



EUROPEAN
COMMISSION

Brussels, 29.5.2019
SWD(2019) 216 final

COMMISSION STAFF WORKING DOCUMENT

Kosovo* 2019 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**

2019 Communication on EU Enlargement Policy

{COM(2019) 260 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

Table of Contents

1.	INTRODUCTION	3
1.1.	Context	3
1.2	Summary of the Report	3
2.	FUNDAMENTALS FIRST: POLITICAL CRITERIA AND THE RULE OF LAW	5
2.1	Functioning of democratic institutions and public administration reform	5
2.1.1	Democracy	5
2.1.2	Public administration reform	10
2.2	Rule of law and fundamental rights	14
2.2.1	Judiciary and fundamental rights	14
2.2.2	Justice, freedom and security	32
3.	FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT AND COMPETITIVENESS	44
3.1.	The existence of a functioning market economy	44
3.2.	The capacity to cope with competitive pressure and market forces within the Union	49
4.	GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION	52
5.	NORMALISATION OF RELATIONS BETWEEN KOSOVO AND SERBIA	54
6.	EUROPEAN STANDARDS	55
6.1	Free movement of goods	55
6.2	Movement of persons, services and right of establishment	57
6.3	Free movement of capital	58
6.4.	Financial services	59
6.5.	Customs	60
6.6	Taxation	61
6.7	Competition	62
6.8	Public Procurement	63
6.9	Company law	65
6.10	Intellectual property law	65
6.11	Social policy and employment	66
6.12	Consumer and health protection	69
6.13	Education and culture	71
6.14	Science and research	73
6.15	Trade issues	73
6.16	Enterprise and industrial policy	74
6.17	Agriculture	75
6.18	Food safety, veterinary and phytosanitary policy	76

6.19	Fisheries	77
6.20	Environment and climate change	78
6.21	Transport policy	80
6.22	Energy	81
6.23	Trans-European networks	83
6.24	Information society and media	84
6.25	Financial control	85
6.26	Statistics	87
ANNEX I – RELATIONS BETWEEN THE EU AND KOSOVO		90
ANNEX II – STATISTICAL ANNEX		92

1. INTRODUCTION

1.1. Context

The EU-Kosovo Stabilisation and Association Agreement (SAA) has been in force since April 2016. The European Reform Agenda (ERA), launched by the EU and Kosovo in November 2016, has continued to serve as a useful tool to guide the implementation of EU related reforms in the SAA context.

In July 2018, the Commission confirmed that Kosovo has fulfilled all visa liberalisation benchmarks endorsed by the Council. In March 2019, the European Parliament supported the Commission's proposal for visa liberalisation in its first reading. The proposal is pending in the Council and should be treated as a matter of urgency.

The overall domestic political context proved challenging during the reporting period. In November 2018, the Kosovo government imposed a 100% tariff on imports from Serbia and Bosnia and Herzegovina, on political and economic grounds. This economically counter-productive measure violates the Central European Free Trade Agreement (CEFTA) and is not in the spirit of the SAA. It has undermined successful regional cooperation efforts, notably the creation of a regional economic area (REA), and must be revoked.

1.2 Summary of the Report¹

As concerns the **political criteria**, Kosovo made progress in the implementation of certain key EU-related reforms, in particular as regards the improvement of the legal framework in the areas of rule of law and public administration. However, a number of measures and *ad hoc* decisions were not in line with the government's stated reform objectives. The excessive size of the government, including further increases in the number of deputy ministers, has continued to affect its credibility and effectiveness.

The Assembly was able to build majorities on some key strategic issues for Kosovo, as demonstrated by the ratification of the border/boundary demarcation agreement with Montenegro and the adoption of important EU-related legislative reforms. However, the Assembly continued to operate in a highly polarised political context, and weaknesses in its overall functioning remained, as demonstrated notably by the frequent lack of quorum, resulting in delays in the legislative activity.

There has been limited progress in addressing the EU election observation mission findings and recommendations regarding parliamentary and municipal elections held in 2017.

The situation in the north of Kosovo remains particularly challenging.

There is some level of preparation in the area of **public administration reform**. During the reporting period, some progress was made overall, however serious efforts are needed to tackle the political influence on recruitment of senior civil servants. There was good progress with the adoption of the package of laws on the functioning and organisation of public administration, on public officials and on salaries. Other achievements include the adoption of guidelines on strategic planning and the start of the implementation of the action plan on the rationalisation of agencies. The revised legal framework is an important step towards creating a modern and professional civil service and improving accountability. While the Law on Salaries introduces a more transparent and equal salary system for public officials, its medium-term budgetary impact raises concerns.

¹ This report covers the period from March 2018 to March 2019. 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.

Kosovo's **judicial system** is at an early stage. Some progress has been achieved as the Law on the Disciplinary Liability of Judges and Prosecutors and the Law on Mediation were adopted, and the roll out of an electronic case management system has advanced. The number of judicial staff in both prosecution offices and courts increased in 2018, including in the Special Prosecution Office. While the integration into the judicial system of Kosovo Serb judges, prosecutors and their support staff was formally concluded in 2017, more work is needed to ensure full functionality, in particular regarding the Court of Appeals. The judiciary is still vulnerable to undue political influence. The administration of justice remains slow and inefficient and rule of law institutions need sustained efforts to build up their capacities.

Kosovo is at an early stage/has some level of preparation in the **fight against corruption**. Kosovo has made some progress through significant legislative reforms in the rule of law area and in investigating and prosecuting of high-level cases. Progress was also made on preliminary confiscation of assets although final confiscations remain low. Corruption is widespread and remains an issue of concern.

Kosovo is at an early stage in the **fight against organised crime**. Some progress was made notably through significant legislative reforms in the rule of law area, in investigating and prosecuting high-level cases and on the preliminary freezing of assets. However, little progress was made on final confiscation of assets and there are still few financial investigations and final convictions. Measures are needed to strictly ensure there is no political interference with operational activities of law enforcement bodies and the prosecution. The situation in the north of Kosovo with regards to organised crime continues to pose challenges for law enforcement agencies.

Progress was made in the fight against terrorism, especially with regard to creating better conditions for rehabilitation and reintegration of foreign terrorist fighters and their families. The Kosovo authorities need to be more effective in their efforts to fight money laundering and the relevant law should be brought in line with EU *acquis* and international standards.

The legal framework broadly guarantees the protection of human and **fundamental rights** in line with European standards. However, the implementation of human rights legislation and strategies is often undermined by inadequate financial and other resources, particularly at local level, limited political prioritisation and lack of coordination. The existing mechanisms for coordination and implementation of human rights are ineffective. The large dependence on foreign donors remains. More needs to be done to effectively guarantee the rights of persons belonging to minorities, including Roma and Ashkali² and displaced persons, to ensure gender equality in practice, to set up an integrated child protection system and to advance the protection of cultural heritage. Kosovo has some level of preparation regarding **freedom of expression**, which is enshrined in the Constitution. Kosovo benefits from a pluralistic and lively media environment. Rule of law institutions increasingly follow up on threats and attacks against journalists and there is a decrease in the number of incidents. A sustainable solution for the funding of the public broadcaster remains to be adopted. The broadcaster remains vulnerable to political pressure and influence.

As regards the **economic criteria**, Kosovo is at an early stage and has made some progress in developing a functioning market economy. Economic growth was robust but the very challenging labour market situation remains a concern. The government adhered to the fiscal rules, but spending pressures relating to social benefits for specific groups of the population and public employees' wages pose risks to public finances and hinder private sector

² In line with the terminology of European institutions, the umbrella term 'Roma' is used here to refer to a number of different groups, without denying the specificities of these groups.

development. The business environment improved somewhat, but persistent challenges remain, including the widespread informal economy, a slow and inefficient judiciary, high prevalence of corruption and overall weak rule of law institutions. Despite strong growth of services exports, economic diversification has advanced slowly.

Kosovo is at an early stage and has made some progress regarding its capacity to cope with competitive pressure and market forces in the EU. Kosovo made some progress in improving roads, but there are large gaps in the railway and energy infrastructure. Little progress was made in securing a stable energy supply and losses in the electricity sector remain very high. Kosovo made some progress as regards the digitalisation of the economy. Little progress was made on improving the quality of education and addressing skills gaps in the labour market. Structural changes are emerging only slowly and the economy remains highly reliant on the domestic trade sector. Export growth is driven mainly by service exports to the diaspora, while the lack of product diversification hinders the growth of goods exports.

As regards **good neighbourly relations and regional cooperation**, Kosovo continued to participate in most regional fora. However, Kosovo's decision to impose a 100% tariff on imports from Serbia and Bosnia and Herzegovina has undermined regional cooperation efforts.

Regarding the **normalisation of relations with Serbia**, Kosovo has remained engaged in the dialogue. However, the Kosovo government needs to revoke the tariffs on imports from Serbia and Bosnia and Herzegovina. Kosovo needs to make further substantial efforts to establish a conducive environment to the conclusion of a legally binding agreement with Serbia. Such an agreement is urgent and crucial so that Kosovo and Serbia can advance on their respective European paths.

As regards alignment with **European standards**, Kosovo has some level of preparation. Legislative alignment has continued in some areas but implementation is weak. Some progress was made in the area of free movement of goods, services and capital, as well as on financial services, public procurement and competition. Good progress was made in the areas of statistics and financial control. In the area of taxation and customs, some progress was made in collecting tax revenues, reducing the grey economy, or enforcing customs measures for the protection of intellectual property rights, however Kosovo should step up the fight against the informal economy and tax evasion. Some progress has been achieved to address environmental issues, but implementation is lagging behind. The energy sector continues to face serious challenges, despite some progress especially on energy efficiency. Overall, Kosovo needs to improve its administrative capacity and coordination, across all sectors, to ensure effective implementation of the *acquis*.

Authorities have made progress in managing regular and irregular **migration**. These efforts should be continued and built on. In this context, Kosovo needs to put in place a return mechanism for irregular migrants in line with EU standards and practices.

2. FUNDAMENTALS FIRST: POLITICAL CRITERIA AND THE RULE OF LAW

2.1 Functioning of democratic institutions and public administration reform

2.1.1 Democracy

Domestic politics in Kosovo remained highly polarised during the reporting period. The Assembly was more active on EU-related legislation, but weaknesses remained in its overall functioning. Kosovo made substantive progress on certain key EU-related reforms, for instance as regards improving the legal framework in the areas of the rule of law and public administration. However, the authorities took a number of decisions that are not in line with the government's stated reform objectives.

Elections

Kosovo's electoral framework needs to be strengthened by effectively addressing long-standing weaknesses throughout the electoral cycle. Most of the recommendations made following the EU electoral observation missions in 2014 and 2017 have still not been addressed. The revised legal framework on political party and campaign finances needs to be in line with Venice Commission recommendations.

Following early parliamentary and regular mayoral and municipal elections in 2017, little progress has been made in strengthening the electoral process, in line with the recommendations of the EU electoral observation missions (EOMs). Allegations of intimidation in Kosovo Serb municipalities during the 2017 elections have not been adequately addressed or investigated.

Long-standing weaknesses include the lack of effective oversight and enforcement of political party and campaign finance, underrepresentation of women in political party structures and elected office, deficient electoral dispute mechanisms, voter list inaccuracies and a largely defective voting scheme for residents abroad. Kosovo institutions need to take action to address these challenges, in line with the EOM recommendations and in close collaboration with partners. The joint initiative taken by the Kosovo Assembly caucus leaders in April 2019 to improve and strengthen the electoral process, and the decision of the Assembly to establish an *ad hoc* parliamentary committee on this matter, involving local and international experts and stakeholders, are welcome steps. Reforms of party and campaign financing, based on a legal opinion of the Venice Commission, are currently under consideration in the Assembly. The Venice Commission recommendations need to be reflected in any revised legislation.

The Central Election Commission (CEC) members, except the CEC president, have not been appointed between March 2018 and March 2019. In March 2019, the President finally appointed eight out of the ten members, enabling the CEC to reach quorum, but disagreements between political parties persist on their representation in the CEC. This situation should be resolved as soon as possible. The CEC, and in particular its Political Party Registration and Certification Office, needs to strengthen its capacities significantly to ensure the effective enforcement of rules governing political party and campaign finances.

In November 2018, the mayors of the four Serb-majority municipalities in the north of Kosovo resigned in reaction to the government's decision to impose a 100% tariff on imports from Serbia. Subsequently, extraordinary mayoral elections took place in those municipalities on 19 May 2019, in a calm atmosphere. In a context of restricted electoral competition, Srpska Lista was the only Kosovo Serb party to participate. Its candidates won in the four municipalities with over 90%.

Parliament

The Assembly continued to operate in a highly polarised political context. Together with continuing weaknesses relating to the rules of procedure and planning of sessions, this led to delays in legislative activity. Nevertheless, the Assembly was able to build majorities on certain key strategic issues for Kosovo, such as the ratification of the border/boundary demarcation agreement with Montenegro and the adoption of several major EU-related legislative reforms.

During the reporting period, the proper functioning of the Assembly was hampered by a polarised political context. The frequent absence of Assembly members, including partial boycotts, often resulted in a failure to achieve a quorum for decision-making and thus significant delays in legislative activity. In spite of this, the Assembly adopted a series of key

legislative EU-related reforms, notably on the rule of law and public administration. Likewise, it ratified several important international agreements, including the border/boundary demarcation agreement with Montenegro (March 2018), the Transport Community Treaty (October 2018) and agreements on Kosovo's participation in three EU programmes (Erasmus+, Citizens for Europe and Creative Europe) in September 2018.

Frequent violations of the Assembly rules of procedure persisted, exacerbating political tensions between the governing coalition and the opposition. Furthermore, a number of plenary sessions have not been concluded, resulting in a large backlog of agenda items. The Assembly needs to return to regular plenary sessions and respect the timing of the scheduled sessions, in line with the rules of procedure. In addition, it needs to improve its regulatory framework, including its rules of procedure. Out of the 91 laws adopted during the reporting period, only two were adopted by fast-track procedure. However, overall there is still a lack of substantive debate or stakeholder consultation on draft laws.

The reporting period saw changes in the political configuration of the Assembly. In March 2018, Srpska Lista parliamentarians withdrew their support for the governing coalition, resulting in the government losing its parliamentary majority. In May 2018, a new Social Democratic Party (PSD) caucus was created by 12 parliamentarians who were formerly in the Vetëvendosje caucus.

Kosovo has a mandatory quota of 30% of Assembly seats reserved for women. In the current legislature, 38 of the 120 Assembly members are women, including two of the five Vice-Presidents.

Parliamentary **oversight of the executive** remains weak. Ministers often failed to report to the Assembly and the government often failed to answer parliamentary questions in a timely manner. Parliamentary committees continued consultations with relevant stakeholders, but improvements are required as regards early notification and follow-up. The Assembly administration needs to build up specialist expertise to lend more effective support to parliamentarians and Assembly committees.

The Assembly and the government should implement the recommendations following the review of the independent agencies, which was carried out to rationalise the number of agencies reporting to the Assembly (*See section 2.1.2 – Public administration reform*). These agencies do not report systematically to parliamentary committees. The current system does not ensure effective oversight of these agencies and undermines their independence from undue political or commercial influence. The Assembly failed to appoint professional board members for several independent institutions in a timely manner or on the basis of merit. It should make better use of the annual report of the **Office of the Auditor-General** to scrutinise government work. The Assembly's Committee of Oversight of Public Finances, which prepares recommendations for adoption by the Assembly, should also hold hearings of ministers. The parliamentary oversight of the Kosovo Security Forces and the Kosovo Intelligence Agency continues to be insufficient.

The **Ombudsperson Institution of Kosovo** continued to advance its mandate in promoting, protecting and upholding fundamental rights and freedoms for all and to strengthen its capacity to review cases. It remains the most trusted institution in Kosovo. Institutions' implementation of the Ombudsperson's recommendations has improved. **Political parties'** finances and campaign funding and expenditure continue to lack transparency and the relevant legislation, inter alia on legal limits and the transparency of donations, contributions and expenditure, remains largely unenforced. This undermines public trust in political parties and continues to expose the democratic process to significant risks of corruption and undue influence. A draft revised **Law on the financing of political entities**, prepared by the

government after consultation of the Venice Commission, is under consideration in the Assembly. The recommendations of the Venice Commission should be taken into account so as to ensure transparency, accountability and effective enforcement mechanisms. During the reporting period, the CEC and the competent law enforcement and judicial authorities failed to follow up the findings of external auditors from December 2017 confirming serious violations of the political party financing legislation and severe weaknesses in internal financial control by political entities. The CEC's Office for Political Parties Registration and Certification needs to be strengthened and given operational independence to ensure proper implementation of the legislative framework, including through better cooperation with the prosecution, tax authorities, the Anti-Corruption Agency and the Auditor-General.

Governance

The government demonstrated commitment to implementing some key European Reform Agenda (ERA) priorities, in particular on legislative reforms in the areas of the rule of law and public administration. However, at the same time it took a number of decisions that are either not in line or not in the spirit of Kosovo's reform obligations. The number of ministers, including deputy ministers, remains excessive. The government's overall achievements were overshadowed by its imposition of 100% tariffs on goods from Serbia and Bosnia and Herzegovina.

Important progress was made with the implementation of key commitments under the ERA, including legislative reforms in the areas of the rule of law and public administration reform. However, a number of ERA commitments have not been fully implemented yet, in particular in the areas of competitiveness, employment and education.

Moreover, a number of measures taken by the government over the reporting period were not in line with its states reform objectives, notably non-merit based recruitments and *ad hoc* decisions influenced by special interests.

The appointment as government advisor and then nomination as ambassador of a convicted war criminal was widely criticised. Moreover, the fact that the government includes a number of ministers who have been indicted for offences involving corruption and abuse of office is damaging for the government's image and its stated commitment to fight corruption and impunity at all levels.

The trend of appointing excessive numbers of deputy ministers, sometimes without clear attributions of roles, continued. There are currently around 80 deputy ministers. This continues to undermine the government's credibility, coherence and effectiveness.

Kosovo's updated 2018-22 programme for the implementation of the SAA serves as the main tool for planning, coordinating and monitoring EU-related reforms. Implementation of the SAA is proceeding, but much of the programme is lagging behind. A stronger focus on SAA implementation will be needed to ensure that Kosovo meets its contractual obligations and deadlines under the Agreement.

The Ministerial Council for European Integration (led by the Prime Minister) and the Working Committee for European Integration (led by the Minister for European Integration) meet at regular intervals to provide strategic guidance on EU-related reforms. The role of the Ministry of European Integration is crucial in ensuring effective coordination of and a strategic approach to EU-related reforms.

In the reporting period, a number of personnel changes took place in government. Of 21 ministers, 19 are men. Five ministerial posts continue to be held by minority representatives,

but the ministers belonging to Srpska Lista do not participate in government meetings and decision-making.

Efforts to improve the capacity and service delivery of **local government** have continued. However, the quality of public consultation at local level remains a concern. Women remain underrepresented in local decision-making positions. All 38 mayors of Kosovo municipalities are men. Of the 38 chairpersons of the municipal assemblies, 32 are men. However, efforts by the Ministry of Local Government Administration have led to some improvements. The proportion of director positions in municipal executive bodies held by women increased from 11% to 19%. In 31 of the 38 municipalities, remunerated positions of municipal assembly committees include an equal number of women and men, as required by the Law on gender equality. The Ministry of Local Government Administration has referred the six non-compliant municipalities to the Minister for Justice for legal action.

While local municipalities have been given more powers, their human and financial resources are often insufficient. Limited capacity and difficulties in enforcing laws, regulations, policies, and procedures impair the quality of delivery of municipal services. Excessive political influence over the local administration, together with weak municipal assembly oversight and budgetary powers, has a negative impact on local governance. A new Law on local finances is being prepared, addressing issues relating inter alia to budget allocations, arrangements for capital investments at the local level, the financial sustainability of small municipalities and a specific grant earmarking funding for social services.

Municipalities in the north of Kosovo complied with legislation on the adoption of the 2018 municipal budgets. Inconsistencies in population figures persist and it is important that the municipalities participate in the next planned Kosovo-wide census.

Civil society

Further progress was made in improving cooperation between civil society and the central government. The adoption of a new Law on Freedom of Association in Non-Governmental Organizations (NGOs), in line with best international standards and practices, was an important step forward. The publication of a first government report on public funding of non-governmental organisations resulted in more transparency. More efforts are needed to ensure meaningful involvement and cooperation also at local level. Civil society monitoring of, advocacy for and close engagement in European reforms remains key to Kosovo's progress on its European path.

Kosovo's civil society needs to continue, and be further enabled, to play an important role in the democratic debate and in the design and implementation of public policy.

The Assembly finally adopted in April 2019 a new Law on Freedom of Association in Non-Governmental Organisations, which improves the legal protection of NGOs, in line with best international standards and practices. This law reversed contentious amendments adopted by the Assembly in November 2018.

In October 2018, a sectoral risk assessment for money laundering and anti-terrorism in the NGO sector was concluded by Kosovo's Financial Intelligence Unit, in consultation with a number of civil society organisations.

With some delay, a new 2019-22 strategy for structured cooperation between the Kosovo government and civil society is being prepared. The new strategic priorities aim to broaden participation in community-based NGOs and secure the sustainability of the organisations.

Public consultations by the government are improving, including through an increased use of online public consultation. For the first time, an annual report on the government's public

consultations was produced in May 2018. However, some public bodies still have limited capacities to implement their legal consultation obligations. Institutions should step up their efforts to provide more consistent and meaningful feedback to input received and to broaden the consultation tools used to reach a wider audience in effective ways. There is ongoing work to introduce public consultation standards also at municipal level.

There is still a need for systematic transparency in the disbursement of public funds to NGOs. While several ministries and municipalities have, for the first time, conducted open calls in accordance with legal requirements, too many ministries and municipalities still lack the capacity to fulfil new requirements. The publication of an annual government report on public funding is a good practice, but the report needs to be more detailed. Further efforts are needed to address the risks of conflicts of interest and strengthen professionalism and integrity within evaluation commissions deciding on grants to NGOs. The legal framework for tax deductions for donations remains ambiguous.

2.1.2 Public administration reform

Kosovo has achieved **some level of preparation** in the reform of its public administration. **Some progress** was made overall, while there was good progress with the adoption of the package of laws on the functioning and organisation of public administration, on public officials and on salaries. Also, the government adopted guidance on strategic planning, and started implementing the action plan on the rationalisation of agencies. While the new Law on Salaries introduces a more transparent salary system for public officials, its medium-term budgetary impact raises concerns. The government needs to ensure efficient implementation of the new legislation. A new regulation on the procedures for recruitment to senior management positions in the civil service was introduced. However, political influence on recruitments to senior civil service positions and non-merit-based recruitments remain issues of serious concern. *Ad hoc* policy-making, in many cases influenced by special interests, is an obstacle for inclusive and evidence-based policy-making. Delays in the adoption of special laws in line with the Law on General Administrative Procedures continue to cause legal uncertainty for citizens and businesses, hence the Commission's recommendation from 2018 on this issue remains valid. Overall, weak central and inter-ministerial coordination hampers the implementation of these cross-cutting reforms.

In the coming year, Kosovo should in particular:

- adopt all necessary secondary legislation and start effectively implementing the laws on public officials, salaries and the organisation and functioning of the public administration;
- increase accountability in the public sector by implementing the action plan on the rationalisation of agencies and creating a clear framework for managerial accountability and the delegation of responsibilities in public institutions;
- align contradictory special laws with the Law on General Administrative Procedures and address the current backlog of administrative court cases;
- ensure full respect for merit-based recruitment and dismissal of public officials, especially senior management.

Strategic framework for public administration reform

Kosovo is implementing the three **public administration reform strategies** and the **public financial management reform strategy** for 2016-2020, supported by a number of more specific reform strategies. Implementation has experienced delays, due to the cross-cutting nature of the reforms and weaknesses in inter-ministerial coordination. The action plans have been revised to take greater account of the public administration capacities. The government

has continued to monitor implementation of the strategies and has published annual monitoring reports, which provide the basis for policy dialogue. However, an integrated monitoring and reporting framework for all related reforms has yet to be established. Civil society has participated actively in monitoring the government's reform efforts.

While public administration reform has enjoyed **political support** and the continuity provided by the Minister for Public Administration has been crucial, parallel political processes have undermined some of the reform efforts. The reform monitoring reports are neither actively discussed nor followed up at political level. Also, the Ministry of Finance still needs to become more involved in the overall coordination of reforms, especially because of the increased focus on managerial accountability (*See section 6.25 – Financial control*). **Financial sustainability** remains a concern, as reform measures rely heavily on the support of external donors. The annual budget allocations and provisions in the medium-term expenditure framework remain lower than planned in the strategies.

Policy development and coordination

The **policy-making system**, including for EU-related reforms, is in place, but there are weaknesses. The government has started to address them by adopting a new administrative instruction on strategy planning, development and monitoring in April 2018 and issuing practical guidance in January 2019. These unified requirements aim to improve the quality of sector strategies and address overlaps, over-ambitious planning and poor financial planning as well as ensure regular monitoring and reporting. The Prime Minister's Office has now to ensure a strong quality control and monitoring function to follow up on implementation.

Some aspects of **inclusive and evidence-based policy and legislative development** are in place. Regulatory and budgetary impact assessments and EU *acquis* alignment opinions, though formally required for draft laws, are not systematically reflected in adopted government decisions. *Ad hoc* policy-making, in many cases influenced by special interests, seriously hampers inclusive and evidence-based policy-making. Administrative data collection and its systematic use for policy-making needs to improve substantially across the administration. **Public consultations** are organised more regularly, thanks to the minimum standards for such consultations. In 2018, more than 50% of all primary policy documents and draft laws were published for consultation on the web portal; this represents a substantial increase since 2017. As the response rate from civil society and the public remains relatively low, the government is making efforts to promote the use of the web-portal.

Public scrutiny of government work is expected to improve with the new requirement of line institutions to publish annual monitoring reports on the implementation of their strategy documents. Also, in line with the action plan in the open data readiness assessment, the government should make more datasets available on its open data platform. Civil society should be more systematically involved in the design, monitoring and evaluation of government plans and programmes. Parliamentary scrutiny of the government remains inadequate (*See section 2.1.1 – Democracy*).

Public financial management

The public financial management (PFM) reform strategy underwent a mid-term review in 2018, but this did not give rise to new priorities. The four pillars (fiscal discipline, allocation efficiency, operational efficiency and cross-cutting issues) and 12 priorities remain the same, but some activities and indicators were adjusted to current priorities. The strategy is complemented by the 2017-2021 National Public Procurement Strategy, adopted in January 2017, and the 2015-2019 Public Internal Financial Control Strategy (PIFC), adopted in 2015.

The fiscal ceilings on debt-to-GDP ratio, the fiscal deficit, the public sector wage bill and the bank balance were all observed over the reporting period. However, concerns about fiscal discipline have grown and the annual budget still lacks a degree of credibility. For example, there was considerable overspending on certain budget lines (such as social expenses). Payment arrears also remain problematic. Revenues in 2018 increased slightly compared to 2017. The government budget deficit (under the fiscal rule definition) stood at 1.0% of GDP in 2018, compared to 0.9% in 2017. By the end of 2018, the public debt stood at 17.1% of GDP, slightly higher than in 2017. The government's investment planning and management capacity needs to be further strengthened.

To enhance **budget transparency**, the Ministry of Finance launched a new 'transparency portal' that contains budgetary information regarding central and municipal-level institutions in a more user-friendly and computer readable format. In addition, the government continues to publish the citizen-friendly budget. However, the available IT systems in the Ministry of Finance and related bodies need to be looked at further to ensure that they provide better integrated real-time information on public revenue and expenditure.

Public service and human resource management

The legal framework for the **merit-based recruitment, promotion and dismissal**, and the **remuneration** of civil servants has improved following the adoption of a Law on Public Officials and a Law on Salaries in February 2019. For the first time, different categories of public officials are clearly defined and a coherent and transparent salary system is set out in law. However, the fiscal impact of the new Law on Salaries is a concern that needs to be addressed (*See section 3 – Economic development and competitiveness*). The government needs to now adopt the necessary secondary legislation and ensure efficient implementation of the new legislation across the administration.

Kosovo adopted a new regulation regulating the procedures for recruitment of senior civil servants. However, political influence over appointments and dismissals, especially for **senior management**, has continued to be a serious concern, and should be addressed under the new Law on Public Officials. In the reporting period, several recruitment processes for senior positions in ministries and agencies raised concerns as they did not respect the principles of transparent and merit based recruitment. Non-majority communities remain underrepresented in central public institutions. Women remain severely underrepresented in senior positions in the civil service. The Independent Civil Service Oversight Board, the autonomous appeals body tasked with ensuring compliance with applicable civil service legislation, has acquired additional powers through legal amendments passed by the Assembly.

The Ministry of Public Administration, notably by establishing the Department for the Management of Public Officials, needs to further enhance its own institutional capacities for central coordination of **human resources management** in Kosovo administration. Also, line institutions' human resources management units need to be enhanced before the new public administration laws enter into force. A human resource management information system is established, but not all modules are operational and interoperability with the payroll system is not yet established.

The **professional development** of civil servants continues to be an issue, as the Kosovo Institute for Public Administration does not have the budget and capacity to provide the requisite training. Performance appraisals continue to have little impact on career development.

While measures such as integrity plans are in place to promote **integrity in the public service**, they are not systematically implemented across the administration. A new Law on

Conflict of Interest was adopted in April 2018. Whistle-blower protection has also been strengthened through a new law adopted in November 2018. Annual reports are now published on disciplinary measures against civil servants. The Assembly adopted legislative amendments that enable the removal of the public officials convicted for corruption-related criminal offences (*See section on the fight against corruption*).

Accountability of the administration

Kosovo has demonstrated commitment for more effective **lines of accountability**. Following the letter of commitment signed by the Prime Minister and the Speaker of the Assembly in March 2018, the government adopted an action plan on the rationalisation of agencies in June 2018 and has started to implement it. Progress has been made on the first phase of the rationalisation of agencies. A new Law on the Organisation and Functioning of Public Administration and Independent Agencies was adopted in February 2019. It introduces a typology of executive agencies and regulatory bodies, and clarifies organisational, administrative, budgetary and decision-making autonomy, and supervision requirements for such bodies. However, Kosovo should make considerable further efforts to implement managerial accountability and to delegate decision-making responsibilities in the public administration (*see section 6.25 – Financial control*).

The independent oversight institutions, especially the Ombudsperson and the Kosovo National Audit Office, continue to address the **citizens' right to good administration**. The government should ensure more efficient follow-up to implementation of their recommendations. The draft Law on Access to Public Documents should be adopted to ensure the **right to access public information**. Kosovo should increase judicial capacity to strengthen the **citizens' right to administrative justice**. The Basic Court in Pristina has continued to accumulate a backlog of administrative cases, especially since the new Law on Minor Offences came into effect in January 2017. The backlog increased from 1,390 cases in 2017 to 1,511 in 2018. The liability of public authorities in cases of wrongdoing and the **right to seek compensation** are affected by fragmented legislation. No data are collected to monitor implementation.

Service delivery to citizens and businesses

While the government promotes a **user-oriented administration**, there are weaknesses in the leadership, policy directions and coordination of the overall reform process. Many institutions continue to implement their own solutions alongside the central electronic identification (eID) tools that are being developed. Collection of citizens' and businesses' feedback on the quality of service delivery still needs to be systematically developed. An interoperability platform exists and is now functional but the quality of registered data needs to improve for the platform to be useful. While legislation on equal access to services is in place, it is not systematically applied.

Kosovo has made some progress on the **simplification of administrative procedures** since the entry into force of the Law on General Administrative Procedures in June 2017. An inventory of laws with special administrative procedures now exists, but only limited progress has been made on aligning the sector laws with the new law. Considerable efforts are needed to inform and educate the administration and the general public on obligations and rights under the new law. Training courses for officials have started. Kosovo should also focus on developing a clear policy on digitalisation of administrative services.

2.2 Rule of law and fundamental rights

2.2.1 Judiciary and fundamental rights

Kosovo is at **an early stage** in/has **some level of preparation** for applying the *acquis* and the European standards in this area. **Some progress** has been made, including in the investigation and prosecution of some high-level corruption cases. However, corruption is widespread and remains an issue of concern. The adoption of several pieces of legislation that are important for the functioning of the judiciary and the fight against corruption marked a significant step forward and these now require robust implementation. As regards fundamental rights, implementation of the relevant laws and strategies continues to be undermined by inadequate financial and other resources, and a lack of political prioritisation and coordination.

Functioning of the judiciary

Kosovo is at an **early stage** in developing a well-functioning judicial system. **Some progress** was achieved in 2018. As regards last year's recommendations, the Law on the disciplinary liability of judges and prosecutors and the Law on mediation were adopted and the roll-out of an electronic case-management system has advanced. However, the process of amending the 2015 justice package (laws on the Judicial and Prosecutorial Councils and Courts), which started in 2017, has slowed down implementation of the 2015 laws. The number of judicial staff both in prosecution offices and in the courts increased in 2018, including in the Special Prosecution Office. While the integration into the judicial system of Kosovo Serb judges, prosecutors and their support staff was formally concluded in 2017, more work is needed to ensure full functionality, in particular regarding the Court of Appeals. With outstanding appointments finally made, the Constitutional Court is now fully constituted. Two ministerial initiatives aimed at improving various aspects of the judiciary (a functional review and the Justice 2020 agenda) are under way. There were cases of political interference in the judiciary, notably regarding a war veterans' pension scheme case. The administration of justice remains slow and inefficient, and rule of law institutions need sustained efforts to build up their capacities.

In the coming year, Kosovo should in particular:

- continue to strengthen the capacity of judges, prosecutors and support staff, and improve the court administration, in particular through an electronic case-management system consistently used in all courts and prosecution offices that should also perform random allocation of cases and provide reliable statistical data, in line with the European Commission for the Efficiency of Justice (CEPEJ) methodology;
- implement the new Law on the disciplinary liability of judges and prosecutors to strengthen accountability;
- step up efforts to reduce the backlog of cases, including by using alternative dispute resolution tools and in particular mediation, the use of which should be properly financed and promoted.

Strategic documents

Overall, there is slow progress in implementing the **2014-2019 strategic plan** of the Kosovo Judicial Council (KJC), its 2014-2019 communication strategy and the strategy for reducing the backlog of cases, an open-ended document adopted in 2013. The Kosovo Judicial Council and the Kosovo Prosecutorial Council (KPC) adopted annual plans setting out priorities for the Councils, courts and prosecution offices for 2018. Although the Prosecutorial Council progressed in the implementation of its strategic plan for 2016-2018, this was lagging behind.

Kosovo lacks a comprehensive strategy for justice sector reforms and a proper mechanism for inter-institutional coordination. There is insufficient coordination of donors by the Kosovo authorities. This leads to inefficiencies, incoherence and duplication of effort. The functional review of the rule of law sector is due to be finalised in September 2019 and should produce inter alia a rule of law sector strategy. In September 2018, the Ministry of Justice, in coordination with the Judicial and Prosecutorial Councils, launched the Justice 2020 agenda, detailing a number of concrete steps to improve the functioning of the judiciary in the short term.

Management bodies

The **Kosovo Judicial Council** and the **Kosovo Prosecutorial Council** are responsible for ensuring the independence and impartiality of the judiciary. Their composition and appointment procedures are broadly in line with European standards.

The Law on the Kosovo Judicial Council was amended to align with constitutional amendments in 2016 whereby the majority of its members are to be elected by their peers. The Council now needs to be fully constituted. It took steps to implement the new Laws on the Judicial Council, on courts and on the disciplinary liability of judges and prosecutors immediately after their adoption. The budget allocated to the Judicial and Prosecutorial Councils was further increased in the reporting period. The court statistics are still not easily accessible by the public and not reliable.

The formal process of integrating Kosovo Serb judges and prosecutors into the judicial system was concluded in 2017. Ensuring access to judicial proceedings in the Albanian and Serbian languages across Kosovo and the use of both languages in the work of the judicial bodies remains a challenge due to a lack of qualified translators. Laws are often poorly translated.

In August 2018, the President appointed five judges to the Constitutional Court, which now has a full complement of nine judges.

Independence and impartiality

The Regulation on internal organisation of courts provides for random **allocation of cases**. There are some concerns that it is not being consistently applied. High-profile and sensitive cases are not always processed in a timely manner.

Legal **safeguards** on independence and impartiality are enshrined in the Constitution and the legal framework. Judges cannot be transferred without their consent. The Councils should react more efficiently and actively in cases of alleged political interference in the judiciary such as with respect to the war veterans' pension scheme. The judiciary needs to be shielded effectively from undue pressure, political or otherwise.

The Judicial and Prosecutorial Councils are responsible for taking protective measures to secure the safety of judges and prosecutors. The technical aspects of protection are dealt with by the police. In the reporting period, three prosecutors were granted close protection due to threats they received for cases they were investigating.

Accountability

Codes of ethics are in place for judges, prosecutors and attorneys, but their effective implementation remains weak. The Prosecutorial Council adopted a new code of ethics in December 2018. The Judicial Council has made it mandatory for all judges to attend training on judicial ethics each year. In 2018, 88% of all judges received this training. **Disciplinary procedures** are in place, but they are subject to long delays and have proven inefficient. A new Law on the disciplinary liability of judges and prosecutors adopted in November 2018

provides for more robust and clear disciplinary mechanisms with rigorous deadlines and clear division of powers and responsibilities. The President may dismiss judges and prosecutors on a proposal from the Judicial and Prosecutorial Councils for a number of criminal and disciplinary offences. They are entitled to appeal.

In 2018, the Office of the Disciplinary Counsel submitted two cases against judges and seven cases against prosecutors to the Judicial and Prosecutorial Councils. The Councils imposed a number of disciplinary measures, but there were no dismissals.

Judges and prosecutors are obliged by law to **declare their assets** and gifts received, and to report any possible **conflict of interest** to the Anti-Corruption Agency. In 2018, with the exception of one prosecutor, they all submitted their **assets declarations** on time.

Professionalism and competence

The President **appoints judges and prosecutors** for an initial three-year term, following a proposal from the Judicial and Prosecutorial Councils respectively. So far, the President has followed all proposals. The Councils organise recruitment processes and entry exams for judges and prosecutors on the basis of merit-based criteria. In 2018, the Judicial Council recruited 37 new Basic Court judges (18 women, 19 men), including 7 from non-majority communities. The recruitment process was conducted in accordance with the existing legal framework. The Council needs to ensure that evaluation and verification have a clear legal basis and do not interfere in judges' private lives.

Merit-based performance criteria and an evaluation system are in place. The Councils are required to carry out **performance evaluations** for prosecutors and judges with a permanent mandate every three years. In 2018, the Prosecutorial Council evaluated 67 prosecutors and the Judicial Council 118 judges. The results of the evaluation (94% of prosecutors and 100% of judges with permanent mandates were rated 'good' or 'very good', and none 'insufficient') are in stark contrast to the public perception of prosecutors' and judges' performance. 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. A system has yet to be implemented whereby judges and prosecutors undergo effective and systematic evaluation based on clear criteria, with the results influencing their career progression.

Quality of justice

The Academy of Justice is responsible for delivering initial and in-service **training** for judges and prosecutors and their legal and administrative staff. The training is based on the annual training curricula jointly prepared by the Judicial and Prosecutorial Councils and the Academy following a comprehensive needs assessment. The Academy also provided a training programme for the Kosovo Serb judges and prosecutors who joined the judicial system in October 2017. Judges and prosecutors undergo an initial 12-month training programme following their appointment. The budget allocated to the Academy increased by more than 20% from 2017 to 2018. In-service training remains necessary, in particular in specialised areas such as economic crime, confiscation and public procurement, the new provisions of the revised Criminal Code (including on domestic violence and sexual harassment), and European Court of Human Rights case-law. Judicial education needs to play a more prominent role in the evaluation process.

Measures to ensure the consistency of **jurisprudence** need to be further strengthened. The new Law on courts aims to increase transparency by making it obligatory for all courts to publish their judgments on their websites within 60 days. A webportal is being set-up to make them all easily accessible and searchable. The Academy of Justice maintains a database

accessible to all judges and prosecutors; this includes applicable legislation, commentaries and other legal material.

Following the appointment of 37 judges in January 2019, there are 431 judges (140 women and 291 men) and 191 prosecutors (77 women and 114 men), with 24 judges and 10.6 prosecutors per 100 000 inhabitants. According to the Council of Europe's European Commission for the efficiency of justice (CEPEJ), the European average is 21 judges/11 prosecutors per 100 000 inhabitants. Kosovo has a low percentage of female judges and prosecutors in comparison to most other European countries.

The overall initially approved 2018 **budget for the judiciary** (including prosecution, courts, the Academy of Justice and the Correctional and Probation Service) was EUR 48.9 million in 2018 (up from EUR 46.4 million in 2017), or 2.35% of the general budget (2.32% in 2017). It was increased to EUR 54.7 million in the course of 2018.

E-justice tools remain underdeveloped and new IT systems in the various justice sector institutions are developed in a fragmented manner, without any overall strategy or coordinated monitoring. There is a tracking mechanism for high-level corruption and organised crime cases; this currently includes 47 cases. An electronic case-management information system was rolled out for criminal cases in five of the seven Kosovo courts and the piloting phase for civil cases in one of the courts was completed. Continued commitment is needed to ensure the system's systematic use and its timely implementation, including in Kosovo's largest court and prosecution office in Pristina, as well as in Mitrovica, in particular to obtain automatically reliable statistical data about the performance of the judiciary. Work on a central criminal records registry continues as planned, but more commitment from the courts is needed to ensure sustainability.

The **mediation system** has been operational since 2008. The new Law on mediation, which entered into force in September 2018, established a Chamber of Mediators and clearer, more robust mediation procedures. Of an initial seven regional mediation centres, only one is currently operational. However, seven mediation 'points' were established in basic courts and five in the basic prosecution offices. In 2018, 2,596 cases were solved by the 189 licensed mediators (67 women, 122 men), of whom 14 were from the Serb-majority municipalities. Public awareness of or familiarity with **alternative dispute resolution** tools remains low. However, several awareness-raising campaigns and training activities were conducted in 2018. The mediation system needs further strengthening through full implementation of the recently adopted Law and allocation of a sufficient budget.

Efficiency

Kosovo still needs to be more efficient in dealing with the **backlog of cases**. Courts face a high number of incoming criminal cases, most of which concern minor offences. The judicial system needs to ensure proper follow-up of all high-profile cases, including those handed over by the EU Rule of Law Mission in Kosovo (EULEX).

The efficiency of the judiciary is seriously hampered by shortcomings in criminal legislation. The Criminal Code and the Criminal Procedure Code were substantially revised in 2018 to address these issues. The Assembly adopted the revised Criminal Code in November 2018, but has yet to adopt the new Criminal Procedure Code. The low capacity and commitment of some judges to manage court proceedings, sanction the parties causing delays and ensure the presence of all parties at sessions lead to numerous postponements of hearings and unreasonably protracted criminal proceedings. These aspects and the Appellate Court's tendency to send cases for retrial to the basic courts contribute to a lengthy average **disposition time** (i.e. the average time taken from filing indictment to a judgment). These

delays in proceedings, in combination with a preference for detention over other restrictive measures, have led to cases of overly long detention. By far the highest number of complaints received by the Ombudsperson Institution in the reporting period concerned delays in judicial proceedings. Kosovo should consider introducing an effective judicial legal remedy to address delays in court proceedings, including compensation.

The organisation of courts and resource allocation rests with the court presidents and heads of prosecution offices. Where necessary, judges and prosecutors can be temporarily transferred. There is a need to improve strategic planning, which also requires more efforts to introduce reliable statistical systems for the judiciary based on CEPEJ standard indicators. The number of legal staff directly assisting judges and prosecutors is insufficient. The budget allocated for 2019 is insufficient to meet the requirements of the April 2018 Law on the state prosecutor and the November 2018 Law on courts to support every prosecutor/judge with one professional associate. The Prosecutorial and Judicial Councils plan to reach this target within three years. Once implemented, these provisions have the potential to improve significantly the efficiency of the system.

The reform of the enforcement system, with which Kosovo passed in 2014 from court enforcement to a combined system of private enforcement agents and courts, has been generally successful. The introduction of private enforcement agents has shortened procedures and raised the overall level of debt collection. The court run enforcement system still faces a considerable backlog. It needs to be ensured that enforcement agents have easy access to public registers pertaining to their work.

Domestic handling of war crime cases

The **war crimes** department in the Special Prosecution Office of Kosovo continues its work, but challenges persist. Its workload has continued to increase significantly due to the end of the criminal executive mandate of EULEX and handover of EULEX cases to local prosecutors. There is an acute need for more training, more staff and more translation capacity. Although the number of prosecutors in the department has increased from two to three, this remains too few to handle the workload. Mutual legal cooperation between Kosovo and Serbia is extremely limited in war crimes cases.

Significant concerns remain about the willingness to investigate, prosecute, judge and effectively enforce convictions in war crimes cases involving former Kosovo Liberation Army members. These concerns were further substantiated by the Kosovo judges' handling of the Drenica 1 and 2 war crimes cases following the handover of the majority on the benches in these cases from EULEX to local judges. Both cases were characterised by the use of highly contested procedures, with one being sent for re-trial and most of the defendants released. The Prime Minister appointed, as his political advisor, a convicted war criminal who had just been released from prison after serving two thirds of his sentence in the Drenica 1 case and while he was awaiting the retrial of Drenica 2. On a positive note, the Kosovo Prosecutorial Council finally adopted the Strategy on War Crimes in February 2019.

The Kosovo Specialist Chambers and Specialist Prosecutor's Office, established to investigate and prosecute allegations stemming from the 2011 Council of Europe Report, which alleges serious violations of international law, continued their work.

As from February 2018, victims can apply to the Government Commission on Recognition and Verification of the Status of Survivors of Sexual Violence during the Conflict for recognition and verification to receive individual benefits. By March 2019, close to 1,000 individuals had submitted applications, of which 301 have been accepted and 147 rejected. The timeframe of the relevant law excludes those who suffered conflict-related sexual

violence after 20 June 1999. Often, in addition to problems regarding access to justice, survivors of sexual violence also face societal stigma.

In April 2018, the President initiated the establishment of a Truth and Reconciliation Commission and appointed a preparatory team. The authorities need to develop a comprehensive approach to dealing with the past, linking the work on the Truth and Reconciliation Commission with the government's commitment to developing a strategy on dealing with the past and other transitional justice initiatives. These processes need to be locally and nationally owned, as well as inclusive and gender- and victim-sensitive. Kosovo maintained its engagement in the Coalition for the Commission Tasked with Establishing the Facts about All Victims of War Crimes and Other Serious Human Rights Violations Committed on the Territory of the Former Yugoslavia (RECOM).

Fight against corruption

Kosovo is at an **early stage/has some level of preparation** in the fight against corruption. In the reporting period, **some progress** was made through significant legislative reforms in the area of the rule of law, including the Criminal Code, on the investigation and prosecution of high-level cases and on the preliminary freezing of assets. Final confiscations of assets remain low.

Kosovo has partly followed the recommendations of the 2018 report, namely on the track record, the training and hiring of prosecutors, and on the adoption of legislative reforms. However, some of the recommendations remain valid, while others require robust follow-up in terms of their implementation. Overall, corruption is widespread and remains an issue of concern. There is a need for strong political will to effectively address corruption issues, as well as a robust criminal justice response to high-level corruption.

In the coming year, Kosovo should in particular:

- further 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 investigations, confiscate assets and effectively protect witnesses;
- prioritise the thorough implementation of the revised legislative framework in the area of the rule of law, including through training and awareness-raising, to make it an effective tool to combat corruption;
- ensure that the financial reports and campaign disclosure reports of political parties are consistently published and audited, and sanctions applied for violations of relevant laws. Amend the legal framework governing political party and campaign financing in line with the opinion of the Venice Commission, to ensure effective enforcement, accountability and transparency;
- ensure the adoption of the revised Criminal Procedure Code, including provisions on the suspension of public officials indicted for corruption.

Track record

As regards the work of the multidisciplinary team established in 2015 to coordinate efforts to deal with **high-level corruption cases and high-profile serious and organised crime**, the track record now amounts to a total of 51 cases. There have been 38 indictments so far, 27 related to corruption and 11 related to organised crime. In 9 cases, there has been a final ruling, with 5 ending in a (partially) guilty verdict, leading to 9 individuals being convicted of corruption-related offences (e.g. conflict of interest, trading in influence, abuse of official

position or authority). Assets worth approximately EUR 13.2 million have been frozen in these cases, with no assets finally confiscated. In July 2018, the European Commission confirmed that Kosovo had met the benchmark in its visa liberalisation roadmap to strengthen the track record in the fight against organised crime and corruption. These efforts should continue and the Commission will continue actively to monitor the further development of the track record.

The standard operating procedure regarding the track record cases should be revised in order to ensure that all high-level corruption and organised crime cases are covered by the Joint Team for the Selection and Targeting of Serious Crimes (beyond the cases prioritised for the visa liberalisation benchmark) in a comprehensive and overall track record.

The situation in the north of Kosovo with regard to corruption continues to pose particular challenges for law enforcement agencies.

Preliminary **asset confiscations** have increased, but final confiscations have dropped significantly. In 2018, the total value of assets preliminarily confiscated was slightly over EUR 28 million (compared to EUR 10.9 million in 2017), while the value of finally confiscated assets amounted to only EUR 49 394, as compared to EUR 700 000 in 2017. Proper implementation of the new legislation related to asset confiscation should lead to a significant increase in these numbers.

Since it was set up, the **Anti-Corruption Agency** has sent more than 700 cases to the prosecution, including more than 90 referrals in 2018. Of the 80 referrals in 2017, the prosecution has filed indictments in 8 cases, of which 4 are now on trial. The reports that the Agency submits to the prosecution need to be of better quality and the prosecution needs to improve its capacity and show more willingness to pursue cases related to corruption.

In 2018, 385 new cases of criminal offences against **official duty** involving 753 individuals were reported. There were 6 new cases related to corruption in **public procurement** and 421 new cases related to **economic crimes**. Overall, 325 allegations of **corruption** were received in 2018 and indictments were filed against 335 individuals. The courts found 79 individuals guilty.

98% of the 4,737 officials obliged to submit annual **declarations of assets** have done so in time in 2018 (only 86, less than 2%, failed to do so); out of 4819 officials obliged to submit them in 2019, 98.5% did so (only 64, less than 1.5%, failed to do so). The Agency has more than 100 cases under investigation for false declarations of assets. It still lacks tools and resources to verify asset declarations. These checks would require closer cooperation and the exchange of data with the police, the tax administration, the Financial Intelligence Unit, the land registry and municipal authorities. The establishment of an e-declaration system would simplify filing and monitoring, increase transparency and decrease human errors. The Anti-Corruption Agency has been proactive in ensuring that public officials from the north of Kosovo meet their obligations regarding the submission of asset declarations.

In 2018, the Agency handled more than 100 cases of **conflict of interest**, of which fewer than 5 were submitted for the minor offences procedure and 10 were sent to the prosecution service for criminal investigation, which solved 5 cases in the reporting period. In more than 30 cases, a conflict of interest was avoided.

The transparency and accountability of **funding for political parties and campaign financing** need to be strengthened. Reports of political parties' finances are still not consistently and fully published and the campaigns for the 2017 parliamentary and local elections have yet to be subjected to an external audit of campaign funding and expenditure. While independent audits of the political parties' finances from 2013 to 2016 were previously

carried out with significant delay, the audits for 2017 have yet to take place, with the selection of the auditors only being finalised at the start of 2019. The Central Election Commission (CEC) and other competent authorities, including the prosecution, should clarify their respective competencies, investigate potential cases and ensure that audit reports are followed up in line with the provisions and sanctions of the law. Political parties should submit their financial reports by the legal deadline, which should then be audited properly and in due time. By the end of the reporting period, the CEC had sanctioned only one political party for a delay in submitting its annual financial report.

Action plans have been developed following the assessments carried out previously to determine the risk of corruption due to weaknesses in the legal/institutional set-up in the health, education, energy and mining sectors, and in the public procurement, judicial and prosecution systems. Steps need to be taken to implement these action plans and effectively address corruption in these particularly prone sectors. There is still no policy to prevent corruption in the private sector.

Institutional framework

The anti-corruption institutions in Kosovo are not well integrated, their remits overlap and the division of tasks needs to be clarified. Kosovo needs to strengthen inter-institutional coordination mechanisms and bodies, and ensure that the institutions have access to the relevant databases.

Prevention measures

The main body for prevention remains the independent and specialised **Anti-Corruption Agency**. It is tasked with conducting administrative investigations, checking asset declarations, monitoring conflicts of interest and public procurement activities, and improving awareness. Other bodies with inspecting and auditing powers are the Auditor-General, the tax authorities, the customs authorities and the Financial Intelligence Unit.

Training must be provided for staff of the main anti-corruption bodies, especially on risk assessments. The Academy of Justice integrated an anti-corruption programme as part of its training curriculum, including training on prevention measures. There is a need to promote **integrity in the public service** as a tool to prevent corruption and ensure discipline. The Anti-Corruption Agency has worked on the design of integrity plans for five municipalities, along with international partners, on a voluntary basis.

Law enforcement

Kosovo has **specialised institutions** for fighting corruption: the National Coordinator against Economic Crime, the Anti-Corruption Coordinator appointed by the Chief State Prosecutor and the Police Directorate for the Investigation of Economic Crimes and Corruption, which maintains anti-corruption units at police stations and headquarters. Each basic prosecution office has an anti-corruption prosecutor, and two prosecutors are appointed by the head of the Special Prosecution Office to handle high-level corruption cases. The serious crime departments of the Kosovo Basic Courts have so far dealt with all corruption cases. Following the adoption of the new Law on courts in December 2018, special departments in the Basic Court of Pristina and the Court of Appeals will handle all cases of the Special Prosecution Office including corruption cases.

Investigations and indictments need to be of higher quality, and the presentation of cases before the courts needs to improve. The **Special Prosecution Office** does not have enough specialised staff with the required level of training and competence to deal with financial cases, including procurement cases. Joint, multidisciplinary in-service training on economic

crimes and corruption for police, prosecutors and judges remains necessary. The number of specialised prosecutors must be increased further, also in light of the handover of EULEX cases to local prosecutors. In order to facilitate this process, the amended Law on the State Prosecutor was adopted and entered into force in April 2018. Since then, 5 prosecutors were recruited to the Special Prosecution Office, bringing the total to 15 out of a planned number of 18.

Financial investigations are still not systematically launched in cases of corruption and organised crime. Kosovo needs to apply the concept of financial investigation in line with Financial Action Task Force (FATF) standards (*See section on organised crime*). The police, prosecutors and judges need continued specialised training on the confiscation of assets and money laundering. The Academy of Justice conducted seven specialised training courses for judges and prosecutors, focusing on public procurement and combating corruption, money laundering and cybercrime. However, the courses were badly attended.

Legal framework

Criminal law provisions on corruption are generally in line with relevant European standards. Kosovo is not a party to most international anti-corruption conventions, including the United Nations Convention against Corruption, due to status-related issues. However, it has made substantial efforts to align its legislation with these instruments.

The newly adopted **Criminal Code** amended several corruption-related provisions, including on corruption in the private sector. The Criminal Procedure Code was also substantially revised, and is under consideration in the Assembly. The codes include provisions requiring the suspension and removal of public officials respectively indicted for and convicted of corruption. The new **Law on extended powers of confiscation** constitutes a substantial improvement in the fight against corruption. It provides for simple and robust tools to confiscate assets, including those of which the origin cannot be explained (*see section on the fight against organised crime*). This law must now be implemented to bring results. In addition, the Law on the prevention of money laundering clearly stipulates that the predicate offence does not have to be proven to retain a conviction on money laundering before an asset can be confiscated. Prosecutors and judges should implement this in full.

The **Law on the prevention of conflicts of interest** was revised and adopted by the Assembly in April 2018 and should be fully implemented. Several high-level public officials still occupy two or more posts, in direct contravention of the Law's provisions. The **Law on State Prosecutor**, which facilitated an increase in the number of prosecutors in the Special Prosecution, was also revised and brought more into line with European standards.

At Kosovo's request, the Venice Commission issued an Opinion on the draft Law amending and supplementing the **Law on the financing of political entities** in June 2018. The review of the current legislation should take account of the recommendations of the Venice Commission and aim to ensure transparency, accountability and effective enforcement, including clearly defined sanctions.

Kosovo should also implement measures allowing the effective investigation of **inexplicable wealth**. There is still no efficient system in place for the **declaration, origin and control of the property of senior public officials** and the **declaration, origin and control of gifts for all official persons**. The amendments to the relevant legislation, together with the amendment to the Law on the Anti-Corruption Agency, should be drafted and finalised in order to give the Agency more robust powers to verify asset declarations and make the declaration system more effective in tackling graft. Kosovo has no specific legislation on **lobbying**. A new Law on the protection of **whistle-blowers**, adopted in November 2018, brings the legal framework

more into line with international standards. It will have to be aligned with the new EU *acquis* on this issue. Strengthened whistle-blowing mechanisms and protection requirements now need to be utilised in practice.

Kosovo will need to ensure proper budgeting, training and awareness-raising to effectively implement and enforce this revised legal framework.

Strategic framework

The **Anti-Corruption Strategy and Action Plan for 2018-22** were drafted after a consultation process and adopted by the government in March 2018, but they were not sent to the Assembly until October 2018 and have not yet been approved. Its implementation had been hampered by inadequate financing and a lack of measurable impact indicators. The government still needs to demonstrate genuine leadership, the ability to practise advance planning and a willingness to allocate adequate resources to the fight against corruption. A monitoring mechanism should be established to assess regularly the impact of the new Strategy and Action Plan.

Fundamental rights

The legal framework broadly guarantees the protection of human and fundamental rights in line with European standards. However, additional efforts are needed to enforce it. Implementation of human rights legislation and strategies is often undermined by inadequate financial and other resources (particularly at local level), limited political prioritisation and lack of coordination. The existing mechanisms for the coordination and implementation of human rights are ineffective. The heavy dependence on foreign donors remains.

As regards last year's recommendations, the Inter-Ministerial Coordination Group for Human Rights met twice in 2018, but its effectiveness remains questionable. A 2019-23 Strategy on Children's Rights was approved in January 2019. On cultural rights, after nearly two years of inactivity, the Implementation and Monitoring Council met regularly in 2018.

Much more needs to be done to address the recommendations of the 2018 report, which remain valid. In the coming year, Kosovo should in particular:

- reassess and strengthen the efficiency and effectiveness of the mechanisms for the coordination and implementation of human rights, including the rights of persons belonging to minorities and displaced persons;
- strengthen the implementation of the Law on gender equality, promote the representation of women in decision-making roles and advance the implementation of the strategy and action plan on protection against domestic violence;
- adopt the draft Law on child protection and ensure that it is duly implemented, ensure the sustainable funding and proper accountability of relevant institutions and actors, and the integration of the child protection systems at central and local level;
- advance the protection of cultural heritage by fully implementing and enforcing legislation on special protective zones and legislation addressing illegal construction. Adopt the Laws on cultural heritage and religious freedom and ensure the continued functioning of the Implementation and Monitoring Council;
- ensure the solid implementation of the strategy and action plan for the inclusion of Roma and Ashkali communities, including the allocated funding.

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 its legislation with these instruments and maintained its practice of ad hoc reporting.

On the **promotion and enforcement of human rights**, effective implementation of human rights legislation and of the numerous human rights-related strategies remains a challenge. There is no real coordinating mechanism for the implementation of these strategies. The overall Kosovo Human Rights Strategy has not yet been finalised, even though the process started in 2013. The Advisory Office for Good Governance (eight staff) lacks the necessary resources and capacity to fulfil its broad mandate, which includes overseeing, coordinating and drawing up policies in the areas of good governance, human rights, equal opportunities and anti-discrimination issues; coordinating the involvement of civil society in policy and decision-making; and monitoring the implementation of strategic documents on corruption.

The Inter-Ministerial Coordination Group for Human Rights rarely meets and neither takes decisions nor properly follows up on previous government commitments. As a result, there is no overall assessment of the human rights situation in Kosovo, no overall human rights policy and no coordination among stakeholders. Stronger political leadership is required to establish these. The role of the human rights officers in ministries and municipalities also needs to be strengthened. The Ombudsperson Institution acts as legal mechanism for the protection, supervision and promotion of fundamental rights and freedoms, as the National Preventive Mechanism against torture and as a mechanism of equality for promoting, monitoring and supporting equal treatment without discrimination. The Institution has further strengthened its capacity to review cases and continued its efforts to increase awareness on human rights issues. The positive trend in the implementation of its recommendations needs to be reinforced. In 2018, for the first time, the Assembly held a plenary session on the implementation of the Institution's recommendations. Its independence is supported by the fact that the Law on Ombudsperson allows for a reduction of its budget in comparison to the previous year only with approval by the Ombudsperson. It has nearly 80 staff who work as part of an internal structure reflecting the competencies of the Institution.

The arrest and subsequent forced **deportation of six Turkish nationals** legally residing in Kosovo in March 2018 raised serious concerns about the respect of due process. Following the operation, the Prime Minister demanded the resignation of the Minister of Internal Affairs and the head of the Kosovo Intelligence Agency. Since then, both the Ombudsperson Institution and the Kosovo Assembly investigation committee established to examine this issue have alleged multiple legal violations committed by Kosovo institutions. The Basic Court of Pristina has meanwhile annulled the initial decision revoking the residence permits (which was based on an alleged threat to national security) for three of the deportees.

On the **prevention of torture and ill treatment**, the situation remains broadly satisfactory and the Kosovo authorities have shown a sustained commitment to prevent such practices in all circumstances. There have been some complaints about the incorrect treatment of prisoners by correctional staff. The team of the National Preventive Mechanism against Torture in the Ombudsperson Institution regularly visits, without prior notice, all places of deprivation of liberty in Kosovo. However, in March 2018, the team was denied access to premises and documentation at the Pristina airport to verify whether six arrested Turkish nationals were held there. Kosovo should further strengthen ongoing efforts to provide adequate medical and psychological support and rehabilitation to all victims of torture and other ill-treatment in Kosovo. There are ongoing efforts to address the recommendations issued by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (see *prison system*).

The **prison system** continues to comply with the UN Standard Minimum Rules for the Treatment of Prisoners and European Prison Rules. Prison conditions vary widely among the different establishments of the Kosovo Correctional Service. Following the opening of a new detention centre in Pristina, more prisoners are now accommodated in adequate facilities. Plans to close old facilities have not yet materialised. Overcrowding is generally not a problem. There has been progress regarding general staffing levels in the Correctional Service and a number of senior positions have been filled. Meaningful activities for inmates such as work and other rehabilitative programmes remain rare. Progress has been made on the provision of healthcare in prisons, which has been fully transferred from the Ministry of Justice to the Ministry of Health. Progress can also be reported regarding the Prison Inspectorate, which has adopted a new working methodology based on the ‘Mandela rules’. Political pressure continued to affect decisions on the categorisation of prisoners. This allowed for preferential treatment of high-profile prisoners. The planned amendments to the Law on the execution of penal sanctions should not compromise the progress achieved with the previous amendments to prevent such preferential treatment. Alternative sanctions and measures are ordered mainly for juveniles (over 1,000 in 2018, see *child rights*). As regards adults, many judges and prosecutors are reluctant to impose alternative sanctions.

The new Law on **personal data protection** was adopted in February 2019 with the aim to align the legal framework with the EU General Data Protection Regulation and Law Enforcement Directive. This constitutes significant progress in the area of data protection. Implementation of this Law should now follow, beginning with the appointment of the commissioner and issuing/updating the necessary secondary legislation. A new Information and Privacy Agency will supervise the implementation of the legislation for personal data protection and access to public documents. The new Law on personal data protection provides for inspectors to carry out inspections on compliance.

Legal provisions on the **freedom of thought, conscience and religion** are in place and religious leaders of all faiths continue to interact. However, the draft Law amending and supplementing the Law on religious freedom still needs to be adopted and incorporate the recommendations made by the Venice Commission. The Serbian Orthodox seminary in Prizren continues to function well. The May 2016 final judgment by the Constitutional Court on the land dispute case involving the Visoki Dečani monastery and Dečan/Dečane municipality, which confirmed the monastery’s legal ownership of the land, remains unimplemented. Local resistance to the implementation of the judgement, including overt defiance by municipal officials, continues to raise concerns.

Freedom of expression

Kosovo **has some level of preparation** regarding freedom of expression, which is enshrined in the Constitution, and benefits from a pluralistic and lively media environment. There was **limited progress** in this area over the reporting period. The rule of law institutions have increased the follow-up to threats and attacks against journalists. The number of incidents has decreased. There are particular concerns regarding freedom of expression in the north of Kosovo, including self-censorship. In spite of some efforts by the Assembly, a sustainable solution for the funding of the public broadcaster remains to be adopted. The broadcaster remains vulnerable to political pressure and influence. The audio-visual sector in Kosovo is characterised by a lack of data and the existing legislation needs to be updated and implemented. There were no legislative developments on the regulation of media ownership and transparency.

In the coming year, Kosovo should in particular:

- further improve the cooperation within and response of the responsible institutions to physical attacks against journalists, and other forms of pressure;
- ensure sustainable funding for the public broadcaster in a manner which preserves its independence;
- review the Law on the Independent Media Commission to update its competences, including regarding the online audio-visual media services covered by the 2010 Audiovisual Media Services Directive;
- increase the availability of data on the audio-visual market, in particular as regards media ownership.

Intimidation of journalists

The number of threats and attacks against journalists has decreased. According to the Association of Journalists of Kosovo, 16 incidents were reported in 2018, down from 24 in 2017. There has been a more systematic response from rule of law authorities, with the help of coordinators in the police, prosecution and courts. However, 2018 saw only one indictment and three convictions regarding threats and attacks against journalists. Adjudication of cases remains generally slow.

Legislative environment

Freedom of expression and the media are constitutionally guaranteed and legislation on libel, hate speech and defamation is in line with European Court of Human Rights case-law. The Law on the Independent Media Commission led to the creation of an independent regulator and authorities have provided it with sufficient regulatory, monitoring and enforcement powers to ensure that internal and external media pluralism is safeguarded. However, such legislation does not cover media available online. The newly adopted whistle-blower legislation strengthens the protection of journalistic sources. The public's right to reply and correction remains unregulated. The new Law on access to public documents has not yet been adopted.

Implementation of legislation/institutions

The effective implementation of legislation remains a key challenge for the Kosovo audio-visual sector. The Independent Media Commission (IMC) has not carried out any market analysis in the last years and lags behind in initiating cases and implementing fines for legal breaches. The government has not approved IMC's draft strategy for the digital switchover. Newspapers and broadcasters who switched to the online world are no longer monitored. The Press Council follows the online press by reacting to complaints, but it does not have the necessary resources to carry out investigations or market analyses. The Independent Media Commission does not have the power to license and monitor audio-visual media services online (e.g. video on demand, catch-up TV and WebTV), which were already covered by the Audiovisual Media Services Directive adopted in 2010. Although this creates an unhindered environment for online media, it also undermines the privacy of individuals, leading to cases of alleged hate speech, libel and defamation. The right of access to public information is undermined by the authorities' fragmented implementation of relevant legislation. The government should be more actively involved in policy development in the media sector.

Public service broadcaster

The Assembly has drafted a new Law on the public broadcaster, including a potential solution for sustainable funding for Radio Television of Kosovo (RTK). To date, the broadcaster remains directly state-funded, with its budget determined annually by the Assembly. This undermines its independence, weakens its long-term sustainability and leaves it prone to political influence. Trade unions allege a lack of transparency in its recruitment procedures.

Economic factors

Media outlets are generally not economically sustainable. The lack of an audience measurement system and of a strong private advertising industry means that private broadcasters depend on other sources of funding and few are able to operate without strong links to political and business interest groups.

A lack of data is another big challenge for Kosovo: 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. There are no data on audiences or the distribution of advertising funds or funds provided to broadcasters by either central or local government. Consequently, there is neither transparency nor fair distribution of the sources of financing among the media outlets and no way of knowing whether they are concentrated in the hands of few people which could jeopardise freedom of expression.

Professional organisations and working conditions

Associations of journalists in Kosovo have been active in condemning incidents and threats against journalists. They have also increased their cooperation with the Kosovo Police and prosecution services on following up on these cases. However, their involvement in discussing legislative initiatives on media issues remains limited. Journalists' associations remain largely divided along ethnic lines and are considered weak. Journalists often work without contracts, which makes them vulnerable to corruption and prone to self-censorship.

(See also Chapter 10 - Information society and media)

Freedom of assembly and association is guaranteed by the Constitution and people in Kosovo have been making use of their rights by demonstrating and protesting against the government at different levels. Individuals and legal entities have the right to establish an association without having to register it, but most organisations decide to register in order to secure legal personality.

Issues of **labour and trade union rights** are further covered in *Chapter 19 - Social policy and employment*.

On **property rights**, the legislative and institutional framework governing the resolution of conflict-related property claims is adequate overall, but further improvement is needed in certain critical areas to ensure that property rights are fully realised. Despite the allocation of funds for the compensation scheme, no owners of former socially owned residential property affected by the conflict have been compensated yet. Another challenging issue is the illegal re-occupation of properties, as the Kosovo Property Comparison and Verification Agency has no authority to act on re-occupation following a second eviction. The government has adopted an amending law to allow the Agency to carry out multiple evictions and it is awaiting adoption by the Assembly. There are also concerns about fraudulent property transactions and illegal transfers of ownership of properties mainly belonging to displaced persons. Constitutional Court decisions on property cases must be fully observed and swiftly

implemented. On a positive note, the Law on property taxes was adopted; it stipulates that those whose property has been illegally possessed are exempt from taxes accrued during the period of illegal possession. Some progress has been made on the issue of 350,000 constructions built without a permit, through amendments to the Law on the treatment of constructions without permit. The proof of ownership required by the amended Law should help to protect the property rights of displaced persons. When it comes to large-scale informal settlements, there is a continued lack of political will to address the issue. Women's property rights have been strengthened in the new Laws on inheritance, family and notary, adopted in November 2018, and the measure for the registration of real estate on behalf of two spouses free of charge was extended until April 2019. However, overall women continue to face real challenges as regards property ownership and inheritance. They own less than 20% of properties.

On **non-discrimination**, the Law on protection from discrimination is broadly in line with European and international standards, but implementation is limited. Although it establishes a general framework for preventing and combating discrimination, both rule of law institutions and victims have difficulties in identifying the situations in which its provisions can be applied. As very few cases are brought to court, there is as yet no case-law on the use of the anti-discrimination legislation. There is insufficient data on hate crimes which prevents the police and prosecution from effectively preventing and responding to these offences. It is necessary to establish an efficient hate crime data recording and collection system, enabling the recognition and registration of hate crimes. The tracking mechanism of the Prosecutorial Council still needs to be extended to cover cases of all forms of discrimination, not only those based on ethnicity. Of the 855 cases opened for investigation by the Ombudsperson due to complaints filed by citizens, 98 related to discrimination.

Kosovo's legal framework for **equality between women and men** is broadly in line with international standards. However, women often face gender-based violence and various forms of discrimination. Women are still severely underrepresented in decision-making in both the central government and the municipalities. There have been some improvements at municipal level (*See section 2.1.1 – Democracy*). Affirmative measures, though provided for in law, are rarely used in the process of recruitment at any level of the administration. The roles of the Agency for Gender Equality and of gender equality officers in ministries and municipalities in policy-making need to be strengthened. The effective implementation of the Law on gender equality is lagging behind. Completion of secondary legislation aimed at institutionalising gender-responsive budgeting is still pending. Breakdowns of data by gender are lacking and the mainstreaming of gender in laws and policies is not systematic. The Kosovo Programme for Gender Equality has not yet been adopted.

There have been increased efforts to implement the 2016-2020 strategy and action plan on protection against **domestic violence** since the appointment of the National Coordinator in January 2018. These need to be sustained and lead to tangible results. Coordination mechanisms for protection from domestic violence have been established in seven municipalities. Domestic violence and sexual harassment have been introduced as stand-alone offences in the new Criminal Code. An integrated database for cases of domestic violence was launched in December 2018. The Ministries of Justice and Social Welfare, the Judicial and Prosecutorial Councils and the police signed a memorandum of understanding aimed at achieving full institutional coordination to feed the database and apply and enforce the legislation on domestic and other gender-based violence. There are concerns about lenient sentencing in cases of gender-based violence. Sustainable funding for shelters for victims of gender-based violence and trafficking in human beings has still not been ensured. Measures need to be taken for the effective reintegration of victims.

On the **rights of the child**, Kosovo's legal framework is largely in line with international standards, but implementation remains limited. The draft Law on child protection, which would consolidate numerous laws regulating actors and defining policies for children, is still awaiting adoption by the Assembly. Authorities must ensure that the Law is followed up with an adequate budget and institutional ownership. A lack of funding for social services and monitoring hinders the minimum provision of quality services for the protection of children. The government approved the 2019-2023 Strategy on Children's Rights in January 2019. A child and maternal indicators framework was also recently developed to monitor the situation of children's rights. Child labour continues to be a concern and inspectorates and other competent authorities are unable to provide adequate services for the prevention and elimination of child labour and to address the issue of children living and working in the streets. A systemic solution and an institutional response to child begging and child marriage among Roma and Ashkali children is still lacking. The education management information system has been strengthened with the integration of a violence case registry module and early warning system in 30 municipalities, which contributes to the implementation of the protocol for the prevention and referral of violence in schools and prevention of dropout from school. Overall, however, efforts to prevent all forms of violence against children remain insufficient and the current legal framework does not explicitly prohibit corporal punishment. The draft Law adopted by the government would change that. Kosovo does not host children in large residential institutions, but has managed to develop alternative forms of protection for children without parental care. The subsidies for family housing for children without parental care and with disabilities were increased in 2018 by 33% to 66%. There is a lack of services and programmes for the prevention and reintegration of child victims of drug abuse. Kosovo has continued to make progress on juvenile justice, including the adoption of amendments to the Juvenile Justice Code in October 2018, which reduced pre-trial detentions for juveniles in conflict with the law from 12 to a maximum of six months. The new Code has increased the number of available diversity measures for juveniles. Kosovo has strong implementation of alternative measures for convicted minors.

Little progress has been made on the **rights of persons with disabilities** and their integration in society remains a challenge due to limited support, inadequate health services and poor access to existing services. Physical access to public buildings, including schools, and transport remains limited for persons with disabilities. Inclusive planning and budgeting for appropriate interventions and service delivery should be pursued for both adults and children. The legal framework on mental health is also incomplete. Implementation of the Law on blind persons and the Law on the status of the rights of persons with paraplegia and tetraplegia is limited. The same applies for the 2013-2023 strategy on the rights of persons with disabilities. The National Disability Council should take a more proactive role to improve the wellbeing of persons with disabilities and promote their rights. Authorities should increase financial support to scale up community-based social and health services for children with disabilities and increase efforts to integrate them effectively into educational institutions. Girls face more challenges than boys as regards access to education.

On the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the Constitution protects against discrimination based on sexual orientation. In addition, the 2015 Law on anti-discrimination covers both sexual orientation and gender identity. The new Criminal Code broadens the legal protection of LGBTI persons including incorporating gender identity as a new aggravation of punishments and sexual orientation and gender identity as new basis for committing incitement to discord and intolerance. Further efforts are necessary to ensure the adequate implementation of the legislation, including through the LGBTI action plan. In October 2018, the second official LGBTI Pride parade was organised

in Pristina and was more widely attended than in 2017. Although the population and public figures are becoming increasingly conscious of LGBTI rights, studies show that public awareness and acceptance of those rights remain low. A rise in hate speech was reported during the Pride Week. More efforts are needed to counter intolerance towards LGBTI persons, as many remain at risk of discrimination and violence. In addition, there are no shelters for LGBTI victims of violence. Cases of hate crime against LGBTI persons are still not always properly investigated and brought to court. A legal framework for legal gender recognition should be developed.

On **procedural rights**, those who are suspected or accused of committing a crime, and victims of crime have the right to solid protection under Kosovo law. They have the right to interpretation and translation, the right to information on their rights, the right to legal aid, and the right to communicate with family members, employers and consular authorities. Specific amendments to the Criminal Procedure Code should nevertheless be adopted to incorporate additional rights and guarantees to those suspected, those accused and victims of crime in order to comply fully with the relevant EU Directives. These amendments have nearly all been included in the revised draft Criminal Procedure Code adopted by the government and awaiting adoption in the Assembly. The legal aid provision is insufficient in practice to meet the obligations of the relevant Kosovo legislation and the requirements of the EU acquis and the European Convention on Human Rights and its jurisprudence. About a third of the cases investigated by the Ombudsperson in 2018 regard the right to a fair and impartial trial within a reasonable time. The Law on crime victim compensation is broadly aligned with the EU Directive on Compensation for Crime Victims. Authorities should ensure that they meet their obligations to inform victims of crime on all their rights, available protection and right to compensation. Victims' advocacy officers must provide support to victims of crime in filing requests for compensation and should be trained accordingly. A crime victim compensation programme has been in place since 2016. In 2018, the Commission responsible for Compensation approved 7 requests and dismissed 14.

Kosovo has an adequate institutional and legal framework for the rights and protection of **minorities**, including relevant strategies and action plans, but implementation remains weak. Greater coordination is needed at both central and local levels in support of minority communities. In order to promote a lasting inter-ethnic co-existence, the government needs to step up its efforts to create the conditions for minority communities fully to exercise their rights. They continue to face challenges regarding a secure environment, regaining and accessing property, civil registration, being able to use their own language, adequate provisions for education, employment opportunities and social welfare.

The Office for Community Affairs under the Prime Minister's Office focuses in practice on implementing projects for minority communities, while its actual mandate is much broader, including in-depth involvement in policy-making regarding communities' rights and interests. The budget of the Consultative Council for Communities in the President's Office was increased in the reporting period. More use should be made of the Council's expertise when it comes to formulating policy. The technical working group set up to implement recommendations based on the Council of Europe's Framework Convention for National Minorities met once in the reporting period. Implementation of the recommendations remains limited.

The government has yet to approve the 2016 draft Strategy for the Promotion and Protection of Language Rights and the implementation of the Law on the use of language remains limited. Plans by the Prime Minister's Office to establish a central translation cell to improve the quality and cost-effectiveness of translations have not yet materialised. Opportunities for learning a second official language as a subject remain practically non-existent in the

education system, while extracurricular initiatives for language learning among students from different communities are still led predominantly by civil society organisations and international donors. The Language Commissioner was reappointed in January 2019 for another 6-year term. His office has the challenging mandate to protect and promote community languages and to ensure the fair use of all languages in Kosovo while less and less people speak the language of one of the other communities.

The overall security situation for minority communities remains stable. However, there are recurring incidents of property and livestock theft, which frequently affect Kosovo Serbs, as well as other minority communities. Such incidents, even when they are not clearly ethnically biased, negatively influence the security perceptions of the affected community. In addition, cases hindering freedom of movement have affected displaced Kosovo Serbs visiting religious sites. Security incidents have also affected non-Serb communities in the north of Kosovo. Increased follow-up by judicial authorities is required in order to bring the perpetrators of such incidents to justice. Relevant institutions should increase their efforts to record accurately and investigate all potential ethnically motivated incidents. Increased recruitment of minority police officers would contribute to an enhanced sense of security among the affected communities.

Although the Law on the civil service requires that 10% of employees at central and municipal levels of government be members of non-majority community, their representation remains limited and generally confined to lower-level positions. This applies especially to smaller non-majority communities.

The pace of return and reintegration of **refugees and displaced persons** continues to diminish, with 327 individuals returning in 2018. This is also due to the challenges they face in fully exercising their rights and lack of conditions for sustainable return (see also *property rights* and *rights and protection of minorities*). The Inter-Ministerial Commission for Return and Community Affairs, which should facilitate return and inter-community relations, did not convene in 2018.

The situation of the **Roma** and **Ashkali** communities remains challenging and, in spite of efforts, they still suffer from marginalisation and discrimination, with women particularly affected. The poverty levels of these communities remain high compared to other communities in Kosovo. Implementation of the 2017-2021 strategy and action plan for the inclusion of the Roma and Ashkali communities in Kosovo society remains weak and policy interventions are not systematically evaluated. The coordination of government and donor assistance needs to be improved.

Some improvements can be noted in the field of education. The enrolment rate at all levels is increasing, although it is still significantly below the average and many young Roma and Ashkali do not reach higher levels of education. The Ministry of Education, Science and Technology has increased the number of scholarships for Roma, Ashkali (and Egyptian) students from 500 to 600 in the current academic year and has allocated funds to the so far mainly donor-funded learning centres.

In the absence of universal health coverage, Roma and Ashkali communities face particular difficulties to access health services due to their difficult socio-economic conditions. Only access to very basic services is free of charge.

The housing needs of the Roma and Ashkali communities are met mainly through international donor funding. However, in 2018 the government allocated EUR 2.4 million for the construction of social housing for Roma, Ashkali and other vulnerable communities in selected municipalities. Additional efforts are needed to facilitate the labour market

integration of members of the Roma and Ashkali communities. Kosovo has one of the highest rates of Roma informal work in the region. Access to employment services and vocational training provided by the Ministry of Labour and Social Welfare and other organisations is limited due to a lack of information. Government institutions should consider increasing the number of employment counsellors from the Roma and Ashkali communities. Efforts need to be made to prevent child labour and child marriage, which affect girls in particular. Some people still face difficulties with civil documentation, often linked to return or repatriation.

On **cultural rights**, work has started on a new Law on cultural heritage. Furthermore, after almost two years of inactivity, the Implementation and Monitoring Council met regularly in 2018. In March 2018, the government re-established the Council's secretariat. The Ministry of Culture needs to continue to engage with the Serbian Orthodox Church on ways to support the reconstruction of its sites, which was left unfinished by the Reconstruction Implementation Commission. It needs to ensure that the Church can exercise full discretion in the management of its properties, while following legal procedures.

Some violations were observed with respect to the implementation of the legal framework for special protective zones (SPZs). On 24 April 2018, the Ministry of Infrastructure officially inaugurated the Deçan/Dečane-Plav (Montenegro) road construction in the Visoki Dečani Monastery special protective zone. This triggered reactions from the international community in Kosovo and the Serbian Orthodox Church, and generated mistrust and suspicion on future road construction plans within the zone. The works were halted in May 2018 and the authorities gave reassurances that no further works would take place without prior consultation with all members of the Implementation and Monitoring Council.

Continued vigilance is needed to safeguard the Prizren Historic Centre special protective zone. In June 2018, the Basic Prosecution office filed an indictment against the owner of a house that was demolished despite being listed as a protected monument.

2.2.2 Justice, freedom and security

Kosovo is at an **early stage/has some level of preparation** in this area. **Some progress** has been made, including in the fight against terrorism, violent extremism and radicalisation. The adoption of several laws important to the fight against organised crime marked a significant step forward. While more suspicious assets were identified and frozen, no progress was made in making financial investigations and the asset confiscation system more efficient and effective. The authorities continued to make progress in managing regular and irregular migration.

Kosovo has partly followed the recommendations of the 2018 report, namely those related to violent extremism, the track record on the fight against organised crime, and confiscation-related legislation. Kosovo should continue to strengthen its track record and in the following year, it should in particular:

- adopt standard operating procedures on conducting financial investigations and measures guaranteeing that financial investigations are automatically conducted when dealing with organised crime, terrorism, money-laundering and serious corruption cases;
- ensure that all organised crime cases are covered by the Joint Team for Selection and Targeting of Serious Crimes;
- continue implementing programmes on de-radicalisation, rehabilitation and reintegration, including through the full operationalisation of the Reintegration Division;
- make the National Centre for Border Management fully operational, in order to strengthen inter-institutional and international cooperation and coordination in the field of migration.

Fight against organised crime

Kosovo is at an **early stage** in the fight against organised crime. **Some progress** was made, notably through significant legislative reforms in the area of the rule of law (including the Criminal Code), on the investigation and prosecution of high-level cases and on the preliminary freezing of assets. Final confiscations of assets remain low. There are still few financial investigations and final convictions. Measures are needed to ensure there is strictly no political interference with operational activities of law enforcement bodies and the prosecution. The situation in the north of Kosovo with regard to organised crime continues to pose challenges for law enforcement agencies. Kosovo has partly followed the recommendations of the 2018 report, namely on the track record, training and hiring of prosecutors, the intelligence-led policing approach, and the adoption of legislative reforms. However, some of the recommendations remain valid, while others will now require robust implementation.

In the coming year, Kosovo should in particular:

- prioritise the thorough implementation of the revised legislative framework in the area of the rule of law, including through training and awareness-raising, to make it an effective tool to combat organised crime;
- further increase the number of prosecutors in the Special Prosecution Office investigating and prosecuting high-profile organised crime cases, and provide training to strengthen their capacity to conduct financial investigations, confiscate assets and effectively protect witnesses;
- concretely implement the intelligence-led and community policing approaches, including through more relevant criminal intelligence reporting and improved tasking within the police directorates, to enable more proactive policing.

Institutional set-up and legal alignment

Key **institutions** in the fight against organised crime include the **Special Prosecution Office** and the serious crimes departments of the Kosovo Basic Courts. An organised crime directorate (including a new sector for cybercrime investigations) in police headquarters is complemented by specialised units at regional level, assisted by forensic units and the Kosovo Forensic Agency. There are 436 **Kosovo Police** officers per 100,000 inhabitants, compared to the EU average of 318 in 2016 according to Eurostat. They are relatively well trained and equipped, and have modern IT infrastructure. The Kosovo Academy for Public Safety provides a good level of initial and in-service training for police and public security bodies such as correctional or customs services.

Kosovo Customs, the Financial Intelligence Unit (FIU) and the tax administration are responsible for monitoring and controlling the internal and cross-border/boundary flow of goods, materials and capital that might be involved in any form of organised crime. The FIU specifically assists with analysing and disseminating information on money laundering and terrorism financing. It also has the capacity to freeze suspicious financial transactions.

The Kosovo Police established the **Asset Recovery Office** within the Directorate for Economic Crime Investigations. The Office should be fully operationalised and further developed by all responsible parties, as it has received limited requests to date. There is operational cooperation between police, tax and customs services through mutual access and the interoperability of databases. However, faster, more direct access to the relevant databases is needed. There is still a need for better **cooperation and coordination** between all the institutions. The Special Prosecution Office remains the weakest link.

Criminal law provisions on organised crime are broadly in line with relevant European standards. The newly adopted **Criminal Code** amended several provisions on organised crime. It now contains extended statutory limitation periods for various serious crimes and increased penalty levels for corruption and many organised crime acts and offences. The revision has brought most provisions of the code into line with best European practices and the *acquis*. While the **Criminal Procedure Code** was substantially revised and adopted by the government, it has not yet been passed into law by the Assembly. The draft Criminal Procedure Code includes revised provisions on search and confiscation, on admissibility of evidence, concerning the imbalance between the defence and prosecution at trial, on the various appeal possibilities and on the prescribed time period for investigations into cases of organised crime and corruption. For related legislative reforms in the rule of law area, see the *section on the fight against corruption*.

The **Law on money laundering and terrorism financing** is not fully in line with the EU *acquis* and international standards. The main flaws in the legal and institutional framework remain; i.e. (i) the ambiguity of shared supervisory responsibility of the financial sector between the FIU and the Central Bank; (ii) the lack of targeted financial sanctions and measures to ensure full deprivation of terrorists' assets; (iii) significant deficiencies with regard to the registration, monitoring and oversight of NGOs for the purpose of countering the financing of terrorism; (iv) significant loopholes in the supervisory regime, in particular for the non-banking sector; and (v) uneven and ineffective suspicious transaction reporting in all sectors as regards preventive measures (*see also section on freedom of movement of capital*).

The implementation of the **Law on the interception of telecommunications**, adopted in May 2015, was finally completed by May 2018, with the installation of the last technical equipment. However, it remains unclear whether all internet providers are properly connected to the liaison unit in the Chief State Prosecution Office. Legislation on **cybercrime** is generally in line with the EU *acquis*. The ongoing revision of the Law on the prevention of and the fight against cybercrime would benefit from available international experts to better respond to the fast-changing cybercrime challenges. Legislation on **trafficking in human beings** is broadly aligned with the relevant EU Directive, but implementation could be improved.

Central to the **strategic framework** on the fight against organised crime is the **2018-2022 strategy and action plan against organised crime**. There are additional strategies and action plans in place on arms control; the informal economy, money laundering and terrorist financing; terrorism; the prevention of violent extremism; trafficking in human beings; narcotics; and cybersecurity.

The Kosovo Police has produced three serious and organised crime threat assessment (SOCTA) reports based on Europol's methodology and drafts annual crime strategic assessment reports. It is important that the threats identified are translated into operational priorities backed up with adequate resources. The drafting of the 2016-2018 SOCTA in 2019 will be an important exercise in this regard.

Implementation and enforcement capacity

On the **track record** in the fight against high level corruption and organised crime, the IT tracking mechanism for **high-profile cases**, including organised crime, is operational (*see fight against corruption*). By April 2019, a total of 51 cases were included in the track record. There have been 38 indictments to date (although two indictments were later merged into one single case). Of these, 27 have been in relation to corruption and 11 in relation to organised crime. In total, 9 cases have received a final ruling, although none were related to organised crime. In July 2018, the European Commission confirmed that Kosovo has met the

benchmark in its visa liberalisation roadmap to strengthen the track record in the fight against high level corruption and organised crime. These efforts should continue and the Commission will continue to actively monitor the further development of the track record in the future.

The standard operating procedure regarding the track record cases should be revised in order to ensure that all high-level corruption and organised crime cases are covered by the Joint Team for the Selection and Targeting of Serious Crimes (beyond the cases prioritised for the visa liberalisation benchmark) in a comprehensive and overall track record.

Courts and prosecution could not provide consolidated data on the total number of indictments and final judgements for the charge of “organised crime” as defined in the United Nations Convention against Transnational Organised Crime. As regards those **organised crime-related cases** currently not included in the track record, in the reporting period, indictments were filed for 71 persons and 4 were found guilty in relation to trafficking in human beings. Also, 15 persons were indicted and 5 were found guilty for arms trafficking and 11 were indicted and 4 found guilty for money laundering. Only a fraction of all the cases involving trafficking in human beings, trafficking in arms and money laundering simultaneously also involve charges of organised crime. Police and prosecutors need to be more proactive in investigating and prosecuting potential organised criminal groups or organisations behind the initial perpetrators. Further efforts are needed to boost the number of final convictions for organised crime and organised crime-related cases.

Police capacity for combating organised crime is good. However, the police are still subject to corruption and political pressure, which hinder the investigation of organised crime. **Intelligence-led policing** remains weakly implemented. A new strategy in this field is being drafted for 2019-2023 and should be adopted soon. The Kosovo Police Information System (the new analytical tool to help investigate organised crime) is not yet fully utilised. There is a need for more specialised training sessions for all institutions involved in fighting more complex organised crime and a need for closer international cooperation. The Special Prosecution Office needs to be strengthened (*see sections on the functioning of the judiciary and the fight against corruption*).

Kosovo regularly **exchanges information** with Europol via EULEX and with Interpol via the United Nations Interim Administration Mission in Kosovo (UNMIK). Kosovo’s application to join Interpol was rejected at the General Assembly meeting in November 2018. A working arrangement concerning strategic cooperation with Europol is being negotiated. Kosovo Police participated in joint operations with EU Member States under the European Multidisciplinary Platform Against Criminal Threats (EMPACT), including operational activities related to migrant smuggling and firearms. Kosovo Police cooperates on a bilateral basis with some EU Member States. Kosovo has concluded 74 police cooperation agreements, including with 18 countries, a number of EU agencies and international organisations.

Lack of trust continues to hamper effective implementation of **witness protection mechanisms**. Regional and international cooperation need to be improved, with more agreements on allocating witnesses abroad and sharing information. Prosecutors and judges need more training on how to protect witnesses effectively.

The fight against **money laundering and terrorist financing** is not efficient enough to produce convincing results. Money laundering is often not prosecuted as a standalone crime, but in connection with other criminal offences, which hampers progress in this area. Financial investigations are not effective and not conducted systematically in parallel with the criminal procedure in corruption and organised crime cases. Inter-agency cooperation and coordination have to improve significantly. The Kosovo authorities should follow up on and implement the recommendations of recent expert reports (one based on Financial Action Task Force (FATF)

and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) standards; the other based on the Group of States against Corruption (GRECO) standards).

In the reporting period, the total value of preliminary **asset confiscations** rose to almost EUR 28 million (compared to EUR 10.9 million in 2017), while the value of assets which were finally confiscated amounted to EUR 49,394 (compared with EUR 700,000 in 2017). The confiscation of criminal assets should become a strategic priority in the fight against organised crime, terrorism and high-level corruption in Kosovo. The adoption of the revised Criminal Code, the pending revision of the Criminal Procedure Code, and especially the adoption of the Law on extended powers of confiscation, are important steps forward for Kosovo's tools for freezing, managing and confiscating criminal assets, provided the laws are implemented effectively. The Law on extended powers of confiscation aligns Kosovo with the EU Directive on freezing and confiscation. It gives prosecutors simple and robust tools to confiscate assets without the need to link them directly to any given offence. The new Law reverses the burden of proof, allowing for the confiscation of property acquired illegally and transferred to third persons, and introduces extended powers of investigation for confiscation purposes, including through 'disclosure orders'. The revised legal framework should now be properly implemented to produce results. Serious consideration should be given to establishing an asset confiscation fund, which would allocate confiscated funds in part to law enforcement and in part to social re-use projects.

As regards **arms trafficking**, Kosovo is implementing its strategy and the Law on the legalisation and surrender of weapons, ammunition and explosive devices. A legalisation campaign for small arms and light weapons is being carried out. The Ministry of Internal Affairs has a database in which it registers all arms imported to Kosovo (these are marked on arrival). Kosovo has signed the roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons and their ammunition in the Western Balkans, in the framework of the Berlin Process, and submitted its action plan within this framework. A firearms focal point in the Kosovo Police is fully operational and can be regarded as an example of a regional best practice. The involvement of armed groups in arms smuggling is of serious concern. Kosovo has improved significantly in the fight against firearms trafficking, not only through normal investigation, but also through forensic work.

Kosovo remains a country of origin, transit and destination of victims of **trafficking in human beings**, notably for sexual exploitation. In 2018, 13 female victims and 1 male victim were identified; all except one were under the age of 18.

While initial steps have been taken, a more effective law enforcement response focusing on the detection, traceability and prosecution of **cyber criminals** remains to be established. **Cigarette and tobacco smuggling** in Kosovo remains at relatively low levels.

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

Cooperation in the field of drugs

Institutional set-up and legal alignment

The 2007 Law on narcotic drugs, psychotropic substances and precursors governs Kosovo's policy on drugs. The Law is being revised to align it with more recent EU legislation. Drug-related offences are primarily covered by the Criminal Code. Kosovo's legal framework is broadly in line with European legislation, but enforcement remains weak. The new 2018-2022 strategy and action plan were approved and budget for. A coordination mechanism to prevent and fight drug trafficking and the abuse of precursors is in place. In line with the

new strategy, a National Drugs Observatory was set up in the reporting period, although its resources remain limited. The position of head of the Observatory has been vacant since the end of 2018. Kosovo should formally establish an early warning system to follow up on the two contact points already in place. Sustainable and routine data collection should be ensured.

Implementation and enforcement capacity

Kosovo continues to be a storage and transit country for heroin and cannabis. Around 800 kg of marijuana, 120 kg of heroin and 1 kg of cocaine were seized in 2018. While marijuana seizures dropped significantly compared to the previous reporting period, the amount of heroin seized rose substantially, mainly due to a single police operation in December 2018, which seized 113 kg. Overall, drug seizures remain low. Organised crime groups (mainly Albanian-speaking) continue to play a dominant role in large-scale heroin and cocaine trafficking and its subsequent distribution in the EU. Some progress was made in increasing police resources and strengthening inter-institutional and international cooperation. Kosovo needs to further intensify the identification and dismantling of organised crime groups trafficking drugs from or through its territory, and tackling proceeds of crime that are laundered on its territory. The prosecution remains understaffed and not sufficiently trained to efficiently deal with drug-related offences. In the reporting period, there were 2,564 ongoing cases involving drugs (concerning 3,394 persons), 1,614 cases (concerning 2,065 persons) were solved and 385 persons were found guilty by the courts. Secure storage has been set up for seized drugs awaiting destruction, although a protocol for the handling, storage and destruction of drug precursors still needs to be drafted.

Educational activities and public awareness-raising of the consequences of drug abuse need to intensify. The police, community safety officers and teachers continue to receive training on the dangers of drug abuse. Addiction treatment and methadone therapy is being offered.

Kosovo continues to cooperate with the European Monitoring Centre for Drugs and Drug Addiction and provides regular reports to it through its designated focal point. Kosovo submitted a request at the end of 2018 to sign working arrangements with the Centre. Kosovo would benefit from an enhanced involvement in the EU Policy Cycle.

Fight against terrorism

Institutional set-up and legal alignment

The main **institutions** involved in combating terrorism are the Office of the Prime Minister, the Ministries of Internal Affairs, of Justice and of Foreign Affairs, the Police, the Kosovo Intelligence Agency, the Financial Intelligence Unit (FIU) and the prosecution service, including the Special Prosecution Office. As the Coordinator for Countering Terrorism (CT), the Minister of Internal Affairs is in charge of developing policies and strategies to combat terrorism, evaluating strategic intelligence and ensuring coordination. The Coordinator for Countering Violent Extremism (CVE) works in the Prime Minister's Office.

The **FIU** is a crucial part of the system to combat terrorism financing. However, its staff and resources should be increased to tackle this phenomenon effectively and they should be given the appropriate training. The Kosovo authorities set up an **Inter-Institutional Committee** for the handling of violent extremism in the reporting period. It deals exclusively with cases of foreign terrorist fighters and non-combatant returnees (women, children and the elderly). Kosovo expressed interest in bringing back its non-combatant citizens from the conflict zone in Syria/Iraq and carried out such a return operation in April 2019.

Kosovo's **legal framework** is mostly 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 the financing of terrorism. However, the Law is still not fully in line with EU and international standards.

Kosovo has a **strategy and action plan against terrorism (2018-2023)** and a **strategy and action plan on the prevention of violent extremism and radicalisation leading to terrorism (2015-2020)**. The strategy against terrorism is in line with the EU's counterterrorism strategy. Governance in the CT/CVE area is highly complex, with the CT and CVE strategies covered by different bodies, which could communicate better with each other. In a positive step, the authorities recently appointed a single CT/CVE Coordinator to oversee the delivery and implementation of both areas. In the longer term, consideration could be given to a merger of the two strategies into a single strategy. A **communication strategy** to raise awareness and gain the wider support of stakeholders across society should be finalised and adopted.

The Kosovo authorities and the EU signed the **joint action plan** on counter-terrorism for the Western Balkans in October 2018. The EU and Kosovo will now bilaterally follow-up on priority actions.

Implementation and enforcement capacity

Kosovo has further stepped up its efforts to fight terrorism, including measures to prevent violent extremism. Since 2016, there have been no new reported cases of Kosovo citizens travelling to the conflicts in Syria/Iraq as **foreign terrorist fighters**. Since 2012 until today, an estimated 355 Kosovo citizens (256 men, 52 women and 47 children) left for conflict zones in the Middle East, mostly as foreign terrorist fighters. 71 children were born in the conflict zone. 242 Kosovo citizens have returned (124 men, 38 women, 80 children), 96 died (91 killed, 5 died of other natural causes), and 97 remain in the theatre (47 men, 8 women, 42 children). Out of the 242 returnees, 110 of them (4 men, 32 women and 74 children) were returned from the conflict zone in an operation organised by the government in April 2019. Kosovo's **law enforcement and judicial institutions** continue to respond robustly to terrorism. The police have arrested a substantial number of people who joined terrorist groups since 2012. A significant number of cases ended in convictions. In the reporting period, the Kosovo Police Terrorism Directorate initiated 4 new cases for criminal offences related to terrorism and arrested 12 suspects in 5 separate operations, including 6 arrested as a result of joint months-long investigations with the Belgian and German authorities. In 2018, final court decisions were reached in 6 terrorism cases (4 ended in convictions and 2 in acquittals). Serious consideration should be given to establishing a Joint Threat Assessment Centre, including a threat level grading system, in order to keep all agencies and the public better informed and to enhance operational responses, including as regards the protection of critical infrastructure. The fight against **money laundering and terrorist financing** is not effective enough to produce convincing results (*see section on the fight against organised crime*).

Despite these efforts, the authorities continue to face the challenge of **violent extremism and radicalisation**. This is stoked in part by funding from foreign organisations that preach extremist ideologies. Violent extremist groups also actively use social media to spread propaganda and recruit followers. Kosovo should step up its efforts to counter these external influences, including through increasing its investigative capacities, countering terrorist content online, enhancing the resilience of local communities to violent extremism and empowering civil society and faith-based organisations. It should explore further how it can use existing local security councils, and the pilot multi-agency approach (where individuals are assisted on a case-by-case basis) in the municipality of Gjilan/Gnjilane in the prevention

of violent extremism and radicalisation. Social, community-based responses, including a gender-based perspective, aimed in particular at marginalised young people, are needed.

Substantial progress was made in the reporting period with regard to creating better conditions for **rehabilitation and reintegration**. In 2018, the authorities established a programme within the Correctional Service. In addition, the Ministry of Internal Affairs established a Division for Prevention and Reintegration of Radicalised Persons and developed a draft reintegration programme. The authorities cooperate with the Kosovo Islamic Community. Regarding returned fighters, a coherent judicial policy combined with a coordinated and dedicated approach by the authorities is needed. The performance of the newly established Division in the Ministry of Internal Affairs will be crucial in this respect, since it will work closely with all actors on reintegration on an individual basis. Improved cooperation among law enforcement and intelligence services, especially across the Western Balkans region, is needed. The possible link between organised crime and terrorism should be assessed in more detail.

Kosovo should focus on an inclusive **educational system** to prevent radicalisation of vulnerable young people. It has made some progress, including through the creation of a teachers' manual and the extensive training of teachers (*see section on education*). It is actively participating in the **Western Balkan Counter-Terrorism initiative** (WBCTi).

Legal and irregular migration

Institutional set-up and legal alignment

The Department of Citizenship, Asylum and Migration in the Ministry of Internal Affairs is in charge of implementing migration policy. The Directorate for Migration and Foreigners in the Kosovo Border Police deals with irregular migrants. Following past legal revisions, the **legal framework** is largely in line with the *acquis*. However, a number of administrative instructions are still awaiting approval.

Kosovo has signed **readmission** agreements with 24 countries, including 20 EU Member States and members of the Schengen area. No new readmission agreements were signed in the reporting period, but Kosovo sought to launch negotiations for readmission agreements with six more EU Member States and three non-EU countries. No agreement exists with the EU as a whole.

The adoption of a new 2019-2023 **strategy and action plan** on migration is pending. It provides for an enhanced implementation monitoring mechanism, with contact points in all participating institutions under the leadership of the Government Authority on Migration; this should further improve the exchange of information and inter-institutional coordination. Migration profiles drafted and adopted in 2018 contain an extensive analysis of migration data and 'push' and 'pull' factors, together with recommendations and policy guidance. As a good first step, they were used in the formulation of the new strategy and action plan. However, the new strategy was drafted without any prior in-depth evaluation of the 2013-2018 strategy. The Government Authority is well positioned to take a more proactive leadership role. A new statute for this body is being prepared and should be approved by the government. Its mandate should further strengthen its role and clarify its composition and function.

Implementation and enforcement capacity

A total of **595 migrants entered Kosovo irregularly** in 2018, of whom 518 were sheltered in the asylum centre. The three main nationalities represented were Syrian, Palestinian and Turkish. In all, 46 individuals were detained in the detention centre in 2018, of whom 42 were forcibly returned to their country of origin. Two asked to be returned voluntarily to their

country of origin; these were the first cases of assisted voluntary return from Kosovo. Most of the individuals were returned within a reasonable period of time (between 1 day and 11 months). Two were still at the detention centre at the end of 2018. Return operations continue to be hindered by status-related issues. Nevertheless, Kosovo should make further efforts to establish a return mechanism for irregular migrants, in line with EU standards and practices.

Providing proper care and security for the most vulnerable groups of migrants remains a challenge. Measures are in place to prevent **migrant smugglers** from infiltrating the centre. Smuggling networks from Kosovo facilitate secondary movements of irregular migrants from entry points along the Balkan route. In the reporting period, the Kosovo Police investigated 21 cases of migrant smuggling and arrested 20 people.

There remain **gaps in enforcement**, in particular due to a lack of coordination between government agencies. Parts of the Department of Citizenship, Asylum and Migration remain understaffed, despite some staff increases. Over the reporting period, staff became more specialised thanks to a number of training courses, ranging from advanced skills for detecting falsified documents, return escorts, combating trafficking in human beings, screening and assumption of nationalities, to assisted voluntary return and reintegration. However, there is still a lack of sufficient specialised staff, including in the Kosovo Police and the Asylum (Reception) Centre and Detention Centre for Foreigners. There have been considerable improvements in data management, analysis and exchange, including the ability to produce periodical reports based on Eurostat templates. The border police needs further capacity-building in relation to protection-sensitive migration.

Kosovo has a reception facility for **irregular migrants** in Vranidoll/Vrani Do that can host 70 people and provide appropriate accommodation for vulnerable groups. Legal provisions are in place to uphold the fundamental rights of irregular migrants or foreigners hosted in the centre. However, the centre is facing some structural issues, mainly relating to improper housing units, a lack of secure areas and a lack of in-house medical facilities. There is also a lack of adequate specialised supervisory staffing to ensure basic rights and needs, especially psycho-social support. Challenges remain as regards **communication** between officials and irregular migrants, despite the sharing of interpreters among countries of the region through the Migration, Asylum and Refugee Regional Initiative. The authorities should take further action to find qualified interpreters to service both the asylum and detention centres.

The **readmission agreements** with EU Member States and Schengen associated countries are being implemented smoothly. The number of asylum requests by Kosovo citizens in both EU and Schengen associated countries has fallen steadily, from 73 240 in 2015, 11 970 in 2016, 7 575 in 2017 to 5 100 in 2018. Mirroring the trend in asylum requests, the overall number of Kosovo citizens readmitted has dropped from 18 789 in 2015, 11 030 in 2016, 4 509 in 2017 to 2 395 in 2018 (1 668 forced and 727 voluntary). Kosovo achieved a return rate of 85.9% of Kosovo citizens ordered to leave EU territory in 2017. The lack of a screening tool for returnees makes it harder to identify vulnerable persons, including victims of trafficking. The implementation of Kosovo's 2018-22 **reintegration** strategy and action plan will require proper evaluation. Following the de-centralisation of the reintegration process, municipalities continue to face challenges in providing services. While municipalities have improved their capacities to deal with reintegration policy, their budget allocations are still insufficient. Overall, there is a need for better inter-institutional coordination, including with municipalities, better cooperation with NGOs and international organisations, and improved systemic monitoring and evaluation. In the reporting period, 3 165 people benefitted from sustainable assistance services provided by the Reintegration Fund. Further efforts are still needed to put in place a gender-sensitive system that reaches the most vulnerable returnees (including Roma and Ashkali) and focuses more on sustainable community assistance,

including through services such as income generation. Many returnees do not receive sufficient information.

Asylum

Institutional set-up and legal alignment

The **institutions** for handling asylum requests are in place. The Department for Citizenship, Asylum and Migration is the first-instance body in the Ministry of Internal Affairs. The National Commission for Refugees reviews appeals. A final judicial appeal can be lodged with the Supreme Court. After rejection of a request for asylum or cessation of procedure, the Department's Division for Return and Readmission is responsible for enforcing the decision.

Following past legal revisions, the **legal framework** on asylum is largely in line with the *acquis*. However, important secondary legislation in the area remains to be adopted.

Implementation and enforcement capacity

For **asylum procedures**, the competent authorities have improved their capacity to evaluate asylum claims on the basis of the merits of the application, but further training is required to ensure better assessments on merits. In addition, further capacity should be provided for procedures concerning unaccompanied minors. Interviews are often complicated by the lack of adequate interpretation. The number of asylum requests rose to 595 in 2018, from 147 in 2017, an increase by over 300%. Following the forced deportation of six Turkish nationals at the end of March 2018 (*see section on fundamental rights*), there has been a marked rise of asylum requests from Turkish nationals already legally residing in Kosovo. In 2018, a total of 50 applicants received a positive answer in the form of subsidiary protection; this represented a significant increase. However, Kosovo is still mainly a transit country. Most asylum requests are suspended, as applicants disappear without completing the procedure. Kosovo has the capacity to obtain and store asylum-seekers' fingerprints. Although fully effective and protection-sensitive entry systems are not in place, no documented instances of *refoulement* or forced return have been identified in recent years.

Staffing levels are generally adequate for the number of asylum requests. However, the **Centre for Asylum-Seekers**, which is in charge of the reception, registration, accommodation and movement of asylum-seekers within and outside the Centre, is understaffed. There is also a lack of psychosocial and legal support, assistance with child development and education, and support from social services. Although a referral system at the border/boundary, including access to legal aid, are provided for in secondary legislation, it is not yet in place.

Kosovo has a **contingency plan** to manage the potential flow of refugees and migrants, which is regularly updated. The roles of the various institutions in the plan should be better defined, while institutional coordination should be improved. The reception centres identified in the plan should already be made operational where possible. The European Asylum Support Office is helping the Kosovo authorities to harmonise practices by implementing the common European asylum system and coordinating with the European networks for receptions.

Visa policy

Kosovo has yet to fully align its legislation with the EU visa policy. Under a 2013 government decision, Kosovo imposes visa requirements on nationals of 88 countries. The number of Kosovo consulates issuing visas remained at 16. In the reporting period, 20 visas with a validity of 15 calendar days were issued at borders. The visa-issuing authorities have the capacity to collect biometric identifiers digitally from visa applicants, although the

equipment needs upgrading. All granted visas and rejections are registered in Kosovo's visa information system.

The citizens of Kosovo remain the only citizens from the Western Balkans that have to apply for and obtain a visa to travel to the Schengen Area. A **visa liberalisation dialogue** started in 2012. In May 2016, the Commission issued a legislative proposal for visa liberalisation, on the understanding that by the day of its adoption by the European Parliament and the Council, Kosovo would have ratified the border/boundary agreement with Montenegro and strengthened its track record in the fight against organised crime and corruption. After the ratification of the border/boundary demarcation agreement in March 2018 and the strengthening its track record, the Commission confirmed in July 2018 that Kosovo has fulfilled all the benchmarks of the visa liberalisation roadmap. It recommended that the Council and European Parliament move forward with the proposal. In March 2019, the European Parliament voted in support of the Commission proposal in its first reading. The proposal is pending in the Council. The Kosovo authorities launched a public awareness campaign on visa liberalisation, which should continue in order to educate the population about their rights and obligations under potential future visa liberalisation regime.

Schengen and borders

Institutional set-up and legal alignment

The **National Centre for Border Management** has a joint intelligence risk and threat analysis unit collecting data and information from the agencies responsible for integrated border management (IBM): police, customs and the Food and Veterinary Agency. The Centre is seen as one of the most important elements of Kosovo's capacity to manage the security of its border/boundary effectively. A clear political commitment is needed to ensure that it operates to its full potential, including through implementation of the findings of the recent review through the associated action plan.

The **legislative framework** for managing Kosovo's borders/boundary is largely in line with the *acquis* and international standards. The 2013-2018 **IBM strategy and revised action plan** are aligned with the 2006 EU approach to IBM. A new IBM strategy and action plan for 2019-2023 are under preparation.

Implementation and enforcement capacity

The Border Department of Kosovo Police is well staffed, with a total of 1 322 officers, and generally meets **minimum EU standards for border controls**. The infrastructure of border crossing points has improved and the border management system was completely upgraded. However, its effectiveness remains limited by the lack of connection to important international networks such as Europol's Secure Information Exchange Network Application (SIENA) and Interpol's I-24/7, due to status-related issues.

Kosovo has a working arrangement with the **European Border and Coast Guard Agency**, which enables close cooperation on irregular migration, border crimes, border security and overall border management, including the daily exchange of data since October 2018. Kosovo participated actively in the Western Balkan risk analysis network. **Inter-agency cooperation** is good, but it could be improved at the highest level and especially as regards information exchange and joint risk analysis. A border police **anti-corruption strategy** is in place, but no cases of corruption at the border/boundary have been detected to date.

On **cooperation in the region**, Kosovo has concluded 23 IBM agreements. Kosovo and Albania operate joint border controls, with one Albanian and one Kosovo border police officer sharing a booth. Two common cross-border police cooperation centres are in

operation, one with Albania (Vermica) and one with North Macedonia (Hani I Elezit), as well as the common trilateral cross-border police cooperation centre (Plave) between Montenegro, Albania and Kosovo. The functioning and staffing of these centres should be improved, so that they can operate at their full potential. Interim IBM common crossing-points with Serbia continue to be operational. There has been limited progress in establishing the six permanent IBM common crossing-points between Serbia and Kosovo, as stipulated in the IBM agreement in the context of the EU-facilitated Belgrade-Pristina dialogue (*See section 5 - Normalisation of relations between Kosovo and Serbia*). Additional measures need to be taken to prevent illegal crossings and criminal activities, including corruption.

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 unilaterally applies internationally recognised treaty standards. As regards the 1980 Hague Convention on the Civil Aspects of International Child Abduction, the relevant cases are dealt with by the Ministry of Justice. Kosovo unilaterally aligned with 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 24 bilateral agreements with other countries. A legal framework for judicial cooperation in civil matters would help clarify rules and procedures, and work has been done on the relevant draft Law. With countries with which Kosovo does not have a bilateral agreement cooperation is based on the principle of reciprocity. For judicial cooperation in civil matters, Kosovo issued 199 requests towards EU Member States and received 173 responses. It received 364 requests from EU Member States and provided 347 responses. 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. Most other countries that do not recognise Kosovo's independence have voluntarily accepted the EU's facilitating role. However, a lack of cooperation by some non-recognising states has been observed, resulting in cases of impunity. Due to status-related issues, Eurojust cases can currently only be opened towards EULEX and UNMIK. No cases have been opened towards these entities since 2015.

All aspects of customs cooperation are now covered in Chapter 29 - Customs union.

Counterfeiting of the euro (criminal law aspects)

Kosovo is broadly in line with the *acquis* on the suppression of counterfeit currency, and has established competent authorities and procedures for dealing with counterfeit money. However, the Criminal Code is only partially compliant with the relevant EU Directive. Technical analysis of counterfeit money (including euro banknotes and coins), in line with international standards, is mainly carried out by the Forensics Agency within the Ministry of Internal Affairs. The Forensics Agency has concluded an agreement with the European Commission on further cooperation on exchange, assistance and training for the protection of the euro against counterfeiting (the Pericles 2020 programme) (*See section on Financial control*).

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT AND COMPETITIVENESS

Kosovo: Key economic figures	2010-15 average	2016	2017	2018 [#]
GDP per capita (% of EU-28 in PPS)	24.4	26.0	26.3	:
Real GDP growth	3.2	4.1	4.2	3.9
Economic activity rate of the population aged 15-64 (%) , total	39.2*	38.7	42.8	40.9
<i>female</i>	19.6	18.6	20.0	18.4
<i>male</i>	58.5	58.5	65.3	63.9
Unemployment rate (%) , total	32.3*	27.9	30.5	29.6
<i>female</i>	39.3	31.8	36.6	33.4
<i>male</i>	30.0	26.2	28.7	28.5
Employment (annual growth %)	-0.3**	11.1	6.4	-3.4
Nominal wages (annual growth %)	5.8**	1.8	1.7	:
Consumer price index (annual growth %)	2.5	0.3	1.5	1.1
Exchange rate against EUR	1.0	1.0	1.0	1.0
Current account balance (% of GDP)	-8.2	-8.3	-6.8	-8.1
Net foreign direct investment, FDI (% of GDP)	5.7	3.6	3.9	3.3
General government balance (% of GDP)	-2.4	-1.2	-1.3	-2.8
General government debt (% of GDP)	8.7	14.3	15.5	16.2

Source: Kosovo statistics, World Bank and IMF

Notes: # the latest available or estimate, *average of 2012-2015, **average of 2013-2015

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.

Economic governance has become even more central in the enlargement process in recent years. The Commission's monitoring takes place in two processes: the Economic Reform Programme exercise and the assessment (see below) of compliance with the economic criteria for accession. Every year, each enlargement country prepares an economic reform programme (ERP), 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.

3.1. The existence of a functioning market economy

Kosovo has made **some progress** and is at an **early stage** of developing a functioning market economy. Economic growth was robust in 2018, but the very challenging labour market situation remains a concern. Labour market participation and employment rates did not improve as compared with 2017. The government adhered to the fiscal rule, but spending pressures relating to social benefits for specific groups of the population and public employees' wages pose risks to public finances and hinder private sector development. The business environment improved somewhat, but persistent challenges remain, including the widespread informal economy, a slow and inefficient judiciary, high prevalence of corruption and overall weak rule of law. Despite strong growth of services exports, economic diversification has advanced slowly.

In order to improve the functioning of the market economy, Kosovo should in particular:

→ ensure that the 2020 budget complies with existing fiscal rules, in particular the wage bill

rule;

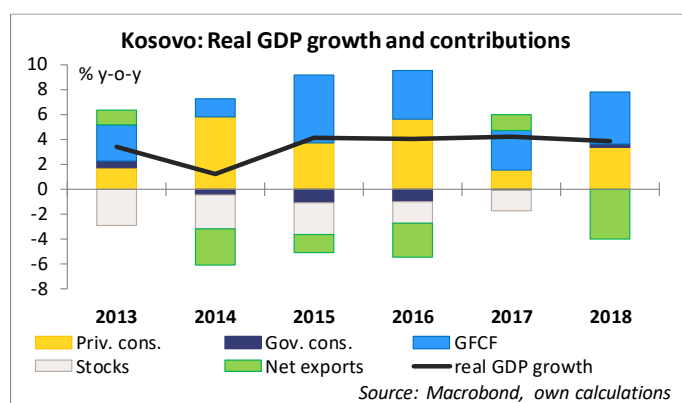
- improve financial oversight and accountability of publicly owned enterprises and advancing their privatisation;
- improve further the access to finance for SMEs by addressing the underlying legal and institutional factors;
- develop active measures for increasing female labour market participation and employment.

Economic governance

Kosovo's rules-based policy framework supports fiscal sustainability. However, new government initiatives pose risks to macroeconomic stability. Fiscal projections in the 2019-2021 medium-term expenditure framework (MTEF) and in the 2019 budget are in line with the fiscal rule. At the same time, the government is engaged in fiscal initiatives, such as recently adopted the Law on salaries for public employees and social transfers for specific groups that create significant fiscal risks with a potentially negative impact on macroeconomic stability. The policy guidance jointly agreed at the May 2018 Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has been partially implemented. On the other hand, the recent introduction of 100% tariffs for all goods imports originating in Serbia and Bosnia and Herzegovina represents a direct violation of the Central European Free Trade Agreement (CEFTA).

Macroeconomic stability

Economic activity has been growing steadily since 2015, but it is constrained by a narrow production base and significant under-utilisation of labour. Based on the aggregate of four quarters, real GDP growth reached 3.9%.³ In recent years, the economy has been driven by public investment in infrastructure and private consumption, the latter financed by large remittances from abroad and robust wage and credit growth. The



exceptional (18.8%) export growth in 2017, supported by goods and services, slowed to 13.9% in 2018 due to a temporary fall in base metal exports. Economic diversification is proceeding slowly. Merchandise exports remain dominated by base metals and mineral products, which still account for around 48% of total exports. Services exports continued to grow, mainly linked to tourism spending by the diaspora.

Kosovo's per capita GDP is the lowest in the region. It stood at EUR 3,566 in nominal terms in 2017, which is about 26.3% of the EU average⁴ (the regional average is EUR 4,853). However, in terms of average gross wages (EUR 519 in 2016), Kosovo ranks second in the region (after Montenegro), which suggests weak competitiveness in an international context. Inequalities remain widespread due to a large informal sector, high inactivity rates and high wages in the public sector.

³ The quarter-based annual estimate for 2017 is 3.7%.

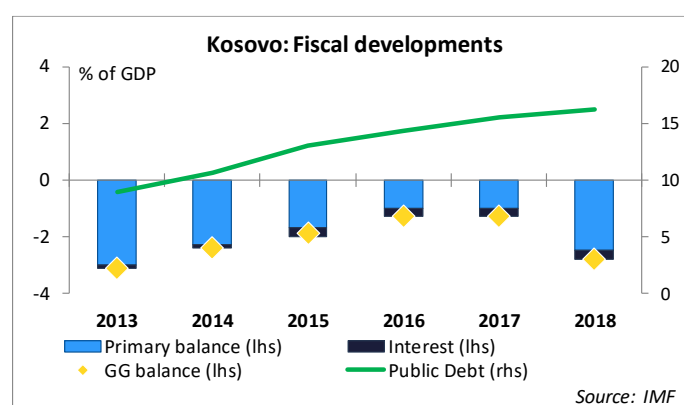
⁴ World Bank data.

The traditionally large current account deficit persisted in 2018. The goods trade deficit increased to 43% of GDP, from 38.4% in 2017, pushing up the current-account deficit to 8.1%. This was driven by strong growth in imports (13.6% year-over-year (y-o-y)) and a decline in goods exports (7% y-o-y). The widening trade deficit was partly mitigated by positive balances of services and remittances (1.4% and 12% of GDP, respectively).

On the financing side, net foreign direct investment (FDI) fell by 16% y-o-y in 2018. The total FDI inflow was 3.3% of GDP, covering less than a half of the current-account deficit. The drop in FDI was due to higher repatriation of foreign firms' profits for debt repayments, which reduced the scope for reinvestment of earnings. Reserve assets continued to decline, from 4.8 months of imports of goods and services in 2015 to 3.5 months in 2018.⁵

Price developments are driven mainly by import prices for food and energy. Average annual inflation reached 1.1% in 2018, as price rises recovered gradually over the year, from -0.2% y-o-y in January to 2.9% y-o-y in December. The key driver was food prices, which were on the rise from July and hit 5.5% y-o-y in December following the introduction of the 100% tariffs on goods imported from Serbia and Bosnia and Herzegovina.

Despite the lack of progress in revising the war veterans' benefits scheme, fiscal stability was preserved in 2018, but the budget composition is not sufficiently conducive to growth. The 2018 budget deficit is estimated at 1% of GDP, well within the fiscal rule ceiling of 2%, while the overall fiscal deficit stood at 2.8% of GDP. Annual growth of budget revenue was 5.3%, while budget expenditure expanded by 11.2%. Higher social spending, caused by the failure to reform untargeted and costly war veterans' benefits, was partly offset by the under-execution of the capital budget. Spending on subsidies and transfers has increased rapidly in recent years, reaching nearly 39% of current expenditure in the draft 2019



budget, while the composition of benefits shifted away from poverty and inequality-focused transfers towards benefits for particular categories of the population. Apart from the fiscal impact, this has negative repercussions on labour market participation and competitiveness. By regional standards, Kosovo's public debt remained relatively low (16.2% of GDP) in 2018⁶, but it has risen steadily from nearly 10.6% of GDP in 2014.

Fiscal governance has made some progress with respect to the credibility of the MTEF and budgetary projections. The collection of revenue has performed better than the execution of expenditure, which reflects a deeply entrenched problem of overspending for social benefits and over-optimistic planning of capital expenditure. The macroeconomic forecast underlying the 2019 budget is still considerably higher than the projections of other organisations.⁷ Moreover, quarterly GDP figures do not match annual data.

⁵ IMF data.

⁶ The simple average of public debt in the six Western Balkan economies was estimated at 47.9% of GDP in 2018. Kosovo's public debt does not include its share of the former Yugoslavia's debt, which the IMF has recently reclassified as contingent liability.

⁷ The 2019 budget assumes real GDP growth of 4.7%, while the IMF and Central Bank of Kosovo forecast 4.2%.

Given Kosovo's unilateral euroisation, sound fiscal and financial policies are essential for maintaining macroeconomic stability. The existing fiscal rule, which provides the main anchor for fiscal sustainability, was fully respected in 2018. The planned fiscal expansion in the 2019 budget and likely additional spending, resulting from the recently adopted Law on salaries for public employees and from pension supplements for teachers, raise concerns as to the sustainability of public finances. Further downside risks stem from the currently discussed early retirement scheme for the police and maternity benefits for unemployed and self-employed women.

Functioning of product markets

Business environment

The number of newly registered and terminated firms is in line with long-term trends. In 2017, the difference between new (9,223) and terminated firms (1,623) stood at 7,600, back in line with the historical trend after an exceptional performance in 2016, when the gap widened to 8 048 due to higher numbers on both sides.

Kosovo made some progress in improving the business environment. While it made some improvements as regards registering a business and getting a loan, its overall ranking in the World Bank's *Doing Business* report fell to 44th in 2018 from 40th a year earlier. Legislative changes contributed to a more favourable business environment. The new Law on business organisations (adopted in May 2018) improved the provisions on the registration of business organisations and corporate governance, and strengthened the rights of minority shareholders. A revamped electronic platform should speed up business registrations. The new Law on accounting, audit and financial reporting (adopted in April 2018) streamlines reporting requirements for companies and defines the interest of public entities in line with the *acquis*.

Despite progress in adopting new legislation to improve the business environment, the private sector faces a number of challenges related to cumbersome administrative procedures, informality and corruption. With a large number of inspectorates, poor coordination of procedures and legal contradictions, the inspections process often remains a barrier to doing business in Kosovo. A new Law on inspections has been prepared and its adoption and implementation would help to address these concerns. Similarly, the large number of licences and permits still poses an administrative burden for businesses. The central register for permits and licences is still being updated. Slow and inconsistent adjudication in economic disputes remains a challenge. In 2018, the Kosovo Investment and Enterprise Support Agency (KIESA) continued to operate with limited resources and without permanent leadership. A further strengthening of KIESA, particularly by reinforcing after-care services for foreign investors and operationalising the high-level advisory board for the promotion of foreign investment, would be a key step towards enhancing prospects for investments and exports.

The large informal sector (estimated at around 30% of GDP) creates unfair competition and weakens labour rights. In May 2019, Kosovo adopted a revised strategy and action plan for fighting the informal economy including measurable indicators to monitor progress in this area.

State influence on product markets

Kosovo's state aid policy is not underpinned by a coherent approach. The government lacks the compatibility assessment of state aid as well as a comprehensive strategy and cost-benefit evaluations for aid and subsidies granted. Most publicly owned enterprises remain reliant on public funding from the budget. Kosovo has yet to meet its Stabilisation and Association Agreement (SAA) obligations on state aid schemes and alignment with EU rules.

Financial support for the economic zones and industrial parks continued without a clear plan or a transparent impact or gap analysis, raising concerns on state aid compatibility. The impact of the Law on strategic investment, adopted in 2017, did not visibly affect investment in 2018, although 11 investors applied, with investment plans for a total of EUR 1.8 billion.

Privatisation and restructuring

Progress in privatisation remained slow.⁸ Publicly owned enterprises remain inefficient and lack transparency in their financial reporting and recruitment. After the completion of the board of directors in mid-2018, the Privatisation Agency of Kosovo conducted six asset sales from a total of 400 which are in tendering process. Twelve state-owned enterprises' assets were put into liquidation in 2018, which is very low given the total number of 511 enterprises under the liquidation procedure in 2005-2018. The decision to freeze the privatisation of socially owned land has contributed to delays in the privatisation process. The socially owned Trepça mining complex was officially transformed and registered into a joint stock company in March 2019. Further steps to operationalise this transformation will require coordination among all affected stakeholders, with the overall aim to revitalise the enterprise.

Functioning of the financial market

Financial stability

The financial sector remained stable, with adequate capitalisation and substantial liquidity buffers. Profitability remained high, with return on average equity (as of October 2018) standing at 18.8% for the banking sector, 18.7% for micro-financial institutions and 17% for insurance enterprises. The predominantly foreign-owned banking sector, which accounts for 64.8% of financial system assets, remained well-capitalised and liquid, with non-performing loans standing at 2.7% of total loans at the end of 2018 (the lowest level in the region). The ratio of banks' regulatory capital to risk-weighted assets stood at 16.1% in October 2018, well above the regulatory minimum of 12%. Banks continued to be predominantly financed by deposits, but the loan-to-deposit ratio rose to 83.9% in October 2018 from 79% a year earlier, as the growth of loans outpaced deposit growth. Despite the increasing activity, insurance and micro-finance companies still do not account for more than 7% of financial system assets, but the headline financial soundness indicators are at satisfactory levels⁹.

Access to finance

Lending has continued to expand, but financial intermediation is still at low levels. Bank lending expanded by 11.6% in January-October from 2017, facilitated by low interest rates, eased credit standards, guarantees extended by the Credit Guarantee Fund for lending to SMEs, and strengthened contract enforcement. Lending to firms (11.8%) and households (11.3%) registered similar rates of growth. The average interest rate spread declined to 5.2 percentage points (pps) in October 2018, from 5.8 pps the previous year, pointing to strengthening competition for lending opportunities. Credit penetration, at around 40% of GDP, is low by Western Balkan standards, and channelling savings, including remittances, through the formal financial system into productive investment remains a challenge.

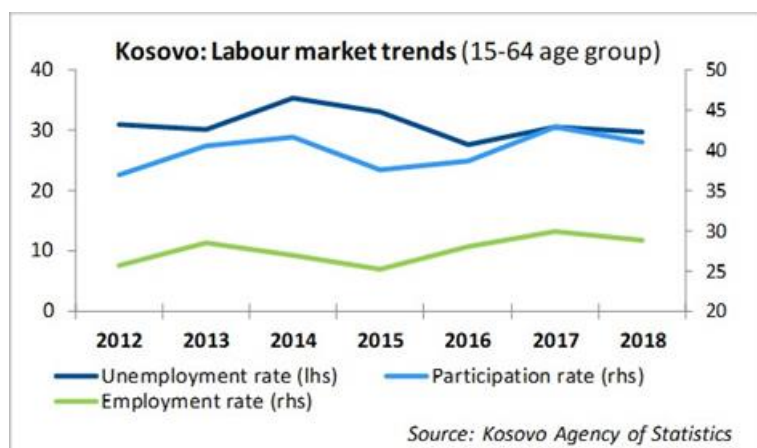
⁸ According to World Bank estimates, the public sector in Kosovo still accounts for around a quarter of gross value added (GVA) and employment.

⁹ While the headline figure presents a satisfactory picture, there are a number of issues in the insurance sector, as some firms are still in the red and three of them are under-capitalised.

Functioning of the labour market

Despite robust economic growth since 2015, labour market conditions remain difficult.

According to the labour force survey (LFS), labour force participation fell to 40.9% in the last quarter of 2018, from 42.8% a year earlier. The participation rate of women stood at 18.4%, with more than a third of economically active women (33.4%) unemployed. The overall employment rate stood at 28.8%, as compared with 29.8% a year earlier. The wide gap between male and female employment rates (45.3% and 12.3% respectively) persisted.



Unemployment slightly fell to 29.6% from 30.5%. Persistently high youth unemployment (55.4%) points to a misalignment between education outcomes and labour market needs. Brain drain, especially of educated young people, also poses a medium/long-term economic challenge. Active labour market policies, pre-qualification schemes and vocational training

programmes remain inadequate.

The use of social benefits for specific groups of the population do not focus on poverty reduction and creates disincentives to work. The untargeted war veterans' transfers not only undermine the soundness and fairness of the social benefits system, but also risk creating a snowball effect whereby other specific groups request similarly generous allowances, e.g. the recently adopted pension supplements for teachers. The relatively high salaries in the public sector, in particular in publicly owned enterprises, negatively affect the attractiveness of private-sector employment and exacerbate the skills gap. The lack of childcare facilities hinders female employment.

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

Kosovo has made **some progress** and is at an **early stage** in terms of capacity to cope with competitive pressure and market forces in the EU. Kosovo made some progress in improving road infrastructure, but there are large gaps in railway and energy infrastructure. Little progress was made in securing a stable energy supply and losses in the electricity sector remain very high. Kosovo made some progress as regards the digitalisation of the economy. Little progress was made on improving the quality of education and addressing skills gaps in the labour market. Structural changes are emerging only slowly and the economy remains highly reliant on the domestic trade sector. Export growth is driven mainly by service exports to the diaspora, while the lack of product diversification hinders the growth of goods exports.

In order to improve competitiveness and long-term growth, Kosovo should in particular:

- increase the provision of vocational education and training for professions in demand;
- improve energy efficiency incentives for firms and households;
- make the support schemes for renewable energy projects more cost efficient, by introducing competitive bidding for renewable support;

→ ensure the implementation of the new Strategy and Action Plan 2019-2023 to fight the informal economy in accordance with the prescribed timetable.

Education and innovation

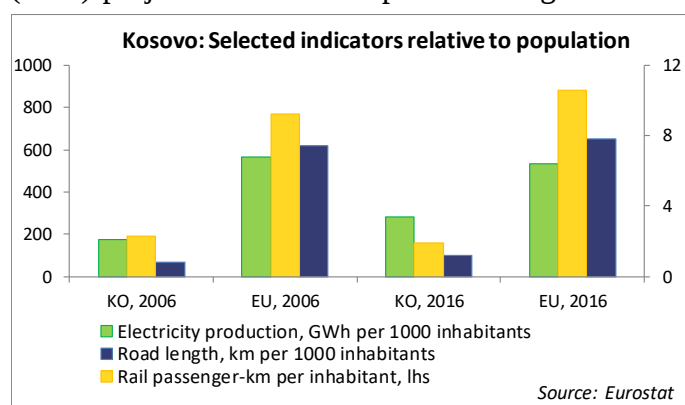
The education system is not responding sufficiently to labour market needs. While Kosovo's public spending on education (4.7% of GDP in 2017) is broadly in line with middle-income countries with similar age profiles, spending per student in primary and secondary education is relatively low due to the large proportion of students (double the EU average) and is dominated by the wage bill for teachers. The enrolment rates in primary (96%) and secondary (88.1%) education are high, but low PISA¹⁰ scores and relatively high unemployment among tertiary education graduates (19.2% in Q2-2018) compared to the EU point to the poor quality and relevance of education. The work on vocational education reform is still at an early stage, focusing mainly on analysing the current situation in vocational education training (VET) schools.

Spending on research remains virtually non-existent, currently representing only 0.1% of GDP. A new Ministry of Innovation was established in 2018 and EUR 1.1 million was allocated for specific labs and equipment at two regional innovation centres.

Physical capital and quality of infrastructure

Kosovo made progress in public road infrastructure investments. This includes the highway to Peja / Peć, the ongoing construction of a section of route 6 and preparatory work on route 7. Nevertheless, the transport system still faces a number of challenges, such as inadequate road maintenance, poor status of railways and weak administrative capacity of regulatory institutions.

Unreliable energy supply remains a key bottleneck for Kosovo's economic development. The government has taken steps to join the Albanian Power Exchange, but the new 400 kV transmission line and load frequency control with Albania are not operational, because of disagreements between Kosovo and Serbia on the implementation of the connection agreement reached in the EU-facilitated dialogue. Kosovo has no domestic gas infrastructure, but a pre-feasibility study on connecting Kosovo and Albania to the trans-Adriatic pipeline (TAP) project has been completed. The government has concluded a commercial agreement



with the bidder on the construction of the Kosova e Re 500 MW lignite power plant, which is due to start in 2019. Following the World Bank's withdrawal from the partial loan guarantee, financing arrangements for the estimated EUR 1 billion plus project are still to be settled. It may have a major impact on public finances, tariffs and the environment and this must be carefully reassessed.

Boosting energy efficiency and diversification from coal remain important policy considerations. Despite investment in energy network infrastructure (EUR 15 million), distribution losses remain high even by regional standards, reaching nearly 24% in the first half of 2018. The energy efficiency Law (adopted in 2018) established an Energy Efficiency Fund, which will support the relevant measures in public buildings. No progress was made on

¹⁰ OECD programme for international student assessment.

further energy efficiency measures, such as price deregulation for the household sector. Electricity produced from renewables accounts for 3.2% of total production.

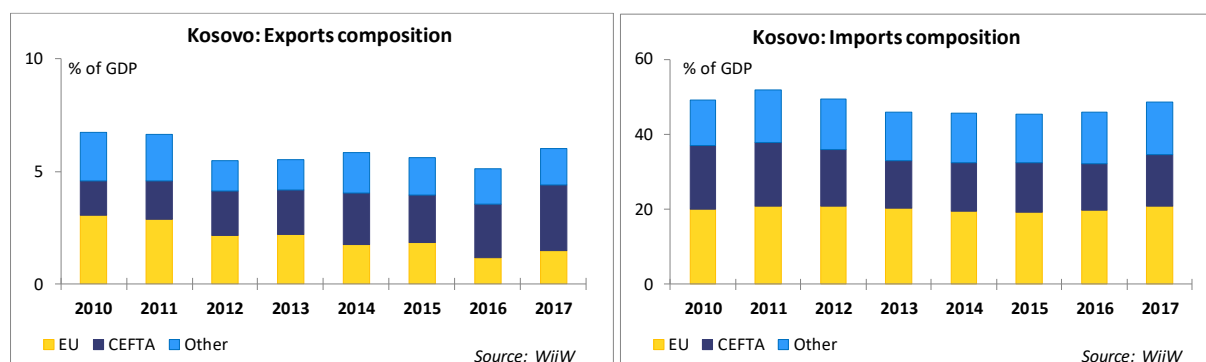
The digitalisation of the economy is gradually advancing. Kosovo had achieved the mid-term targets in the 2013-2020 digital agenda for Kosovo by mid-2018, as penetration of fixed broadband internet reached 91% and the number of mobile phone users stood at 103% of the population.

Sectoral and enterprise structure

The services sector continues to dominate the economy in terms of GDP and employment. Wholesale and retail trade accounts for the biggest group of registered enterprises (23.5% of the total), followed by manufacturing (9.7%), accommodation (9.6%) and construction (8.5%). The sectoral structure of gross value added (GVA) shows a steady decline in the share of agriculture, from 14% in 2009 to 9% in 2017, followed by shrinking contributions from public administration and real-estate activities (down from around 9% each in 2014 to around 7.5% in 2017). At the same time, the share of construction increased from its long-term average of 6.5% to 8% in 2017. The shares of wholesale and retail trades and industry, including mining, remain around their long-term averages (over 12% each), accounting together for nearly a quarter of GVA since 2012. These sectors also employed the largest (quite stable) proportions of workers (over 14% each over the last four years). The proportion of workers in construction rose rapidly from 9.5% in 2012 to nearly 13.9% in 2017. Despite agriculture's shrinking contribution to GVA, employment in the sector resurged from 2.3% in 2015 to 4.4% in 2017, suggesting a shift to formal jobs, as this sector has a high rate of informal employment.

Due to the dominance of micro-enterprises, Kosovo's private sector cannot benefit from economies of scale. Although SMEs represent over 99% of registered enterprises, almost all of them are micro-firms employing 1-9 employees, while the proportion of larger firms (employing 10-249 workers) is only 1%. The entry into force of the Competitiveness of Small and Medium-Sized Enterprises (COSME) Agreement in 2018 should allow the effective use of the EU programme to support SMEs.

Economic integration with the EU and price competitiveness



The EU is Kosovo's largest trading partner, with 41.3% of overall merchandise trade in 2018. It is followed by the CEFTA parties, with 29% of total trade. The CEFTA parties account for nearly 48% of Kosovo's merchandise exports and 30% go to the EU. On the import side, the EU's share is over 40%, followed by 28% from the CEFTA parties. The recent imposition of 100% import tariffs for goods originating in Serbia and BiH is in violation of CEFTA and hampers the development of a Western Balkans regional economic area (REA). The EU has repeatedly called on Kosovo to revoke this economically counterproductive measure.

The EU remains the main investor in Kosovo. Its share stood at 36% of net FDI stock in the third quarter of 2018. Germany and Switzerland (two countries with large Kosovar diasporas) accounted for 11% each, while a further 13% originated in Turkey. In terms of FDI flows the share of the EU was at 47% of total inflow in 2018, followed by 30% from Switzerland.¹¹

Overall trade openness increased to 79% of GDP in 2017 from 72% in 2013. Exports of goods and services increased from 22% to 27% of GDP due to a significant contribution from service exports. These remain dominated by travel services to the diaspora, but IT and other business services increased, reaching almost 10% of total service exports in 2018. Most of Kosovo's goods exports still consist of basic raw materials and mineral products, reflecting limited diversification of the production sector.

4. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

Good neighbourly relations and regional cooperation represent an essential aspect of Kosovo's process of moving towards the EU. They contribute to stability, reconciliation and a climate that is conducive to addressing open bilateral issues and the legacies of the past. Kosovo maintained its engagement in a number of regional cooperation initiatives, such as the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty, the Coalition for the Commission Tasked with Establishing the Facts about All Victims of War Crimes and Other Serious Human Rights Violations Committed on the Territory of the Former Yugoslavia (RECOM) and the Brdo-Brijuni process. Kosovo chaired a number of regional activities and events. Kosovo took part in the implementation of the Multiannual Action Plan (MAP) for the development of a Regional Economic Area in the Western Balkans, although more attention is needed to secure timely adoption of the incurred measures as well as streamlining regional commitments into domestic policies.

However, the Kosovo government's decision to impose a 100% tariff on imports from Serbia and Bosnia and Herzegovina has undermined regional cooperation efforts.

Building on the results of previous summits, the July 2018 London Summit brought a renewed commitment to the connectivity agenda. Dialogue with the Western Balkans continued in Skopje on the implementation of the Digital Agenda, to which all leaders of the region had committed through a statement of support. More particularly concerning the negotiations on roaming fees, a regional agreement was signed at the Western Balkans Digital Summit in Belgrade in April 2019 enabling Roam like at Home (RLAH) as of July 2021. Kosovo participated in the European Commission's regional conference on media (Media Days) in Skopje. Member States and the Western Balkan partners signed the Joint Action Plan on Counter Terrorism for the Western Balkans at the Justice Home Affairs Ministerial in Tirana in October 2018. Kosovo chairs the governing board of the Regional Youth Cooperation Office (RYCO) in 2019. Conditions for meetings were not conducive to the adoption of decisions necessary for the functioning of RYCO. In February 2019, at the Ministerial Meeting on Clean Energy Transition held in Podgorica, the Ministers of Energy and Environment of the Western Balkans committed to adopting concrete measures aiming at the implementation of the Paris Agreement and the Energy Community obligations based on the EU Clean Energy for All Europeans Package. Due to the energy dispute with Serbia, Kosovo's Electricity Transmission Company is still not in a position to take full advantage of the regional electricity market. Kosovo ratified the Transport Community Treaty in October 2018. Connectivity projects in the railway sector are under way.

¹¹ Data for January-October.

Kosovo should urgently complete its process of accession to the Regional School of Public Administration (ReSPA) Agreement, in order to be able to continue to benefit from ReSPA activities on an equal footing with other ReSPA members.

The unresolved fate of **missing persons** from the 1990s conflicts remains a humanitarian concern in the Western Balkans. As of February 2019, a total of 10 247 persons are still missing across the region, according to the International Committee of the Red Cross (ICRC). Of these cases, 1 653 (84% men, 16% women) relate to the conflict in Kosovo and its aftermath. The Belgrade-Pristina Working Group on Missing Persons, chaired by the ICRC, held several sessions and in October 2018 adopted procedures on the handover of human remains. In November 2018, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro and Serbia signed a framework plan to promote regional cooperation in addressing the issue of persons missing from conflicts on the territory of the former Yugoslavia. The lack of new information on uncovered gravesites remains the main obstacle to solving cases. Kosovo's Government Commission on Missing Persons has conducted assessment excavations in 20 locations. Only seven cases of missing persons relating to the Kosovo conflict were solved in 2018.

Kosovo's efforts in resolving the fate of missing persons continues to be undermined by inter-institutional and administrative issues. However, inter-institutional coordination and cooperation between the Institute of Forensic Medicine and the Governmental Commission on Missing Persons improved in the reporting period. The process of establishing a central register of missing persons has stalled again. The authorities still need to adopt secondary legislation on the establishment of such a register and on the closure of cases, to support implementation of the Law on missing persons.

The post of Director of the Institute of Forensic Medicine was finally filled in August 2018. The Institute still does not meet the required standards for sustainable forensic practices, including forensic anthropology and archaeology. More needs to be done to build such capacity and to ensure continuous and sustainable funding of the Institute. Work has started on the creation of a functional case-management system. Hundreds of human remains stored at the Pristina morgue, for which all possibilities for forensic action have been exhausted, remain unidentified.

Kosovo's commitment to maintaining good and constructive **bilateral relations** in the region was put into question by the government's decision to impose a 100% tax on imports from Serbia and Bosnia and Herzegovina.

Kosovo has continued to develop closer relations with **Albania**. Trade between the two increased by slightly above 20% in 2018. A fifth joint government meeting took place in November 2018, with cooperation agreements signed in several areas. In December 2018, the governments of Kosovo and Albania signed an agreement entailing simplified procedures for border crossing and joint border controls. Under a previously signed agreement, a Kosovo customs office was opened in the Albanian port of Durrës, in order to simplify procedures for imports into Kosovo transiting through Albania. Any decision with respect to the management of border control must be in line with IBM standards.

There has been no change in Kosovo's formal relations with **Bosnia and Herzegovina**, which does not recognise Kosovo's independence. A reciprocal visa regime remains in place. Relations were negatively affected by Kosovo's imposition of a 100% tariff on the import of goods from Bosnia and Herzegovina in November 2018.

Kosovo continues to enjoy good relations with **Montenegro**. The ratification by the Kosovo Assembly of the agreement on border/boundary demarcation with Montenegro in March 2018

was an important achievement and it came into force in June 2018. An agreement on the international transport of passengers and cargo was signed in August 2018.

There was further progress in relations with **North Macedonia**. Work on the new crossing-point at Stancic-Belanoc started in June 2018. Contacts between government officials continued to intensify. Kosovo's political leaders have welcomed the Prespa agreement as a positive contribution to the stability of the region. On 1 June 2018, a protocol related to the readmission agreement with North Macedonia entered into force.

Kosovo has maintained good relations with **Turkey** and reciprocal high-level visits continue. The arrest and forced deportation to Turkey of six Turkish nationals legally residing in Kosovo in March 2018 raised serious questions about the respect of due process (*See section 2.2.1 – Judiciary and fundamental rights*).

5. NORMALISATION OF RELATIONS BETWEEN KOSOVO AND SERBIA

In the framework of the **EU-facilitated dialogue**, work continued with a number of high-level meetings led by High Representative/Vice-President Mogherini with Presidents Vučić and Thaçi. This new phase aims to conclude a fully comprehensive and legally binding agreement between Serbia and Kosovo, in line with international law and EU *acquis* and acceptable to EU Member States and the region. This work was interrupted in November 2018 following the decision by the Kosovo government to impose customs tariffs of 100% on imported goods from Serbia and Bosnia and Herzegovina, on political and economic grounds.

On the implementation of past agreements, further consolidation has been made on the implementation of the **April 2013 'First agreement of principles governing the normalisation of relations'** with the full implementation of the justice agreement which has enabled the newly integrated judicial personnel to address the judicial backlog with their judicial colleagues.

Implementation of the **25 August 2015 Agreements** has overall remained slow. No progress has been made on the **Association/Community of Serb majority municipalities** and Kosovo has yet to engage constructively in its establishment. The **energy** agreement between Serbia and Kosovo must be implemented without further delay in order to avoid this longstanding dispute from having further consequences for energy stability and security in Serbia, Kosovo and countries across Europe. Following the completion of the registration of Elektroserver, Serbia needs to file for the licensing process in Kosovo as a matter of urgency. The works on the **Mitrovica bridge** are completed and the bridge should be opened to vehicle traffic without further delay or obstructions. The full implementation of the **telecoms** agreement has enabled the introduction of the new dialling code.

As regards the **Technical Dialogue Agreements (2011-2012)**, some are not or only partially being implemented. Both sides need to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. The issues of **cadastre** and **university diplomas** recognition are yet to be solved, as are the **licence plate** related elements of the agreement on freedom of movement. 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 the related agreement. On **IBM**, the interim common crossing points with Serbia continue to be operational. There has been limited progress in establishing the six permanent IBM common crossing points between Serbia and Kosovo as stipulated in the IBM agreement. Serbia did not engage constructively in starting the establishment of these crossing points on the Serbian side (in Jarinje, Mucibabe, and Konculj). This led to a suspension of EU funds in July 2018. At those hosted by Kosovo (in

Tabavije/Bërnjak, Mutivodë/Mutivode and Merdarë/Merdare), the construction at Tabavije/Bërnjak has never started due to the failure of Belgrade to relocate the electricity pylons to allow for construction to commence. At Mutivodë/Mutivode, all cooperation by Serbian technical representatives has stopped since March 2018. Finally, the refusal of Serbian authorities to vacate the provisional premises of the Merdarë/Merdare crossing point and move into the new ones significantly delays the traffic and puts at risk the implementation of EU-funded projects. There has also been no progress in establishing the additional interim common crossing points in Kapi/Kapija Vrapce and Rajetici/Izvor. Additional measures need to be taken by Serbia to close illegal crossings.

Requests for **mutual legal assistance** are in principle being processed. In some instances, cooperation by Serbia in high-level investigations has not been forthcoming. Mutual legal cooperation is extremely limited in war crimes cases.

Overall, Kosovo has remained engaged in the dialogue. However, the Kosovo government needs to revoke the tariffs on imports from Serbia and Bosnia and Herzegovina. Kosovo needs to make further substantial efforts and contribute to the establishment of a conducive environment to the conclusion of a legally binding agreement with Serbia. Such an agreement is urgent and crucial so that Kosovo and Serbia can advance on their respective European paths.

6. European standards

6.1 Free movement of goods

Kosovo has **some level of preparation** on the free movement of goods. It made **some progress** during the reporting period on the overall legal framework and some sectoral legislation in the “harmonised” area. Inter-institutional coordination to enable the proper enforcement of legislation still needs to improve. The capacity of Kosovo's quality infrastructure institutions needs to be strengthened. The recommendations in last year's report have been partly addressed and in the coming year, Kosovo should in particular:

- adopt the outstanding secondary legislation relating to the Laws on standardisation, on metrology, on accreditation and on technical requirements for products and conformity Assessment;
- continue to ensure the implementation of the registration, evaluation, authorisation and restriction of chemicals (REACH) Regulation.

General principles

With regard to the framework for the **production, distribution and marketing of industrial products**, further steps were taken to align with the *acquis*, including through the adoption in March 2018 of the Law on technical requirements for product and conformity assessment. The National Programme for Implementation of the SAA sets out the planning for gradual approximation with the *acquis* and its implementation.

Non-harmonised area

So far, no action plan is in place to ensure **compliance with Articles 34-36** of the Treaty on the Functioning of the European Union (TFEU). A new governmental regulation on the notification and exchange of information on technical regulations, conformity assessment procedures and standards was adopted in January 2019, with a view to harmonising with requirements of the *acquis*. However, the recent Law on consumer protection diverges from the *acquis*, notably as regards labelling, packaging and a declaration requirement, whereby the

seller has to indicate the origin of the product by means of a label with the flag of the country of origin.

The Ministry of Trade and Industry is the competent authority for follow-up and implementation of Articles 34-36 TFEU, and has been identified as the body responsible for the **obligation to notify technical regulations**, in line with the applicable EU requirements and international agreements.

Harmonised area: quality infrastructure

In 2018, some outstanding key legislation was adopted, providing a legal basis for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance. However, institutional structures need to be strengthened further to fully enforce the laws.

The Kosovo **Standardisation** Agency has been granted access to selected European standards through licensing agreements with the European Committee for Standardisation/European Committee for Electro-technical Standardisation (CEN/CENELEC). It adopted 554 European standards in the reporting period. However, obstacles limiting online sales of standards still need to be addressed.

Four secondary regulations have been adopted since the entry into force of the Law on accreditation in 2017. Kosovo's **accreditation** body still needs to address several non-conformities to meet the necessary requirements for accession to the Multilateral Agreement of the European Cooperation for Accreditation. A Director-General was finally appointed in November 2018, but the delay disrupted the accreditation process and undermined confidence in the accreditation services. There are currently 39 accredited **conformity assessment** bodies in Kosovo (33 test laboratories and 6 inspection bodies), but their capacity and performance need to be strengthened.

Kosovo adopted the Law on **metrology** in March 2018, as well as secondary legislation designed to align with the EU Directives on non-automatic weighing instruments (NAWI), pre-packaging and bottles used as measuring containers. Additional secondary legislation on metrological procedures needs to be adopted in order to implement the Law and the other acts. The shortage of qualified staff and equipment undermines full implementation of these laws and regulations in several sectors. The Kosovo Metrology Agency is a liaison organisation, pending associate member status, of the European Association of National Metrology Institutes (EURAMET) and has taken steps to become an associate member of the International Bureau of Weights and Measures (BIPM).

The main legal basis for **market surveillance** consists of the Law on Technical Requirements for Products and Conformity Assessment and the Law on General Product Safety, designed to be aligned with the *acquis*. However, the market surveillance bodies fail to enforce the laws due to a lack of resources and structural weaknesses. The fact that the market inspectorates act at both community and central level renders coordination difficult. Inter-institutional monitoring has slightly improved with the establishment of the Coordination Body for Market Surveillance and the launch of the on-going inspection reform.

In 2018, a total of 304 product safety inspections identified 16 harmful products, including 3 types with serious risks; all harmful products were subsequently permanently withdrawn from the market.

Harmonised area: sectoral legislation

On the “**New and Global Approach**” **product legislation**, Kosovo adopted legislation to increase its alignment with the *acquis* on construction products. However, lack of capacity in the quality infrastructure prevents its full implementation.

There has been some progress on alignment with the *acquis* on “**Old Approach**” product legislation and **procedural measures**. Kosovo adopted legislation designed to increase alignment with the *acquis* on pre-packaging and bottles used as measuring containers and on textile labelling and mixtures. It has started aligning and further strengthening its administrative capacities to ensure effective implementation of the REACH Regulation.

6.2 Movement of persons, services and right of establishment

Kosovo is **moderately prepared** for the free movement of persons, services and the right of establishment. **Some progress** was made by enforcing the notification procedure and compliance assessment of draft normative acts falling under the scope of the Law on services. The recommendations in last year’s report have been addressed only partially.

Over the coming year, Kosovo should in particular:

- remove the identified barriers to the free movement of services, by implementing the action plan for the full implementation of the Law on Services;
- align with the *acquis* on mutual recognition of professional qualifications;
- continue to align with the *acquis* on postal services and further open the postal market.

On **movement of persons**, regarding access to the labour market, the Ministry of Labour and Social Welfare has issued 343 labour certificates for periods of 90 days to foreign citizens over the reporting period. On the coordination of social security systems, the Kosovo Assembly ratified the Social Security Agreements with Belgium and Switzerland in October 2018. Kosovo has well-functioning agreements with Montenegro and North Macedonia on confirmation of social security periods.

On the **freedom to provide services**, the Law on services complies only partly with the Services Directive and is not aligned with the provisions on cross-border services and administrative cooperation. Following last year's screening of sectoral legislation, a five-year action plan for the full implementation of the Law on services was adopted in July 2018. It involves amending 54 pieces of sectoral legislation (25 primary and 29 secondary acts) in order to remove outstanding restrictions to the free movement of services by 2022. In March 2018, the government established a notification procedure to ensure that draft normative acts comply with the Law on services. It obliges competent authorities to seek a positive legal opinion prior to passing any future draft legislation falling under the scope of the Law on services. Finally, secondary law provides for the establishment of a Point of Single Contact by the Ministry of Trade and Industry in 2019, to facilitate access to service activities and provide service providers with the information they need. In the coming year, Kosovo should launch a test phase for a fully functioning Point of Single Contact.

On the **right of establishment**, general registration in the Kosovo business registry is binding for any individual or company wishing to do business. In a number of regulated professions such as law and auditing, there is a need to enrol in a separate sectoral registry or association. Foreign service providers are allowed to offer services if they establish an office in Kosovo.

Kosovo has gradually aligned its legal framework on **postal services** with the *acquis*. In December 2018, a new Law on postal services was adopted by the Assembly, which is partly aligned with the EU postal *acquis*. Secondary legislation for the technical implementation of the law and a timetable to move forward with the legislative process should follow. 30% of the territory is still not covered by the universal postal service. The weight limit for the reserved area is still 100 grams. There are plans to fully liberalise the postal market by 2021.

On the **mutual recognition of professional qualifications**, the Law on the regulated professions in Kosovo, as adopted in October 2016, is to a certain degree aligned with the *acquis*, but still needs further harmonisation. The *acquis* harmonises rules on regulated professions to ensure the mutual recognition of qualifications and diplomas between Member States. It identifies 16 professions as “regulated”, the so-called sectoral professions, (e.g. doctors, dentists, pharmacists, veterinary surgeons, midwives, nurses and architects), for which the Directive prescribes minimum harmonised training and sets out some generic criteria for accessing and exercising them. The secondary legislation has yet to be adopted. In 2018, as part of its restructuring, the Ministry of Education established a Division for Examinations and Regulated Professions, which will be responsible for organising state exams and for establishing procedures to access regulated professions.

Building on the progress made, Kosovo needs to continue developing the necessary structures and rules for the recognition of professional qualifications obtained abroad, in order to guarantee and facilitate the mobility of professionals and services.

6.3 Free movement of capital

Kosovo has **some level of preparation** in this area. **Some progress** was made on payment services, with the entry into force of an amending regulation on charges for such services. Previous report recommendations on the equal treatment of EU nationals acquiring real estate in Kosovo and on increased efforts to fight economic and financial crime, have not yet been addressed.

In the coming year, Kosovo should therefore:

- take concrete steps to grant national treatment to EU nationals acquiring real estate in Kosovo, in line with the SAA;
- increase efforts to fight economic and financial crime and align the Law on the prevention of money laundering and terrorist financing with the *acquis*.

On **capital movements and payments**, the movement of capital remains largely free in Kosovo, with no restrictions on foreign ownership or on investment in the financial sector. Use of the International Bank Account Number (IBAN) is mandatory for both domestic and cross-border payments and functions well. The execution of payments and money transfers is limited to banking and non-banking financial institutions licensed by the Central Bank of Kosovo to perform such activities.

The government has started to address the issue of real estate acquisition by foreigners focusing on the rights of EU nationals. A proposal to amend the relevant legislation is scheduled for 2019.

On **payment systems**, amendments to the Regulation on the interbank payment system that entered into force in August 2018 prohibit the charging of fees for local incoming transfers processed through the interbank payment system.

On the **prevention of money laundering and terrorist financing**, the authorities conducted one general and three sectoral risk assessments in the construction and gambling sector and

on non-profit organisations. The Law on the prevention of money laundering and terrorist financing complies only partly with the *acquis* and Financial Action Task Force recommendations. Inter-institutional cooperation in the fight against economic and financial crime must be strengthened to ensure the proper investigation and prosecution of offences (See also section 2.2.2 - *Justice, Freedom and Security*).

6.4. Financial services

Kosovo is **moderately prepared** in the area of financial services. **Some progress** was made in the implementation of last year's recommendations with the adoption of the Law on accounting, financial reporting and auditing.

In the coming year, Kosovo should, in particular:

- fully implement and enforce Solvency I measures; start to implement Solvency II measures;
- advance on the incorporation of the Basel III framework (capital requirements Regulation and Directive) and start aligning the legal framework on microfinance institutions and non-bank financial institutions with the *acquis*;
- improve inter-institutional coordination to address the issue of uninsured, unregistered vehicles.

On **banks and financial conglomerates**, some additional progress has been made in implementing the legislation on banking supervision, which aims to strengthen corporate governance and the management of credit risk. The European Central Bank's single supervisory mechanism and the Central Bank of Kosovo signed a memorandum of understanding in December 2018 aimed mainly at facilitating cooperation and the exchange of information in the field of banking supervision. The Central Bank of Kosovo needs to ensure that consumers are adequately protected and to prevent unfair banking practices. Kosovo still needs to establish an independent recovery and resolution authority. Potential changes to the Law on banks to grant this function to the Central Bank must guarantee that the authority operates with full functional independence within the Central Bank. On the harmonisation of the regulatory framework with Basel II and EU standards, the chapter on risk-weighted exposure amounts for credit risk has yet to be adopted. The Central Bank requires banks to maintain a minimum capital adequacy ratio of 12%. The capitalisation level of banks is considered stable and well above the required minimum capital adequacy ratio. The Assembly adopted the Law on accounting, financial reporting and auditing in March 2018. The legislation on microfinance institutions and non-bank financial institutions is not yet in line with the *acquis*.

The Central Bank is Kosovo's sole authority on **insurance and occupational pensions**, with full competence for licensing, regulating and supervising insurance companies and occupational pension funds. Solvency I measures need to be fully implemented and enforced and the implementation of Solvency II should start. While the insurance Law is aligned with the *acquis* on the exercise and pursuit of the business of insurance, reinsurance and insurance mediation, the oversight and supervision of occupational pension funds needs to be improved. Stronger inter-institutional coordination is required to address the issue of uninsured, unregistered vehicles. As Kosovo is still not part of the 'green card' system, vehicle insurance is still required for foreign-registered vehicles entering Kosovo and vehicles with Kosovo plates leaving Kosovo. This is not the case for countries with which Kosovo has bilateral vehicle insurance arrangements. The online sale of border insurance policies started in May

2018 as a way of simplifying procedures, but it remains a financial burden for frequent travellers.

On **securities markets and investment services**, market development is at an early stage and there is no activity relating to undertakings for collective investment. Activity focuses on the government securities market. The Central Bank of Kosovo auctions government securities and maintains records, which are stored and processed electronically in the central depository securities system.

6.5. Customs

Kosovo is **moderately prepared** in the area of customs. There has been **some progress**, notably in enforcing customs measures for the protection of intellectual property rights (IPRs). The recommendations in last year's report have not been fully addressed and in the coming year, Kosovo should in particular:

- further align customs legislation, including the customs and excise code, with the Union customs code and the excise *acquis*;
- step up coordination between Kosovo Customs, law enforcement agencies and other relevant institutions on fighting the informal economy and customs fraud.

In the area of **customs legislation**, the customs and excise code is largely aligned with the Union customs code, but further alignment is still needed. Kosovo has formally applied to become an observer in the Common Transit Convention. It has not ratified the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin but it applies its provisions. Kosovo Customs continues to participate in the system for the exchange of excise data, which provides for the systematic electronic exchange of data among Western Balkan economies. The legislation on drug precursors, customs measures governing IPRs and export controls for cultural goods is still not fully aligned with the *acquis*. Some progress was made on procedures for authorised economic operators, but further harmonisation is still needed on customs security aspects. Inland customs terminals located in privately owned facilities charge a fee to every truck entering the terminal to discharge customs obligations. Such fees are not in line with the *acquis*.

The customs administration continued to maintain reasonable **administrative and operational capacity**; customs revenues in 2018 were 1.2% higher than in 2017. As regards administrative and technical development, Kosovo should consider applying to participate in the Customs 2020 programme, which focuses directly on implementing Union law and policy in the field of customs. Kosovo Customs' paperless approach and e-payments system have helped to eliminate bureaucratic administrative barriers, leading to a streamlining of customs clearance procedures.

Customs' performance in the fight against illegal cross-border activities, including the smuggling of goods, such as narcotics and hazardous materials, continues to show progress. Further efforts are needed to address corruption more effectively, including by conducting more investigations and strengthening checks on asset declarations filled by customs officials. The professional capacity of the customs department dealing with IPRs is improving. In the reporting period, Kosovo Customs stepped up efforts to fight IPR infringements. The level of informality in the economy is still high and further coordination efforts are needed between relevant institutions and law enforcement bodies to fight the informal economy and customs fraud. Further efforts are also required to address the backlog of unresolved complaints against the customs administration in the fiscal division of the Basic Court in Pristina.

Kosovo and Albania signed an agreement entailing simplified procedures for border crossing and the elimination of double controls. On the basis of a previously signed agreement a Kosovo customs office was opened in the Albanian port of Durrës in order to simplify procedures for imports into Kosovo transiting through Albania.

6.6 Taxation

Kosovo has **some level of preparation** in the area of taxation. There was **some progress** in collecting tax revenues, reducing the grey economy, further aligning secondary tax legislation and concluding new double-taxation agreements (DTAs). However, the decision to introduce a discriminatory excise rate for cigarettes represents a clear violation of the SAA. Last year's recommendations were partially implemented and in the coming year, Kosovo should in particular:

- withdraw the decision on discriminatory excises on cigarettes to bring the legislation into line with the SAA;
- systematically implement the strategy for combating the informal economy, money laundering, financing of terrorism and financial crime (2019-2023) and its action plan;
- increase cooperation with the existing judiciary framework to ensure timely adjudication of tax evasion and fraud cases, and reduce the backlog of unresolved complaints against the Tax Administration in the fiscal division of the Basic Court in Pristina.

On **indirect taxation**, the value-added tax (VAT) system is broadly aligned with the *acquis*. Kosovo's standard rate of 18% and reduced rate of 8% are in line with the *acquis*, but the application of the latter to supplies and imports of IT equipment is not. Following the June 2018 shift to a risk-based approach to refunding VAT, there has been progress in limiting the average time for a refund to less than 30 days. VAT reimbursement for goods contained in the personal luggage of travellers residing outside Kosovo is still not aligned with the relevant EU Directives. As regards **excises**, the government adopted a decision introducing a discriminatory rate for cigarettes, in clear violation of the SAA. The authorities should develop a plan for the tax treatment of evaporation and other kinds of material loss during the transportation, production or storage of excise goods. On **direct taxation**, transfer pricing between enterprises under common ownership or control is in line with OECD guidelines for agreements on the elimination of double taxation.

On **administrative cooperation and mutual legal assistance**, Kosovo signed one more DTA with Austria in 2018, bringing the total number of DTAs to 14 (11 of which had entered into force by 2018). It should consider adopting the standards enshrined in the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters.

On **operational capacity and computerisation**, modernisation of the tax authorities' internal IT platform (and the utilisation of electronic services) should continue. There has been some progress in reducing the informal grey economy, and overall tax revenue collection in 2018 increased by 10.2% compared to 2017 due to higher tax compliance and tax debt collection. A revised strategy and action plan to combat informal economy introducing qualitative and quantitative indicators to better monitor the progress was adopted in May 2019. The Kosovo Tax Administration has developed a good taxpayer service focus, in particular with the widespread use of e-filing and e-payment systems. Field inspections increased, with the Administration conducting 306 anti-tax evasion operations at 17 locations in 2018. Tax evasion to the value of over EUR 7 million was found in the same period. However, tax evasion and informality continue to hamper the economy and further efforts are needed, in

particular on risk-based field inspections and inter-institutional cooperation. The tax administration should further strengthen its administrative and professional capacity and ensure merit-based and transparent selection processes. Financial intermediaries are only required to inform the tax authority about recipients of savings income only when asked. Allegations of serious tax fraud need to be properly investigated. Additional efforts are needed to address further the backlog of unresolved complaints against the tax administration in the fiscal division of the Basic Court in Pristina.

6.7 Competition

Kosovo is at an **early stage** on competition. **Some progress** was made with further legislative alignment and the development of the institutional capacities of the Kosovo Competition Authority. However, the Authority faces challenges as regards its investigative and decision-making capacity. In the area of state aid, significant efforts are needed to improve legislative alignment and enforcement. The State Aid Commission, whose members were appointed in March 2019, needs to become operational.

As last year's recommendations remain largely unaddressed, Kosovo should pay particular attention in the coming year to:

- ensure the functional capacity and operational independence of the competition and state aid institutions and increase cooperation and coordination between relevant ministries, institutions and stakeholders;
- complete the alignment of secondary legislation on competition and state aid and ensure its enforcement;
- fulfil SAA obligations regarding the state aid schemes inventory and public undertakings.

Antitrust and mergers

The **legislative framework** is broadly aligned with Article 101 (restrictive agreements) and Article 102 (abuse of a dominant position) TFEU. The legal framework is in place for the Kosovo Competition Authority to control antitrust and mergers. Amendments to the Law on competition are being prepared in line with the *acquis*. In addition, further progress was made by adopting secondary legislation relating to antitrust, notably several administrative instructions.

On the **institutional framework**, the Kosovo Competition Authority is responsible for implementing competition law. The Authority is governed by the Kosovo Competition Commission, a collegial decision-making body appointed by the Assembly. Formally, the Authority has powers to initiate investigations, conduct on-site inspections, impose fines and remedies and prohibit anti-competitive mergers. However, cooperation, reporting and coordination with government institutions, regulators and ministries should be strengthened.

As regards its **capacity to enforce legislation**, the Authority has adequate staffing and an adequate budget. The team requires appropriate training to handle cases more efficiently and implement competition rules effectively. Judges and court staff dealing with competition cases and merger control still lack adequate expertise in this field.

Additional progress was made on **implementation**, notably on the adoption of decisions on anti-competitive agreements, abuse of dominant position and mergers. The Kosovo Competition Commission issued 10 professional opinions in 2018. However, awareness raising and understanding of competition policy among staff and especially judges needs to be stepped up significantly.

State aid

The **legislative framework** is largely in line with the *acquis*. The Law on state aid is broadly aligned with Articles 107 and 108 TFEU. A Regulation on Procedures and Forms of State Aid Notification was adopted in October 2018.

As regards the **institutional framework**, the members of the State Aid Commission, responsible for implementing state aid control, were appointed in March 2019. Formally, the State Aid Department in the Ministry of Finance has the power to verify notified aid measures, prohibit aid, carry out *ex post* control of aid and recover incompatible aid. However, its capacity to enforce the law remained inadequate over much of the reporting period. As a result, there has been no effective **enforcement**. The State Aid Department has not adopted any decisions on state aid in the last five years and has been devoted to drafting secondary legislation. The Department did not have the capacity to screen existing aid schemes and establish a comprehensive inventory of aid schemes by the SAA deadline (April 2019). Moreover, the identification of granting authorities is still ongoing, hindering *ex ante* notifications and *ex post* control. A number of aid measures, granted at central or local level, in particular to large companies in various sectors (e.g. telecommunications) are not notified or properly investigated. Awareness of state aid rules among aid grantors is very weak and must be improved significantly.

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 partly in line with the *acquis*. Monopolies of a commercial nature within the meaning of Article 37 TFEU exist in Kosovo. The exclusive agreement with a private company regarding mandatory vehicle homologation for all imported cars raises concerns.

6.8 Public Procurement

Kosovo has **some level of preparation** in public procurement. **Some progress** was achieved with the further rollout of the electronic procurement platform. However, more efforts to prevent irregularities and corruption during the procurement cycle are necessary. Kosovo still needs to address the weak capacity of public procurement institutions to administer public procurement, the insufficient monitoring and enforcement of contracts and the weak remedy systems, which are all vulnerable to corruption.

As most of last year's recommendations remain valid in the coming year, Kosovo should in particular:

- further align its legislation with the *acquis* on public procurement, including on public-private partnerships and concessions, and ensure proper implementation of the Law on public procurement;
- ensure that the Procurement Review Body (PRB) board is fully operational, and that staff capacity limitations are addressed;
- increase the capacity of all public procurement institutions and the cooperation between them to ensure consistent implementation of the public procurement regulatory framework.

Institutional set up and legal alignment

Kosovo's **legal framework** on public procurement is broadly aligned with the 2004 EU Directives on classical and utilities procurement and on concessions and public-private partnerships. Further alignment with the 2014 EU Directive, including on public-private

partnerships and concessions, is still required. Relevant principles such as the best price-quality ratio and full product life-cycle costs are not implemented, as they are not reflected in the relevant secondary legislation. Kosovo's legal framework has not yet been aligned with the EU defence procurement Directive. All legal and financial instruments used in the area of public procurement and concessions, including inter-governmental agreements concluded with third countries, should reflect the principles of transparency, competition, equal treatment and non-discrimination.

Kosovo has a **strategy** (2017-2021) and action plan (2017-2019) to improve the public procurement system. However, there are no arrangements to assess its implementation. Key objectives of public procurement are also reflected in the 2016-2020 Public Finance Management Strategy. Concrete steps, coordinated activities and timelines for the implementation of the strategy and the action plan are lacking.

The **public procurement institutions** consist of three main bodies. The Public Procurement Regulatory Commission is responsible for the overall coordination and supervision of the public procurement system and training. The Central Procurement Agency, under the Ministry of Finance, is in charge of central and coordinated purchases. The PRB examines all allegations of breaches to the public procurement law. These institutions need to coordinate more and face up to major challenges in exercising their functions and duties effectively and efficiently.

Implementation and enforcement capacity

In 2018, the public procurement share accounted for 9.4% of GDP (EUR 631.6 million). Of this, 89% was awarded using an open procedure. However, 99% of public contracts were awarded according to the lowest-price criterion, rather than best price-quality ratio in line with the EU Directive on public procurement. Prices for the same items differ widely between contracting authorities. The fact that the contracting authorities lack the capacity to draft proper technical specifications, undermines the quality, efficiency, transparency and effective implementation and oversight of the procurement cycle.

All 188 contracting authorities at central and local level have to use the e-procurement system for any type of procurement activity. Since January 2019, the electronic submission of bids is mandatory for all procurement types and values, and physical submission is no longer allowed. Continuous training is required to develop the ability of both bidders (especially SMEs) and buyers to use e-procurement. Around 6,000 economic operators and 15,000 users are currently registered and actively using the e-procurement system.

Centralised procurement is mandatory for 14 categories of goods and services listed by the Ministry of Finance and applies to agencies with fewer than 50 employees that are accountable to the Assembly. However, the Central Procurement Agency's staff and other resources are not sufficient to meet demand.

Monitoring of central purchasing activities remains particularly important due to their high value and complexity. Significant delays in the procurements undertaken by the Central Procurement Agency hampered its operations. The latter failed to conduct transparent, efficient and economically advantageous procurements through centralised procedures to secure budget savings. The shortcomings stem from poor planning and a failure by contracting authorities to conduct market research. Inadequate analysis and collection of data adds to the poor execution of contracts. The sole use of the 'lowest price' criterion when procuring supplies might lead to higher life-cycle costs and poor quality purchases. Monitoring of contract management and implementation is deficient.

Efficient remedies system

The regulatory framework and institutional arrangements are in place for the review of public procurement, including public-private partnerships. The provisions of the Law on public procurement on the scope of the review and remedies systems, the time limits for challenging decisions, the effects of filing a complaint and the mechanism for ensuring the effectiveness of contracts, are broadly in line with the *acquis*.

By October 2018, the PRB had received 614 complaints and reviewed 521 appeals. Its decisions are published on its webpage, but its database is not user-friendly.

Economic operators have the right to ask the PRB to review their complaints. In the event of non-compliance with its decisions, the PRB has the power to impose fines on contracting authorities. Four such penalties were imposed in 2018.

The PRB is not complete, as two of its five board members have been suspended since June 2017, due to their indictment in a corruption case. Its staff consists of 18 civil servants and a number of external experts. Its decisions, which are made by the board, lack developed and consistent reasoning and are not always enforced.

6.9 Company law

Kosovo has **some level of preparation** in the area of company law. **Good progress** was made on the 2018 recommendations through the adoption of the new Law on business organisations and the entry into force of the Law on accounting, financial reporting and audit. Legislative changes continued to provide a more favourable environment for businesses.

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

→ ensure the proper implementation of the recently adopted Law on business organisations and of the Law on accounting, financial reporting and audit and ensure further alignment in these areas.

On **company law**, the Law on business organisations (adopted in May 2018), is partly aligned with the *acquis*. It outlines the role and responsibilities of the Kosovo Business Registration Agency (KBRA) and includes some provisions on cross-border mergers, protection for employees, minority shareholders as well as creditors in domestic mergers and divisions. It also provides for the adoption of a corporate governance code. The KBRA is responsible for online business registrations and publications, including company financial statements. Businesses can be registered electronically. Further alignment with the company law *acquis* is necessary, including on the minimum capital requirement, shareholder rights, and company takeovers.

In the field of **corporate accounting** and **auditing**, the new Law on accounting, financial reporting and audit was adopted in April 2018 entered into force in January 2019. It is partly aligned with the *acquis* and regulates, inter alia, the responsibilities of the competent authorities, audit requirements, qualifications and the licensing of accountants and auditors. Large entities must apply International Financial Reporting Standards (IFRS/IAS). The requirement for SMEs to apply the IFRSs for SMEs goes beyond the requirements of the EU accounting Directive. The institutional audit oversight structures need to be strengthened, as do the professional independence and objectivity of auditors and audit firms. A sustainable, long-term solution should be found for the financing of the Public Oversight Board.

6.10 Intellectual property law

Kosovo has **some level of preparation** in this area. **Some progress** was made in aligning the legal framework with the *acquis*. The Industrial Property Agency and the Office of Copyright

and Related Rights lack adequate funding, staff and training. Significant efforts are still needed to ensure implementation, including effective means of enforcing Intellectual Property Rights (IPRs), in line with SAA obligations.

In the coming year, Kosovo should in particular:

- take concrete steps to increase the capacity and coordination of law enforcement agencies to enforce intellectual, industrial and commercial property rights and further align with the *acquis*;
- address the lack of resources of the Industrial Property Agency and deal with the backlog of applications for IPRs;
- raise awareness of the protection of industrial property rights.

On **copyright and related rights**, two legal acts were adopted in 2018 regarding mediation of disputes and private copy levies. Mechanisms to issue fees for usage of copyrighted material between collective management organisations and broadcasters are still needed. Kosovo committed to guarantee, within five years of the entry into force of the SAA, a level of protection of intellectual, industrial and commercial property rights, equivalent to that applied in the EU. This obligation is far from being met.

On **industrial property rights**, the legislative framework still needs to be further aligned with the *acquis*, including on trade secrets. Some progress was made in reducing the backlog of applications for IPRs. The Industrial Property Agency continues to be affected by understaffing and insufficient funding. There is a need for a government strategy on IPRs. More awareness raising is needed among IPR holders and users, mainly in the business community. The Agency's industrial property automation system database is not yet fully operational.

On **enforcement**, Kosovo has established the necessary institutions, including at Kosovo Customs, Kosovo Police, the Market Inspectorate and the Kosovo Prosecutorial and Judicial Councils. There is a lack of cooperation between policymaking institutions and enforcement institutions, such as judiciary and prosecution. In 2018, Kosovo Customs carried out 370 operations targeting goods that breach IPRs – these concerned 208,841 items worth around EUR 2.6 million. In 364 cases (concerning 203,504 items worth around EUR 2.4 million) action had been brought by the right holders. The remaining 6 operations (5,337 items worth EUR 172,075), were undertaken proactively *ex officio* by customs officials. The value of the goods seized was EUR 2.4 million. Overall, the customs department dealing with IPRs needs to be strengthened, as it comprises only two staff members. Capacity-building, cooperation with law enforcement bodies and awareness raising are also needed to implement the recently adopted Law on customs measures for the protection of IPRs. An administrative requirement to obtain police authorisation prior to the conduct of market investigations undermines the effectiveness of the market inspectorate. Mechanisms are still needed whereby collective management organisations and broadcasters can determine the fees for using copyrighted material. This situation has not changed since at least 2014.

6.11 Social policy and employment

Kosovo is at an **early stage of preparation** on social policy and employment. There was **no progress** during the reporting period. The Employment Agency is now operational but its ability to deliver services is limited. Fatal incidents at work are increasing and the General Collective Agreement is still not implemented.

As most of the 2018 recommendations have not been implemented, Kosovo should in particular:

- implement the 2018-2022 strategy for employment and social welfare, and monitor their results;
- amend and enforce the Law on Labour, legislation on health and safety at work and the Law on Economic Social Council;
- as a matter of urgency, take measures to reduce workplace accidents.

Kosovo still needs to amend the **Law on labour** to align it with the EU *acquis* and improve its implementation, which is undermined by the low number of inspectors and lengthy court procedures. Implementation is most problematic in the private sector. According to the latest data from April 2019, 49.5% of children are registered as benefiting from social assistance, whereas for children with special needs, this is roughly 10%. As many as 10.7% of children in Kosovo are involved in work, of whom 6.8% work in hazardous conditions. The problem is particularly pronounced in the Roma and Ashkali communities. Nevertheless, in the reporting period, the labour inspectorate did not report a single case of minors engaged in work. Only 10% of children with disabilities benefit from the appropriate access to health, education and social services.

On **health and safety at work**, Kosovo's legal framework covers to some extent specific areas which are regulated by EU Directives. Despite existing health and safety at work rules, there has been an increase in the number of fatalities related to workplace accidents from 14 in 2017 to 21 in 2018. The labour inspectorate does not follow up on these cases properly and there are concerns as to the accuracy of data on workplace accidents and occupational diseases, and the under-reporting of fatalities. This undermines the effective planning and targeting of preventive measures and workplace inspections. As the majority of reported fatal accidents took place in the construction sector, the labour inspectorate should target this sector more effectively. The number of inspectors increased slightly in 2018, but remains insufficient.

On **social dialogue**, the 2014 General Collective Agreement, which is fundamental in laying down employers' and employees' rights and obligations, is not being implemented. The Economic Social Council has started negotiations on a new Agreement instead. The amendments to the Law on the Economic Social Council, aiming at improving the capacities of the Economic Social Council, its decision-making process and overall performance, have not yet been adopted. Trade union rights, in particular in the private sector, are under pressure.

On **employment policy**, the government did not take substantial steps to implement the 2018-2022 sector strategy and the action plan to tackle youth unemployment. The budget earmarked for active labour market measures albeit increasing, remains insufficient and still a large part comes from the donor community. The Employment Agency is operational but has limited capacity to provide services, such as effective and efficient active labour market measures. The Agency is participating in a bench-learning exercise based on the experience developed by the European public employment services network.

High inactivity and very low employment remain among the key challenges. The overall activity rate stood at 40.9% in 2018 and the employment rate was low, at 28.8%. In addition, unemployment was still very high, at 29.6% in 2018. It continues to be higher for women (33.4%) than for men (28.5%). The employment rate for women is only 12.3%, compared to 45.3% for men. Only 25.5% of the employed have permanent work contracts, while 74.5% work on temporary contracts. Unemployment is most prevalent among young people (15-24

years), of whom 55.4% are unemployed. Rates of unemployment are even higher, above 90%, in the Roma and Ashkali communities. The members of these communities usually work in the informal sector, holding insecure, low-skill and low-status jobs. Only few are registered as unemployed.

There were no developments as regards preparations for the use of the **European Social Fund (ESF)**.

On **social inclusion and protection**, Kosovo has a legal and institutional framework for social service delivery but limited financial resources and human capacities and a lack of proper planning by public institutions (in particular municipalities) result in inadequate provision of social services to the most vulnerable population. This is aggravated by a general lack of data collection on population numbers broken down by gender, age groups, ethnicity, ability and vulnerability.

Municipalities are unwilling to allocate sustainable and long-term financing to the provision of social services. A provision earmarking specific funding from the general grant for social services should be included in the upcoming draft Law on local finance. This grant, to be implemented through a specific financial formula, is aimed at improving the funding and long-term sustainability of social service delivery by the public and non-governmental sector. Municipal authorities have made limited progress in adopting three-year social housing plans and this had prevented the central authorities from concluding a Kosovo-wide strategy on social housing.

Overall spending on **social protection** has risen significantly in recent years, mainly because of increases in pensions and war-related benefits. Furthermore, the expansion of programmes targeting specific population groups have crowded out spending of the social assistance targeting the poor, which is both low and declining. In November 2018, the Assembly approved the Law on social enterprises, which aims to promote employment among socially vulnerable categories.

On **social inclusion**, the municipalities do not have an integrated interdepartmental approach to service coverage, so as to take appropriate account of the needs of the most vulnerable groups, in particular children. Kosovo needs to ensure that children with disabilities are able to attend public schools alongside their peers. Despite poor labour market outcomes among marginalised Roma and Ashkali communities, Kosovo's latest revised action plan on the integration of these communities does not include measures specifically targeting these communities in active labour market policies, as is usual in the region. The proportion of the budget allocated to promoting their inclusion in employment is also low. Increasing female participation in the labour market, including among women from marginalised communities, should be a priority. The proportion of Kosovo's population living below the poverty line has been decreasing, but it is still high, at 17.6%. The General Council for Social and Family Policy, in charge of licensing providers of social services, including foster care, has not been functioning effectively. There has been no progress in licensing new providers of foster care for children in need.

As for **non-discrimination in employment and social policy**, secondary legislation for the implementation of the Law on Protection from Discrimination has not been adopted. The authorities must address discrimination against women, especially as regards hiring procedures in the private sector. In the reporting period, the Ombudsperson received a similar volume of cases as in previous years, but the number of *ex officio* investigations on discrimination grounds has doubled. Institutions continue to perform poorly in processing and investigating cases of discrimination.

On **equality between women and men**, women continue to experience various forms of gender discrimination. Kosovo should reform the system of maternity and parental leave, which presents an obstacle to the hiring of women, particularly in the private sector. Limited access to child care and to flexible work arrangements are also considered barriers to women's employment, as formal options for care beyond maternity leave are limited, and family-friendly schedules are often not available.

6.12 Consumer and health protection

Kosovo is at an **early stage of preparation** in this area. There has been **limited progress** on consumer protection, notably by adopting the Law on consumer protection.

In the coming year Kosovo should:

- increase the involvement of civil society on consumer protection and consumer rights and adopt the necessary secondary legislation for the enforcement of the Law on consumer protection and coordinated market surveillance;
- allocate more financial resources to health, to allow implementation of the health sector reforms, including further roll-out of the electronic public health information system and to meet overall recommendations for funding health systems.

The Law on consumer protection (adopted in June 2018) aims to regulate market conditions in consumer-business relations, product labelling, price indicators, consumer protection in relation to contracts and the administrative and judicial protection of consumers. It is designed to align Kosovo legislation partly with the *acquis*, except for the mortgage credit Directive. However, the Law diverges from the *acquis*, notably on labelling, packaging and a declaration requirement that obliges the seller to indicate the origin of a product by means of a label with the flag of the country of origin. A total of 11 pieces of secondary legislation need to be adopted within a year of the Law's adoption in order for it to be enforceable. Enforcement practices have not yet been specified. The Central Bank needs to develop a complete framework for consumer credit.

The new Law provides a legal basis for the advisory role of civil society organisations. The review of consumer complaints is not working properly due to lack of coordination among the various authorities in charge, which leads to difficulties in the assessment of complaints.

With regard to issues relating to **product safety**, the Law on technical requirements for products and conformity assessment (approved in March 2018) further aligns the legislative framework with the *acquis* on the marketing of products and is designed to be fully aligned with the *acquis* on market surveillance. It lays down a more transparent and efficient system for market surveillance and supervision.

No developments were noted on **non-safety related issues**. Although the Law on consumer protection addresses consumers' economic interest, it is not properly enforced due to understaffing Consumer Protection Department and weak consumer organisations.

On **public health** policy, the Law on health insurance has not yet been amended. Implementation of the communication strategy in support of the Law has been further delayed. The start of premium collection has been further postponed.

The first semi-annual monitoring and evaluation report on the implementation of the 2017-2021 action plan for the **health sector strategy** was adopted in November 2018. No progress was registered in areas identified in the health sector strategy as shortcomings: low levels of productivity of health institutions, lack of reliable data and lack of adequate funding for monitoring. Around 20% of the population have no access to health services due to

extreme poverty. High level of private expenditure (estimated at 40 % of total medical costs) mean that the most vulnerable groups are disproportionately affected.

Public spending on health should be further increased. In January 2019, it was estimated that 60%, up from 40 % in 2016 of annual public healthcare needs were covered. The allocated funds are used mainly to cover fixed costs, leaving less for direct patient costs (diagnosis, treatment, and prevention). Health financing continues to be predominantly based on historical expenditure. Institutional accountability has not increased and no incentives have been introduced to improve productivity, efficiency and quality in the health sector.

The comprehensive Law on **tobacco** control is still not enforced, because of a lack of political will and the poor performance of implementing authorities.

On **blood, tissues, cells and organs**, a law on blood and blood components was adopted in August 2018 but, like the 2014 law on the transplantation of tissues and cells, it is only partly aligned with the *acquis*. Further alignment will depend on allocation of the necessary human and financial resources, and administrative and monitoring capacity.

In the field of **serious cross-border health threats, including communicable diseases**, no progress was made in aligning with the *acquis*. Immunisation is lower than in previous years. Vaccination rates among school-age children are reported to vary between 95% and 98%. No updated antimicrobial resistance action plan was adopted, and control on the prescription of antibiotics to prevent antimicrobial resistance has not improved. The European Centre for Disease Prevention and Control conducted an expert assessment mission in Kosovo in October 2018 in the field of communicable diseases, which noted weak implementation of primary legislation and an absence of secondary legislation.

Kosovo's legislation is not aligned with the EU's *acquis* on **patients' rights in cross-border healthcare**. The Ministry of Health has delayed the further development and rolling out across all health institutions of the **electronic health** information system (eHIS) based on the European core health indicators which would capture data on patient admissions, discharges and transfers. Further functionalities (pharmacy, pathology, radiology, blood transfusion, vaccination and other interventions) need to be added to the system and coverage needs to be expanded to support evidence-based health care policy. Kosovo citizens can benefit from special resources from the Health Insurance Fund for health services abroad, when specialist health services are unavailable in Kosovo. Kosovo has signed agreements with Albania, Croatia and Turkey on implementing certain medical services, which are now accessible for its citizens. However, the available funds (EUR 6 million) cover only 45 % of the needs of the population.

No progress has been made in aligning Kosovo's legislation concerning **medicines for human and veterinary use**.

Health promotion regarding **non-communicable diseases** remains weak. A strategy on health promotion and education was prepared in 2018 and is due to be adopted in 2019. With regard to **cancer screening**, a 2014-2020 cancer programme is in place. Registration of cancer-related deaths is incomplete due to gaps in the legal framework and deficiencies in the administrative procedures in the civil registration system. Funding for systematic cancer screening is inadequate and there is an overall lack of reliable data on cancerous diseases.

There is no specific legislation on **nutrition and physical activity**. A nutrition action plan has been revised and is awaiting adoption by the government.

No progress was made in addressing **health inequalities**. Kosovo does not provide universal health insurance and out-of-pocket spending for health services remains high. Around a third

of the population still has no easy access to health care services or only limited access due a lack of funds. For economic reasons, around 18 % do not seek medical services in the event of illness. The Roma and Ashkali communities remain a concern as regard immunisation. The distribution of information on public services and the incidence of discrimination have not improved and this has a negative impact on access to health services.

6.13 Education and culture

Kosovo is at an **early stage** of preparation in the field of education and culture. There was **limited progress** in the past year and the quality of education needs to be improved considerably.

As the previous report's recommendations have not been addressed, in the coming year Kosovo should in particular:

- adopt the new Law on higher education, which ensures the autonomy and independent operation of higher education institutions and quality assurance mechanisms, based on best standards;
- improve access to quality education for pre-school enrolment and disadvantaged groups;
- finalise the implementation of the new curricular framework for primary and secondary education;
- increase the provision of vocational education and training for professions in demand.

On **education and training**, public spending on education (4.7% of GDP) should be managed more efficiently to provide a large number of young people with quality education.

Enrolment in **primary and lower secondary education** is almost universal (95.6%) and upper secondary overall enrolments stands at 85%. The number of children aged 0-5 attending licensed **pre-school** institutions remains very low (4.9%), some 19.1% attend preschool and pre-primary (0-6 years), while 92.4% attend the pre-primary year (5-6 years). Kosovo has continued to invest in public childcare facilities, but enrolment rates have not yet increased significantly. Many children attend private childcare, including preschool and private institutions, particularly in the capital. The enrolment rates are still far below the 2020 education and training targets of 95%. Data provided so far by the institutions are not reliable, not easily accessible and do not account for a large number of private pre-school institutions. The proportion of students in **higher education** is nearly double the EU average. However, the graduation rate is low. Unemployment among university graduates is still relatively high, despite having declined to just above 20% in the last quarter of 2018, suggesting a mismatch between higher education programmes and labour market needs. The Accreditation Agency for Higher Education takes account of the 2015 European standards and guidelines and largely bases its internal policies on them.

In January 2018, the Kosovo Assembly instructed the Ministry for Education to take all necessary measures to get the Agency readmitted to the European Quality Assurance Register for Higher Education, from which it had been excluded since September 2017 due to political interference. In June 2018, the Minister for Education appointed a new board for the Agency, following an open competition and approval by the Assembly. Progress on securing the Agency's re-admittance to the European Quality Assurance Register for Higher Education is supposed to be addressed in the first half of 2019.

Kosovo's qualifications framework is based on the European Qualifications Framework. Education (especially higher education) remains a high-risk sector for corruption and political influence. Media and civil society organisations continually expose cases of plagiarism and

academic promotions based on political influence and nepotism rather than merit, often involving professors in senior management positions. A lack of transparency in recruiting teachers and managing staff remains an issue across all educational institutions.

The government has approved the draft Law on higher education but it still needs to be adopted by the Assembly. The law on the Education Inspectorate was adopted in July 2018. There is not enough progress on meeting the 2017-2021 Kosovo Education Strategic Plan targets and the government allocated only half of the resources necessary for its implementation. A functional review identified problems in the Ministry of Education's structure and capacities that prevent it from moving forward with the many reforms that are needed. The new organisational structure has been approved, but not yet implemented.

The government needs to implement the quality assurance strategy and establish the quality assurance mechanisms at municipal level. The implementation of curriculum reform is undermined by a lack of qualified teaching staff, teaching materials and supplies, combined with an under-developed student assessment system. Kosovo needs to strengthen its training system to improve the quality of pre- and in-service education. The quality of education continues to be a challenge at all levels.

Around half of all students in upper secondary education choose **vocational education**. Vocational education and training (VET) programmes lack practical and applied courses, with a still insufficient number accredited by the National Qualifications Authority. Overall, the link to the labour market remains weak. Kosovo should increase the quality of VET programmes and qualifications also by developing new profiles that match labour market needs and are taken on board by the private sector.

More efforts are needed to provide children with disabilities with access to quality education. The first cohort of 54 assistants for children/students with special needs graduated in June 2018. At present there are only 83 support teachers for children with disabilities; they are engaged and paid by families, rather than the education system.

Measures should be taken to address the high dropout rate among Roma and Ashkali children, including by supporting and facilitating the work of the Learning Centres.

Since January 2018, Kosovo has been able to participate in all activities of the Erasmus+ Programme and join platforms and networks. Almost 2 000 students and staff from Kosovo have been involved in the exchanges since 2015. Institutions from Kosovo participated in 20 capacity-building projects in the field of higher education, in four of them as coordinating partners.

Kosovo participated in the OECD PISA in 2018, with results due to be published in December 2019. Kosovo will also participate in the Trends in International Mathematics and Science 2019 and Progress in International Reading Literacy Study 2021 international assessments.

On **culture**, Kosovo needs to continue its work to meet the standards of the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions and develop a track record showing good practice. In 2018, it joined Creative Europe as a partner in the culture sub-programme.

On **youth**, the local antenna of the Regional Youth Cooperation Office (RYCO) continues its work and participated in or organised more than 30 events in 2018.

Kosovo participated for the first time in the European Week of **Sports** by organising a large number of sports activities.

6.14 Science and research

Kosovo is at an **early stage of preparation** for science and research. **Limited progress** was made in the field of innovation.

In the coming year, Kosovo should in particular:

- ensure higher government spending on research and seek to stimulate investment from the private sector by completing a Smart Specialisation Strategy;
- focus efforts on increasing participation in the EU's Horizon 2020 programme;
- provide statistical data on numbers of researchers, percentage of GDP spent on research and innovation, and performance related to the European Research Area priorities.

Kosovo has made efforts to develop its **research and innovation policy**. However, the Law on scientific research activities is not being implemented due to lack of funding. Government spending on research amounts to only 0.1% of GDP. Kosovo has made some efforts to spend this limited amount more efficiently (e.g. building lecture rooms and laboratories, addressing plagiarism). In 2018, EUR 1.1 million was allocated for specific labs and equipment at two regional innovation centres. In higher education, the quality of post-graduate programmes preparing for research careers is poor, with both private and public higher education institutions applying very uneven criteria for promotion based on scientific research and publications. Since the last Research Strategy expired in 2016, Kosovo has not developed new strategic targets to support the development of research activity. The new Ministry of Innovation and Entrepreneurship should build up its administrative capacity and adopt an innovation strategy linked to the Smart Specialisation Strategy in close coordination with other ministries.

There has been no progress on integration into the **European Research Area**. Kosovo needs to submit reliable statistics to monitor progress in this field.

On **framework programmes**, Kosovo participates in the EU's Horizon 2020 research and innovation programme (H2020) as a third party. It has so far participated in 11 Horizon 2020 projects (10 in 2017 and a new one in 2018). The level of Horizon 2020 participation remains below Kosovo's potential. Kosovo has already taken some initial actions to improve its Horizon 2020 performance and in particular, through more training, better linking of researchers, an improved National Contact Points network, exchanges of best practices and mentoring with other countries. Kosovo needs to continue and further strengthen these efforts.

6.15 Trade issues

Kosovo is at an **early stage of preparation** in this area, with **some progress** over the past year concerning trade relations with the EU. However, its decision to impose 100% tariffs on goods imports originating in Serbia and Bosnia and Herzegovina is in violation of the Central European Free Trade Agreement (CEFTA) and hampers the development of a regional economic area (REA) in the Western Balkans. The EU has repeatedly called for the revocation of this measure, which is also economically counterproductive.

In the coming year, Kosovo should in particular:

- implement actions under the multi-annual action plan for the development of a REA. In particular ratify and implement CEFTA Additional Protocol 5 on trade facilitation, adopt and implement Additional Protocol 6 on trade in services and negotiate Additional Protocol 7 on dispute settlement;

→ strengthen the administrative capacity of the Ministry of Trade, in particular in view of regional commitments on trade.

Kosovo is at an early stage of preparation for applying for WTO observer status. A memorandum on the foreign trade regime has been prepared for adoption by the authorities. In July 2018, the new Law on trade safeguard measures on imports has been adopted, with the aim of aligning with WTO rules.

Some progress was achieved as regards the free trade area with the EU, but Kosovo could improve opportunities for its exporters by making full use of trade preferences granted under the SAA. Kosovo abolished customs duties on a number of tariff lines, including industrial, agricultural and fishery products. Remaining duties will be reduced progressively in the period to 2025. While the overall volume of trade with the EU continued to increase, and the positive trend in the export of services was maintained in 2018, the overall trade deficit with the EU grew wider.

Kosovo continued to implement a multi-annual action plan for the development of a REA in the Western Balkans, aimed at deepening and widening economic integration in the region, on the basis of EU rules and standards. In the first part of 2018, Kosovo authorities played an active and constructive role within CEFTA, which helped the parties to reach a technical agreement on the mutual recognition of authorised economic operators, and on the functioning of the CEFTA secretariat. In July, however, it introduced (and then revoked) unjustified protective measures on the imports of dairy products and fruit and vegetables. Moreover, in November, Kosovo imposed 100% import tariffs on goods originating from Serbia and Bosnia and Herzegovina, citing political and trade grievances. The measure goes against Kosovo's obligations under CEFTA and undermines regional cooperation objectives, including the REA.

Kosovo remains the only CEFTA party that has not ratified Additional Protocol 5 (trade facilitation). It has, together with the other CEFTA parties, to adopt Additional Protocol 6 (trade in services). It also has to appoint a negotiator and adopt a mandate for the negotiation of Additional Protocol 7 (dispute settlement mechanism). The government has approved the initiative for signing the Joint Declaration on Cooperation with the European Free Trade Agreement (EFTA) countries.

6.16 Enterprise and industrial policy

Kosovo is **moderately prepared** in this area. It made **some progress** on improving the business environment. It intensified efforts to review and simplify business-related legislation through the updated Better Regulation Strategy. There is a need to build up administrative capacity further and ensure stronger inter-ministerial coordination.

The recommendations from the 2018 report were not fully implemented. In the coming year, Kosovo should in particular:

- improve SMEs' uptake of business support services by redesigning the schemes provided by the Kosovo Investment and Enterprise Support Agency (KIESA) and establish an investor aftercare unit;
- continue implementing the recommendations in the EU Small Business Act (SBA) assessment;
- ensure the alignment of the Law on economic zones with the *acquis*.

On **enterprise and industrial policy principles**, the new private sector development strategy incorporating industrial policy has yet to be adopted. However, the draft strategy is limited to

sectors under the responsibility of the Ministry of Trade and Industry, and suitable synergies need to be ensured with other relevant policies such as energy, education, and research and development. Much stronger coordination is needed among the relevant ministries and agencies responsible for enterprise and industrial policy. The adoption of an innovation strategy is still pending. Kosovo's Council for Innovation and Entrepreneurship has been charged with coordinating the development a smart specialisation strategy.

Kosovo has amended its Better Regulation Strategy, which provides for the replacement of the current system of 'concept documents' for drafting policy and legislative proposals by an impact assessment system, which would take greater account of the administrative burden on SMEs. Kosovo's Economic Reform Programme includes a measure aimed at simplifying, merging and repealing licences and permits that business face. Tailored policies and targeted measures are needed to address the challenges experienced by female entrepreneurs.

The Kosovo Credit Guarantee Fund has helped to increase demand for loans among SMEs. Scaling up the Fund and reforming the legislation to broaden the range of alternative financial instruments would further enhance external finance for SMEs. Introducing the planned factoring law will also help improve the transparency and legal enforceability of factoring services, which is instrumental for improving SMEs' cash flow management.

The law on economic zones, which regulates the establishment and financing of economic zones, is not aligned with the *acquis*. There are no specific programmes for restructuring, whether for sector-specific development or the general modernisation of industry. The Law on interest rights in trade transactions is in line with the EU Directive on combating late payment in commercial transactions.

The legal framework on insolvency proceedings has been strengthened. Proceedings involving an SME debtor are now treated as reorganization cases in which an appointed monitor is required to assist SMEs in their re-organisation plans. A legal framework and the necessary infrastructure to stimulate e-commerce are still lacking.

On **enterprise and industrial policy instruments**, Kosovo has joined the COSME programme and is eligible for funding since September 2018. It has started to develop measures to raise awareness among business stakeholders. In 2019, it plans to apply to join the European Enterprise Network.

6.17 Agriculture

Kosovo has **some level of preparation** on agriculture and rural development. **Limited progress** has been made on improving of the implementation of the agriculture and rural development programme.

In the coming year, Kosovo should in particular:

- improve the evaluation and monitoring of grants and direct payments under the programme;
- revise and update the programme so that investments in the sector are more efficient;
- take urgent, effective measures to stop the loss of agricultural land and implement legislation on spatial planning.

On **horizontal issues**, the budget allocated to the agricultural sector rose from EUR 46 million in 2017 to EUR 48 million in 2018 for both direct payments and grants. The ascending trend continues in 2019. A special measures scheme has been set up with the purpose of supporting four municipalities in the north of Kosovo. In order to make the best use of assistance in the sector and achieve maximum impact, the strategy and programme for

agriculture and rural development (for 2014-2020) requires thorough and transparent evaluation and updating, taking into account the developments and the 2015 agriculture census. The Ministry of Agriculture adopted the direct payments programme and rural development programme for 2018. No changes were made to the mechanism and requirements for direct payments, which remain coupled to production. Cross-compliance measures still need to be introduced. While internal auditing has been strengthened, a lack of professional capacity for evaluation, monitoring and accounting at the Agency for Agricultural Development continues to slow down the proper processing of applications and the execution of payments. Kosovo has made some progress on establishing an Integrated Administration and Control System (IACS), as it is currently upgrading its Land Parcel Identification System (LPIS). It has established an electronic farmer register, an animal identification and registration system and a Farm Accountancy Data Network (FADN). Farm advisory services are provided, but they need to be strengthened.

No progress has been made in establishing **common market organisations**. Kosovo should take steps to draw up the legal basis for setting it up and provide for its functioning.

No relevant changes were made in the area of **rural development**, where measures continue to address the modernisation of farms and food processing facilities. The level of funding remains low and the efficiency of current rural development measures weak, in particular as regards concerning investments in farms, primary food processing, job creation in rural areas, building up and empowering local communities, land consolidation, access to irrigation and farmer education updates.

On **geographical indications**, progress was made by adopting legislation which allows products originating from Kosovo which are marked according to the designation of origin, to be labelled with the indication “protected geographical indication” and “protected designation of origin” or with the symbols that accompany them.

On **quality policy**, there is little progress. Legislation still has to be aligned with the *acquis* and properly implemented.

On **organic farming**, Kosovo adopted a 2018-2021 action plan for organic agriculture, which identifies key areas of work with a view to supporting and developing the organic sector.

No progress was made as regards the availability of arable land. The changes to the legislation on agricultural land use continue to limit its availability and farms’ productivity. There is no official information on how much agricultural land Kosovo loses each year and no strategy or action plan to address this issue. In cooperation with the Ministry of Environment and Spatial Planning, the Ministry of Agriculture should take urgent measures to stop further losses of agricultural land and to implement legislation governing spatial planning.

6.18 Food safety, veterinary and phytosanitary policy

Kosovo has **some level of preparation** in the area of food safety, veterinary and phytosanitary policy. **Some progress** was made in adopting legislation on food safety and veterinary.

In the coming year, Kosovo should in particular:

- implement an integrated food control system, including by transferring inspection responsibilities to the Food and Veterinary Agency;
- complete and launch the animal by-products collection and disposal system;
- establish quality infrastructure for food safety with a focus on obtaining international accreditation for tests and laboratories.

Progress has been made in completing the legislation governing food and feed safety. The registration and categorisation of food and feed establishments has been completed. The Food and Veterinary Agency continues to perform regular checks on import and export of live animals, animal products, plants and plant products, but EU registered establishments do not require import licenses. A drug and residue monitoring plan is being prepared. The Agency has prepared a multi-annual control plan for food and feed safety and capacities for its implementation have increased.

Efforts need to continue in preparing the transfer of inspection responsibilities from municipalities to the Agency.

On **veterinary policy**, some progress has been made in completing legislation. The Food and Veterinary Agency is currently upgrading its system for border inspection. The trade control and expert system is used for exports only. Infrastructure at the veterinary border inspection posts remains poor. None of the posts has quarantine facilities for live animals.

There were no relevant developments in the area of **animal health**. A multi-annual animal disease control and surveillance programme is in place, but full implementation is not ensured, as the Agency has insufficient funds and capacity. As part of regional efforts to control and eradicate rabies, the Agency resumed vaccination campaigns with EU support. The vaccination programme for lumpy skin disease is ongoing. The Agency still has insufficient capacity for responding to disease outbreaks.

As regards the management of **animal by-products**, progress is being made on building and equipping the category I rendering plant and the inspectors and slaughterhouse operators have been trained on compliance with relevant regulation. However, further efforts are needed to ensure that there is a proper collection system for animal by-products.

No progress was made in the area of **animal identification and registration**, where the under-reporting of animal movements remains a problem. The Agency has still not adopted measures to enforce the regulation on animal identification and registration at the level of livestock markets, slaughterhouses and livestock transport.

Although the identification of basic **cross-compliance measures** in the areas of food safety and animal health and welfare remains a priority for the Agency, progress needs to be done on including them in the agriculture programme.

With regards to **phytosanitary** measures, preparatory work is ongoing to support better inspections, sampling and detection of plant diseases. Although some training is being carried out on monitoring plant health and the management of plant protection products, further efforts are needed to improve the implementation and the operational capacity of the institutions responsible for plant health, in order to ensure an effective plant disease control system.

6.19 Fisheries

Kosovo is still at an **early stage** of preparation in the area of fisheries. **No progress** was achieved since the last year's report.

Since none of the last report's recommendations were implemented, in the coming year, Kosovo should:

- further align its market policy with the *acquis*;
- establish an inventory of fish species.

As the fisheries sector consists of commercial lake fishing and aquaculture, the *acquis* on catch quotas, inspection and control is of very limited applicability. Kosovo should focus on drafting a **market policy** in line with the *acquis*, establishing an inventory of fish species and carrying out inspections as required under the *acquis*.

6.20 Environment and climate change

Kosovo is at an **early stage of preparation** on environment and climate change. **Some progress** was achieved, notably through the adoption of the relevant strategies, but serious environmental problems continue to impact people's livelihoods and health. The growing environmental protection and climate change challenges call for considerably more political will.

In the coming year, Kosovo should:

- establish an effective water monitoring system, publish the data and undertake urgent and permanent measures to reduce air and water pollution;
- continue to increase the household waste collection coverage and address the issue of illegal dumpsites;
- enforce legal provisions on environmental liability, damage and crime; implement the *polluter pays* principle and raise public awareness on environmental protection;
- implement the climate change strategy and the action plan on climate change, prepare a roadmap for alignment with the climate *acquis* and start the work on an energy and climate plan, in line with Energy Community recommendations.

Environment

The environment strategy has still not been updated and implemented. Insufficient funding and a lack of administrative capacity and technical skills continue to undermine the implementation of priority measures. Further progress is needed for full alignment and implementation of the remaining directives. The lack of alignment with the environmental liability Directive undermines the effectiveness of environmental protection. Progress was made on strengthening provisions on environmental crime in the newly adopted criminal code, but prosecutors and courts are ineffective and lack training in this area. Environmental inspectorates lack capacity and are unable to ensure effective enforcement. The implementation of the environmental impact assessment and strategic impact assessments Directives needs to be improved considerably, especially in the sectors with significant impacts on the environment such as energy and transport. Meaningful involvement and consultation of the public and civil society is necessary.

Air quality continues to pose a major threat to human health and efforts should be made in adopting measures to improve it, notably by enforcing the emission reduction plan, which was adopted in 2018. Kosovo's strategy for air quality is not enforced. An action plan for air quality and a law on air protection from pollution have to be adopted. Uncontrolled pollution from the energy sector (particularly from the Kosovo B power plant and household heating), but also from industrial complexes, road traffic and the incineration of waste and other toxic materials remains a serious problem and has not been addressed. Air quality plans for zones in which pollutants levels visibly exceed limit values by a wide margin, especially in winter, have still not been prepared and adopted. An air quality monitoring system, with eight measuring stations providing real-time data to the public, is now operational. Urgent measures and permanent solutions are needed to reduce household reliance on lignite and wood heating.

The solid **waste management** system in Kosovo continues to be unsustainable. The legal framework is partially aligned with the *acquis* but implementation is lacking and most of the waste ends up in legal and illegal landfills. Collection needs to increase further while recycling of the different waste streams to be introduced. The 2013-2022 strategy and master plan for waste management are only partly reflected in municipal plans for solid waste. The responsible authorities should move towards a circular economy approach, based on waste reduction, separation at source, recycling and recovery. Efforts are being made to address the high number of illegal dumpsites, but more urgent and sustainable measures (including prevention and monitoring) are needed. Most existing landfills have reached the end of their storage capacity and pose considerable long-term environmental risks, especially groundwater contamination. This is particularly the case of the Mirash landfill in Obiliq/Obilić which requires urgent rehabilitation and permanent closure.

Some progress has been noted on **water**, notably through the adoption of the Kosovo 2017-2036 national water strategy including an investment action plan. However, there is no progress in aligning water legislation with the *acquis*. Urgent efforts are required to ensure that the river basin authority, which was established in July 2017, is operational and prepares the management plans. There was some progress on international cooperation on integrated water management. Untreated sewage and discharge remain the main source of pollution. A monitoring network is operational for groundwater but not for surface waters. No drinking water quality reports have been published since 2015. Agglomerations and sensitive areas need to be identified, in line with the Urban Waste Water Treatment Directive. Budget funding needs to be secured for priority projects in this area. Tariff collection needs to be improved and technical water losses reduced.

Some progress on **nature protection** was noted, notably by the adoption of the 2016-2020 action plan on biodiversity. Steps have been taken to start the inventory and mapping of natural habitats types and of biodiversity, but the designation of Natura 2000 sites is still at a very early stage, due to a lack of technical and staff capacities in relevant institutions.

Spatial planning documents and infrastructure plans need to ensure that nature protection obligations are respected, particularly in already protected areas such as national and regional parks, and potential Natura 2000 sites.

No developments were noted on alignment with the *acquis* on **industrial pollution and risk management**, which remains at an early stage. Insufficient enforcement of legislation and polluter accountability is hampering progress in setting up a system for preventing industrial and chemical accidents. Hazardous mine waste, industrial discharge directly into rivers and industrial dumpsites continue to pose serious threats to soil and water. The location for the future hazardous waste storage facility still need to be determined and an operator contracted.

No progress has been registered on **chemicals**, where alignment with the *acquis* remains at an early stage. Kosovo is not party to the Rotterdam Convention and the regulatory framework on export and import of hazardous chemicals still needs to be implemented. A helpdesk and a centre for the control of chemical poisoning still need to be established.

The draft law on **noise** has yet to be adopted. Strategic noise maps and action plans still need to be developed and effective action taken to implement the law (once adopted).

Kosovo is not part of the Union **civil protection mechanism** but has been a beneficiary of the regional programmes on civil protection under the Instrument for Pre-Accession Assistance (IPA) since 2010. Significant progress is still necessary in important areas such as establishing an operational centre and emergency communication system. The preliminary flood risk assessment is at an early stage of preparation.

Climate change

The 2019-2028 strategy and action plan on climate change has been approved by the government and if fully implemented, it can provide a sound basis for tackling climate change. However, no progress has been achieved in aligning the legislation. The National Council for the Environment and Climate Change and the Climate Change Coordinator took no concrete measures to mainstream climate action or raise public awareness. There is little evidence of climate change being mainstreamed in government projects.

Although Kosovo is not a signatory to the UN Framework Convention on Climate Change and therefore does not have nationally determined contribution (NDC) to the 2015 Paris Agreement, full implementation of its climate change strategy should help it reach the low emissions and climate-resilient objectives of the agreement.

As regards the transparency of climate action, the compiling of greenhouse gas inventory and reporting stopped after 2015. Kosovo still has to align with the climate *acquis*. Administrative capacity and awareness-raising activities need to be strengthened considerably.

6.21 Transport policy

Kosovo is at an **early stage**/has **some level of preparation** in the area of transport policy. **Some progress** was achieved, in particular with the ratification of the Transport Community Treaty.

In the coming year Kosovo should in particular:

- urgently improve road safety by targeting the reduction of road fatalities and serious road traffic injuries and set up a system for continuous road crash data collection;
- strengthen the capacity and professionalism of the railway regulator and ensure sufficient funding;
- adopt legislation on the intelligent transport system (ITS) and develop a strategic framework for the implementation of the ITS on core networks, ensuring sufficient capacity and resources for its implementation.

As regards **transport in general**, progress was made with the ratification of the Transport Community Treaty in October 2018. The legal framework is not aligned with the *acquis* on summertime arrangements. Further efforts should be made to complete alignment with the *acquis* on public services obligations, including on procedures and criteria for the award of public service contracts in road transport. Further efforts are required to implement the connectivity reform measures, with a special focus on measures related to border crossings, road safety and (road and rail) maintenance plans. The rail sector should be further developed and its services improved. Efforts are needed to align with the intelligent transport system Directive and rail interoperability Directive. Efforts should be maintained to align EU passenger rights legislation in all transport modes.

There were no significant developments as regards reducing fatalities and serious traffic injuries in **road transport**. The technical inspection of vehicles continues to be deficient and improvements are needed on roadside checks and the legal competence and capacity of inspection officers. Better driver information, education and training are also necessary. Alignment with the *acquis* on social legislation and road safety, which is crucial to reduce fatalities, remains incomplete. Further efforts are needed to establish a Kosovo-wide system for continuous road-crash data collection. There has been no progress on aligning the legal framework on dangerous goods with the *acquis* or further aligning the legislation on access to

the market for goods and passenger transport. The criteria for access to the occupation of road transport operator also requires further alignment. There has been no progress on aligning the legislation on clean and energy-efficient road transport vehicles or on the deployment of an alternative fuels infrastructure. Legislation or regulatory framework for the implementation of ITS needs to be put in place. Kosovo has yet to adopt and implement rules on penalties for infringing the European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport.

As regards **rail transport**, some progress was made in aligning legislation with the *acquis*. The rehabilitation of rail route 10 is delayed and will require an increase in the capacity of the railway infrastructure company.

On **aviation**, Kosovo has made progress in aligning with the *acquis* and has met nearly all the requirements under the first transitional phase of the European Common Aviation Area Agreement (ECAA). Action is now needed to implement the few remaining provisions in the area of economic regulation, in particular relating labour law. The lack of revenue from upper air space management constraints Kosovo's ability to invest in training and infrastructure development.

The Commission has engaged with Kosovo using the appropriate instruments to enhance understanding of the *acquis* in the field of **aviation security** and ensure gradual alignment.

No developments were noted on **combined transport**. Implementation of the multimodal transport strategy should be prioritised.

6.22 Energy

Kosovo has **some level of preparation** in the field of energy. There was **some progress** in this area, including adoption of the 2018-2020 strategy implementation programme and further implementation of the third energy package, especially alignment with *acquis* on energy efficiency.

In the coming year, Kosovo should:

- prepare for the decommissioning of the Kosovo A power plant and the environmental upgrade of Kosovo B;
- make the Energy Efficiency Fund fully operational and increase energy efficiency incentives for the private sector and households;
- focus on renewable energy, including by introducing market-based support schemes and addressing investments barriers;
- adopt a plan that includes the gradual adjustment of energy tariffs reflecting expected increases in costs and mitigation measures for vulnerable consumers.

Kosovo approved an implementation programme for 2018-2020 to operationalise policy orientations set out in the 2017-2026 energy strategy. The programme is meant to address some energy and environmental problems in the medium term. Kosovo continues to rely nearly exclusively on lignite as a source of energy and on two obsolete, highly polluting coal-fired power plants. This adds significantly to its heavy air pollution problems.

No significant developments were noted on **security of supply**, although the reliability of the power transmission system continues to benefit from investment and maintenance. No progress was made on the operation of the new transmission line to Albania which remains non-functional due to the longstanding energy dispute with Serbia and the lack of a connection agreement between the European Network of Transmission System Operators for

Electricity and the Kosovo transmissions system operator. The lack of a political solution to the dispute also led to power deviations originating in Kosovo and Serbia, which in turn resulted in frequency deviations in the entire synchronous area of continent Europe in winter 2017/2018.

Distribution losses remain high and investment in and maintenance of the distribution network needs to be improved. There was no progress on aligning legislation with the *acquis* in the area of compulsory oil and petroleum reserves. Current estimated oil stocks are sufficient for only four days.

Apart from adopting an administrative instruction on security of natural gas supply, Kosovo made little progress on improving its record of compliance with the gas *acquis*. The pre-feasibility study on linking a possible gas pipeline between Kosovo and Albania to the trans Adriatic pipeline (TAP) project was completed in November 2018. The project depends on the construction of the Ionian-Adriatic pipeline and the gas transmission system to Fushë Kruje in Albania.

As regards the **internal energy market**, there was progress in the implementation of the third energy package and the certification of the transmission system operator has been completed. However, the lack of regional integration and the longstanding dispute between the transmission system operators in Kosovo and Serbia is limiting the scope for developing competition.

As regards the new Kosova e Re coal-based power plant project, selection of a contractor for works is underway. Following the World Bank's withdrawal from the partial loan guarantee, financing arrangements for the estimated EUR 1 billion plus project are still to be settled. It may have a major impact on public finances, tariffs and the environment and this must be carefully assessed. The contractual framework for the construction of the new plant, which involves designating a single buyer of the electricity it produces, could negatively impact the opening of the market.

Environmental measures are urgently required at Kosovo B to reduce the level of gaseous emissions in the air and comply with emissions limit. The Kosovo Energy Corporation (KEK) needs to establish the timing of all works in view of the planned EU assistance for the refurbishment of Kosovo B to bring it into line with the provisions of the large combustion plants Directive on dust and NOx emissions. Preparations also need to be made for the decommissioning of non-operating units at Kosovo A, including identifying land for the disposal of hazardous waste. The current legal framework is not in line with the large combustion plants and industrial emissions Directives. Kosovo adopted an emission reduction plan in 2018.

Kosovo has made some progress in phasing out cross-subsidies between different categories of customers, but tariffs for households do not yet reflect costs. In view of expected upward price pressure from the significant investments required in the electricity sector, Kosovo needs to develop a programme for protecting vulnerable customers in line with Energy Community requirements. The electricity consumption in the north of Kosovo, which was considered as a loss in the past and recovered through the retail tariff for customers who pay for electricity, is now treated as a loss of the transmission system operator. The capacity and independence of the Energy Regulatory Office have been undermined by political interference. As a matter of priority, the Office should improve its monitoring of market functioning and competition. Its financial stability should be ensured in accordance with applicable legislation and the third energy package.

There was some progress on **renewable energy sources**. A new 32 MW wind farm and 2 solar projects with a capacity of 6 MW have been put into operation. The revision figures of biomass used for heating by household customers puts Kosovo on track to achieving its 25% target in 2020. While the legislation is partially aligned with the *acquis*, the electricity market should be restructured so as to facilitate the integration of renewable energy generation. A market-based scheme for supporting independent producers should be introduced.

There was no progress in meeting the requirements for the use of biofuels in transport. The adoption of an administrative instruction on biofuels aimed at aligning with the relevant EU Directives, has been pending for over three years.

There was good progress on alignment with the **energy efficiency** *acquis*, with the adoption of the new Law on energy efficiency, which is partly aligned with the EU energy efficiency Directive. The secondary legislation on the energy performance of buildings has to be completed and services need to be developed for energy auditing and energy assessors. The Energy Efficiency Fund has been established and its board has been appointed. Kosovo should ensure sure that the Fund becomes operational. 25 Municipalities have developed energy efficiency action plans. Investments in energy efficiency in public buildings have been made but incentives for the private sector and households are lagging behind. Kosovo achieved only about half of the 9% energy efficiency target by 2018. The Kosovo Agency for Energy Efficiency is understaffed and has very limited capacity to monitor the implementation of energy efficiency policy. Kosovo needs to bring into operation the monitoring and verification platform for energy savings.

Some progress has been made on **nuclear safety and radiation protection**, notably by the adoption of the new Law on radiation protection and nuclear safety. However further efforts are needed to fully align the legal and regulatory framework. The licensing and inspection capacity of the Nuclear Safety and Radiation Protection Agency remains weak and its funding is insufficient for it to implement its mandate. No developments were noted on the monitoring of radiation (e.g. from depleted uranium) and there is no control of radioactive waste and no radiological emergency plan. Kosovo has still not found a solution for the temporary storage of radioactive waste. As regards international cooperation in this area, it signed memoranda of understanding with the United States, Albania and North Macedonia. It is not party to the Convention on Nuclear Safety or the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

6.23 Trans-European networks

In the area of trans-European networks (TENs), Kosovo has **some level of preparation** and **some progress** was achieved, notably with the ratification of the Transport Community Treaty. More needs to be done on energy and telecommunications networks.

In the coming year, Kosovo should in particular:

- proceed with harmonising the legal framework with the *acquis* (TEN-T and TEN-E) and implementation of the connectivity reform measures;
- strengthen the institutional framework and administrative capacities for the implementation of TEN, including the Transport Community Treaty;
- improve the capacity of the Regulatory Authority of Electronic and Postal Communications to enforce telecommunications market regulations.

On **transport networks**, the strategic framework for the development of the trans-European transport network (TEN-T) is covered by the 2015-2025 sectoral and multimodal transport

strategy, which includes a 5-year action plan. The Kosovo Assembly ratified the Transport Community Treaty in October 2018.

As in the previous period, institutional capacity to implement strategic projects needs to be strengthened at central and local government levels, for public procurement, investment project planning, preparation and management. Priority projects in core and comprehensive networks still need to be completed. Future infrastructure investments need to be implemented in compliance with EU standards on public procurement, state aid and environmental impact assessment. Projects should be channelled through a single project pipeline, confirming the strategic orientation towards the TENs. The implementation of the railway route 10 project the route 6-highway project is slower than expected. The authorities should take immediate measures to finalise the remaining rail border crossing protocols with North Macedonia. Also, additional efforts are required to ensure opening of the rail market on the indicative extension of the Orient/East-Med corridor. While it has made some progress on the adoption of maintenance plans for the entire (road and rail) core network, Kosovo is still lagging behind in this respect and further efforts are needed.

On **energy networks**, there is no progress on the new 400kV transmission line and load frequency control with Albania, which are not operational because the connection agreement between the European Network of Transmission System Operators for Electricity and the Kosovo transmissions system operator is not being implemented. A pre-feasibility study on a gas pipeline between Kosovo and Albania (Alkogap) deriving from the TAP project, was completed in November 2018. The investment cost is estimated at EUR 211 million, including EUR 61 million in Kosovo, but the project depends on the construction of the Ionian-Adriatic pipeline and the gas transmission system to Fushë Kruje in Albania.

On **telecommunication networks**, no progress has been made on strengthening of the institutional capacity of the Regulatory Authority of Electronic and Postal Communications to design and enforce regulations.

6.24 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** on implementation. A sustainable solution for the funding of the public broadcaster remains to be adopted. As in previous years, the Independent Media Commission did not move forward with the process of switching from analogue to digital television.

A majority of last report's recommendations have not been followed up. In the coming year Kosovo should in particular:

- ensure that telecoms and media regulators are given adequate resources to fulfil their mandates independently and develop a solution for the sustainable funding of the public service broadcaster;
- free the first digital dividend / liberate frequencies;
- revise the Law on the Independent Media Commission so as to increase the availability of data on the audio-visual sector and extend the regulator's regulatory, monitoring and enforcement powers.

On **electronic communications and information and communication technologies (ICT)**, there has been no improvement in the financial and organisational independence of the Regulatory Authority of Electronic and Postal Communications. The Kosovo Agency of Statistics published data on the use of ICT. According to the survey, 93.2% of households had

access to the internet, a 4.4 pps increase from the previous year. Some 90.2% accessed the internet through fixed connections, a 6.6 pps increase from the previous year, whereas the number accessing the internet through mobile connections remained the same, at 24.6 %.

The mid-term targets of the 2013-2020 Digital Agenda for Kosovo have been fully achieved and the strategy is being implemented. The telecom regulator postponed implementation of the +383 dialling code to January 2019 at the request of operators but the transition was only partially implemented by the deadline. The regulator is fining each operator EUR 10,000 for each month of delay following the January deadline. The regulator has reviewed pricing policies for frequency allocation and this has resulted in a 30 % price drop for the currently allocated frequencies for mobile telephony services. The regulator is also currently reviewing pricing policies for new frequency allocations and annual regulatory fees. Authorities took part in the preparations of the Regional Roaming Agreement and signed the agreement in April 2019.

As regards the **information society**, several legal initiatives are ongoing. Kosovo is currently working on alignment with the Electronic Identification, Authentication and Trust Services Regulation, the Directive on the Security of Network and Information Systems and the Broadband Cost Reduction Directive. The computer security incident response team, set up in 2014, is still understaffed. Modernisation of the public administration is a key element for successful digitalisation. Kosovo should put more effort in implementation of e-government frameworks and services.

On **audio-visual policy**, the Independent Media Commission again failed to make any substantial progress in implementing the digital switchover, even though the International Telecommunications Union deadline expired in June 2015. No funds have been allocated or identified to implement the process. The Law on the Independent Media Commission provides it with sufficient regulatory, monitoring and enforcement powers to foster the pluralism and competitiveness of the market but it has not carried out any market analysis for years and does not sanction broadcasters efficiently for failure to comply with the law. This is partly due to a lack of data on the distribution of the advertising funds, the audience and the ownership structure of the TV and radio channels and the media outlets. The creation of the Media Registry could provide the regulator with the requisite data to carry out proper market analysis. The revision of the Law on the Independent Media Commission should extend its regulatory powers to audio-visual media services available online (e.g. video on demand, catch-up TV and webTV), which are covered by the audio-visual media services Directive. In addition, the Independent Media Commission needs adequate staffing and funding to operate independently. Kosovo needs to speed up its efforts and ensure that the digital switchover is carried out in full transparency and in line with EU standards. The public service broadcaster, Radio Television of Kosovo (RTK), remains directly state-funded, with its budget determined annually by the Assembly. This undermines its editorial independence, weakens its long-term sustainability and leaves it prone to political influence. The Assembly has drafted a new Law on the public broadcaster, including a potential solution for sustainable funding for RTK.

6.25 Financial control

Kosovo has **some level of preparation** in the area of financial control. **Good progress** was made with the adoption of the public internal financial control (PIFC) law and some of its secondary legislation, further piloting of the internal control quality reviews by the Central Harmonisation Unit, the adoption of the 2018-2021 strategic development plan of the National Audit Office, and increased performance audit work. However, further efforts are needed to implement managerial accountability, including the delegation of decision-making authority, and to strengthen functioning of internal control and audit. High level political

support will remain instrumental for implementation of PIFC at all levels of administration. The timely implementation of internal and external audit recommendations should be improved.

In the coming year, Kosovo should in particular:

- adopt a new medium-term strategy document on PIFC, with a specific focus on the definition and implementation of managerial accountability;
- adopt the outstanding secondary legislation under the new PIFC law;
- ensure more systematic and timely implementation of external audit recommendations.

Public internal financial control

The **strategic framework** for PIFC is partially in place; its policy paper will expire at the end of 2019. From 2020 onwards, Kosovo needs to develop a comprehensive PIFC policy document, focusing on the definition and implementation of managerial accountability. PIFC, public administration reform and public financial management reform strategic framework need to be aligned, and a mechanism needs to be set up for the effective coordination, monitoring and reporting of the reforms.

Kosovo needs to make further efforts to embed **managerial accountability** in the administrative culture. There is currently little delegation of decision-making to middle management within institutions. Managerial accountability is further limited by a primary focus on compliance rather than on performance. The government has started to implement the action plan for the rationalisation of agencies, which was adopted in June 2018. This is expected to improve accountability between institutions by reducing the high number of (semi-)independent agencies and introducing better supervision and reporting lines (*See section on Public Administration Reform*).

The new PIFC Law, adopted in April 2018, provides a good basis for **internal control implementation**, and is in line with international standards. Some pieces of secondary legislation still needs to be adopted. The application of risk management is still at an early stage, and irregularity management and reporting should also be developed further. The new law on whistle-blower adopted in November 2018 contributes to the internal control framework.

Internal audit practice needs to be improved. Staffing capacity is insufficient, as around 40% of internal audit units have only one auditor. Nevertheless, most internal audit units comply with the requirement to submit strategic and annual audit plans. Internal audit focuses mostly on compliance with existing rules and procedures. Internal audit recommendations are not systematically implemented.

The **Central Harmonisation Unit** in the Ministry of Finance is responsible for developing and disseminating methodological guidance on internal control and internal audit implementation in the public sector. It has undertaken quality reviews on both internal control and internal audit in the past year. It prepares an annual report on the implementation of PIFC based on replies to self-assessment questionnaires and its own quality reviews. The annual report contains recommendations, which should be more systematically implemented.

External audit

Kosovo's **constitutional and legal framework** provides for the functional, organisational and financial independence of the National Audit Office in line with the standards of the International Organisation of Supreme Audit Institutions.

The **institutional capacity** has increased further to 164 staff, of whom 137 are audit staff. The Office is implementing its new 2018-2021 strategic development plan, which includes objectives, performance indicators and a monitoring framework.

The Office has introduced quality control and assurance procedures to improve the **quality of audit work** and continues to implement a certification programme for auditors. It finalised 13 performance audit reports, compared to 11 reports in 2017 and 5 reports in 2016.

The National Audit Office has recognised the need to improve the **impact of audit work**, as audited institutions, especially at local level, do not implement audit recommendations sufficiently or in a timely manner. According to the 2018 annual report, in 2017 only 34% of external audit recommendations issued in 2016 were implemented in full, 26% in part, and 40% not at all. The Assembly has not yet established an efficient mechanism for the follow-up of audit reports. The National Audit Office continues to strengthen its overall communication policy and engages more actively with civil society.

Protection of the EU's financial interests

Alignment with the *acquis* in this area still needs to be assessed. No **anti-fraud coordination service** has been established, and no anti-fraud strategy has been adopted. **Cooperation** is governed by an administrative agreement between the Kosovo Police and the European Anti-Fraud Office (OLAF). It is designed to ensure the timely transmission of information and cooperation in cases relating to alleged fraud and other illegal activities affecting the financial interests of the EU.

Protection of the euro against counterfeiting

Kosovo has established competent authorities and procedures for dealing with counterfeit money, but **alignment with the *acquis*** in this area still needs to be assessed. The Law on the Central Bank prohibits the circulation of counterfeit money. The Central Bank has issued a regulation on cash operations to strengthen rules and procedures for financial institutions operating in Kosovo. Kosovo takes part in the actions of the Pericles 2020 programme.

6.26 Statistics

Kosovo has **some level of preparation** in the area of statistics. **Good progress** was made in addressing some of last year's recommendations, in particular by amending the Law on statistics, improving national accounts and expanding social statistics, notably through the first full-scale survey following the methodology of the EU statistics on income and living conditions (EU-SILC). The Kosovo Agency of Statistics (KAS) has adopted the recommendations of the Eurostat peer review and developed an action plan for their implementation. However, it continues to suffer from insufficient resources and capacities. Coordination between statistical institutions has not improved much. Significant efforts are still needed especially to ensure the alignment of macro-economic, business, and environmental statistics with European standards.

In the coming year, Kosovo should in particular:

- implement the recommendations of the Eurostat peer review according to the adopted action plan;
- improve statistical governance and coordination between the main statistical institutions; ensure better access to and use of available administrative data sources;
- continue to make necessary preparations for the next (2021) population census, ensuring full coverage of the territory.

On **statistical infrastructure**, the legal framework is broadly in line with the European statistics code of practice. Amendments to the Law on statistics were adopted in December 2018. While these strengthen the role of KAS within the statistical system, they did not fully address Eurostat's concerns regarding the duration of the mandate of the head of the Agency. Despite the government approval of 10 new positions, which are in the process of being filled, KAS still has inadequate human and financial resources to carry out surveys and data analysis independently: this hinders the timely production of statistics. In order to produce more and better statistics, KAS should also improve its efficiency and develop a quality management system and new data collection methods. KAS should continue to improve its communication with different administrative data sources, so that it can reinforce its coordination role within Kosovo's statistical system, provide timely and reliable statistics, and increase the number of statistics it publishes. Its current premises remain inadequate. Data transmission to and data disseminated by **Eurostat** improved further. In the last year, the number of data points from Kosovo available in Eurobase increased by 30 %. KAS is using its web-based dissemination of statistics, but updates are not as timely and complete as the pdf publications, which reduces the usefulness of the web-based platform. The European classification of economic activities (NACE Rev.2) continues to be applied in all relevant statistical areas. Work is ongoing to align the statistical business register more closely with the reality of economic activities in Kosovo. The electronic data transmission procedure was developed with the Kosovo Business Registration Agency (KBRA) and the Kosovo Tax Administration (TAK), and the Statistical Business Register is automatically updated with data collected in various surveys. The population register needs significant improvement in order to provide comprehensive and reliable information ahead of the planned 2021 census. In general, KAS should put more effort into aligning existing data with Eurostat requirements, in order to increase their visibility.

On **macroeconomic statistics**, further alignment with the European System of National and Regional Accounts (ESA 2010) is ongoing. KAS publishes quarterly national accounts at T+90 days, but annual and quarter sector accounts, supply/use tables and regional accounts are not compiled regularly. Fiscal notifications and financial accounts are not yet available. Monthly statistics for trade in goods and annual figures for trade in services are submitted to Eurostat. The Central Bank of Kosovo compiles balance of payments data broadly in line with the *acquis* and submits annual and quarterly to Eurostat. Government finance statistics are published quarterly. Kosovo publishes a harmonised index of consumer prices based on EU standards (ECOICOP classification), but Eurostat does not currently publish it due to problems of consistency in aggregation.

Structural **business statistics** and some short-term statistics are partly in line with the *acquis*, but the availability of short-term statistics remains limited. Industry statistics are compiled on a quarterly basis, but no statistics are compiled on the construction and service sectors. The construction cost index is produced on a quarterly basis. Industry statistics for 2017 (according to the EU's PRODCOM list of products) were published in December 2018. Some tourism statistics and transport statistics are transmitted to Eurostat, but they are not yet fully compliant with the *acquis*. Statistics on research, development and innovation are not produced on a regular basis. KAS published the results of an information and communication technologies (ICT) survey for households in January 2019 but has still not conducted a survey on ICT usage by enterprises.

In the area of **social statistics**, only demographic ones are broadly in line with the *acquis*. As a matter of priority, KAS should ensure resources and continue preparations for the 2021 population census, with full coverage of Kosovo territory. In 2018, for the first time, KAS conducted a full-scale survey of income and living conditions (regular EU-SILC) according to

EU methodology and it intends to repeat the exercise on an annual basis. Some improvements have been made to the labour force survey (LFS): an annual and quarterly LFS are carried out and the publication timeframe has improved. However, Eurostat has not yet accepted the data. Some social protection statistics are produced but unemployment statistics remain unreliable. Education statistics are still not produced according to international education classification standards (ISCED 2011). A 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 EU standards.

For **agricultural statistics**, KAS publishes data on annual agricultural crops and livestock production, and orchard statistics. The agricultural holding survey is produced regularly and in line with the *acquis*. There are no plans to conduct a farm structure survey this year, but KAS is carrying out a crop and livestock survey instead. Agricultural price indices and economic accounts for agriculture are produced on a regular basis, but supply balance sheets and an agriculture labour index are not yet produced.

Energy and environment statistics are partly in line with the *acquis*. KAS has increased the number of statistical products sent to Eurostat, but many required statistics either did not meet EU standards or were not produced at all. In April 2018, statistics on energy consumption in the residential sector were published for the first time, but only for reference year 2015, which is of limited use. Monthly data and the monthly share of renewables are not provided to Eurostat. The first report on energy efficiency statistics was published in March 2018 according to Eurostat requirements. Such reporting should be improved further, which would also facilitate evidence-based planning of projects by the new Energy Efficiency Fund. Waste and water statistics are produced regularly. Greenhouse gas emission statistics are collected but the information is not published regularly. Kosovo is starting to publish statistics on air pollution. Environmental statistics on environment-related taxes, protection expenditure and material flow balances are not yet produced.

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 cooperation in a wide variety of sectors, including justice and home affairs, trade, education, employment, energy, environment and a range of other policy areas. Three Stabilisation and Association Council meetings, and three cycles of subcommittee meetings took place since 2016.

To guide reforms under the implementation of the SAA, the Commission and Kosovo adopted in November 2016 the **European Reform Agenda (ERA)** 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.

Since 2012, the Commission has issued five reports on Kosovo's progress towards **visa liberalisation** (the most recent in May 2016 and June 2018). On 18 July 2018, the Commission confirmed that Kosovo has met the two outstanding visa liberalisation requirements on the ratification of the border demarcation agreement with Montenegro and a strengthened track-record in the fight against crime and corruption, thus fulfilling all benchmarks set out in the Visa Liberalisation Roadmap. In March 2019, the European Parliament voted in support of the Commission proposal in its first reading. The proposal is pending in the Council.

As regards **financial assistance**, the Instrument for Pre-Accession (IPA) 2018 programme for Kosovo was adopted in December 2018 with an EU contribution totalling EUR 90.5 million, complemented by co-financing from Kosovo for an overall budget of EUR 94.8 million. Two sector budget support operations are being implemented in Kosovo: public administration reform (PAR) under IPA 2016 (EUR 25 million) and public financial management (PFM) under IPA 2017 (EUR 25 million). In 2018, the EU Office in Kosovo signed 139 contracts for a total amount of EUR 89 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.

On 17 July 2017, the Council approved the Framework Agreement between the European Union and Kosovo on the general principles for the participation of Kosovo in **Union programmes**. In 2018, Kosovo joined the Erasmus+, COSME, Europe for Citizens and Creative Europe programmes.

The Kosovo Specialist Chambers and Specialist Prosecutor's Office, established to investigate and prosecute allegations stemming from the 2011 Council of Europe Report, which alleges serious violations of international law, continued their work.

Since 2008, the **European Rule of Law Mission in Kosovo (EULEX)** has been assisting Kosovo authorities in establishing sustainable and independent rule of law institutions. Within its current mandate (June 2018-June 2020), the Mission undertakes monitoring activities and has limited executive functions.

To date, according to the government, Kosovo has been recognised by 114 countries, including 23 EU Member States.

During the reporting period, the UN Secretary-General continued to provide regular updates on the implementation of the UN's mission in Kosovo (UNMIK). He notably raised concern about the tension between Belgrade and Pristina and called on leaders from both sides to

avoid any action that could further raise tensions, encouraging them to make conciliatory gestures and seek ways to reengage and work towards progress in the EU-facilitated dialogue.

The NATO-led Kosovo Force (KFOR) has continued to help ensure a safe and secure environment in Kosovo. In February 2019, it had 3 525 personnel.

ANNEX II – STATISTICAL ANNEX

STATISTICAL DATA (as of 29.04.2019)

Kosovo

Basic data	Note	2006	2013	2014	2015	2016	2017
Population (thousand)		2 100	1 816b	1 821	1 805b	1 772	1 784
Total area of the country (km ²)	1)	10 908	10 908	10 908	10 908	10 908	10 905b

National accounts	Note	2006	2013	2014	2015	2016	2017
Gross domestic product (GDP) (million euro)		:	5 327	5 568	5 807	6 070	6 414
GDP (euro per capita)		:	2 900	3 100	3 200	3 400	3 600
GDP per capita (in purchasing power standards (PPS))		:	:	:	:	:	:
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)		:	:	:	:	:	:
Real GDP growth rate: change on previous year of GDP volume (%)		:	3.4	1.2	4.1	4.1	4.2
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (in volume) 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 (2010 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		:	:	:	:	:	:
Gross value added by main sectors							

Agriculture, forestry and fisheries (%)		:	14.4	14.3	12.6	13.0	11.4
Industry (%)		:	20.3	19.4	20.8	21.5	21.8
Construction (%)		:	7.9	7.3	8.4	8.1	9.9
Services (%)		:	57.4	59	58.2	57.4	56.9
Final consumption expenditure, as a share of GDP (%)		:	100.1	102.9	100.9	100.0	97.5
Gross fixed capital formation, as a share of GDP (%)		:	24.8	23.2	25.8	25.5	27.0
Changes in inventories, as a share of GDP (%)		:	2.8	2.5	1.8	1.6	1.4
Exports of goods and services, relative to GDP (%)		:	21.9	22.5	21.9	23.7	26.7
Imports of goods and services, relative to GDP (%)		:	49.7	51.2	50.4	50.9	52.5
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2006	2013	2014	2015	2016	2017
Industrial production volume index (2010 = 100)		:	:	:	:	:	:
Number of active enterprises (number)		:	30 803	31 420	35 472	33 274	34 355
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	8.5	9.0	11.7	9.2	8.7
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	4.4	5.3	8.3p	15.8p	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	74.8	76.6	78.3	78.5	78.8
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
Total value added (in the non-financial business economy) (EUR million)		:	:	:	:	:	:

Inflation rate and house prices	Note	2006	2013	2014	2015	2016	2017
Harmonised consumer price index (HICP), change relative to the previous year (%)	2)	0.6	1.7	0.4	-0.5	0.3	1.5
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2006	2013	2014	2015	2016	2017
Balance of payments: current account total (million euro)		-226	-179	-385	-497	-481	-383
Balance of payments current account: trade balance (million euro)		-1 164	-1 996	-2 059	-2 109	-2 291	-2 464
Balance of payments current account: net services (million euro)		20	520	460	457	639	794
Balance of payments current account: net balance for primary income (million euro)		159	122	114	93	75	127
Balance of payments current account: net balance for secondary income (million euro)		759	1 175	1 100	1 062	1 096	1 161
Net balance for primary and secondary income: of which government transfers (million euro)		320	370	291	202	204	196
**3 year backward moving average of the current account balance relative to GDP (%)		:	-7.3	-5.4	-6.3	-7.8	-7.5
**Five year change in share of world exports of goods and services (%)		:	:	11.51	6.03	6.86	25.61
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		289.2	250.2	123.8	271.8	177.2	212.0
Foreign direct investment (FDI) abroad (million euro)		5.6	30.0	27.3	37.1	42.7	43.4
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	67.0	28.4	89.1	25.7	16.3
Foreign direct investment (FDI) in the reporting economy (million euro)		294.8	280.2	151.2	308.8	220.0	255.4

of which FDI of the EU-28 countries in the reporting economy (million euro)		:	88.5	38.5	100.2	41.2	123.5
**Net international investment position, relative to GDP (%)		:	4.9	3.5	-0.7	-1.3	-1.8
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		11.8	11.0	8.5	6.9	3.8	9.9

Public finance	Note	2006	2013	2014	2015	2016	2017
***General government deficit / surplus, relative to GDP (%)		:	:	:	:	:	:
***General government gross debt relative to GDP (%)		0.0	8.9e	10.6e	13.1e	14.6e	16.6e
Total government revenues, as a percentage of GDP (%)		:	26.8	26.3	29.6	:	:
Total government expenditure, as a percentage of GDP (%)		:	28.2	27.1	28.0	:	:

Financial indicators	Note	2006	2013	2014	2015	2016	2017
Gross external debt of the whole economy, relative to GDP (%)		:	30.2	31.2	33.3	33.2	32.6
Gross external debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		:	:	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		637	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 (%)	3)	14.50	11.82	10.61	8.32	7.47	6.83
Deposit interest rate (one year), per annum (%)	3)	3.00	3.43	1.11	0.90	1.01	1.04
Euro exchange rates: average of period (1 euro = ... national currency)		1	1	1	1	1	1
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		100	102	102	102	102	103
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	1.3	0.9	0.4	0.1	0.7
Value of reserve assets (including gold) (million euro)		356	694	645	706	605	683

External trade in goods

	Note	2006	2013	2014	2015	2016	2017
Value of imports: all goods, all partners (million euro)		1 315	2 449	2 538	2 635	2 789	3 047
Value of exports: all goods, all partners (million euro)		82	294	325	325	310	378
Trade balance: all goods, all partners (million euro)		-1 233	-2 155	-2 214	-2 309	-2 480	-2 669
Terms of trade (export price index / import price index * 100) (number)		:	97	107	107	101	107
Share of exports to EU-28 countries in value of total exports (%)		36.6	40.1	30.2	32.6	22.6	24.9
Share of imports from EU-28 countries in value of total imports (%)		36.3	44.2	42.6	42.2	43.1	43.1

Demography

	Note	2006	2013	2014	2015	2016	2017
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		12.6	:	13.2be	9.2p	8.4p	8.2
Infant mortality rate deaths of children under one year of age (per thousand live births)		12.0	:	:	9.7	8.5	9.7
Life expectancy at birth: male (years)		:	:	:	:	75.9p	:
Life expectancy at birth: female (years)		:	:	:	:	81.6p	:

Labour market	Note	2006	2013	2014	2015	2016	2017
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	46.4	47.7	42.8	44.0	49.0
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	33.0	31.3	29.1	32.3	34.4
Male employment rate for persons aged 20–64 (%)		:	51.5	48.4	44.9	49.9	54.0
Female employment rate for persons aged 20–64 (%)		:	14.9	14.5	13.2	14.6	14.6
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		26.3	30.8	29.8	27.2	29.6	32.7
Employment by main sectors							
Agriculture, forestry and fisheries (%)		21.4	5.9	2.6	2.3	4.2	4.4
Industry (%)		12.4	16.8	17.7	18.7	18.0	17.4
Construction (%)		8.1	11.4	10.9	9.5	11.5	12.9
Services (%)		:	65.9	68.8	69.5	66.3	65.3
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	31.5	31.4	32.6	30.8	28.4
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	68.5	68.6	67.4	69.2	71.6
Unemployment rate: proportion of the labour force that is unemployed (%)		44.9	30.0	35.3	32.9	27.5	30.3
Male unemployment rate (%)		34.6	26.9	33.1	31.8	26.2	28.5
Female unemployment rate (%)		61.6	38.8	41.6	36.6	31.7	36.4
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		75.5	55.9	61.0	57.7	52.4	52.7

Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		18.5	20.7	26.1	23.8	18.0	21.7
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)		:	37.3	44.0	45.5	29.6	32.5
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)		:	13.4	17.1	17.4	15.6	22.6

Social cohesion	Note	2006	2013	2014	2015	2016	2017
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) (2010 = 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 (%)		:	18.4	16.5	14.5	12.7	12.2

Standard of living	Note	2006	2013	2014	2015	2016	2017
Number of passenger cars relative to population size (number per thousand population)		69.9	122.5b	129.7	156.1b	146.8	153.6
Number of mobile phone subscriptions relative to population size (number per thousand population)		:	:	464.3	487.8	545.0	553.1
Mobile broadband penetration (per 100 inhabitants)		:	:	:	:	:	1
Fixed broadband penetration (per 100 inhabitants)		:	:	:	:	:	0

Infrastructure	Note	2006	2013	2014	2015	2016	2017
Density of railway network (lines in operation per thousand km ²)		:	30.9	30.9	30.9	30.9	30.9
Length of motorways (kilometres)		0	78	78	80	98	108

Innovation and research	Note	2006	2013	2014	2015	2016	2017
Public expenditure on education relative to GDP (%)		:	3.8	3.7	4.5	4.6	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 (%)		:	:	:	:	:	88.8

Environment	Note	2006	2013	2014	2015	2016	2017
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		:	473.2	448.3	490.3	504.6	459.9
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	3.7	4.0	3.6	6.2	4.4
Road share of inland freight transport (based on tonne-km) (%)		:	:	:	:	:	:

Energy	Note	2006	2013	2014	2015	2016	2017
Primary production of all energy products (thousand TOE)		1 424	1 792	1 605	1 804	2 016	1 793
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		1 248	1 532	1 342	1 536	1 640	1 412
Primary production of gas (thousand TOE)		0	0	0	0	0	0

Net imports of all energy products (thousand TOE)		581	505	603	697	638	769
Gross inland energy consumption (thousand TOE)		1 970	2 312	2 217	2 524	2 704	2 569
Gross electricity generation (GWh)		4 434	6 525	5 436	6 119	5 981	5 918

Agriculture	Note	2006	2013	2014	2015	2016	2017
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		102.7	117.6	93.3	103.7	:	:
Utilised agricultural area (thousand hectares)	4) 5)	401	442	416e	411	417	417
Livestock numbers: live bovine animals (thousand heads, end of period)	5) 6)	382	321	270e	259	265	260
Livestock numbers: live swine (thousand heads, end of period)	5) 6)	68	49	46e	44	42	41
Livestock numbers: live sheep and live goats (thousand heads, end of period)	5) 6)	113	160	234	224	212	211
Raw milk available on farms (thousand tonnes)	6)	:	:	:	:	376	332
Harvested crop production: cereals (including rice) (thousand tonnes)	7)	392	540	465e	444	563	478
Harvested crop production: sugar beet (thousand tonnes)		0	0	0	:	:	:
Harvested crop production: vegetables (thousand tonnes)	6)	142	158	170e	145	186	182

: = not available

b = break in series

e = estimate

p = provisional

* = 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) The change of the total area between 2016 and 2017 reflects measurements made by the Kosovo Cadastral Agency.
- 2) 2006, 2013 and 2014: consumer price index.
- 3) 2013 and 2014: includes disbursement fee charged by banks.
- 4) Including agricultural common land.
- 5) 2014: data from the 2014 agriculture census.
- 6) 2014-2017: results for four municipalities in the north of Kosovo which did not participate in the census/surveys are estimated.
- 7) Excluding rice.