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KOSOVO* 2010 PROGRESS REPORT

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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2010-2011

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TABLE OF CONTENTS

1.	Introduction	4
1.1.	Preface.....	4
1.2.	Context	4
1.3.	Relations between the EU and Kosovo.....	5
2.	Political criteria	6
2.1.	Democracy and the rule of law	7
2.2.	Human rights and the protection of minorities	13
2.3.	Regional issues and international obligations.....	21
3.	Economic criteria	22
3.1.	The existence of a functioning market economy	22
3.2.	The capacity to cope with competitive pressure and market forces within the Union	28
4.	European standards	29
4.1.	Internal market	30
4.1.1.	Free movement of goods	30
4.1.2.	Movement of persons, services and right of establishment.....	31
4.1.3.	Free movement of capital.....	32
4.1.4.	Customs and taxation	32
4.1.5.	Competition.....	34
4.1.6.	Public procurement	34
4.1.7.	Intellectual property law	35
4.1.8.	Employment and social policies, public health policy.....	36
4.1.9.	Education and research	38
4.1.10.	WTO issues	39
4.2.	Sectoral Policies	39
4.2.1.	Industry and SMEs.....	39
4.2.2.	Agriculture and fisheries	40
4.2.3.	Environment.....	41
4.2.4.	Transport policy	43

4.2.5.	Energy	45
4.2.6.	Information society and media.....	46
4.2.7.	Financial control.....	48
4.2.8.	Statistics	49
4.3.	Justice, freedom and security	49
4.3.1.	Visa, border management, asylum and migration.....	49
4.3.2.	Money laundering	52
4.3.3.	Drugs	53
4.3.4.	Police.....	53
4.3.5.	Fighting organised crime and terrorism	55
4.3.6.	Protection of personal data.....	56

COMMISSION STAFF WORKING DOCUMENT

2010 Progress Report

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on progress made by the countries of the Western Balkans region.

This report largely follows the same structure as in previous years. The report:

- briefly describes the relations between Kosovo¹ and the Union;
- analyses the political situation in Kosovo in terms of democracy, the rule of law, human rights, protection of minorities, and regional issues;
- analyses the economic situation in Kosovo;
- reviews Kosovo's capacity to implement European standards, that is, to gradually approximate its legislation and policies with those of the *acquis*, in line with the European Partnership priorities.

The period covered by this report is from mid-September 2009 to early October 2010. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting Parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. Many other sources have also been used, including contributions from the Kosovo authorities, the EU Member States, the EU Special Representative in Kosovo, the EU rule of law mission (EULEX), European Parliament reports² and information from various international and non-governmental organisations.

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

1.2. Context

In July, the International Court of Justice (ICJ) issued an advisory opinion, which concluded that Kosovo's declaration of independence did not violate general international law or Security Council resolution 1244 (1999). The UN General Assembly adopted on 9 September a joint resolution tabled by Serbia and co-sponsored by EU Member States as a follow up to

¹ Under UNSCR 1244/1999

² The EP rapporteur on Kosovo is Ms Ulrike Lunacek.

the ICJ opinion. The resolution aims at opening the way for a process of dialogue between Pristina and Belgrade to promote cooperation, achieve progress on the path to the European Union and improve the lives of the people.

To date, Kosovo has been recognised by 71 UN Member States, including 22 EU Member States.

During the reporting period, the UN Secretary-General issued four reports on Kosovo — in September 2009, in January, April and June 2010. The Secretary-General noted that the changing circumstances on the ground have led to gradual adjustment of the functions and priorities of the UN mission in Kosovo. The strategic goal of mission is to promote security, stability and respect for human rights.

KFOR, the NATO-led military presence, continues to provide security throughout Kosovo. During the reporting period, its presence has been gradually reduced. In this context, the Kosovo Police has taken over responsibility for the protection of certain cultural and religious sites.

The situation in northern Kosovo remained tense, but stable. The Kosovo authorities opened an office providing services to citizens. The enthronement of the Serbian Orthodox patriarch was organised as per the tradition in the patriarchate premises in Kosovo. The enthronement ceremony proceeded in a peaceful atmosphere under the supervision of the Kosovo Police. The lack of dialogue between Belgrade and Pristina has prevented progress in improving the lives of local communities.

In July, Kosovo signed a stand-by agreement with the IMF.

In September, the Constitutional Court ruled that it is unconstitutional to hold at the same time the office of President of Kosovo and of Chairman/President of a political party. Following the ruling, the President of Kosovo resigned. The LDK then withdrew from the governing coalition. Elections have been called for 12 December.

1.3. Relations between the EU and Kosovo

Kosovo is part of the **Stabilisation and Association Process**. The stabilisation and association process dialogue (SAPD) was launched in January. The first cycle of meetings was completed in July. The sectors covered include "justice, freedom, security"; "innovation, information society, social policy"; "the internal market, competition, consumer/health protection"; "economic and fiscal matters"; "transport, energy, environment, regional development" and "agriculture, fisheries, forestry, food safety". In July, Kosovo hosted the plenary SAPD meeting and the first SAPD civil society dialogue meeting, which was co-chaired by the European Economic and Social Committee. To promote economic dialogue, the fiscal surveillance mechanism with the European Commission continued with meetings being held on a bi-annual basis.

In November 2009, in the context of the municipal elections, a delegation of Members of the European Parliament visited Kosovo. In July, the European Parliament adopted a resolution on Kosovo. It encouraged EU Member States to step up their common approach towards Kosovo. The European Parliament underlined that the prospect of accession to the EU is a powerful incentive for the necessary reforms in Kosovo and called for practical steps to make this prospect more tangible both to the government and to citizens.

The EU rule of law mission (EULEX) continues to operate in Kosovo and to fulfil its mandate. The situation in northern Kosovo has had an impact on EULEX activities, such as the continuous presence of customs officials at gates 1 and 31 and the staffing of Mitrovicë/Mitrovica court. EULEX has also made a number of arrests in the north. There have been a number of threats and attacks against EULEX personnel. The situation needs to normalise. The EU has re-confirmed its commitment to Kosovo by opening an EU House in northern Mitrovicë/Mitrovica. The Italian Ambassador to Kosovo has been nominated as facilitator for the north. The Head of the Greek liaison office in Pristina has been nominated as facilitator for the protection of religious and cultural heritage in Kosovo. They have made an important contribution in their respective areas. This has increased the EU visibility and influence. The authorities need to ensure full and unconditional cooperation with, and support for, EULEX.

In February, the EU Council renewed the mandate of the EU Special Representative in Kosovo for six months. The mandate was extended in August for a further six months. The EU Special Representative is also the international civilian representative for Kosovo.

In April, Kosovo hosted the second high-level forum for donor coordination. The government reported to donors on the progress made as regards donor coordination. This forum has now been established as a mechanism to review and assess progress with socio-economic development and the effectiveness of assistance delivered in Kosovo.

Kosovo continues to benefit from the Instrument for Pre-accession Assistance (IPA), macro-financial assistance, the Instrument for Stability (IfS) and other sources of funding. Kosovo participates in the IPA multi-beneficiary programmes including in an IPA crisis response package developed in 2008. The package is fully operational in 2010. A total of €508 million of EU assistance has been committed to Kosovo for the period 2008–2011. In September, the Commission transferred the first tranche of macro-financial assistance to Kosovo.

The multi-annual indicative planning document for 2011-2013 is being prepared. It will identify the main areas and priorities for IPA assistance.

During 2010, a total of €67.3 million granted in the IPA annual programme for 2010 was allocated in close coordination with the Ministry for European Integration and government institutions. The EC programmes are continuing to support the rule of law, public administration reform, communities, culture, youth and wider socio-economic issues, including trade, regional development, education, employment and agriculture.

To improve participation by **civil society** in policy dialogue and formulation, €1.7 million was set aside under IPA 2008. Areas such as the environment and equal opportunities (anti-discrimination measures and social inclusion of vulnerable groups) are receiving special attention. A further €3 million are earmarked under IPA 2009 for the benefit of civil society, including protection of minority rights and empowerment of disadvantaged groups. The European Instrument for Democracy and Human Rights is also supporting these issues.

2. POLITICAL CRITERIA

This section examines the progress made by Kosovo towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional

cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Parliament

The Assembly adopted revised rules of procedure, aligning them with the Constitution. The 2010 budget has allowed the Assembly administration to employ additional thematic experts to support the work of committees. The Assembly's secretariat has extended the range of services offered to committees by strengthening its research capacity. Interaction between the Assembly and civil society has improved. Public hearings have been organised in a number of areas of legislation.

In February, the Assembly adopted the 2010 Action plan on European Integration. The first report on its implementation was adopted in September. In June, the Assembly adopted laws on the rights and responsibilities of Assembly members, on parliamentary investigation and on the Official Gazette.

Cooperation has improved between the Committee for European Integration and the other Assembly committees as well as with the new Ministry for European Integration. The Committee still needs to increase substantially its financial and administrative capacity.

Parliamentary oversight of the executive branch is exercised by means of regular parliamentary questions and plenary sessions attended by members of the government. This mechanism needs to be made more effective, including by the request and provision of written reports.

Concerns remain as regards the management of human resources by the Assembly secretariat. It needs to set up a transparent and merit-based recruitment process. Committees have underspent their budget allocations for 2009 and for the first quarter of 2010. The high turnover of qualified staff has impeded capacity building efforts. The Assembly's capability to effectively scrutinise legislation for compliance with EU norms needs to be improved. Kosovo's legislative strategy for 2009 and for 2010 has only been partially implemented.

In November 2009, Kosovo organised local elections. These were the first elections run by Kosovo's Central Election Commission, with the support of the OSCE. The elections were conducted in an orderly manner and with participation of all communities in Kosovo. The Political Parties Registration Office is now fully operational

Voter turnout was very low in northern Kosovo. In May, Serbia organised parallel local by-elections in northern Mitrovicë/Mitrovica.

The local elections have revealed some systemic shortcomings in Kosovo's electoral system, such as the complaints and appeals process and the provisions on election observation. The electoral system is not in line with international standards. The capacity of the Central Election Commission's secretariat remains limited.

In November, following the no-confidence vote to the government, the Assembly was dissolved. General elections have been scheduled for 12 December.

Overall, the Assembly has made some progress on institution-building and incorporating the agenda for European integration in its work. The legislative framework has been further strengthened. A public accounts committee was established. However, the Assembly's capacity remains weak. Effective management of human resources is essential in this regard. The process of executive oversight needs to be improved. The shortcomings of the electoral system need to be addressed and the Assembly's role in revising legislation to ensure quality needs to be strengthened.

Government

The main structures of government are complete. Six ministers were replaced in April, during the first major ministerial reshuffle since the last general elections.

A new Ministry for European Integration was created and a Minister appointed. The Ministry incorporated the former Agency for coordination for Development and European Integration. The Ministry coordinated successfully the first SAPD cycle, in close cooperation with other government departments. It needs to consolidate this central role in order to ensure effective follow-up on SAPD conclusions and realistic prioritisation of Kosovo's legislative agenda.

There has been some progress in the reform of local government administration. Kosovo has achieved significant progress as regards decentralisation. In April, the government extended the decentralisation action plan for two more years.

The Ministry of Local Government Administration conducted a capacity assessment of municipalities, covering a full range of public services. Its findings need to be addressed and a mechanism put in place for regular updates.

In January, the authorities endorsed a comprehensive approach to northern Kosovo with the aim of completing decentralisation and local government reform and improving socio-economic conditions. A coordinator to oversee its implementation has been appointed. The Ministry of Local Government Administration has appointed a municipal preparation team for northern Mitrovicë/Mitrovica.

However, the capacity of the Ministry to supervise local authorities should be strengthened, in accordance with the principles of the European Charter of Local Self-Government. Contrasting interpretations of legislation on self-government often blocks cooperation between central and local authorities. This needs to be resolved by addressing the matter to the competent courts.

Following the withdrawal of LDK from the governing coalition, the government received a no-confidence vote by the Assembly.

Overall, the government has strengthened its capacity to implement the European integration agenda. There has been progress on local government reform. However, important challenges remain in implementing legislation and improving the quality of municipal services.

Public administration

There has been progress as regards public administration reform. In May, Kosovo adopted two key laws in this area: on civil service and on the salaries of civil servants. The Independent Oversight Board law was adopted in July. In September, the laws on administrative disputes and on state administration were adopted. The Ministry of Public

Administration set up a department for public administration reform and European integration in October 2009. The inter-ministerial committee on public administration reform met at regular intervals. It provides high-level political guidance in this area. Strategic development plans have been adopted by two Ministries.

Kosovo's public administration institute conducted a training needs assessment and, on that basis, has designed new training curricula. The strategic development plan for the institute was adopted in September.

However, the legal framework remains to be fully implemented. In order to allow timely implementation of the civil service legislation, the necessary implementing rules that have been put in place need to be implemented as a matter of priority. The 2006 law on administrative procedures is still poorly disseminated and implemented. Ensuring sufficient representation of minority communities in the public service remains a concern.

Less than one third of the public administration reform strategy has been implemented. In September, the government adopted a revised strategy reflecting achievements and challenges to date.

In July, Kosovo adopted a new law on the ombudsperson. However, the recruitment of deputies is delayed. The persisting weakness of the ombudsperson institution should be addressed. The authorities should ensure prompt responses to all enquiries and recommendations from the ombudsperson.

The decisions of the inter-ministerial committee need to be formalised and widely disseminated. Reforms must be properly budgeted for, in continuous consultation with the Ministry of Economy and Finance. The strategic development plans need to be properly implemented across Kosovo's administration. The capacity of the department for public administration reform and of the department for civil service administration needs to be strengthened.

Overall, public administration reform in Kosovo remains a major challenge. Establishing a professional, accountable, accessible, representative public administration and ensuring delivery of public services to all in Kosovo needs to be addressed as a matter of high political urgency. This is a key European Partnership priority. The capacity of Kosovo's public administration remains weak.

Civilian oversight of the security forces

During the reporting period, Kosovo has adopted its National Security Strategy and legislation on classification of information and security clearances. Two security oversight bodies were established — the Committee for the Kosovo Intelligence Agency and the Committee for the Kosovo Security Forces. However, democratic oversight over the security sector is still developing and needs to be strengthened.

Judicial system

There has been progress in the judicial sector. By adopting laws on courts, Kosovo Judicial Council, Kosovo Prosecutorial Council and prosecution, Kosovo has launched a major judicial reform. Furthermore, law on courts introduces a new salary system, which will significantly improve the situation of judges. However, plans need to be made and resources allocated to prepare for implementation of these major reforms. The Ministry of Justice

demonstrated limited capacity to prepare, implement and evaluate policies on justice. Implementation of the Law on mediation also requires further efforts. A law on mutual legal assistance in criminal matters, extradition and transfer of sentenced persons and a law on child abduction are still missing.

The Ministry of Justice assumed further responsibilities for international legal cooperation – dealing with requests to and from all countries. The capacity and security of the unit responsible need to be enhanced. UNMIK remains the formal point of contact with Interpol and the ICTY. Kosovo has signed a bilateral agreement with Belgium on transfers of sentenced persons and other ad hoc agreements. It also continued cooperating with some countries on the basis of reciprocity. There is no legal cooperation between Kosovo and Serbia. This has had a particularly negative impact on civil, criminal and property-related cases. EULEX can facilitate such cooperation.

The Committee for Bar Examinations has been appointed and the first examinations have been organised. The first prospective judges and prosecutors have graduated from the Kosovo Judicial Institute in December 2009.

The vetting process of judges and prosecutors has been successfully completed. In all three phases including the Supreme Court, District Courts, Municipal Courts, associated Prosecutors Offices, Commercial Courts and Special Chamber, the President has appointed over 340 candidates. In October 2010 the Independent Judicial and Prosecutorial Commission organised an ethics exam in order to identify additional suitable candidates for the remaining positions. Judicial Council needs to build on the guidelines and procedures established by the Commission once it assumes full responsibility for recruitment, vetting and selection of the candidates.

Political interference in the re-appointment process and proposals made by the Kosovo Judicial Council is an issue of serious concern. The number of applications for reappointment from members of minorities has been lower than needed to fill all the positions. Cases of intimidation of members of Serb community have been reported. Serbia has not been constructive in creating right political climate in this process. As a result, the Inter-ethnic balance of judiciary is not ensured.

The eight members of the Kosovo Judicial Council have appointed their President, who has started to address critical strategic and logistic issues. The Council has started adjudicating disciplinary cases, but its capacity in this area is limited. A court management manual has been approved. Cooperation with EULEX will be essential to ensure its implementation. Higher salaries within judiciary have also been approved.

However, managing appointments, resignations and transfers has remained a major challenge in the transitional environment caused by the reappointment process. The Council has been unable to ensure the independence and impartiality of the judicial system. It needs to be more proactive to voice the concerns and act decisively in disciplinary cases. It also needs to develop its capacity to deal with a number of strategic issues such as reform, of judiciary, budget, staffing and training. All the recommendations of the Judicial Audit Unit still need to be implemented. A procedure to select a new director of the Council's secretariat needs to be launched.

The Constitutional Court started operating, dealt with a number of complaints and issued its first judgments upholding core principles of human rights and fundamental freedoms. However, the court needs to be further strengthened. Its secretariat is not fully staffed yet.

In September, the Court ruled that it is unconstitutional to hold at the same time the office of President of Kosovo and of Chairman/President of a political party. Subsequently, the President of Kosovo resigned.

The overall performance of the Kosovo justice system remains weak. There is still a significant backlog of court cases and the overall efficiency is very low. Along challenges such as corruption and nepotism, the continued political interference at different levels and in different forms in a number of cases, including in the work of the Kosovo Judicial Council, is of serious concern. In several instances, judges and prosecutors have refused to deal with sensitive cases. There have been reports of threats and intimidation against them. Some municipalities have continuously refused to comply with court decisions. The low level of enforcement of court decisions is a major impediment to creating confidence in judiciary. The Special Chamber of the Supreme Court still needs to be made fully operational and all local judges need to be appointed. Current situation undermines interethnic relationships and exercising of property rights. Implementation of the Case Management Information System was hindered by the lack of network connection in a number of district, municipal and minor offence courts. Some judges are still reluctant to use it. More intensive training at the court level in the regions is needed.

The Mitrovicë/Mitrovica court still consists solely of EULEX judges and prosecutors and is operating with limited capacity. The rule of law in northern Kosovo is not fully guaranteed. EULEX task force for north is focusing on crimes affecting daily lives of people in Kosovo and has made first arrests. Cases related to the events of March 2004 are still pending. Kosovo institutions also fail to attach sufficient importance to support investigations and judicial follow-up of war crimes.

Improvements in cooperation between police and prosecution have been noted. However, the overall coordination between law enforcement and judiciary and within judiciary needs to be further enhanced in order to tackle crime proactively. Poor management and lack of support staff has further undermined prosecution efforts. Supervision of the regional prosecution offices by the Office of the State Prosecutor has not been adequate. The Office of the State Prosecutor and the Ministry of Justice has also shown limited cooperation.

Following the promulgation of the law on pardon, sixty-two prisoners have been pardoned by the President of Kosovo. This has included some serving sentences for serious crimes and a majority of prisoners who had been refused conditional release. The assessment process of cases prepared for pardon needs to be improved.

Overall, Kosovo has made progress in this sector. Major reform process of judiciary has been launched by the adoption of the law on courts, which should also improve the situation of judges. Vetting process has also been largely completed. However, Kosovo is still at an early stage of addressing priorities in the area of justice. Political and other interference is an issue of serious concern. The large backlog of court cases and the lack of effectiveness of the judicial system continue to impede rule of law in Kosovo. This needs to be addressed by increasing efficiency of the system rather than by increasing the staff numbers. Further improvement in the cooperation among all relevant agencies is also urgently needed to address the existing challenges.

Anti-corruption policy

Kosovo has made some progress on tackling corruption. The legal framework on anti-corruption has improved. The law on financing of political parties has been adopted, but is not fully in line with European standards. One of the key weaknesses of the law is that it neither prohibits nor strictly regulates donations from legal entities which provide goods or services to public administration. The following three laws have also been adopted: the Law amending and supplementing the Law on preventing conflicts of interest in exercising public functions, the Law on the Anti-Corruption Agency and the Law on declaration of the origin of the property and gifts of senior public officials. As a result of the adoption of this law, declarations of assets have been published online. However, the declaration of assets of some senior officials has not been published. This is a matter of serious concern. Available information revealed discrepancies between the income and properties of senior Kosovo officials. This indicates widespread corruption at high levels in Kosovo persist. This fact has not been followed-up by public debate or investigations of the relevant bodies, showing a distinct lack of political will in fighting corruption.

The Assembly has adopted the anti-corruption strategy and action plan for 2009-2011. The conditions for the work of the Anti-Corruption Agency have improved. The Agency has revised the action plan. It has also started monitoring implementation of the action plan and has received reports from about 40 agencies involved. However, they demonstrate limited ownership and commitment to implement it. While the relation between the Anti-Corruption Agency and the prosecution has improved, it still needs to be intensified. There has been a raise in the number of cases related to mismanagement of public funds which have been reported to the Anti-Corruption Agency. Public awareness has increased. During the reporting period, the chief executive officers of five independent agencies have been dismissed or demoted on grounds of weak performance and alleged corruption. Concerns persist as regards sufficient justification substantiating such action.

Kosovo Police has established its Directorate against economic crime and corruption, which however needs to operate in a professional manner free of political interference. The Kosovo Customs Service, the correctional service and the police have conducted a number of internal investigations leading to a range of sanctions, including suspensions. Additional prosecutors have been appointed to the Special Prosecution Office. Within the Special Prosecution Office, an anti-corruption task force has been created. However, EULEX has continued in exercising its executive mandate in cases related to high profile corruption cases. The Kosovo authorities and EULEX have initiated a number of investigations, notably the central bank governor, the minister of transport and others. Senior officials of the government have shown restraint in this regard.

The delivery of results in the fight against corruption on the part of Kosovo authorities needs to be improved considerably. The major concerns still revolve around the work of the public sector, procurement, the judiciary and law enforcement, with the number of final convictions in corruption cases remaining very low. There is no mechanism for tracking investigations, indictments, prosecutions and convictions that would ensure transparency on the status of corruption cases. The inter-agency cooperation on corruption is insufficient and results in inconsistent implementation of legislation, strategies and action plans as well as information to public. The inter-ministerial working group on anti-corruption measures has failed to deliver tangible results. The Directorate against economic crime and corruption in the Kosovo Police lacks proper equipment and needs strengthening. Law enforcement agencies need to step up considerably their efforts to fight internal corruption, free of political interference.

The legal framework is still incomplete and does not fully comply with European standards. Further provisions need to be adopted to protect whistleblowers along with legislation on liability of legal persons. The Law on conflicts of interest lacks relevant reporting obligations. Conflicts of interest cases continue to be largely under-reported and not adjudicated. Lack of political will and appropriate commitment of authorities involved in legal drafting resulted in unclear legal provisions. The provisions regulating the system of sanctions in this law and in the law on declaration and origin of the property and gifts of senior public officials are not clear enough. Furthermore, the procedure before courts provided for in this law is cumbersome. Political interference and nepotism in reappointments, reassessments and dismissals need to be avoided. The appeal procedure before courts provided for in the Law on declaration of property and gifts is cumbersome. A track record on implementation is missing.

In the main, limited progress has been made by key institutions on implementation of the sector-specific strategic objectives. Focused reporting by key agencies needs to be improved. Most of the corruption cases reported are related to courts. This is a matter of serious concern. Low-level corruption in health or education institutions is another concern and impedes equal access to services by all citizens.

In order to step up the efforts in the fight against corruption, the Kosovo authorities need to dedicate their efforts to establishing a functioning system of checks and balances. This includes a modern financial control system, transparent accountability mechanisms, vigorous methods to address and avoid inappropriate political interference and nepotism in appointments, reassessments and dismissals, particularly in rule of law institutions.

Overall, some progress has been achieved in the fight against corruption. However, corruption remains prevalent in many areas and still constitutes a very serious concern. Following the partial revision of the legislative and institutional framework, Kosovo still needs to demonstrate results in investigations, indictments, prosecutions and convictions in anti-corruption cases.

2.2. Human rights and the protection of minorities

Observance of international human rights law

As regard the **ratification of human rights instruments**, as Kosovo is not a member of the UN nor the Council of Europe, it is not subject to the frameworks with these international bodies for regular reporting and cooperation on human rights (including the **European Court of Human Rights**).

However, Kosovo should continue to cooperate according to ad hoc arrangements and report on human rights to UN treaty bodies and Council of Europe mechanisms. Recommendations from these bodies should be implemented.

Limited progress has been made with regard to the **promotion and enforcement of human rights**. Constitutional Court started to play its role in terms of protecting human rights and fundamental freedoms. Kosovo continued to implement the strategy and action plan for human rights for 2009-2011.

However, human rights mechanisms are not efficiently coordinated both at central and municipal levels. It is not allowing for effective reporting on human rights enforcement. The central human rights units remain constrained by lack of funding and training. Their poor

inter-action with the ministries' administration and poor communication with the ombudsperson do not contribute to enhancing awareness on human rights. At municipal level, the human rights units have not reached a satisfactory level of performance. Most of them are marginalised within the municipal structure and thus largely ineffective.

Overall, there has been limited progress in this area. Both the institutional framework and the financial commitment of Kosovo are inappropriate for implementation of the human rights legislation. Ensuring full respect for human rights is a key European Partnership priority.

Civil and political rights

The government needs to do more as regards the **prevention of torture**, allegations of **ill-treatment** and excessive use of force by police and prison staff. Strong efforts are needed in the **fight against impunity**. Some positive trends can already be observed.

In the area of access to justice, there has been limited progress. The Legal Aid Commission is continuing to cooperate with the Chamber of Advocates and NGOs to ensure access to justice for all. A Law on legal aid has been adopted. Additional publicity campaigns have been mounted to improve implementation of the programme on free legal aid. Five more offices have been opened in addition to the five already existing. A legal aid office has been opened in north Mitrovicë/Mitrovica with three Kosovo Serb employees.

However, the growing backlog of cases, lengthy procedures, perception of widespread corruption within the judiciary, limited capacity of legal aid offices to assist victims in criminal proceedings, non-implementation of the Law on mediation, insufficient number of judges in the reappointment process, improper conduct of contested civil proceedings and unexecuted verdicts have dented public confidence in the capacity, professionalism and fairness of the judiciary, thereby limiting effective access to justice.

The Ministry of Justice facilitates access to justice for victims (of trafficking, domestic violence, etc.) and minorities via a network of court liaison offices which, however, are not fully functional. There are some overlaps with the Legal Aid Commission. In the north of Kosovo, access to justice is still impaired by the lack of Kosovo Albanian and Kosovo Serb judges and prosecutors. EULEX has had to deal with the most serious cases, especially when suspects have been in pre-trial detention for long periods. This leaves a large backlog of cases that need to be tackled by local authorities. In other areas inhabited by non-majority communities, numerous obstacles stand in the way of access to justice. The backlog of civil cases includes a large number with an inter-ethnic dimension. The failure to resolve them is also eroding confidence in the judiciary. Finally, the lack of legal cooperation with Serbia leads to denial of justice in some cases.

Access to justice for victims of trafficking, both children and women, needs to be improved. Various agencies protecting victims and investigating traffickers need to build up their capacity. There is a lack of forensic units specialising in cases of rape, trafficking of human beings and domestic violence.

Overall, Kosovo has achieved limited progress in this area. A number of obstacles are still limiting access to justice in Kosovo. Kosovo is at an early stage in ensuring access to justice.

As regards the **prison system**, a number of security concerns have been addressed and material conditions improved in correctional and detention centres. Allegations of ill-

treatment and/or excessive use of force by police and prison staff have decreased. There were a limited number of reports of ill-treatment in the Dubrava detention centre. EULEX has started to train the units working there. The Law on execution of criminal sanctions has been adopted. A separate space for juvenile female detainees has been allocated. The decision has been taken to build the Kosovo Forensic Psychiatric Institute to address the lack of adequate detention facilities for offenders with diminished mental capacity. Some progress has been made on dealing with prisoners with special needs. The Ministry of Justice has continued to supervise sentences and community service work imposed by the court for juvenile offenders. The number of reports of ill-treatment and excessive use of force has decreased.

However, overall conditions in prisons and detention facilities continue to be an issue of concern. The cell size mentioned in the Law on execution of penal sanctions does not meet EU standards. The Prisoner Escort Unit still cannot perform its task adequately, due to lack of equipment and low security standards. There are no plans for management of the increasing number of drug addicts in the prison population. Efforts have been renewed to address disciplinary issues. However, there have been reports of unchallenged misconduct, nepotism, corruption and political interference amongst the staff. Oversight is inadequate and does not allow systematic investigation of claims or protection of whistle-blowers. Alternatives to detention need to be used more frequently. The range of community-based programmes for juvenile offenders continues to be limited and facilities to imprison juveniles are lacking. The Service has no adequate information system that can record and provide reliable information on the prison population. This impedes the production of statistics, on recidivism for instance, and the definition of working social reintegration programmes.

Most Kosovo Serb detainees remain in the Mitrovicë/Mitrovica detention centre. Only a few are in the Gjilan/Gnjilane and Prishtinë/Priština detention centres. These centres are not equipped for long-term correctional detention. Cooperation between the Service headquarters and the Mitrovicë/Mitrovica detention centre needs to be improved.

Overall, some progress has been achieved with regard to correctional facilities. Kosovo starts to address its objectives in this area.

As regards **freedom of expression**, limited progress can be reported. The Law on access to public documents has been adopted. Its implementation will be crucial. Journalists continue to receive pressure, including from elected officials, in reaction to their reporting. The media structure remains conducive to the strong influence by partisan and ownership interests on journalists. The Kosovo authorities remain one of the biggest advertisers in the print media generating a dominant position over the media. The journalists face difficulties in accessing official documents. Professional education and training for journalists is improving. Investigative journalism needs to be strengthened. Inconsistencies between the Law on defamation and insults and the Criminal Code have not been resolved. This creates legal uncertainty on the defamation provisions.

The board of the public broadcaster RTK has been appointed and is operational. All management positions have been filled. However, a long-term financing model for RTK has yet to be found. RTK was on the brink of bankruptcy and had to be rescued by emergency funding from the Kosovo budget. The independence and impartiality of RTK are still not fully ensured. RTK and the Independent Media Commission remain in dispute about whether RTK is fulfilling its commitments on minority broadcasting in terms of hours provided on television and signal coverage for radio.

Overall, limited progress can be reported on freedom of expression. It is not fully guaranteed in practice and the media structure is conducive to strong political interference.

Freedom of association and assembly has not improved. NGOs participate on an *ad hoc* basis in the legislative process as well as in the work of central administrations. Government plans to amend the Law on freedom of association in non-governmental organisations have raised concerns within **civil society**. Public understanding of the role of civil society remains low. The latter continues to depend mostly on international funding preventing any long-term strategy. The monitoring capacity of NGOs is increasing, but remains limited.

Overall, no progress can be reported in this area. The environment in which NGOs operate needs to be significantly improved. The government does not make sufficient use of civil society expertise.

In relation to **freedom of religion**, there has been some progress. The transfer of responsibility for the guarding of historical and religious sites, including Serbian Orthodox ones, from KFOR to the Kosovo Police reflects a safer environment. The Reconstruction Implementation Commission, chaired by the Council of Europe, is progressing on the implementation of its mandate to restore 34 orthodox sites damaged in March 2004. A third of the works remains to be carried out. The Catholic cathedral construction was completed in Pristina.

However, a small number of religious heritage sites, including Serbian Orthodox churches, Orthodox and Muslim cemeteries have been vandalised. The legal framework allowing for religious freedom and activities should be adapted. Religious communities are still required to register as NGOs. Some small denominations claim that they are being discriminated against by the authorities, including by being prevented to open a cemetery.

Overall, there has been some progress on freedom of religion. Reconstruction of religious sites continues but more needs to be done to reconcile the various religious communities. This is a key priority of the European Partnership.

Economic and social rights

In the area of **women's rights**, limited progress can be reported. The Law for protection against domestic violence was adopted. The Agency for Gender Equality (AGE) continued to facilitate, promote and monitor the implementation of the Gender Equality Programme (2008-2013) eventually approved by the Assembly.

However, the lack of access to justice for victims of domestic violence remains a problem. While criminal law says that crimes of bodily harm committed in a domestic relationship must be prosecuted *ex officio*, courts often fail to prosecute them. Undue termination of prosecution was frequent. Incomplete investigations, poor cooperation between police and prosecutors and failure to arrest offenders all increased victims' vulnerability to recidivism, while allowing perpetrators to go unpunished. Staff in institutions assisting victims of domestic violence needs training. Their limited knowledge of the legal framework does not allow for appropriate level of legal representation.

Overall, limited progress can be reported with regard to women's rights. The legal framework has been strengthened but the overall enforcement of the relevant legislation remains uneven and therefore has a limited impact on women's lives.

Protection of children's rights has improved slightly. Progress has been made in the area of juvenile justice by adoption of a revised and improved juvenile justice code. This brings better standards for implementation by the court and prosecution and probation system concerning juveniles and children. Kosovo issued its first report on the implementation of the convention on the rights of the child.

However, implementation of the child rights strategy and action plan needs more political and financial commitment. Children from minorities currently face an even higher risk, with an estimated poverty rate of 60%. The social assistance scheme is not adapted to reducing child poverty: the vast majority of poor children live in households that receive no social assistance. School drop-out rates, access to justice for children and child forced begging and trafficking remain of concern. Awareness on these problems is low among the public and authorities. Efforts to identify and prosecute perpetrators need to be stepped up. Facilities need to be adapted to the needs of juvenile offenders.

Overall, child protection remains weak. Tangible efforts are needed to guarantee and enforce children's rights.

Limited progress can be reported on **socially vulnerable groups and persons with disabilities**. The implementation of the Action Plan for People with Disabilities (2009-2011) continued, including monitoring activities. The government promoted the inclusion of persons with disabilities by supporting some projects and at various instances such as the Equal Professional Opportunities Days, the International Day of Persons with Disabilities and the International White Cane Day. The government decided to formalise the sign language. The Ministry for Education, Science and Technology has launched the implementation of the strategic plan for organising inclusive education for children with special educational needs in pre-university education in Kosovo, 2010-2015.

Overall, limited progress can be reported in this area. The needs of the socially vulnerable groups and persons with disabilities require more commitments.

In the area of **labour and trade unions rights**, the Law on strikes has been adopted.

Trade unions representing public services organised protests during the reporting period, affecting the health and education sectors, public administration, justice, correctional services, mining, fire services, the police and energy utilities. All the protests resulted in salary increases and, in some cases, improvements in working conditions. There is still no Labour law. Labour inspectorates' resources remain poor and do not allow for effective monitoring across Kosovo.

Overall, the labour and social legislation remains inadequate. The adoption of the Labour law and the Law on the economic and social council remains urgent. Other challenges are linked to the low capacities in this sector. The dialogue between the trade unions and the government needs to be enhanced (*see also 4.1 Internal Market*).

The government continued to implement the anti-discrimination Law. It carried out an anti-discrimination campaign with special emphasis on discrimination on grounds of sexual orientation or age. It combined broadcasts on public television with a series of brochures, published in all official languages, each highlighting common examples of one particular type of prohibited discrimination.

However, implementation and monitoring of anti-discrimination legislation need to be further ensured. Awareness on lesbian, gay, bisexual and transgender (LGBT) issues remains low. Debates on homosexuality are exceptional in the public and private spheres. The high level of formal protection provided by law has to be effectively implemented. (please see on the Ombudsperson Law under *public administration*)

As regards **property rights**, the actual access to and enjoyment of property is not fully ensured.

Two local members of the Supervisory Board of the Kosovo Property Agency (KPA) have been appointed as well as the Agency's deputy director. 40,855 claims have been recorded, of which 26,468 have been adjudicated by the Kosovo Property Claims Commission. All but a hundred adjudicated claims are pending re-notification. Implementation of eviction orders improved following the signature by the KPA and Kosovo Police of a memorandum of understanding for this purpose. UNHCR offices in Serbia were allowed by the Serbian government to deliver to the displaced owners the pending decisions affecting their properties located in Kosovo.

However, actual repossession remains a long and difficult process. 414 decisions have been implemented, of which 102 have led to physical repossession, while 312 have been placed under the administration of the KPA. The work of the Supreme Court panel for appeals against contested KPA decisions is stopped until the appointment of a local judge. Property cases continue to be the bulk of the civil cases backlog before the courts, including approximately 21,000 compensation claims. Trials in property cases are often repeated due to irregularities, either in the judgment or in the proceedings. Inter-ethnic property disputes are unduly prolonged before the local courts. KPA's compensation scheme for socially-owned apartments has yet to be accompanied by appropriate legislation. There is still no law on sales of apartments where tenure rights exist. Some land registry books remain in Serbia. Only a few municipalities have property rights registers connected to the central land registry. Expropriation procedures are sometimes misused for corruption purposes leading to the lack of compensation for the owners.

Overall, there has been limited progress in the area of property rights. The weak enforcement of the property-related legislation is the major obstacle to protect and enforce property rights, which is a key European Partnership priority.

Respect for and protection of minorities, cultural rights

There has been limited progress in this area. The increased capacities of the Ministry for Communities and Return (MCR) and the decentralisation process are providing a good framework for future improvement (*see also 2.1*). Many people from minority communities continue to utilize parallel services for education, social protection and health care.

As regard the enforcement of **cultural rights**, the Ministry for Culture, Youth and Sports has formally established the department for cultural heritage. Its mandate entails overseeing seven regional centres for cultural heritage. The ministry has chaired a meeting of the forum for exchanging technical information on cultural heritage, raising public awareness on the subject. The Council for Cultural Heritage has been established. The Ministry of Environment and Spatial Planning has continued chairing the inter-ministerial working group on implementation of protective zones.

However, cultural heritage sites are affected by damages, demolition and inappropriate or illegal constructions in their vicinity. The department for cultural heritage requires enhanced capacities. The integrated conservation strategy has not been adopted yet. The Law on cultural heritage, which gives the mandate to Kosovo to oversee protection, preservation and promotion of cultural heritage, is not fully implemented. The list of protected cultural heritage sites has not yet been approved. The laws to protect Velika Hoča/Hoçë e Madhe and the historic centre of Prizren have not yet been adopted. Laws regarding cultural heritage are not harmonised with the Law on spatial planning. Only a few municipalities have finalised their municipal development plans addressing heritage sites. Some construction activities carried out by the Serbian Orthodox Church itself go unregulated by local and international institutions. The inadequate communication between the Serbian Orthodox Church and Kosovo institutions contributes to the vulnerability of many religious and cultural heritage sites. The Head of the Greek liaison office in Pristina, in his capacity as EU facilitator, has undertaken constructive efforts to address this issue. Cooperation among the relevant ministries needs to be enhanced.

Overall, there has been limited progress in the heritage area. Many sites remain at risk and the legal framework is weakly implemented and remains incomplete. (see also *Freedom of religion*)

Access to education for minority communities has been enhanced. The Ministry for education, science and technology organised broad consultations on the curriculum framework in order to *inter alia* provide mother tongue education as a subject for Albanian, Bosnian, Serbian and Turkish communities as guaranteed by law. The review by the independent commission of the existing curriculum teaching materials in Serbian paves the way for the development of a revised curriculum. The curriculum on Romani language and culture has been adopted. The Gorani community families have accepted a compromise responding to their needs as regard the curricula in use.

However, learning Albanian or Serbian language is not compulsory for the Serbian and Albanian communities, respectively. Trainings are urgently needed to ensure the use of new language curricula, which is key to develop interactions between communities.

The Law on the use of languages is increasingly implemented in the judiciary. A large majority of municipalities have adopted the regulations according to the Law.

However, the decreasing knowledge of the second official language by civil servants and employees of public companies raises legitimate concerns. Municipalities and public institutions' websites are not systematically providing information in all official languages. Municipal capacities and resources dedicated to implement the law are scarce. The Language commission produced its first report on implementation of the law; it covers only some administrations. The commission's status and resources are inadequate to meet all its legal obligations, in particular to raise awareness on its existence and mandate.

The minority media fund and its distribution are not assessed by any transparent process. The situation of minority media has not improved. Following disconnection of 26 uncertified antennae of Telecom Serbia, six attacks were carried out on legally operating antennae in northern Kosovo. Five transmitters were destroyed. Telecom Serbia antennae in the north continued to operate as previously. Following a system overload, the Kosovo energy corporation disconnected power supplies to the North. A Serbian company established an alternative supply source to this part of Kosovo. However, the Serbian utility has been

unsuccessful in its subsequent billing and collection efforts: despite concerted campaigns, these remain at less than 20%.

There has been little progress towards deeper reconciliation between communities. The status of the minority communities remains protected and guaranteed by law. In general, inter-ethnic incidents have been decreasing and limited to sensitive areas. The institutions mandated to address communities' concerns are numerous. The Ministry for Communities and Return has developed its capacities and engaged in a constructive collaboration with municipalities. The Community Consultative Council meets regularly and is increasingly consulted by relevant executive bodies.

However, inter-community tensions continue to hamper a sound reconciliation and integration process. The relevant institutions are not properly coordinated and streamlined to address minority concerns. The communities' position share in the public administrations and companies is low. Employment opportunities for minority communities are particularly scarce. Integrating communities requires more focus and more political commitment.

In the area of **refugees and internally displaced persons**, some progress can be reported. Since January 2010, more than 1600 members of minorities returned voluntarily to Kosovo. This is a sharp increase in a difficult regional context. The Ministry for Communities and Returns strategy was adopted on 12 February 2010. The municipal return officers have been given a stable legal status as part of the municipal communities' offices. The government allocated some financial resources to facilitate the return process. The government promoted a safe and dignified return of refugees and internally displaced persons. Some pieces of land were allocated for long-term use (99 years) for landless returnee families in order to guarantee the sustainability of the return process. The government is continuing to run humanitarian bus lines which are used by many members of minority communities in isolated areas to commute to urban areas for basic services and shopping.

However, some incidents have occurred. Municipal return strategies are yet to be fully implemented. A higher level of synergy is necessary between the frameworks put in place for voluntary returns and forced returns. Employment opportunities in places of return are scarce.

Overall, the returns process remains a challenge for Kosovo's institutions. Limited access to property, delayed property restitution proceedings and the scarcity of economic opportunities continue to be the main obstacles to sustainable returns. Many displaced persons are still living in difficult conditions.

As regard the **Roma, Ashkali and Egyptian** communities, limited progress can be reported. Their situation remains a very serious concern.

The Office for Good Governance has set up a mechanism to monitor the implementation of the strategy for integration of the Roma, Ashkali and Egyptian communities. The government adopted the operational plan for the resettlement of families living in Cesmin Llug/Česmin Lug and Osterode lead-contaminated camps. The Ministry for Communities and Return and Mitrovicë/Mitrovica municipality are constructive to resettlement the families. The government promoted the civil registration of Roma, Ashkali and Egyptian communities, including by offering to register free of charge. Upon its request, Kosovo participated in the Roma Decade steering committee as an observer allowing it to engage with key actors on regional Roma issues.

However, enhanced political willingness is needed. The living conditions of these communities and their access to education, health care and social protections remain very serious concerns. There is still no comprehensive plan to regulate the informal settlements. The weak communication between the municipal and central authorities prevents them from solving the legal status of informal settlements. The lack of civil status registration is a further obstacle to access to services. Reintegration of forced returnees from Roma, Ashkali and Egyptian communities is of particular concern (see also *migration policies*).

The authorities need to increase their commitment to address urgent issues affecting the lives of the Roma, Ashkali and Egyptian communities.

Overall, there has been limited progress on integration of minority communities. It is a key European Partnership priority.

2.3. Regional issues and international obligations

Cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** has continued. The Court has initiated a partial re-trial in the case against Ramush Haradinaj.

The Working Group on Missing Persons, bringing together delegations from Belgrade and Pristina and chaired by the International Committee of the Red Cross (ICRC), continued to meet regularly. Excavation and de-mining works have started on the Belačevac and Košare sites respectively, where human remains of Kosovo Serbs are allegedly buried. The Government allocated some funds and the support of the Kosovo Security Forces to carry out these excavations. The Law on the establishment of the department of forensic medicine (previously the office for missing persons and forensics) reorganises the latter and paves the way for developing local forensics capacities. Its mandate in the field of forensic medicine and missing persons operations remains identical.

However, in August 2010, a total of 14,631 persons were still missing as a result of the conflicts in the region. Of these, 10,402 were related to the conflict in Bosnia and Herzegovina; 2,392 cases to the conflict in Croatia and 1,837 to the conflict in Kosovo according to figures provided by the International Committee of the Red Cross. During the reporting period, only 48 cases were solved. Progress was slow and mainly based on information made available from international archives and Serbian police and army documents. Kosovo is yet to respond to requests on gravesite locations. Research has not started in Livoq Lake. The Commission on missing persons is performing poorly even after additional human resources have been allocated to its secretariat. Furthermore, the Commission remains exclusively composed of Kosovo Albanians. The issue of compensation for the families of missing persons was not addressed. The legal framework remains inadequate; it neither gives a legal personality to missing persons nor recognises the right-to-know of the missing persons' families.

Overall, limited progress can be reported; serious challenges still remain. It is a complex process requiring an enhanced political commitment, supported by financial and technical resources. Unless they are addressed, the issue of missing persons will continue fuelling resentment, hindering the reconciliation process and adversely affecting the overall political climate in Kosovo.

External representation of Kosovo remains a challenge. UNMIK is the signatory, on behalf of Kosovo, for a number of international agreements and regional initiatives. Some of the parties

to these agreements insist that Kosovo be represented by UNMIK. Kosovo stresses the need to respect the Constitution, which stipulates that responsibility for international representation lies with the Pristina authorities. The authorities have stated they are not willing to accept to take part in regional cooperation structures under UNMIK.

Kosovo has participated regularly in meetings of the Regional Cooperation Council (RCC). It also took part in the EU-Western Balkans High-Level Meeting held in Sarajevo in June. However, Kosovo did not attend the latest RCC Board meeting in September. The Kosovo authorities did not organise a meeting of the Central European Free Trade Agreement (CEFTA) sub-committee on customs and rules of origin, which Kosovo chaired during the reporting period.

Kosovo needs to ensure its effective participation in cooperation initiatives, such as the RCC and CEFTA to keep pace with regional developments. In particular, concerning CEFTA, Kosovo needs be constructive in order to ensure the agreement's implementation.

Kosovo continues to participate in the Energy Community Treaty, the European Common Aviation Area Agreement and the South-East Europe Transport Observatory without obstacles. Kosovo participated in the technical negotiations for the Transport Community Treaty, the signing of which has been delayed.

Kosovo continued to participate as an observer in the Investment Compact for South-East Europe, which is designed to improve the investment climate and encourage private-sector development in the region.

The demarcation between the territories of Kosovo and the *former Yugoslav Republic of Macedonia* as well as Kosovo and *Albania* has been completed. Efforts are underway to complete the demarcation with *Montenegro*.

Overall, regional cooperation remains a matter of serious concern. An acceptable and sustainable solution for the participation of both Kosovo and Serbia in key regional fora needs to be agreed as soon as possible. This is essential for inclusive and functioning regional cooperation.

3. ECONOMIC CRITERIA

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

3.1. The existence of a functioning market economy

Economic policy essentials

In April, the government of Kosovo adopted its medium-term expenditure framework (MTEF), covering the years 2011-2013. In July, an agreement was reached with the IMF on an 18-month programme supported by a €109 million Stand-By Arrangement (SBA). Subsequently, the MTEF's fiscal scenario was updated and brought into line with the IMF agreement. The fiscal deficit targets for 2010 and 2011 did not change substantially but revenue and expenditure estimates were adjusted and made more realistic. Some new

legislation is submitted to the government with no link to the MTEF. The fiscal surveillance mechanism with the European Commission continued with meetings being held on a bi-annual basis. *Overall*, political consensus on the fundamentals of market-oriented economic policies has been maintained. However, the consistency of policy formulation and implementation needs to be reinforced and the link between policy priorities, structural reforms and public expenditure remained weak.

Macroeconomic stability

The international economic and financial crisis had a limited impact on Kosovo's economy. The main effect has been a drop of remittances, and reduced external demand and prices for Kosovo's main exports. Real GDP growth decelerated from 5.4% in 2008 to 4.0% in 2009. In 2008, growth was driven by government investment and private consumption. However, in 2009 and the first half of 2010 growth was almost entirely driven by government consumption and investment. Private consumption growth was subdued at 2.1% in 2009, whereas government consumption grew by 16.4%. Nevertheless, their shares in GDP remained almost unchanged, at close to 95% and 18%, respectively. After more than doubling in 2008, government investment continued to grow robustly by over 30%, reaching about 10% of GDP, while private investment recovered from a slump in the previous year and expanded by a real 5.0% in 2009. The donor sector continued to wind down its share in the economy. Imports of goods and services grew by a real 3.5% and declined in nominal terms due to a strong price effect. Exports decreased by 1.8%, mainly because of reduced foreign demand and lower international prices for base metals and articles made from base metals. Though their availability improved somewhat over the year, economic statistics still remain weak and do not allow a comprehensive assessment of the economic situation in Kosovo. GDP per capita³ reached €1,790 in 2009, equal to 7.6% of the EU-27 average compared with 7.1% in 2008. *Overall*, Kosovo's economic growth was mainly driven by increased government expenditure. There are growing risks to the sustainability of this growth profile.

Exports of goods started to recover in the final months of 2009 thanks to the reopening of the second production line of Ferronikeli, the lead and zinc mining and processing company, which is Kosovo's biggest exporter. For the whole year exports reached 4.2% of GDP but were still below the 5.1% recorded in 2008. In the first seven months of 2010 exports of goods increased by a nominal 107% over the same period last year. Imports of goods fell marginally to 49.6% of GDP in 2009, down from 50.2% in 2008. Their structure has changed, shifting from consumption goods to machinery and transport equipment, largely linked to accelerated public infrastructure spending. By the end of July 2010, imports of goods posted a 12.3% nominal increase with more than three quarters of commodity groups registering positive growth rates.

The coverage ratio of exports of goods as a percentage of imports (12-month moving average) has increased since it bottomed out at 7.8% in September 2009 and stood at 12.1% in July 2010, still extremely low. Compared to a deficit of 43.4% of GDP in 2008, the trade balance improved slightly in 2009, posting a deficit of 43.3% of GDP. From January to July 2010, the trade deficit increased to EUR 992 million compared to EUR 949 million in the corresponding period of the previous year, as gains on the exports side were more than offset by increased imports.

³ A measure using PPP is not available for Kosovo.

In 2009, the current account deficit (including official transfers) widened to 16.4% of GDP from 15.7% in 2008. The increase in the deficit was driven by a lax fiscal policy, poor exports of goods performance and by a severe reduction in the income account, which dropped by more than half – from 4.0% of GDP in 2008 to 1.8% in 2009. The main factor contributing to the worsening of the income account was the drop in net investment income. Workers' remittances and official transfers totalled 12.9% and 6.4% of GDP respectively. The surplus on the capital and financial account (12.7% of GDP) was not enough to cover the current account deficit in 2009 and, as a result, reserve assets declined by €154.0 million. The capital account posted a surplus of 2.6% of GDP – a tenfold increase over the previous year, mainly because of repayment of World Bank debt with the help of substantial donor support. Net foreign direct investment dropped by 19% to 7.1% of GDP. Portfolio investments (-1.5% of GDP) and loans (-1.9% of GDP) turned negative. Net errors and omissions remained significant at 2.9% of GDP, illustrating that the balance of payments statistics do not capture properly all inflows and outflows from the country. *Overall*, external imbalances remained significant and their financing led to a reduction in reserves as net capital inflows declined.

Unemployment in 2009 remained very high and stood at 45% according to the Labour Force Survey. In the first half of 2010, the number of registered unemployed shrank by 0.2% compared with the first half of 2009. This drop was driven by the decrease in semi-skilled and skilled unemployment, whereas unskilled unemployment increased on average by 0.3%. By the end of June 2010, unskilled unemployed accounted for 60% of total registered job seekers. An estimated 30,000 young people, mostly low-skilled, enter the labour market every year without many employment opportunities and chances of professional development. Labour continues to be Kosovo's most important export item which generates an inflow of remittances financing a large share of domestic consumption. Information about the labour market remained scarce and doubts about its accuracy persist. Moreover, official data do not provide a sound picture of the labour market given the high share of informal employment. The time lag between publication of labour force survey data and the reporting period has been shortened and the latest survey, covering 2009, was published in July 2010. There have been some positive developments, like increased participation and employment rates. However, the employment rate was only 26%, and youth and long-term unemployment remained particularly high, at 73% and 82% of all unemployed. The structure of employment shows that labour has shifted mainly towards non-tradable sectors – some 17% were employed in trade, 13% in education, 10% in administration, 8% in construction and only 10% in manufacturing. *Overall*, in spite of positive growth, the economy is not creating enough jobs to absorb the young new entrants and reduce pressures on the labour market. Unemployment remains very high.

Annual inflation in 2009 was negative at -2.4%. Monthly inflation rates became positive by the end of 2009 and since then accelerated to reach 5.9% (year-on-year) in August 2010 when there was a pronounced spike due to surging bread prices. Bread and cereals prices alone contributed 2.3 percentage points to the headline inflation. By the end of August, the goods and services with positive contribution to inflation had a total weight of close to 75% in the whole CPI basket. The surge in this indicator over the summer months thus reflected more broad-based inflationary pressures. Consumption patterns were focused on tradable goods and services, which make up about three quarters of the CPI basket. *Overall*, inflation remained volatile, mainly because food and fuel prices weigh heavily in the calculation.

Kosovo is using the euro as official currency and the Central Bank of Kosovo (CBK) has only limited policy instruments. The growth in broad money decelerated from 23.6% in December 2008 to 11.2% in December 2009 and even turned negative after May 2010, following a

substantial reduction in public non-financial corporations' deposits. The monetisation of the economy, measured by the ratio of average broad money to GDP, increased from 32.4% in 2008 to 38.0% in 2009. The central bank's efforts were directed mainly towards improving its supervision of the financial sector. In June, the Law on the Central Bank was revised to strengthen CBK's independence and accountability and open up the possibility of limited emergency liquidity assistance. *Overall*, the monetary framework continued to function well and financial stability was preserved.

The budget deficit increased from 0.2% of GDP in 2008 to 0.8% in 2009. The underlying deficit was, however, much higher, rising to about 6.0% of GDP in 2009, if a one-off €200 million dividend payment received from Post and Telecommunications of Kosovo (PTK) is taken into account. Total revenue (excluding the PTK dividend) remained unchanged from 2008 at 24.5% of GDP. Total expenditure increased by a nominal 24.1% to 30.5% of GDP in 2009. Spending on wages and salaries was up from 5.9% of GDP to 6.8%, driven by salary rises for public employees. As a result of a better execution rate for investments and an additional loan to support the Kosovo Energy Corporation (KEK), capital expenditure and net lending rose from 7.6% of GDP to 11.7%. Government deposits at the central bank dropped from €414 million (10.8% of GDP) in 2008 to €342 million (8.8% of GDP) at the end of 2009. In December 2009, the Assembly adopted a law on public debt, which placed limits on state and municipal borrowing. In no event shall the total debt (guarantees included) exceed 40% of GDP. In 2009, Kosovo assumed obligations towards the World Bank, which stood at 6.4% of GDP at the end of December. Total government debt, including recognised international debt and borrowing from the IMF, stood at 6.8% of GDP at the end of August 2010. A debt management unit has come into operation within the Treasury of the Ministry of Economy and Finance.

In 2010, a dividend payment was received from PTK, of €80 million, after the one of 2009. By the end of August, the underlying revenue growth, net of dividends, was a nominal 13.4%. It was underpinned by a strong performance of border and domestic taxes collection. The expenditure growth pattern remained unchanged and capital outlays along with expenditure on wages and salaries kept growing at double-digit rates. The average monthly public-sector net wage increased by 16.4% in the first quarter of 2010 compared with the corresponding period of 2009. Mainly as a result of the one-off dividend payment from PTK, the budget accumulated a surplus of €85 million by the end of August. *Overall*, the budget faces growing risks, as expenditure is growing much faster than tax revenue, and is increasingly financed by one-off revenue and reduction of accumulated deposits.

Fiscal planning remained *ad hoc*, with government expenditure initiatives already substantially departing from budget plans and the medium-term expenditure framework by the beginning of 2010. In March, the government awarded a contract for the building of the Vermica-Merdare motorway. This infrastructure priority had not been included in the 2010 budget or the MTEF. The project is estimated at about €1 billion (about 25% of GDP) and is expected to be completed in four to five years. In May, in an attempt to limit fiscal risks – notably those stemming from the motorway project – and revert to fiscal sustainability, a staff-level agreement was reached with the IMF on an 18-month programme, supported by a €109 million Stand-By Arrangement. It was approved by the IMF Executive Board in the second half of July. The fiscal framework was updated in order to incorporate formally the measures agreed under the IMF programme and reflect fully the estimated cost of the motorway construction. To limit the deterioration of the budget deficit, selected excise rates were increased with effect from the beginning of July. The Law on public financial management and accountability was amended to ensure that any spending initiative

introduced in mid-year budgetary reviews in 2011 and subsequent years will be fully compensated by credible new revenue measures or offset by expenditure cuts. As a result of the agreement with the IMF, the 2010 deficit target remained almost unchanged at 3.4% of GDP but revenue and expenditure estimates have been adjusted and made more realistic. *Overall*, policy predictability, consistency and transparency remained a challenge.

Due to Kosovo's relatively low level of integration into the global economy and lax fiscal policy, its economy was largely shielded from the global economic crisis and continued growing in 2009. Economic growth was increasingly driven by government expenditure, while external imbalances remained significant. The importance of fiscal policy for maintaining economic stability increased. The pressure on the labour market did not abate and the economy still faces daunting structural problems. *Overall*, the macroeconomic policy mix has been effective in sustaining economic stability but is increasingly vulnerable as a result of strong government expenditure growth.

Interplay of market forces

The Privatisation Agency of Kosovo continued the privatisation of socially owned enterprises, albeit mainly small businesses, with limited macroeconomic impact. At the beginning of 2010, the agency started liquidation of socially owned enterprises for which there is no investor interest in privatisation. Some progress was made with the privatisation of publicly (State) owned enterprises. The government hired a transaction advisor for privatisation of the Post and Telecommunications of Kosovo. The government also hired a transaction advisor for privatisation of the distribution and supply functions of the public electricity company (Kosovo Energy Corporation). This privatisation and the transaction for the development of the new Kosovo power plant have suffered some delays, partly related to the energy market model to be used. Provisions on concessions, under the public procurement law, have not been adopted, which affected the legal environment for these companies. *Overall*, there has been some progress with the privatisation process, especially concerning publicly owned enterprises.

Market entry and exit

Online registration of businesses started in June. The Kosovo Business Registration Agency's register now includes about 45,000 active companies (the respective number at the end of 2008 was 67,950) out of a total of around 97,000. Information on registered companies is available online. In 2009, the number of new and re-registered enterprises was about 7,500 and remained almost unchanged over the previous year. A new project to establish one-stop-shop facilities (22 in total) where companies can obtain various licences at the same time started in eight municipalities. Fees for starting and closing a business are low, but the relatively large number of inactive firms in the business register suggests that the market exit regulations and implementation thereof could be improved further. *Overall*, weak administration and the rule of law, unreliable energy supply, limited access to finance, corruption and poorly defined property rights hinder market entry and exit.

Legal system

The legal system continued to exhibit poor accessibility and efficiency, and some areas are not covered by relevant courts. There have been some improvements in enforceability of contracts, although informal methods of enforcement continue to be widespread. The situation regarding property rights remains a cause for concern. Only a few municipalities have digital

immovable property rights registers. These are not linked to the central land registry and there is a lack of communication between municipal and central authorities. Some land registry books remain in Serbia. In general, the inability of authorities to implement legislation comprehensively remains a major obstacle to protecting property rights. In cooperation with EULEX, the Kosovo courts are in the process of investigating several high-level corruption cases. *Overall*, the existing legal framework remains underdeveloped and its implementation remains poor. The difficult and costly legal enforcement of contracts and prevalent corruption continued to hamper the business environment.

Financial sector development

The financial sector expanded by 24.2% in 2009, taking the total value of assets to €2.8 billion or about 72% of GDP. The banking sector is still predominant and accounted for 78.6% of assets, followed by pension funds (13.6%), microfinance institutions (4.7%), insurance companies (2.9%) and financial intermediaries (0.2%). The number of commercial banks (eight) and pension funds (two) remained the same, whereas another three microfinance institutions (taking their number to 19) and one new insurance company (making them 11) started up activities during 2009. The degree of concentration of the banking system has declined but remains high, with 81% of the assets managed by three banks. More than 90% of the assets in the sector are handled by banks under foreign ownership. The net profit of the banking sector decreased by 30.5% in 2009, leading to a lower return on average assets (1.4% compared with 2.4% in 2008) and on average equity (13% compared with 24.7% in 2008). Non-performing loans increased from 3.3% of total loans in 2008 to 4.3% in 2009 but the banking system's capital adequacy ratio remained at a comfortable 18%. Banks have remained profitable in 2010 as well. Their interest income remained buoyant and retained profits increased by about 50% by the end of July. *Overall*, financial intermediation deepened at a much slower pace while the banking sector remained stable and profitable.

Credit activity continued growing in 2009, albeit more slowly in comparison to previous years. Banking sector loans grew by a nominal 8.9% to reach one-third of GDP in 2009 and expanded by 11.3% (year-on-year) by end-August. In 2009, credit to non-financial corporations grew by 4.6% and credit to households by 22.3%. By end-August, the growth of credit to non-financial corporations decelerated to 4.1%, while credit to households accelerated to 28.5%. As a result, the structure of credit has changed and the share of credit to households increased at the expense of other non-financial corporations, whose share declined by more than 3 percentage points to below 70%. The low level of production and the high dependence of the Kosovo economy on imports were reflected in the sectoral distribution of loans to private enterprises. The services sector continued to attract most of the credit but its share fell by 7 percentage points in 2009 to 70.7% of the credit to non-financial corporations by the end of the year and continued to fall in 2010. Credit to industry, the energy sector and construction has been steadily expanding (47% annual growth in 2009) and reached a quarter of all credit to non-financial corporations. This trend continued in 2010 and by end-August its share was already 28% of all non-financial corporations' credit. The maturity structure of loans improved somewhat and loans with maturity longer than two years increased to 70% of the total loan portfolio in 2009 (up from 62% in 2008).

After increasing by 20.8% in 2009, growth in deposits decelerated to 11.1% (year-on-year) by end-August. Households deposits grew by about 25% and, with a share of 67%, made up the majority of total deposits. By the end of 2009, total deposits increased to 45.1% of GDP from 37.5% in 2008. The loans-to-deposits ratio decreased over the year to 74%, well below the informal benchmark that loans-to-deposits should not exceed 80%, but then rose again to 78%

in August. The annual average interest rate spread between loans and deposits dropped from 10.6% in 2008 to 10.1% in 2009, still very high. This decrease was predominantly driven by a reduction of 0.4 percentage points in the interest rate on loans, as there was only a small 0.1 percentage point increase in the annual average interest on deposits. Nevertheless, average lending rates remained high at about 14.4%. The 12-month moving average spread started to increase again in 2010, on the back of falling deposit interest rates, and stood at 10.4 percentage points in August. As in the previous year, the spread is narrower for loans to households than for loans to non-financial corporations. *Overall*, commercial banks have become slightly more cautious in their credit expansion and lending conditions remained tight.

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

Existence of a functioning market economy

Macroeconomic stability has been preserved but fiscal and external vulnerabilities have been increasing. The policy mix is increasingly vulnerable as a result of strong government expenditure growth. Unemployment remains very high, revealing deep structural problems in the economy. Inflation remains volatile, with food and fuel prices making a big contribution. Poor governance and *ad-hoc* policy-making have contributed to a high level of economic uncertainty. *Overall*, macroeconomic vulnerabilities have increased and deep structural problems continue to hamper the economy. The weak rule of law, corruption, high level of informal activities, poor infrastructure, and a subsidised and unreliable electricity supply, impair the efficiency of market mechanisms.

Human and physical capital

Some progress was made in the education sector with certification of teachers and vocational training. A new teacher licensing system is being set up, along with a Board on vocational education and training to ensure effective modernisation of vocational training institutions in Kosovo. However, education is still hampered by financing constraints, lack of adequate facilities and poor-quality teaching. The Ministry of Education is developing higher education curricula to address demand and skills mismatches on the labour market. Some schools continue to operate on multiple shifts. Their physical condition remains poor as they lack appropriate buildings, teaching material and equipment. The research capacity of universities and research institutes is still very weak. *Overall*, little progress has been made towards improving the quality of education and there are low incentives for lifelong learning.

Total investment equalled around 26.3% of GDP in 2009, an increase over the previous year 24.4%. Private investment, although increasing in real terms, decreased in absolute and relative terms and its share in total investment dropped by about 10 percentage points to about 60%. The largest share of public investment was channelled into improving the road infrastructure. The sudden decision to start a large motorway project led the government to reconsider its investment priorities. In May, an international consortium was selected to develop the Pristina International Airport under a public-private partnership with a concession for twenty years. Mobile telephony penetration increased to 71% and four mobile operators (two mobile network operators and two mobile virtual network operators) are active on the market. Broadband penetration stands at 6.4%. *Overall*, there were marginal improvements in the physical capital but the decrease in private investment to a five-year low as a share of GDP could hamper improvement on the supply side.

Sectoral and enterprise structure

Kosovo's enterprise sector remains dominated by micro-enterprises. More than 90% of the enterprises employ less than four people. The economic structure is highly concentrated on the retail sector, with about half of all enterprises operating in this field. A Law on Economic Zones has been adopted and the procedure to establish six zones, one at central and five at municipal level, has started. The informal sector remains large. This is due to weaknesses in tax and expenditure policies, as well as in law enforcement. It reduces the tax base and the efficiency of economic policies. As a measure to combat the informal economy, the tax administration started to issue fiscal numbers and install fiscal cashiers. Providing a reliable electricity supply remains a challenge for private sector development. Despite some improvements in billing and collection in 2009, about 42% of the energy entering the KEK network was not paid for. *Overall*, there has been almost no change in the enterprise structure and large informalities in the economy persist. The large informal sector remains an important challenge.

State influence on competitiveness

Regulatory authorities remain weak. The new law on mines and minerals as adopted in July seriously undermines the independence of the Independent Commission on Mines and Minerals by handing over responsibility for licensing and the appointment of the chief inspector of the Mining Inspectorate to the Government. The government has proposed to the Telecommunications Regulatory Authority to place a five year moratorium on the issuance of any further mobile telephony licences, which, if approved, would hurt consumer interests and reduce competition in the sector. Budget transfers and subsidies remained unchanged from 2008 at 3.5% of GDP. The public electricity company KEK continues to receive substantial subsidies from the state budget for electricity imports and loans for financing its investment programme. The government took some first steps to address a number of weaknesses in the public procurement system. *Overall*, the role of the state in the economy has been on the rise.

Economic integration with the EU

The openness of the economy, measured by the value of imports and exports of goods and services as a ratio to GDP, increased to 70.9% from 68.9% in 2008. Exports to the EU Member States showed a steep decline of 24.7%, down from 48% in 2008 to 41.5% of total exports in 2009. This was mainly due to lower external demand and prices for Kosovo's export of nickel. Exports to CEFTA countries declined by 15.3% but their share of total exports remained almost unchanged at 32.0% in 2009. The EU and CEFTA countries remained the main origin for Kosovo's imports, with shares of 38.7% (36.4% in 2008) and 36.1% (37.2% in 2008) respectively. Difficulties related to the recognition of the customs stamps hamper trade with some CEFTA countries. With almost three quarters of the new foreign investment inflows in 2009, the EU countries remain the biggest investors in Kosovo. *Overall*, economic integration with the EU remained low.

4. EUROPEAN STANDARDS

This section examines Kosovo's capacity to gradually approximate its legislation and policies with those of the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Process and the European Partnership priorities. It also analyses Kosovo's administrative capacity. In each sector, the

Commission's assessment covers progress achieved during the reporting period, and summarises Kosovo's overall level of preparation.

4.1. Internal market

4.1.1. Free movement of goods

There has been some progress in the area of **standardisation**. A new Law on standardisation was adopted in October 2009, accompanied by a by-law on the functioning of the Kosovo Standardisation Agency (KSA) within the Ministry of Trade and Industry. New technical committees (in which companies participate actively) have been established in five product areas, bringing the total number up to fourteen.

The Kosovo Standardisation Agency is not a member of any European or international standardisation organisation. Meanwhile, under a memorandum of understanding with the Ministry of Economy, Trade and Energy of Albania, the KSA is able to adopt and distribute European standards (ENs) within Kosovo. To date, around 2,180 EN- and ISO/IEC-based standards have been adopted as Kosovo standards, out of which around a third are harmonised European standards. The KSA is considered understaffed.

There has been some progress on **conformity assessment**. In the reporting period eleven new conformity assessment bodies were accredited set up, bringing the total to fifteen. The Law on technical requirements for products and conformity assessment still has to be revised in order to take on board the 2008 horizontal *acquis* on marketing of products.

Some progress has been made on **accreditation**. In addition to the existing technical committee for testing and calibration laboratories, a new technical committee for certification and inspection bodies has been set up. A memorandum of understanding on accreditation was signed with Turkey in November 2009. In November 2009, the Directorate for Accreditation in the Ministry of Trade and Industry signed a contract with the European co-operation for Accreditation (EA). This is a first step towards becoming a member of EA.

There has been some progress on **metrology**. New administrative instructions cover the conversion of measuring groups, authorisation of entities responsible for the technical control of vehicles and authorisation of institutions responsible for verification, conformity assessment and official measuring of liquids. A strategy for development of Kosovo's metrology infrastructure for 2010-2014 was adopted in June. The new Kosovo Central Laboratory for Metrology started its operations in March 2010. In addition, a separate laboratory for the quality control of precious metals was established.

There has been little progress on **market surveillance**. A new Law on market inspection was adopted in July, streamlining procedures and responsibilities for market surveillance based on the horizontal *acquis* from 2008.

A new General Product Safety Unit was established in the Market Inspectorate of the Ministry of Trade and Industry, for the time being dealing with the market surveillance of construction products, machinery, toys and low-voltage electrical equipment. The total staff of the Market Inspectorate increased and the number of annual inspection cases went up, albeit from a low base.

There has been some progress in the area of **consumer protection**. In December 2009, the Consumer Protection Programme for 2010-2014 was adopted and implementation started.

This programme aims to strengthen the legitimacy of the Council for Consumer Protection and its supervisory activities, along with the transparency and accountability of institutions responsive to consumers. A Centre for Consumer Protection was established in Pristina, where consumers can obtain free advice on consumer products and services. Administrative capacity remains low. The Consumer Protection Office in the Ministry of Trade and Industry employs only one member of staff.

Overall, there has been some progress on the legal framework. However, approximation with the *acquis* in the area of free movement of goods is limited and the administrative capacity of transposition and implementation is insufficient. Considerable efforts are still needed in this respect.

4.1.2. Movement of persons, services and right of establishment

Limited progress has been made in the area of free **movement of persons**.

Little progress has been made in reforming the *coordination of social security* systems. Work has started on a strategy framework, but expertise and resources in this area are lacking.

Little progress was achieved in the **provision of services**. A working body for the coordination of legislative harmonization has been established within the Ministry of Trade and Services. The legal framework is not compatible with the *acquis*. Statistics on services are incomplete, making it difficult to develop policies in this area. The administrative set-up to achieve gradual alignment with European Standards is insufficient.

Some progress has been made on **postal services**. The Assembly of Kosovo approved the Law on Postal Services, which replaces the law on Postal Services of 2003. This is intended to provide for the establishment of a regulatory authority responsible for postal services.

There has been limited progress in financial services. The Law on the Central Bank was amended in July. It strengthens its independence and accountability, modernise its corporate governance and provides a basis for limited emergency liquidity assistance. The Law on Deposit Guarantee Schemes adopted early October, provides for a coverage level of €2,000, which takes into consideration the level of Kosovo's economic development. Staff turnover in the supervision of banks has been stabilized and staff trainings have been carried out. Supervision is migrating from a rules based CAMEL approach (Capital adequacy, Asset quality, Management, Earnings, and Liquidity) to a more forward looking risk-based approach. Two Internal Committees were established to assess the existing situation on Basel I and Solvency I implementation and develop a roadmap for future Basel and Solvency II Implementation. Consolidate supervision has been implemented in practice, but the fully fledged formal legal base is still missing.

There have been no particular developments to report as concerns non-banking fields, the securities markets and investment funds.

There was no progress on **right of establishment**. Alignment with EU standards on the recognition of professional qualifications is limited.

Limited progress has been made in the area of **company law**. A project to establish one-stop-shops to set up companies continued to be implemented. No progress has been made on **auditing**.

Overall, preparations in the area of movement of persons, services and right of establishment as well as company law are at an early stage.

4.1.3. Free movement of capital

Kosovo already has a very liberal regime concerning capital movements. As regards **free movement of capital**, no restrictions exist on foreign ownership or investment in the financial sector or in other assets. In 2010, foreign direct investment increased compared to its level in 2009 that was a year affected by the global economic crisis. Foreign banks manage over 80% of the assets in the banking sector. Kosovo does not have a stock exchange or a financial market.

Some progress has been made on **payment systems**. The Central Bank Board adopted a National Payments Strategy that was developed in cooperation with the Government in September 2009. The strategy focuses on the introduction of a real-time gross settlement system and, as a part of this, the possible replacement of the current electronic interbank clearing system by integrated retail payment system. As concerns international payments, Kosovo is in the process of negotiating an interim SWIFT code (an ISO 3166-1 user assigned code) in the absence of UN membership.

Overall, the system for capital movements is very liberal, but continued efforts are necessary to gradually introduce Basel II risk and capital management requirements, and to establish a legal framework compatible with EU standards on the free movement of capital.

4.1.4. Customs and taxation

There has been some progress in the area of **customs**. At the end of 2009, administrative instructions were adopted on implementation of the Customs and Excise Code and on internal inspection. The Customs Service updated the strategic operating framework for the period 2010-2012. This is a key document for the mid-term expenditure framework of the government, given that over 65% of Kosovo's public revenue continues to be collected at the border. In this light, the Customs Service's operational independence, free from political interference, remains essential. Cooperation agreements were signed with France, Finland, Turkey, Albania and Montenegro. These aim to counter incorrect declarations of Kosovo's imports and to lead to harmonisation of trade statistics with the countries concerned.

The overall staffing level of the Customs Service is progressively increasing until the end of 2010. The International Unit in the Customs Service has been made responsible for monitoring the progress towards closing the gap vis-à-vis EU standards, as identified by last year's blueprint exercise. The Customs Service stepped up its efforts to counter corruption. The number of staff working on internal audit increased. Memoranda of understanding on a coordinated approach against corruption were signed with the police, the Tax Administration and the Anti-Corruption Agency. In January, a joint customs-taxation action plan against corruption was adopted. In addition, the Customs Service and the Police are stepping up their cooperation on integrated border management in order to increase supply chain security. This included conversion of the 24-hour customs control room into a national centre for border control where the two institutions work together.

Units of the Customs Service continued to patrol on all roads, except in northern Kosovo. This has reduced smuggling. Starting in March, EULEX tightened up its checks at gates 1 and 31 in northern Kosovo, using additional cameras and a new network server. The actual

clearance is done at Mitrovicë/Mitrovica terminal. The data are shared with the Kosovo Customs Service and the Serbian Customs Administration, contributing to ongoing criminal investigations on both sides. Overall revenue collected by the Customs Service for the first seven months of 2010 was around €445 million, i.e. 11% higher than for the same period in 2009.

The present IT system is being replaced by the Asycuda World system (Automated SYstem for CUSToms DAta, provided by UNCTAD) that will support amongst others use of the integrated tariff of Kosovo. Further work is necessary to ensure compliance with EU IT systems.

All members of the Independent Review Board have been appointed. The Board needs to take immediate steps to deals with appeals by businesses and taxpayers against decisions of the Customs Service and the Tax Administration. Since 2008, a backlog of over 1,000 cases has built up.

Serbia and Bosnia-Herzegovina do not recognise Kosovo's customs stamps, despite assurances received from the UN SRSG confirming their compliance with UNSC 1244/99. The Serbian Tax Administration operating in the north of Kosovo has been issuing documentation to Serbian firms in Kosovo which enables them to sell products to Serbia. This parallel documentation conflicts with the concept of Kosovo as a single customs area in which only the appropriate Kosovo institutions are empowered to issue such documentation.

Overall, Kosovo's customs legislation remains largely in line with the EU standards. Specific areas requiring attention are the fight against smuggling and counterfeiting, where enforcement capacity needs to be enhanced, as well as further extending checks and supervision to northern Kosovo. The Independent Review Board urgently needs to become fully operational and the backlog of cases needs to be reduced.

There has been some progress in the area of **taxation**. In January 2010, amendments were adopted to the Laws on personal and corporate income tax, clarifying taxation of resident versus non-resident persons and firms, avoiding double taxation and specifying tax declaration procedures. A new Law on VAT entered into force on 1 January 2010, ensuring a high degree of alignment with the EU *acquis*. The VAT registration threshold was left at €50,000, which makes many companies not liable to VAT. In addition, administrative instructions were adopted in December 2009 on implementation of the amendments to the Law on tax administration and procedures and on integrity standards for the Tax Administration of Kosovo that entered into force in 2009. In May 2010 a tax compliance strategy was adopted aiming in particular to reduce the opportunities for evasion and avoidance, increase early and effective collection and improve taxpayer education.

In the third quarter of 2009, the Tax Administration started issuing fiscal numbers to businesses. So far, 44,000 numbers have been issued. In this process, more than 31,000 inactive businesses have been deleted from the Tax Administration database. In March 2010, installation of fiscal cashiers at businesses started. In preparation for the new IT system, an upgrade of the current SIGTAS (integrated system for tax management) system was completed in July 2010. Electronic declaration forms for all types of tax are now available from the website of Tax Administration. Also, the Tax Administration e-filing system is now operational.

In February 2010, an Office for Strategic Planning and Modernisation was established in the Tax Administration to develop strategic projects, such as introduction of a new IT system and of fiscal cashiers, and action to follow up last year's EU blueprint exercise. In the same month a new Tax Investigation Unit was set up. In order to raise the level of tax collection, automated exchanges of information were established in July 2010 with the Treasury and the Customs Service, along with a debt management tool that will facilitate a centralised review of debtors.

The tax revenue was €131 million in the first seven months of 2010, 13% higher than in the same period in 2009.

Overall, there has been some progress in the area of taxation, in particular as regards legislative alignment. However, further efforts are still needed to ensure effective implementation of the legislation, to enforce tax payments and to reduce the sizeable informal economy.

4.1.5. Competition

There has been some progress in the area of **competition**. The Law on Protection of Competition was adopted early October. The purpose of the law is to align Kosovo's competition rules with the European Union acquis, in particular by clarifying dominance abuse rules and introducing merger rules, and it strengthens enforcement procedures.

Concerning administrative capacity, the Independent Kosovo Competition Commission continued its activities and investigated several suspected breaches of competition rules. Its capacity was enhanced by the addition of support staff to the five Commission members. The Competition Commission signed a memorandum of understanding with the competition authorities of Albania and the former Yugoslav Republic of Macedonia.

No progress took place concerning state aids. The draft Law on **state aid** is pending before the Assembly, which provides, amongst others, for establishment of an independent state aid commission for approval of aid.

Limited progress has been made in the legislative framework. Some progress has been done concerning the administrative capacity, and overall, on the capacity to implement **anti-trust** policy. However, overall, the implementation of competition and state aid policy in Kosovo is at an early stage. Experienced and specialised staff are lacking. Procedures for cooperation with other entities involved in competition issues, such as economic regulators, need to be strengthened. There is a need for awareness-raising to familiarise the private sector with competition rules. The Competition Commission needs to be more involved in the competition aspects of privatisation of large publicly owned enterprises (eg, PTK -Post and Telecom of Kosovo).

4.1.6. Public procurement

Limited progress can be reported in the area of public procurement. The Government presented the draft of a new public procurement law to the Assembly. The law is yet to be adopted. Provisions on concessions in the current legal framework diverge significantly from the acquis.

As regards administrative capacity, the performance of the Procurement Review Body has been improved by a more systematic publication of decisions as well as in terms of the legal

argumentation of decisions. The credibility of this institution rests on it building an authoritative track record of review decisions in both official languages as well as of avoiding conflicts of interest resulting from interaction with policy-makers. Credibility also depends on the transparency of the work of the Procurement Review Body, including how decisions are reached.

A new plan for the certification of procurement officers has been prepared; permanent certificates will be offered to persons who have undergone training in three consecutive years. However, procurement officers remain in a weak position and subject to intimidation, coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption.

Therefore, accountability for procurement processes needs to be broadened to include not only procurement officers, but also their superiors, both at administrative and at political levels. Also, training and certification of persons active in the field of procurement therefore need to be improved, particularly given the small number of licensed procurement officers in Kosovo compared with the overall budget spent on procurement.

Other challenges include the high turnover of procurement officers at both local and central levels and monitoring implementation of procurement contracts.

Many public bodies under the government budget still carry out their own procurement processes and do not make use of the Public Procurement Agency as the main executing and contracting authority, despite the fact that the necessary administrative instruction was issued in June. In the cases of basic goods and services, if this agency were to implement more framework agreements and organise procurement government-wide, budget resources could be used more efficiently than when each organisation carries out its own individual procurement.

The value of public procurement contracts awarded remained at the same level in 2009 on around 20% of Kosovo's GDP. Open procedures increased to account for 85% of the total value of signed contracts in 2009 and negotiated procedures decreased to 11%, with other procedures being used very marginally.

The Auditor General recommended strengthening the monitoring and follow-up of procurement activities, including actions aimed at helping to ensure that oversight agencies' recommendations are implemented and that officials are held accountable for their actions.

Overall, Kosovo needs to improve the legal framework in the field of concessions, to strengthen the position of public procurement officers vis-à-vis their hierarchy further, to increase training in order to have independent procurement experts in key positions and to reinforce regulation of the contract implementation phase of the public procurement process. Administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption.

4.1.7. Intellectual property law

There has been limited progress in the area of **intellectual property rights**. The IPR Strategy and Action Plan 2010-2013 was approved in June.

There has been some progress concerning copyrights and related rights. A Law on the protection of topographies and integrated circuits was approved in June. The Office for Copyrights was set up in June 2010 but is not fully operational yet. The existing Copyright Law needs to be amended to further align it with EU standards.

There has been limited progress in the area of **industrial property rights**. Three draft laws are pending before the Assembly, concerning Patents, Trademarks and Industrial Design, aimed at ensuring a higher degree of compliance with the *acquis*, the TRIPS Agreement and other international standards. An electronic trademark, design and patent registration database was established replacing the paper-based system.

The capacity to implement patent, trademark and industrial design legislation remains low, despite an increase in the staff of the Office for Industrial Property. Registration of trade marks, patents and industrial designs increased, but not enough to cope with the high number of requests.

Some progress took place concerning enforcement of intellectual property rights. In January 2010, the Law on customs measures for the protection of intellectual property rights was adopted, followed by an administrative instruction to implement it. The staff working on intellectual property rights in the Customs Service increased substantially, ensuring a presence of intellectual property rights officers at every customs point. High levels of counterfeiting and piracy persist. However, the administrative capacity to implement intellectual and industrial property rights remains insufficient and implementing provisions are still needed. The responsibilities of the various bodies dealing with enforcement, along with the division of responsibilities between them, are not clearly defined. Awareness of issues relating to intellectual property rights needs to be raised both inside the government and among the population at large.

Overall, the framework of industrial property rights legislation has yet to be finalised. Some progress has been made concerning legislation and administrative capacity. However, enforcement remains very weak. Significant efforts are needed on enforcement and public awareness-raising. Kosovo's intellectual property rights system remains at an early stage.

4.1.8. Employment and social policies, public health policy

Kosovo has made limited progress towards the alignment with European standards in this sector.

Kosovo has adopted a sustainable **employment** development programme aiming at the quick creation of employment through a public works programme. It adopted its employment strategy 2010-2012 including an operational plan and a Youth Action Plan. The Law on vocational training, re-training and employment of people with disabilities was adopted. The registration of unemployed people was improved, including among women, Roma, Ashkali and Egyptians and persons with disabilities. The Ministry of Labour and Social Welfare has mediated in the employment of 524 jobseekers from all minority communities including Roma, Ashkali and Egyptian communities as a measure to positively impact the labour market.

However, employment policies require more commitment from the government. The public employment service has low capacities. The capacity-building plan for the ministry and the public employment service still needs to be adopted. The social partners are poorly involved

in employment policies and measures. The labour market is underdeveloped with a substantial informal segment. Participation and employment rates remain dramatically low. Unemployment remains persistently high especially for women and young people. Unemployment duration is extreme and the bulk of unemployed are fully disconnected from the open labour market. There are limited incentives for jobseekers and employers. Disadvantaged groups deserve more attention.

Limited progress can be reported as regards **social policies**. The White Paper on social policies has not been adopted leaving Kosovo without strategic priorities in this area.

The legal framework remains weak and inadequate to face the practical challenges. In particular, the *Labour Law* still needs to be adopted.

There has been limited progress in the alignment with European standards in the area of *health and safety at work*. The labour inspectorate needs to improve its capacity for effective monitoring of implementation of relevant legislation. The new municipalities are not covered by labour inspectors.

The *social dialogue* was improved with the adoption of the Law on strike. However little has been done in the area of social dialogue. Due to the lack of Labour Law as an essential legal act, the adoption of other fundamental pieces of legislation, such as the trade union Law and the Law on the socio-economic council have been postponed. Clear criteria for participation in the latter have not been established yet. Trade unions of the public services organised protests during the reporting period.

In the area of equal opportunities some instruments to promote women's rights are in place, but progress in actual achievement of gender equality and law enforcement needs to be furthered. Women's participation in the labour market remains extremely low and representation of women in decision-making remains a challenge.

There has been limited progress in the area of *social inclusion including anti-discrimination* (*see also 2.2.*). The decentralisation of home care services has continued to show no progress. The legal framework necessary to regulate effective provision of these services is still at the drafting stage. The services are still mainly provided by civil society organisations. The Council for Social and Family Services, the entity responsible for licensing providers of social services, is not fully functional – its financial and operational structure are not regulated properly and the necessary legal framework is not available. A first seminar on social protection and social inclusion between the Commission, the authorities and civil society representatives took place in September 2010. Lack of employment opportunities is an overall challenge that impacts negatively on social inclusion. Adequate actions to address social inclusion of specific groups including Roma returnees are still lacking.

As regards *social protection*, the non-existence of a health insurance law and, hence, health insurance system puts additional constraints on average Kosovo families. Many health care services need to be financed directly by the citizens instead of being covered by an insurance scheme.

However, it seems that the main financial mechanisms under this law are based on the contributions from formal employment, which is fairly low in Kosovo.

There has been limited progress in the area of public health. The Ministry of Health endorsed the new health strategy (2010-2014) in 2009, focusing on reducing morbidity and mortality by improving the quality of health services. The poor quality of health data at central and municipal levels and the parallel Kosovo-Serb systems remain obstacles to policy development. The Ministry of Health needs to clearly specify budget allocations for mother and child health care. Under the mid-term expenditure framework for 2011-2013, financial resources will be focused on infrastructure and reconstruction, while very little is budgeted for primary health care and prevention. Maternal and child health in Kosovo is considered the poorest in Europe and neighbouring countries. The infant mortality rate is considered to be between 35 to 49 per 1,000 live births. In the north, lead contamination is still threatening the health of all citizens living close to the contaminated areas. Overall, the health sector remains very poor and strongly needs greater attention from the authorities.

Overall, little progress can be reported in the employment, social policies and public health sectors. Poor administrative capacity and the lack of an adequate legal framework remain serious obstacles to enhancing these sectors.

4.1.9. Education and research

Some progress can be reported in the field of **education** concerning the alignment with European standards. Extensive consultations have taken place with a view to modernise both the Law on pre-university education and the Law on higher education. The Ministry for Education, Science and Technology has led the process to design the new curriculum framework. The government adopted a strategy for health promotion in schools.

The National Qualifications Authority (NQA) has been established. The acting director was appointed as well as four staff and its board. The Council for Vocational Education and Training (CVET) has become operational. Kosovo has further addressed the multiple-shift issue, which requires continued attention and resources to build additional school facilities.

However, resources at municipal level remain poor hindering the enforcement of key legal provisions under municipalities' responsibility. Pre-service training is currently limited to a faculty that requires modernisation. Teacher licensing and the new curriculum framework will call for significant investment in institutional development of pre- and in-service teacher training.

CVET experiences limitations in its capacity and functionality. It needs to step up efforts to effectively modernise vocational training institutions, in particular to train students in line with labour market demands, European standards and Kosovo qualifications framework. Qualifications requirements in the VET sector are not sufficiently linked with those of general and higher education.

Kosovo has developed and adopted its first subject curriculum for the Romani language, history and culture for primary schools. A series of public debates have been held to promote and raise awareness about it. Teaching material is in use for the Romani, Bosniac and Turkish subject curricula.

However, the textbooks in Romani are not available yet. Minority communities are often negatively portrayed in history textbooks. (See also under *political criteria, cultural rights*)

Research has been made a priority. The research council has developed the National Strategy for Science for the coming five years aiming at gradually increasing investment in research and stimulating cooperation with industry and EU and international partners. As international cooperation partner, research entities have the possibility to apply for research projects under the Seventh research framework programme. Kosovo has organised some information sessions on FP7 and nominated FP7 contact points. The ministry has established a fund for scientific research allocating 1 million euros to key areas for the economic development.

Overall, some progress can be reported concerning the alignment with European standards on education and research. However, all efforts need to be affordable and coordinated. Management capacity is weak, the ability to steer the education process at local level too. Quality control, minority inclusion and teaching curricula are all issues that need to be addressed. Efforts to strengthen the research capacity are necessary to ensure implementation of the national strategy.

4.1.10. WTO issues

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

4.2. Sectoral Policies

4.2.1. Industry and SMEs

Some progress has been made in the area of **industry and SMEs**.

The business register now includes some 45,000 active companies. Information on registered companies is automatically made available online. From June, online registration of businesses became possible. A one-stop shop pilot project started in eight municipalities and is being progressively extended.

Kosovo is committed to implement the Small Business Act for Europe and identified as priorities: the promoting entrepreneurship, improving online access for SMEs and benefiting more from the single market. In the absence of a clear strategy framework for **the** development of **SMEs**, the activities of the Ministry of Trade and Industry's SME Support Agency are guided by the Small Business Act. The administrative capacity of the agency remains limited.

In December 2009, the Ministry of Trade and Industry produced the industrial strategy for Kosovo for 2010–2013. The main purpose was to provide a basis for raising the quality of industrial policy. The document provides an analysis of Kosovo's industrial sectors together with ideas to improve their competitiveness and employment opportunities. The strategy envisages a greater role for industry in contributing to GDP, exports and investments. However, this strategy was not adopted by the government and therefore contains no implementation plan or policy measures.

Administrative instructions have been drafted to help with implementation of the Law on economic zones. The number of companies active in the Drenas and Mitrovicë/Mitrovica business parks increased.

In the beginning of 2010, investment protection agreements were signed with Austria, Belgium and Luxembourg.

The main barriers encountered by businesses in Kosovo remain the lack of a reliable supply of electricity, limited access to finance and insufficient rule of law.

Overall, the administrative capacity and strategy framework for SME development need to be strengthened further. Adequate coordination between strategies and plans that affect development of this sector is advisable. The newly drafted industrial strategy of Kosovo needs to be developed and turned into effective policy measures.

4.2.2. Agriculture and fisheries

Continuous legislative activity in the areas covered by the Ministry of Agriculture, Forestry and Rural Development has led to few texts being adopted by the Assembly. In February, amendments to the Law on forests were adopted, reflecting the transfer of responsibilities for forestry management to municipal level. The draft Law on genetically modified organisms has been withdrawn. Planned amendments to the Law on organic farming, to take account of the most recent EU legislation, have still not been adopted. These amendments are also intended to establish Kosovo's national inspection and certification bodies for organic farming. Certification is currently performed by two foreign accredited companies. The Law on irrigation of agricultural lands was amended in July.

A vineyard register has been established. The farm accountancy data network (FADN) was further developed. However, the data are not used in policy-making. Collection and processing of agricultural trade statistics need further improvement.

The Ministry has started to implement the National Agricultural and Rural Development Plan for 2009-2013. It introduced a scheme consisting of coupled payments to farmers, in the sectors of cereals and livestock, plus assistance for the dairy, fruit and vegetables sectors at farm level. To this end, a Payment Unit was established in the Ministry, responsible for receiving and assessing applications for national assistance, actual payment and checks on the spot, although selection of the beneficiaries requires further improvement and is hampered by the lack of a farm register and unclear property titles.

In February 2010, the government adopted the forestry development strategy for 2010-2020 and the accompanying action plan. Priority areas for this strategy include management and protection of forest resources and developing the forest industry. Further efforts are needed to enhance coordination and transparency between institutions on issues such as stone and gravel extraction from forest land. Memoranda of understanding on forestry matters have been signed by 37 municipalities, who will need to develop the capacity to manage the powers devolved to them in this area. The new law increased penalties for illegal logging, but this still remains a source of concern and application of these penalties depends on the capacity of the police and courts to prosecute cases.

In September, the Government approved the regulation on the organisation and competences of the Monitoring Board and the Regulation on the establishment of the scientific board of the Kosovo Food and Veterinary Agency (KFVA); the members of both are still to be appointed. Also in September, the Government adopted an Administrative Instruction on the new organisational structure and the functioning of the Agency. A memorandum of understanding has been signed between the relevant institutions and the Food and Veterinary Agency for the transfer of several existing control bodies to the Agency. However, the transfer of inspection

powers from municipalities to the Agency, as provided for by the Food Law, has not yet been completed.

Some progress has been made on setting up the IT infrastructure for Kosovo's animal identification, registration and movement control system. This system is not fully operational. Data entry has begun for certain species, but this is still not systematic and some animal births and movements are not reported. Controls at livestock markets are insufficient and the overall picture is blurred by illegal slaughtering and animal smuggling. No facilities for processing animal by-products exist. A pre-feasibility study for establishing a rendering plant was completed. In the meantime, these animal by-products will have to be dumped in landfill sites.

Regulations to transpose the EU hygiene package have still not been adopted. The planned upgrading of agrifood establishments remains at an early stage, although progress was made on assessing and categorising dairy plants, slaughterhouses and meat processing establishments. A group of experts has been set up to assess the existing agrifood establishments in the light of EU practices on hygiene, production and food handling. This assessment is expected to result in a strategy to upgrade Kosovo's agrifood establishments. The infrastructure and equipment of the pre-selected veterinary border inspection points remains poor.

The Law on plant protection and production needs to be further aligned to EU standards. The equipment and staffing at the KVFA laboratory are insufficient for the agency to carry out its role.

Most of the European standards on **fisheries** do not apply to Kosovo, which has no marine fishing.

Overall, Kosovo has made limited legislative progress in the area of agriculture and food safety. Whilst the legal framework needs to be updated, the main challenges facing Kosovo lie in implementation of laws and strategies, as the administrative capacity in various institutions remains weak, and human resources are not used in most efficient way. Efforts should be stepped up to strengthen and ensure more systematic animal registration and upgrade agrifood establishments.

4.2.3. Environment

There has been substantial progress in the area of **horizontal legislation**, with Laws on environmental impact assessment and on Strategic Environmental Assessment adopted in September, as well as implementing rules on public participation in environmental impact assessments. Cooperation between environmental NGOs and the ministry continued and around 20% of the projects envisaged in the environmental action plan have been completed.

In the field of **air quality**, some progress can be reported, with the adoption of a Law on protection from air pollution and of implementing measures to monitor discharges from mobile sources. The air quality strategy remains to be adopted. One of four planned air quality monitoring stations came into operation. The air polluters' inventory remains to be compiled. No progress has been made on defining institutional roles and responsibilities in this field.

There has been limited progress in the area of **waste management**. The new Law on waste providing for decentralisation of powers in this area and for further alignment with EU standards remains to be adopted. Additional implementing legislation has been adopted. Establishment of an integrated waste management system has not begun. The ‘polluter pays principle’ is still insufficiently applied and the bill collection rate by waste utilities remains low.

With regard to **water quality**, little progress can be reported. A new Law on water which should regulate the ownership of water resources and the responsibilities of municipalities for water management and establish river basins and a Kosovo water institute has still not been adopted. A feasibility report on the quality of drinking water was completed, recommending establishing a drinking water quality department within the National Institute for Public Health. There is a clear lack of human resources in this field and insufficient investment in infrastructure: there is only one waste water treatment plant in Kosovo. Only 70% of the population are connected to drinking water mains and only a third to sewage systems. Bill collection rates for the water utilities decreased. The institutional responsibilities for dam management are not clearly allocated. The safety of large infrastructure, such as dams, dykes and water intakes, requires appropriate management and monitoring that is not properly ensured at the moment.

Further efforts are needed to enhance coordination and transparency between institutions on the licensing and control of stone and gravel extraction from river beds (following damaging extraction from the River Drini i Bardhe) and from forest land (at Novo Brdo, a UNESCO protected site).

In the field of **nature protection**, a Law on nature protection was adopted in September. Some activities have been carried out to identify important bird areas.

Some progress was made in the area of **industrial pollution control and risk management** with the adoption of a Law on integrated pollution prevention and control. Implementing legislation remains to be adopted.

No progress can be reported in the areas of **chemicals** and **civil protection**. In the area of **noise**, some administrative instructions were adopted to implement the Law on noise protection.

In the area of **climate change**, Kosovo is not a party to either the UN Framework convention on climate change or to the Kyoto Protocol. Kosovo has no climate change strategy and has not established a greenhouse gas inventory. It continues to have a lack of resources and staff shortages. Implementation of climate change legislation remains problematic.

As regards **administrative capacity**, some efforts have been made to improve coordination between ministries and bodies with environmental responsibilities. The administrative instruction bringing the Hydro-Meteorological Institute under the remit of the Environmental Protection Agency has not been signed. The administrative departments responsible for the environment continue to experience an acute lack of resources. The budget of the ministry is the lowest of any ministry in Kosovo and decreased compared with 2009 (as a result of funding cuts to secure financing for the route 7 road building programme). Staff shortages

make it difficult for the Ministry and the Agency to carry out their responsibilities. Some duties have been transferred to the municipal level, but municipalities often lack staff and expertise. The authorities have made a commitment to involve civil society in the process of harmonising legislation with *acquis*, however this is not fully ensured.

Overall, alignment with EU environmental standards is still at an early stage although progress can be observed in adopting legislation. In addition, implementation and enforcement of environmental legislation remain problematic. Further efforts are needed to establish effective administrative and institutional infrastructure and to improve channels for coordination between institutions with environmental responsibilities at all levels and with civil society. Billing and collection rates for water and waste utilities need to improve. Investment in the field of the environment, in particular in environmental infrastructure, remain to be considerably increased.

4.2.4. Transport policy

There has been some progress on **trans-European transport networks**. Kosovo continued to participate actively in implementing the 2004 memorandum of understanding on development of the South-East Europe Core Regional Transport Network and in the South-East Europe Transport Observatory. Work has started on Kosovo's main road infrastructure project, construction of the highway from the Albanian border to Pristina. However, the size and scope of the project is not proportional to the forecasted traffic flows, and the cost of this project has led to budget cuts in other ministries and insufficient resources have been set aside for routine road maintenance.

In the area of **road transport**, there has been some progress in building the capacity of the Transport Planning Unit within the ministry. However, the ministry continues to be heavily involved in the practical aspects of road management rather than focusing on developing strategies and policy. The Department of Road Infrastructure is being reorganised to draw a clearer distinction between maintenance and supervision and road network development. In the run-up to the Transport Community Treaty, bilateral agreements on access to the transport markets of Albania, Bulgaria and Turkey have been signed. A multi-annual action plan for road safety was adopted in May; an action plan will need to be prepared to implement the strategy. The Road Transport Inspectorate needs to be strengthened. Due to a number of constraints linked to status (and not being able to join the AETR), Kosovo has not been able to implement the digital tachograph.

Some progress can be reported in **rail transport**. A consolidated law covering all aspects of the rail sector is being drafted, with a view to attracting investment in the railways and opening the rail market. The railways regulatory body is not yet operational. The president of its board has been appointed, but the Director-General has still not been selected. The legal act separating the infrastructure and operations sides of Kosovo Railways (KR) has been signed. The legal documents for unbundling Kosovo Railways into a railway undertaking and an infrastructure manager is underway is under preparation. In parallel, the 2012 network statement is being prepared.

The agreement with the former Yugoslav Republic of Macedonia on railway border crossings, based on the harmonised regional model prepared by the SEETO, is in the final stages of the procedures in the two foreign ministries. The passenger transport fleet has been modernised.

Rail freight transport increased by 11% in 2009, mainly thanks to increased trade from Kosovo's biggest exporter, the nickel producer Feronikeli. KR posted positive financial results thanks to strict cost management and the improvement in freight traffic (and despite rail transport not being a government priority). However, the railway sector suffers from the lack of qualified personnel and managerial independence.

As a land-locked country without a fleet, most of the **maritime transport** *acquis* will not apply to Kosovo. An update of the multi-modal strategy was adopted in December. This will be followed by separate sectoral strategies. There has been no progress as regards **combined transport**.

There has been significant progress on **air transport**. Substantial legislation under the European Common Aviation Area (ECAA) Agreement has already been transposed and full implementation of the first transitional phase of the Agreement might be possible by the beginning of 2011, provided efforts continue in all areas, including state aid and working time. The national aviation security and quality control programmes were adopted in December 2009. Progress continued in the air traffic management field where the single European sky legislation has been transposed to a high degree. Further efforts are needed to complete regulatory alignment with the single European sky within the ISIS Programme. The government needs to strengthen capacity and attract professionals on air transport regulation and on implementation of aviation standards to meet ECAA requirements.

In May, an international consortium was selected to develop Pristina international airport under a public-private partnership with a twenty-year concession. An Aircraft Accident Investigation Commission has been established in the Office of the Prime Minister. In December, the Ministry of the Interior adopted a National Civil Aviation Security Programme, establishing practices, procedures and regulations to protect the safety of passengers, crew and ground personnel in Kosovo.

Overall, there has been some progress on investments in existing and new roads. However, the transport infrastructure remains underdeveloped. The contract to build route 7, signed this year, is so big that it is crowding out investment elsewhere. Developments in aviation have been positive. The Ministry of Transport and Communications does not have the capacities to deal with all matters in the transport sector, and the slow establishment of regulatory agencies is hampering Kosovo's implementation of EU standards. Extra efforts need to be made to increase road safety and development of the railway sector need to be given higher priority.

4.2.5. Energy

The energy sector continues to face serious problems. The low level of electricity billing and collection continues to put a strain on the electricity utility's finances. Electricity supply therefore remains uncertain in Kosovo, with power cuts still occurring frequently.

The government's energy strategy for 2009-2018 was adopted in April. The main pillars of the strategy consist of security of supply, restructuring the sector, developing and rehabilitating generation capacity, developing transmission and distribution, promoting foreign investment, promoting energy efficiency and renewable energy use and developing gas infrastructure.

There has been no development in the past year regarding **security of supply**. There is no **oil stocks** law or strategy; the level of Kosovo's oil stocks is unknown. As a result of obstruction from Serbia, Kosovo's electricity transmission system operator (KOSTT) continues to find it difficult to participate as an equal partner in regional commercial mechanisms. Losses incurred as a result are passed on to consumers. KOSTT has filed a complaint against EMS (the Serbian Transmission System Operator) with the Energy Community Secretariat. The Energy Community Secretariat; in its preliminary view, considers that EMS 'failed to fulfil its obligations under the Energy Community Treaty. With the support of EU and other donors, the operator has made good progress on increasing the transmission network capacity and network security. However, pending resolution of its dispute with Serbia, the operator cannot participate in the regional mechanisms.

Progress was made regarding the **internal energy market** and implementation of the Energy Community Treaty (ECT). Plans for development of the new Kosovo power plant (lignite power development project) have been reconfigured. The initial installed capacity will be two units of 200-300 MW, the Sibovc lignite field will be developed immediately and participation in the Kosovo B power plant will be included in the package to be offered to investors with a view to refurbishment. The legal unbundling of the distribution and supply functions of the Kosovo Energy Corporation (KEK) is due at the end of 2010 with a view to privatisation. Until completion of the new Kosovo power plant project, the other functions will remain integrated in KEK. KEK's billing and collection rate remains very poor. As well as very high technical and commercial losses, in 2009 KEK collected the payments for only 65% of the energy which it supplied, resulting in a loss of some €36 million. The volume of cash collected has increased. However, this is partly offset by an increase in electricity supplied. Low levels of bill collection (and non-cost-recovery tariffs) continue to fuel an unsustainable growth in power demand.

A study and action plan for the decommissioning of the operational unit of Kosovo A were finalised in March 2010. Kosovo has established a number of working groups to prepare this closure, which the Prime Minister has committed to achieve by 2015 in order to comply with the Large Combustion Directive.

A package of three laws (on energy, on electricity, on the energy regulator) was adopted in October. The package was preceded up by extensive discussions with Kosovo's partners on the market model to attract private-sector involvement in generation, distribution and supply. The new laws also aim to align Kosovo's legislation with the EU's second internal energy market package although that alignment will require implementing legislation and

strengthening the role of the regulator. The new market model foresees private ownership in generation and supply with the aim to allow more players on the Kosovan electricity markets. A new Framework Law on natural gas was adopted in November. Although Kosovo does not have a gas market, government policy is to promote participation in regional gas supply projects with a view to bringing pipeline gas to Kosovo.

A significant drop in import prices and ongoing government subsidies to KEK led the Energy Regulatory Office (ERO) to maintain existing electricity transmission and retail tariffs. However, a gradual increase in tariffs is required to reflect actual cost levels and to attract private investment in the distribution and supply functions. A gradual decrease in government subsidies would facilitate this process. The institutional and legislative capacity of both the ministry and the regulator need further strengthening. Attracting and maintaining qualified staff remains a problem.

In the area of **energy efficiency and renewable energy**, the energy efficiency law has still not been adopted. As well as aligning with the *acquis* on energy labelling, ecodesign, energy performance of buildings and energy end-use efficiency, the law is intended to provide the legal basis for establishing an energy efficiency agency and to lay down the procedures for setting up an energy efficiency fund to promote projects on energy efficiency and renewable energy sources. The ministry has prepared a draft national energy efficiency plan covering the period 2010-2018, aiming to increase efficiency by 9% by 2018.

As regards renewable energy, preparations are under way to put out to tender the Zhur hydropower plants. The first three wind turbines in Kosovo, with a total capacity of 1.35 MW, have been authorised by the regulator, which also received seven applications to build wind turbines in Kosovo. The regulator has adopted competitive feed-in tariffs for small hydropower and new wind energy. However, further efforts need to be made towards creating a regulatory environment favourable for the use of renewable energy sources in all the sectors required by the EU renewable energy *acquis*. Regulatory measures and support actions need to aim at promoting the use of renewables for all energy purposes.

In the area of **nuclear safety and radiation protection**, the Law on protection from non-ionising radiation, ionising radiation and nuclear security was adopted in February. It provides for establishment of a radiation protection agency by the Ministry of Environment and Spatial Planning. This has not yet happened. In addition, the law is of a very general nature: transposition of the EU nuclear safety and radiation protection *acquis* into national legislation and regulations in the nuclear field has therefore not yet started.

Overall, Kosovo has finally made some progress on legal alignment, and has tried to reconcile the need to meet Energy Community Treaty obligations with attracting private investors. Major challenges remain to be addressed in connection with implementing energy laws and policies include enforcing electricity payments, managing demand while aligning tariffs to costs, and creating conditions for foreign investment in Kosovo's energy industry as a foundation for economic growth.

4.2.6. *Information society and media*

There has been little progress as regards **electronic communications and information technologies**. The Telecommunications Regulatory Authority (TRA) adopted its 2010 work

plan in January. The Ministry of Transport and Telecommunications has developed a strategy and action plan to create an internet exchange point. Kosovo has neither an internet country code top-level domain name nor an international dialling code.

The regulator adopted a Regulation on carrier selection and carrier pre-selection and also the Regulation on radio stations for which a frequency spectrum licence is not required. Fixed telephony penetration, with two licensed operators, is still low at 5%. Mobile telephony penetration was 71% (at the end of 2009) with four mobile operators (two mobile network operators and two mobile virtual network operators) active in the market. Broadband penetration is 6.4%. Eleven licensed operators provide internet services, of which four are national operators and the others provide locally.

In terms of market regulation, there has been little activity. The Telecommunications Regulatory Authority faces substantial constraints in preparing and implementing legislation in the form of lack of human resources, expertise, and constraints on its financial independence. As a consequence the TRA does not have the necessary capacity and authority to conduct its tasks of an independent regulatory authority to the fullest.

The process for privatising PTK (Post and Telecom of Kosovo) has been launched and is expected to be finalised by the end of 2010. This privatisation is part of the agreement between Kosovo and the IMF.

There has been limited progress in the area of **information society services**. The Law on personal data protection has been adopted. The Law on preventing and fighting cybercrime has been adopted in June. The 2005 Law on information society services is not being fully implemented and e-government services have yet to be developed.

There has been substantial progress on **audiovisual policy and media**, notably improvements in the funding and administrative capacity of the Independent Media Commission (IMC). The number of employees increased from 21 to 28. The Council issued a Regulation on audiovisual commercial communications aiming to align Kosovo's legislation with the Audiovisual Media Services Directive on advertising. The Council completed the process of relicensing broadcasters. Nevertheless, the Assembly has still not completed the appointment of IMC members. The government has begun amending the IMC law. The current draft fails to preserve the Council's independence in line with European standards on media regulation. Kosovo has not made any progress towards reaching the target objectives of digitalisation, meaning for this process to be finalised by 2015, in line with the regional approach towards completing the digitalisation by 2015). Kosovo is not a member of the International Telecommunication Union and has an insufficient frequency allocation for this purpose.

In February, Serbian television producers launched the TV Mreza network linking four Serbian-language television stations from around Kosovo and covering 80% of Kosovo's Serbian minority.

The independence of the public service broadcaster (RTK) and its financial sustainability are not fully ensured, making it vulnerable to political interference. The six-month emergency funding provided by the Assembly was meant to be a temporary solution to save RTK from bankruptcy whilst long-term solutions were found. This emergency funding has been renewed

for a further six months and the Assembly has made little progress towards finding solutions. As public fee collection for RTK was suspended, the broadcaster could not allocate 5% of this fee to the fund to support minority, multiethnic and other special media, as required by law. Disbursement of the fund, which restarted last year, was therefore halted again.

Inconsistencies between the Law on Defamation and Insults and the Criminal Code have still not been resolved. According to European standards defamation should not be a criminal offence. Kosovo does not apply the penal provisions on defamation, but since they remain on the statute book, legal uncertainty persists. This will be resolved under the process of revising Kosovo's criminal code.

The Association of Independent Broadcast Media of Kosovo, which includes all electronic media, both Kosovo Albanian and Kosovo Serb broadcasters, is an example of constructive cooperation between communities.

Overall, limited progress has been made in the area of information society and media. The level of competition is still low, and the independence of Telecommunications Regulatory Authority needs to be strengthened. The regulator's efforts in the area of audiovisual policy and media contrasts with the inability of policy-makers to find a solution on the sustainable financing of the public broadcaster, which is now having an impact on media pluralism in Kosovo. It is important to preserve and reinforce the independence of the Independent Media Commission in the process of amending the IMC Law.

4.2.7. *Financial control*

There has been some progress on **public internal financial control (PIFC)**. Work is ongoing to update the existing PIFC policy paper. Administrative instructions have been adopted to support implementation of the Internal Audit Law. They cover the temporary licensing of auditors and the functioning of audit units and internal audit committees. Internal audit is slowly moving from mere compliance testing to being used as a managerial tool. A Treasury Rule on the principles of financial management and control systems has been adopted. Treasury rule number one on public internal financial control has been rewritten to strengthen financial management and control practice and the related functions of the Central Harmonisation Unit. The Central Harmonisation Unit for financial management and control has been reinforced and pilot activities have been carried out involving budget users at central and local levels. Training of auditors continued, resulting in more auditors being certified.

As regards **external audit**, the Office of the Auditor-General adopted new operational tools, including a new regularity audit manual, performance audit guidelines, a quality framework and interim audits, all aiming at better dialogue with the audited bodies. In June 2010, external audits for 33 municipalities were completed. In the 2009/2010 audit year, audits by the Office of the Auditor-General more than doubled. The follow-up of external audit reports and recommendations by budget organisations improved, partly thanks to better cooperation with the Parliamentary Committee on oversight of public finance management and its co-operation with the Office of the Auditor General. The financial independence of the office needs to be strengthened. The government still can influence its budget and expenditure.

Overall, there has been some progress in this area, even if Kosovo still remains at an early stage of introducing international standards and good practices. Kosovo needs to increasingly

focus on developing financial management and control systems, raising awareness of its PIFC policies and starting using internal audit as an advisory and consulting tool for management. The development of external audit is on track. The financial independence of the Office of the Auditor-General remains a source of concern.

4.2.8. *Statistics*

There has been some progress in the area of **statistical infrastructure**. Cooperation with certain producers and users of statistics has improved. A memorandum of understanding was signed with the Ministry of Agriculture. However, the Statistical Office of Kosovo still lacks human and financial resources. Office space remains insufficient, and the staff situation in the IT department is particularly weak.

There has been limited progress on **classifications** and registers. Introduction of the NACE Rev. 2 classification of economic activities into the business register has started. The business register is operational, but is not updated regularly. The necessary administrative data are not provided by the Tax Administration. The Law on tax procedures needs still to be amended in order to allow transmission of individual data to the Statistical Office of Kosovo.

There has been progress in the area of **sectoral statistics**. The Census Law has been adopted early October. The preparations for the April 2011 population and housing census have continued. However, financing of the census still needs to be secured and the communication campaign needs to be intensified. With regard to other areas of social statistics, preparations for introducing the quarterly labour force survey have been completed and the timeliness of the household budget survey has improved.

There has been some progress in macroeconomic statistics. Timeliness of national accounts according to the expenditure approach has improved significantly. An action plan for further development of national accounts was produced in February 2010, but the Statistical Office does not yet produce quarterly national accounts. The Central Bank started publishing the balance of payments on a quarterly basis. The basket for the consumer price index has been updated.

Progress has been made in the area of agricultural statistics. The agricultural price indices have been updated with 2005 as new the base year and the quality of the agricultural household survey has increased further. Municipal waste statistics has been published for the first time. Major improvements in business statistics are required. The quality of the external trade data from the customs authorities needs to be considerably improved. Preparations in the area of sector statistics are moderately advanced.

Overall, there has been some progress in sector statistics, but further significant efforts are needed to improve in particular business and macro-economic statistics. The resources situation remains weak. Preparatory work for the 2011 census needs to be reinforced.

4.3. **Justice, freedom and security**

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

Kosovo has no **visa policy**. The law on foreigners regulating the entry and residence of foreigners in Kosovo is not fully implemented. Administrative instructions implementing the law have been signed by the Minister of Internal Affairs. Most of the UNMIK travel documents expired in August 2010. Old Yugoslav passports have remained valid during the

reporting period, but the number of holders of these passports has decreased. Amendments to the law on travel documents have been adopted to prepare for issuing biometric passports. Kosovo passports, identification cards and civil status documents have high technical security standards. Progress has been achieved in digitalisation of civil status registers and in connecting civil status offices to internet. However, the law on civil status needs to be adopted and administrative instructions further implementing the law need to be put in place. The quality of civil status data, security and control over the collection of civil status data and issuance of civil status documents are an important concern. These deficiencies need to be addressed before biometric passports are issued. Furthermore, a Kosovo-wide address system needs to be put in place and made functional to obtain reliable data for civil registration purposes.

As regards **border management**, Kosovo has made some progress. Further steps have been taken on implementing the integrated border management strategy. Its implementation however needs to be speeded up. A joint operational centre between police and customs has been established. Kosovo food and veterinary services have been granted access to this centre, which however needs to be used by these services in practice. A one-stop joint facility (Police, Customs Service and Food and Veterinary Agency) has been inaugurated at the Glloboqica/Globocica border crossing point. This brings the number of crossing points with a one-stop facility to two.

A roadmap has been designed for the transfer of responsibility for green border/boundary surveillance. Kosovo Police took over responsibility from KFOR for surveillance at the border with Albania. Staff from Kosovo Police have been successfully redeployed to take over these new tasks. The Kosovo Customs Service signed bilateral agreements on cooperation and mutual assistance in customs matters with Albania, Finland, France, Montenegro and Turkey. Kosovo Police and EULEX visited Frontex.

However, full implementation of the integrated border management strategy requires further efforts and equal participation and responsibility of all agencies involved. The relevant law is not fully implemented. Not all administrative instructions related to the law have been adopted. Border checks are not carried out in line with EU standards. Kosovo authorities lack planning capability and ownership when it comes to identifying IT border management solutions. Kosovo needs to ensure EU-compliant border management system is made operational as soon as possible. Kosovo failed to demonstrate political will to ensure implementation of this EU financed project. The border with Montenegro is not demarcated. There have been incidents at the border between the former Yugoslav Republic of Macedonia and Kosovo, which have illustrated the limits of police cooperation between the two. The enforcement capacity of the Kosovo Customs Service and border police need to be improved and the fight against cross-border crime intensified. Kosovo borders/boundary are still not fully secured, including the challenges in detecting and handling cases of forged documents.

The north remains a particular challenge. EULEX has intensified its patrolling, registering and checking operations at gates 1 and 31 and along the border/boundary with Serbia. The data collected at the two gates are shared with the Kosovo Customs Service and Serbian customs. However, full customs controls at gates 1 and 31 were not restored, due to political circumstances.

Overall, Kosovo is at an early stage of addressing the challenges of integrated border management. Progress on visa policy needs to be developed in line with EU standards.

In the area of **asylum**, limited progress has been achieved. Some administrative instructions to implement the Law on asylum have been adopted. The number of asylum requests is still low, but it has considerably increased (from 31 in 2009 to 131 in January – September 2010) causing challenges for Kosovo authorities. A temporary shelter accommodating 20 to 30 asylum-seekers has been opened. This is insufficient. Some decisions on asylum status have been issued with help of EULEX. The acting head of the division for asylum within the Department for Citizenship, Asylum and Migration has been appointed. All members of the administrative appellate body have also been appointed and held a first meeting in July. Many of the asylum-seekers who have arrived in Kosovo during the reporting period have left for other destinations without adequate control by Kosovo authorities. Cases have been reported in which the refugee status determination have not been achieved within reasonable time.

An explanatory guide about the rights and obligation of asylum-seekers needs to be developed. The capacity of the Department for Citizenship, Asylum and Migration in the Ministry of the Interior and of the police to deal with asylum-seekers and their applications remains weak. Training needs to be enhanced. Kosovo is still to develop a reliable database for asylum seekers. No identification document has been issued to asylum applicants by Kosovo authorities, as provided for in the Law on asylum. In 2009, Kosovo was fifth in the list of countries of origin of asylum applicants in EU Member States.

Overall, preparations in the area of asylum are still at an early stage.

Kosovo has achieved progress in the field of **migration**. An office for issuing temporary and permanent residence permits for foreigners has been opened in July. A number of agreements have been signed on readmitting persons to Kosovo. In June, a law on readmission was adopted. The law broadly meets EU requirements. The Department for Citizenship, Asylum and Migration has continued to deal with readmission requests from European countries in an efficient way and needs to continue to do so. Assistance offered to forced returnees covers only seven days after their arrival in Kosovo. The revised strategy for reintegration of repatriated persons and an action plan have been adopted during the reporting period based on a thorough assessment of gaps. The action plan provides a good basis for improvement in this area. An executive board on reintegration and related working groups have been put in place to strengthen coordination of reintegration efforts. Regulation, which clarifies the role of the municipal return officers in the reintegration process has also been adopted. A fund has been created and €500,000 allocated for reintegration of repatriated persons. Sustainable funding of reintegration needs to continue in the future.

However, reintegration remains a challenge and further efforts by Kosovo authorities are necessary. Capacity to handle reintegration of forced returnees needs to be strengthened. Communication between central and municipal levels on readmission is insufficient. The municipalities do not have adequate human and financial capacity for providing sufficient assistance to repatriated persons. The Division for Foreigners, Visas and Residence Permits in the Department for Citizenship, Asylum and Migration is still understaffed. The process of handing over administrative tasks such as issuing residence permits from the border police to the Department is ongoing. Furthermore, promoting legal migration and fighting against irregular migration remain major challenges, despite some arrests of irregular migrants. There are no proper detention facilities for irregular migrants or asylum seekers pending their expulsion.

Overall, Kosovo has started to tackle some of the migration challenges, but is still at an early stage of the process. Readmission requests from European countries continued to be handled

in an efficient way by Kosovo authorities. Efforts and capacities of Kosovo to reintegrate repatriated persons need to be further enhanced. Fight against irregular migration and dealing with foreigners remain major challenges for relevant agencies.

4.3.2. Money laundering

Limited progress has been made on addressing economic/financial crime and money-laundering, which is a key European Partnership priority. The Law against money-laundering and financing of terrorism has been adopted in September. In June, the Ministry of Economic and Financial Affairs has signed a technical arrangement on the transfer of the responsibilities of the Financial Intelligence Centre from EULEX to the Financial Intelligence Unit in the Ministry within six months of the entry into force of this law. Kosovo needs to be ready before the transfer can take place.

Cooperation between the Customs Service and the Financial Intelligence Centre has improved. The Centre has also improved its cooperation with banks. The Directorate against Economic Crime and Corruption in the Kosovo Police has been established. Investigators from this Directorate have been seconded to the special task force under the authority of the Special Prosecution Office. In cooperation with EULEX, an operation has been launched with the aim of identifying illegal activity in relation to the import and export of large amounts of cash at Kosovo's airport.

In practice, however, the capacity of Kosovo to investigate and prosecute economic crimes remains limited. Large amounts continue to be invested in real estate, restaurants and casinos have continued without adequate supervision. Business-related financial transactions on private accounts and large numbers of entities doing business without being registered have been widespread. Very few investigations and no judicial follow-up have been delivered by Kosovo authorities related to money-laundering and related crimes.

The relevant department within the Kosovo Police is not fully staffed and regional units lack the expertise and equipment. The police need to significantly step up its efforts to tackle money-laundering. Prosecutors and judges lack the relevant financial expertise and resolve to tackle the problem. Insufficient resources within the Special Prosecution Office have been dedicated to financial matters.

Given the heterogeneous status of the NGOs in Kosovo, the lack of systematic reporting by the office for registration of NGOs within the Ministry of Public Administration to the Financial Intelligence Centre is a concern. Business organisations do not systematically report cash-based transactions higher than €10,000 to the Centre. There is a lack of transparency regarding the output of the Centre. Adequate preparations need to be made by the Kosovo authorities to ensure effective functioning of the Centre under Kosovo authority. Kosovo needs to make the agency to manage confiscated assets fully operational.

Overall, money-laundering remains an issue of serious concern and Kosovo is at an early stage in this area. Kosovo continues to lack adequate technical and human resources able to face this complex crime. In these circumstances, Kosovo needs to make considerable efforts to be able to cope with the transfer of responsibilities from EULEX, which needs to happen only once Kosovo is ready.

4.3.3. Drugs

Kosovo has made a limited progress in the fight against drug trafficking. Flows include heroin and synthetic drugs coming from the Middle East through Greece and the former Yugoslav Republic of Macedonia along one of the main Balkan routes to European markets. There is also a growing domestic market for marijuana and other drugs. Kosovo is also growing producer of drugs. Organised crime groups operating from Kosovo are involved in smuggling cocaine from South America to Europe.

The security of the storage room from which drugs were stolen last year has been upgraded. Kosovo Police have conducted a number of operations during the reporting period. All police regional narcotic investigation units have been centralised to the Directorate against Drug Trafficking. This has brought positive results in terms of information flow. Authorities have carried out a number of training sessions for law enforcement bodies and public awareness-raising events about the dangers of the drug abuse.

However, seizures, arrests and successful court verdicts remain at a low level in comparison to the challenge Kosovo is facing. Weaknesses in border management, corruption within law enforcement agencies and a lack of equipment hamper the fight against drug trafficking. Proper customs control equipment allowing trucks to be scanned exists at only one border crossing point. Despite the increase of capacity, canine units are not used at border points. After the break-in at the storage room last year, the case remains pending and the perpetrators have not been found. Policy guidelines for undercover investigations related to drugs are missing. The activities stemming from the anti-narcotics action plan are still at an early stage of implementation. Statistics on seizures, arrests and prosecutions are unreliable. Data-sharing with most of the neighbouring countries is poor. There are not enough Kosovo Serb officers in the police narcotic investigations force. Capacities to investigate drug trafficking in the north remain limited. There are no comprehensive plans for management of the increasing number of drug addicts within the prison population.

The cooperation with the European Monitoring Centre for Drugs and Drug Addiction started in 2010. Kosovo is committed to develop cooperation with the Centre. The work plan for joint activities has been prepared and the first joint Needs Assessment Report has been produced in July 2010.

Overall, Kosovo's fight against drug trafficking is still at an early stage. Serious efforts are needed to address this issue.

4.3.4. Police

Kosovo has made some progress as regards policing. A number of administrative instructions related to the law on police have been adopted (e.g. on the use of force, use of firearms or promotion procedures). Police have adopted its 2010-2015 strategic development plan. They have contributed to drafting of various strategies such as crime prevention, community and intelligence-led policing, small and light arms control and collection. Police have continued to respond to cases of illegal possession of weapons, including their confiscation. Kosovo has adopted a strategy for integrated emergency management system. The acting director-general of police has also issued a number of emergency operational orders.

Kosovo Police have taken over new tasks from KFOR entailing operational challenges such as securing a cultural heritage and religious sites and securing the border with Albania.

Kosovo Police managed well the security of the enthronement ceremony of the Serbian Orthodox Church patriarch. Agreements on international police cooperation have been signed with Albania, Austria, Croatia, France and the former Yugoslav Republic of Macedonia. The police have also improved their crowd and riot control capability. Information flows within the police have improved following the creation of the centralised regional units and changes in the chain of command.

The job descriptions of the senior management, including the two Deputy Directors, have been approved and signed by the Minister of the Interior together with the new structure of the police. A new salary system for officers has been adopted, involving additional budget expenditure.

However, police also need to build-up its intelligence-led policing capability to tackle serious crime, as its effectiveness in dealing with organised and complex crimes continues to be limited. The police need to be more pro-active in theirs approach to tackling crime. The Kosovo Police Information System needs to be upgraded to serve as an operational EU standards-compliant IT solution. Currently, Kosovo's vehicle information system is not connected to this system, which limits performance of the police related to cases of stolen vehicles. EULEX has access to the Kosovo Police Information System. However, the limits placed on this access complicate independent exercise of EULEX's executive mandate in some cases.

Given the estimates of large amounts of weapons possessed by the public, police need to enhance its activities to confiscate and destroy them. Efforts on following up hate and ethnic-based crimes need to be increased. All newly established municipalities are not yet equipped with police stations, while police presence is maintained.

The strikes within the police during the reporting period have illustrated managerial deficiencies, dysfunctional trade unions and political interference. The restructuring of the police is a challenging process that needs to be accompanied by a comprehensive review of allocation of resources. In this context, the performance-based indicators system still needs to be established.

The disciplinary mechanisms within police and oversight mechanisms of police need to be reinforced. Corruption, nepotism and political interference remain issues of serious concern. A better division of responsibilities between the Police Inspectorate of Kosovo and the Police Standards Unit is needed. The newly appointed acting director for the Police Inspectorate of Kosovo needs to contribute to these efforts. Police also need to improve procurement processes in order to fully comply with the legislation in force.

International police cooperation is hampered by the political circumstances, preventing Kosovo from integration into international and regional cooperation mechanisms. It is an issue of concern that the police officers are still not authorised to arrest an internationally wanted person provisionally on the basis of an Interpol wanted notice. EULEX continues to play an important role in facilitating information exchange particularly with Europol.

Overall, Kosovo Police have managed general public safety and security well, albeit in difficult situations. They have taken on increased responsibilities in a number of areas (e.g., protection of cultural sites) and performed them in a professional manner. However, in terms of investigative capacity, ability to fight organised crime, corruption or any other complex

type of crime and use modern tools and procedures, Kosovo Police remain at an early stage of development.

4.3.5. Fighting organised crime and terrorism

Limited progress has been achieved in tackling **organised crime**. A strategy on crime prevention has been adopted. A law on cyber crime has been adopted and is compatible with EU standards. Additional special prosecutors have been appointed to deal with organised crime. Kosovo special prosecutors have been involved in investigations of serious organised crime and financial crime and have represented the Special Prosecutors Office in trials. In some cases, they have worked in mixed teams with EULEX special prosecutors who have also exercised executive powers independently. Eurojust experts will visit Kosovo in the coming weeks. Ministry of Justice has adopted organisational structure of the agency managing confiscated and sequestered criminal assets. A budget has also been allocated and a chief executive officer has been appointed. However, the agency still needs to be made operational.

Kosovo also needs to step up considerably its efforts to tackle organised crime. Organised criminal networks active in Kosovo are involved in international drug trafficking, smuggling of migrants, trafficking of stolen vehicles and firearms and smuggling of cigarettes. There is no adequate system to reward informants. The lack of a witness protection framework continues to inhibit activities in this area. There is still no possibility to tap mobile phones of one operator for investigative purposes. The police directorate against organised crime lacks equipment. Political interference and poor intra- and inter-agency cooperation hinders effective fight against organised crime. The Customs Service and border police need to reinforce their enforcement capacity. Kosovo lacks a track record of convictions related to organised crime. It is of serious concern that the readiness of Kosovo judges and prosecutors to participate, or even take the lead, in adjudicating cases of corruption or organised crime is sometimes paralysed by threats against themselves or their families.

Overall, sustained efforts, supported by clear political will, are needed in the fight against organised crime which remains a matter of very serious concern and affects the rule of law and the business environment. In the north, police and judiciary efforts remain hampered by the political situation.

There has been limited progress in tackling **trafficking in human beings**. Kosovo remains a place of origin, transit and destination of victims of trafficking for commercial sexual exploitation. The inter-ministerial working group has continued to meet on a monthly basis. In a recent case, Kosovo Police have responded well to an Interpol request concerning a trafficking case. There have been a number of arrests related to the case of smuggling of human beings across the River Tisza. The Minimum Standards of Care for Victims of Trafficking have been adopted. Efforts have been made in the field of prevention, with an information campaign in educational institutions and at border crossing points, including the airport. The number of convictions has increased slightly over the reporting period.

However, the number of victims of trafficking identified remains low and does not fully reflect the scale of the phenomenon even though there has been a decrease in the numbers of trafficked persons across the whole region. Most of the victims have been local women trafficked for sexual purposes. Child trafficking and exploitation for forced begging is an increasing problem. The capacity of Kosovo institutions to investigate, prosecute, convict and sentence trafficking in human beings needs to be further strengthened. The level of

punishment of perpetrators is not always adequate. There has been a number of police operations and searches of premises during the reporting period, but the results are limited. Police regional units have continued to face difficulties in identifying presumed victims. Procedures are in place to allow victims to provide anonymous testimony, but witness intimidation has remained a serious problem and witness protection does not exist. Only a few victims have assisted in investigation of their traffickers during the reporting period. Trafficking-related corruption also needs to be addressed. Some shelter facilities for victims exist, but reintegration services remain fragmented.

Overall, Kosovo's efforts in the fight against trafficking in human beings are at an early stage and much more needs to be done. In particular, the judicial follow-up to police operations is ineffective and perpetrators need to be appropriately sentenced. Kosovo need to enhance its action to identify and assist all victims, including those trafficked for forced labour and forced begging.

Kosovo has made some progress in the **fight against terrorism**. The capacity of the counter-terrorism unit within the Kosovo Police has been enhanced. A law on money-laundering and financing of terrorism has been adopted. Terrorism has been included in the national security strategy adopted during the reporting period. However, operational police capacities remain low and only few practical results have been delivered.

Overall, Kosovo remains at an early stage of being able to tackle terrorism in a strategic manner.

4.3.6. Protection of personal data

Kosovo has made limited progress in personal data protection. In April, Kosovo has adopted a law on the protection of personal data. The government has also appointed members of the national agency for the protection of personal data. However, the agency is not operational. The principles set out in the framework law require further regulation, in particular on data protection in the law enforcement sector. The establishment of security, intelligence and law enforcement bodies and upgrading of databases has not been accompanied by parallel measures to protect personal data. An adequate review of the implications of the new law for various agencies in the area of justice and home affairs has yet to be carried out. Individuals in Kosovo are not informed about their rights regarding protection of their personal data.

Overall, the lack of personal data protection in Kosovo is an issue of a serious concern. Achieving adequate personal data protection is key to Kosovo enhancing its international cooperation in the area of justice and home affairs. Kosovo still needs to make major efforts in the area of personal data protection.

Statistical annex

STATISTICAL DATA (as 14 October 2010)
Kosovo under United Nations Security Council Resolution 1244/99

Basic data

	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (thousand)		:	:	:	1 985	2 016	2 041	2 100	2 127	2 153	2 181p
Total area of the country (km ²)		10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887	10 887

National accounts

	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross domestic product (GDP) (million national currency)	1)	:	1 624	1 735e	1 797e	3 007e	3 068e	3 192e	3 434e	3 841e	3 902p
GDP (million euro)	1)	:	1 624	1 735e	1 797e	3 007e	3 068e	3 192e	3 434e	3 841	3 902p
GDP (euro per capita)		:	:	:	905e	1 473e	1 482e	1 520e	1 612e	1 784e	1 790p
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
GDP per capita in PPS (EU-27 = 100)		:	:	:	:	:	:	:	:	:	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		:	:	1.2e	3.1e	:	:	:	:	:	:
Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
Real unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture and fisheries		:	:	:	:	:	:	:	:	:	:
Industry		:	:	:	:	:	:	:	:	:	:
Construction		:	:	:	:	:	:	:	:	:	:
Services		:	:	:	:	:	:	:	:	:	:
Final consumption expenditure, as a share of GDP (%)			163.1	151.6	147.5	109.7e	111.9e	111.5e	114.0e	112.8e	109.9p
Gross fixed capital formation, as a share of GDP (%)	2)	:	40.7	34.5	29.3	19.4e	19.3e	20.6e	21.7e	24.4e	26.3
Changes in inventories, as a share of GDP (%)		:	:	:	:	3.9	4.2	4.4	4.3e	4.1e	3.6
Exports of goods and services, relative to GDP (%)		:	16.6	12.5e	10.4e	7.1e	7.0e	8.9e	10.4e	13.8e	15.5p
Imports of goods and services, relative to GDP (%)		:	120.4	98.6e	87.1e	40.1e	42.5e	45.5e	50.3e	55.1e	55.4p

Industry

	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Industrial production volume index (2000=100)		:	:	:	:	:	:	:	:	:	:

Inflation rate

	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Annual average inflation rate (CPI, % change on previous year)		:	:	-1.0	0.3	-0.8	-2.1	-1.5	2.8	12.4	9.7

Balance of payments	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Balance of payments: current account total (million euro)		:	228	-104	-204	-209	-248	-226	-331	-602	-642
Balance of payments current account: trade balance (million euro)		:	-646	-890	-941	-983	-1 079	-1 173	-1 368	-1 668	-1 690
Balance of payments current account: net services (million euro)		:	10	-23	-14	-18	-8	29	51	82	172
Balance of payments current account: net income (million euro)		:	141	154	152	138	139	159	186	156	70
Balance of payments current account: net current transfers (million euro)		:	723	655	599	655	700	759	800	829	806
of which government transfers (million euro)		:	809	661	490	372	348	320	301	289	319
Net foreign direct investment (FDI) (million euro)		:	:	:	:	43	108	289	431	341	278
Foreign direct investment (FDI) abroad (million euro)	3)	:	:	:	:	0	0	-6	-10	-25	-10
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:	0	2	1	
Foreign direct investment (FDI) in the reporting economy (million euro)	3)	:	:	:	:	43	108	295	441	366	288
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	:	:	72	64	66	
Public finance	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government deficit/surplus, relative to GDP (%)		:	:	8.4	2.2	2.7	:	:	:	:	:
General government debt relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Financial indicators	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	4)	761	971	998	891	713	572	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	4)	761	1 096	1 126	1 111	1 128	1 092	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	3	26	87	233	374	514	637	892	1 183	1 289	
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	5)	:	:	:	:	14.7	14.4	14.5	14.6	14.8	14.1
Deposit interest rate (one year), per annum (%)	5)	:	:	:	:	2.8	2.9	3.0	3.3	4.2	4.0
euro exchange rates: average of period - 1 euro = ... national currency	1)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		62	296	337	423	311	278	356	647	670	501
External trade	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Value of imports: all goods, all partners (million euro)		:	:	:	:	1 050.4	1 180.0	1 314.6	1 576.1	1 930.0	1 933.8
Value of exports: all goods, all partners (million euro)		:	:	:	:	56.6	48.9	81.7	147.3	196.4	165.3
Trade balance: all goods, all partners (million euro)		:	:	:	:	-993.8	-1 131.1	-1 232.9	-1 428.8	-1 733.6	-1 768.5
Terms of trade (export price index / import price index)		:	:	:	:	:	:	:	:	:	:
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	29.3	37.9	35.7	42.6	47.7	43.1
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	40.3	38.4	34.2	35.2	36.2	39.0

Demography	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		:	:	:	12.8	14.1	14.5	12.6	12.4	12.7	12.5
Infant mortality rate: deaths of children under one year of age per 1000 live births		:	:	11.2	15.1	11.8	9.6	12.7	11.1	9.8e	8.4p
Life expectancy at birth: male (years)		:	:	:	67.0	:	:	:	:	:	:
Life expectancy at birth: female (years)		:	:	:	71.0	:	:	:	:	:	:
Labour market	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		:	45.6	52.8	50.3	46.2	49.2	52.3	46.8	46.2	48.1
Employment rate (15-64): share of population aged 15-64 that is in employment (%)		:	19.6	23.8	25.3	27.7	28.5	28.7	26.2	24.1	26.1
Employment rate male (15-64) (%)		:	31.1	39.4	42.8	46.4	45.8	46.1	40.1	37.7	39.7
Employment rate female (15-64) (%)		:	8.1	8.8	8.3	9.9	11.7	11.8	12.7	10.5	12.5
Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		:	16.7	18.4	20.1	23.9	25.2	26.3	24.6	23.8	27.9
Employment by main sectors (%)											
Agriculture		:	:	:	:	:	:	:	:	:	:
Industry		:	:	:	:	:	:	:	:	:	:
Construction		:	:	:	:	:	:	:	:	:	:
Services		:	:	:	:	:	:	:	:	:	:
Unemployment rate: share of labour force that is unemployed (%)		:	57.1	55.0	49.7	39.7	41.4	44.9	43.6	47.5	45.4
Share of male labour force that is unemployed (%)		:	51.8	45.2	40.3	31.5	32.9	34.6	38.5	42.7	40.7
Share of female labour force that is unemployed (%)		:	69.9	74.5	71.9	60.7	60.5	61.6	55.2	59.6	56.4
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		:	80.0	77.7	74.9	66.5	70.5	75.5	70.0	73.0	73.0
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		:	47.6	47.3	42.7	34.9	34.7	41.1	37.1	38.9	37.1
Social cohesion	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:	:	:	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		:	:	:	:	:	:	:	:	:	:
Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	5 304.0	5 005.0	:	3 011.0	2 988.0	2 195.0	2 124.0	2 530.0	:
Standard of living	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of passenger cars per 1000 population		:	:	:	:	:	50.2	69.9	68.7	74.1	:
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	:	158.7	169.5	:	:	:	376.2	369.1
Infrastructure	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Density of railway network (lines in operation, per 1000 km ²)		:	:	:	:	39.5	:	:	:	:	:
Length of motorways (thousand km)		:	:	:	:	:	0.0	0.0	0.0	0.0	0.0

Innovation and research	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Spending on human resources (public expenditure on education in % of GDP)		:	:	:	:	:	:	:	:	:	:
Gross domestic expenditure on R&D in % of GDP		:	:	:	:	:	:	:	:	:	:
Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	:
Environment	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:	:	:	:	:
Electricity generated from renewable sources in % of gross electricity consumption		:	:	:	:	:	:	:	:	:	:
Road share of inland freight transport (% of tonne-km)		:	:	:	:	:	:	:	:	:	:
Energy	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)	6)	:	:	3 853	4 507	3 944	4 455	4 553	4 681	5 466	7 842
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Electricity generation (thousand GWh)		:	:	3.2	3.2	3.5	4.0	4.0	4.3	:	5.3
Agriculture	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	:	:	:	:	:	:	:
Total utilised agricultural area (thousand hectare)		:	539	:	:	:	:	:	:	:	:
Livestock: cattle (thousand heads, end of period)		289	347	319	:	335	352	382	322	342e	:
Livestock: pigs (thousand heads, end of period)		59	75	110	:	55	47	68	40	27e	:
Livestock: sheep and goats (thousand heads, end of period)		193	230	116	:	106	152	113	152	180e	:
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		:	:	:	:	:	:	:	:	:	:
Crop production: cereals (including rice) (thousand tonnes, harvested production)		:	459	396	:	408	441	392	295	438e	:
Crop production: sugar beet (thousand tonnes, harvested production)		:	:	:	:	:	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		:	169	135	:	150	159	172	117	177e	:

: = not available

p = provisional value

e = estimated value

1) No official national currency exists. Euro is the currency in use.

2) Investment: including Donor sector, General government, Private investment (Housing and Other).

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

4) In 2000 the banking sector of Kosovo was at the initial stage of its establishment. Therefore all deposits at the commercial banks at that point in time were transferable.

5) Since January 2008 interest rate on loans includes disbursement fee charged by banks.

6) Data collected from the Kosovo Energy Corporation (KEK).