. In June 2016, the two governments signed cooperation agreements on environment, energy, transport, public administration reform, customs, taxation and joint training.

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

Relations with *the former Yugoslav Republic of Macedonia* continued to develop. In February 2016, a Partnership Agreement on the management of technical assistance was signed, as was an agreement on cooperation on EU integration. An agreement on the use of personal identification documents for citizens crossing the joint border became effective in April 2016. Some tensions resulted from politicians' statements about participation of people from Kosovo in the Kumanovo incident in 2015.

Relations between *Montenegro* and Kosovo remained good. In September 2015, the agreement on police cooperation entered into force. The Agreement on cooperation between the two parties' Commissions for Missing Persons was signed in October. There were no developments concerning the constitutional recognition of the Montenegrin minority in Kosovo. The border demarcation agreement with Montenegro was ratified by Podgorica in December 2015, but is facing resistance in the Kosovo Assembly.

Kosovo has maintained friendly relations with *Turkey*. A readmission agreement was signed in December 2015, in the context of visa liberalisation for Kosovo.

### 3. NORMALISATION OF RELATIONS BETWEEN KOSOVO AND SERBIA

Work under the EU-facilitated dialogue has continued throughout the reporting period. Overall progress in the implementation of the 25 August 2015 agreement has been slow. This is partly due to respective internal circumstances, with parliamentary elections followed by a lengthy government formation process in Serbia and the domestic situation in Kosovo. During the last high-level dialogue in January 2016, both sides had asked for political space to operate in, address these domestic challenges and consolidate government and governance. EU frequent bilateral contacts and discussions with both sides helped maintain the political engagement at highest level, and re-engage both sides to resume work on the implementation of past agreements.

Since the formation of the Serbian government in August, both sides engaged in acceleration of the implementation of the **25 August 2015 Agreements**. Implementation of the agreement on the **Mitrovicë/Mitrovica Bridge** commenced in August and works on and around the bridge, including turning the North Mitrovica municipality's main street (King Petar Street) into a pedestrian zone, are to be completed by January 2017. Progress has been made when it comes to bridging different views on the arrangement on **telecoms**, while final implementation is still outstanding. Little progress has been made on **the Association/Community of Serb majority municipalities in Kosovo**. After the official appointment of the management team, a mandate needs to be given to it by Kosovo to draft the statute of the Association/Community. Serbia needs to register and license the two Serbian energy companies to be established in Kosovo to allow progress in the field of **Energy**.

Further progress has been made on the implementation of the **April 2013 'First agreement of principles governing the normalisation of relations'**. Kosovo Serb **police and civil protection** personnel are now fully integrated into the Kosovo system. The dismantling of the Serbian structures on **justice** continues as scheduled and all former Serbian judicial personnel are expected to be into the Kosovo system by autumn 2016. In the context of the **liaison arrangements**, official visits are directly arranged by Liaison Officers in line with the relevant agreement.

Most agreements from the **Technical Dialogue (2011-2012)** are now implemented and functioning. In the field of **cadastre**, the scanning of documents pertaining to Kosovo was completed in June, as scheduled but the documents have not been delivered to the EU Special representative in Kosovo, in line with the agreement on cadastre. Both sides agreed on new modalities for the implementation of the **University Diploma** agreement in April. An agreement was reached in September on the implementation of the **licence plate** related remaining elements of the agreement on freedom of movement. Requests for **Mutual Legal Assistance** are being processed. Serbia needs to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. Serbian official statements have at times interfered with the judicial process led by **EULEX**. Serbia has yet to address the issue of re-located Serbian administrative **customs** structures with Kosovo denomination that operate from within Serbia, and to cease the

issuance of documentation or affixing of stamps with denomination that contravenes to the related agreement. On **IBM**, while the interim crossing points are fully operational, there has been no progress in establishing the three permanent crossing points to be hosted by Serbia. 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 close illegal crossings.

Overall, Kosovo has remained engaged in the dialogue and committed to the implementation of the agreements reached. However, Kosovo needs to make further efforts and contribute to the establishment of circumstances conducive to the normalisation of relations with Serbia. Further progress in this area remains essential for advancing the European future of Kosovo.

#### 4. ECONOMIC CRITERIA

| Key economic figures  | 2014              | 2015              |
|---|-------------------|-------------------|
| Gross domestic product per capita (% of EU28 in PPS)  | N/A               | N/A               |
| GDP growth (%)  | 1.2               | 4.0*              |
| Unemployment rate (female; male) (%)  | 35.3 (41.6; 33.1) | 32.9 (36.6; 31.8) |
| Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%) | 47.7 (24.2; 71.4) | 42.8 (20.4; 65.1) |
| Current account balance (% of GDP)*   | -7.9              | -9.3              |
| Net Foreign direct investment (FDI) (% of GDP)*   | 2.2               | 5.1               |

\* Based on aggregated quarterly GDP data

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 also be seen in the context of the central importance of economic governance in the enlargement process. Each enlargement country prepares an Economic Reform Programme (ERP) annually, which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

##### 4.1. The existence of a functioning market economy

Kosovo is at an **early stage** in developing a functioning market economy. **Some progress** was made, particularly on supporting export-oriented businesses, improving contract enforcement, especially within the financial sector, and access to finance. The pursuit of economic reforms is ongoing, but decisions related to war-veterans' benefits can challenge

fiscal sustainability and affect Kosovo's relations with international financial institutions. The persistent trade deficit reflects a weak production base and poor international competitiveness. Reliance on remittances and the widespread informal economy additionally decrease employment incentives resulting in low labour force participation, especially among women, and high unemployment rates in particular among young and unskilled workers.

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

→ ensuring fiscal sustainability, especially by establishing an independent fiscal body and strengthening independent forecasting;

→ improving the efficiency of capital spending, particularly through improvements in project preparation and management capacities at central and local government levels;

→ improving bankruptcy and insolvency procedures.

### Economic governance

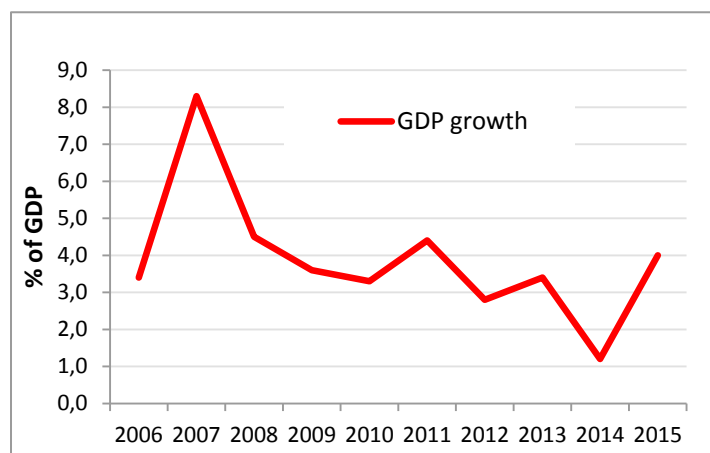
**The government's strategic documents show a strengthened commitment to pursuing economic reforms.** However, Kosovo's economic policy is characterised by ad hoc decision making and slow policy implementation. The Economic Reform Programme (ERP) and the National Development Strategy both reflect a commitment to pursue a stable fiscal policy and structural reforms. However, the ERP policy guidance from 12 May 2015 has only been partially implemented. The second International Monetary Fund (IMF) disbursement has been delayed due to the underestimated costs stemming from the introduction of new benefits for war veterans, which represent a significant risk for Kosovo's fiscal stability. The Stabilisation and Association Agreement between Kosovo and the European Union entered into force and establishes a permanent free trade arrangement with the EU. If complemented by specific reforms, it will facilitate economic development in Kosovo.

**ERP policy guidance:** To improve forecast accuracy enhance technical capacities of the services preparing the macro fiscal framework, strengthen parliamentary oversight capacities in evaluating budget planning and execution as well as fiscal risks and take first steps towards establishing an independent fiscal body.

### Macroeconomic stability

**Kosovo's economy is showing signs of recovery, albeit insufficient to close the development gap with the countries in the region and to increase the level of employment.** Preliminary data show that economic growth picked up to 4 % of GDP in 2015 which is above the average annual growth of 3 % over the last five years. Consumption and investment are the largest contributors to growth, while exports remained weak. Stronger private consumption was fuelled by higher remittances, higher consumer lending, and increased pensions and wages in the public

Figure 1 Kosovo GDP growth



sector. The recovery of investments was supported by the on-going construction of the highway to Skopje and doubled foreign direct investment (FDI) inflows. Kosovo's growth model still mainly relies on consumption and investments in infrastructure as other production capacities are underdeveloped. Growth remained strong in the first quarter of 2016, at around 3.8 %.

**External imbalances worsened in 2015, despite a slight improvement in the trade deficit.**

The current account deficit increased to 9.1 % of GDP in 2015, the highest since 2011. A fast growing inflow of remittances (13 % of GDP in 2015) and a slightly decreasing trade deficit (30.4 % of GDP in 2015) were not enough to offset the large outflow of FDI-related profits and a continuation in the decline of transfers to the government. However, FDI inflows more than doubled, amounting to 5.6 % of GDP, after recording a historic low of 2.7 % in 2014. Almost 60 % of all FDI went into real estate and only 7.1 % to the manufacturing sector. The real estate, financial intermediation and construction sectors attract most FDI, reflecting a weak business environment and few 'greenfield' investment opportunities. Kosovo's gross external debt remained relatively low at 33.4 %<sup>5</sup> of GDP, and is not a cause for immediate concern.

**As a small open economy, price developments are dependent on import prices, specifically food and energy prices.** The consumer price inflation in Kosovo has been on a downward trend since 2011, resulting in deflation of 0.5 % in 2015. Inflation stabilised in the first half of 2016 at around 0 %, despite a slow pick up in core inflation. Import prices decreased 1.2 % in 2015 and further by 4.2 % in the first half of 2016.

**The fiscal situation improved in 2015 but ad-hoc decision making still affects public finances negatively.** Budget revenues rose 8.9 % in 2015 driven by strong growth in tax revenues. Both VAT and corporate income tax increased due to higher turnover and profitability of Kosovo's 10 largest companies.

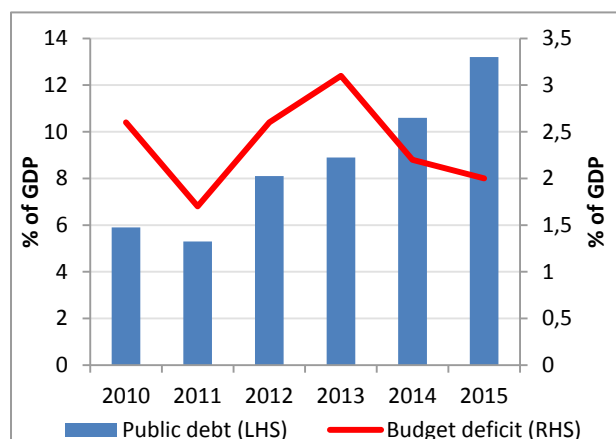
**ERP policy guidance:** To improve forecast accuracy enhance technical capacities of the services preparing the macro fiscal framework, strengthen parliamentary oversight capacities in evaluating budget planning and execution as well as fiscal risks and take first steps towards establishing an independent fiscal body.

<sup>5</sup> Central Bank of Kosovo data

Expenditure freezes and cuts were complemented with the VAT rate increase to 18 % and the introduction of a new lower rate of 8 % for some essential goods. Furthermore VAT exceptions for imported capital goods were introduced to stimulate domestic production.

**ERP policy guidance:** Identify offsetting measures for recent increases in categorical benefits while preserving the share of capital spending and address persistent under spending of the capital budget by improving project preparation and management capacities at central and local administration levels.

**Figure 2 Kosovo fiscal developments**



The overall budget deficit amounted to 2 % of GDP (or 1.5 % of GDP when adjusted by the provisions in the fiscal rule, well below the 2 % limit). Capital expenditure was utilised at 95 % of the planned amount, but mainly due to the advanced payments for construction of the Route 6 highway.

**The execution of the 2016 budget is characterised by higher than expected revenue, but it could be jeopardised by a substantial increase concerning the expenditure on war veterans' benefits.**

Stronger economic growth, the effect of a full year VAT and excise changes, and improved collection of tax arrears substantially increased budget revenue. While most of the expenditure items stayed in line with the budget expectations, reflecting increases due to the implementation of the collective agreement for public sector employees, increase in social assistance, implementation of the law on state-financed pension schemes, and maintenance of higher subsidies for agriculture, the expected significant increase of war-related benefits is a cause for serious concern. This increase also reflects poor budget planning and a lack of budget impact assessment. The 2016 budget aims at a fiscal deficit of 1.6 % of GDP, well within the fiscal rule limit.

**Kosovo has a relatively low level of public debt.** Total public debt continued to increase, reaching 13.5 %<sup>6</sup> in 2015, with an increasing share of domestically issued treasury bills. Prudent fiscal policy is crucial given Kosovo's reliance on short-term domestic financing and loans from international financing institutions, and its inability to issue international debt in the absence of a credit rating.

**Fiscal rule enforcement and monitoring mechanisms need to be strengthened.** Ad hoc fiscal decision-making is the main risk to public finance. Budget planning procedures have not been transparent, and budget spending programmes are not joined up with identified policy priorities. The newly adopted wage rule aligning salary increases in the public sector from 2018 with the nominal GDP growth rate will provide some stability to the current expenditure. A new exemption to the fiscal rule was adopted increasing fiscal space for capital investment projects financed by international institutions.

Due to Kosovo's unilateral adoption of the euro, the available policy mix comprises only fiscal policy and structural reforms. Kosovo's economy has been continuously growing since 2003, but it is difficult to establish any causal relation between growth and fiscal policy. Fiscal policy has been dominated by non-transparent, ad-hoc decision-making, with little long

<sup>6</sup> Public debt figure does not include Kosovo's share of the Paris and London Clubs debt of the former Yugoslavia.



term planning. This has resulted in continuous increases in current spending. Nevertheless, budget deficit and public debt remain low. Implementation of structural reforms is currently at an early stage.

### Functioning of product markets

#### *Business environment*

**Some progress was made in simplifying business registration and insolvency procedures.**

The establishment of 29 one-stop shops has reduced the time needed to register a company to 3 days.

The announced online registration has,

however, still not been fully implemented. The main obstacles include a weak and unaccountable administration, underdeveloped infrastructure (especially an unreliable electricity supply), weak rule of law, corruption; a widespread informal economy and poor education outcomes. There was an increase of 4.6 % in the number of newly established enterprises mainly in the agricultural sector. A newly adopted law on bankruptcy is expected to improve market exit and speed up payments to creditors.

**ERP policy guidance:** Implement the action plan of the strategy for the fight against the informal economy. In particular, speed up the risk assessments focusing on the sectors and branches most vulnerable to informalities in order to identify and apply appropriate corrective measures.

**Despite some progress made on the legal rules governing businesses, they are still insufficiently implemented.**

The very weak institutional capacity to enforce the law, combined with widespread corruption, continues to negatively affect the business environment. The judicial system suffers from poor accessibility, inefficiency and delays. Little progress was recorded in terms of clearing court backlogs of unresolved cases (400 000 in July 2015). The adopted changes to the law on enforcement procedures should contribute to the efficiency of commercial cases and improve contract enforcement and collections. Further work is needed on reviewing the civil code on business lawsuits and practices and on developing property (cadastre) databases. The Office of the Auditor General's annual report identifies numerous legal violations in ministries, municipalities and other public institutions but those responsible are rarely prosecuted.

#### *State influence on product markets*

**There was no progress on developing institutional capacity to control state aid and subsidies are still being provided without a proper strategy and evaluation.**

Among centrally-managed enterprises, only two, the Kosovo Energy Corporation and Post and Telecommunications Kosovo, continued to generate a profit in 2015. Appointment procedures of publicly-owned enterprises management are often subject to political influence. Merit-based management selection procedures and anti-corruption mechanisms need to be strengthened. The government continued providing EUR 46 million worth of subsidies and investment grants to the agricultural sector but the link to productivity gains remains weak. Tax and customs exemptions continued for certain sectors (raw materials, IT), However these had a limited impact on investments and exports in 2015. The assembly adopted a law on strategic investment with the aim of facilitating decision making regarding private sector projects deemed strategic by the government. Financial support to the economic zones and industrial parks continued, but without a clear plan or a transparent impact and gap analysis. Government influence on price controls for utilities and postal and telecommunications services continued.

#### *Privatisation and restructuring*

**Overall, very limited progress was achieved in the privatisation and liquidation of socially-owned enterprises and in the restructuring of publicly-owned enterprises.**

Although the board of the Privatisation Agency was appointed in December 2015, the privatisation agenda was put on hold and no new privatisations took place. With the appointment of a new management board some progress has been made in the functionalisation of the Agency, but undue interference adversely affects institutional credibility and efficiency. 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.

### Functioning of the financial market

#### *Financial stability*

**Financial sector stability was maintained.** The banking sector is sound with robust capital and liquidity buffers. Regulatory capital to risk-weighted assets stood at 18.1 % in August 2016, above the regulatory minimum. Credit risks are low, as the proportion of non-performing loans, which are fully covered by bank provisions, is the lowest in the region and fell to 5.1 % by August 2016, due in part to private loan enforcement agents' activities.

**ERP policy guidance:** Further address the underlying legal and institutional factors responsible for both high cost of credit and difficulties in access to finance so as to increase financial intermediation in the economy, while establishing a reliable measure of private sector inflation expectations so as to better gauge price developments.

#### *Access to finance*

**Kosovo's financial markets rely on traditional bank lending, while other sources of financing remain underdeveloped.** Kosovo's financial system is dominated by the banking sector which takes up 69.0 % of the total financial sector assets. The banking sector remains largely foreign-owned (89.9 %). Total assets in the financial system grew by 8.1 %, standing at 86.0 % of GDP in 2015 and lending activities accelerated compared to the previous year (7.3 % growth in total loans). Although total lending grew, the low loan-to-deposit ratio increased only slightly to 74.8 % from 74.2 % in 2014 showing ample room for stronger banking activity. The average interest rate on loans decreased in 2015 to 7.7 % from 9.3 % in 2014 but remains above the regional average.

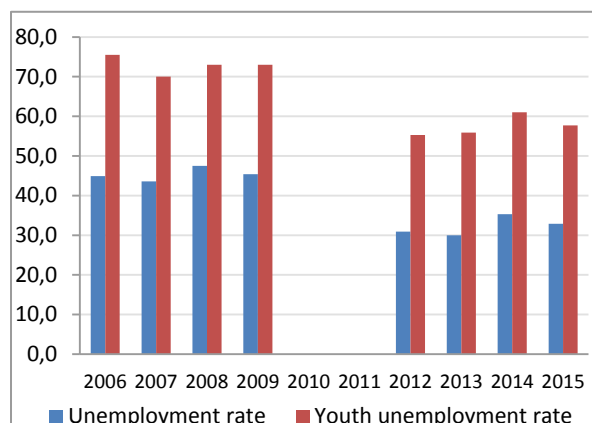
**The insurance sector is dominated by non-life insurance companies and the industry continues to generate losses.** The cost of car insurance is artificially high, due in part to Kosovo not being a member of the 'green card' system, but also to it not having fully liberalised third party liability insurance prices. A new law on insurance was adopted in December 2015, but supervision in this sector is still weak. Transparency needs to be improved by publishing annual reports, improving the reliability of audits of qualified financial statements, and by applying strict standards for licencing new companies.

### Functioning of the labour market

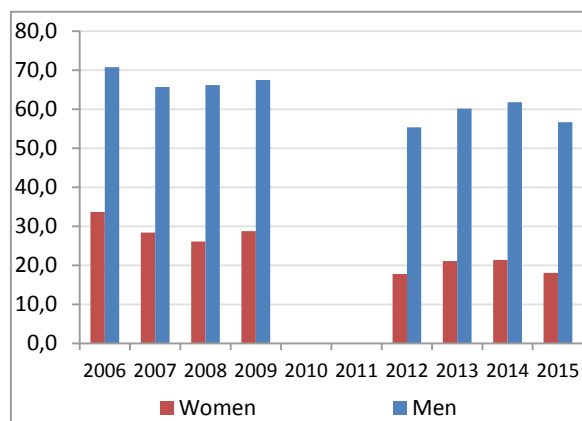
**Employment is extremely low and efforts to improve labour market conditions so far have been limited and ineffective so far.** Moderate economic growth over recent years has not translated into better performance in the labour market. According to the 2015 labour force survey, the labour participation rate remains exceptionally low at 37.6 %.

**ERP policy guidance:** Set up an action plan for tackling youth unemployment based on an assessment of the challenges and focussing on improving education outcomes including through improved teacher training and supporting school-to-work transitions. Ensure that the Employment Agency has sufficient capacity. Take measures to increase labour market participation of women.

**Figure 3 Unemployment in Kosovo (% of Active population)**



**Figure 4 Participation rates in Kosovo (% of Labour Force)**



\* **Figures for 2010 and 2011 are not available**

Unemployment decreased to 32.9 %, and remains among the highest in Europe. The labour market outcomes for women are particularly weak (only 18.1 % of women are active and 36.6 % of these are unemployed). The share of unskilled workers among the total unemployed (57.1 %) and high youth unemployment (57.7 %), demonstrate the urgent need for more active labour market policies, prequalification schemes and vocational training programmes. The narrow production base offers limited employment opportunities, especially in combination with poor education results mismatched with the demands of the labour market. On the other hand, Kosovo does not have a problem with labour protection legislation, taxation or a social welfare system disincentivising work. There is, however, evidence that a high reliance on remittances discourages employment.

Funding for employment services and vocational training remains insufficient and is also fragmented across several entities. The announced plan to merge them under the new Agency for Employment has yet to be implemented. Statistics regarding the labour market are inadequate and outdated, hampering a sound analysis of the labour market.

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

Kosovo is at an **early stage** in building 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 years Kosovo should pay particular attention to:

- securing a stable energy supply, reducing distribution losses and improving energy efficiency measures;
- closing the skills gap in the labour market;
- implementing the action plan of the national strategy for the fight against the informal economy;

→ setting up an action plan for tackling youth unemployment and focusing on improving education outcomes.

### Education and innovation

**Education, research and development are hampered by insufficient public spending, poor cooperation between vocational schools and enterprises, as well as delays in the implementation of policies to bridge the skills gap.** In 2015, total public spending on education declined to 3.9 % of GDP, from 4.1 % of GDP in 2014, which is broadly in line with middle income countries with similar age profiles. However, considering the large number of students, Kosovo spends considerably less than some neighbouring countries per student in primary and secondary education. Furthermore, 75 % of overall spending on education is for salaries and increases in education spending are used almost entirely for salary increases rather than education quality improvement (only 0.2 % of education spending was appropriated for training of teachers). The attendance rates in pre-school and pre-primary education are still very low (3.7 % and 74 % respectively) undermining efforts to create a level playing field for the beginning of primary school. Kosovo participated in the PISA<sup>7</sup> assessment for the first time in 2015, but results will only be available at the end of 2016. Public spending on research and innovation amounted to only 0.05 % of GDP out of which only one fifth was allocated to scientific research and grants.

**Attempts to address the evident skills mismatch in the labour market have so far not been effective in producing results.** The implementation of the adopted 2016-2020 strategy for quality assurance in pre-university education in Kosovo will depend on stable and adequate financial and committed human resources. Some 40 % of graduates with a vocational diploma and 35 % of graduates with a university degree do not have the necessary skills demanded by the labour market. Vocational education and training programmes are poorly coordinated, lack appropriate strategies and priorities, and do not reinforce Kosovo's economic development strategies.

### Physical capital and quality of infrastructure

**Kosovo made some progress in improving its physical capital, but bottlenecks in the energy sector remain unaddressed.** In 2015, Kosovo established the National Investment Committee and prepared a Single Project Pipeline (SPP) to prioritise future major infrastructure projects. The SPP should become a key planning tool for Kosovo's public investments. In 2015, the share of investment spending in the budget continued to decrease, reaching 25.8 %, down from 38.2 % in 2011. Most capital spending was on roads, with the Route 6 project taking up 35.1 %. The weak implementation of donor financed projects highlights institutional deficiencies and capacity constraints at both central and local government level.

**ERP policy guidance:** Increase energy security by reinforcing the planned energy efficiency measures to include incentives for the private sector and households and by adopting a plan for the gradual adjustment of energy tariffs to reflect actual costs.

Kosovo's unreliable energy supply is the biggest obstacle for development. High distribution losses in the electricity network and low energy efficiency further undermine energy security. Although investments in the electricity network have improved its stability and reduced technical losses to some extent, they lag behind initial plans. The construction of the new

<sup>7</sup> OECD's Programme for International Student Assessment

400kV transmission interconnector with Albania was finalised on the Kosovo side. Negotiations for the construction of the new lignite power plant are still on-going.

The railway sector is plagued by the weak administrative capacity of regulatory institutions and the poor state of infrastructure. The project to rehabilitate the railway from Pristina to Mitrovica has now been confirmed. Investments in large highways to Tirana and Skopje deprived local roads of funding needed for proper maintenance and improving safety standards. This could cause infrastructure to deteriorate faster, and generate higher maintenance costs in the future. The planned EUR 409 million investment in the Brezovica ski resort failed due to the inability of the investment consortium to secure the required investment funds. The digitalisation of the economy is slowly advancing: internet penetration per household reached 75.5 % and internet penetration per user increased to 12.35 % compared to 10.51 % in 2014.

### Sectoral and enterprise structures

**There was no progress in addressing the structural weaknesses of Kosovo's private sector, which continues to be fragmented and unable to improve its efficiency.** There have been no significant structural changes in Kosovo's economy since 2008. The agriculture sector contributes 13.5 % of the gross value added (GVA) (compared to 17.5 % in 2008), is responsible for 26.7 % of total employment and provides about 12 % of the total value of exported goods. Productivity gains in agriculture are limited by the relatively small size of land plots, poor access to broader markets and a lack of investment in new technologies. The share of mining, manufacturing and construction sectors is stable at around 28 % of GVA, but exports are dominated by low value-added basic processed metal products and scrap metal. The share of the services sector rose to 59 % of GVA (compared with 55 % in 2008), centred around the trade, finance and IT sectors. However, compared with the average of developed countries Kosovo's economy is still lagging in terms of sector diversification.

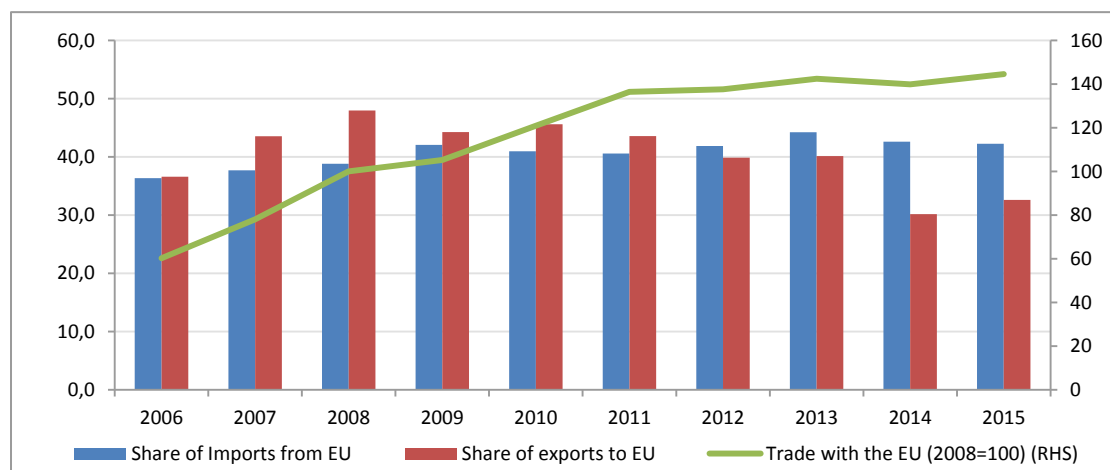
Micro, as well as small- and medium-sized enterprises (SMEs) continue to account for 99 % of total employment. The largest number of enterprises operate in the trade sector (29.9 %), followed by accommodation, food services and industry. In January 2016, the new law on the Credit Guarantee Fund entered into force with the aim of improving access to finance for SMEs. A credit guarantee scheme was launched in April 2016 with a contribution from the Kosovo budget of EUR 3 million.

### Economic integration with the EU and price competitiveness

**The recent adoption of the SAA will substantially improve Kosovo's trade and investment integration with the EU.** Kosovo's economy is still relatively unintegrated in global trade flows, with a trade openness of 71.4 % of GDP. The majority of Kosovo's exports consist of raw materials, basic metal products and scrap metal. The EU is Kosovo's biggest trade partner with 41.9 % of overall trade in 2015, followed by the Central European Free Trade Agreement - CEFTA (30.2 %). In spite of the increase, Kosovo's total trade volume with the EU remains very limited, reflecting the low competitiveness of its products and poor access to bigger markets. The implementation

n of the SAA offers significant opportunities to improve access and competitiveness of Kosovo's firms in the EU single market. EU Member States are the biggest foreign investors in Kosovo (50.9 % of overall FDI since 2007). Most of the FDI coming from the EU is concentrated in the financial, trade and real estate sectors.

**Figure 5 Kosovo trade integration with the EU**



## 5. EUROPEAN STANDARDS

### 5.1. Internal Market

#### 5.1.1. *Free movement of goods*

Kosovo is at an **early stage**/has **some level of preparation** for the free movement of goods. It made **some progress** in further aligning with the EU *acquis* during the reporting period; however, capacity and resources also need to be reinforced to ensure implementation.

In the coming year, Kosovo should in particular:

- ensure alignment with the EU *acquis*, and start implementing it, on accreditation, standardisation, metrology and market surveillance as well as the amendments to the law on technical requirements for products and conformity assessment;
- reinforce the capacity of the National Standardisation Body, the National Metrology Institute and the National Accreditation Body;
- strengthen market surveillance and improve the inter-institutional coordination to ensure that legislation is enforced.

#### General principles

Regarding **general principles**, the framework for the free movement of goods needs to be further aligned. The March 2016 National Programme for Implementing the SAA also covers the *acquis* on the free movement of goods.

#### Non-harmonised area

Kosovo has **adopted legislation with the aim of aligning** it with Articles 34-36 of the Treaty on the Functioning of the European Union. A strategy, with an action plan for the

non-harmonised areas, is still needed. The **obligation to notify regulations** is not fully operational.

#### Harmonised area: Quality infrastructure

The legal basis for technical regulations, standards, conformity assessment, accreditation, metrology, and market surveillance needs to be further aligned and the administrative structure further strengthened. A strategy and action plan (2016-2020) envisaging alignment with the EU *acquis* in this area exist, but some of the deadlines for full alignment have not yet been met. Moreover, most of the relevant quality infrastructure bodies have insufficient capacity to properly implement it.

Kosovo is not a member of the International Organisation for Standardisation (ISO) nor of the European Committee for Standardisation/European Committee for Electro-technical Standardisation (CEN/CENELEC). Kosovo has one associate member in the European Telecommunications Standards Institute (ETSI). Kosovo's **standardisation** agency is in place, but lacks staff and adequate resources. The Agency is not fully able to implement European and international standards. It needs further institutional development and more resources, particularly if the new law creates the legal basis for it to expand its activities and services. Obstacles for the expansion of the online sale of standards (e-commerce function) need to be addressed by the banking sector. In 2015, approximately 1 400 European Standards were adopted as standard references. The standards are adopted by the cover page method (by adding a cover page in the official languages of Kosovo).

There are currently 39 accredited **conformity assessment bodies** in Kosovo: 30 test laboratories, 1 calibration laboratory and 8 inspection bodies. Three more bodies are in the process of being accredited but their capacity needs to be strengthened. On **accreditation**, a policy and strategy is in place, but the limited resources and capacity of these bodies and the General Directorate of Accreditation put implementation at risk.

The Kosovo Agency for Metrology became an associate member of the European Cooperation in Legal Metrology (WELMEC) in May 2016 but still faces challenges such as a lack of qualified staff and necessary equipment. Kosovo has **adopted legislation with the aim of aligning** it with the Directive on Non-Automatic Weighing Instruments. The alignment with the Measuring Instruments Directive needs to be completed. Laboratories for time, frequency, length and forces are not fully operational due to lack of equipment and staff.

On **market surveillance**, Kosovo's legal framework for enforcing the safety and compliance of products is largely provided by the law on technical requirements for products and conformity assessment, which lays down the cross-cutting framework for market surveillance. Market surveillance faces problems in enforcement due to lack of resources and competencies. Market inspectorates in Kosovo are currently established at municipality and central level, which continues to lead to coordination challenges. In May 2016, the Market Oversight Coordination Body was established by the Ministry of Trade and Industry to ensure the safety of products on the market.

In 2015, 273 **product safety** inspections were performed in Kosovo, a 20 % increase from 2014. These inspections identified 3 dangerous types of product, and as a result, 255 products were permanently taken off the market.

#### Harmonised area: Sectoral legislation

For the **‘New and Global Approach’ product legislation**, several new regulations have been drafted designed to increase the level of alignment with the EU *acquis* in these fields, but to date only the regulation on low-voltage equipment has been adopted. Construction represents a large business sector in Kosovo, but alignment with the EU Construction Regulation is still needed. The quality infrastructure capacity issues mentioned above also mean that the complete implementation of aligned legislation is not yet in place.

There has been no progress on alignment to the **‘Old Approach’ *acquis*** including with regard to the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation. Kosovo should continue to work on strengthening its administrative capacities to ensure an effective implementation of REACH.

**Procedural measures** on footwear and three by-laws on textiles have been adopted in order to further align with the EU *acquis*, but they have not been systematically implemented.

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

Kosovo is at an **early stage** of preparation for the free movement of persons and services and the right of establishment. Notwithstanding some alignment with the *acquis*, particularly on postal services, overall **no progress** was made in this area during the reporting period. In the coming year, Kosovo should in particular:

- further align with the EU Directives on services and professional qualifications;
- ensure progress towards fulfilling requirements under the EU Services Directive, such as simplifying administrative procedures and preparing to establish the point of single contact;
- align its rules with international and EU accounting, auditing and financial reporting standards and best practices.

On **movement of persons**, in February 2016 the Ministry of Labour and Social Welfare signed a pilot agreement with the Swiss Federal Agency for Social Insurance which, if implemented successfully, would facilitate the opening of negotiations for a bilateral agreement. No new agreement on the movement of workers was concluded.

As regards the **freedom to provide services**, alignment with the EU Services Directive has begun but is at a very early stage. The Ministry of Trade and Industry’s database on trade in services has been further improved.

On **postal services**, the legal framework is gradually being aligned with the EU *acquis*. In 2016 Kosovo lowered the weight limits for the reserved services market, but this has had limited impact on the market so far. Further reductions to less than 20 grams per letter are still required, since 80 % of postal volume is below this threshold. International postal services are provided by all postal administrations except Serbia.

Regarding the **mutual recognition of professional qualifications**, only four professions (accountants, architects, engineers and lawyers) are currently regulated by the law. Alignment with the *acquis* in the area of recognition of professional qualifications and professional training programmes is at an early stage. Minimum training requirements based on Directive 200/36/EC for regulated professions aimed at automatic recognition and a roadmap for harmonising professional qualifications legislation with the EU *acquis*, are still needed.



In the area of **financial services**, the Central Bank continued to review existing financial services legislation. The financial services market and the supervision of the insurance sector are still at an early stage of development. The standardised approach for credit risk and the basic indicator and standardized approach for operational risk according to Pillar I of Basel II standards are in force. The legal requirement for core capital ratio is 12 % but the actual ratio is around 16 %. Capital requirements for market risk according with the standardised approach and harmonise the capital definition with Basel III still need to be introduced. Transparency in the insurance sector needs to be improved by publishing annual reports, improving the reliability of audits of qualified financial statements, and by applying stricter standards for granting licences to new companies. Additional vehicle insurance continues to be required for foreign-registered vehicles entering Kosovo and for vehicles with Kosovo registration plates leaving Kosovo, except in the case of countries with which Kosovo has bilateral vehicle insurance arrangements. Kosovo is still not part of the ‘green card’ system.

On **company law**, the law outlining the role and responsibilities of the Kosovo Business Registration Agency has yet to be adopted. As regards **corporate accounting and auditing**, amendments to the draft law on accounting, financial reporting and audit must be adopted. The capacity of the institutional audit oversight structures needs to be strengthened considerably. Kosovo still needs to align its rules with international and EU accounting, auditing and financial reporting standards and best practices.

#### 5.1.3. *Free movement of capital*

There is **some level of preparation** for 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. **Some progress** can be noted, especially in the supervision of payment systems and infrastructure for domestic and international payments. In the coming period, Kosovo needs to:

- increase the regulatory body’s focus on the insurance sector, to promote fair competition practices and a level playing field;
- increase efforts to fight economic and financial crime;
- ensure equal treatment for EU nationals acquiring real estate in Kosovo, in line with the SAA provisions.

**Movement of capital** remains largely free in Kosovo. The law on general insurance, covering issues such as minimum capital, solvency and proper risk-based supervision requirements for insurance companies, was adopted in December 2015. The new law requires insurance companies to publish their annual reports, which is a positive development. Nevertheless, the supervision of insurance companies by the Central Bank needs to be increased, specifically on transparency and the quality of annual reports.

The law on the prevention of money laundering and terrorist financing, adopted in May 2016, is still not fully in compliance with the *acquis* and the Financial Action Task Force recommendations. Increased efforts are needed to improve inter-institutional cooperation and achieve concrete results in the fight against economic and financial crime. (*see 5.3.2 – money laundering*)

There was no progress on the acquisition of real estate by foreign citizens. Provisions in the relevant laws, implementing acts and administrative practices continue to be an obstacle to equal treatment.

On the **payment system**, several regulations including on the bank account standards numbering system and international payments were approved. The Central Bank continued to strengthen the supervision of payment systems and to improve the SWIFT infrastructure for international payments as well as IBAN for international and domestic payments. Implementation of IBAN for domestic payments was completed in June 2016. Further efforts are still needed to continue alignment with the *acquis* on payment services.

#### 5.1.4. Customs and taxation

Kosovo is **moderately prepared** in the area of customs and is at an **early stage of preparation** on taxation. There has been **good progress**, especially in fighting corruption in customs, collecting customs revenue and reducing the administrative costs of exports. On taxation, measures have been taken to introduce electronic services. Initial steps have continued with a view to merging the customs and tax administrations. This should be planned and handled carefully to preserve budgetary stability. The 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 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 undue influence on the work of the customs and tax administrations.

The **customs** service has further improved its legislative and organisational capacity. Despite an overall fall in imports, revenue collection in 2015 increased by 9.2 % on 2014. Kosovo Customs collected more revenue (+27 % until March 2016) than in the same period in 2015. The increase is mainly attributed to the fight against corruption and to organisational and procedural reforms. Kosovo Customs operate throughout Kosovo, although to a limited extent in the north. In March 2016, a simplified procedure for exports was introduced, significantly reducing the cost and time of administrative procedures. A number of e-services have been introduced to facilitate and simplify administrative procedures for businesses. The fight against the smuggling of narcotics and hazardous materials has intensified.

Kosovo is not a member of the Common Transit Convention. It exchanges automated pre-arrival information with its neighbours. Regular joint cross-border operations with Montenegro against illegal cross-border activities have been conducted.

Inconsistencies between the customs and excise code and the criminal code continue to hinder the fight against customs-related crime. The informal economy and smuggling continue to harm the economy.

On **taxation**, there was some progress in implementing the 2014-2018 strategy and action plan for preventing and combating the informal economy, money laundering and the financing of terrorism. The strategic plan for tax administration was approved in January

2016. In September 2015, with the aim to increase revenue and legal certainty for tax payers, Kosovo adopted a new law on Value Added Tax, which is largely in line with the *acquis* and two laws on income tax, based on OECD principles.

Progress has been made in introducing electronic services including online tax returns, a verification and payment system and business registration centres (one-stop shop). However, tax evasion and the high level of informality continue to hamper the economy. No progress was made in modernising the administration's internal IT platform and the capacity to enforce tax collection in northern Kosovo. Rates of collection remain very low. There is a growing backlog of complaints against the customs and tax administrations. A double taxation agreement with Austria has been signed.

Some preparations have been undertaken on a planned merger between the customs and tax administrations. The law on the new tax and customs administration was approved and the tax administration adopted a new organisational structure to reflect the merger. The appointment of senior management in the new agency should be merit-based and free of political influence.

#### 5.1.5. Competition

Kosovo is at an **early stage** in the area of competition. There was **some progress** in this field as the members of the Kosovo Competition Commission (KCC), a decision-making body of the Kosovo Competition Authority (KCA), have finally been appointed. However, both the KCA and the KCC face substantial challenges to their respective investigative and decision-making capacity. Significant efforts are needed to improve legislative alignment and enforcement in the area of state aid and competition.

In the coming year, Kosovo should in particular:

- ensure the law on competition is enforced effectively;
- adopt the new law on state aid and align the secondary legislation;
- ensure the operational independence of the State Aid Commission and improve the effectiveness of its control on state aid at all levels.

#### Antitrust and merger

The **legislative framework** is broadly in line with the *acquis*. The law on competition is largely aligned with Article 101 of the Treaty on the Functioning of the European Union (TFEU) on restrictive agreements and with Article 102 on abuse of a dominant position. The legal framework which provides a basis for the KCA to control mergers is in place. The secondary legislation still needs to be further aligned with the EU *acquis*.

On the **institutional framework**, the KCA is responsible for the implementation of the legal framework. The KCA is governed by the KCC, a collegial decision-making body appointed by the assembly. Formally, the KCA is an operationally independent authority with powers to initiate investigations, conduct on-site inspections, impose fines and remedies and prohibit anticompetitive mergers. After almost three years, in which the KCC had not been able to fulfil its mandate due to the lack of a quorum, its five board members were finally appointed

by the assembly in June 2016. The appointments were made, however, against the recommendation of the relevant assembly committee.

On **enforcement capacity**, the KCC has 13 staff, but their expertise is very limited. The KCA has finally been allocated new premises, but its operational budget has decreased and it still lacks internal procedures and the capacity to conduct investigations. Furthermore, judges and staff of national courts, dealing with competition cases and merger control, lack adequate competences in this field.

Regarding **implementation**, due to the failure to nominate its members from 2013-2016, the KCC was not able to take any decisions and its activities were very limited, focusing mainly on judicial representation of previous cases. Advocacy activities need to be significantly strengthened.

#### State aid

The **legislative framework** is partially in line with the *acquis*, but it still needs to be aligned with the EU secondary legislation on state aid control. The existing law on state aid, in place since 2012, broadly reflects Articles 107 and 108 TFEU and is in the process of being amended.

As regards the **institutional framework**, the State Aid Commission (SAC) is responsible for the implementation of the law on state aid. According to the law, the SAC is a decision-making body, consisting of five members, who are independent experts in the field of state aid. It is assisted by a State Aid Office (SAO), which is part of the Kosovo Competition Authority and has the powers to control notified aid measures, prohibit aid, carry out ex post control of aid and the recovery of incompatible aid.

The SAC's **enforcement capacity** is insufficient, with only one staff member employed out of the six planned for its secretariat. As a result, the effectiveness of the **implementation** of the law on state aid remains to be demonstrated. So far the activities of the State Aid Office have been limited to distributing notification forms to potential aid granters. It does not have the capacity to screen existing aid schemes as required by the SAA. A certain number of aid measures, granted at central or local level, in particular to large companies in different sectors such as telecommunications, are not notified or properly investigated. Awareness of state aid rules among aid grantors is very weak and advocacy must be significantly increased. No decisions issued on state aid have been issued in the last three years.

#### Liberalisation

The law on competition and the law on state aid are applicable to public undertakings in Kosovo. The rules on financing services of general economic interest are partially in line with the *acquis*.

There are no monopolies of a commercial character within the meaning of Article 37 of the TFEU.

##### *5.1.6. Public procurement*

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| Kosovo has <b>some level of preparation</b> in the area of public procurement. <b>Some progress</b> was achieved in this area, with further approximation with the EU <i>acquis</i> and elimination of preferential treatment for domestic bidders, adoption of first steps towards an electronic |
|---|

procurement platform and further expansion of centralised procurement. The Procurement Review Board is also finally operational following the appointment of the board members. However, effective implementation remains a major challenge and procurement remains vulnerable to corruption.

In the coming year, Kosovo should in particular:

→ improve transparency at all stages of public procurement, in particular by systematically monitoring the implementation of public procurement tenders, strengthening the remedy system and ensuring e-procurement functions properly;

→ address the capacity limitations of the Central Procurement Agency;

→ increase the professionalism and accountability of public procurement institutions and ensure adequate training and certification for procurement officers.

### Institutional set-up and legal alignment

Kosovo's **legal framework** is largely in line with the *acquis*. The law on public procurement was amended in March 2016, further aligning it with the EU Directives on classical procurement and to some extent on utilities. In line with the SAA, the law eliminates preferential treatment of domestic bidders and includes provisions for defence and sensitive security procurement. However, further alignment on these issues is still needed. The price quotation procedure has become more transparent by making publication of contract notices mandatory. Secondary legislation still needs to be updated to reflect the recent changes. The law on concessions and public-private partnerships is partially aligned with EU legislation but requires further adaptations to incorporate the provisions of the new Concessions Directive.

The **strategy** (2016-2021) and action plan (2016-2018) for strengthening the public procurement system still need to be adopted.

The **public procurement administration** is in place and consists of three main bodies. The Public Procurement Regulatory Commission is responsible for the overall operation and supervision of the public procurement system and training. The Central Procurement Agency is in charge of central and coordinated purchases. The Procurement Review Body (PRB) examines all allegations of breaches of the public procurement law. In March 2016, the new members and the chairman of the PRB Board were appointed, making it formally operational at last. However, public procurement bodies still face major challenges to exercise their functions and duties effectively and efficiently.

### Implementation and enforcement capacity

In 2015, 10 895 contracts with a **total value** of almost EUR 401 million were awarded (around 7 % of GDP). Of these, almost 76 % were awarded using an open procedure, a 3 % increase from 2014. High-value contracts account for 57 % of all contracts and the average number of bids per tender fell to 5.8 in 2015 from 6.1 in 2014. The cancellation of contract notices in 2015 substantially decreased to just under 14 %, from 30 % the previous year.

On **central procurement**, a new list of common items to be procured centrally, including seven categories for the local level and three categories for the central level, was approved in

March 2016. However, the transition between the old and new public procurement laws caused significant delays in the signing and implementation of the three awarded contracts totalling more than EUR 14 million. The capacity limitations of the Central Procurement Agency to address increasing central procurement needs, are of concern.

In March 2016 the government introduced mandatory **electronic procurement** for all budget organisations as of January 2017 and the necessary platform has been developed. However, the actual implementation of electronic procurement faces delays because of weak oversight, as well as weak human and technical capacities of the responsible government agencies. Adequate resources need to be ensured to support the implementation and maintenance of e-procurement, including the recruitment and training of the necessary technical/IT experts. In this context, six additional staff were recently approved for the Public Procurement Regulatory Commission.

Risks and shortcomings continue to exist at all stages of public procurement. The plethora of entities (174 contracting authorities) brings an increased risk of corruption. In addition to an overall weak planning, implementation and enforcement remain major challenges. Contracting authorities should base the award of public contracts also on the most economically advantageous tender.

In 2015, *ex ante* **monitoring** of public procurement was extended to all contract notices, which should reduce irregularities. However, *ex post* monitoring has been reduced to ad hoc cases where specifically requested by either the contracting authorities or the economic operators. Systematic monitoring and auditing throughout the public procurement contract implementation process would further improve protection against corruption.

Regarding the authorities' **capacity to manage public procurement**, the law provides for obligatory training for public procurement officers. However, the certification system and the capacity to manage public procurement still need to improve. Additional funds are required for the Kosovo Institute for Public Administration to complete the retraining and recertification of all public procurement officers by the end of 2016, as envisaged in the law.

The recently amended law on public procurement puts new mechanisms in place which aim to strengthen **integrity** in the public procurement system. Nevertheless, the perception of corruption in public procurement remains prevalent and the enforcement of integrity rules remains insufficient. As in 2014, budgetary institutions are failing to take into consideration the opinions of the Kosovo Anti-Corruption Agency and the National Audit Office.

Cooperation between the Kosovo Police and the Prosecutor's office is satisfactory. However, the number of properly skilled prosecutors and police officers is insufficient. The lack of harmonised IT infrastructure remains a challenge.

#### Efficient remedies system

The **right to legal remedy** is set out in the laws on public procurement and concessions. On remedies, in 2015 the Procurement Review Body received 592 appeals and reviewed 567 of them. Of these, 196 cases were returned for re-evaluation, while in 129 cases the review panel decided to cancel the procurement contract awarded. The highest proportion of irregularities continues to be in the eligibility and award criteria of the tender dossiers and the evaluation of bids. The new law introduced a two-instance procedure for filing complaints and endorsed a new fee system. There are some concerns however that this could limit the access of SMEs to

the review process. A contentious decision of the Procurement Review Body to limit the reviews of complaints to the two highest bidders, has been withdrawn. Cooperation between public procurement, anti-corruption, audit and other law enforcement bodies needs to be improved further. It remains essential to focus on increasing the quality of services and the transparency of the Procurement Review Body's activities relating to economic operators and the public.

#### 5.1.7. *Intellectual property law*

Kosovo has **some level of preparation** in this area and **some progress** was made in further approximation with the EU *acquis*. However, significant efforts are needed to increase implementation, including effective means of enforcing intellectual property rights, in line with SAA obligations. In the coming year, Kosovo should in particular:

- amend the secondary legislation in line with the new intellectual property-related laws;
- ensure customs enforcement of intellectual property rights by strengthening the market inspectorate, increasing the capacity building of all relevant stakeholders and securing a more active role for the State Intellectual Property Council;
- address the remaining backlog of applications at the Industrial Property Agency, not least by ensuring it receives sufficient resources.

On **copyright and neighbouring rights**, the law amending and supplementing the law on copyright and related rights was adopted in October 2016. Implementing provisions on private copy schemes and digital piracy, essential for enforcement, are still to be developed. Mechanisms for determining the fees for usage of copyrighted material between collective management organisations and broadcasters must be determined without any further delay.

On **industrial property rights**, secondary legislation still needs to be amended in line with the 2015 changes to the laws on patents, trademarks, industrial design and geographical indications and design of origin. The director of the Industrial Property Agency was appointed in early 2016. Despite progress in addressing the backlog of intellectual property rights applications, the Agency continues to face many challenges, such as insufficient capacity and resources. Cooperation between institutions and law enforcement agencies remains weak. Awareness-raising among holders and users of intellectual property rights should increase.

As regards **enforcement**, in 2015, Kosovo Customs carried out 230 operations targeting goods that breach intellectual property rights; 212 of these interventions followed requests for action by rights holders. The value of the goods seized was EUR 1,3 million. However, the capacity of the market inspectorate remains limited. A specialised police unit for intellectual property rights is still needed. The legal framework on customs measures remains unaligned 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 **some progress** in employment, social and health policies. As most of last year's recommendations have not been addressed, in the coming year, Kosovo should in particular:

- implement the 2015-2020 employment sector strategy, monitor the results and ensure that

the new employment agency is operational;

→ amend and enforce the law on labour and legislation on health and safety at work, and implement inspection legislation with the aim of reducing the number of accidents at work;

→ put in place sustainable financial provisions to reform the public health sector with adequate primary health care services and mandatory health insurance;

→ adopt the amended law on the Economic and Social Council.

On **employment policy**, the 2015-2020 employment sector strategy and the 2017-18 action plan need to be adopted and implemented, focusing on youth unemployment and active labour market measures. The Public Employment Services currently comprising municipal employment offices have improved their performance, but efforts are still needed to ensure that the Employment Agency becomes fully operational.

Though still at a very high level, unemployment decreased to 32.9 % in 2015. It continues to be higher among women at 36.6 %, compared to 31.8 % for men. The overall employment rate is 25.2 %, but only 11.5 % of women are in formal employment, against 38.7 % of men. Only 28.4 % of the employed have permanent work contracts, whereas 71.6 % work on short-term contracts. Unemployment is most prevalent among young people (15-24 years), with 57.7 % unemployed (down from 61 % in 2014). Although two-thirds of the population are of working age (15-64 years), labour force participation is very low at 41.6 %.

As regards labour related legislation, Kosovo still needs to amend the **labour law** to align with the *acquis*, and to improve its implementation. Child labour is a concern, with 10.7 % of children involved in work while 6.8 % work in hazardous conditions.

The implementation of the law on **health and safety at work** is ineffective. In 2015, 56 workplace accidents were reported, of which 9 were fatal. The Labour Inspectorate needs to target the informal part of the construction sector more effectively and to be given adequate resources to fulfil its mandate without further delay, above all by increasing the number of inspectors, at least from the 47 currently registered, to the 65 allowed.

On **social dialogue**, the implementation of the General Collective Agreement, which is fundamental to lay down the rights and obligations of employers and employees, is still pending since 2014. Collective bargaining takes place mainly at two levels: at the central level, through the Social and Economic Council and at sectoral level. The law on the Social and Economic Council needs to be amended to strengthen the capacity of the Council and to improve the quality of social dialogue. Trade Unions' representation is limited due to fragmentation of trade unions and minimal representation of the private sector, which represents a big challenge to a meaningful social dialogue bargaining at the central level. Trade unions are free to form and register, and a number did so during the reporting period.

As regards **social inclusion**, Kosovo needs to ensure that municipalities have sufficient resources to deliver the social services under their responsibility. Municipalities do not have accurate data on the population number disaggregated into gender, age groups, ethnicity, ability or vulnerability, which has a negative impact on planning and implementation of activities. There was no advancement in the inclusion of Roma, Egyptian and Ashkali children and families. Regarding persons with disabilities, Kosovo needs to ensure that children with disabilities go to public school and learn alongside their peers. On **social**



**protection**, Kosovo needs to implement the necessary changes in the law on local finance to ensure the transfer of competencies for management and the delivery of social and family services to the municipalities. A lack of clarity among municipalities in relation to the local budget available for social services resulted in a considerable variation in the levels of support to social service delivery. Therefore, the specific funding of social services from the general grant should be included in the upcoming draft law on local finance. Budget constraints have delayed the introduction of the new pension scheme.

As regards **non-discrimination**, secondary legislation for the implementation of the law on the protection from discrimination has not been adopted. The authorities must address discrimination against women, especially during hiring processes in private sector. During the reporting period, the Ombudsman Institution received a similar amount of cases as in previous years and initiated more than double the number of ex-officio investigations on discrimination grounds. The Kosovo Prosecutorial Council's tracking mechanism still needs to be extended to cover cases of all kinds of discrimination, not only those based on ethnicity. The performance of institutions in processing and investigating cases related to discrimination remains poor.

On **equality between women and men**, Kosovo should consider a reform of the system of maternity and parental leave, which in its current form presents an obstacle to the hiring of women. Limited access to child care and to flexible work arrangements are also found to be related barriers to women's employment, as formal options for care beyond maternity leave are limited, and family-friendly schedules are often not available.

On **public health policy**, Kosovo adopted the law on mental health and the law on breastfeeding. The new health sector strategy and action plan 2015-2020 has not yet been approved by the government.

Low public spending on health remains a concern. Public health spending is heavily focused on capital investment and hospital care; spending on primary care and goods and services needs to be increased. As a result, overall utilisation rates of both public primary care facilities and hospitals remain low.

Preparations to implement mandatory health insurance have been slow. Plans to introduce outpatient medicinal product benefits are considerably behind schedule and will not be in operation by the proposed start of premium collection in January 2017.

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.

The nutrition action plan 2015-2020 to support implementation and addressing nutrition issues has been finalised but still needs to be endorsed by the government.

#### *5.1.9. Education and research*

Preparations in education and research are at an **early stage**. During the reporting period, there has been **no progress** in the area of education and **some progress** in the area of research. The quality of education still needs to be considerably improved. As last year's recommendations have not been addressed, in the coming year Kosovo should, again, in particular:

- improve the quality of education at all levels and improve access to quality education for marginalised groups, especially children with disabilities and 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 the reform of higher education institutions and increased investment in research, both in the public and private sectors.

On **education**, implementation of the core curriculum is continuing, with 92 schools participating in its pilot implementation. However, implementation was hampered by outdated textbooks and learning materials, lack of necessary skills among teachers and an underdeveloped student assessment system. A teacher training system for improving the quality of pre- and in-service education is in place but has yet to bear results. The draft law on inspectorate of education was adopted by the government in July 2016 in line with European legislation and international standards, but efforts are needed to improve its implementation, as well as to monitor and support teacher performance.

Expenditure per student is declining and infrastructure in schools is still poor. 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 3.7 % of children attend pre-school education (age 0-5) and 74 % of children aged 5-6 attend pre-primary education, both rates are increasing but well below the 95 % EU benchmark for 2020.

The government continued implementing measures to lower early school ‘dropout’ rates, particularly for children from the Roma, Ashkali and Egyptian communities. More efforts are needed to provide access to quality education for children with disabilities, and more teachers and assistants need to be trained. The Ministry of Education and Science adopted an administrative instruction on measures and quotas for the enrolment of students from minority communities in public universities. After the first round of admissions, 96 minority students who have successfully completed the admission exams were enrolled in six public universities, which is higher than in the previous school year.

Around half of all students in upper secondary choose vocational education and Kosovo has received EU support to reform this sector. However progress remains slow, the link to the labour market remains weak and programmes lack practical and applied courses with only a few being accredited by the National Qualifications Authority. The role and future of the Agency for Vocational Education and Training and Adult Education remain unclear. The government needs to ensure the implementation of the quality assurance strategy and establish quality assurance mechanisms at the municipal level.

The Accreditation Agency for Higher Education has revised its criteria, taking into account EU standards. This resulted in the reduction in the number of higher education institutions and accredited study programs, which gives a clear message of the importance of quality. However, the accreditation of higher education institutions and study programmes is only starting.

Kosovo needs to improve transparency in the operation of higher education institutions to address politicised recruitment. A database containing all academic staff and their appointments could prevent the practice of university teachers holding multiple full time

positions. There has been some progress in implementing the 2011 agreement on diploma recognition between Belgrade and Pristina and the parties agreed to extend the scope of the agreement to pre-university education. Education remains a high risk sector for corruption and political influence, especially in higher education.

Kosovo has taken limited action to develop its **research and innovation** capacity. The quality of post-graduate programmes is very limited. The budget for research remains insufficient and is still below 0.2 % of GDP. The law on scientific research activities is not being properly implemented due to lack of funding. Kosovo should also strengthen its administrative capacity on research and innovation. Concerning participation in the EU research and innovation programme Horizon 2020, Kosovo bodies were involved in more than 50 proposals, of which 9 have been retained for funding. This is a positive development compared to previous years.

#### *5.1.10. World Trade Organisation issues*

Kosovo's preparations remain at an **early stage**. **No progress** was made in this area during the reporting period.

Kosovo is not a member of the WTO and has not yet taken any formal steps to join.

### **5.2. Sectoral policies**

#### *5.2.1. Industry and SMEs*

Kosovo has **some level of preparation** on industry and SMEs policy. **Some progress** was made in this field, notably with the creation of a credit guarantee scheme to support SMEs. As already recommended last year, Kosovo should in particular:

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

As regards **industrial policy** and **SMEs**, implementation of Kosovo's 2013-2017 private sector development strategy is progressing slowly, while the industrial strategy still needs to be finalised. Both have to be aligned with the 2016-2020 national development strategy adopted in January 2016. There has been no follow-up since last year's country report for the EU's 'Small Business Act' assessment. Recommendations such as the expansion of collection of SME statistics, communication and coordination between the Kosovo Investment and Enterprise Support Agency (KIESA) and relevant ministries have seen no improvement. In March 2016 the Ministry of Trade and Industry, with support from several donors established a Credit Guarantee Scheme, which will provide partial coverage for collateral requirements on SME loan portfolios of banks participating in the scheme.

The lack of regulatory impact assessments, including SME tests remains a key factor in the administrative burden impacting SMEs, while the failure to monitor and time strategies and action plans undermines Kosovo's ability to achieve real progress. KIESA's capacity needs to be enhanced to be able to implement its mission and objectives. Special attention should be given to professionalising the institution and applying merit-based hiring procedures. The development of an export promotion strategy and aftercare programme for foreign investments needs to be prioritised. The silence-is-consent principle for business registration

and online company registration have not yet been introduced. The main obstacles to SME development and further growth remain limited access to finance, weak legal enforcement of contracts and business regulations, administrative barriers, unfair competition from the informal sector, an 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. Concerning fisheries, the preparation is at an early stage. With the increase in budget allocation to the agricultural sector, there has been **some progress**. However, as most of last year's recommendations were not implemented, in the coming year, Kosovo should in particular:

→ improve and extend the area covered by land consolidation schemes and prepare and implement an action plan to tackle illegal changes of agricultural land use;

→ increase the capacity and staff of the Agriculture Development Agency, set up payments, accounting functions and its internal audit unit;

→ transfer inspection responsibilities to the Kosovo Food and Veterinary Agency, thereby making possible an integrated food control system as provided for by the food law;

→ establish a fish inventory.

On **agriculture and rural development policy**, the government has continued to increase spending on agriculture. In 2016, the budget allocated to agricultural investment grants rose from EUR 20 million to EUR 23 million whereas the amount for direct payments remained at a similar level (EUR 23 million). However, staff shortages continue to undermine the proper processing of applications and the monitoring of grants, subsidies and execution of payments. In addition, the Agriculture Development Agency still lacks payments and accounting functions and an internal audit unit. Overall, transparency and planning of agricultural support should be improved.

Illegal changes in agricultural land use remain an obstacle to developing the agricultural sector and undermine the effective implementation of the law on spatial planning. There is no information on how much agricultural land Kosovo loses on an annual basis, nor is there any strategy or action plan to address these illegal changes. Little is being done to implement land consolidation schemes to help ensure the economic viability of agricultural holdings and to create conditions for farmers education as one of the pre-requisites for sustainable development in the agriculture sector. An irrigation plan is still missing.

The 2015 agricultural census confirmed the previously identified structural problems of a large number of small subsistence and semi-subsistence farmers. Kosovo should use the agricultural census data to ensure evidence-based policy development. Discrepancies between Eurostat and Kosovo's statistics remain. Kosovo should increase its efforts to establish a fully functional agricultural market, in particular by stepping up support for producer groups and marketing of agricultural products.

Implementation of the law on organic production is weak. A supervisory authority and a commission on organic production were established, but there is very little evidence of

activity. In the forestry sector the volume of illegal logging is still too high for sustainable forest management.

In the **food safety** and **veterinary** sectors, further efforts are required to establish the conditions for proper management of the rendering plant and collection system for animal by-products. The revision of the laws on food and veterinary control are not finalised. The Kosovo Food and Veterinary Agency should ensure that annual and multiannual control plans are prepared and implemented.

Kosovo lacks minimum standards and cross-compliance measures in the areas of food safety, animal health and welfare, and environment. The Food and Veterinary Agency should step up its efforts by identifying and proposing basic cross compliance measures to be introduced in the 2017 agriculture support programme. Transfer of responsibility for inspections from municipalities to the Agency is overdue for many years therefore hampering the implementation of an integrated food control system. The continued lack of reliable and systematised data management for animal identification, movement and registration undermines evidence-based policy-making. Without sufficient surveillance of livestock markets and slaughter, current data remains unreliable. Illegal trade, particularly in animals from Serbia, continues to be a problem. The process of upgrading food processing establishments to EU standards should continue. Capacity to deal with communicable animal diseases is quite weak.

In the **phytosanitary sector**, the plant disease surveillance programme is still lacking, as is a data recording system and an early warning system for quarantine plant diseases. The Ministry of Agriculture, Forestry and Rural Development and the Food and Veterinary Agency need to develop their capacity as well as plans to prevent the entry and/or spread of plant pests and plant diseases.

### 5.2.3. *Environment and climate change*

Kosovo is at an **early stage of preparation** in this area. **Some progress** has been achieved, with the planning of infrastructure projects in the environment sector. However, significant efforts are needed to implement and enforce legislation in all environment and climate change areas.

Since most of last year's recommendations were not implemented, in the coming year, Kosovo should pay particular attention to:

→ ensure real-time measurement and reporting of air quality;

→ ensure the establishment of a river basin management authority and preparation of river basin management plans and completing the water resources monitoring network, including ground water monitoring;

→ implement the Climate Change Adaptation and Low Emissions Development Strategy, consistent with the EU 2030 framework for climate and energy policies.

## **Environment**

Regarding **horizontal legislation**, the strategy on environment is in place but needs to be updated and implemented. Implementation of priority measures at the central and local levels

needs to be secured through sufficient funding and administrative and technical skills. Implementation of environmental impact assessments needs to be strengthened considerably, especially for plans, programmes and projects in all industrial sectors with significant effects on the environment including meaningful involvement of the public and civil society. More work is needed on effective public participation and consultation in the decision-making process, particularly at local level. Further progress is needed to align with and implement the remaining cross-cutting environmental directives.

The national strategy for **air quality** and the law on ambient air quality were adopted but need to be enforced. However, uncontrolled pollution from traffic, incineration of waste and other toxic materials remains a serious problem. The air quality monitoring system equipment is in place but still not fully operational. Kosovo institutions need to undertake immediate measures to improve air quality assessments, particularly in affected areas. Financial resources and the capacity to support the maintenance and calibration of equipment need to be ensured, as does support for the automatic air quality monitoring network. Real-time measurement of air pollution needs to become operational so that immediate action can be taken to reduce emissions if limits are exceeded. Air quality plans for zones where the levels of pollutants exceed limit values by a wide margin, especially in winter, still need to be prepared and adopted.

On **waste management**, the legal framework is partially aligned but waste remains one of the most visible problems in Kosovo. The draft master plan has been finalised, defining the concept of prevention, reuse and recycling of waste. However, the Ministry of Environment and Spatial Planning should begin implementation 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. The high number of illegal landfills needs to be addressed urgently. Most existing landfills are at the end of their storage capacity and faced by considerable long-term environmental risk, especially groundwater contamination.

In the area of **water quality**, the level of alignment is limited. A strategy and action plan on water protection have not yet been adopted and urgent efforts should be given to the establishment of the river management authority in order to start much-needed work on the preparation of river basin management plans. Untreated sewage remains the main source of pollution and a serious threat to groundwater. Work needs to begin on identifying groundwater resources and establishing the groundwater monitoring system. The system for monitoring surface water quality and quantity needs to be reinstated. Identification of agglomerations and the definition of sensitive areas are required, in line with the Urban Waste Water Treatment Directive. There have been some improvements in bill collection and reductions in technical water losses, but more efforts need to be done.

Alignment with the *acquis* on **nature protection**, in particular the Habitats and Birds Directives, has only begun. In February 2016, the assembly passed an amendment on international trade in endangered species of flora and fauna. However, effective protection for designated protected areas is not in place. Combating illegal construction in protected areas needs to be enforced effectively. Planning of investments in infrastructure such as hydropower plants, tourism and the industry sector need to ensure that nature protection obligations are respected. This applies especially to protected areas and areas of high natural value that could potentially become protected Natura 2000 sites.

On **industrial pollution and risk management**, alignment with most of the relevant EU directives and regulations (IED, Seveso III) is at an early stage. Insufficient enforcement of legislation is hampering progress in preventing industrial and chemical accidents. The procedures to nominate an operator for management of hazardous waste have been launched.

On **chemicals**, the alignment with the *acquis* is at an early stage.

The prospective steps towards achieving full transposition and the implementation plan of the Directive on the use of animals for scientific purposes have not been provided yet.

Kosovo is not party to the Stockholm Convention and there is no progress towards the implementation of the Persistent Organic Pollutants Regulation, by developing concrete plans for establishing a legislative framework governing persistent organic pollutants.

Kosovo is not party to the Rotterdam Convention, but a regulatory framework on export and import of hazardous chemicals was provided by the Administrative Instruction No. 23/2015, which now needs to be implemented.

The new law on **noise** still needs to be adopted. The strategic noise maps and action plans still need to be developed, as well as effective action to implement the law.

Kosovo continues to participate actively in the **EU Civil Protection Mechanism** and in several regional projects aimed at strengthening cooperation. It launched a disaster inventory management system and approved the regulation for assessing post-disaster damage. However, significant progress is needed in important areas such as flood protection.

## **Climate change**

The level of alignment is limited. The strategy on climate change has been finalised but remains to be adopted. Its implementation should be consistent with the EU 2030 framework of climate and energy policies and well integrated into all relevant sectors. In addition to mitigation, efforts need to be made to adapt to climate change. The National Council for Environment and Climate Change should take more concrete measures to mainstream climate action. Although Kosovo is not a signatory to the UN Framework Convention on Climate Change and therefore has not prepared an Intended Nationally Determined Contribution to the 2015 Paris Agreement, full implementation of its climate change strategy would help Kosovo reach the low emissions and climate-resilient objectives of the agreement. Regarding the transparency of climate action, responsibility for compiling greenhouse gas (GHG) inventory reports lies with the Kosovo Environment Protection Agency. The GHG report for 2012-2013 has been submitted to the European Environment Agency. Partial alignment with the Monitoring Mechanism Regulation has been achieved through two by-laws. Legislation has yet to be drafted and adopted on GHG emissions monitoring, reporting and verification in order to align with the EU Emissions Trading System. Urgent actions should be taken in the field of emission standards and control of pollution from transport, on enforcing the legislation on technical control of vehicles, on fuel quality, as well as on ozone depleting substances and fluorinated gases. Administrative capacity and awareness-raising activities need to be considerably strengthened.

#### 5.2.4. Transport policy

Kosovo is at an **early stage**/has **some level of preparation** in transport policy. **Some progress** has been achieved especially in the area of aviation and railways during the reporting period but more work is needed to strengthen administrative capacity in all sectors. With the entry into force of the new law on road traffic provisions, Kosovo has partially fulfilled one of last year's recommendations.

In the coming year, Kosovo should in particular:

→ implement and enforce road safety legislation, in order to reduce fatalities;

→ strengthen the capacity of the railway regulator and ensure its financial and operational independence;

→ make further efforts towards mutual recognition of train driver licences and to review technical rules and safety rules in rail transport.

As regards the **general transport *acquis***, the key strategic documents for the transport sector and its sub-sectors have been adopted, but the legislation is not aligned with the *acquis* on summertime arrangements or on public service obligations. There is a need to strengthen administrative capacity for all modes of transport. The legislation on air and railway accident investigations has been adopted but not implemented yet, while the accident investigation body is not yet fully staffed.

On **road transport**, legislation on inland (road and rail) transport of dangerous goods is partially aligned. Access to the market for goods and passenger transport for both national and international operators needs further alignment, as do the criteria for access to the occupation of road transport operator. To reduce fatalities, Kosovo needs to continue aligning with the social and safety *acquis* in this area and to monitor enforcement capacity. Maintenance of road infrastructure is still insufficient. Regarding the enforcement of *social legislation*, improvements are needed in the area of roadside checks. Legislation on clean and energy-efficient road transport vehicles and on the deployment of alternative fuels should be gradually aligned with the *acquis*.

Regarding **rail transport**, Kosovo has made some progress in implementing the 'Connectivity reform measures'. More specifically, Kosovo's Railway Regulatory Authority has licensed the first private operator in December 2015, the safety certificate pending. Railway safety legislation has been adopted but efforts should be made to implement it. Further efforts are needed on railway safety and interoperability. The capacity of the Railways of Kosovo (INFRAKOS) needs to be strengthened in view of the upcoming significant investments in the sector. The regulator's independence in enforcing the regulatory framework needs to be ensured and its financial independence upheld. Merit-based appointments in accordance with the law to the board of railways regulator need to be ensured. With a view to establishing fair and transparent access conditions to rail services facilities, Kosovo should proceed to transpose and implement Directive 2012/34 on a Single European Railway Area. Upgrading the railway infrastructure is at an early stage of implementation.

On **aviation**, Kosovo has made substantial progress in aligning with the EU *acquis* and has implemented nearly all the requirements under the first transitional phase of the European



Civil Aviation Agreement (ECAA), with the exception of a few provisions in the area of economic regulation. On 'single European sky' (SES) legislation, Kosovo has completed the alignment and implementation of the SES I legislation and made progress on SES II. Working arrangements with the European Aviation Safety Agency are not established yet. There was some progress on implementing the law on the Air Navigation Services Agency. However implementing legislation still needs to be completed including the criteria for management positions. The air navigation service provider has been certified.

There is no national legislation yet on **combined transport**.

#### 5.2.5. *Energy*

Kosovo made **some progress** in legislative alignment with the adoption of the Third Energy Package but remains at an **early stage** of implementation in many areas. Since most of last year's recommendations were not implemented, in the coming year, Kosovo should in particular:

- start implementing the *acquis* on security of supply and make a final decision on new generation capacity, decommissioning the Kosovo A power plant, and ownership arrangements for Kosovo B;
- strengthen institutional capacity for the energy market, in particular by ensuring the regulator's full independence and financial stability and by setting up transparent mechanisms to adjust energy prices;
- include a cluster for temporary storage of radioactive waste in the construction of the EU funded hazardous waste storage while work continues to find a permanent site;
- implement energy-related 'Connectivity reform measures';
- adopt the law and by-laws transposing the directive on the energy performance of buildings.

The energy sector continues to face problems even if progress was made in specific areas, in particular with the adoption of legislation transposing the Third Energy Package. Electricity cuts are infrequent, although they continue to disrupt people's daily lives and the regular operations of businesses. Kosovo is still lagging behind in implementing commitments made within the connectivity agenda.

On **security of supply**, investment and maintenance continue to improve the reliability of the power transmission system. In November 2015 Kosovo completed the construction of its section of the 400kV transmission line with Albania. While distribution losses are slowly dropping, the speed of investment in the distribution network is not satisfactory. Combined commercial and technical losses in 2015 were still high at 31.8 %. There was no progress in aligning the legislation in the area of compulsory oil stocks and obligatory petroleum reserves. Current oil stocks are estimated to last only four days. There is no progress in the Energy Community's dispute settlement procedure about customs duties on imports of petroleum products. The import of two petroleum products (lubricants and petrol coke) is still subject to customs duties of 10 %.

Kosovo did not sign the ‘Western Balkans 6’ memorandum of understanding on regional electricity market development and on establishing a framework for future collaboration, which was signed by all other parties in April 2016. The parallel management that Serbia installed at the Gazivode/Ujmani hydropower plant continues to interfere in its operation, with a risk to water management.

As regards the **internal energy market**, four laws on energy, electricity, the energy regulator and natural gas, aimed at aligning Kosovo's legislation with the Third Energy Package, were adopted in June 2016. These laws remain to be implemented. Negotiations with the single bidder for building the new lignite power plant are ongoing and the contract has not been signed. No progress was made on decommissioning Kosovo A or refurbishing Kosovo B. Kosovo needs to decide urgently on the ownership arrangements for the latter in order to prepare the investment plan needed for its refurbishment. Kosovo has submitted its emissions reduction plan to the Energy Community in time, but it is highly unlikely it will meet its air quality obligations. No request for an extension of operating hours for either Kosovo A or Kosovo B has been submitted.

In terms of energy prices, Kosovo remains the most regulated market in the region. No progress has been made in deregulating the generation price or phasing out cross-subsidies between different categories of customers. While market opening is envisaged in the legislation, it is not implemented in practice and customers do not have the possibility to switch between different suppliers. The three remaining members of the Energy Regulatory Office Board were appointed in November 2015, but there are serious concerns over their independence and expertise. Important decisions for the electricity market have been delayed for a long time already, including the approval of licenses for suppliers wishing to compete with the incumbent, or the adoption of switching and imbalance rules. The capacity and independence of the Office have been undermined by political interference, low administrative capacity and lack of human resources.

There was very little progress in the **renewable energy** sector. Alignment with the 2009 Renewables Directive was targeted with amendments to the laws on energy, electricity and the energy regulator adopted in June 2016. While Kosovo's renewable and energy efficiency action plan for 2013-2020 envisages a very ambitious 29.47 % renewables share by 2020, it has now become very unlikely that Kosovo will meet even the mandatory target of a 25 % share. This is in particular due to years of neglect in the sector, the inefficient regulatory framework (in particular lengthy administrative procedures in issuing different permits and licences) and poor administrative capacity in managing renewables. No progress has been made on building the Zhur hydropower plant, which is instrumental in reaching the 2020 mandatory target. Any further development of hydropower should be in line with EU environmental legislation. Poor capacity of the grid to manage inputs from renewables contributes even further to the likelihood of failing to respect these commitments. There was no progress in meeting the requirements for the use of biofuels in transport. Sustainable criteria have still not been implemented.

The law on **energy efficiency** needs to be amended in order to align the legislation with the *acquis*. Kosovo has not yet adopted the law on the energy performance of buildings. While the 2010-2018 energy efficiency action plan envisages an energy savings target of 9 %, Kosovo is now in the process of preparing its third energy efficiency action plan. Kosovo has not yet set up its own energy efficiency fund. It is important to do so as soon as possible to ensure more investment in energy efficiency measures, ideally combined with other environmental measures, in the public as well as the residential sector. The Kosovo Agency for Energy

Efficiency is understaffed and has low capacity to monitor, evaluate and verify progress towards targets.

Kosovo is at an early stage of preparing the legal and regulatory framework in **nuclear safety and radiation protection**. The law on radiation protection and nuclear safety still needs to be adopted. While staffing at the regulatory agency has increased in recent years and the new CEO was appointed in 2015, the agency's licensing and inspection capacity remains weak. Funding for the agency is insufficient for it to implement its mandate. There is no radiation monitoring (for example of depleted uranium), no control of radioactive waste and no radiological emergency plan. The procedures to nominate an operator for the management of all hazardous waste have been launched in August this year. The construction of the EU funded hazardous waste storage should include a cluster for temporary storage of radioactive waste while efforts to find a permanent site need to be stepped-up.

#### 5.2.6. *Information society and media*

Kosovo has **some level of preparation** in this area. The legislative framework is mostly in place but there was **no progress**. In particular, the assembly failed to ensure the financial independence of the public broadcaster and the Independent Media Commission did not move forward with the process of digital switchover. Some progress was made in the area of electronic communications. However, efforts are still needed to complete the legal framework. As last year's recommendations have not been followed up, in the next year Kosovo should in particular:

- ensure telecoms and media regulators are given adequate capacity and resources and enjoy independence;
- urgently implement the digital switchover;
- develop a solution for sustainable funding of the public service broadcaster.

In **electronic communications and information and communication technologies**, the assembly appointed a new board to the Regulatory Authority of Electronic and Postal Communications (RAEPC), but there has been no improvement in its financial and organisational independence. The Authority has allocated additional frequencies to the two incumbent mobile operators, PTK and IPKO Telecommunications, for better quality 4G services. Mobile telephone penetration has reached 97 % of active users. Internet penetration per household has increased to 75.5 % whereas internet penetration per user increased to 12.35 %. Although the national computer emergency response team was set up in 2014, it still lacks sufficient and trained staff. Plans to introduce the European emergency number 112, presented in previous years, have not been implemented.

The action plan agreed between Kosovo and Serbia to implement the 2013 Brussels telecom arrangements, including arrangements for the allocation of a 3-digit dialling code for Kosovo by the International Telecommunications Union, has not yet been implemented.

On the **information society**, the national cybersecurity strategy and action plan for 2016-2019 was approved in January 2016 but adequate budgetary resources need to be made available to implement this and the e-government strategy.

On **audiovisual policy**, the Independent Media Commission failed to make any substantial progress in implementing the digital switchover, even though the International Telecommunications Union deadline expired in June 2015. The Independent Media Commission, state-funded since 2009, has yet to finalise the by-laws needed for the digitalisation process to take place. No funds have been allocated or identified to implement the process. Kosovo needs to accelerate its efforts and ensure that the digital switchover is carried out in full transparency and in line with EU standards.

The public service broadcaster RTK remains dependent on state financing, which undermines its editorial independence. The assembly's failure to act on the financial dependency of RTK is particularly worrying, as this weakens its long-term sustainability and diminishes its capacity to carry out its public service remit.

#### 5.2.7. *Financial control*

Kosovo is at an **early stage** in this area. **Some progress** was made during the reporting period, especially in the area of external audit with the appointment of the National Auditor and adoption of the law on national audit. However implementation of the public internal financial control (PIFC) strategy and action plan is lagging behind. The Commission's recommendations from last year on PIFC have not been addressed. Significant efforts are needed to implement PIFC at all levels of the administration and in publicly owned enterprises. In the coming year, Kosovo should:

- intensify implementation of the activities set out in the 2015-2017 PIFC strategy;
- adopt the new PIFC law and related implementing legislation;
- ensure more systematic follow-up to external audit recommendations by the assembly and auditees.

#### Public internal financial control

Kosovo is implementing its 2015-2019 PIFC strategy and action plan, which are complemented by the 2016-2020 public financial management reform strategy and action plan. However, only half of the activities planned for 2015 have actually been completed. This is mainly caused by delays in finalising the new PIFC law. In addition the PIFC Council, which is intended to monitor and report on implementation of the strategy, has not been set up. The strategy envisages a wide range of actions on managerial accountability and risk management.

The **Central Harmonisation Unit (CHU)** continues to organise training for financial officers and internal auditors, but methodological guidance on internal control is still weak. For the first time, the 2015 annual report on implementation of PIFC was based on internal control benchmarks. The report was also reviewed by the assembly Committee for Oversight of Public Finances, which issued recommendations to the CHU. However recommendations for individual budget users were lacking.

The current legal framework on **financial management and control** is largely in line with the internal control framework of the Committee of Sponsoring Organisations and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). The planned new PIFC law aims to ensure full compliance. Implementation within budget users

continues to lag behind. Administrative budget classification and the subordination of entities and officers makes implementation of managerial accountability and delegation very difficult. Budget users do not fully understand the practical application of internal control and managerial accountability. The focus is mainly on financial compliance of the annual budget execution, and not sufficiently on strategic financial management. Risk management is rarely applied and generally not used as a management tool. Many budget reallocations also occur outside the budget review process.

The legislation on **internal audit** is partially compliant with the international standards. Only 72 % of the organisations required by law to set up an internal audit function have done so. Of these, 32 % have only one auditor. A scheme for certification of internal auditors has been established, with 100 civil servants to undertake the new certification programme in the coming year. So far 70 out of 115 auditors have international certification. The implementation of internal audit still faces challenges, as findings and recommendations are not systematically implemented.

#### External audit

A new law on the National Audit Office (NAO) was adopted in May 2016. It defines the functional, operational and financial independence of the NAO in line with the INTOSAI standards. The role of the NAO is recognised in the **constitution**.

A new National Auditor General, for the first time a Kosovo citizen, was appointed in April 2016. Concerning **institutional capacity**, the NAO is fully staffed with 146 staff, of which 120 are auditors. Training is provided systematically, both on the job and externally. Regarding the **quality of audit work**, the NAO continued to implement the certification programme for regularity audit and to undertake audits in line with the financial and performance audit manuals, which are regularly updated. Quality management of audit work is carried out by an audit support department with six staff. They conduct quality assessments and quality control as 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 the assembly does not ensure systematic parliamentary follow-up of the audit report. Budgetary institutions should follow up on SAI recommendations. The NAO makes all its reports available online and proactively informs the media about important reports.

#### Protection of the EU's financial interests

**Alignment** with the *acquis* is limited. Protection of the EU's financial interests requires case by case cooperation with Kosovo authorities. 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 have an **anti-fraud coordination service** or related network, but the Special Prosecution Office has supported the European Commission during investigations. Policy documents, such as a strategy and action plan to prevent and combat fraud have yet to be developed. **Cooperation with the European Commission** is limited to ad hoc cooperation with Commission investigators during their on-the-spot missions. There are still no basic

procedures for risk assessment, reporting of irregularities and suspected fraud cases. An irregularity management system still 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 analysis is carried out in line with the international standards. The Central Bank does not do technical analysis, but it provides guidance to the financial institutions on what to do with suspected counterfeit money. There are no **formal cooperation agreements** with the European Commission and the European Central Bank. Kosovo participates in the Pericles 2020 programme and the Balkan Network for Euro Protection initiative.

#### 5.2.8. *Statistics*

Kosovo is at an **early stage**/has **some level of preparation** in the area of statistics. **Some progress** was made, most notably with the application of the European standards in producing and publishing agricultural census results in November 2015. The Kosovo Agency of Statistics (KAS) continues, however, to suffer from poor administrative capacity which often results in publication delays and lack of accuracy in some statistics. Significant efforts are needed especially to ensure the alignment of macro-economic and business statistics with European standards. In the coming year, Kosovo should in particular:

- adopt the amendment of the law on statistics;
- make more sector statistics available: e.g. macroeconomic and business statistics, statistics on energy, income and living conditions;
- ensure sufficient human and financial resources as well as the professional capacity of staff to allow KAS to fulfil its mandate.

On **statistical infrastructure**, the legal framework is broadly in line with the European statistics Code of Practice. The law on statistics needs to be amended as a priority to further enhance the professional independence of KAS and ensure timely access to administrative data. Nevertheless, the capacity of KAS to carry out surveys and data analysis independently continues to be limited and its weak administrative and professional capacity as well as the lack of financial resources hamper the timely production of statistics. The shortcomings are particularly visible in the area of national accounts. All KAS's staff need additional training, both on quality issues and on statistical methods. The current premises of KAS are inadequate. Data transmission to **Eurostat** has improved, and KAS improved its web-based dissemination by upgrading the website for disseminating statistics. The European classification of economic activities (NACE Rev.2) is now applied in all relevant statistical areas. The statistical business register was improved by introducing an electronic platform for an automatic updating of the register and local units were introduced. Enterprise Groups are not yet introduced.

**On macroeconomic statistics**, further alignment with the European System of Accounts 2010 is ongoing 2016. KAS currently compiles annual and quarterly national accounts. However, shortening of the production period for national accounts and improvements in

quarterly accounts are remaining challenges. A framework for producing supply and use is in place, but data for 2013 and 2014 are not yet published. While preparations for producing annual sector accounts started, fiscal notifications are not yet available. Monthly trade in goods statistics are submitted to Eurostat. Balance of payments data are compiled by the Central Bank and are broadly in line with the EU *acquis*; annual and quarterly data are submitted to Eurostat. Government finance statistics are published annually. In January 2016 the Harmonised Index of Consumer Prices was published based on the European Classification of Individual Consumption, with 2015 as base year.

Structural **business statistics** and some short-term statistics are partially in line with the EU *acquis*, but the availability of short term statistics is limited. Industry and construction statistics are produced broadly in line with the relevant regulation, while statistics on the service sector need to be developed. No short-term statistics are produced on construction activities as the Agency does not have access to information on building permits. PRODCOM (list of products of the European Union) statistics was introduced in 2015. Tourism statistics and transport statistics are not yet compliant with the EU *acquis*. Statistics on research and development, innovation, and use of information and communication technology statistics are not produced on a regular basis.

In the area of **social statistics**, only demographic statistics are broadly in line with the EU *acquis*. The population census in the four northern municipalities, planned for 2016, was not carried out. A regular survey on income and living conditions was launched in 2016. Some social protection statistics are produced, but those on the unemployment scheme still need to be added and the quality of data needs to be improved. In July 2016, KAS and the Ministry of Education, Science and Technology jointly published education statistics based on international education classification standards (ISCED), but not yet according to ISCED 2011. An annual Labour Force Survey (LFS) is carried out but the 2015 results were published with delay. Preparations for a quarterly LFS started in 2015. Furthermore, 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 EU *acquis*. There is a need to co-ordinate and harmonise social statistics between KAS, line ministries and municipalities. In addition, KAS should consider permanent interviewers for key surveys in this sector, such as the LFS.

In **agricultural statistics**, the agriculture census results were published in November 2015, although without participation of four northern municipalities. Agricultural price indices and economic accounts for agriculture are produced on a regular basis. Pilot surveys on milk, dairy and slaughter statistics were launched in 2016. The results of the crop and livestock survey carried out in December 2015 have not yet been published. Supply balance sheets and the agriculture labour index are not yet produced.

**Energy and environment statistics** are partially in line with the *acquis*. Some annual energy data and energy prices are provided to Eurostat but further improvements are needed. Monthly data and the monthly share of renewables are not provided to Eurostat. The lack of energy efficiency indicators continues to be an obstacle to reporting on energy savings. Waste and water statistics are produced, whereas greenhouse gas emission statistics were introduced in 2016 but have not yet been published. Environmental accounts are not produced.

### 5.3. Justice, freedom and security

Kosovo is at an **early stage**/has **some level of preparation** in this area, but has made **good progress** over the reporting period. Investigations into money laundering, drugs and human trafficking, terrorism and cybercrime have been initiated; however, resulting in few final convictions and limited final confiscation of assets. Prosecution services are understaffed and lack training. The investigative capacity of the police is generally good but the use of intelligence-led joint investigations remains limited. Kosovo is actively cooperating in international and regional police investigations, although its formal cooperation is limited for status-related reasons. Legislation on migration, asylum and border/boundary management matters is largely in line with EU *acquis*, however further efforts are needed on sound enforcement.

In the coming year, Kosovo should in particular:

→ implement the intelligence-led policing approach and making full use of the potential of the National Centre for Border Management;

→ revise the Criminal Procedure Code and the law on extended powers for confiscation of proceeds of crime with a view to making them effective tools to combat organised crime;

→ strengthen inter-institutional cooperation by increasing the capacity of the existing IT system to all organised crime and corruption cases towards building an initial track record of proactive investigation, prosecution, final convictions and criminal assets confiscations, with a view to delivering results on the track record.

#### 5.3.1. Visa, border management, asylum and migration

##### Legal and irregular migration

###### Institutional set-up and legal alignment

The **legal framework** is largely in line with the *acquis*. Amendments to the law on foreigners, aiming at alignment with the latest EU directives on the employment of third country nationals and family reunification are pending.

The national **strategy** and action plan on migration for 2013-2018 is being implemented smoothly. In January 2016, the government appointed a national coordinator on migration responsible for monitoring and reporting on its implementation. His role and resources need to be strengthened. The 2014 country migration profile was finalised in December 2015. It contains an extensive analysis of migration data and of 'push' and 'pull' factors, together with recommendations and policy guidance which need now to be taken into consideration in practice. The Department of Citizenship, Asylum and Migration (DCAM) in the Ministry of Interior is in charge of overall coordination of migration policy. The Directorate for Migration and Foreigners in the border police deals with irregular migrants.

###### Implementation and enforcement capacity

There are some gaps in enforcement, in particular due to lack of coordination between government agencies. The **staffing** level of DCAM remains inadequate in particular for divisions and centres facing a larger workload. Over the reporting period, specialisation of



staff has been strengthened with training courses on migration management, procedures and standards for the treatment of unaccompanied minors, special interviewing techniques, identification and referral of asylum seekers with special needs, and on rights of applicants in need of international protection. Kosovo has a reception facility for **irregular migrants** in Vranidoll/Vrani Do, which can host 70 persons, including appropriate accommodation of vulnerable groups. Legal provisions ensuring the fundamental rights of irregular migrants or foreigners hosted in the centre are in place; however, adequate and specialised supervisory resources are lacking to ensure basic rights and needs. Measures are in place to prevent the infiltration of **people-smugglers** in the centre and there are no reported cases of attempts. In 2015, 12 people were arrested on charges of migrant smuggling and irregular migrants were intercepted, mostly from Albania. The overall number of irregular migrants detained in the reception centre between September 2015 and August 2016 is 99. Out of 99, 83 were **returned** to their country of origin (78 forcibly, 5 voluntarily, 15 persons applied for asylum, 1 is in the process of being returned). Most of the irregular migrants detained in the reception centre were returned within a reasonable period of time. In December 2015, Kosovo signed a readmission agreement with Turkey, bringing the number of such agreements to 23. An agreement with the former Republic of Macedonia is under finalisation. The **readmission** agreements with EU Member States and Schengen Associated countries are being implemented smoothly. The overall number of Kosovo nationals readmitted from September 2015 to end of July 2016 is 13,671 (6,747 forced and 6,924 voluntarily returned).

The number of asylum requests by Kosovo citizens in both EU and Schengen Associated countries has fallen from 73 215 in 2015, to 6 655 in the first half of 2016. The regulation on **reintegration** has been amended in March 2016, allowing all the returned Kosovo citizens to benefit from the assistance for self-employment, financing of business plans and housing. During the period September 2015 – 26 August 2016, 1 506 persons have benefitted from sustainable assistance services provided by the Reintegration Fund. This is a considerable increase compared to 336 persons in 2015 and 628 persons in 2014.

## **Asylum**

### Institutional set-up and legal alignment

The **legal framework** on asylum is largely in line with the *acquis*. The law on asylum is under revision to further align it with the *acquis* on asylum procedures and reception conditions. The Department for Citizenship, Asylum and Migration is the first-instance body in the Ministry of Interior. The National Commission for Refugees reviews appeals. A final judicial appeal can be lodged with the Supreme Court. After rejection of request for asylum or cessation of procedure, the Department's Division for Return and Readmission is responsible for enforcing the decision. Intention to apply for asylum may be requested at the borders.

### Implementation and enforcement capacity

As regards **asylum procedures**, the competent authorities' capacity to evaluate asylum claims based on the merits of the application is still weak and more training is required. Staffing levels are inadequate given the increasing number of asylum requests. In 2015, 70 people lodged asylum requests, while between January and August 2016, 154 people lodged asylum requests. Kosovo is still a transit country. Most applicants disappear without completing the procedure. The Centre for Asylum Seekers in charge of the **reception, registration, accommodation, and movement of asylum seekers within and outside the centre**, is

understaffed. The competent authorities, with the support of relevant international organisations, drafted a contingency plan in case of an influx of migrants/refugees to Kosovo.

There have been no reported cases of *refoulement* at the borders. Although provided by the by-law on admission and initial treatment of asylum seekers, a referral system at the border, including access to legal aid, is not yet in place.

## **Visa policy**

Kosovo has yet to align its legislation with the EU visa positive and negative lists. The number of Kosovo consulates issuing visas increased to 14, leading to a fall in the number of visas issued at borders (only six during the first half of 2016).

## **Schengen and borders**

### Institutional set-up and legal alignment

The legislative framework for the management of the borders/boundary of Kosovo is largely in line with the *acquis* and international standards. Draft legislative amendments to the law on the state control and surveillance aiming at further aligning the legal framework with the EU *acquis*, in particular Regulation 2016/399, are under preparation. The National Centre for Border Management has a joint intelligence risk and threat analysis unit in charge of collecting data and information from the Integrated Border Management (IBM) agencies (police, customs and the food and veterinary agency). The IBM 2013-2018 strategy and action plan are aligned with the 2006 EU concept on IBM and implementation resumed with the appointment of a new coordinator for IBM matters.

### Implementation and enforcement capacity

The infrastructure of border crossing points remains poor; however equipment and databases access is relatively good. The Border Department of the Kosovo Police is well staffed, with a total of 1 318 officers and receives continuous trainings. The border police receive in-service training on border management. **Inter-agency cooperation** is good but should be further improved at local level. A border police anti-corruption strategy is in place but no cases of corruption at the borders have so far been detected.

On **cooperation in the region**, Kosovo has concluded 23 Integrated Border Management agreements. Ratification of the border/boundary agreement with Montenegro is pending in the Kosovo Parliament. Infrastructures of the trilateral joint centre between Montenegro, Albania and Kosovo have been finalised, however, the operational protocol is pending signature. In May 2016, Kosovo signed a working arrangement for setting up operational cooperation with Frontex which also covers irregular migration. Exit checks were reintroduced at the border with Albania, both countries agreeing to undertake joint border controls, with one Albanian and one Kosovo border police officer sharing one booth.

Interim IBM crossing points with Serbia continue to be fully operational. However, there has been no progress in establishing the permanent IBM crossing points with Serbia, and in establishing the additional interim common crossing points in Kapi and Izvor.

### 5.3.2. *Money laundering*

The 2014-2018 action plan for the national risk assessment on money laundering and combating financing of terrorism continued to be implemented without issue. The **law on money laundering and terrorism financing** is in place, and was amended in 2016 but is still not fully compliant with the EU *acquis* or Financial Action Task Force recommendations (*see section 4.1.3. – free movement of capital*). Certain gaps in the system remain, including a lack of proper checks on senior public officials' asset declarations, the weak and patchy reporting systems of entities covered by the Financial Intelligence Unit (FIU), and inefficient seizure and confiscation mechanisms, unclear system of supervision of the financial sector, lack of provisions concerning the steps to be taken in case of freezing of financial transactions by the FIU, insufficient regulation on international co-operation and excessive sanctioning powers of the FIU. **Cooperation** between the FIU and the law enforcement authorities needs to be further improved, particularly in the area of handling suspicious financial transactions. The number of prosecutors in the Special Prosecution Office dealing with economic crimes, including money laundering, should be increased. In addition, in-service training should be provided, especially in view of EULEX's downsizing. The number of suspicious transactions reports from controlling and reporting entities remains low. In 2015, there were 39 cases (against 110 defendants) registered for money-laundering (9 new cases in 2015 and 30 cases anterior to 2015). These cases resulted in 6 indictments, compared to 18 in 2014. In 2015, one person was convicted for money laundering compared to zero in 2014.

### 5.3.3. *Drugs*

The police directorate for investigating trafficking in narcotics continued to focus on prevention and supply reduction. The 2012-2017 strategy and action plan against illicit narcotics continued to be implemented and several criminal groups were dismantled. Further implementation of intelligence-led policing remains necessary. Compared with police services, the prosecution remains understaffed and not sufficiently trained to prosecute drug-related offences efficiently. The lack of secure storage for seized drugs and precursors prior to destruction is an issue of concern. An appropriate process for handling, storing and destroying precursors has yet to be set up.

Kosovo cooperates with the European Monitoring Centre for Drugs and Drug Addiction. A national focal point has been nominated. Special attention needs to be paid to raising public awareness on the consequences of drug abuse. Training for police community safety officers and selected teachers on the dangers of drug abuse continues. Addiction treatment and methadone therapy is being offered, strengthening drug abuse prevention and harm reduction strategies. Kosovo continues to be a storage and transit country for heroin and cannabis, but seizures remain low. Kosovo needs to intensify its fight against drug cultivation and trafficking.

### 5.3.4. *Police*

The Kosovo police is perceived as the most trusted rule of law institution. It has grown steadily to 9 500 in 2016, of whom approximately 84 % are Kosovo Albanians and 15 % are Kosovo Serbs, with the remainder coming from other communities. There are 530 police officers per 100 000 inhabitants, a similar ratio to other countries in the region.

The police are relatively well trained and equipped. The police force has several specialised units both at central (e.g. the anti-corruption task force) and regional levels (e.g. the drugs and

human trafficking units). Clearly defined career paths and evaluation systems are in place for its members. The Kosovo Academy for Public Safety provided a good level of **initial and continuous trainings** to police and public security bodies such as correctional or customs services.

In November 2015, its **code of ethics** was improved. Nevertheless, police is still subject to corruption and political pressure hindering investigation on organised crime. Cooperation between the Independent Police Inspectorate (PIK) and Kosovo Police is good; however, cooperation with the prosecution is hampered by prosecutor's reluctance to open cases against high-ranking police officers. In 2015, PIK opened 3 regional complaints offices and received an increasing number of complaints, 1 237 in total, of which 161 were sent to the prosecution service, which resulted in 108 indictments and 4 verdicts.

Despite being properly staffed and financed, there are no witnesses under the witness protection programme, as citizens have little trust in the locally run protection system.

Cooperation between the police and Europol is currently facilitated by EULEX. The police have already contributed to successful joint investigations supported by Europol, including the large-scale dismantling of a Europe-wide migrant smuggling network in early 2016.

The community policing strategy and action plan for 2012-2016 and the community safety strategy and action plan for 2011-2016 are coming to an end, with successful results. The police still need to make progress on linking intelligence-led policing with the concept of community policing and they also need to improve communication and set up official municipal safety forums in the north.

#### 5.3.5. *Fight against organised crime*

##### Institutional set-up and legal alignment

Some progress has been made and Kosovo has established the key components of the legal framework necessary for the fight against organised crime. The criminal code and criminal procedure code are mostly in line with relevant European standards. Nonetheless, a number of provisions in the criminal procedure code and the law on extended powers for confiscation of assets seriously impede effective investigation and prosecution, such as complex and cumbersome provisions on confiscation, the short investigation deadlines set, the multitude of appeal possibilities, and the unclear provisions on the admissibility of evidence and on search and seizure. A law on the interception of telecommunications was adopted in May 2015.

A new strategy against human trafficking (2014-2019) was adopted in May 2015, but the action plan has yet to be developed and inter-institutional coordination has not yet been strengthened.

Implementation of the 2012-2017 strategy and action plan against organised crime continues. 79 % of the activities were reported as fully implemented, 13 % as partially implemented and 8 % as not implemented. In January 2016, the Ministry of Interior presented a cyber-security strategy and action plan 2016-2019 addressing issues such as critical IT infrastructure protection, institutional development and capacity building, public-private partnership, incident response and international cooperation. 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 and equipment. The

Kosovo police also developed a human resources strategy 2016-2020 to enable an effective and efficient response to criminal trends. A new central coordinator against trafficking in narcotics should be appointed.

#### Implementation and enforcement capacity

Kosovo's prosecution service conducted 17 organised crime cases against 170 defendants from the beginning of 2015 to September 2016. These investigations have not yet resulted in convictions. Kosovo has made progress in sequestering assets, but this has resulted in few final asset confiscations. The number of financial investigations increased and nine anti-organised crime financial experts were trained and certified to further increase capacity in conducting investigations. During 2015, 9.3 kg of heroin, 21.1 kg of cocaine and 722.8 kg of marijuana were seized, with 17 criminal gangs being identified and having their illicit actions disrupted. The rate of convictions in cases against human trafficking remains low, despite Kosovo being a source, transit and destination for trafficked women and children.

Kosovo put an advanced IT tracking mechanism into operation for high-profile organised crime and corruption cases, including confiscation and sequestration of assets and final conviction of perpetrators (*see 2.3 – fight against corruption*). Police capacity for combating organised crime is good, whereas prosecution capacity remain weak. Training focused on investigation techniques continued. Kosovo needs to further increase the level of expertise to tackle complex criminal investigations, such as financial crime and procurement fraud, as this is essential to countering organised crime and corruption effectively. Specialised training sessions and international cooperation need to be increased.

The existence of armed groups and their involvement in organised criminal activities such as arms smuggling and the apparent impunity with which they are able to operate across borders is of serious concern. Kosovo police have been involved in several cross-border operations supported by Europol at the request of EU Member States leading investigations against such groups. The government, law enforcement agencies and the judicial system need to take swift action to dismantle these networks.

Kosovo institutions need to have a zero-tolerance approach in the fight against organised crime and corruption; both in practice and in all decision-making processes. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

#### *5.3.6. Fight against terrorism*

Kosovo has been affected by radicalisation and foreign terrorist fighters with around 300 nationals reported as active fighters in conflict zones in the Middle East. However, the numbers are decreasing and since September 2015 there have been no new reported cases.

#### Institutional set-up and legal alignment

Kosovo's **legal framework** is in line with the EU *acquis* and international instruments on anti-terrorism. Kosovo has legislation criminalising the phenomenon of foreign terrorist fighters in line with UN Security Council Resolution 2178 (2014). The offence of terrorism financing is included in the law on combating money laundering and financing of terrorism. The legal framework for seizure and confiscation of assets lacks specific provisions on terrorism financing, but these assets are confiscated like any other criminal assets under

general confiscation rules. There is no mechanism for seizure and confiscation of terrorist-related funds or other assets without delay on the basis of the relevant UN resolutions. Consistent efforts are needed to identify, prevent and disrupt the flow of foreign terrorist fighters travelling to conflict areas such as Iraq and Syria.

Kosovo's anti-terrorism **strategy** and action plan are not yet in line with the EU counter-terrorism strategy, as they do not provide enough focus on prevention. To date, 57 % of the action plan activities have been fully implemented, 33 % have been partially implemented and 10 % have not been implemented at all.

The main institutions involved in combating terrorism are the Ministry of Interior, the Ministry of Justice, the Ministry of Foreign Affairs, the intelligence services, the police and the prosecution service. An anti-terrorism coordinator was appointed within the Prime Minister's Office and is in charge of developing policies and strategies to combat terrorism, evaluating strategic intelligence and ensuring coordination. Since 2010, a counterterrorism high-level inter-ministerial coordination body has overseen counter-terrorism activities.

#### Implementation and enforcement capacity

In September 2015, a strategy for 2015-2020 and an action plan on the prevention of **violent extremism and radicalisation** were adopted. The strategy was developed in close cooperation with religious communities, social and frontline workers, educational authorities and youth organisations. Challenges remain with the lack of programmes on prevention, de-radicalisation and reintegration, considering the high number of **returned foreign fighters** from conflict zones.

Improved cooperation among intelligence services, especially between countries in the Western Balkans, could help counter the threat of violent extremism and radicalisation. Europol, Interpol and Frontex should be used more as facilitators for this cooperation.

Kosovo law enforcement and judicial institutions continue their robust response to terrorism. The police have arrested a substantial number of people who joined terrorist groups involved in conflicts abroad or intended to do so. In 2015-2016, preliminary investigations against 78 suspects were launched; formal investigations against 50 defendants were carried out, judgments were issued against 36 defendants and 33 defendants are currently on trial. In May, an imam was sentenced to 10 years in prison for recruiting for a terrorist organisation (ISIS) and inciting religious hatred. In July, 5 defendants were convicted of planning to shoot a video declaring their allegiance to ISIS. They were sentenced to between 4 and 13 years in prison.

The Financial Intelligence Unit (FIU) is a crucial element of the system of combating terrorism financing. However, it lacks the staff and resources to effectively tackle this phenomenon. Kosovo's expertise in tackling complex financial investigations is still limited and more coordination and cooperation between the law enforcement bodies involved in day-to-day case handling is needed. The FIU lacks the staff resources to effectively tackle terrorism financing. More training is needed for prosecutors and police on specific investigation methods (including financial analysis) in relation to extremist religious groups. Kosovo lacks expertise and cutting-edge technology to perform IT investigations and expertise, both of which are vital in countering terrorism.

### 5.3.7. *Judicial cooperation in civil and criminal matters*

While Kosovo is not party to most multilateral treaties governing judicial cooperation in criminal and civil matters, it does unilaterally apply internationally recognised treaty standards. With regard to the 1980 Hague Conventions on the Civil Aspects of International Child Abduction, the relevant cases are dealt with by the Ministry of Justice. In June 2016, Kosovo acceded to the 1961 Hague Convention on Abolishing the Requirement of Legalisation for Foreign Public Documents.

Judicial cooperation in criminal matters is governed by the 2013 law on international legal cooperation in criminal matters, and 19 bilateral agreements with other countries. In March, Kosovo concluded a bilateral extradition agreement with the US. A legal framework for judicial cooperation in civil matters would help clarify rules and procedures. Cooperation is based on the principle of reciprocity with countries with which Kosovo does not have a bilateral agreement in place. The 2015 Procedures on Mutual Legal Cooperation agreed between Belgrade and Pristina form the basis for judicial cooperation between judicial authorities in Kosovo and Serbia. Other non-recognising countries voluntarily accepted the EU's facilitating role.

## ANNEX I – RELATIONS BETWEEN THE EU AND KOSOVO

On 1 April 2016, the EU-Kosovo **Stabilisation and Association Agreement** (SAA) entered into force. The SAA constitutes the first contractual relationship between the EU and Kosovo. It 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. The inaugural meeting of the first Stabilisation and Association Council will take place in late 2016 and the first cycle of subcommittee meetings will start, replacing meetings of the **Stabilisation and Association Process** Dialogue.

To guide reforms under the implementation of the SAA, the Commission and Kosovo started work on a **European Reform Agenda** for Kosovo. The Agenda outlines priority actions in the fields of good governance and the rule of law, competitiveness and investment climate, and employment and education.

Kosovo has continued to address the priorities set out in last year's Report. In particular, it has implemented wide-ranging rule of law reforms to fulfil the remaining requirements of the **visa liberalisation** dialogue. Since 2012, the Commission has issued four reports on Kosovo's progress towards visa liberalisation (the most recent in December 2015 and May 2016) and submitted a legislative proposal to lift visa requirements for Kosovo citizens to the Council and European Parliament on 4 May 2016. The proposal is currently being considered by the European Parliament and the Council, pending fulfilment of the two remaining requirements by Kosovo.

As regards **financial assistance**, the IPA 2015 programme, under the IPA II financial framework, was approved by the IPA Committee on 25 November 2015 with an EU contribution of EUR 78 million, complemented by co-financing from Kosovo for an overall budget of EUR 81 million. In 2015, the EU Office signed 111 contracts for projects in Kosovo for a total of EUR 55.29 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 2016 IPA programme for Kosovo is being prepared.

The Commission's 2013 proposal about the participation of Kosovo in **Union programmes** is under discussion in Council.

Kosovo institutions fulfilled the remaining obligations relating to the establishment of the **Specialist Chambers and Specialist Prosecution Office** to investigate allegations of international crimes committed during and after the 1999 conflict. In February 2016, the legal framework was completed by ratification of the bilateral agreement with the Netherlands, allowing for the Specialist Chambers to be located in The Hague.

To date, according to the government, Kosovo has been recognised by 110 UN Member States, 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 congratulated Kosovo



on the signing of the SAA agreement. He expressed concern for the polarisation of the political landscape and called for strong leadership by the authorities in Pristina and Belgrade for the implementation of the EU-facilitated dialogue agreements, in particular on the establishment of the Association/Community of Serb majority municipalities.

The NATO-led Kosovo Force (KFOR) has continued to help ensure a safe and secure environment in Kosovo. During the reporting period, it had approximately 4 600 personnel.

## ANNEX II – STATISTICAL ANNEX

### STATISTICAL DATA (as of 5.10.2016)

#### Kosovo

| Basic data                                   | Note | 2003   | 2011   | 2012   | 2013   | 2014   | 2015   |
|--|------|--------|--------|--------|--------|--------|--------|
| Population (thousand)                        | 1)   | 1 985  | 1 799b | 1 816  | 1 821e | 1 805e | 1 772p |
| Total area of the country (km <sup>2</sup> ) |      | 10 887 | 10 887 | 10 887 | 10 887 | 10 887 | :      |

| National accounts  | Note | 2003 | 2011  | 2012  | 2013  | 2014  | 2015 |
|--|------|------|-------|-------|-------|-------|------|
| Gross domestic product (GDP) (million euro)  |      | :    | 4 815 | 5 059 | 5 327 | 5 568 | :    |
| GDP (euro per capita)  |      | :    | 2 700 | 2 800 | 2 900 | 3 100 | :    |
| 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 (%)  |      | :    | 4.4   | 2.8   | 3.4   | 1.2   | :    |
| Employment growth (national accounts data), relative to the previous year (%)                                      |      | :    | :     | :     | :     | :     | :    |
| Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%) |      | :    | :     | :     | :     | :     | :    |
| Unit labour cost growth, relative to the previous year (%)   |      | :    | :     | :     | :     | :     | :    |
| **3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)                                  |      | :    | :     | :     | :     | :     | :    |
| Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)     |      | :    | :     | :     | :     | :     | :    |
| Gross value added by main sectors  |      |      |       |       |       |       |      |
| Agriculture, forestry and fisheries (%)  |      | :    | 15.6  | 14.8  | 14.4  | 14.3  | :    |
| Industry (%)   |      | :    | 19.7  | 19.9  | 20.3  | 19.4  | :    |
| Construction (%)   |      | :    | 9.2   | 8.2   | 7.9   | 7.3   | :    |
| Services (%)   |      | :    | 55.5  | 57.1  | 57.4  | 59.0  | :    |
| Final consumption expenditure, as a share of GDP (%)   |      | :    | 103.4 | 105.2 | 104.0 | 105.2 | :    |
| Gross fixed capital formation, as a share of GDP (%)   |      | :    | 30.7  | 26.0  | 24.8  | 23.2  | :    |
| Changes in inventories, as a share of GDP (%)  |      | :    | 3.3   | 2.9   | 2.8   | 2.6   | :    |
| Exports of goods and services, relative to GDP (%)   |      | :    | 19.6  | 18.2  | 17.4  | 19.6  | :    |
| Imports of goods and services, relative to GDP (%)   |      | :    | 56.8  | 52.4  | 49.0  | 50.6  | :    |
| Gross fixed capital formation by the general government sector, as a percentage of GDP (%)                         |      | :    | :     | :     | :     | :     | :    |

| Business   | Note | 2003 | 2011   | 2012   | 2013   | 2014   | 2015   |
|--|------|------|--------|--------|--------|--------|--------|
| Industrial production volume index (2010 = 100)  |      | :    | :      | :      | :      | :      | :      |
| Number of active enterprises (number)  |      | :    | 35 897 | 36 886 | 34 235 | 34 962 | 39 815 |
| Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%) |      | :    | 12.7   | 9.4    | 8.5    | 9.0    | 11.7   |
| Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%) |      | :    | 4.7    | 5.5    | 4.4    | 6.6    | :      |
| People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)               |      | :    | 64.2   | 65.1   | 65.9   | 67.6   | 67.8   |
| Value added by SMEs (in the non-financial business economy) (EUR million)  |      | :    | :      | :      | :      | :      | :      |
| Total value added (in the non-financial business economy) (EUR million)  |      | :    | :      | :      | :      | :      | :      |

|                        |  |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|--|
| economy) (EUR million) |  |  |  |  |  |  |  |
|------------------------|--|--|--|--|--|--|--|

|  |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|
| <b>Inflation rate and house prices</b>                               | Note | 2003 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Consumer price index (CPI), change relative to the previous year (%) | 2)   | 1.3  | 7.3  | 2.5  | 1.8  | 0.4  | -0.5 |
| **Annual change in the deflated house price index (2010 = 100)       |      | :    | :    | :    | :    | :    | :    |

|  |       |      |        |        |        |        |        |
|--|-------|------|--------|--------|--------|--------|--------|
| <b>Balance of payments</b>   | Note  | 2003 | 2011   | 2012   | 2013   | 2014   | 2015   |
| Balance of payments: current account total (million euro)  | 3)    | -204 | -658   | -380   | -339   | -437   | -528   |
| Balance of payments current account: trade balance (million euro)  | 3)    | -941 | -2 047 | -2 050 | -1 996 | -2 059 | -2 109 |
| Balance of payments current account: net services (million euro)   | 3)    | -14  | 256    | 324    | 312    | 336    | 354    |
| Balance of payments current account: net income (million euro)   | 3)    | 152  | 111    | 154    | 122    | 114    | 78     |
| Balance of payments current account: net current transfers (million euro)                                  | 3)    | 599  | 1021   | 1193   | 1222   | 1172   | 1149   |
| of which government transfers (million euro)   | 3)    | 490  | 329    | 402    | 342    | 292    | 203    |
| **3 year backward moving average of the current account balance relative to GDP (%)                        | 3) 4) | :    | 12.0   | 11.4   | 9.5    | 7.3    | 7.2e   |
| **Five year change in share of world exports of goods and services (%)                                     |       | :    | :      | :      | :      | :      | :      |
| Net inward foreign direct investment (FDI) (million euro)  | 3)    | :    | 387.0  | 213.3  | 250.2  | 123.8  | 287.3  |
| Foreign direct investment (FDI) abroad (million euro)  | 3)    | :    | 5.0    | 15.8   | 30.0   | 27.3   | 37.1   |
| of which FDI of the reporting economy in the EU-28 countries (million euro)                                | 3)    | :    | 0.0    | 5.2    | 21.5   | 10.1   | 11.2   |
| Foreign direct investment (FDI) in the reporting economy (million euro)                                    | 3)    | :    | 392.0  | 229.1  | 280.2  | 151.2  | 324.4  |
| of which FDI of the EU-28 countries in the reporting economy (million euro)                                | 3)    | :    | 205.3  | 123.2  | 172.2  | 92.5   | 112.5  |
| **Net international investment position, relative to GDP (%)   | 3)    | :    | 2.9    | 5.0    | 7.0    | 5.5    | 2.8p   |
| Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%) | 3)    | :    | 0.1    | 3.6    | 2.5    | 11.7   | 8.5    |

|  |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|
| <b>Public finance</b>  | Note | 2003 | 2011 | 2012 | 2013 | 2014 | 2015 |
| ***General government deficit / surplus, relative to GDP (%) |      | 2.2e | :    | :    | :    | :    | :    |
| ***General government gross debt relative to GDP (%)         | 5)   | 0.0  | 5.3e | 8.3e | 9.0e | 10.5 | 12.8 |
| Total government revenues, as a percentage of GDP (%)        |      | :    | 27.1 | 30.4 | 26.8 | 26.3 | 29.6 |
| Total government expenditure, as a percentage of GDP (%)     |      | :    | 28.8 | 29.0 | 28.2 | 27.1 | 28.0 |

|  |      |       |       |       |       |       |       |
|--|------|-------|-------|-------|-------|-------|-------|
| <b>Financial indicators</b>  | Note | 2003  | 2011  | 2012  | 2013  | 2014  | 2015  |
| Gross foreign debt of the whole economy, relative to GDP (%)                               |      | :     | 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)                      |      | 891   | :     | :     | :     | :     | :     |
| Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)            |      | 1 111 | :     | :     | :     | :     | :     |
| Money supply: M3 (M2 plus marketable instruments, million euro)                            |      | :     | :     | :     | :     | :     | :     |
| Total credit by monetary financial institutions to residents (consolidated) (million euro) |      | 233   | 1 841 | 1 841 | 1 878 | 1 957 | 2 153 |

|  |    |   |       |       |       |       |     |
|--|----|---|-------|-------|-------|-------|-----|
| **Annual change in financial sector liabilities (%)  |    | : | :     | :     | :     | :     | :   |
| **Private credit flow, consolidated, relative to GDP (%)   |    | : | :     | :     | :     | :     | :   |
| **Private debt, consolidated, relative to GDP (%)  |    | : | :     | :     | :     | :     | :   |
| Interest rates: day-to-day money rate, per annum (%)   |    | : | :     | :     | :     | :     | :   |
| Lending interest rate (one year), per annum (%)  | 6) | : | 14.14 | 13.42 | 12.36 | 10.70 | :   |
| Deposit interest rate (one year), per annum (%)  | 6) | : | 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 (2010 = 100)  |    | : | :     | :     | :     | :     | :   |
| **3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100) |    | : | :     | :     | :     | :     | :   |
| Value of reserve assets (including gold) (million euro)  |    | : | 491   | 760   | 724   | 746   | 861 |

| <b>External trade in goods</b>  | Note | 2003 | 2011   | 2012   | 2013   | 2014   | 2015   |
|---|------|------|--------|--------|--------|--------|--------|
| Value of imports: all goods, all partners (million euro)                |      | :    | 2 437  | 2 462  | 2 421  | 2 538  | 2 635  |
| Value of exports: all goods, all partners (million euro)                |      | :    | 306    | 267    | 272    | 325    | 325    |
| Trade balance: all goods, all partners (million euro)                   |      | :    | -2 131 | -2 195 | -2 148 | -2 214 | -2 309 |
| Terms of trade (export price index / import price index * 100) (number) |      | :    | 97     | 87     | 97     | 107    | 107    |
| Share of exports to EU-28 countries in value of total exports (%)       |      | :    | 45.5   | 41.1   | 43.5   | 30.2   | 32.6   |
| Share of imports from EU-28 countries in value of total imports (%)     |      | :    | 41.5   | 42.6   | 44.7   | 42.6   | 42.2   |

| <b>Demography</b>  | Note | 2003 | 2011  | 2012 | 2013 | 2014  | 2015   |
|--|------|------|-------|------|------|-------|--------|
| Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants) |      | 12.8 | 11.4b | 11.3 | :    | 13.2e | 12.4be |
| Infant mortality rate deaths of children under one year of age (per thousand live births)                                  |      | 15.1 | 13.1  | 11.4 | :    | :     | :      |
| Life expectancy at birth: male (years)   |      | :    | :     | :    | :    | :     | :      |
| Life expectancy at birth: female (years)   |      | :    | :     | :    | :    | :     | :      |

| <b>Labour market</b>   | Note | 2003 | 2011 | 2012 | 2013 | 2014  | 2015 |
|--|------|------|------|------|------|-------|------|
| 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  | 42.8 |
| *Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)            |      | :    | :    | 29.7 | 33.0 | 31.3  | 29.1 |
| Male employment rate for persons aged 20–64 (%)  |      | :    | :    | 46.6 | 51.5 | 48.4  | 44.9 |
| Female employment rate for persons aged 20–64 (%)  |      | :    | :    | 12.4 | 14.9 | 14.5  | 13.2 |
| Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)             |      | 20.1 | :    | 25.8 | 30.8 | 29.8  | 27.2 |
| Employment by main sectors   |      |      |      |      |      |       |      |
| Agriculture, forestry and fisheries (%)  |      | 17.3 | :    | 4.6  | 5.9  | 2.6   | 2.3  |
| Industry (%)   |      | 15.4 | :    | 19.0 | 16.8 | 17.7  | 18.7 |
| Construction (%)   |      | 11.3 | :    | 9.5  | 11.4 | 10.9  | 9.5  |
| Services (%)   |      | 56.0 | :    | 65.0 | 64.1 | 67.2  | 68.3 |
| People employed in the public sector as a share of total employment, persons aged 20–64 (%)                            |      | :    | :    | 35.0 | 31.5 | 31.4s | 32.6 |
| People employed in the private sector as a share of total employment, persons aged 20–64 (%)                           |      | :    | :    | 65.0 | 68.5 | 68.6s | 67.4 |
| Unemployment rate: proportion of the labour force that is unemployed (%)   |      | 49.7 | :    | 30.9 | 30.0 | 35.3  | 32.9 |
| Male unemployment rate (%)   |      | 40.3 | :    | 28.1 | 26.9 | 33.1  | 31.8 |

|  |  |      |   |      |      |      |      |
|--|--|------|---|------|------|------|------|
| Female unemployment rate (%)   |  | 71.9 | : | 40.0 | 38.8 | 41.6 | 36.6 |
| Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)                      |  | 74.9 | : | 55.3 | 55.9 | 61.0 | 57.7 |
| Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%) |  | 21.2 | : | 18.5 | 20.7 | 26.1 | 23.8 |
| Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)  |  | :    | : | 43.9 | 37.3 | 44.0 | 45.5 |
| Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)               |  | :    | : | 12.8 | 13.4 | 17.1 | 17.4 |

|   |      |      |      |      |      |      |      |
|---|------|------|------|------|------|------|------|
| <b>Social cohesion</b>  | Note | 2003 | 2011 | 2012 | 2013 | 2014 | 2015 |
| 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  |      | :    | :    | :    | :    | :    | :    |
| 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 (%) |      | :    | :    | :    | :    | :    | :    |

|   |      |       |       |       |       |       |       |
|---|------|-------|-------|-------|-------|-------|-------|
| <b>Standard of living</b>   | Note | 2003  | 2011  | 2012  | 2013  | 2014  | 2015  |
| Number of passenger cars relative to population size (number per thousand population)             |      | :     | 111.2 | 111.3 | 124.7 | 160.1 | 193.0 |
| Number of mobile phone subscriptions relative to population size (number per thousand population) |      | 158.7 | 543.7 | 532.5 | :     | 487.8 | 464.3 |
| Mobile broadband penetration (per 100 inhabitants)  |      | :     | :     | :     | :     | :     | :     |
| Fixed broadband penetration (per 100 inhabitants)   |      | :     | :     | :     | :     | :     | :     |

|   |      |      |      |      |      |      |      |
|---|------|------|------|------|------|------|------|
| <b>Infrastructure</b>   | Note | 2003 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Density of railway network (lines in operation per thousand km <sup>2</sup> ) |      | :    | 30.6 | 30.6 | 30.6 | 30.6 | 30.6 |
| Length of motorways (kilometres)  |      | 0    | 38   | 60   | 80   | 80   | 80   |

|   |      |      |      |      |      |      |      |
|---|------|------|------|------|------|------|------|
| <b>Innovation and research</b>  | Note | 2003 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Public expenditure on education relative to GDP (%)                                     |      | :    | 4.1  | 4.0  | :    | 4.4  | :    |
| *Gross domestic expenditure on R&D relative to GDP (%)                                  |      | :    | :    | :    | :    | :    | :    |
| Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%) |      | :    | :    | :    | :    | :    | :    |
| Percentage of households who have internet access at home (%)                           |      | :    | 57   | :    | :    | :    | :    |

|   |      |      |       |       |       |       |      |
|---|------|------|-------|-------|-------|-------|------|
| <b>Environment</b>  | Note | 2003 | 2011  | 2012  | 2013  | 2014  | 2015 |
| *Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)                       |      | :    | :     | :     | :     | :     | :    |
| Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices) |      | :    | 553.2 | 504.7 | 473.5 | 432.2 | :    |
| Electricity generated from renewable sources relative to gross electricity consumption (%)        |      | :    | :     | :     | :     | :     | :    |
| Road share of inland freight transport (based on tonne-km) (%)                                    |      | :    | :     | :     | :     | :     | :    |

|  |      |       |       |       |       |       |      |
|--|------|-------|-------|-------|-------|-------|------|
| <b>Energy</b>  | Note | 2003  | 2011  | 2012  | 2013  | 2014  | 2015 |
| Primary production of all energy products (thousand TOE)   |      | 1 407 | 1 795 | 1 749 | 1 792 | 1 605 | :    |
| Primary production of crude oil (thousand TOE)             |      | :     | :     | :     | :     | :     | :    |
| Primary production of hard coal and lignite (thousand TOE) |      | 1 236 | 1 545 | 1 496 | 1 532 | 1 342 | :    |

|   |  |       |       |       |       |       |     |
|---|--|-------|-------|-------|-------|-------|-----|
| TOE)  |  |       |       |       |       |       |     |
| Primary production of natural gas (thousand TOE)  |  | :     | :     | :     | :     | :     | :   |
| Net imports of all energy products (thousand TOE) |  | 534   | 700   | 650   | 506   | 523   | :   |
| Gross inland energy consumption (thousand TOE)    |  | 1 998 | 2 542 | 2 384 | 2 314 | 2 138 | :   |
| Electricity generation (thousand GWh)             |  | 3.2   | 5.7   | 5.9   | 6.2   | 5.3   | 5.9 |

| <b>Agriculture</b>  | Note  | 2003 | 2011 | 2012 | 2013 | 2014  | 2015 |
|---|-------|------|------|------|------|-------|------|
| Agricultural production volume index of goods and services (at producer prices) (previous year = 100) |       | :    | :    | :    | :    | :     | :    |
| Utilised agricultural area (thousand hectares)  | 7) 8) | :    | 243e | 276  | 295  | 414be | 421p |
| Livestock numbers: live bovine animals (thousand heads, end of period)                                | 8)    | :    | 362e | 314  | 321  | 270e  | 259  |
| Livestock numbers: live swine (thousand heads, end of period)   | 8)    | :    | 51e  | 56   | 49   | 44e   | 41   |
| Livestock numbers: live sheep and live goats (thousand heads, end of period)                          | 8)    | :    | 247e | 123  | 160  | 233e  | 218  |
| Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)                   |       | :    | :    | :    | :    | :     | :    |
| Harvested crop production: cereals (including rice) (thousand tonnes)                                 | 8)    | :    | 435e | 442  | 540  | 464e  | 444  |
| Harvested crop production: sugar beet (thousand tonnes)   |       | :    | :    | :    | :    | 0     | :    |
| Harvested crop production: vegetables (thousand tonnes)   | 8)    | :    | 247e | 117  | 185  | 202e  | 146  |

: = not available

b = break in series

e = estimate

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) Since January 2015 consumer price indices (CPI) are harmonised and are published as harmonised indices of consumer prices (HICP).
- 3) 2011–15: based on balance of payments manual edition 6 (BPM6).
- 4) 2015: estimated for the first nine months of 2015.
- 5) 2011–15: the value of GDP is obtained from the Medium Term Expenditure Framework.
- 6) Includes disbursement fee charged by banks.
- 7) 2014 and 2015: including agriculture common land.
- 8) 2014: source of data is the 2014 agriculture census done in 34 (of 38) municipalities in Kosovo; data for the four non-participating municipalities in the north of Kosovo are estimated.