



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 6.11.2007
SEC(2007) 1433

COMMISSION STAFF WORKING DOCUMENT

KOSOVO UNDER UNSCR 1244 2007 PROGRESS REPORT

accompanying the

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

Enlargement Strategy and Main Challenges 2007-2008

{COM(2007) 663 final}

TABLE OF CONTENTS

| | |
|---|-----------|
| COMMISSION STAFF WORKING DOCUMENT KOSOVO under UNSCR 1244 2007 Progress Report | 4 |
| 1. Introduction | 4 |
| 1.1. Preface | 4 |
| 1.2. Context | 4 |
| 1.3. Relations between the EU and KOSOVO under UNSCR 1244 | 5 |
| 2. Political criteria | 7 |
| 2.1. Democracy and the rule of law | 7 |
| 2.2. Human rights and the protection of minorities | 14 |
| 2.3. Regional issues and international obligations | 23 |
| 3. Economic criteria | 24 |
| 3.1. The existence of a functioning market economy | 24 |
| 3.2. The capacity to cope with competitive pressure and market forces within the Union | 27 |
| 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 | 31 |
| 4.1.4. Customs and taxation | 31 |
| 4.1.5. Competition | 32 |
| 4.1.6. Public procurement | 32 |
| 4.1.7. Intellectual property law | 33 |
| 4.1.8. Employment and social policies | 33 |
| 4.1.9. Education and research | 35 |
| 4.1.10. WTO issues | 36 |
| 4.2. Sectoral Policies | 36 |
| 4.2.1. Industry and SMEs | 36 |
| 4.2.2. Agriculture and fisheries | 37 |

| | | |
|------------------------|--|----|
| 4.2.3. | Environment | 37 |
| 4.2.4. | Transport policy | 38 |
| 4.2.5. | Energy | 40 |
| 4.2.6. | Information society and media | 41 |
| 4.2.7. | Financial control..... | 43 |
| 4.2.8. | Statistics | 43 |
| 4.3. | Justice, freedom and security..... | 44 |
| 4.3.1. | Visa, border, control, asylum and migration..... | 44 |
| 4.3.2. | Money laundering | 45 |
| 4.3.3. | Drugs | 46 |
| 4.3.4. | Police..... | 46 |
| 4.3.5. | Fighting organised crime and terrorism | 46 |
| 4.3.6. | Protection of personal data | 48 |
| STATISTICAL ANNEX..... | | 49 |

COMMISSION STAFF WORKING DOCUMENT

KOSOVO under UNSCR 1244 2007 Progress Report

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the 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 Kosovo (under UNSCR 1244) 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 1 October 2006 to early October 2007. 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 await 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. In addition, many sources have been used, including contributions from the Kosovo authorities, the Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Kosovo in its separate communication on enlargement², based on the technical analysis contained in this report.

1.2. Context

Kosovo's institutional arrangements are governed by United Nations Security Council Resolution (UNSCR) 1244 establishing an interim international civilian administration, which is called the United Nations Interim Administration Mission in Kosovo (UNMIK). Ultimate legislative and executive authority is vested with the Special Representative of the Secretary

¹ The rapporteur for Kosovo is Mr Joost Lagendijk.

² Enlargement Strategy and Main Challenges 2007-2008.

General (SRSG). Under UNSCR 1244, Kosovo's participation in regional fora and negotiation of international agreements fall under UNMIK authority.

The constitutional framework for provisional self-government of Kosovo divides responsibilities between UNMIK and the provisional institutions of self-government (PISG) to develop self-government in Kosovo, pending a final settlement. The transfer of competencies from UNMIK to the PISG has been extensive. The Commission's assessment in this report refers to all Kosovo authorities regardless of their respective competencies.

The legal system in Kosovo is regulated by a mixture of legislation adopted by PISG, UNMIK regulations and administrative directions, and Yugoslav laws in place before 22 March 1989.

In November 2005, former Finnish President Martti Ahtisaari was appointed the special envoy of the UN Secretary-General to prepare a proposal for the future status of Kosovo. Following a number of status consultations and a final high-level meeting between Belgrade and Pristina in Vienna on 10 March 2007, Mr Ahtisaari delivered a Comprehensive Proposal for the Kosovo Status Settlement to the UN Secretary General on 15 March 2007. On 26 March, the UN Secretary-General forwarded Mr Ahtisaari's proposal to the United Nations Security Council, fully supporting Mr Ahtisaari's recommendation for supervised independence. Mr Ahtisaari's proposal included the attribution of self-government, the capacity to conclude international agreements and to seek membership in international organisations as well as the development of distinct national symbols reflecting Kosovo's multi-ethnic character. Wide-ranging measures have been designed to protect non-majority communities, particularly Kosovo Serbs. Under the decentralisation proposal, Serb majority municipalities have been offered considerable autonomy to manage their own affairs and privileged links with Belgrade, including the possibility of financial support from Belgrade.

Belgrade and Pristina have maintained divergent positions as to whether Kosovo should be independent or be an autonomous part of Serbia. The Kosovo negotiating team, the so-called "Unity Team", bringing together members of the current coalition government and the opposition, have expressed their satisfaction with the package; the Kosovo Assembly confirmed this in a vote on 14 March 2007. Serbia rejected the proposal.

No agreement has yet been reached at the United Nations Security Council. On 1 August 2007, the Secretary General of the United Nations endorsed a new initiative on determining Kosovo's future status via further negotiations, mediated by an EU-US-Russia troika. A set of separate meetings and direct talks have taken place in this framework, with direct talks between Pristina and Belgrade in New York starting on 28 September 2007. The troika is supposed to report to the UN Secretary General on 10 December.

1.3. Relations between the EU and KOSOVO under UNSCR 1244

Kosovo under UNSCR 1244 is participating in the **Stabilisation and Association Process**. Meetings of the Stabilisation and Association Process Tracking Mechanism (STM) were held in Pristina in November 2006 and March 2007. In March 2007, a new structure of sectoral meetings for the STM was established in the areas of good governance, economy, internal market, innovation and infrastructure. The new structure provides the mechanism for a more detailed analysis of the conformity of the legislation, practices and policies in Kosovo with European standards.

The EU provides guidance to the authorities on reform priorities through the **European Partnership**. Progress on these reform priorities is encouraged and monitored through the STM. The PISG approved a European Partnership Action Plan in August 2006. The Agency for European Integration (AEI) is increasingly able to fulfil its role as a co-ordination body for EU integration matters. The AEI reports to the European Commission on a quarterly basis on the implementation of the European Partnership Action Plan (EPAP). The EPAP is regularly discussed at government meetings and is closely monitored. Representatives of the Agency regularly brief the permanent secretaries on their activities and discuss joint actions to implement the EPAP. Seventeen EPAP-related working groups are now fully operational and meet on a regular basis.

European integration structures within the PISG have been considerably strengthened and expanded since December 2006. The chief executive officer of the newly established Agency for European integration has been appointed and additional staff were employed. European integration focal points were established in all line ministries.

However, the AEI's administrative capacity is not yet fully developed. The turnover of staff remains a challenge. The AEI continues to rely heavily on technical assistance from various donors, which reduces its sustainability. In particular, mechanisms to ensure legal compatibility checks on all relevant new legislation are only partially operational.

2007 is the first year of a new **financial assistance** programme, the Instrument for Pre-accession IPA. A Multi-annual Indicative Planning Document (MIPD), which sets the programme priorities for the period 2007-2009 for Kosovo, was approved in June 2007. For 2007, EU pre-accession financial assistance to Kosovo amounts to € 68.3 million. Key priorities for funding in 2007 include the strengthening of administrative capacity at all levels, enhancing rule of law, human rights and good governance, improving socio-economic conditions for all communities, and developing regional co-operation. The preparation of IPA programme has been undertaken in close co-ordination with the Council's planning teams (EUPT and ICO) to ensure complementarities with the activities of a future ESDP mission in Kosovo and an international civilian office.

Ongoing EC assistance under the CARDS instrument amounts to some €170 million and involves over 80 projects. The current programmes, among others, provide financial assistance to **civil society** organisations. A number of civil society organisations have been contracted to receive EC grants following a competitive selection process.

CARDS assistance is implemented by the European Agency for Reconstruction, and preparations are ongoing for the transfer of that responsibility to the EC Liaison office in Pristina. IPA assistance will be implemented by the EC Liaison office. The management of aid on a decentralised basis is a medium-term objective for Kosovo.

The Council has issued a decision providing € 50 million of exceptional Community financial assistance in the form of macro-financial assistance to the Kosovo budget. These funds will be released if the conditions described in the memorandum of understanding are met.

In February 2007 the PISG established a donor co-ordination steering committee, designing strategic policies on donor coordination. The committee has met once at ministerial level, setting up a donor coordination centre in the Prime Minister's office. Their task is to ensure coordination among the ministries and to function as the committee's secretariat. The Agency

for European Integration (AEI) is responsible for the co-ordination of EU pre-accession assistance in Kosovo.

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 co-operation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as co-operation with the UN International Criminal Tribunal for the former Yugoslavia.

2.1. Democracy and the rule of law

Constitution

The constitutional framework for provisional self-government of Kosovo divides responsibilities between UNMIK and the PISG to develop self-government in Kosovo. In recent years, the PISG have continuously taken over functions from UNMIK, although certain areas remain under the sole competence of UNMIK. The SRSG still bears ultimate legislative and executive responsibility in Kosovo. With a large NATO-led international military presence and the continuing existence of parallel Kosovo Serb structures the PISG do not exercise full control over the territory. The lack of a final status settlement for Kosovo means that certain European standards cannot be implemented yet.

A constitutional working group, which includes members of the opposition, ethnic minorities and civil society, was set up in February 2007 to prepare the draft of the future Kosovo constitution. The Kosovo Serb community did not send a representative to this group. A specific working group on the future symbols of Kosovo was established in June 2007. In parallel to this, the Unity Team launched a public competition for the design of a new symbol representing Kosovo's multi-ethnic character. Public debates have been organised throughout Kosovo to discuss minority rights in the future constitution.

Parliament

The assembly strengthened its administration and improved its working methods, in particular in its committees. Most committees nominated reporters and some committees set up sub-committees in order to rationalise their work. In June 2007, a unit for language standardisation was established. The Committee for the Rights and Interests of Communities continues to review all draft laws to protect the rights of the communities.

In spring 2007, the assembly approved, for the first time, an annual work programme. The budgetary procedure has become more transparent and the number of public hearings has increased, strengthening the assembly's role. The assembly public information office was established in June 2007.

Some members of the Serbian community have established a new political party with its seat in Pristina.

However, the ten Kosovo Serb members of the Kosovo Assembly refuse to take part in the plenary sessions. The assembly lacks qualified staff, in particular on legal and IT issues. It

therefore remains dependent on international experts. This applies particularly to the legislative processes and the monitoring of the implementation of laws. The Committee on International relations and Euro-Atlantic integration has not been involved in checking draft laws for their EU compatibility. EU integration matters are rarely discussed. The committee does not co-ordinate effectively with the executive on European integration matters. The annual work programme 2007 is not implemented in a consistent manner. There is little interaction between the assembly and civil society. The assembly did not manage to debate the 2005-2006 annual report of the ombudsman within one year of its publication or to elect the first ombudsman. The public information office does not always provide information to the public in an impartial manner.

There is no parliamentary committee dealing specifically with human rights issues.

The language standardisation unit is not yet functional. There are no lawyer-linguists working in the assembly, which often results in inconsistent translations and ambiguities in the various official language versions published in the Official Gazette. The assembly provides no language training for its staff to improve fluency in the official languages.

Municipal and assembly elections are planned for 17 November 2007. Amendments to the regulation on the central election commission and a regulation on municipal elections in Kosovo were promulgated in August 2007. Municipal Election Commissions have been established in only 27 out of 30 municipalities.

Overall, the assembly made some progress in the legislative field, but its administrative and policy-making capacities remain limited. Most Kosovo Serb members of the assembly continue not to take up their seats. The main Kosovo Serb political parties have not registered to take part in the election planned for 17 November 2007, after a call from Belgrade's government to boycott these elections.

Government

The coalition between the Democratic League of Kosovo (LDK) and the Alliance for the Future of Kosovo (AAK) remained stable. Two ministers resigned during the reporting period. Both were replaced in February. The stability of the government was maintained notwithstanding difficult circumstances.

Status settlement remained the main focal point of government attention. In April 2007 the parties of the government coalition and the main opposition parties represented in the Unity Team signed the Pocantico Declaration, pledging unity through the transition period.

The government agreed upon a list of 18 priority laws at the beginning of 2007.

The central co-ordination capacity of the prime minister's office has further improved. In January 2007, new rules of procedure of the government were adopted. They regulate the structure, co-ordination mechanisms and organisation of government and provide guidelines on decision-making, including on legal matters. Since January 2007, the government has met once a month to discuss European integration matters as well as the implementation of the European Partnership Action Plan. In May 2007, a strategy for information and communication on Kosovo's European integration process 2007-2010 covering the period January to June 2007 was approved. In May 2007, an instruction on the principles and procedures for classification of official documents was approved. Permanent secretaries and

the chief executive officers of agencies and municipalities were given an enhanced role in monitoring the implementation of legislation.

The government increased its outreach activities, including to ethnic minorities and in particular Kosovo Serbs. The Prime Minister and line ministers made a significant number of visits to Serbian settlements, addressing the public in Serbian and conveying the message that Kosovo belongs to all its citizens. The government adopted a constructive stance through the status negotiations and undertook major efforts to communicate and to justify the concessions made to ethnic minorities. In May 2007 the head of the office for good governance in the Prime Minister's Office was appointed. He is the government's human rights co-ordinator and co-ordinates the human rights units. The office is increasingly fulfilling its coordination and reporting responsibilities. The recruitment of minority representatives into the government continued. They constitute 11.5% of the civil servants at central level and 12% at local level, against the overall target of 16.6%. 318 of the 3,300 Kosovo Serbs who formally asked to be removed from the PISG payroll after a directive of December 2005 issued by Belgrade have requested their reinstatement and received their accumulated salaries, which had been held in trust by the PISG.

The Ministry of local government played a constructive part in the preparation of the status settlement, in particular regarding the decentralisation implementation plan. The government established a co-ordination body - the interim committee on decentralisation - to prepare implementation of the Ahtisaari proposal on decentralisation. In general, municipalities managed to raise their level of performance. All municipalities have stayed within the 2007 budget limits as regards their number of civil servants. The total number of posts was reduced by a little over 1% compared to 2006. The law on access to documents is being implemented satisfactorily at local level.

However, the focus on status has significantly delayed reform efforts. Co-operation among government departments, between the government and the assembly and between the central and municipal levels remained difficult. The PISG were not always able to identify clear political priorities.

The government's own target of minority representation in government has not yet been fulfilled. The law on official languages is not fully implemented. The lack of capacity, particularly at the local level, remains problematic. On several occasions, the SRSG, with the support of the Ministry of Local Government Administration, used its right to annul decisions taken by municipalities. The responsibilities of the Office for good governance within the Prime Minister's office are very diffuse. It often lacks the capacity to carry out its tasks and to co-operate with local partners. Co-operation with the Ombudsman Institution is weak. As a result, the Ombudsman's recommendations are often not implemented. The Ombudsman is the only institution which holds the government accountable under the law. The PISG does not have the competence to investigate complaints against UNMIK.

The postponement of local elections from autumn 2006 to autumn 2007 had an adverse effect on the perceived legitimacy and effectiveness of the local authorities. The decentralisation proposal in the status settlement has strained relations between the central government and some of the municipalities most affected by the envisaged decentralisation and creation of new municipalities. These municipalities are now less inclined to engage constructively in the process.

Overall, some progress was made in consolidating government. The basic working tools for an efficient government are in place, but they need to be enhanced and fully applied.

Public administration

The Strategy and the action plan on Public Administration Reform 2006-2011 were approved by the government in March 2007. In June 2007 an inter-institutional working group and central co-ordination mechanism was established to monitor their implementation. The government has committed € 6 million for the implementation of this action plan for 2007-2009 and has set up working groups for a number of areas. These working groups are operational.

In November 2006 an instruction to increase the efficiency of the public administration was adopted. It regulates the procedures for assessment, transfer and promotion of civil servants. In February 2007 responsibility for the implementation of the PISG capacity building strategy was transferred from the Office of the Prime Minister to the Ministry of Public Services (MPS). By June 2007 the MPS finalised the review of the payroll for all Kosovo civil servants.

The Independent Oversight Board, an independent body advising the SRSG, is one of the main mechanisms for ensuring a professional, impartial and accountable civil service. In 2006 it received 186 appeals, with 129 cases being resolved. Between January and May 2007, 115 cases were resolved. In December 2006, the rules of procedure of the Senior Public Appointments Committee were approved. Between June 2006 and May 2007 this committee reviewed 32 cases.

All except one of the permanent secretaries have now been appointed in line ministries. Disciplinary boards and claims committees have been established in all ministries and in 26 of the 30 municipalities. Appeals offices for the public were established in all PISG institutions.

However, civil servants are still vulnerable to political interference, corrupt practices and nepotism. The inter-institutional working group, the central co-ordination mechanism for the monitoring of public administration, has only met once. It has not yet adopted its rules of procedure. The Senior Public Appointments Committee, responsible for the appointment of permanent secretaries and heads of chief executives agencies is not yet functioning effectively. The Independent Oversight Board has not yet been transformed into an autonomous body reporting to the Assembly. The code of conduct for the civil service is not always observed.

Local government remains weak at the administrative level. The division of responsibilities between the central and municipal levels needs to be further defined. Belgrade-sponsored parallel administrative structures continue to operate in most predominantly Kosovo-Serb municipalities. A number of Kosovans still rely on these services.

Overall, Kosovo's public administration remains weak and inefficient. Some progress has been made in reforming the public administration, but reforms are at an early stage.

Judicial system

The Ministry of Justice and the Kosovo Judicial Council continued building their capacity to implement the powers transferred to them by UNMIK. The Ministry has adopted a 5-year

Strategic Plan for the period 2007-2012, and in March 2007 a start was made on implementing an annual operational plan for 2007 via departmental plans.

The Judicial Investigation Unit under the responsibility of UNMIK has continued to examine complaints of misconduct by judges and prosecutors of the PISG. Up to January 2007 the Investigation Unit had received 51 complaints of which 21 were admitted for further investigation. Two judges were found guilty of corruption. A total of 20 disciplinary cases were handled by the Ministry's Disciplinary Commission. These resulted in two suspensions, four terminations of contract and 14 written warnings. A further 16 disciplinary proceedings are underway.

The Kosovo Judicial Council approved a strategy for 2007-2012 in April 2007, setting key priority tasks and actions for the establishment of a fully functioning judiciary in Kosovo. In March 2007 the Council approved the allocation of 326 judicial positions for the Supreme Court, district courts, municipal courts and minor offences courts. Since January 2007, the Kosovo Judicial Council has been responsible for collecting statistics from the courts and the prosecution service. In November 2006, 12 additional persons were appointed to the Kosovo judiciary, of which five are from under-represented communities. The transfer of judicial staff from under-worked courts to courts which are overloaded with work continued.

Under the judicial framework of April 2006, a quota of 15% of judges and prosecutors for non-Albanian communities and 8% of Kosovo Serbs was fixed in the judiciary. In the public administration there are targets only for minority representation. Now, over 13% of the staff of the Ministry of Justice belong to non-Albanian communities, and 9% of these are part of the Kosovo Serb community.

The Kosovo Special Prosecutor's Office became operational in spring 2007. Six prosecutors were appointed. The Ministry of Justice is now responsible for the administration of general prosecution offices.

The Kosovo Judicial Institute, the institute for the training of judges, continues to function. With a few exceptions, the probation service of Kosovo and the Kosovo correctional service are now under the control of the Ministry of Justice.

Co-operation between the judiciary and the treasury and the private banking sector respectively has improved, which has improved the enforcement of judgments. Fines payable can be now withheld without the consent of the convicted person.

The establishment of an automated court management system was completed in all five district courts for the management of penal cases. The Ministry of Justice and the Kosovo Judicial Council made considerable efforts to stress that use of the system is compulsory.

Domestic war crimes trials are handled exclusively by international judges and prosecutors, with or without the involvement of ICTY. Eight war crimes trials are underway and 48 other cases are under investigation.

Witness protection equipment and ISDN links have been installed in all district courts to enable video conferences to be held. District courts in Pristina and Prizren now have the capacity to allow witnesses to testify by video conference, even from outside Kosovo.

The laws on administrative procedures entered into force in November 2006.

However, the absence of a constitutional court creates legal uncertainty as to the interpretation of law. Parallel courts applying Serbian law continue to function in the regions with a majority of Kosovo Serb inhabitants. The PISG is not able to compile, print and deliver laws on a constant basis. Hard copies of the Official Gazette are not being delivered to courts and prosecution offices in a consistent and timely manner. Given that Kosovo has three official languages, the absence of lawyer-linguists in the PISG often results in contradictory versions of legal documents.

The administrative capacity of the Ministry of Justice is still weak. Its structure has not been finalised. The general conditions of staff undermine their motivation and commitment. The use of ministry premises for actions in support of an indicted party leader is a cause of concern.

There are concerns regarding the balance between independence and accountability of members of the Kosovo Judicial Council. The strategy adopted by the Kosovo Judicial Council has not been followed up by an action plan and specific budgetary provision. Data collection from courts and prosecution offices is still weak and unreliable.

The transfer of judicial staff from under-worked courts to courts which are overloaded with work has not yet been completed. The aim of equitable representation of non-majority communities in the judiciary has not yet been fully achieved. While in around 12% of the staff of all judicial institutions are members of ethnic minorities and around 8% are Kosovo Serbs, only 1% of judges belong to a minority group and less than 0.5% belong to the Serbian minority. Only six of the 88 prosecutors belong to minority groups. The recruitment of the remaining prosecutors for the Kosovo Special Prosecutor's Office has to continue.

The backlog of cases is increasing, with more than 50,000 civil cases and over 36,000 criminal cases pending. Management capacity in courts, the efficiency of the system and relevant legislation are insufficient. Execution of judgements remains weak. This is partly due to the fact that there is no civil register, proper addresses are missing in many cases and there are no Kosovo Serbs among the court messengers. Police investigations are not always carried out professionally.

As regards domestic war crime trials, there is a backlog of several hundred cases. These are being hampered by the unwillingness of the local population to testify. The training activities of the Kosovo Judicial Institute remain limited due to budgetary constraints. Human resources at the Kosovo Judicial Institute remain scarce.

There is a need to approve laws on the courts and the prosecution service, as well as rationalising the justice system. Although the concept of a judicial police force has been rejected by all actors involved, the concept still appears in the legislation.

The automated case management system is not used by all courts. Judges at the Pristina District Court, in particular, are still reluctant to use it. Some judges remain reluctant to use the witness protection system. Due to Kosovo's small size and close-knit social fabric and to the limited possibilities for relocating witnesses outside Kosovo, the amount of evidence given by witnesses is still quite small, especially in war-crimes cases. There is still no specific legislation on witness protection in place. Witness protection is only covered by the provisional criminal procedure code. Consequently, the witness protection scheme remains weak.

The Supreme Court is the only specialised jurisdiction for reviewing administrative acts. It has only two specialised judges for reviewing administrative acts, and they have a backlog of over 2000 cases to deal with. As regards administrative law, uncertainties remain about its scope, as the 1986 Yugoslav law on administrative procedure has not been repealed. Concerns also remain about the possibility of requesting judicial review of administrative acts.

The overt disregard of the 2004 law on construction, and widespread ignorance of building permits and urban planning, including by a number of high-profile politicians and civil servants, seriously puts at risk the confidence of Kosovo citizens in the rule of law. In particular, the inconsistent application of these laws by many municipalities is a cause for concern.

Overall, the judicial institutions made little progress during the reporting period. The system remains weak.

Anti-corruption policy

Due to a lack of clear political will to fight corruption, and to insufficient legislative and implementing measures, corruption is still widespread and remains a major problem.

The Kosovo Anti-corruption Agency (KAA) became operational in February 2007. It now has a building and 15 employees. The KAA is the first agency set up entirely by the PISG and has a high degree of local ownership. Currently, the KAA is reviewing 80 cases involving corruption allegations, out of which 37 have been submitted to the prosecutor and the police. These cases involve officials from provisional institutions of self-government. Very few anti-corruption cases have been finally decided by the courts.

In March 2007, 732 politicians and senior civil servants had to declare their assets to the Kosovo Anti-corruption Agency. After the deadline was extended to May 2007, 692 persons complied with this requirement. The names of the remaining officials have been published in the press and disciplinary procedures initiated.

The implementation of the anti-corruption law and the anti-corruption action plan continued. In December 2006 the government conducted a public anti-corruption and awareness-raising campaign. In particular, hotlines for suspected corruption cases were publicised. Some public offices have installed complaints boxes, and a public campaign against corruption was launched. Some training courses were held for civil servants on anti-corruption issues.

However, corruption is still prevalent, undermining a proper functioning of the institutions in Kosovo. The KAA is not yet fully staffed. It has repeatedly had to defend its independence against political pressure from within the government and the Assembly. Further training of its staff is required.

The current law on asset declarations does not allow the KAA to publish these declarations or to make inquiries about the origin of the wealth declared. The correctness of the declarations is not checked with other relevant bodies.

The composition of the government anti-corruption Council does not sufficiently guarantee its impartiality. The Council is not very active in the definition and implementation of anti-corruption policies. The unclear definition of responsibilities between the KAA and the Office of Good Governance, whose head is deputy head of the anti-corruption Council, has led to friction and remains to be addressed.

The differing definitions of corruption in the penal law and in the anti-corruption law make for legal uncertainty. The implementation of the anti-corruption action plan is considerably behind schedule.

Overall, some progress was made in the fight against corruption, but corruption is still widespread and constitutes a very serious problem.

2.2. Human rights and the protection of minorities

Observance of international human rights law

As there is no status settlement, Kosovo cannot ratify **human rights instruments**. Under Kosovo's constitutional framework for provisional self-government, the main international human rights and fundamental freedoms instruments are directly applicable in Kosovo.

Kosovo judges and prosecutors have been trained in the jurisprudence of the **European Court of Human Rights (ECtHR)**. Only two cases relating to Kosovo have been brought to the court. They were declared inadmissible by ECtHR judges in May 2007. However, Kosovo lawyers and judges seldom refer to ECtHR case law. The professional knowledge of Kosovan lawyers, judges and prosecutors on the European Convention of Human Rights and ECtHR jurisprudence remains very limited.

In the area of **promotion and enforcement of human rights**, the human rights advisory panel - whose task is to examine complaints from any person or group of individuals claiming to be the victim of a human rights violation by UNMIK - is not yet operational. The Human Rights Oversight Committee established in 2002, as an advisory body to the SRSG on human rights matters, has not met since 2004. Complaints against human rights violations by the PISG are dealt with by the local judicial system.

With regard to the implementation of the Framework Convention on the protection of national minorities, the Office for Good Governance has not begun to implement the recommendations issued by the Council of Europe in June 2006. A working group was eventually established in mid-2007 to consider the measures required.

Human rights units were established in all ministries. They are fully operational in all but five ministries. Their task is to monitor, in liaison with the Office for Good Governance, the implementation of best practices regarding the respect of human and minority rights, as well as in the area of non-discrimination.

Overall, little progress has been made in the promotion and enforcement of human rights. The administration is not able to ensure the full implementation of human rights standards.

Civil and Political Rights

As regards the prevention of **torture and ill treatment** and the **fight against impunity**, professional standards units examining alleged procedural and minor offences by the police are operating in the Kosovo Police Service (KPS) headquarters and in the regional headquarters under the supervision of UNMIK. Every resident has the right to complain at any police station. Their complaint is examined according to standard procedures. In several cases, police officers have been dismissed as a result of such complaints. The police inspection unit, which is independent but reports to the Minister of Interior, is responsible for complaints on major offences, including in police detention centres. The Ministry of Justice's

human resources department is the main body dealing with complaints of misconduct in prisons and detention centres.

A delegation of the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment visited Kosovo at the invitation of UNMIK and KFOR in March 2007. The delegation examined the treatment of detainees and the conditions of detention in a variety of establishments. So far, UNMIK and NATO have not made the results of these visits publicly available.

As regards missing persons, 240 additional cases were resolved.

However, not many citizens are aware of the existence of these complaint mechanisms, and the KPS does not always inform residents about the outcome of such complaints. The human resources department in the Ministry of Justice is not yet fully operational.

2,047 persons remain missing. The commitment of the authorities at all levels is not sufficient to achieve objective and efficient investigations in this area, regardless of the ethnic background of the missing persons.

Overall, awareness of the need to prevent torture and ill-treatment and to fight against impunity has increased among the political leaders, but no investigations or court proceedings on torture or ill-treatment have yet taken place. More efforts are necessary to investigate and train investigators dealing with cases of missing persons.

In the area of **access to justice**, the legal aid commission charged with administering and monitoring the legal aid system was appointed by the Prime Minister in July 2007. In addition to the Commission, the agency consists of a legal aid coordination office in Pristina and five district legal aid bureaus. The legal aid commission was inaugurated in September 2007. The authority in the legal aid field is thus transferred from UNMIK to this Commission. Legal aid was granted in some criminal cases. The head of the legal aid co-ordination office, which serves as a secretariat to the commission, was appointed in May 2006 and further eight persons were appointed in September 2007.

However, the legal aid system does not function properly in civil cases and is even less effective in criminal cases. The Legal Aid Co-ordination Office and the District Legal Aid Bureau have not yet been established. From 2006 to 2007, the budget for legal aid was reduced by more than 23%. In addition, the validity of legal representation in property transactions is not consistently checked. Legal representatives perform poorly and therefore endanger the right to access to justice, in particular in the case of absent parties. There is an ongoing need to train lawyers. Lawyers still often breach the code of ethics and are not punished. The legalisation of the participation of the Ombudsperson Institution in the court proceedings would raise the present legal aid system to a higher level.

Overall, little progress was achieved. The legal aid system is not yet fully functional.

As regards **the prison system**, the correctional service was transferred to the Ministry of Justice in 2006, but some functions are still overseen by UNMIK. UNMIK also retains an intervention role in the event of a major incident at Dubrava Prison, the largest prison facility in Kosovo.

Training activities for penitentiary staff continued. Around 14% of the penitentiary service's staff comes from minority communities, of which 10% belong to the Serb community, and

over 17% of the staff is female. The number of international staff has been reduced. The general standard of Kosovo's prisons is satisfactory. Vocational training schemes for prisoners have been set up at Dubrava prison and Lipjan correctional centre, and education opportunities have been introduced for prisoners at both facilities.

However, the security standards of Dubrava prison are not yet sufficient, as demonstrated by the escapes of high security detainees in August 2007. The staff are not yet able to respond to crisis situations and security equipment needs further upgrading. There are few specialised facilities for juvenile prisoners or for mentally disabled prisoners. Facilities for pre-trial detention are very limited. All convicted Kosovo Serbs are serving their sentences in the Mitrovica detention centre, which is not suited to long-term detention. The total number of prison places in relation to the overall population is below the European average. In addition, there is no facility for serving prison sentences near to the biggest city, Pristina.

Overall, some progress in improving the penitentiary system in Kosovo can be reported. The PISG does not yet have full competence for the penitentiary system.

In the area of **freedom of expression**, the Independent Media Commission began holding regular meetings of its board and adopt regulations as required under the law. It continued efforts to implement the media code of conduct. In February 2007, a law on defamation and insult was promulgated. It decriminalises defamation in line with recommendations from the Council of Europe and the OSCE Representative on freedom of the media.

However, the independent media commission faces budgetary limits which are hampering its basic functioning. There is a legal inconsistency between the new law and the provisional criminal code, in which defamation remains an offence. The law on copyright and the law on access to official documents have so far not been fully implemented. According to the latter law, information officers still have to be appointed. Undue pressure on media persists, seriously limiting open public debate. Court cases against political activists do not always follow established procedures and the provisions of the law.

Overall, some progress was made in the institutional framework to protect freedom of expression. Political will to support freedom of expression remains low.

The PISG has made efforts to guarantee the respect of **freedom of assembly and association** generally. However, the police and armed forces are always required to exercise vigilance in supervising events organised by minority groups. The law on freedom of association, adopted by the assembly in early 2005, has not yet been promulgated. This law is in contradiction with the European Convention on Human Rights. Civil society activists have delivered proposed amendments to the assembly.

Overall, some progress was achieved, but minorities and other vulnerable groups face restrictions in exercising their right to freedom of assembly and association across Kosovo.

Regarding **civil society organisations**, the NGO registration and liaison unit is responsible, together with the Ministry of public services, for the registration and supervision of civil society organisations. According to the registry, there are more than 3,000 civil society organisations exist in Kosovo. Only civil society organisations with a public benefit status are monitored and are required to submit annual reports on their activities and financial status. There are currently around 270 such NGOs.

A Kosovo branch of a Serbian NGO dealing with minority return opened an office in Pristina for the first time. In September 2007 the killing of a police officer led to a protest march against crime and corruption that was organised by civil society organisations. About one third of the civil society organisations have ethnically mixed staff, including the Civil Society Network in Mitrovica.

However, there are believed to be far fewer active NGOs than registered NGOs. The landscape of civil society organisations consists of rather small organisations which are often dependant on short-term funding from a single donor. Civil society organisations are mainly ethnically exclusive and there continues to be almost no co-operation between ethnically divided NGOs in Kosovo. The administrative, financial, and managerial capacities of civil society organisations are very uneven, and are particularly poor at municipal level, which obstructs their development. Co-operation between the authorities and civil society organisation remains uneven.

Overall, almost no progress was made in this area. Civil society organisations remain weak.

The law on **freedom of religion** has been promulgated. It provides inter alia for the exemption of religious institutions from the tax obligations. Religious communities are also allowed to receive income from their property, activities and from charitable and voluntary contributions. The law proclaims non-discrimination on religious grounds and the absence of an official religion.

Some catholic and orthodox churches have been built or rebuilt. The government, with financial support of the EU, allocated a significant budget for the reconstruction of destroyed Orthodox monuments and churches.

However, the law does not establish formal dialogue between the religious communities. There was no follow-up to last year's inter-religious conference and no official meeting between the Serbian Orthodox Church and the Muslim community. Relations between the religious communities, in particular between the Muslim community and the Serbian Orthodox Church in Kosovo, continue to be strained. Acts of vandalism and attacks on religious monuments, including with mortars, remain a problem. Investigations have not been carried out professionally in all cases.

Overall, only limited progress was achieved in this field, apart from the legislative development. Religious freedom is not fully respected.

Economic and Social Rights

In the area of **women's rights**, the Agency for Gender Equality in the Prime Minister's Office implements and monitors the law on gender equality. 2007 was declared the Year of Affirmative Action for Women in Kosovo by the Prime Minister. In this framework an administrative instruction on measures to achieve gender equality in the public administration institutions during 2007 has been issued. In June 2007, the government of Kosovo established six working groups whose task it is to draft a programme for gender equality. Training measures under the convention on elimination of all forms of discrimination against women were carried out. Gender focal points were further strengthened at ministerial and municipal levels. 36 out of the 120 members of the Assembly of Kosovo are women. Only one of the 14 ministers is female.

However, the Head of the Agency for Gender Equality resigned in June 2007 due to the failure of the Prime Minister's Office to provide clear roles and competences, and has not yet been replaced. The administrative and professional skills of the agency's staff are very weak. The programme for gender equality and women's empowerment in Kosovo has still to be elaborated. The legitimacy of the agency is undermined by the unclear division of responsibilities between the agency and the office for good governance. The influence of municipal gender officers is limited due to their unclear mandate and limited resources. They report only to the Ministry of Public Services and not to the Agency for Gender Equality.

The legislation on domestic violence is not effective. It requires clear implementing rules. Poor knowledge of the legislation by judges and prosecutors is an additional obstacle.

The legislation on gender equality needs to be further adapted to the actual situation in Kosovo. The Agency for Gender Equality needs greater capacity, legitimacy and a clearer status. These institutional problems have an adverse impact on the situation of women in Kosovo, which is characterised by domestic violence and economic discrimination.

Overall, some progress was achieved in the area of gender equality, but implementation needs to be speeded up in this area. Awareness of women's rights in society is low.

In May 2007, the PISG established the Inter-ministerial Committee on **children's rights**, chaired by the Prime Minister. It is composed of line ministries, the Office of Good Governance, UNICEF and three representatives from the Forum on Children's Rights. A Committee on the Monitoring of Child Labour has been established and is composed of 12 ministries as well as NGOs. In June 2007 the municipalities of Pristina, Prizren and Mitrovica reached an agreement to monitor policies against child labour. The January 2007 Law on the Encouragement and Protection of Infant Breastfeeding encourages and protects breastfeeding and obliges health institutions to distribute information and to support nursing mothers. It includes a set of sanctions against employers breaching the law.

However, the budget allocated to protect children's rights is insufficient for the purpose. The infant mortality rate in Kosovo remains high. Protection mechanisms for children are inadequate. Further measures need to be taken to protect Kosovan children from violence, to enhance the inclusion of children with special needs and children from minority groups, particularly in education, and to protect them from child labour and child trafficking. Pre-school education is not compulsory, and is often of poor quality; enrolment is only 10%. Family and social services laws are not implemented and are in some cases contradictory, especially with regard to adoption and fostering.

Overall, no progress has been made regarding respect for children's rights and legislation to protect them. Respect for children's rights is not fully guaranteed.

In the area of **socially vulnerable and/or persons with disabilities** an inter-ministerial committee for the disabled was set up. It involves the participation of disabled people. The Office for good governance continued to promote the rights of persons with disabilities, most prominently through a debate in the Assembly of Kosovo. Kosovo participated in international fora supporting the ratification of the United Nations convention on the rights of persons with limited abilities, adopted by the UN Assembly in December 2006. Because of its status, Kosovo cannot sign the convention. In April, the government organised the Kosovo week on the rights of persons with disabilities to promote this convention. The size of mental health structures in Kosovo is appropriate to cope with the number of patients. The reform of

the sector has been going on since 2001, following the mental health strategic plan for Kosovo.

However, the situation of socially vulnerable persons, particularly of the Roma, Ashkali and Egyptian communities, disabled persons, returnees and internally displaced persons, remains a cause for concern. Health care is under-developed and lacks funding throughout Kosovo. Access to health care remains difficult, especially for vulnerable groups, such as minorities and the poor. Corruption is still commonplace and access to specialist care, especially in rural areas, is inadequate. The implementation of the mental health strategic plan is not complete and the budgetary and human resources requirements, be it qualitative or quantitative, are not adequate to make the new structures operational. The poor integration and weak coordination of the different structures within the Ministry of Health system result in the overloading of some structures and under-use of others. Community-based services are not sufficiently developed as an alternative to institutionalisation, and financial resources allocated to mental health care are scarce.

Overall, little progress has been made in this area. The integration and protection of socially vulnerable groups is not fully guaranteed.

Regarding **labour rights** and **trade unions**, the government adopted in 2004 a new labour code and in 2005 draft laws on strikes and on the right to organise unions, but so far the Assembly has failed to approve either of these laws. Apart from the Union of Independent Trade Unions of Kosovo, the only other organisation addressing the situation of employees across Kosovo is the recently-created Independent Confederation of Trade Unions.

A General Collective Agreement was signed in 2004 by the government, the trade unions and the Chamber of Commerce to regulate their legal, social and economic relationships and the rights and obligations between employers and employees. The budget for implementing the agreement is insufficient. The public administration cannot always ensure the adequate enforcement of existing labour legislation. Given the relatively large size of the informal economy, many workers are often neither aware of, nor in a position to enforce their rights at work.

Trade unions remain weak and labour rights are not generally respected.

The legal framework with regard to **anti-discrimination** incorporates important parts of the Community directives. In March 2007 the government decided to operationalise the human rights units within the ministries which are also charged with monitoring the implementation of the anti-discrimination legislation.

However, the establishment of human rights units in the ministries remains insufficient to ensure that all citizens can benefit from anti-discrimination policies in daily life. Awareness-raising activities do not generate concrete results. The administrative capacities of the main institutions responsible for implementing anti-discrimination legislation, -the office of good governance, the courts and the human rights units in ministries - remain weak. There is a need to promote more actively the rights of groups such as homosexuals to fight prejudice and verbal and physical violence.

Overall, the legal framework is nearly comparable to European standards, but little progress was achieved in implementing anti-discrimination legislation.

As regards **property rights**, the law on expropriation was approved in February 2007 but not promulgated, and the law on arbitration was approved in January 2007. In June 2007, the Kosovo Property Claims Commission was established. It is part of the Kosovo Property Agency. The Kosovo Property Agency (KPA) has so far received more than 28,300 claims, 90% of which relate to agricultural property. Some 288 evictions were carried out against occupants who refused to take part in a rental scheme enabling illegal occupants to legalise their situation. The process of transferring over 20,000 property-related claims from the courts to KPA has begun. In July 2007, the assembly approved the law on sale of apartments with tenure rights in its first reading. This draft law recognises the tenure right on socially-owned properties as defined in the former Yugoslavia as a possession right.

However, the draft law on sale of apartments ignores the decisions of the Housing Property Claims Commission. Its vague provisions create the risk of contradictory interpretations and subsequent injustices, in particular against Kosovo Serbs and Roma. Recent private property sales in a small number of municipalities have consolidated the segregation of ethnic communities. The implementation of the rental scheme is unsatisfactory. Of 4,628 properties managed by KPA, more than 2,550 were included in the rental scheme. Rental agreements for more than 647 properties have so far been signed, but few of the rents due are actually collected. The KPA faces difficulties in executing property-related decisions, especially in the case of evictions related to the illegal occupation of property. Some municipalities have refused to co-operate with the KPA.

There is still confusion about the type and scope of claims which are eligible for transfer to the KPA. No solution was found for the large number of non-adjudicated claims which may have to be returned to the courts after the KPA mandate expires at the end of 2008. Striking the right balance between justice and efficiency is the main challenge for the KPA. Widespread ignorance of building permits and urban planning systems also encroaches upon property rights. Expropriation procedures undertaken by municipalities in order to construct public infrastructure rarely comply with the official procedures, and municipalities often fail to inform and to compensate the property owner. A total of 10,405 cases of non-reconstruction of destroyed houses were registered and verified by the KPA.

Some 21,000 claims have been filed with the courts against UNMIK, KFOR and PISG for not protecting private property in cases of looting. These mainly relate to the March 2004 riots. Those claims are still pending.

Overall, little progress was achieved in this area.

Minority Rights, Cultural Rights and Protection of Minorities

In the area of **cultural rights**, the cultural heritage law was promulgated in November 2006; good progress is being made with the drafting of the implementing legislation. The work of the Reconstruction Implementation Commission, supported by the Serbian Orthodox Church and the ministry of culture, has had a positive impact on the reconstruction of the orthodox heritage across Kosovo. In December 2006, the Serbian and Kosovan Ministers of Culture met in Tirana to sign an agreement on the return of some archives to Kosovo. The Ministry of Culture launched an awareness campaign targeting students in elementary schools and focusing on the Kosovan heritage common to all communities.

The law on official languages was promulgated in October 2006. In February 2007 an administrative instruction from the government determining the composition and advisory

powers of the Language Commission and an administrative instruction covering administrative sanctions in cases of violation were adopted. The Assembly of Mitrovica has adopted the Turkish language for official use.

In May 2007, the Ministry for Education, Science and Technology adopted a strategy for pre-university education with inclusive and progressive measures for minorities in Kosovo. In March 2007, UNMIK re-accredited the public Serbian-speaking university of Mitrovica, allowing it to participate in the Bologna process.

However, the strategies for pre-university and higher education, particularly for minorities, were not budgeted for and minority communities continue to face restrictions of access to education, particularly as regards being taught in their mother tongue. The Ministry of Education and the Serbian-speaking university of Mitrovica are not communicating officially, and they have been unable to commit themselves as regards future relationships between the two public universities in Kosovo. Security incidents at cultural sites remain a cause for concern.

Overall, some progress was made in the field of protection and promotion of cultural heritage. Very little progress was made in the field of education.

Government leaders have made a number of efforts to reach out to **minority** communities. Minority communities show increasing confidence in the institution of the ombudsperson. Some 25% of the requests received by this institution come from representatives of minority communities. Most of them relate to property issues, reconstruction of houses and discrimination in the professional field. The institution of the ombudsperson facilitated the confirmation and enforcement of rights in more than one third of these cases.

In July 2007, the ministry of education adopted a strategy for the education of the Roma, Ashkali and Egyptians. This is in accordance with the tripartite memorandum of understanding signed by the Prime Minister, the OSCE Mission in Kosovo and Kosovo Foundation for an Open Society for the development of a Kosovo Strategy for the Integration of Roma, Ashkali and Egyptians. This memorandum is in line with the objectives of the Roma Decade.

However, especially the Kosovo Serb community, still see their freedom of movement being restricted for security concerns. Returnees' houses are still the targets of violent attacks. There is still no comprehensive integration strategy for the Roma, Ashkali and Egyptian peoples. Kosovo is not participating in the 2005-2015 Decade of Roma Inclusion. Contacts between municipal officials and some minority settlements across Kosovo need to improve.

Radio Television Kosovo (RTK) minority programmes still amount to less than the 15% of broadcasting required by law. So far, the relevant financial resources have not been disbursed by the minority media fund.

Overall, the rights of minorities in Kosovo are guaranteed by law, but communities still see their freedom of movement restricted in practice because of security concerns. The living conditions offered to some minority communities have not improved.

There are more than 250,000 **refugees and internally displaced persons** who are expected to return to their homes in Kosovo. Municipal community safety councils, local public safety councils, as well as communities and mediation committees, have been established in all

municipalities. A strategy for the repatriation of asylum seekers rejected by western European countries was adopted in May 2007.

However, very few people returned voluntarily to Kosovo. As there is no status settlement for Kosovo, many refugees and internally displaced persons are reluctant to return there. The human resources of the Ministry for Return and Communities and its overall capacity and budget are insufficient to proceed with the implementation of documented return projects. The ministry's mandate requires clarification, as the municipal teams dealing with return are reporting only to the ministry of local government administration. The municipal teams are not properly equipped to implement the return policies. Kosovo has no database to implement and monitor the return process. No official relations exist between with the ministry for return and the Belgrade-supported Co-ordination Centre for Kosovo, thus hampering the return process.

Internally-displaced persons from all communities face housing problems due to insufficient budgetary allocations. They also encounter problems in being registered in the civil records. Regarding returns policy, the structures set out in the revised manual of sustainable returns are not operational, making it difficult to carry out orientation and information visits. Kosovo still lacks both a reintegration strategy and a budget to deal with the asylum seekers rejected by western European countries.

Overall, almost no progress was made. The return process remains a major challenge ahead, politically, institutionally and also financially.

The Government showed its commitment to addressing the inadequate living conditions in illegal **Roma** settlements. In December 2006, the law on the treatment of illegal construction was approved in principle by the Assembly at first reading. In March 2007, amendments to the law on land use planning, providing the legal basis to regulate informal dwellings, went through its first reading in the Assembly. 65 Roma families were reintegrated successfully in the Rasadnik quarter in Mitrovica, the so-called Roma Mahalla. The camp in North Mitrovica, which was contaminated with lead, was closed and the population relocated.

However, the Roma, Ashkali and Egyptian communities are still largely underprivileged and subject to de facto discrimination. Measures aimed at completing the pending civil registration of the Roma, Ashkali and Egyptians within six months have not been implemented. Many illegal settlements still exist, which makes for unhealthy living conditions. People living in the Plementina camp or being relocated from the lead-contaminated camp in North Mitrovica, in particular, still have to endure very poor health conditions. The first phase of reconstruction of the Roma Mahalla prompted several negative reactions by Roma, Askhali and Egyptian communities from abroad.

School attendance by Roma, Ashkali and Egyptian children is poor at all levels of education, with less than 10% of all Roma children attending primary school. The strategy for the Roma, Ashkali and Egyptians has not been finalised, and people in these communities living abroad were not involved in its drafting. The level of employment of the Roma, Askhali and Egyptian communities is still much lower than the average. These communities are also employed more frequently than other communities in the informal economy.

Overall, there has been little progress in improving the situation of the Roma, Ashkali and Egyptian communities which continue to face very difficult living conditions and

discrimination, especially in the areas of education, social protection, health care, housing and employment.

2.3. Regional issues and international obligations

The PISG has given continuing support to UNMIK in co-operating with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. In February 2007, former Prime Minister Ramush Haradinaj left to stand trial for war crimes in The Hague, calling on the public to stay calm. However, one key witness in the Haradinaj trial died and other witnesses have been intimidated. Protection of witnesses needs to be enhanced.

Overall, some progress has been achieved in co-operating with the ICTY. There is no legislative framework for freezing of assets of those indicted by ICTY. Domestic war crimes trials are handled exclusively by international judges and prosecutors. Eight war crimes trials are underway and 48 other cases are under investigation. However, there is a backlog of several hundred cases. These are being hampered by the unwillingness of the local population to testify. Adequate witness protection measures are still lacking.

Kosovo continues to participate actively and successfully in several regional co-operation initiatives under UNSCR 1244. In December 2006, UNMIK signed the amended Central European Free Trade Area Agreement (CEFTA) on behalf of Kosovo. The agreement was subsequently ratified by the Kosovo Assembly. Working groups were set up to ensure full implementation of the agreement. Kosovo also participates in the Non-Tariff Barrier Removal Initiative under the auspices of the Stability Pact. This initiative will be integrated into the CEFTA.

In November 2006, a joint UNMIK-PISG delegation participated in the launching of the first South-East Europe Investment Reform Index organised by the Investment Compact – a programme of the Stability Pact and the Organization for Economic Co-operation and Development (OECD) designed to improve the investment climate and encourage private sector development in the region.

Kosovo is involved in the work of the Stability Pact and the process of its transition to a more regionally owned co-operation framework. The SRSG and the Prime Minister attended the summit of the South-East European Co-operation Process (SEECP) in Zagreb in May 2007.

Kosovo is participating in the South East Europe Transport Observatory (SEETO).

Kosovo continues to implement the provisions arising from the Energy Community Treaty and the European Common Aviation Area (ECAA) Agreement, both signed in 2006.

Kosovo attends meetings of the EU Charter for Small Enterprises and hosted the regional meeting in October 2006.

Overall, Kosovo participates actively and constructively, where possible, in **regional co-operation** initiatives.

Concerning **bilateral relations with other enlargement countries and neighbouring member states**, the Central Bank Authority signed an operational memorandum of understanding in December 2006 with the Insurance Supervision Agency of *Slovenia* in order to enhance co-operation in the field of insurance and pension insurance supervision. In February 2007, Kosovo and *Albania* signed a memorandum of understanding in the field of

standardisation and accreditation. This enables the Kosovo Standardisation Agency to access the European Union technical standards developed by the European Committee for Standardisation (CEN). The Kosovo Central Bank Authority signed a memorandum of understanding with the Albanian insurance bureau on mutual recognition of domestic insurance policies for third party liability for vehicles with Albanian or Kosovan licence plates.

The border with *the former Yugoslav Republic of Macedonia* has not yet been definitively demarcated.

3. ECONOMIC CRITERIA

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

3.1. The existence of a functioning market economy

Economic policy essentials

The special political situation in Kosovo, combined with the division of responsibilities between the Provisional Institutions of Self-Government (PISG) and the United Nations Interim Administration Mission in Kosovo (UNMIK), have an effect on economic policy. The uncertainty over the future political status of Kosovo affects every area of economic policy.

Some progress has been made towards creating an enabling environment for a successful transition to a functioning market economy. The 2006 budget, like the current one, remained on track, as the government remained committed to keeping fiscal policies on a sustainable path. Kosovo has adopted a mid-term expenditure framework 2008-2010 which quantifies its spending needs and defines policy choices and investments in a number of key sectors. However, the prioritisation of key expenditure has not taken place in an orderly way. The difficulties with securing an overall political consensus in order to respect policy commitments were partly due to lack of co-ordination within the government, in particular between the Ministry of Finance and Economy and line ministries during both the strategy definition and implementation phases. Furthermore, an understanding with the IMF on a Memorandum on Economic and Financial Policies was delayed as the government made no progress on prior action requested by the Fund. Overall, the economy and economic policies are affected by the uncertainty over the future status of Kosovo. Within this context, the policies in place were broadly sound and market-oriented. Even so, economic policy co-ordination remained weak.

Macroeconomic stability

Real output grew by an estimated 3.8% in 2006 after an increase by 0.6% in 2005³. The decrease in foreign assistance was compensated by growth in other sectors. Consumption by private households increased by almost 5% in nominal terms, whereas nominal output, as measured by GDP, grew by only around 2%. Public consumption showed a differentiated

³ National accounts aggregates (GDP and its subcomponents) are based on June 2007 IMF estimates.

picture, as government wages grew in line with private household consumption, whereas growth of public consumption of goods and services was flat. Donors' consumption decreased across all categories (wages of expatriates, wages of locally employed persons, consumption of goods and services). General government investment expenditure fell by more than one third as only 70% of budgeted investment spending was actually spent. Donor-financed investment shrank by 15% and, as a consequence, its share in total investment fell to 11% in 2006, down from 14% in 2005. Private investment continued to grow at a brisk pace – by 32% in 2006, up from 24% in 2005. Within this category, private housing investment grew at 9.4% after 8.8% in 2005, whereas private non-housing investments increased sharply, by 60% in 2006 after 50% in 2005. Thus, for the first time, private non-housing investment overtook housing investment in relative terms, growing to 12.6% of GDP in 2006 with overall investment (both private and public) standing at 31.3% of GDP in 2006, up from 29.1% in 2005. Overall, there has been a resumption of growth, albeit moderate.

After 3.7% in 2005, imports of goods and services increased by 10.4%. Within private-sector imports, final consumption goods grew at a rate of 12.9%, whereas imports of investment goods were up 36.5% in 2006. The trade deficit (goods only) widened further to 53% of GDP in 2006 from 48% in 2005 and the trend continued during the first half of 2007. The ratio of exported to imported goods increased but remained very low at 8.5% in 2006, reflecting the lack of export capacity and competitiveness, two major weaknesses of the Kosovo economy. The current account deficit – not taking into account foreign assistance – remained roughly stable at around 19% of GDP in 2006 after 18.5% in 2005. The level of foreign assistance decreased from 21% of GDP in 2005 to 18% in 2006 and private capital transfers were substantial (around 20% of GDP in 2006). Foreign direct investment (FDI) inflows, on the back of accelerated privatisation activity, rose to around 10% of GDP in 2006 after only 3.5% in 2005⁴. Overall, the external accounts of Kosovo remained precarious.

At the end of 2006, the number of registered unemployed persons has increased by 2.4% compared to 2005, and rose further in 2007. 47% of the unemployed persons are women. The poor availability of official employment data makes it difficult to analyse labour market developments. The lack of economic and social statistics is a general feature of the Kosovo economy. According to the labour force survey, unemployment stood at 44.9% of the active labour force in 2006. However, a large number of registered unemployed may be active in the informal economy. Overall, registered unemployment remains high and has been growing steadily. However, partly due to the estimated size of the grey economy, registered unemployment does not yet systematically reflect the dynamics of the economy.

Consumer price inflation in 2006 was, at 0.6%, slightly positive, after two years of falling prices. From January to August 2007, the average annual inflation stood at 1.9%, due to a sharp acceleration in food prices in August. In general, inflation was driven by world price trends whereas in the case of domestically produced goods and services inflation growth tended to be negative.

The 2006 budget outcome recorded a surplus of 3.6% of GDP, instead of a budgeted deficit of 2.0%. This surplus was due, on the one hand, to revenue growth higher than planned, mainly due to more efficient tax collection, and, on the other, to a capital expenditure execution rate

⁴ The bulk of foreign direct investment inflows finances privatisation. Privatisation proceeds are currently deposited in an escrow account and invested in securities abroad and do not yet finance real activity in the Kosovo economy (such as investment or consumption).

of only 70%, reflecting limited administrative, public procurement and project management capacity. With current spending under control and partly due to extraordinary revenues, the budget recorded a surplus of 8.6% of GDP at the end of September 2007. The share of government expenditure decreased from 31.1% of GDP in 2005 to 29.2% in 2006. By functional classification, economic affairs accounted for 24% of public expenditure (29% in this category were subsidies, mainly to publicly owned enterprises (POEs), and 59% were capital outlays), social protection 21%, education 18%, public order and safety 12% (wages in that category made up one fifth of all public wages), general public services 11% and health 10%. Overall, the fiscal stance remained more restrictive than initially planned, but highly volatile, with expenditure below the budget limits set and revenue performance better than anticipated. Due to its current political status, Kosovo cannot take on any public external debt.

In the absence of monetary policy, given that Kosovo uses the euro as legal tender, the budget is the only viable tool for macroeconomic policy in Kosovo. Due to the unintended strong fiscal consolidation, the overall policy mix was inadequate.

Interplay of market forces

In 2006, private-sector consumption accounted for 74% of total consumption. The share of private investment increased from 62% of total investment in 2005 to 75% and the share of private imports increased from 74.2% in 2005 to 80.2%. Substantial progress was made with the privatisation of formerly socially owned enterprises (SOEs). However, some big SOEs, along with SOEs in Serbian enclaves, still remain to be privatised. In July 2007, the Kosovo Trust Agency (KTA) decided to launch the 28th wave of privatisation, comprising mainly shops and agricultural lands. As of 30 June 2007, € 315 million from privatisation had been paid into escrow accounts, of which more than € 60 million were scheduled for distribution to former SOE workers⁵. A large proportion of these funds currently remains blocked, pending the adjudication of claims. The government started the incorporation of seven regional water companies in December 2006 and the incorporation of the irrigation and waste enterprises in March 2007. Serbia, however, continued to oppose the ongoing privatisation process led by UNMIK, arguing that it infringes property rights, and Serbian citizens filed numerous complaints on this issue. Overall, the ongoing expansion of the private sector reflected the acceleration of the privatisation process in 2006.

Market entry and exit

The number of registered businesses in Kosovo rose by 13% in 2006 to more than 57,000. Information on barriers to market entry and exit has become more detailed and more reliable. More than 50% of enterprises stated that obtaining a business licence or permit, together with compliance with customs regulations, posed a problem when it came to doing business. Uncertainty about regulatory policies and the cost of and access to financing also create problems. More than 80% of new investments were financed from own resources. The main reported reason for not having recourse to formal borrowing was that interest rates were too high. 70% of businesses perceived tax rates as too high and every second business perceived labour regulations as too restrictive. Market exit remained a lengthy process: the KTA board has so far approved 84 liquidations of former SOEs. The Ministry of Finance and Economy

⁵ 20% of privatisation receipts are scheduled to be paid out to former SOE workers. € 12 million have been paid out so far to the Independent Union of Trade Unions of Kosovo which disburses the funds to the workers.

sent a draft law on bankruptcy and liquidation to the government on 5 October 2006, since when it has been awaiting final approval and promulgation. Overall, limited access to finance, red tape and legal uncertainty (among others, about property ownership) continue to weigh negatively on market entry. Now that comprehensive surveys on the situation of small and medium-sized enterprises (SMEs) have become available, it turns out that the optimistic results of an earlier study on the business environment from the perspective of a large foreign investor do not carry over to the situation of SMEs doing business in Kosovo.

Legal system

Use of the courts to resolve property issues remains underdeveloped. Corruption and uncertainty over property rights remain a major impediment to economic activity, due partly to Kosovo's final political status being unresolved and partly to disputed land registries or missing business cadastres. In general, the deficient rule of law is hampering business development.

Financial Sector development

The level of financial intermediation increased further, even though from a low basis, as bank loans to the private sector rose to 26.1% of GDP by the end of 2006. Credit growth remained between 20% and 25% year on year. Almost all of this was due to increased lending activity during 2006 by the two large foreign-owned banks operating in Kosovo. 77.1% of outstanding loans were to non-financial corporations, the vast majority of which are SMEs. In 2007, a Slovenian bank bought majority shares in two major Kosovo banks: 51.4% of KASABANK and 75% of Banka e Re e Kosoves (BRK). Also, the National Commercial Bank of Albania has received a (preliminary) licence allowing it to operate in Kosovo. After this consolidation, the five largest banks hold 98% of the total assets of domestic credit institutions, with the three large foreign-owned banks alone controlling 91%. Overall, the financial sector has further expanded and consolidated in a context of increased foreign ownership.

The interest rate spread remained very high at 10.4% as, at the end of 2006, on average 3% were paid on deposits and 13.4% on loans. More than half of the spread is related to operating costs, whereas the rest reflects risk premiums due to uncertain property rights. The loan-to-deposit ratio stood at 68.7% at the end of 2006. Non-performing loans stood at 4.1% of total loans by the end of 2006. Consequently, neither of these prudential indicators in the banking sector pointed to any major systemic risk. Nor did the withdrawal of a banking licence in 2006 trigger any negative repercussions. Overall, the systemic risk in the banking sector appears to be low, but financial intermediation continues to suffer from high interest rate spreads, costly collateral registration, deficient cadastral procedures and weak credit information procedures.

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

Existence of a functioning market economy

In general, Kosovo has developed an appropriate legislative and institutional framework for a functioning market economy. However, implementation and enforcement of this framework remain weak. Kosovo has achieved a certain degree of macroeconomic stability, as fiscal accounts have shown a better than expected turnout and inflation has remained low. The estimated economic growth of close to 4% of real GDP in 2006 was entirely due to the private

sector's resilience in an environment of negative government expenditure growth and further declining donor support. Overall, status-related uncertainties, fiscal risks and external imbalances continue to weigh negatively on the predictability of the business climate and the reliability of market allocation mechanisms.

Human and physical capital

Around one fifth of the population were enrolled in education, of whom 78% in pre-school and primary education, 16% in secondary education and 6% in tertiary education. School enrolment in Kosovo remains low, with under 90% of the age cohort in the final year of compulsory (lower secondary) education. Under 55% were still enrolled at the 12th grade of upper secondary education (necessary for qualified workers or university entrance). Schools continue to operate on multiple shifts (up to four) due to lack of classrooms. The government has continued to invest, with donor assistance, in training and requalification with a focus on young persons, minorities, women and persons with disabilities. Overall, progress has been made with enhancing education. However, the physical condition of school infrastructure remains poor, as schools lack appropriate buildings, didactic material and equipment. In addition, low training capacity is continuing to slow down development of a proper education system needed for enhancing human capital.

Mobile phone penetration has increased rapidly. In March 2007, the telecom regulatory authority awarded the second mobile phone operating licence to a consortium formed by Ipko-Net and Telecom Slovenije/Mobitel. Pristina International Airport received a € 13.5 million loan that will be used for the upgrade of the airport's infrastructure necessary to obtain a licence for 24-hour operation. Little progress has been made on road, railway and high-speed telecommunications infrastructure. The poor transport infrastructure hinders expansion of private-sector activity, and SMEs suffer from limited access to online services. The lack of both transport and internet infrastructure hamper access by Kosovo businesses to the EU market and limit the benefits from regional trade integration. The technology base of the economy remained extremely weak. Overall, the weak technology base (combined with a lack of price competitiveness) and the low endowment with qualified human capital remain major impediments to Kosovo's capacity to cope with competitive pressure and market forces.

Sector and enterprise structure

The authorities took preparatory steps towards future liberalisation of the network and electricity-producing industries and continued the unbundling of electricity generation and distribution. KOSTT, a separate company operating the energy transmission system and network and energy trade, has been set up. Different regulatory authorities have been established for civil aviation, energy, mines and minerals, telecommunications, frequency management, water and waste. By the end of 2006, the mines and minerals regulator had issued 72 licences (15 for exploration and 57 for mining) and started to promote the potential in the sector in order to attract FDI. The enterprise structure remains dominated by micro-enterprises (98% of all enterprises) employing no more than nine persons but accounting for 56.1% of overall employment. There were only 36 large enterprises (with 250 employees or more). This category includes POEs and large SOEs and its share of overall employment was 28.4%. Almost half (47.8%) of all businesses were in retail and wholesale, followed by food processing (9.3%), construction and other social personal services (both 5.3%). The informal economy remains sizeable, affecting the competitiveness of the economy. Agriculture continues to suffer from unresolved property rights issues and poor levels of capital investment. As a consequence, Kosovo was unable to harness its potential for import

substitution in the case of unprocessed and processed foodstuffs, thereby failing to use a powerful mechanism for reducing its external deficit. Overall, there has been little change in the sectoral structure of the economy.

Government influence on competitiveness

Public subsidies and transfers other than pensions and social assistance decreased from 4.3% of GDP in 2005 to 2.9% in 2006. One major item in this category of spending were subsidies to POEs (3.6% of GDP in 2005) of which KEK, the incumbent electricity company, continued to be the main beneficiary (2.5% of GDP), with TREPICA mines second (0.5%). In 2006, more than half of Kosovo's businesses claimed to suffer from anti-competitive practices. Political interference in the selection of members of the board and senior management of POEs remains pronounced. The government further intervened by refusing a raise in electricity prices proposed by the electricity regulator, encouraging households not to pay bills if the regulator did not revert to the old pricing scheme. Overall, government intervention has not been severely hampering private-sector competitiveness. However, due to a lack of ambition in the area of privatisation, poor POE corporate governance and government interference with the regulation of public utilities, the government has not been able to fully implement its policies in order to reap potential competitiveness gains.

Economic integration with the EU

The openness of the economy, as measured by the value of imports plus exports in goods and services as a percentage of GDP, increased to 77.9% in 2006, up from 71.4% in 2005. Base metals and base metal products continued to account for almost half of goods exports in 2006 and the first half of 2007. On the back of the strong investment activity, imports of machinery increased strongly in 2006, shifting the structure of imports from final consumption goods to investment goods. However, this trend did not continue into the first half of 2007.

The EU is the main trading partner of Kosovo. The share of exports bound for the EU decreased from 38% in 2005 to 34% in 2006. The EU's share of total imports showed an almost identical trend, decreasing from 38% in 2005 to 34% in 2006. Trade integration with neighbouring countries increased, as exports to the Balkan region as a whole rose by 58% (and imports by 2.5%) in 2006. The consumer price index based real effective exchange rate continued to depreciate, but at a more modest pace of 3.9% compared with 5% in 2005. Overall, the trade deficit remained considerable and the export base extremely weak.

According to IMF estimates, GDP per capita stands at roughly € 1,100 which corresponds to just 5% of the EU-27 average.

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.

4.1. Internal market

4.1.1. Free movement of goods

Some progress has been achieved regarding **standardisation**. The Kosovo Standardisation Agency (KSA) has increased its staff (from 4 to 5 employees). In the absence of status, the KSA cannot become a member of European and international standardisation organisations. In view of this, Kosovo has signed a memorandum of understanding with the Ministry for Economy, Trade and Energy of Albania which will enable the KSA to adopt and distribute technical standards. To date, 171 European standards (ENs) have been adopted as Kosovo standards. Four technical committees have been established in the fields of construction products, liquid fuels, quality management systems, and transport and telecommunications.

Accreditation is not mandatory for designating **conformity assessment** bodies. Twelve testing laboratories are in the process of accreditation, but at present no conformity assessment bodies have been either accredited or designated in Kosovo.

The Law on metrology provides for a metrology department as an executive agency within the Ministry of trade and industry. Implementation of the law has begun with the adoption of the necessary implementing legislation, and a first private laboratory was licensed for the preparation of measuring units for verification in December 2006. Preparations are underway to build a central calibration and verification laboratory of metrology within the Ministry of trade and industry.

As regards **market surveillance** activities, the Central Trade Inspectorate (CTI) was established as an executive agency based on the law on market inspectorate.

As regards sector specific product legislation, only the *acquis* on construction products and low voltage equipment has been transposed so far into Kosovo legislation.

However, the KSA is understaffed and is not yet fully operational. At the Central Trade Inspectorate (CTI) so far only the trade inspectorate is fully operational. The CTI's human and financial resources are not adequate to ensure proper coordination of the activities of the different market surveillance authorities, and the CTI has a staff of only seven persons. Considerable efforts are required to develop this infrastructure further and to increase its administrative capacity to implement and enforce the legislation. Furthermore, the conformity of legislation (including sector-specific product legislation) with European standards needs to be verified.

Market surveillance is at a preliminary stage and much work lies ahead in order to create a market surveillance system required by the *acquis* on free movement of goods.

No particular progress can be reported on **consumer protection**.

Overall, there has been some progress in establishing the necessary horizontal infrastructure needed for the *acquis* on free movement of goods. Considerable efforts are still needed to develop this infrastructure further and to upgrade administrative capacity to be able to transpose and implement the *acquis* properly. A common problem to all the authorities and institutions in Kosovo involved in the adoption and implementation of the *acquis* in the field of free movement of goods is insufficient human capacity and financial resources.

4.1.2. Movement of persons, services and right of establishment

In the area of **free movement of services**, supervisory rules on pensions have been reviewed, amended and issued in order to implement the Regulation on pensions. The legal framework for the freedom to provide services and the right of establishment is still very fragmentary.

Overall, little progress can be reported in this area.

4.1.3. Free movement of capital

In February 2007, the Central Banking Authority of Kosovo (CBAK) adopted a banking regulation on the licensing of foreign banks and restrictions on their branches. However, transfer of the Serbian dinar to Serb areas needs to be more transparent. In northern Kosovo, payments are still made mostly in Serbian dinars rather than in Euro. UNMIK Customs still plays an important role in controlling the movement of the Serbian dinar.

Overall, very little progress can be reported in this area.

4.1.4. Customs and taxation

The Kosovo Customs Code, which has been in force since March 2004, is broadly compatible with EU legislation. New provisions came into force, such as trade restrictions on weapons and products covered by the Convention on International Trade in Endangered Species (CITES), a new regime of administrative penalties and a Code of Ethics (63 disciplinary procedures have been initiated or are ongoing and a Standards Professional Unit supervises the application of the Code's provisions).

UNMIK Customs Service has increased its capacity by the recruitment of new staff, training and the installation of a security camera system. A customs compliance unit, which includes a number of international officers, is working in the north. The Anti-Smuggling Department, comprising 47 customs officers, is also operational.

The closed-circuit TV System of the Customs Service has been operational since March 2007. This system provides direct connection and allows monitoring of all border points. There is a special telephone line for all citizens, businesses and other relevant institutions to use in order to report possible cases of corruption, smuggling or other information in relation to abuses in customs.

In February 2007, the customs service joined the Kos-giro payment scheme, which allows the standardisation and automation of the process of issuing, effecting and reconciling of tax payment orders administered by the UNMIK Customs Service.

UNMIK Customs Service is collecting more revenue than planned, and currently almost 75% of all tax revenue is collected at the borders. The Integrated Tariff Management System allows traders to make 90% of their declarations electronically on the basis of the Integrated Tariff (TARIK) information, which is timely and fully adapted to the most recent Combined Nomenclature. The explanatory notes to the harmonised system are available only in English.

The Strategic Action Plan of the Tax Administration of Kosovo (TAK) is well on track and the strategy 2007-2010 was adopted in February 2007. However, the elaboration of the Management Information System has been deferred to 2008 owing to a lack of key IT skills. TAK is continuing its modernisation efforts.

The performance of TAK remains weak. Collection of domestic taxes accounts for only 25% of the total tax revenues, with the rest being collected at the border. Further, the trend is negative, as TAK collected 10.4% less tax in the first half of 2007 than in the first six months of the previous year.

Domestic collection of VAT is inefficient and there is a certain reliance on business to report their sales. VAT is paid only by corporations with an annual turnover above €50,000 or with own assets of at least € 50,000. Under the existing regulation, companies may stay below these thresholds in order to avoid tax. In order to enhance its collection and enforcement capacity, Kosovo should create the necessary conditions to ensure registration of businesses and increase taxpayers' compliance.

Overall, good progress can be reported in the field of customs, whereas there is little progress in the field of taxation.

4.1.5. *Competition*

The Competition Commission is not yet operational. Whilst the assembly is examining candidates for the Competition Commission, the method of appointing the members of the Commission could lead to its politicisation. Kosovo needs to finalise the establishment of the Competition Commission, including earmarking the necessary resources for the Commission to function. A law on State Aid (which would establish a State Aid office within the Ministry of Economy and Finance) has not yet been adopted.

There has been little progress in the area of competition policy.

4.1.6. *Public procurement*

In June 2007, a law amending the 2004 public procurement law (PPL) was promulgated. The amended PPL aims to improve compliance of procurement activities with EU requirements and with internationally recognised best standards and practices, by introducing *inter alia* a number of new definitions. It also changes the institutional structures for public procurement requirements, amending rules for appointing procurement officers (including their training), and framework agreements, as well as providing for new rules on the Public Procurement Regulatory Commission (PPRC), the Public Procurement Review Board (PPRB), and the Public Procurement Agency (PPA). The amended PPL removes the requirement of prior approval for the restricted procedure, which will be much easier to use in practice as a result.

The PPA currently has 13 employees. Its main function is central purchasing, although it also performs some technical and regulatory functions in cases where procurement procedures are conducted directly by contracting authorities. It has developed a database that monitors procurement data from budget organisations. This tool will contribute significantly to the effectiveness of statistics and management.

The PPRC is an agency responsible for the overall development, monitoring and review of the system. It consists of five members nominated by the government and appointed by parliament for five years. At least three members should possess the same qualifications as those required for judges. The PPRC has 18 support staff.

The new Procurement Review Body (PRB) established pursuant to the amended PPL will be a quasi-judicial body competent to review administrative decisions issued by central procurement institutions (PPA and PPRC) with regard to the conduct of procurement

procedures, and to review appeals from tenderers under the review procedure. Members of the PRB will be nominated by the government and appointed by parliament for a five-year term. They can be removed under the same conditions and according to the same procedure as for the removal of judges.

However, the passage of the law amending the PPL through the Kosovo Assembly has suffered significant delays, and the final version is not in line with European standards. The PRB (responsible for managing complaints) is a department under the PPRC and is therefore not an independent body. Moreover, there are concerns about the method of appointing the members of the boards of all these administrations which leads to their politicisation. These bodies are understaffed and are therefore unable to deal with complaints in a timely manner. The public procurement institutional framework needs to ensure the necessary administrative capacity and independence. This is all the more necessary given that the public procurement system was a contributory factor in the significant under-spending in terms of capital investment in 2006.

Overall, some progress can be reported in the field of public procurement. Preparations for alignment with the European standards in this field are starting.

4.1.7. Intellectual property law

As far as industrial property rights are concerned, in February 2007, the assembly approved the law amending and supplementing the law on patents. Under this new law, an independent Office of Industrial Property (OIP) is established under the Ministry of Trade and Industry (MTI) to implement the law on patents, the law on trademarks, and the law on industrial design. In September, four Administrative Instructions were adopted on the registration of patents, industrial designs and trademarks, as well as on other aspects of industrial property rights.

However, blatant and massive infringements of intellectual property rights are taking place and the administrative capacity to implement intellectual property rights is insufficient. Although it was officially opened in June 2007, the OIP is not yet fully operational, and the administrative capacities at the MTI in this area are weak. Further implementing legislation is required.

Overall, little progress can be reported in the area of intellectual property law.

4.1.8. Employment and social policies

The number of new jobseekers recorded a significant decrease of 17% at the end of 2006. The government approved the Youth **Employment** Action Plan in October 2006 to employ the 200,000 young persons expected to be arriving on the market in the next five years. The PISG have also approached numerous European countries for access to labour markets for seasonal workers.

However, Kosovo has no comprehensive employment strategy. The unemployment rate of 44.9% is the highest in the Western Balkans. The rates for vulnerable groups are significantly higher than the average. The unemployment rates for women and young people rose in 2006 by 2.4% in comparison to 2005, and the trend is similar for 2007.

In addition the unemployment rates for young persons and minority members are rising faster than the average, at 10.4% and 4% respectively (for Kosovo Serbs the rate is 6.3%). Labour

demand remains low and labour supply does not correspond to the characteristics of the market. Official data on informal employment are not available, which makes this difficult to combat. The current status of Kosovo complicates legal provisions to finalise trans-national agreements on seasonal work. There is also a lack of capacity within the PISG to develop proposals for technical discussion. The Labour Inspectorate still lacks adequate capacity to monitor the implementation of essential labour legislation. The service sector is the main provider of employment, in particular for young people.

In the area of **social policies**, the Assembly adopted the law on health insurance and the law on public health care in February 2007. The commission on citizens' complaints within the Ministry of Health is operational; submitted complaints are dealt with, and the parties are received. The ministry's mechanism to license private health institutions is functioning; over 650 requests were filed, and more than 100 of them were approved. Rejected applicants can appeal.

However, the law on health insurance and the law on public health care have not yet been promulgated due to their budgetary implications. As a consequence, there is no secondary legislation in existence. The health sector is particularly affected by the parallel structures being financed by the Serbian government; this leads to inequality of health care.

Health indicators are a matter of concern. The infant mortality rate, the mortality rate at age 5 and the maternal mortality rate are above the corresponding indicators across the Western Balkans. Life expectancy at birth, which is 69 years, is below the average for the region. The health information system is slowly being introduced in public health institutions; it is not fully in place and would require additional efforts to provide for integrated management of the health institutions and personnel. The efficiency of the use of hospital capacities needs to be further enhanced. The health inspectorate law is poorly implemented and the health Sanitary Inspectorate is not performing its duties satisfactorily.

The social security system shows a lack of coordination among ministries, which prevents them from complying with budgetary requirements. The present social security scheme allows the budget to cover only about one third of the actual per capita expenditures. It does not provide for the pooling of resources from the source (salary) and prevents the existence of a private insurance scheme. People are often not adequately informed of their rights and of how to take advantage of them. This is largely due to the institutional set-up, which is complex and not user-friendly. More efforts need to be undertaken to finalise the introduction of a functional integrated information network to cover all interlinked institutions.

In the field of social services, there are major challenges in the development of service provision linked to the gradual decentralisation of competencies to municipalities. The municipalities lack an understanding of their role, their responsibilities and the mechanisms they can use to deliver services. In addition, there is a shortage of qualified staff in municipal and social services; training is necessary not only for administrative personnel, but also for judges and prosecutors who are often unfamiliar with the most recent legislation in this specific field.

The pension system is financially unsustainable, as the unemployment rate is high and informal employment is very common. There is a need for a legal framework linking with the previous Yugoslav pension system to which the Kosovo population contributed.

The social assistance legislation cannot be fully implemented due to lack of funds. Major challenges remain, including the gradual decentralisation of competencies and the enhancement of the municipal capacities, the fight against fraud, and the promotion of labour in coordination with the vocational education sector, taking into account the structure of the labour market. The SRSG made the entry into force of the law which defines the status and the rights of the families of veterans and of the families of civilian victims of war contingent on the availability of financial resources in the Consolidated Budget. Even though the law is not yet in force, the Government has partially implemented the law and already made some payments.

Overall, no particular progress can be reported in the field of social policies. There is little progress to report in the field of employment policies, which require more attention from the government.

4.1.9. Education and research

The Pre-university Strategy 2007-2013 was adopted by the government in May 2007. The basis and budget for this strategy, as with the other **education** strategies, are laid down in the development and strategy plan 2007-2009 and the medium-term expenditure framework. The law on a national qualification framework was adopted by the assembly in July 2007. The ministry and civil society are participating in a working group to facilitate the development of a national framework to monitor and evaluate teaching. The introduction of an integrated education management information system is ongoing; 16 municipalities are already equipped with the appropriate software. In early 2007, the Ministry of education, science and technology supported the re-accreditation of the Serbian-speaking university of Mitrovica.

Ministry representatives, with the support of members of civil society, organised and participated in Bologna process fora in Kosovo and in Strasbourg in November 2006, in London in May, and in Brussels in June 2007. The ministry set up a team to promote the Bologna process which was composed partly of ministry officials and chaired by a civil society activist.

In May 2007, Kosovo signed the memorandum of understanding between the ministers responsible for education, science and research in south-eastern Europe under the aegis of the Stability Pact enhancing the cooperation provisions of the 2003 memorandum of understanding. Regarding vocational education and training, five administrative instructions and two decisions were issued to further implement the law on education and professional development. Some research activities have taken place in Kosovo. The government started the process of recruiting members of the national science council, as provided for in the law on research.

However, in sharp contrast to the EU's life long-learning objectives, the situation in the Kosovan education sector remains critical. The budget for education needs to be significantly increased in order to cope with the large numbers of young people, the parallel education systems and the poor quality of teaching across Kosovo. The costs of the strategies have been measured, but no funds have been allocated for their implementation.

Schools still have two or more teaching shifts, which thwarts any attempt to develop a quality education system. The municipalities have neither adequate budgets nor qualified staff to deal with the education activities devolved to their level. Coordination between central, regional and municipal levels is inefficient. The education and training system is still very narrow and

there is a serious shortage of mechanisms and institutions for accreditation, setting standards of achievement, and for overall quality assurance in the education sector. There is no proper co-ordination of donors in the education sector. There is no law on private education and training.

The minorities lack the teachers, books and teaching materials necessary for them to study in their mother tongue. Often they also face problems of access to higher education. Facilities for the education of children with special needs are poor, both quantitatively and qualitatively, and do not match the needs.

The **research** sector continues to be a problem. Research activities take place at a low level of intensity and not in strategic sectors.

Overall, there has been little progress in the area of education and research.

4.1.10. WTO issues

Any consideration of WTO accession before the settlement of the Kosovo status issue is premature.

4.2. Sectoral Policies

4.2.1. Industry and SMEs

With regard to the business environment, more rapid registration of SMEs has been made possible, including one-stop shop facilities, fewer administrative steps involved in registration needed to start and operate a business. There has also been progress on taxation issues, in terms of both reduced tax rates and an improved system for tax reconciliation.

The SME Support Agency started operations in December 2006. The Consultative Council for SMEs was already established in 2001 and has started the round of four meetings scheduled for 2007 with a view to serving as a forum for discussion, consultation and advancement of issues that preoccupy the SME sector. The Council is headed by the Minister for trade and industry and consists of 26 members representing different governmental and non-governmental institutions, business community representatives such as the Kosovo Chamber of Commerce, universities, banks, the donor community, and other stakeholders. The Council meets four times a year.

The Investment Promotion Agency has strengthened its capacities and established a new office in Vienna in November 2006. The office will offer services free of charge to potential investors in an effort to attract foreign investment to Kosovo. The agency plans to open offices in other countries too.

However, the medium-term strategy for SME policy has not yet been adopted and no short-term strategy is being implemented owing to budgetary constraints. There is a lack of overall SME policy on many of the SME Charter issues. There has been a notable lack of activity in relaxing some of the main constraints on SME development, such as regulatory impact, on-line access for SMEs and credit guarantees. Financing remains difficult. In a number of instances, legislation or regulations have been put in place, but with no follow-up action or with inadequate resources to enable practical progress. Examples include electronic signatures and the provision of incubators for small businesses.

Overall, some progress can be reported in the field of industry and SME.

4.2.2. *Agriculture and fisheries*

There are few developments to report as regards harmonising with European standards, despite the adoption of laws on fisheries and aquaculture, agricultural land, plant protection products and protection of plant variety rights.

Kosovo's agricultural sector contributes 30% of GDP and 60% of the population live in rural areas. This importance is still not reflected either in government spending or in the reform efforts in this sector. The lack of political ownership, combined with heavy budgetary constraints and lack of adequate financial resources, has undermined the implementation of the government's own agricultural and rural development plan.

In early 2007 the government approved the agricultural and rural development plan 2007-2013 (ARDP), which contained sub-sectoral strategies. An ad hoc unit co-ordinating the implementation of the ARDP was established within the Ministry of agriculture, forestry and rural development (MAFRD). The Vinery and Agricultural Institution was established in Rahovec in March 2007.

In the *veterinary and phytosanitary* area, some measures to control animal diseases have been adopted, as has framework phytosanitary legislation and relevant secondary legislation. Foreign assistance has allowed Kosovo's laboratories to purchase some vital equipment. The food law has still not been adopted. This has led to a delay in the development and enforcement of related secondary legislation and the establishment of the Food Safety Agency.

The responsibilities of the veterinary and phytosanitary administration remain unclear, specifically in the relations with the MAFRD, local government, and at municipal level. The Veterinary and Food Agency, the Sanitary Inspectorate within the Ministry of Health, the phytosanitary inspection and municipal inspectors face similar difficulties. A plan for upgrading agri-food establishments is at a very early stage. The operational character of the system to identify bovines and register their movements needs to be confirmed. Identification and registration of movements of sheep and goats is only at an early stage.

Overall, there has been little progress in the areas of agriculture, veterinary and phytosanitary matters and fisheries.

4.2.3. *Environment*

In January 2007 the PISG approved the Kosovo environmental action plan setting out actions for further approximation with EU standards. The plan envisages 52 projects to be implemented in the period 2007-2010. However, due to financial constraints, the budget for only one of these projects has been approved for 2007.

Progress has been made in the area of **horizontal legislation**. The assembly approved the law on environmental impact assessment (EIA) in August 2007. The Ministry for environment and spatial planning (MESP) continues to implement the administrative instruction on EIA. The law on protection against natural and other disasters has been promulgated by the SRSG. In the period from October 2006 to May 2007, MESP issued 121 environmental permits (proceedings on 55 further requests were ongoing; 6 were rejected). Existing environmental curricula at all levels of education have been reviewed. Some measures have been taken to

strengthen public awareness of environmental issues. However, activities in this area are insufficient and the population's environmental awareness remains very poor.

No progress can be reported in the area of **air quality**. Relevant legislation is still lacking. Progress has been made in the area of **waste management** and the area of **water quality**. The law on hydro-meteorological activity has been promulgated. MESP is continuing to implement the law on water. Between October 2006 and May 2007, 78 water permits were issued and seven other applications were being processed. The project for the development of the water monitoring system has been prepared by MESP and presented to donors in April 2007. The public utilities responsible for water and waste have been consolidated and incorporated; seven waste utilities and three irrigation utilities remain to be incorporated.

However, the utilities face problems with revenue collection, as on average only about one third of consumers pay their bills. In the area of water, waste water, waste collection and waste disposal services, structures are still fragile and the current arrangements for management of the waste sector are in need of improvement.

Progress has been made in the field of **nature protection**. Parts of the Wild Birds Directive and Habitats Directive have been included in the law on nature conservation. The law on plant protection was promulgated in January 2007. No progress can be reported with regard to the transposition of parts of the Wild Birds Directive as required by the Energy Community Treaty.

No progress has been reported on **industrial pollution** and **risk management**.

The law on **chemicals** has been adopted by the assembly, but has not yet been promulgated by the SRSG.

MESP human and financial resources and the **administrative capacity** of the MESP and related institutions are limited and insufficient to properly address the environmental challenges that Kosovo is facing. There is a lack of qualified staff and confusion of competencies between the various institutions in the field of environment. There is a need for closer cooperation and coordinated action between MESP and the Ministries for energy and mining and transport, as well as local authorities. It is necessary for Kosovo to gradually start considering the inclusion of environmental aspects in other policies.

The Agency for environmental protection started work in April 2007. One of its tasks is to set up the environmental information system. As the estimated needs in the area of environment substantially exceed the MESP budget, support from donors is needed.

Overall, some progress can be reported in the field of environment. Implementation and enforcement of legislation remain challenging.

4.2.4. Transport policy

Transport infrastructure in Kosovo remains poor, with insufficient road maintenance, rehabilitation and development. Railway infrastructures, rolling stock and overall services are of low quality.

In the area of **Trans-European Transport Networks**, Kosovo has made some progress. It is taking part in the development of the core transport network and in the South-East European Transport Observatory (SEETO). It has approved the second five year multiannual plan 2007-

2011. A feasibility study and an environmental impact assessment for routes R6, linking Nis to Pristina and Albania, and R7, linking Montenegro to Pristina and Skopje, were finalised in 2007. These routes are compatible with SEETO priorities and they appear as priorities in the draft Kosovo Medium-Term Expenditure Framework 2008-2010. The government intends to fund R6 and R7 through donors' support and/or public private partnerships.

However, in the area of transport networks, the implementation of the priority projects identified in the multi-annual plan and its annual revisions still require continued cooperation with SEETO in order to make further progress on the definition of regional priorities and the coordination of investments. As regards the routes R6 and R7, there is a need to harmonise policy approaches with the results of the feasibility study. Furthermore, Kosovo needs to develop the legal and institutional framework and administrative capacity for large investments and PPPs. To achieve reasonable transport infrastructure planning, Kosovo will need to enforce land-use planning. The law on expropriation still has to be promulgated and enforced. The construction of the Pristina ring roads is also a priority for the government, and a feasibility study is under way.

In the area of **road transport** some progress can be reported. The law on Road Safety was approved by the Kosovo Assembly in January 2007 and is awaiting promulgation by the Special Representative of the UN Secretary General. In March 2007 an inter-ministerial working group on road safety was established and it meets on a regular basis. A World Bank report recommends a scenario for financing road maintenance and rehabilitation over the period 2007 – 2015 and further institutional strengthening of road assets management. There has not been sufficient attention to road maintenance. Preparations in this field are at an early stage.

Little progress is being recorded in the **rail transport** sector. The law on railways in Kosovo was promulgated in December 2006. Kosovo is actively participating in the SEETO group on railways. However, railway infrastructure and rolling stock, as well as the level of railway services, remain at a very low level. No railways regulator has yet been set up. As long as Kosovo railways does not currently appear to be a viable company, it will not figure in the budgetary priorities of the government. Kosovo should reflect on the role of railways for the development of mines and minerals, which are essential resources of Kosovo.

In the field of **air transport**, some progress has been made. UNMIK on behalf of Kosovo is a signatory to the agreement establishing the European Common Aviation Area (ECAA) and implementation of the first phase of this agreement has begun. The Civil Aviation Regulatory Office for Kosovo (CARO) has drafted an Administrative Direction on insurance requirements for air carriers and aircraft operators; CARO has submitted to UNMIK for approval an Aviation Security Training Program and an Aviation Security Quality Control Program for Kosovo. Both documents are in line with the *acquis* and with the European Civil Aviation Conference (ECAC) Document 30. CARO has also submitted a draft amendment on passengers' rights legislation. In March 2007 the Ministry of Transport and Communications established a working group to coordinate the work of external experts on drafting Civil Aviation legislation in cooperation with CARO and UNMIK Pillar IV. This legislation establishes the Kosovo Civil Aviation Authority and covers all areas of civil aviation activity in Kosovo in accordance with EU legislation. Pristina International Airport (PIA) was transferred to a civil operator and is operating as a joint stock company. Currently PIA is carrying out various technical works for the improvement of the airport. Work in the field of air transport is on track.

Kosovo has not developed a multi-modal transport strategy.

Overall, some progress can be reported in the field of transport, even though no significant progress was made in the railway sector. An efficient communication structure still needs to be ensured.

4.2.5. Energy

Electricity supply remains precarious and unreliable in Kosovo, especially in remote areas. Power cuts are still frequent.

No progress has been reported as regards **oil stocks**.

Some progress has been achieved concerning the **internal energy market**. UNMIK on behalf of Kosovo is a signatory of the Energy Community Treaty (ECT) which entered into force on 1 July 2006. Since July 2007, Kosovo is therefore bound to apply the relevant EU energy *acquis*, except for the provisions on market opening to which a specific timetable applies. Kosovo has made good progress with regard to the legal implementation of the relevant *acquis*. An important milestone was the establishment of an electricity transmission system operator (KOSST) as a separate company in July 2006 and its licensing by the Energy Regulator in October 2006. KOSTT was admitted as a member of the South East Europe Transmission Systems Operators (SETSO) in October 2006. Kosovo participates in all regional energy-related bodies although it is still encountering impediments due to legal uncertainties linked to the status question. Some progress was made in electricity unbundling and generation. The Ministry of energy and mining has prepared, in cooperation with relevant institutions, a roadmap involving activities in areas such as reform of the electricity system, gradual opening of the energy market, restructuring and creation of a legal framework for energy efficiency, as required by the ECT. In November 2006, the government adopted the Kosovo **Energy Efficiency and Renewable Sources Programme 2007 – 2009**.

Measures were taken for the restructuring of the Kosovo electricity utility in April 2007. The Economic and Fiscal Council endorsed the proposal to extend to Kosovo Energy Corporation (KEK) a credit facility of up to € 75 million from the Consolidated Fund. The credit facility will enable KEK to conduct, together with other donors including the European Commission, the necessary refurbishment of key mining equipment and to make preparations for the timely opening of the Sibovc Southwest mine. The opening of a new mine is essential for Kosovo as it is expected that the existing coal mines will be depleted as of 2009.

In May 2007, the Board of energy regulator considered the requests of KEK and KOSTT regarding their permissible revenues and approved the electricity retail tariffs for KEK and KOSTT. A Kosovan chairman of the energy regulator Board was appointed in February 2007. The energy regulator currently receives revenues from licences which should allow the office to operate as a financially independent regulatory body as provided for by the law on the energy regulator.

In May 2007, KEK announced the implementation of a new action plan aimed at increasing revenue collection and strengthening the policy of disconnection for illegal consumers. Disconnection measures mainly target commercial consumers.

Preparations for the development of the new Kosovo C power plant (Lignite Power Development Project), including the opening of a new lignite mine and the probable

rehabilitation of selected units of the existing Kosovo A plant, are continuing. The World Bank and the European Commission support the design of the project by providing technical assistance. In August, after a long process, three advisors were appointed and started working in Kosovo. These are the transactions, legal and safeguards advisors. They are supported by the World Bank. Their role is to advise the Steering Committee for Kosovo C and prepare the process for a call for proposals. It is expected that they will submit their proposals to the Steering Committee by the end of the year.

Kosovo needs to make further progress in the establishment and implementation of the legal framework set out by the ECT. The institutional and legislative capacity of the Ministry of Energy and Mining needs to be further strengthened. The recruitment of qualified staff is a challenge. Supply of energy is not always ensured. The raising of funds to implement the Kosovo Energy Efficiency and Renewable Sources programme remains a challenge.

The restructuring of the Kosovo electricity utility (KEK) is at an early stage and remains a major challenge; it is also a bone of contention between the different stakeholders. The regulatory authority is still subject to political influences and its independence is not always respected. The non-payment of electricity bills remains a major challenge for KEK and is the main reason for its insolvency. KEK needs budget support. Technical and financial losses in the electricity sector remain extremely high. 32% of the energy produced is classed as stolen electricity due to meter misuse or illegal connections. About two thirds of the electricity put into the grid is not paid for. On average, KEK loses about € 13-14 million per month. The accumulated debt to KEK because of unpaid electricity bills is estimated at about € 250 million. Continuing efforts are still required to increase electricity billing and collection rates and to gradually introduce electricity prices that reflect costs.

KOSST is encountering difficulties in the technical working groups of the SETSO Task Force and the Inter-Transmission Compensation and Cross-Border Trade Mechanism, the network access and congestion management mechanism and the forthcoming Balancing Energy Tools Mechanisms for South-East Europe, which are related to the position taken by the Serbian Transmission System Operator. As a result, KOSST is not compensated, amongst others, for the electricity transiting through the Kosovo grid.

There are still concerns about the financial viability of the Kosovo C project in a long-term perspective and about environmental impact aspects. For the new project, Kosovo will need to comply fully with the provisions of the Energy Community Treaty that relate to the EU *acquis* for new power generation projects (i.e. in the energy, environmental and competition fields). There is a lack of adequate infrastructure development and investment in the distribution network. This affects rural and remote areas in particular.

There is no progress to report with regard to nuclear safety and radiation protection. In this field, basic rules need to be implemented and an appropriate regulatory body needs to be set up and to operate effectively.

Overall, there has been some progress in the area of energy. However, the challenges that remain, especially with regard to supply, are very significant.

4.2.6. *Information society and media*

Some progress can be reported in the field of **electronic communications**. In June 2007 the government adopted a sector policy document. In March 2007, the IPKO Net consortium

Telekom Slovenija/Mobitel, was announced as the winner of the tender for the second mobile telephony operator. The Telecommunications Regulatory Authority (TRA) approved a national numbering plan and initiated procedures for the allocation of numbers to interested stakeholders. In May 2007, blocks of numbers were allocated to the first fixed services alternative operator.

However, the introduction of competition and liberalisation in the electronic communications sector has been delayed. The fixed line incumbent operator has an exclusive right to the international gateway until the end of 2007. The TRA granted four international services licences from the beginning of 2008 and has approved the reference interconnection offer (RIO) submitted by the fixed line incumbent operator, although interconnection agreements are yet to be concluded. Much of the secondary legislation is still in the drafting phase and it has not yet been decided when the various competitive safeguards, such as number portability, carrier selection, carrier (pre-) selection and local loop unbundling, will be introduced. There are technical problems related to the fact that Kosovo does not possess an international phone code. There is a need for an independent regulator with strengthened powers to be in charge, inter alia, of the implementation and enforcement of the sector policy and legislation. The TRA lacks the administrative capacity, expertise and independence to perform its tasks. The administrative capacity of the Ministry of Transport and Communications also needs to be strengthened.

No progress can be reported in the field of **information society services**. Kosovo needs to align its legislation with the acquis on conditional access.

Regarding **audiovisual policy**, the regulatory framework improved significantly in the last year. The Kosovo Assembly adopted a commendable law on civil defamation. Proper implementation of the law on access to official documents was facilitated by an administrative directive. The print media established a multi-ethnic Press Council, which enforces a code of conduct. However, a year and a half after the promulgation of the relevant law, the board of the public broadcaster (RTK) has not yet been appointed. As of 1 February 2008, KEK, the electricity utility, will terminate the collection of the public service broadcast fee for RTK. This will put the existence of the public service broadcaster RTK in danger. Stable and sustainable funding of RTK and the Minority Media Fund is crucial to achieve the objectives of a public broadcasting service and access to information from all communities. Two years after its foundation, the Kosovo Media institute is not yet fully operational.

The chief executive officer of the Independent Media Commission (IMC) was appointed. The Serbian minority is represented in the IMC. The IMC is responsible for managing, regulating, and assigning resources of the broadcast frequency spectrum, for the issuing of secondary legislation, licences and collection of duties for the use of broadcasting frequencies in Kosovo. So far, it has licensed 117 broadcasters in Kosovo. The IMC has helped the government to draft a policy on minority and multi-ethnic media and create a fund for the support of the minority and multi-ethnic media.

The IMC still needs to address important issues such as the de-criminalisation of defamation and insult. Working groups are looking into issues such as media concentration and regulating the minimum advertising threshold. There is a need for coordination of responsibilities in the allocation, distribution, management and monitoring of frequency spectrum among the TRA and the IMC.

Overall, there has been no progress in the area of information society and only some progress in the area of media. Effective liberalisation of the electronic communications market remains to be achieved and enhanced competition has still to be introduced. The media reform is progressing, but key issues such as the decriminalisation of defamation, regulation of the advertising thresholds, adequate financing of the public service broadcaster, proper implementation of the legislation on the freedom of information and broadcasting in minority languages still have to be addressed. Preparations in this area are in the early stages.

4.2.7. *Financial control*

Some progress can be reported in the area of Public Internal Financial Control (PIFC). In May 2007, the government adopted a PIFC Policy Paper. In September 2007, the government approved the strategy for the functioning of internal auditing in the Kosovo institutions for the period 2008-2012. An internal audit law has been adopted. The law is based on the EU public internal financial control model and provides for the establishment of a central harmonisation unit for internal audit, which will develop standards, train internal auditors, monitor internal audit developments, and provide a quality assurance oversight of internal audit work. The internal audit law presents some inconsistencies, mainly in terms of the operational independence of internal audit, which will need to be removed in the future. However, it is expected that the law will help in clarifying audit responsibilities among stakeholders. The Internal Audit Department in the Ministry for Economy and Finance partly provides the services for the central harmonisation unit (CHU) for internal audit. Minimum audit capacities have been established in most budget organisations, but managerial accountability and overall auditing capacities need to be reinforced.

Regarding external audit, the Office of the Auditor General (OAG) is and will remain for the time being a reserved power. The OAG reports on the implementation of the Kosovo Consolidated Budget, including the public utilities, to the Special Representative of the UN Secretary General. Development of the OAG into a supreme audit institution based on INTOSAI standards and reporting to the assembly will depend on various circumstances. To that end, the OAG needs to draft and implement a strategic development plan.

Overall, there has been some progress in the field of financial control.

4.2.8. *Statistics*

The **statistical infrastructure** in Kosovo remained weak in the reporting period. The current law has proved insufficient in the process of aligning with European standards in the field of statistics. The Memoranda of Understanding with important public data providers have only partially achieved their objectives. Furthermore, the operational and financial independence of the Statistical Office of Kosovo (SOK) is not assured.

As regards **classifications**, compliance with EU and international classifications is very limited in Kosovo. No progress can be reported. The statistical business register has developed further, with surveys being conducted to improve the data quality.

As regards **sector statistics**, progress can be reported as follows:

For *demographic and social statistics* the main issue has been the planned population and housing census. A pilot census was conducted to test the preparations. From an organisational point of view, the pilot census went well. However, the pilot census still failed with regard to

the broad participation of the population, since some minority communities did not participate, which is a precondition for success of the census. No progress was made towards preparing for the use and maintenance of future census results.

For *macro-economic statistics* the development of national accounts is continuing, but progress is limited, as SOK is still heavily reliant on assistance. This makes it difficult to build on previous projects and coordinate with other ongoing projects. Work continues as regards improving and expanding the established national accounts, but the capacity-building side is not satisfactory. The Consumer Price Index (CPI) has been consolidated and the statistics for 2002-2006 have been revised. Furthermore, the scope of the CPI has been broadened by the introduction of new items.

For *business statistics*, a pilot survey has been conducted and the results and the routines are being analysed. For *external trade statistics*, improvements have been made regarding re-imports and re-exports.

Overall, little progress can be reported in the field of statistics. The statistical system of Kosovo is at an early stage of development. The statistical infrastructure and the management capacity at the statistical office are weak. There are not enough qualified employees and the budget for carrying out the activities is insufficient. The progress made is generally limited to the areas where assistance has been given, namely for agriculture statistics, macro-economic statistics, business statistics and population censuses.

4.3. Justice, freedom and security

4.3.1. Visa, border, control, asylum and migration

Kosovo does not have a **visa** regime. Travel documents, identity cards and driving licences issued by UNMIK comply with ICAO standards and include security features. However, the travel documents are not in line with EU standards and do not contain biometric features. In July 2007, the assembly approved a law on identity cards.

While UNMIK retains ultimate responsibility for **border and boundary issues** and KFOR continues to be in charge of the green border, the Kosovo Police Service (KPS) Border and Boundary Police is in charge of managing the flow of persons through Kosovo's borders and boundaries. The KPS border and boundary police has increased its staff by around 1,200 officers. The KPS is in principle part of the Ministry of the Interior. However, final responsibility still lies with UNMIK. Within this ministry the department for border management, asylum and migration has been fully operational since January 2007. Nine persons are now employed in this department.

An integrated border management steering committee has been operational since December 2006. An integrated border management executive board was also established. In March and April 2007, agreements on cooperation and mutual support were signed between the border and boundary police, the customs service, the veterinary and food agency, as well as the Ministry of Culture, Youth and Sport, to facilitate integrated border management. Working protocols have been established in key areas, with working groups for intelligence, operations, and administration/logistics. There is good cooperation on a local level with border police in Albania and, to a lesser extent, with the former Yugoslav Republic of Macedonia.

However, the KPS has only a limited degree of control on the movement of persons in and out Kosovo. The number of illegal border and boundary crossings, especially at the green border, continues to be high. The control of the green border is still exclusively carried out by KFOR. There is no law on border security. The KPS Border and Boundary Police are not yet entirely in a position to effectively control the flow of persons at the borders, in particular due to the lack of communications equipment. The software used at the three main border crossing points is not compatible with relevant EU systems. Effectiveness and transparency of the KPS border and boundary police need to be enhanced. Cooperation with the KPS Directorate of organised crime, particularly in exchanging intelligence, is weak. No cooperation agreements with the border police or the phytosanitary services from neighbouring countries are yet in place. Many Kosovo Serb members of the border police serving at the administrative boundary with Serbia continue to receive salaries from Belgrade, in addition to their salaries from the Kosovo consolidated budget.

With regard to **asylum**, the department for border, asylum and migration within the Ministry of the Interior has continued to build up capacities. There is no law on asylum in Kosovo. Shelters and housing facilities for the accommodation of asylum seekers do not exist. However, only very few persons apply for asylum in Kosovo.

The Directorate for borders, asylum and migration within the Ministry of the Interior has also been responsible since January 2007 for **migration** issues. However, the PISG are not sufficiently prepared to face the social and security challenges of increasing returns from EU member states. There are no laws on migration, relevant strategies or action plans, and no budgetary provisions.

Overall, there is little progress to report in the area of visa, border control, asylum and migration. Basic structures exist, but need to be strengthened and further developed. In particular, green border control capacities need to be enhanced.

4.3.2. Money laundering

Competencies in the field of money laundering are only partly transferred to the PISG. The financial intelligence centre has increased its local staff by ten. In the fourth quarter of 2006, it closed 30 cases and opened 32 new cases of alleged violations of the anti-money laundering legislation. In the first quarter of 2007, 17 cases were closed and 45 new cases were opened. Investigations include banks, foreign currency exchange offices and casinos.

Outreach activities continued as a way of informing persons crossing the borders/boundary of Kosovo about the amounts of money which can be exported from and imported into Kosovo without being declared. Confiscations took place from persons who did not comply with this requirement.

However, no sentences have been handed down by the courts for money laundering. The administrative capacity of the KPS department for organised crime for dealing with money laundering is still weak. The wide range of actors dealing with money laundering and the lack of a clear distribution of competencies are hindering investigations and prosecution of money laundering offences. Communication between the KPS economic crimes and corruption investigation section and the regional units dealing with financial crime is poor and there is no common database. There are no appropriate facilities for the storage of evidence. There is a lack of specialised prosecutors to deal with money laundering and economic crimes. Investigations for money laundering involving high-level politicians are not always finalised.

There is no specialised prosecutor for money laundering issues and no appropriate storage for seized evidence.

Overall, some but uneven progress can be reported in combating money laundering. Efforts in this respect need to be stepped up and backed with political determination.

4.3.3. Drugs

Some progress can be reported, but Kosovo remains situated on a main traffic route for drugs, mainly heroin, to Western Europe. In April 2007 the Assembly approved a law on narcotics, psychotropic substances and precursors. A special narcotics investigation unit in the directorate for organised crime of the Kosovo Police Service is handling drug-related investigations. By taking a more pro-active approach, this unit managed to seize some narcotics in 2007. According to available information, there are currently only a small number of drug addicts in Kosovo.

However, there is no strategy or action plan to prevent and combat the illegal transport and use of drugs. The regional investigators that are operating under the command of the regional headquarters units are only partly operational, as they lack equipment.

Overall, some progress has been made in the legislative field regarding drugs, but drug trafficking remains a serious concern.

4.3.4. Police

The Kosovo Police Service (KPS) generally carries out its tasks in a professional and competent manner, particularly for minor crimes. There was no significant change in the percentage of members of minority communities in the KPS. The police task force which was established to investigate cases related to the March 2004 riots has investigated over 1500 such cases, of which over 300 are closed and over 750 are under review. The Directorate for crime analysis has been fully reorganised. Regional intelligence units are operating in each of the six regional headquarters.

However, there is no law on the police, regulating police structures and powers. Investigations of the KPS in cases of murder, inter-ethnic crimes, economic crimes and trafficking in human beings are still ineffective. The work of the police is often hampered by the lack of available intelligence. Exchange of intelligence between different KPS bodies is poor. Cooperation with public prosecutors, inter-agency cooperation and international cooperation are not always satisfactory. Police detention facilities do not meet international standards. There are no uniform procedures and associated forms of police detention. Kosovo is still lacking a crime reduction strategy at both central and regional levels. The current use of crime statistics by KPS as a management tool is poor. The format and the content of key crime data are inconsistent at regional and central level.

Overall, some progress can be reported in the field of policing. Preparations are relatively advanced.

4.3.5. Fighting organised crime and terrorism

Some progress has been made in the area of fighting organised crime. The Ministry of Interior's strategic plan 2007-2010 lists the fight against all forms of organised and economic crimes as one of their strategic priorities. Organised crime is dealt with by the KPS

department of organised crime. This department is still supported by some international staff. In November 2006, the KPS counter-terrorist section was established within the directorate on organised crime. The number of cases of organised crime that were investigated increased substantially in the first half of 2007. Cooperation between the different players was enhanced, in particular with the customs. The KPS Trafficking in Human Beings Investigation Section (THBS) has a central unit in Pristina with regional units in the regional headquarters, making a total of 28 staff. In the period from January to June 2007, the KPS checked 591 suspected premises, 10 of which have been closed. 26 persons were arrested in connection with trafficking in human beings and 19 victims were identified. All trafficking cases concern women and girls trafficked for sexual exploitation (including minors), most of them Kosovo Albanians and Albanian citizens.

KPS has set up specially equipped interview rooms for victims of trafficking in human beings. Job descriptions for the anti-trafficking coordinators and the inter-institutional working group have been endorsed. Relevant sub-working groups were created and the chairs and deputy chairs appointed. Relevant training has been carried out.

The Office of Good Governance (OGG) is taking the lead in implementing the 2005 Kosovo Action Plan to combat trafficking in human beings and is pro-active in awareness raising and prevention of trafficking in human beings. In particular, the OGG has produced, in cooperation with the International Organisation for Migration, two awareness-raising TV films that were broadcast repeatedly throughout Kosovo. Assistance for victims of human trafficking is provided through two shelters and a safe house in Kosovo (financed via NGOs).

However, the legislative framework to tackle organised crime is still incomplete, particularly in the area of witness protection, undercover agents, the anti-mafia law and the law on organised crime. Cooperation on confiscation of assets is not working well. There were no convictions for trafficking in human beings during the reporting period. There is still no weapons collection strategy. There is no common database for the security agencies for the storage of intelligence on organised crime, which undermines the efficiency of the directorate for organised crime within the KPS. The fight against organised crime is further undermined by the lack of general support from the KPS, its weak cooperation with its border and boundary police service and its scarce resources, particular in terms of qualified staff. Existing possibilities of automated data systems are not always efficiently used.

Kosovo is still a destination and transit area for victims of **trafficking in human beings**. In practice, there is only limited cooperation between the THBS and its regional units. Most of the latter have few female staff and are not sufficiently prepared for their tasks. Furthermore, the staff of the regional units are often distracted from their work on combating trafficking in human beings by non-related tasks. The efficiency of combating trafficking in human beings differs widely from one region to the other. So far, no Memorandum of understanding on the matter has been signed with neighbouring countries. Cross-boundary cooperation with Serbia on a regional level has proved difficult because of the objection by the Serbian side to interacting with KPS. There are no Kosovo Serbs working in the units fighting trafficking in human beings, with the result that this effort is confined to the Albanian populated areas. Capacities are too scarce to deal with all kinds of organised crime.

There is no special legislation on trafficking in human beings. This is regarded as an ordinary crime. There is only one prosecutor dealing with cases of trafficking in human beings. Competencies in the field of combating human trafficking are divided among different units,

according to whether the trafficked person is transited through Kosovo or destined for Kosovo.

Overall, little progress can be reported in the area of organised crime and the combating of trafficking in human beings. The fight against organised crime, including human trafficking, remains one of the major challenges. It urgently requires a significant increase in the commitment to fighting organised crime. This needs to be backed up by increased human and financial resources for this task.

4.3.6. Protection of personal data

There are no developments to report. There is still no general legislation transposing the data protection directive in place and no independent data protection supervisory authority has been set up. This is a matter for concern.

STATISTICAL ANNEX

STATISTICAL DATA (as of 5 October 2007)

Kosovo (under United Nations Security Council Regulation 1244)

| Basic data | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Population (thousand) | 1) | 2 169 | : | : | : | : | : | 1 985 | 2 016 | 2 041 | 2 070 |
| 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 | : |

| National accounts | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|-------|--------|--------|--------|------|------|
| Gross domestic product (GDP) (million national currency) | 2) | : | : | : | : | 1 624 | 1 735p | 1 797p | 1 895f | : | : |
| GDP (million euro) | | : | : | : | : | 1 624 | 1 735p | 1 797p | 1 895f | : | : |
| GDP (euro per capita) | | : | : | : | : | : | : | 905p | 940f | : | : |
| GDP (in Purchasing Power Standards (PPS) per capita) | | : | : | : | : | : | : | : | : | : | : |
| SI: GDP (in PPS per capita, EU-25=100) | | : | : | : | : | : | : | : | : | : | : |
| SI: Growth rate of GDP (national currency, at constant prices, % change on previous year) | | : | : | : | : | : | 1.2p | 3.1p | 3.2f | : | : |
| SI: Employment growth (national accounts, % change on previous year) | | : | : | : | : | : | : | : | : | : | : |
| Labour productivity growth: GDP growth per person employed (% change on previous year) | | : | : | : | : | : | : | : | : | : | : |
| SI: Unit labour cost growth (national accounts, % change on previous year) | | : | : | : | : | : | : | : | : | : | : |
| SI: Labour productivity (GDP in PPS per person employed, EU-25=100) | | : | : | : | : | : | : | : | : | : | : |
| Gross value added by main sectors (%) | | : | : | : | : | : | : | : | : | : | : |
| Agriculture | | : | : | : | : | : | : | : | : | : | : |
| Industry | | : | : | : | : | : | : | : | : | : | : |
| Construction | | : | : | : | : | : | : | : | : | : | : |
| Services | | : | : | : | : | : | : | : | : | : | : |
| Final consumption expenditure, as a share of GDP (%) | 3) | : | : | : | : | 163.1 | 151.6 | 147.5 | 140.7 | : | : |
| Households and NPISH, as a share of GDP (%) | 4) | : | : | : | : | 101.3 | 96.9p | 96.2p | 93.5f | : | : |
| General government, as a share of GDP (%) | 5) | : | : | : | : | 61.8 | 54.6p | 51.4p | 47.2f | : | : |
| Gross fixed capital formation, as a share of GDP (%) | 6) | : | : | : | : | 40.7 | 34.5 | 29.3 | 27.9 | : | : |
| Changes in inventories, as a share of GDP (%) | | : | : | : | : | : | : | : | : | : | : |
| Exports of goods and services, relative to GDP (%) | | : | : | : | : | 16.6 | 12.5p | 10.4p | 10.0f | : | : |
| Imports of goods and services, relative to GDP (%) | | : | : | : | : | 120.4 | 98.6p | 87.1p | 78.6f | : | : |

| Industry | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Industrial production volume index (2000=100) | | : | : | : | : | : | : | : | : | : | : |

| Inflation rate | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| SI: Consumer price index (CPI), (total, % change on previous year) | | : | : | : | : | : | 2.1 | 1.6 | -3.4 | : | : |

| Balance of payments | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|-------|-------|-------|-------|--------|------|
| Balance of payments: current account total (million euro) | | : | : | : | : | - 140 | - 201 | - 284 | - 283 | - 415 | : |
| Balance of payments current account: trade balance (million euro) | | : | : | : | : | - 962 | - 871 | - 856 | - 945 | -1 059 | : |
| Balance of payments current account: exports of goods (million euro) | | : | : | : | : | 269 | 217 | 186 | 79 | 71 | : |
| Balance of payments current account: imports of goods (million euro) | | : | : | : | : | 1 231 | 1 088 | 1 042 | 1 024 | 1 130 | : |
| Balance of payments current account: net services (million euro) | | : | : | : | : | - 725 | - 622 | - 523 | - 33 | - 64 | : |

| | | | | | | | | | | | |
|---|--|---|---|---|---|-------|-------|-----|-----|-----|---|
| Balance of payments current account: net income (million euro) | | : | : | : | : | 185 | 149 | 123 | 24 | 30 | : |
| Balance of payments current account: net current transfers (million euro) | | : | : | : | : | 1 361 | 1 143 | 973 | 671 | 677 | : |
| of which government transfers (million euro) | | : | : | : | : | 1 144 | 902 | 732 | 364 | 297 | : |
| Foreign Direct Investment (FDI) in the reporting economy (million euro) | | : | : | : | : | : | : | : | 18 | 59 | : |

Public finance

| | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| General government deficit/surplus, relative to GDP (%) | 7) | : | : | : | : | : | 8.4 | 2.2 | 2.7 | : | : |
| SI: General government debt, relative to GDP (%) | | : | : | : | : | : | : | : | : | : | : |

Financial indicators

| | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| 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) | | : | : | : | 761 | 971 | 998 | 891 | 713 | 572 | : |
| Money supply: M2 (M1 plus deposits with maturity up to two years, million euro) | | : | : | : | 761 | 1 096 | 1 126 | 1 112 | 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 | : | : |
| Interest rates: day-to-day money rate, per annum (%) | | : | : | : | : | : | : | : | : | : | : |
| Lending interest rate (one year), per annum (%) | | : | : | : | : | : | : | : | : | : | : |
| Deposit interest rate (one year), per annum (%) | | : | : | : | : | : | : | : | : | : | : |
| Euro exchange rates: average of period - 1 euro = ... national currency | | : | : | 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) | | : | : | : | : | : | 355 | 459 | 259 | 272 | : |

External trade

| | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|------|------|------|-------|--------|--------|
| Trade balance: all goods, all partners (million euro) | | : | : | : | : | : | : | : | - 994 | -1 131 | -1 233 |
| Value of exports: all goods, all partners (million euro) | | : | : | : | : | : | : | : | 57 | 49 | 82 |
| Value of imports: all goods, all partners (million euro) | | : | : | : | : | : | : | : | 1 050 | 1 180 | 1 315 |
| Terms of trade (export price index / import price index, % change on previous year) | | : | : | : | : | : | : | : | : | : | : |
| Share of exports to EU-27 countries in value of total exports (%) | | : | : | : | : | : | : | : | 29.3 | 37.9 | 35.7 |
| Share of imports from EU-27 countries in value of total imports (%) | | : | : | : | : | : | : | : | 40.3 | 38.4 | 34.2 |

Demography

| | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants) | 1) | : | : | : | : | : | : | 12.8 | 14.1 | 14.6 | 11.8 |
| Net migration rate: immigrants minus emigrants (per 1000 inhabitants) | | : | : | : | : | : | : | : | : | : | : |
| Infant mortality rate: deaths of children under one year of age per 1000 live births | 1) | 18.2 | : | : | : | : | 11.2 | 15.1 | 11.8 | 9.6 | 12.0 |
| Life expectancy at birth: male (years) | 1) | : | : | : | : | : | : | 67.0 | : | : | : |
| Life expectancy at birth: female (years) | 1) | : | : | : | : | : | : | 71.0 | : | : | : |

Labour market

| | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| 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 |
| SI: 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 |
| Share of male population aged 15-64 that is in employment (%) | | : | : | : | : | 31.1 | 39.4 | 42.8 | 46.4 | 45.8 | 46.1 |
| Share of female population aged 15-64 that is in employment (%) | | : | : | : | : | 8.1 | 8.8 | 8.3 | 9.9 | 11.7 | 11.8 |
| SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%) | | : | : | : | : | : | : | : | : | : | : |

| | | | | | | | | | | | | |
|---|--|---|---|---|---|------|------|------|------|------|------|--|
| Employment by main sectors (%) | | | | | | | | | | | | |
| Agriculture | | : | : | : | : | 6.2 | 10.3 | 17.3 | 24.7 | 18.8 | : | |
| Industry | | : | : | : | : | 16.9 | 17.2 | 15.4 | 14.0 | 14.4 | : | |
| Construction | | : | : | : | : | 8.6 | 11.2 | 11.3 | 8.0 | 7.9 | : | |
| Services | | : | : | : | : | 68.3 | 61.3 | 56.0 | 53.5 | 58.9 | : | |
| SI: Unemployment rate: share of labour force that is unemployed (%) | | : | : | : | : | 57.1 | 55.0 | 49.7 | 39.7 | 41.4 | 44.9 | |
| Share of male labour force that is unemployed (%) | | : | : | : | : | 51.8 | 45.2 | 40.3 | 31.5 | 32.9 | 34.6 | |
| Share of female labour force that is unemployed (%) | | : | : | : | : | 69.9 | 74.5 | 71.9 | 60.7 | 60.5 | 61.6 | |
| 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 | |
| SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%) | | : | : | : | : | 47.6 | 47.3 | 42.7 | 34.9 | 34.7 | 41.1 | |

| | | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Social cohesion | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Average nominal monthly wages and salaries (national currency) | | : | : | : | : | : | : | : | : | : | : |
| Index of real wages and salaries: index of nominal wages and salaries divided by CPI (2000=100) | | : | : | : | : | : | : | : | : | : | : |
| SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%) | | : | : | : | : | : | : | : | : | : | : |

| | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|-------|-------|------|------|
| Standard of living | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Number of passenger cars per 1000 population | | : | : | : | : | : | : | : | : | : | : |
| Number of subscriptions to cellular mobile telephone services per 1000 population | | : | : | : | : | : | : | 158.7 | 169.5 | : | : |

| | | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Infrastructure | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Density of railway network (lines in operation, per 1000 km ²) | | : | : | : | : | : | : | : | 39.5 | : | : |
| Length of motorways (thousand km) | | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Innovation and research | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| SI: Spending on human resources (public expenditure on education) relative to GDP (%) | | : | : | : | : | : | : | : | : | : | : |
| SI: Gross domestic expenditure on research & development, relative to GDP (%) | | : | : | : | : | : | : | : | : | : | : |
| SI: Percentage of households who have Internet access at home (%) | | : | : | : | : | : | : | : | : | : | : |

| | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Environment | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100) | | : | : | : | : | : | : | : | : | : | : |
| SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP) | | : | : | : | : | : | : | : | : | : | : |
| SI: Share of renewable energy in electricity consumption (%) | | : | : | : | : | : | : | : | : | : | : |
| SI: Road freight transport as a share of total inland freight transport (modal split) (%) | | : | : | : | : | : | : | : | : | : | : |

| | | | | | | | | | | | |
|--|------|------|------|------|------|------|-------|-------|-------|-------|------|
| Energy | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Primary production of all energy products (thousand TOE) | | : | : | : | : | : | : | : | : | : | : |
| Primary production of crude oil (thousand TOE) | | : | : | : | : | : | : | : | : | : | : |
| Primary production of hard coal and lignite (thousand TOE) | 8) | : | : | : | : | : | 5 528 | 6 466 | 5 658 | 6 391 | : |
| 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 | : |

| Agriculture | Note | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| 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 | : |
| Livestock: pigs (thousand heads, end of period) | | : | : | : | 59 | 76 | 110 | : | 55 | 48 | : |
| Livestock: sheep and goats (thousand heads, end of period) | | : | : | : | 193 | 230 | 116 | : | 106 | 152 | : |
| 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 | : |
| Crop production: sugar beet (thousand tonnes, harvested production) | | : | : | : | : | : | : | : | : | : | : |
| Crop production: vegetables (thousand tonnes, harvested production) | | : | : | : | : | 169 | 135 | : | 150 | 289 | : |

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

1. Source: Eurostat.
2. Source: IMF Mission estimates, 'Kosovo - Gearing Policies Towards Growth and Development', November 2004.
3. Values distorted by a very high ratio of imports to exports of goods and services.
4. Households only, excludes non-profit institutions serving households (NPISH). Values distorted by a very high ratio of imports to exports of goods and services.
5. Including donor sector (donor sector includes UNMIK, KFOR, and other donor spending under the umbrella of the so called "public investment program", and spending financed by designated donor grants). Excluding wages of KFOR personnel as well as consumption of goods imported directly by KFOR. Values distorted by a very high ratio of imports to exports of goods and services.
6. Investment: including donor sector, general government, private investment (housing and other). Values distorted by a very high ratio of imports to exports of goods and services.
7. GDP data from IMF.
8. Local production of coal in thousand tonnes; data collected from the Kosovo (UNSCR 1244) Energy Corporation (KEK).