

<b>1 Political Criteria</b> .....	6
<b>1.1. Democracy and the Rule of Law</b> .....	Ошибка! Закладка не определена.
1.1.1. Legislative .....	6
1.1.2. Executive and Presidency .....	7
1.1.3. Public Administration .....	8
1.1.4. Security Sector .....	10
1.1.5. Judicial System .....	11
1.1.6. Fight against Corruption.....	13
1.1.7. Relations with International Community .....	Ошибка! Закладка не определена.
<b>1.2. Human Rights and Protection of Minorities</b> .....	15
1.2.1. Civil, Political, Economic, and Social Rights.....	15
1.2.2. Respect to and Protection of Minorities and their Cultural Rights.....	17
<b>2. Economic Criteria</b> .....	19
<b>2.1. Economic Situation and Stability</b> .....	19
2.1.1. Economic Situation .....	19
2.1.2. Fiscal Policies .....	19
<b>2.2. Market and Price Liberalization</b> .....	22
<b>2.3. Privatization, Private Sector Development, and Financial Reform</b> .....	22
2.3.1. Privatization and Private Sector Development.....	22
2.3.2. Financial Sector Reform .....	22
<b>3. Ability to cope with Obligations deriving from the SAA</b> .....	26
<b>3.1. Political Dialogue</b> .....	26
<b>3.2. Regional Cooperation</b> .....	Ошибка! Закладка не определена.
<b>3.3. Free Movement of Goods</b> .....	27
Trade Policy .....	Ошибка! Закладка не определена.
Trade with Industrial Goods .....	Ошибка! Закладка не определена.
Trade with Agricultural and fishing goods.....	29
<b>3.4. Free Movement of Workers, Services and the Right of Establishment</b> .....	31
3.4.1. Free Movement of Workers .....	31
3.4.2. The Right of Establishment.....	32
3.4.3. Trade of Services .....	33
3.4.4. Flowing Payments and Free Movement of Capital.....	34
<b>3.5. Approximation, Implementation, and Enforcement of Legislation</b> .....	35
3.5.1. Competition .....	35
3.5.2. Intellectual Property Rights.....	1
3.5.3. Public Procurement .....	38
<b>3.6. Justice and Internal Affairs</b> .....	42
3.6.1. Strengthening of Institutions and the Rule of Law .....	42
3.6.2. Asylum, Migration, Visa Policy, Border Control .....	43
3.6.3. Money Laundering .....	44

3.6.4. Prevention and Fighting of Organized Crime and other Criminal Activities, including terrorism.....	45
<b>3.7. Cooperation Policy.....</b>	<b>47</b>
3.7.1. Economic, Monetary, Statistics Cooperation and Protection of EU's Financial Interests .....	47
Statistics .....	47
3.7.2. Promotion and Protection of Investments, Industrial Cooperation, SMEs and Tourism .....	48
3.7.3. Agriculture.....	50
3.7.4. Customs, Taxes and Financial Control .....	50
3.7.4.1. Customs.....	53
3.7.4.2. Taxes .....	54
3.7.4.3. Financial Control.....	55
3.7.5. Employment, Social Policy, Public Health Policy, Education and Training, and Technology Research and Development .....	57
3.7.5.1. Employment, Social Policy, and Public Health Policy.....	57
3.7.5.2. Education, Training, Research and Innovation .....	61
3.7.6. Cultural, Audio-Visual, Telecommunication, Postal Services and Information Society .....	62
3.7.7. Transport.....	64
3.7.8. Energy, including Atomic Security .....	66
3.7.9. Environment .....	66
<b>3.8. Financial Cooperation.....</b>	<b>68</b>

ACA	Anti-Corruption Agency
ACSAP	Anti-Corruption Strategy and Action Plan
AGE	Agency for Gender Equality
AI	Administrative Instruction
AIGK	Association of Independent Journalists of Kosovo
AMPM	Antemortum - Postmortum
CBK	Central Bank of Kosovo
CBP	Cross - border point
CCMP	Central Committee on Missing Persons
CEC	Central Election Commission
CECS	Central Election Commission Secretariat
CEFTA	<i>Central European Free Trade Agreement</i>
CLM	Child Labor Monitoring
CMIS	Case Management Information System
CPC	Corruption Prevention Committee
CPI	Consumer Price Index
DCSA	Department of Civil Service Administration
DMPAR	Department for Management of Public Administration Reform
EC	European Commission
ECAA	European Common Aviation Area
EPAP	European Partnership Action Plan
ERO	Energy Regulatory Office
ESPSM	Electronic System for Pharmaceutical Stock Management
ETF	European Training Foundation
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
FADN	Farm Accountancy Data Network
FIU	Financial Intelligence Unit
FMC	Financial Management Control
FMN	International Monetary Fund
FVA	Food and Veterinary Agency
GDDS	General Data Dissemination Standard
GDP	Gross Domestic Product
GGO	Good Governance Office
GPC	Government Privatization Committee
HHI	Herfindalh - Hirschman Index
HIS	Health Information System
IBM	Integrated Border Management
ICMM	Independent Commission for Mines and Minerals
ICP	Institute of Construction Products
IDP	Internally Displaced Persons
IFS	International Financial Institutions
IJPC	Independent Judicial and Prosecutorial Committee
IJPC	Independent Judicial and Prosecutorial Council
ILCD	International Legal Cooperation Division
ILEP	Initial Legal Education Program

IMCPAR	Inter-ministerial Commission for Public Administration Reform
IMGD	Inter-ministerial Group on Decentralization
IOD	Intellectual Property Department
IOM	International Organization for Migration
IOO	Industrial Ownership Office
IPA	Instrument for Pre-accession Assistance
IPAK	Investment Promotion Agency of Kosovo
KACC	Kosovo American Chamber of Commerce
KAD	Kosovo Accreditation Directorate
KBA	Kosovo Business Alliance
KBRA	Kosovo Business Registration Agency
KC	Kosovo Customs
KCC	Kosovo Chamber of Commerce
KCDSEE	Kosovo Company for Distribution and Supply of Electric Energy
KCF	Kosovo Curriculum Framework
KCS	Kosovo Correctional Service
KEK	Kosovo Energy Corporation
KESP	Kosovo Education Strategic Plan
KFA	Kosovo Forest Agency
KGAWP	Kosovo Government Annual Work Plan
KIPA	Kosovo Institute of Public Administration
KJC	Kosovo Judicial Council
KJI	Kosovo Judicial Institute
KOSTT	Electricity Transmission System and Market Operator of Kosovo
KP	Kosovo Police
KPC	Kosovo Procurement Council
KPS	Kosovo Police Service
KSA	Kosovo Standards Agency
LM	Line Ministries
MA	Municipal Assembly/ies
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MCR	Ministry for Communities and Return
MCYS	Ministry of Culture, Youth and Sport
MED	Ministry of Economic Development
MEI	Ministry of European Integration
MESP	Ministry of Environment and Spatial Planning
MEST	Ministry of Education, Science and Technology
MF	Ministry of Finances
MFA	Ministry of Foreign Affairs
MH	Ministry of Health
MHRU	Municipal Human Rights Units
MI	Ministry of Infrastructure
MIA	Ministry of Internal Affairs
MKSF	Ministry for the Kosovo Security Force
MLPA	Ministry of Local Power Administration
MLSW	Ministry of Labor and Social Welfare
MJ	Ministry of Justice

MU	Memorandum of Understanding
MPA	Ministry of Public Administration
MTI	Ministry of Trade and Industry
NGO	Non-Governmental Organizations
NQA	National Qualifications Authority
OAG	Office of Auditor General
OCA	Office for Community Affairs
OCR	Office for Communities and Return
OLEP	Ongoing Legal Education Program
OPM	Prime Minister's Office
OSCE	Organization for Security and Cooperation in Europe
PAK	Privatization Agency of Kosovo
PAR	Public Administration Reform
PIA	Prishtina International Airport
POE	Publicly Owned Enterprise
PPA	Public Procurement Agency
PPRC	Public Procurement Regulatory Commission
PRB	Procurement Review Body
PTK	Post and Telecomm of Kosovo
QMS	Quality Monitoring System
RAE Project	Project for Roma, Ashkali and Egyptians
RTK	Kosovo Radio and Television
SCAAK	Society of Certified Accountants and Auditors of Kosovo
SEB	Standard Evaluation Body
SEECEL	South East European Centre for Entrepreneurial Learning
SME	Small and Medium Enterprises
SMESA	Small and Medium Enterprise Support Agency
SMP	Staff Monitored Program
SOE	Socially Owned Enterprise
SOK	Statistical Office of Kosovo
SOP	Standard Operation Procedures
SPO	State Prosecution Office
TAIEX	Technical Assistance and Information Exchange
TAK	Tax Administration of Kosovo
TBP	Tam/Bas Project
TRA	Telecommunication Regulatory Authority
UNDP	United Nations Development Program
UNHCR	Office of the United Nations High Commissioner for Refugees
USAID	United States Agency for International Development
VAPU	Victim Assistance and Protection Unit
VAT	Value Added Tax
VET	Vocational and Education Training
VTC	Vocational Training Centre
WB	World Bank
WG	Working Group
WWRO	Water and Waste Regulatory Office

## **1. Political Criteria**

### **1.1. Democracy and the rule of law**

#### **1.1.1. Legislature**

Constitution of Kosovo embodies the highest principles and values of democracy determining the parliamentary constitutional order in which the Assembly plays the main law-making role and exercises supervising role on the Executive. The institutional framework on legislation and control of the executive is in place and functional. The functions of legislative process and control of executive branch are exercised through the Parliamentary Committees, out of which 4 are Permanent Committees, 9 are Functional Committees, 1 Ad-hoc Committee, and 1 Sub-Committee assigned for mandates, immunities and Rules of Procedures. An important role in building the order and democratic functioning has played the Constitutional Court, decisions of which are precisely respected by the Assembly and other institutions. After the Constitutional Court's decision in autumn of 2010, the President of Kosovo resigned. The Court also played an important role in the process of re-electing the President of the Republic of Kosovo, who was re-elected in accordance with the Constitution.

The Assembly's legislative is elected through free vote of citizens, a right guaranteed by the Constitution of Kosovo and other laws in force. The Assembly of the Republic of Kosovo has approved the Law on General Elections (No. 03/L-073) and the Law on Local Elections (No. 03/L-072), which defines election procedures on electing central and local bodies as well as the right of a voter to vote. Since 2008 one round of general elections and two rounds of local elections for the Kosovo municipalities have been organized. The Constitution of Kosovo guarantees ethnic representation and gender representation in the Assembly. Out of 120 seats in the Assembly, 20 are guaranteed for the minorities. The current number of ethnic representation is 26 parliamentarians or 21.6%. In meantime, there are 40 women members composing 33.3% of total number of parliamentarians.

The Assembly has strengthened to a great extent its administrative capacities and there was a large improvement on the preparation of legislation and the supervision of the Assembly. Since 2008 until now the Assembly has approved 352 laws.

However, there are some remaining challenges which make adequate functioning of the Assembly more difficult. Constitutional and Election Reform are related and the deficiencies in this regard cause delays in democratic reform, functioning of constitutional order and the reform of election reform in Kosovo. The Assembly's Strategic Plan 2013-2018 and the New Rule of Procedures of the Assembly have not been approved yet. Assembly's capacities on monitoring and research remain deficient, especially the Assembly's Department on Legal and Procedural Issues. The legislative procedure should be strengthened to ensure inter-sector expertise and conformity with *acquis*. The coordination between Assembly and Government needs to improve and at the same time the Assembly needs to increase supervision and control of budgetary expenses of the Executive. There are lacks in the legal basis on the status of civil servants which to a great extent would ensure the independence of civil servants and would regulate the functions and mandate of civil servants in the Assembly.

### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would commit itself to further strengthen the democratic principles of its governance. Respect for the principles of international law and rule of law in general will form the basis of the domestic and external policies of parties to an SAA.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Assembly will increase its efforts to close the process of Constitutional and Electoral Reform. In order to increase capacities, the Assembly will approve the Draft-Law on the Status of Civil Servants of the Assembly, the Assembly's Strategic Plan 2013-2018, the New Rule of Procedure, in accordance with the legislative's mandate as well as it will approve the strategic plan on managing human resources. To improve coordination between the Assembly and executive, the Assembly will appoint a senior official to coordinate in cooperation with the coordinator appointed by the Government; the legislative process and the work plan of Assembly and the Executive. The Assembly will undertake measures to, in accordance with its mandate, increase capacities to approximate the domestic legislation with *acquis* as well as the monitoring of policy implementation.

#### **1.1.2. Executive and President**

Constitution of the Republic of Kosovo comprises the legal basis for the structure and functioning of Government; further on the structure and functions of the Government are regulated by the Law on State Administration of the Republic of Kosovo and the Regulation on Rules of Procedure of Government of the Republic of Kosovo, and the Regulation on Amending the Regulation on the Scope of Administrative Responsibilities of the Office of Prime Minister.

Key responsible institutions on coordination of strategic planning, coordination of policies and the legislative strategy of the Government are in place and functional. Office on Strategic Planning (OSP) intends to increase capacities on strategic planning and monitoring. The Coordinating Secretariat of Government (CSG) is responsible on coordinating of activities between the Office of Prime Minister and the rest of administration. Secretariat of Government together with the OSP is responsible for coordinating and drafting the Annual Work Plan, based on inputs of all ministries and other executive bodies. The annual work plan is composed of the Government's Work Plan and the Ministries' Work Plan. Office of Prime Minister prepares the annual legislative plan of government, which derives from the Annual Work Plan of the Government. This program is prepared by the Legal Office of Prime Minister in close cooperation with Government's Secretariat, Ministry of Finance, OSP and MEI. The Program, which lines the proposed legislation for the next year determines the deadline on drafting legislation and the responsible institution/s.

Government has good capacities to draft legislation and has potential to increase approximation of legislation with *acquis* in a short period of time and the inter-ministerial coordination of policies has also been improved during the last three years.

As regards the Presidency, the President actively implements her constitutional duties and undertakes steps to oppose the legislation if it is not in compliance with European practices and standards. Kosovo has made important progress in the decentralization process, while the Ministry of Local Government Administration (MLGA) has undertaken steps to ensure a more efficient monitoring of structures of local governance. In general, Kosovo has built up the

necessary executive institutions and has also had enough political stability which has enabled the progress in its reform process.

However, Kosovo still needs to improve its governance with a special focus at implementing the ambitious agenda of EU reforms. The Government should ensure that its legislative agenda copes better with individual ministries' capacities and with the available budget. Coordination between the Government and Assembly also needs to be further strengthened. Efforts on implementing the decentralization should continue including strengthening of local level administration.

#### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would need to respect and implement democratic principles of governance. Furthermore, the governance of Kosovo would need to be ensured through an adequate and more effective executive at all levels of administration.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Government will ensure increasing of capacities on developing and coordinating the policies and strategic planning and will ensure that legislative agenda cope with individual ministries' capacities and the current budget. To achieve this, the Government will harmonize the legislative strategy with annual work plan and the budget, and the harmonization of MTEF and the annual budget with the statement of Government's priorities, and also ensure that the annual work plan is based on the statement of priorities of Government and the ministries' priorities. To improve harmonization of domestic legislation with *acquis*, coordination of policies and absorbing of assistance, the Government will adopt a draft-law on normative acts, rules of procedure on legal acts, and will draft standards on legal drafting. In the framework of increasing capacities, in a short period of time, the Government plans to develop performance evaluation of legal offices and departments on European integration and coordination of policies in order to increase efficiency at fulfilling the state obligations in the framework of SAA. Through this mechanism, Government aims to increase the quality as well as to accelerate on the approximating domestic legislation with that of EU and, at the same time, improving coordination and management of policies, including increasing the absorption of EU's assistance.

In order to enforce capacities of administration at local level, the Government will adopt a Regulation on Municipal Performance and will adopt a package of professional documents on developing capacities in municipalities. Also, in order to complete the decentralization process, the Government will increase efforts on establishing the municipality of North Mitrovica.

#### **1.1.3. Public Administration**

Public administration in Kosovo is characterized with advanced primary and secondary legislation and the consolidated long-term strategic framework. Three basic laws – the Law on Civil Service, the Law on Salaries of Civil Servants, and the Law on Public Administration, comprise the legal basis on the status of civil servants respectively on determining the system and structure of salaries, supplements and other compensation for civil employees, as well as on regulation and internal institutional management of executive bodies. The short-term strategic framework interlocks an ambitious plan on undertaking general reforms at horizontal level. The Strategy, through 12 objectives, aims at undertaking key reforms, especially in



regards with the priority fields such as planning and management of policies, liaising budgetary planning with Government's priorities, re-organization of civil service system, improving auditing and increasing the level of procurement.

Key responsible institutions on management and coordination of public administration reforms are established and functional. Main responsible structure on ensuring implementation of Strategy and AP for PAR is the Inter-ministerial Committee on Public Administration Reform. Meanwhile, at the technical level, structures on coordination, leading and strategic planning are comprised by the institutional triangle - Ministry of Public Administration, Office of Prime Minister, and Ministry of Finance.

In order to coordinate the work on implementing the Action Plan on Public Administration Reform, there has been established a Working Group with its Working Sub-Groups, which corresponds with 12 key objectives of the Strategy. Thus, for each objective, the responsible coordinators have been assigned to monitor implementation of the strategic objectives of the Department on Managing the PAR in the framework of the MPA serves as secretariat of ICRPA and the main bearer on coordinating and monitoring implementation of policies in the framework of PA reform.

Although there have been big achievements in the field of administration reform, there are challenges which hinder a more effective implementation of reforms, which are related with the completion of legal framework and the increase of capacities on monitoring and implementing the reforms. Although the basic aforementioned legislation has been adopted, the Draft-Law on Administrative Procedures and the Draft-Law on Government remains to be completed. These two laws comprise the basis on pushing the general reforms. Meanwhile, short-term challenges remain adoption and implementation of 3 by-law acts related directly with implementation of the law on civil service and the law on civil servants' salaries. Their approval is a precondition to open SAA negotiations. With regard to fulfilling the short-term challenges from the Feasibility Study, which falls directly under the responsibility of PAR, is also the permanent solution for spaces for the Institution of Ombudsperson as well as ensuring the financial sustainability. In a wider context challenges related to IO are connected to amendment of the Law on Ombudsperson, which should be in compliance with the Venice Recommendations as well as through adoption of the Law on Salaries of Senior Public Officials. Through the last, among others, the issue of salary levels which should be at the level of Ministers and Judges would be solved.

Among others, the transition to the new system of salaries and the preparation of legal basis related to the approval of new internal regulations of the executive branch in compliance with the Law on State Administration remains a challenge. The allocation of sufficient financial means as well as the human resources on policy implementation is essential for reform implementation. At institutional aspect a challenge remains in form of the limited capacities of public administration which are based on a range of historical, social and political factors, such as the lack of administrative and institutional experience, developing the education system and the lack of political will for basic reforms in public administration. Actual efficient administrative capacities on implementing obligations that EU membership brings, is one of the key criteria of the integration process - known as the Madrid criterion.

### Measures to meet obligations under an SAA

In order to start negotiations of the Stabilization and Association Agreement, the Feasibility Study has identified these short-term criteria to be met:

1. *Adopt the necessary secondary legislation on civil service and on salaries for the civil service.*
2. *Allocate premises to the Ombudsperson and ensure its budgetary independence. The government needs to include the Ombudsperson's draft budget proposal without modifications into the global draft budget submitted to the parliament.*

In order to meet the criteria for *the start of the SAA negotiations*, the Government of Kosovo will adopt 3 by-law acts on implementing the Law on Civil Service and the Law on Salaries of Civil Servants, respectively the Draft-Regulation on the Criteria of Limiting the Right to Strike in specific services of the Civil Services, the Draft-Regulation on Care Procedures for Civil Employees because of the physical or mental inabilities or health problems, and the Draft-Regulation on Salary Supplements and other Compensation of Civil Employees. In addition, long-term spaces will also be ensured for the Institution of the Ombudsperson.

*Under an SAA, Kosovo would need to enhance further its efforts to improve professionalism, accountability, efficiency and effectiveness of its public administration at all levels, which is fundamental for a successful implementation of the necessary future reforms. The ultimate aim of these efforts would be the proper functioning of state institutions for the population's benefit.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will adopt the Draft-Law on Administrative Procedures; the Draft-Law on Government; the Draft-Law on Salaries of Senior Public Officials; Draft-Law on KIPA; and the Law on Ombudsperson Institution will be amended in order for it to be in compliance with the Venice Recommendations. Among others, the Government will render measures to accelerate implementation of the law on salaries of civil servants ensuring classification of jobs, and the transition to new salaries system. The Government will render measures to accelerate approval of internal regulation in compliance with the Law on State Administration.

#### **1.1.4. Reform of the security sector**

Constitution of the Republic of Kosovo and the relevant laws, such as the Law on the Ministry of Kosovo Security Forces and the Law on Kosovo Security Forces, regulate the security sector according to the highest democratic standards. The legal framework ensures and enables the civil and democratic control on the order and security forces, respectively through the Parliamentary Committee on Internal Affairs, Security and Overseeing of the Security Force, and Committee on Overseeing the Kosovo Intelligence Agency. Policy and strategic leading of the security sector are lead by the Kosovo Security Council, which is chaired by the Prime Minister and under the supervision of the Assembly.

Kosovo is in the reviewing phase of the security sector, which is expected to evaluate the security environment in Kosovo and, as a consequence, to produce the future strategic structure on the security sector. The review is planned to end in summer 2013.

A challenge in the security sector remains an increase of overseeing the security sector and the increase of defence capacities.

### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would need to further strengthen the democratic control of the security sector.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo will undertake measures to increase overseeing of the security sector. Kosovo institutions will develop reviewing of the security sector according the anticipated plan and will adopt the National Security Strategy.

#### **1.1.5. The judicial system**

During the last years a progress has been noted in the Kosovo judicial system. The legal reforming framework has been approved, the Law on Courts, the Law on Judicial Council, the Law on State Prosecution and Prosecutorial Council. It was achieved a substantial progress at reforming and restructuring of a new, independent, efficient and impartial judicial system conform the legislation, comprising a huge judicial and prosecutorial reform.

Key institutions on drafting, monitoring and implementing the legislation in force have been established, re-functionalizing the Judicial Council of Kosovo, establishing and functionalizing the Prosecutorial Council of Kosovo. The Constitutional Court has been established as the final authority on interpreting the Constitution, which is independent at conducting its responsibilities issuing a considerable number of decisions with a political character respected by all authorities and political leaders.

From 2011, after the entry into force of the Law on Courts and the State Prosecutor, there has been progress in improving the salaries by increasing them to a satisfactory level in order to increase the efficiency and performance of judges and prosecutors in their job. Also there has been evidenced progress in regard to the reduction of old backlog cases; KJC has adopted the State Strategy on Reducing the Old Cases, thus handling 55% out of 160.000 cases evidenced from 2008 until now.

Nevertheless the progress in judicial system, reviewing the judicial package legal framework remains a challenge which should ensure full compliance with the Venice Recommendations. Reviewing the Strategy on Reducing the Old Cases should ensure effective mechanisms in reducing of the accumulated and unsolved cases towards improving of the case management. The development of an electronic system on case management and increasing capacities on data system management remains a challenge. In this regard, a challenge remains for the connection and unification of the data of all Kosovo courts and the system's connection with KPC. From the institutional aspect, the reformation of judicial system and strengthening capacities of the administrative staff remains a challenge. Also a challenge remains the allocation of budgetary means and the increase in the number of judges and prosecutors including minority communities for which the legal framework reserves a considerable number of positions. There is a lack of a proactive approach from institutions at initiating investigation cases of international legal cooperation. The access to justice in the northern part of Kosovo remains essential; the Kosovo's justice system needs to improve its governance with a special focus on access of domestic judges in the District Court in North, since until now this court has only 6 judges and 2 international prosecutors of EULEX, and the creation of mechanisms to implement the law on investigating and judging criminal cases.

### Measures to meet obligations under an SAA

In order to start negotiations of the Stabilization and Association Agreement, the Feasibility Study has identified this short-term criterion to be met:

1. *While implementing the new structure of courts, ensure that the Special Prosecution responsible for cases of organised crime, war crimes and corruption maintains its competencies.*

In order to meet the criteria for *the start of the SAA negotiations*, Kosovo institutions will ensure that during the amending phase of the judicial law package, the competencies of the Special Prosecution of the Republic of Kosovo will remain unchanged. The Assembly will adopt the judicial law package ensuring that competencies of SPRK are in compliance with recommendations of the European Commission.

*Under an SAA, respect for the principle of the rule of law is reflected in the cooperation on consolidating the rule of law, and reinforcement of institutions in general and of law enforcement and the administration of justice in particular. Cooperation under an SAA requires further strengthening of the judiciary's independence and improving its efficiency.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will continue their efforts to complete the legal framework in accordance with EU standards, creating an independent, efficient and impartial system aiming at implementing and strengthening the legislation and court decisions alongside execution of cases.

The judicial reform package will change, avoiding the weakening of justice system alongside the court restructuring. The legal framework on selection of KJC members will be changed. All the selection procedures of members will be made in accordance with European standards and recommendations of Venice Committee, ensuring that the majority of selected members come from the judiciary. Aiming at reducing the accumulated cases, KJC will adopt a Strategy on Reducing the Old Cases and, at the same time, will increase the number of judges and support staff. In a medium-term period, KJC will functionalize the case management system and at the same time, will develop a training plan on managing the data system.

Kosovo should also ensure the protection measures for judges, prosecutors, witnesses, and court staff against the threats or intimidations, interruption of fair trial, and ensuring appropriate space in accordance with court procedures, based on the law on courts and prosecution. In this regard, KJC will sign a PSO with Kosovo Police at providing close protection for judges and will develop a PSO on assigning the security measures on access to certain court buildings. KJC and KPC will handle with a priority the cases of disciplinary or criminal breaches of judges and prosecutors, reported in the disciplinary committees, and will be handling the sensitive cases with a political character in order to improve the justice system's reputation.

Kosovo institutions will ensure pro-activity in investigation on initiating cases for the international legal cooperation issues. In this regard, the Government will amend the Law on International Legal Cooperation in Criminal Matters.

### **1.1.6. The fight against corruption**

In the field of fighting corruption, the Government has created the necessary policy and legal framework against corruption, and has established the key institutions in order to implement the legislation and policy against corruption. There has been adopted a legal framework against corruption, the Law on Anti-Corruption Agency, the Law on Protection of Informants, the Law on Preventing the Conflict of Interest at Exercising a Public Function, the Law on Declaring, the Origin, and Control of Property of Senior Public Officials, and Declaring, the Origin, and Control of Gifts of all Official Persons.

Key responsible institutions on managing and coordinating the fight against corruption are established and functional. The Agency against Corruption is an independent body responsible for implementing the state policy on fighting and preventing the corruption, especially in the field of reporting, detecting, and investigating the corruption, and implementing the Strategy and Action Plan against corruption. Meanwhile, the structures at technical level on coordinating the policy on implementing the legislation against corruption and preventing and detecting of corruptive actions have been established. The Task Force against corruption within the Special Prosecution and the National Anti-Corruption Council has been established as a coordinating body under the leadership of President, which aims the coordination of work and activities of institutions and agencies within their scope and competencies.

The Kosovo Police has established a Department against economic crimes and corruption, while there has been established common structures between the investigation police officer and the prosecution creating the Anti-Corruption Task Force aiming at preventing and investigating corruptive actions, economic and financial crimes.

However, in the field of anti-corruption, a challenge remains on improvement of the legal framework on fighting corruption and harmonization of the legislation with *acquis*. Especially, the Law on Preventing the Conflict of Interest and the Law on Declaring and Controlling the Property of Senior Officials should clarify the reporting mandates, and the execution of more persuasive and proportional sanctions. The amendment of Law on Financing of the Political Parties a challenge remains in order that donations be addressed in a transparent manner by the legal subjects ensuring goods and services for the public administration and obliging of political parties to open a single bank account, and determine the deadlines of publishing the financial reports. At the same time the adoption by the Assembly of Kosovo of a Strategy against Corruption remains as a short-term challenge. From the institutional aspect a challenge remains the lack of more proactive actions by KACA since there lacks a special investigation mechanism between the law-enforcement institutions.

#### Measures to meet obligations under an SAA

In order to start negotiations of the Stabilization and Association Agreement, the Feasibility Study has identified this short-term criterion to be met:

1. *Adopt a new anti-corruption strategy.*

In order to meet the criteria for *the start of the SAA negotiations*, Kosovo institutions will make sure to, in close cooperation and coordination with EULEX, create coordinating mechanisms to increase investigation of corruption cases, and there will be rendered measures on increasing

the results at implementing the anti-corruption policy. The Assembly of Kosovo will adopt the Strategy against Corruption.

*Under an SAA, cooperation would be aimed at further strengthening the independence of the judiciary and improving its efficiency and at improving the functioning of the police and other law enforcement bodies in fighting corruption.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will create concrete steps at completing the legal framework in accordance with the EU standards. The Law on Preventing the Conflict of Interest will be changed addressing the respective reporting obligations. There will also be amendments in the Law on Declaring of Property and Conflict of Interest foreseeing the execution of more persuasive and proportional sanctions.

The Assembly will amend the Law on Financing Political Parties by addressing the donations transparency by legal subjects providing goods and services to the public administration, and obliging the political parties in opening a single bank account and determining the deadlines on publishing the financial reports. There will also be rendered measures at creating a special investigation mechanism between the KACA and law-enforcement institutions which will help at strengthening the inter-institutional cooperation at investigating and judging corruption cases.

#### **1.1.7. Relations with the international community**

Kosovo has fulfilled to a great extent all the criteria arising from the Comprehensive Proposal of the Ahtisaari Package and consequently on 10 September 2012 the International Steering Group has declared the Kosovo's independence supervision phase along with the mandate of the Office of International Civil Representative. However, Kosovo has achieved an agreement with the European Union on extending the EULEX's mandate until June 2014. In this regard, the Assembly has adopted the Law on Ratification of International Agreement between the Republic of Kosovo and the EU on the EULEX's mission on the rule of law in Kosovo. In November 2012, the Government of Kosovo and EULEX Mission in the consecutive meeting of the Common Coordinating Board on the Rule of Law signed the "*Compact Agreement on the Rule of Law*" and approved the "*Updated Terms of Reference*", which set the common objectives in the field of the rule of law and determine clear mandates on sharing the duties.

Kosovo has increased its commitment to a great extent on increasing recognitions of Kosovo as an independent country and, as a consequence the number of recognitions has achieved 95. Institutions have increased activities on membership of Kosovo in international mechanisms and, as a consequence, Kosovo is now a member of some regional organizations and other international mechanisms. Kosovo is a member of the International Monetary Fund and the World Bank, with which it has supporting agreements. In November 2012, Kosovo has made huge progress by becoming a member of the European Bank on Reconstruction and Development, enabling Kosovo access to funds to finance projects aiming at economic development. In 2012 Kosovo has successfully chaired the regular meetings of CEFTA and continues to be a contributor at equal levels with other regional countries.

Apart from achievements in the field of international relations, challenges still remain and make Kosovo's position in international arena difficult. Non-recognition by 5 EU countries represents a challenge on the Kosovo's path towards the European integration process. Also, the lack of sufficient recognitions impedes Kosovo's membership in other international mechanisms, such as UN, OSCE or the Council of Europe and, as a consequence, Kosovo is not able to fully benefit from evaluation mechanisms of the respective conventions.

However, to address these challenges, the Government of Kosovo will increase diplomatic activities on increasing the reorganization and membership in relevant international mechanisms. The Government will adopt a Foreign Policy Strategy through which it aims at increasing recognitions and becoming a member of international mechanisms.

## **1.2. Human Rights and the protection of minorities**

### **1.2.1. Civil, political, economic, and social rights**

The basic rights and freedoms already have a solid legal basis and are regulated based on the principles set out in the Constitution respectively the Second Chapter – Basic Rights and Freedoms, and other relevant laws. The Constitution has incorporated main international agreements and instruments directly applicable in Kosovo, including the Universal Declaration of Human Rights, the European Convention on Protection of Basic Human Rights and Freedoms and its Protocols. The Constitution ensures the prevalence of these agreements in case of a conflict with domestic legislation. The Constitution also foresees the right of individuals to present cases before the Constitutional Court on breaches of their rights by public authorities and the Ombudsperson may refer issues before the Constitutional Court. The basic legal framework is extended with the Law against Discrimination, the Law against Domestic Violence, the Law on Gender Equality, the Law on Social Assistance Scheme, the Law on Financial Assistance to Families with Children with Limited Abilities, the Law on Professional Training and Employment of Persons with Limited Abilities, the Labor Law, and the Juvenile Justice Code which is widely in compliance with the EU standards. As regards to the strategic documents, until now the Government has adopted the Strategy on Human Rights (now at reviewing process), the Strategy for Persons with Limited Abilities, the Strategy on Children Rights and the Kosovo Program against domestic violence. All these have as their objective ensuring the protection, monitoring and promotion of fundamental rights and freedoms.

Institutions responsible on monitoring human rights legislation implementation are established and functional. At the central level there is the Office on Good Governance within the Office of Prime Minister, mandated to preserve and promote principles of basic human rights and freedoms. Furthermore, there have been established human rights units within other institutions at the central and local level. As regards the gender equality issues, at the central level there is the mandated Agency on Gender Equality – Office of Prime Minister and there have been assigned officials of this domain in all central and local level institutions. As regards to the issue of missing persons, responsible on this is the Government Committee on Missing Persons and the Assembly of Kosovo has a specialized Committee on Human Rights, Gender Equality, Missing Persons and Petitions and is mandated at reviewing draft-laws and ensuring compliance with international and European legislation.

Notwithstanding achievements in the field of fundamental rights, there remain challenges which make it harder to effectively implement the legal framework as regards to the protection,

promotion and monitoring of human rights. Diversity of structures complicates the clear sharing of competencies between these institutions and makes evidently difficult the efficiency at implementing the legal framework. More needs to be done in the field of free expression to ensure implementation in practice. Cases of physical attacks against journalists should be investigated and criminally prosecuted. While, as regards the property rights, there should be worked more at implementing and respecting them, reducing the number of cases accumulated and further implementing the court and administrative decisions. The Ministry of Justice should complete the secondary legislation at law implementation on execution of criminal sanctions and should continue its efforts to increase professionalism of correctional service staff. At the same time, there should be continued effort at addressing other issues as further efforts about non-conviction and access to justice, especially about the most vulnerable groups of society including the victims of trafficking. Furthermore, there remains a humanitarian worrisome for the destiny of persons missing during the conflicts in 1990-s (until August 2012 1770 cases). Implementation of the law on protection against domestic violence should improve and implementation of the anti-discrimination legislation remains a challenge. Persons with limited abilities face difficulties as regard the access to employment, goods and services, transport and education. Implementation of the trade-union and commercial rights should be further improved.

#### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would need to respect and implement democratic principles and human rights as set out in key international documents such as the Universal Declaration of Human Rights and the European Convention of Human Rights. Respect for the principles of international law and rule of law in general would form the basis of the domestic and external policies of parties to an SAA. Kosovo would need to ensure that the basic rights and freedoms are guaranteed and their enforcement gradually improved.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Government of Kosovo will undertake steps at completing the legal framework by decreeing the new Criminal Code. To ensure access to employment for persons with limited abilities, the Government will amend the Law on Training, Professional Re-training and Employment of Persons with Limited Abilities in order to ensure inclusion of special needs during the drafting of employment policy. Further, a regulation will be drafted which will address the issue of simplifying the responsible structures in the field of human rights. As regards the regional cooperation on missing persons, there will be achieved a Memorandum of Understanding with EULEX and there will be ensured active participation at drafting/finalizing the regional list on missing persons. As regards the addressing of trade-union and commercial rights, the Government will focus in increasing capacities of labor inspectors by drafting a Strategy on Developing the Labor Inspectorate including a training plan as well. About improving implementation of the Law against Discrimination, an Action Plan covering the time period 2013-2015 will be drafted. The Ministry of Justice will complete the adoption of secondary legislation on implementing the Law on Execution of Criminal Sanctions. About the correctional service, the Government will continue to improve the conditions for the prisoners throughout the Correctional Centers and those of Detaining, and will draft a plan on training to continue the increase of professional capacities of the correctional service staff. Further, there will be conducted a close and regular statistical monitoring as regards the execution of judicial and administrative decisions dealing with cases of property rights, execution of judicial decisions dealing with cases that involve the



vulnerable groups and ensuring access to justice, as well as cases against the domestic violence. In this regard, it is foreseen a reform of execution system which will be realized by adopting the Draft-Law on Execution Procedure. This Law will reform the execution system in compliance with requirements on signing the SAA. Through this law, a more efficient implementation of the legislation in force and implementation of court decisions of a civil and administrative nature will be achieved in Kosovo.

### **1.2.2. Respect for and protection of minorities, cultural rights**

Respect and protection of minorities and cultural rights in Kosovo is regulated not only by the Constitution of the Republic of Kosovo (Chapter III). International conventions which are directly applicable in the Republic of Kosovo in accordance with the Constitution are the European Council Convention on Protection of Minority Rights and International Convention on Elimination of all Forms of Racial Discrimination. Aside from this, there exist other international agreements obligatory to the Republic of Kosovo, such as the Annex on Constitutional Rights, the Rights of Communities, Decentralization and the Annex on Cultural Heritage. There also exists the advanced primary and secondary legislation related to these rights. Basic laws including the Law on Protection and Promotion of the Rights of Communities and Their Members in the Republic of Kosovo, the Law on Use of Languages, the Law on Cultural Heritage, the Law on Special Protected Areas, the Law on Historical Centre of Prizren, the Law on Hoqa e Madhe, the Law on Public Broadcaster, the Law on Religious Freedoms in Kosovo, and the Law against Discrimination. Except this, these rights are regulated by secondary legislation, such as the Regulation on Municipal Offices on Communities and Return, and the Regulation on the Office of the Commissioner on Languages. Also, there has been drafted the Strategy and Action Plan of RAE Communities and the Strategy on Communities and Return 2009-2013, objectives of which are the creation of a sustainable community, sustainable return and re-integration of persons displaced internally, and the economic re-integration of communities. On monitoring the Strategy and National Action Plan on RAE Communities there have been established the Technical Working Group, charged with monitoring of this Strategy, which meets four times annually, and the Steering Inter-institutional Committee, which meets twice annually. Also, there has been established the working group on reforming the Office of Languages Commissioner, which holds a number of meetings chaired by the OCA.

Key responsible institutions on implementing the legislation, both at central and local level, are established and functional. At the central level there is the Ministry for Communities and Return (MCR), the Office for Community Affairs within the Office of Prime Minister, the Consultative Committee on Communities (the Presidency), and the Parliamentary Committee on the Rights, Communities' Interests and Return, and the Committee on Communities.

Notwithstanding the progress at completing the legal and strategic framework, their efficient implementation remains a challenge. Especially, a challenge remains the implementation of legislation on protection the cultural heritage and the Serb Orthodox Church, especially the laws on Historical Centre of Prizren and the one on Hoqa e Madhe. A further progress is also needed in implementing the Strategy and Action Plan of RAE Communities, including the allocation of necessary funds related to "Forty Actions" on integration of the RAE Communities. A short-term challenge remains the establishment of a consultative body on protection of cultural and religious heritage.

Furthermore, it should be worked on increasing representation of minority communities in public administration and on improving implementation of legislation on using of official languages at institutional and social level all over Kosovo. Conditions should be created for the return of Serbs and other minorities wishing to return. The Office of Language Commissioner should be provided with the budget, staff, and space. Broadcasting in Serbian language should be ensured by the public broadcaster. Physical attacks motivated on ethnic or religious basis should be investigated and the offenders be brought before justice. Access to education, fight against school drop-out, and the quality results of education, should complement the last syllabus of Roma community and it is important that incidents which threaten security of locations and properties of the returnees be investigated totally and be sent to the court.

#### Measures to meet obligations under an SAA

In order to start negotiations of the Stabilization and Association Agreement, the Feasibility Study has identified this short-term criterion to be met:

1. *Ensure existence of a body enabling direct consultation on the promotion and protection of religious and cultural heritage with religious communities, notably the Serbian Orthodox Church.*

In order to meet the criteria for *the start of the SAA negotiations*, the Government and the Assembly of Kosovo will adopt administrative instructions on Monitoring Implementing Council, and will ensure its functionalizing.

*Under an SAA, Kosovo would need to respect and implement the rights of persons belonging to minorities on the basis of international and European standards. Kosovo would also need to offer the possibility of return for displaced persons who may wish to come back.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will functionalize the Office of Language Commissioner and the allocation of budget, space and human resources will be made. As regards to the protection of Historical Centre of Prizren and the Hoqa e Madhe village, the local councils on implementing the respective laws will be established and the budget on implementing them will be allocated. Further, a TV channel in Serbian language within the framework of public broadcaster will be established. As regards the integration of RAE communities at the local and central level, the budgeting on implementing the “Forty Actions “will be made, and the rate of employment from the minority groups will grow. In attempting at providing the opportunities to return the displaced persons, building and re-building of houses will continue, and the number of returnees and projects supported in regard to return will be monitored. Further, investigations, prosecution and judging of cases related to physical attacks motivated on ethnic and religious basis will be made.

## **2. ECONOMIC CRITERIA**

### **2.1. Economic Situation and Stability**

#### **2.1.1. Economic situation**

Development and economic policies of recent years were based on maintaining the macroeconomic and financial stability with emphasis on fiscal consolidation. This has been reflected on the priorities of the Government included in the Medium Term Expenditure Framework 2013-2015. Such priorities are focused on the growth and sustainable economic development, strengthening the good governance and rule of law, development of human and physical resources and increase of social welfare in general. The financing of such priorities is incorporated in the budgetary framework.

The implementation of the Stand-By Agreement with IMF has continued while serving as an anchor to the fiscal consolidation efforts. Kosovo has joined the European Bank on Reconstruction and Development (EBRD) and has been admitted in the European Investment Bank (EIB) programs. Membership in these international financial mechanisms will have a positive impact in economic development of the country and should contribute to the improvement of the conditions for better access to finance.

The country has enjoyed an economic growth of 5% on average over the last three years. Growth is expected to slow down in 2012 taking into account the recent economic developments of the Euro zone. For the period 2013-2015, the economy is foreseen to grow at approximately 5% on average. The general consumption continues to be the main component of GDP, which in the next 3 years is expected to grow by a real 4.0% annually. Overall investments are another important contributor to the GDP, driven by the increase of the share of public investments in the total of investments (in 2012 about 14.2% higher than 2011). The share of total investments in GDP is expected to reach at 32.2% at the end of period 2013-2015, from 32.1% in 2011. Export of goods and services is expected to increase with a real average rate of 8.6%. Imports are also expected to grow in the mid-term. The imports are expected to contribute negatively to the real growth of GDP by an average of 2.2% in mid-term.

Inflation in 2012 is expected to be on average at 2.2%, driven by the movement of food and oil prices in the international markets. Based on the forecasts of international institutions for a decline of the food and oil prices and anticipated trends of the non-traded goods prices, the price level in Kosovo is foreseen to grow at a slower rate in the next three years vis-à-vis the previous period.

The financial sector continues to be stable. Although dominated by foreign-owned banks, the banking sector has been liquid due to the fact that bank operations are mainly financed by domestic deposits. The Central Bank has jointly with Ministry of Finance established an emergency liquidity support fund; although there was no need to use this additional mechanism of liquidity so far. In September 2012, assets of the banking sector had an annual growth of 5.1% (14.7% in September 2011). The credit to deposit ratio was 79.7% in September 2012, an improvement compared to the previous year (78.9% in September 2011).

The trade balance is characterized with a trade deficit on average at around 42.5% of GDP in the last three years. The trade balance is expected to have a modest decreasing tendency in the period 2012-2015 due to the faster increase of exports of goods and trade in services. Import of

goods is expected to continue its growing trend during this period regardless of the assumptions for a modest replacement of some imports with domestic products. The recent upward trend of the current account deficit is foreseen to stabilize at around 19% of GDP. Net transfers which are predominantly remittances have remained stable despite the negative developments in the Euro zone countries. Improvements of the business environment are expected to positively impact the inward Foreign Direct Investment and improvements of the capital and financial account.

Main institutions for policy formulation, implementation and monitoring at the national level, are in place. Prime Ministers Office for Strategic Planning is involved in the formulation of mid-term development priorities of the Government based on strategic documents, such as the Government Program 2011-2014 and the Vision and Priorities on Economic Development approved in 2011. This Office also coordinates monitoring of implementation of these priorities. The Ministry of Finance according to its mandate is responsible to initiate the drafting process of MTEF as a document linking policy formulation to planning and annual budgeting based on Government's priorities and macro-fiscal projections. The responsible ministries then operationalise the priorities into projects and budgetary activities through the annual budget of budgetary organizations. Furthermore, the National Council on Economic Development plays an active role as a forum of discussing policy-making initiatives and consultation with business associations and other relevant stakeholders. The Council is also a body that monitors the implementation of the Action Plan for Economic Development 2011-2014. Social partners are involved in policy-making through the Economic-Social Council, where the social dialogue takes place between the employers and employees on economic and social issues.

Regardless of the progress made on maintaining economic stability and implementation of reforms based on the market economy principles, there remain many challenges for the economy of Kosovo. The high rate of unemployment, high external deficit, strengthening of the rule of law, and better targeting of policies remain primary challenges for economic development of Kosovo. From the institutional point of view, the continuous strengthening of capacities for better forecasting and costing of priorities and expenses remains a challenge.

#### Measures to meet obligations under an SAA

*Design and implementation of market-based economic policies, further development of capacities for estimations and macroeconomic forecasting thus strengthening the institutional and macroeconomic stability*

In order to meet obligations under the Stabilization and Association Agreement, Kosovo institutions should maintain the economic and macro fiscal stability. For this purpose, the government will continue with the fulfilment of structural and quantitative criteria outlined in the SBA with IMF, including the primary deficit, the bank balance and adoption of a fiscal rule in line with IMF recommendations. The Government will undertake some steps to advance the MTEF as a policy tool to include comparison of projections with other institutions, data on budgetary expenditure and public debt divided by the level of government and sector priorities. As to the development of capacities, the Government plans activities on training and advancement of staff of budget organizations on estimations and costing of new initiatives and draft-laws and improving the inputs from budgetary organization for MTEF.

### **2.1.2. Fiscal policies**

Fiscal policies of the last three years have been developed in accordance with the objective of preserving fiscal sustainability, increasing the available revenues and creating a more favorable environment for investments and business. For this purpose, since 2009, reforms have been made in the tax system to include the cuts of income and corporate taxes, amending the VAT rate and increasing the excise on some products.

The budget deficit has grown from 1.1% in 2009 to 2.5 of GDP in 2010, chiefly due to the additional capital investments. In 2011, the deficit was reduced to -1.7% of the GDP. General revenue has grown at an annual average of 14% in the period of 2007-2011. During 2011 alone, revenues grew by 18% compared to 2010. In the first nine months of 2012, budget revenues (including loans) are 21% higher compared to the same period of 2011. Domestic revenues have grown by an annual average of about 10.3% in the period 2007-2011 or 47.1% compared to 2007. In 2011 they have grown by 18% more than in the previous year. In the first nine months of 2012, domestic tax revenues grew by approximately 5%.

General budget expenditures grew from 19.1% of GDP in 2007 to 28.8% in 2011. In the first nine months of 2012, general expenditures have grown with a 10% in comparison to the same period of 2011. Capital expenditures in the period 2007-2011 have grown from 4.6% to 11.5% of GDP, while in the first nine months of 2012 they grew by a 14% more compared to the same period of 2011.

Legislation on public debt is composed of the Law on Public Debt and the Administrative Instruction on issuance and management of debt and state guarantees. Furthermore, Kosovo has made positive steps concerning the legislation on securities market with the approval of a regulation on primary and secondary market of government securities. The public debt at the end of first six months of 2012 stood at about 6% of GDP. In the securities market, the Government has issued treasury bonds in several auctions held in 2012, hence raising about €70 million by the end of 2012.

The key institution for the fiscal policies is the Ministry of Finance. The main executive institutions of fiscal policies are the Tax Administration of Kosovo and the Kosovo Customs. In order to adequately manage and monitor the public debt, Ministry of Finance has a Debt Management Division. For efficient functioning of the securities market, the electronic platform for securities market has been operationalised and a central depository system has been established in the Central Bank. A web interface has been established between the Central Bank and Treasury Department (in the Ministry of Finance) which enables the Treasury to approve auction results.

Despite considerable progress made as regards the public financial management, several challenges remain in this area. Such challenges are related to the increase of the share of domestic revenue in the total revenue and further reform of the fiscal system. Taking into account the forthcoming and mid-term financing needs of some sectors, the careful management and monitoring of public debt shall be of particular importance for authorities.

*Measures to meet obligations under an SAA*

## *Implementation of fiscal policies that contribute to economic development and ensure long-term sustainability of public finance*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will continue with the fiscal system reforms in harmony with EU principles. In this regard, institutions plan to continue further alignment of fiscal legislation and monitoring to ensure adequate implementation of laws. The Government plans to implement recommendations of the IMF technical assistance on the tax system, it also intends to broaden the tax base and gradually increase the share of domestic revenue to overall revenue. The expansion of electronic system for registering and payment of taxes will continue. To increase sustainability of public finance and to support stable fiscal policies, during 2013 the Government will design a fiscal rule in line with IMF recommendations which will begin implementing in 2014. Institutions also plan to undertake measures that contribute to the management and efficient monitoring of public debt, including the approval of a Mid-Term Public Debt Strategy 2014-2017 and increasing capacities for capital markets and internal debt through training programmes.

### **2.2. Price and Trade Liberalization**

As a member of CEFTA, Kosovo has a free trade regime with members of this mechanism. Recently, Kosovo has started negotiations on a possible free trade agreement with Turkey. The Inter Ministerial Council on Trade Policy and the respective working groups and sub-groups have been established and operationalised as a mechanism of ensuring the involvement and consultation of relevant government institutions and business associations in the discussion of trade policy issues.

As regards the liberalization of prices of network industries, the price-setting of services of general economic interest is carried out by the independent regulatory agencies. The Energy Regulatory Office (ERO), according to law, determines the electricity and thermal energy tariffs. Also, ERO determines the tariffs on central heating. The Water and Waste Regulatory Office (WWRO) regulates the water and sewage tariffs. Prices on telecommunication services, according to the law, are determined by the Telecommunication Regulatory Authority (TRA). In the railway industry, the public company TRAINKOS, pursuant to law, has the option of determining its tariffs.

#### *Measures to meet obligations under an SAA*

*Price-setting based on market mechanisms and independent regulators, and free trade in accordance with regional and international principles of trade*

In order to *meet obligations under the Stabilization and Association Agreement*, institutions have planned to continue with mechanisms on determining free prices through independent regulators in the sectors of energy and central heating, telecommunications, water and sewage.

### **2.3. Privatization, private sector development, and financial reform**

#### **2.3.1. Privatization and private sector development**

The legal framework for privatization is well developed and adequate after the approval of legislative package on privatization. The main legislation in this area consists of the Law on Privatization Agency of Kosovo, the Law on Special Chamber of Supreme Court Related to PAK

issues, the Law on Re-organization of Certain Enterprises and Their Assets, and the Law on Foreign Investments. This legislation regulates the privatization process of publicly-owned enterprises, liquidation and responsibilities and functions of the Privatization Agency.

The key institution for the privatization process is the Privatization Agency of Kosovo, which functions as an independent public institution with full legal competencies to sign contracts, to hold and sell properties. PAK's competencies are given to the Board of Directors, consisting of 5 domestic directors and 3 international directors. Meanwhile, the Special Chamber of the Supreme Court has jurisdiction on all claims against the Agency, including the claims of creditors in the liquidation process.

So far the Agency has privatized over 300 publicly-owned enterprises, with full or partial selling of about 690 new enterprises. The Agency has also closed the internal procedures on liquidation of about 70 enterprises, whose liquidation is pending to the review of creditors' claims by the Special Chamber of the Supreme Court. The Agency also has allocated over €500 million to employees qualified for the 20% of privatization proceeds.

A number of large public-owned enterprises have also been privatized. The Prishtina International Airport went under management of a concession due to a Public-Private Partnership agreement between the Government and a Turkish-French Consortium 'Limak & Airports de Lyon' and the privatization of Kosovo Energy and Distribution and Supply (KEDS) is currently being finalized. Part of its restructuring, Post and Telecom has been divided in two entities where the telecom is currently in the privatization process. Similarly, the railways, as part of the restructuring and deregulation, have been divided in two companies: the Trainkos, which covers operations, and the Infrakos, which manages the railways infrastructure. Authorities are looking into the possibilities for new PPP arrangements for publicly-owned companies.

As regards the private sector development, main legislation consists of the Law on Business Organizations, the Law on Internal Trade, and the Law on Foreign Investments. With the purpose of identifying the challenges and main priorities of private sector development, institutions have adopted the Strategy on SME Development 2012-2016 with a vision 2020, which takes into account the principles of European Small Business Act. The Ministry of Trade and Industry has drafted an Action Plan for the implementation of the SME Development Strategy and its objectives.

Key institutions for development of policies, for creating preconditions and a favorable regulatory environment are in place. The Ministry of Trade and Industry respectively the SME Agency is the key institution in this area. The National Council for Economic Development plays an important role in discussing and shaping appropriate policy measures, with the active participation of business associations. A network of 25 business registration centers has already been opened and operational in various municipalities.

Several measures have been taken to ease the administrative procedures for businesses part of the Doing Business Reform. The time and procedures for registering a business and obtaining permits and licences are cut considerably. The business registration system is integrated with TAK's system and that of Customs whereby businesses can now get the fiscal number, VAT

certificate, as well as the import/export certificate together with the business registration. The seed capital requirement has been eliminated for some types of companies and reduced for others. Several business licenses are eliminated. All these measures have had an influence on the improvements of the doing business environment which is also reflected in World Bank's Doing Business Report 2012 rankings where Kosovo has moved up for several positions.

Despite the considerable progress made in the privatization process and development of private sector, there are numerous challenges that impede the development and growth of this sector. As regards the privatization, acceleration of the liquidation process of SOEs and restructuring of "large" enterprises remains a challenge. The complete implementation of the legal and regulatory framework for improving the business environment poses another challenging task for the private sector development. In summation, the greatest challenges consist on the removal of obstacles that hinder the development of the private sector including among others the improved rule of law, elimination of unfair competition and informal economy, improved cost and access to finance and addressing the insufficiently qualified labor force. In the long-term, the focus should be on transforming the structure of economic activity, modernization and restructuring of the SME sector.

#### *Measures to meet obligations under an SAA*

*Privatization, growth and development of private sector, including the strengthening of rule of law, legal and policy framework for promoting a suitable environment for businesses and investments*

In order to *meet obligations under the Stabilization and Association Agreement*, institutions have planned to accelerate the liquidation, measures concerning the creditors' claims, and appraisal of assets and reserves of Trepça-part of the reorganization of "large" enterprises. The further dismantling of the energy sector will continue with the separation of the production component from generation. With the aim of further improving the financial performance of the energy sector, authorities have planned measures for improving electricity billing and collection rates.

In order to develop the public-private partnership, institutions plan to further develop and align the PPP legislation with that of the EU, and to increase institutional and human capacities through designing manuals and training the human capacities of the PPP Central Department.

In order to improve the doing business environment and reduce the informal economy, institutions have planned business enabling activities with municipalities, activities to protect and promote investments, field inspections to be carried out by Customs. Also there are measures to be taken within the Strategic Plan of Tax Administration and the Task Force for implementing the governmental programme for prevention of informal economy. Institutions have foreseen to carry out a study for modalities of establishing a loan guarantee scheme in the mid-term aiming to target an improved access and cost of finance to SMEs. Similarly, institutions aim to set up an SME subsidizing fund which together with an increased access and potential membership in various EU development institutions (CIP, EU SME Week, EDIF) and other grant mechanisms will serve as a financial framework for easing the access of SMEs to finance.



### **2.3.2. Financial sector reform**

The financial sector legal framework is advanced and to a great extent in line with EU and international standards. The main legislation regulating the functioning of financial system is constituted of the Law on Central Bank of Kosovo, the Law on Banks, Micro financial Institutions and Non-bank Financial Institutions, the Law on Compulsory Motor Liability Insurance, the Law on Pension Funds, and the Law on Establishment of a Deposit Insurance System for financial institutions in Kosovo. For the efficient implementation of this legislation, the Central Bank of republic of Kosovo has adopted rules and regulations regarding licensing, operations and supervision of financial institutions, including the insurance sector.

The Central Bank of Republic of Kosovo is the central institution that stimulates and maintains the stability of the financial system and contributes in achieving and preserving the monetary and financial stability including bank operations and its economic research activities.

The financial system consists of commercial banks, insurance companies, pension funds, micro finance institutions and non-bank financial institutions. The sector is dominated by the banking system made of 8 commercial banks Total assets of the financial sector at the end of 2011 were €3.5 billion which represents an annual increase of 9.3% compared to the previous year. The structure of banking system assets is dominated by loans, with a share of loans in total assets of approximately 64.1% at the end of year 2011. In September 2012, the share of loans in total assets was about 63.6% which represents an increase compared with the same period of the previous year.

The capitalization ratio remains adequate and sufficiently high with the Capital Adequacy Ratio of 17.7% in September 2012 (compared to 17.1% in September 2011). The Capital Adequacy Ratio is recommended to be at least at around 12%.

The banking system continues to show a satisfactory level of liquidity and remains profitable. Nonetheless, the net profit of the banking system has suffered a 30% decrease in September 2012 in comparison to the same period of 2011 which is then reflected on the Return on Average Assets (1% compared to 1.5% in 2011) and Return on Average Capital (10.7% in September 2010 compared to 15.8% in September 2011). The ratio of non-performing loans to total loans increased from 6% in September 2011 to 7% in September 2012.

The total loans issued by the banking system in September 2012 reached at €1.76 billion which represents an annual increase of 6.2%. Whereas, the deposits stood at €2.2billion in September 2012, an annual increase of 5.2%. In September 2012, the loan to deposit ratio stood at 79.7% (78.9% in the same period of 2011).

#### *Measures to meet obligations under an SAA*

*Maintaining and advancing a stable and effective financial system which promotes efficient allocation of resources.*

In order to *meet obligations under the Stabilization and Association Agreement*, and to further align the financial legislation with that of EU, institutions have planned to adopt the Law on General Insurance and the Law on Payments System, including the necessary secondary legislation for the Law on Payments System.

### **3. ABILITY TO ASSUME THE OBLIGATIONS RESULTING FROM AN SAA**

#### **3.1. Political dialogue**

Kosovo to a great extent has coordinated its foreign policy with that of EU. Kosovo has in place all relevant institutions to develop political dialogue and to commit obligations, and to implement international agreements. The political dialogue in the framework of European integration process will ensure that Kosovo gradually develops policy in accordance with key principles of EU's foreign policy.

*SAA will provide the framework on political dialogue to focus on integration, gradual approximation, further convergence of positions on international issues, regional cooperation and good neighbourhood relations.*

#### **3.2. Regional cooperation**

In the framework of improving inter-neighborhood relations and within regional cooperation, Kosovo has undertaken all necessary steps to ensure good neighborhood, regional stability and normalization of inter-state relations with all regional countries, especially Serbia. Kosovo has shown will and political commitment to enter a dialogue with Serbia in order to promote cooperation, and improve lives of its citizens. This will and commitment is highly evaluated by the EU and international mechanisms. In the framework of dialogue there have been achieved a number of bilateral agreements with Serbia dealing with the free movement of citizens, customs seals, mutual recognition of university diplomas, cadastral status on MIK, and the regional cooperation. Kosovo has continued to implement the confidence on all agreements achieved and is constructively engaged during the whole process.

Kosovo participates in regional cooperation initiatives and is a member of the Regional Cooperation Council since 2008. Kosovo conducts its duty towards the Council contributing with a total amount of 4% of the South-Eastern European countries. During 2011, Kosovo successfully chaired the CEFTA meetings, including the inter-ministerial meeting held in November 2011. Kosovo regularly participates in annual meetings; meetings of the National Coordinating Board, and other sector meetings of the Council. Furthermore, Kosovo participates in the RCC initiatives: South-Eastern Electronic Initiative and the South-Eastern European Cable Initiative. Kosovo also participates in the project of European Commission on the Centre on Developing the Governance, and the project on Monitoring the Communication Sector and Information Society Services. The Ministry of Economic Development is a member of the Energy Community Treaty and regularly participates in meetings organized by the Community's secretariat, such as: Inter-ministerial Council, Permanent Forum of the High Level, EE Task Force, Task Force on Environment, Task Force on Regional Strategy on Energy, and other forums organized by the secretariat. Also, under the second component of IPA assistance framework, Kosovo participates in the joint implementation of the Cross-Border Programmes with Albania, Montenegro, and Macedonia.

However, a challenge remains full normalization of relations with Serbia, and the overrunning the continual opposition by Serbia for membership of Kosovo in all regional mechanisms.

#### *Measures to meet obligations under an SAA*

*According to SAA, Kosovo will engage at actively promoting the regional cooperation in all fields covered by the agreement.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo will continue providing annual financial contribution on functioning of the Council for Regional Cooperation, and will work at fulfilling the criteria on application and membership in regional mechanisms. Kosovo will work on implementing the IMB Protocol agreements with Serbia, and will engage on achieving the agreements on free movement of goods and people.

### **3.3. Free movement of goods**

#### **Trade policy**

In order to strengthen the market economy, the Ministry of Trade and Industry has continued to actively contribute towards developing the necessary preconditions for trade. The current liberal market regime and the legislation in effect provide a good basis for a functional market in accordance to the EU standards. Key laws such as the Law on Internal Trade, the Law on Business Organizations, and the Law on External Trade, outline the framework for exercising the trade activity in the internal and external market, limited practices and protective measures of trade, procedures, import, export and transit of goods, services and capital assets, unfair competition, supervision measures, administrative measures, punitive measures, and the final provisions. Such a legislative framework enables the free movement of goods both within Kosovo and with other countries in accordance with EU *acquis*, while limiting the rules that are not in compliance with EU principles.

The Trade Policy Council is established as an inter-ministerial platform that facilitates the formulation of policies and dialogue with businesses. The Council has also established its Trade Policy Working Groups on the operational level consisting of five sub-working groups: subgroup on agriculture, trade facilitation, services, industry, and the subgroup on trade agreements. Trade Policy is also within the framework of the National Council on Economic Development, which is led by the Ministry of Trade and Industry.

The Ministry of Trade and Industry (MTI) as a key institution is entirely restructured to strengthen its departments and agencies including the Department of Trade and is currently putting in place the new organizational structure of the ministry.

Implementation of the legal framework on trade in its entirety, competition and internal trade are the key factors in achieving trade priorities of Kosovo. Kosovo has modernized the regulatory trade framework by adopting and aligning its legislation with EU *acquis*. Institutions have focused their efforts on the effective implementation of legislation. Kosovo should make sure it has in place the adequate administrative capacities to carry out trade negotiations.

Despite its liberal trade regime, Kosovo shall have in place the necessary safeguard measures against unfair trade practices (dumping and import subsidies). Intensification of reforms and an added focus on their implementation shall bring about positive results to the country's trade.

#### *Measures to meet short-term benchmarks for an SAA*

In order to start negotiations for the Stabilization and Association Agreement, the Feasibility Study has identified this short-term criterion to be met:

*Implement the government decision on the restructuring of the Ministry for Trade and Industry, put in place a mechanism to lead and coordinate negotiations within Kosovo and prepare an impact analysis of trade aspects of a Stabilisation and Association Agreement.*

In order to meet the criteria on *opening negotiations* for the Stabilization and Association Agreement, the Ministry of Trade and Industry has undertaken concrete steps on restructuring the Ministry and its departments entirely, with a special focus on the Department of Trade, taking into account its importance during the SAA negotiations.

Also, institutions are working on adopting the negotiation structures coordinated by Ministry of European Integration where MTI trade policy structures are expected to have a central role regarding the trade aspects of the SAA. The Inter-Ministerial Council for Trade Policy is already operational with regular meetings of its trade policy subgroups on services, industry, agriculture and industry. Trade Policy subgroups aim to serve as a discussion forum for new policies and as a trade facilitation body when negotiating trade arrangements with other countries. A trade impact assessment that identifies the potential impact of the Free Trade Agreement (SAA) with EU has been completed.

#### Measures to meet obligations under an SAA

*Under an SAA, ensuring free movement of goods is one of the main objectives. The parties establish gradually a free trade area, within a transitional period to be determined during the negotiations. This free trade area would have to be in conformity with relevant WTO provisions.*

*Kosovo would commit not to establish quantitative restrictions or measures having an equivalent effect, to progressively dismantle its respective customs duties and equivalent measures on almost all trade with the EU. It would commit to prevent practices discriminating directly or indirectly against EU producers. The EU autonomous trade measures already contain a standstill clause making them conditional on the beneficiaries not introducing new import duties and measures having equivalent effect in trade with the EU. This would become a contractual obligation under an SAA. The customs authorities in Kosovo would need to be able to enforce and safeguard these demanding trade regimes.*

In order to *meet obligations under the Stabilization and Association Agreement*, ensuring the free movement of goods is an integral part of Kosovo's trade priority objectives. This will gradually lead Kosovo towards a free trade area in accordance to the WTO principles thus eliminating customs duties with EU, restricting the use of quantitative barriers and other measures of similar effects. The continuous monitoring of the implementation of CEFTA through field collection of evidence on tariff and non-tariff barriers, active participation on CEFTA subgroups meetings and information sharing with businesses will also contribute to this goal. Strengthening administrative capacities is an important element not only for carrying out negotiations for the SAA but also for the effective implementation of reforms and obligations arising from the SAA. A preferential trade regime is expected to have a positive impact on stimulating the exports of domestic businesses in the next three years. Institutions have planned to take measures to further develop the quality infrastructure and align legislation with relevant *acquis*.

#### **Trade with industrial goods**

The legislative framework for trade in goods provides the basic infrastructure for implementing the trade of industrial goods. Consequently, the respective secondary legislation has been

adopted. AI No.2005/29 on “Conformity Sign and its Graphic Appearance” is drafted in compliance with Directive 93/68/EEC of the European Union and it should be applied by the producers. AI No. 2005/28 on “Technical Rules for Electric Equipments Designed for Use under the defined Limits of Tension”, which is harmonized with the European Union Directive No. 73/23/EEC (LVD). Inspections of electrical equipments of low voltage (mainly home electrical equipments in market and in production) are done in accordance with this Administrative Instruction.

Key institution on managing and implementing the trade policy of industrial goods is the Department of Industry within the Ministry of Trade and Industry, composed of Division on Developing Industrial Production. It supervises trade of industrial goods through drafting strategies, integrated sector and subsector policies and supporting main programs. Additionally, the Office on Technical Rules supervises implementation of technical rules of industrial goods in compliance with EU standards.

However, due to the low level of industrial development, businesses were not able to maximize the benefits of the EU preferential trade arrangement. As a consequence, the performance of exports remains volatile to the developments of the external demand. Main components of Kosovo exports (61%) are primary products such as raw materials or goods with a low level of processing and relatively low added values, in essence metals. Second largest export category is minerals (mainly unprocessed minerals) with a share of 12% of total exports. Manufacture exports mainly consist of plastic and leather machinery. Meanwhile, Kosovo imports have exceeded €2.1 billion with an annual increase of almost 15%. In total the structure of Kosovo imports is stable. The biggest category is that of mineral products (mainly oil and ceramic products). Industrial goods, machinery and equipments present about 11% of total imports or about 28% of total imports from EU. Development of value added export of goods which would directly affect the country’s overall economic performance and the budget remains a challenge to be addressed by authorities.

#### Measures to meet obligations under an SAA

In order to start negotiations of the Stabilization and Association Agreement, the Feasibility Study has identified these short-term criteria to be met:

1. *Improving administrative procedures in order to ease trade of goods.*
2. *Kosovo should undertake structural changes towards the added value of goods export, especially in the trade between industrial sectors with EU companies.*

In order to meet the criteria on *opening negotiations* on Stabilization and Association Agreement, until now Kosovo has undertaken concrete steps on trade of industrial goods through simplifying administrative procedures, such as determining only two respective documents for export and three for import. Simultaneously, Kosovo will undertake structural changes towards increasing the added value of exporting goods, especially in the trade between industrial sectors with EU companies.

#### **Trade with agricultural and fishing goods**

Agriculture and fisheries, as a key sector of Kosovo, makes up approximately 17% in the total added value in economy, and is the main source of income for a large portion of the population. Trade in agriculture goods and fisheries is based in the legislation in force, belonging to the

trade of goods legislation in general, as well as the particular key agriculture and fishing legislation, such as: the Law on Fishing and Aquaculture 02/L-85; the Law No. 04/L-08 on Organic Agriculture; the Law No. 03/L-098 on Agriculture and Rural Development. As regards the movement of agricultural goods (trade exchange) Kosovo, as part of the CEFTA agreement, since 2007 is applying the free trade rules and implements a liberal trade policy, without quantitative limitations or any other protective measures. Most of agricultural inputs, respectively Chapters 1-24 of the Combined Nomenclature from the Harmonized System (CNHS) are incorporated in the customs tariffs and VAT (Regulation No. 2004/12, No. 2004/35, 2006/4, 2007/12, and No. 2007/31).

The main institution for undertaking key sectoral reforms is the Ministry of Agriculture, Forestry and Rural Development while Ministry of Trade and Industry coordinates the trade policy relating to agriculture sector. In the framework of MAFRD, there is the Department on Agricultural and Farming Production, which drafts supporting policies of agricultural and farming production, creates and implements laws and by-law acts which regulate this sector. This organizational unit is also responsible to IPARD structures on implementing Common European Agricultural Policy. Based on the Plan on Agriculture and Rural Development 2009-2013 with the Fourth Measure (improving processing and marketing of agricultural products) it has supported farmers and agro-processors to not only be competitors in country but to also trade outside Kosovo. With this measure, the quality of marketing of processed food products and fresh products has been improved together with the ability of the industry to adopt and implement relevant EU standards

Regardless of a minor increase of export of agricultural products, Kosovo faces a large agricultural trade deficit, (with EU this deficit reached €138 million in 2011. Main agricultural products are fresh beverages, alcoholic drinks (wine, vegetables and fruits). Main trading partners of Kosovo are the EU, Albania, Serbia, the Former Yugoslav Republic of Macedonia, and Turkey. A challenge to all agricultural and food categories is that there still dominates a negative trade balance. The organic agriculture has a potential for trade which is currently in the early phase of development. Simultaneously, it is necessary that country's products should be certified in Albania or in the Former Yugoslav Republic of Macedonia.

#### Measures to meet obligations under an SAA

*Kosovo need to continue agricultural structural reforms. It needs to accelerate the harmonization of veterinary, sanitary and phytosanitary rules with EU standards to help its exports meet international requirements.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo will improve statistical data collection in order to eliminate the trade exchange discrepancies of agricultural products (Chapters 1-24 of the combined nomenclature) between EU and Kosovo. In the framework of structural agriculture reform, within the Ministry of Agriculture, Forest and Rural Development, it is aimed to achieve objectives of restructuring through implementation of Plan on Agriculture and Rural Development 2009-2013. Similarly institutions aim to fulfill the objectives of the Plan on Agriculture Development 2014-2020, where it is foreseen economic growth by adapting new technologies and creating an even more favorable fiscal environment through reducing the taxes on trade inputs and agricultural equipments.

A favorable fiscal policy is also foreseen with the changes on the new fiscal Package which will enter into force since January 2013. This package will also help at improving the trade balance between EU and Kosovo, as well as improving the export performance on all agriculture products since it releases from the VAT and Customs Tariff some agriculture inputs which producers currently import. Implementation of better policies for privatizing agro processing enterprises and their support thorough grants and subsidies, foreseen by the PARD 2009-2012, will improve its competitiveness prospects, productivity, efficiency and quality of products, in order for the sector to provide a considerable contribution on economic growth and employment and simultaneously guarantee adequate and stable incomes.

#### **1.4. Free movement of workers, services and the right to establishment**

##### **3.4.1. Free movement of workers**

The key legislation is composed of: Labor Law, Law on Providing Work Permit and Employment of Foreign Nationals in the Republic of Kosovo, and the secondary acts, compose the legal nomenclature on movement of workers. The employment policies and professional trainings of jobseekers, the Ministry of Labor and Social Welfare (MLSW) are implemented through Department of Labor and Employment which, has drafted a number of strategic documents: the Sector Strategy in the areas of labor and employment of MLSW 2009-2013; Strategy for training and employment of persons with disabilities; Sector Strategy Action Plan European Partnership Action Plan in the field of Labor and Employment; Minimum Standards Plan for Public Employment Services, as well as other relevant documents in this area. Key institutions responsible for the management and coordination of economic and social policies are established and operational.

Key structure to functionalize mobility policies on free movement of workers and the possibility of employment of foreign citizens in Kosovo was built through the establishment of Economic-Social Council (ESC). The council is established with aim of setting and developing social dialogue in the Republic of Kosovo for employees and employers, for issues with significant importance, which are related to the realization of their economic, social and professional rights. All the aforementioned rights are realized through the settlement of disputes by bilateral or multi-lateral agreements. Enforcement of the council is realized through closed cooperation of the Ministry of Labor and Social Welfare (MLSW) and that of Ministry of Trade and Industry (MTI).

Despite the achievements in the field of creating a favourable place that provides employment opportunities for foreign citizens, such as: the number of work permits issued to foreign nationals for the following year is determined in annual basis and in the mean time Kosovo recognizes foreign licenses in the construction sector, which makes it easier for foreign companies to bring their employees to work in Kosovo.

Also, attorneys who are permanent residents are allowed to provide services in Kosovo. However, Kosovo needs to continue further with the alignment of Kosovo legislation with the EU's *acquis*, such as: amendment of Law on Granting the Permit for Work and Employment of Foreign Citizens on Republic of Kosovo, Law on Pension Schemes Financed by the State and related secondary acts, because the legislation in force is not developed to the appropriate manner. The same does not have a security system, a system which is not suitable for coordination. Also, it is necessary to create a limited platform for administrative coordination

on social security systems mainly to increase administrative capacity building to introduce a limited coordination of social security systems as foreseen by SAA. Short and long term needs of the foreign workers in Kosovo must be determined through statistical data. Moreover, it is required to determine the necessary number of employees for recruitment of third-country workers in the Kosovo labor market. The issue of negotiating bilateral agreements on social security and the establishment of some branches of social insurance which do not exist in Kosovo remain a difficult challenge within the sector.

#### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would need to ensure equal treatment as regards working conditions, remuneration and dismissal of workers who are legally established in its territory. The legally resident spouse and children of a worker legally employed in Kosovo would have access to the labour market during the period of the worker's authorised stay. Kosovo would be required to lay down the rules for the limited coordination of social security systems.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Kosovo institutions will adopt and implement the new Law on Granting the Permit for Work and Employment of Foreign Citizens in the Republic of Kosovo, the Law on Pension Schemes Financed by the State, and the respective administrative instructions. On the path of creating a limited platform for administrative coordination on Social Security Systems, the number of work permits for employment of foreign citizens will be determined at the end of the following year, short and long term needs of the foreign workers in Kosovo will be determined through statistical data and the necessary number of employees for recruitment of third-country workers in the Kosovo labor market will be determined.

Kosovo's government will further focus on institutional capacity building for the Limited Coordination of Social Security Systems. The system will become operational by the Ministry of Labor and Social Welfare (MLSW), through the establishment of the Coordinating Commission for Bilateral Agreements in the field of social security. Simultaneously, the Division of Bilateral Agreements in the field of Social and Employment Security will be created. In order to expand the market for workers, negotiations with partner countries will be developed with the purpose of signing bilateral agreements in the field of Social Security. Lastly, the number of trainings for the relevant personnel will be determined for the Coordination of Social Securities with the purpose of managing professionally activities for movement of workers in Kosovo.

#### **3.4.2. The right of establishment**

The right of establishment of foreign businesses in Kosovo is under the condition of equal treatment with local businesses, defined through the relevant legal framework and their registration in the Kosovo Business Registration Agency (KBRA). Key legislation composed of the Law on Business Organizations, Law on Small and Medium Enterprises, Law on Economic Zones, Law on Foreign Investments, and Law on Financial Reporting, Accounting and Auditing, constitute the legal infrastructure for establishing foreign businesses in the Republic of Kosovo. To support, *inter alia*, for the establishment and registration of business, 25 reception offices have been established throughout different municipalities, where will be issued business certificates of business registration, fiscal number and VAT certificate. The institutional framework of business sector in Kosovo is composed of a wide spectrum of public and private sector, including the Ministry of Trade and Industry, in particular Department of Trade,



Central Trade Inspectorate, Kosovo Business Registration Agency (KBRA), Kosovo Business Alliance (KBA), and a considerable number of institutions within the business sector.

Despite the achievements so far by representative institutions of business sector and the environment of doing business, the Kosovo business sector needs to further proceed aligning its legislation and business standards with EU standards with regard to recognition of professional qualifications, the Law on Business Organizations, including accounting, auditing and corporative governance, which are currently limited.

#### Measures to meet obligations under an SAA

*Kosovo needs to continue in a progressive alignment with the EU provisions. The alignment with EU standards on the recognition of professional qualifications and company law, including accounting, auditing and corporate governance is limited. Further progress in those two areas will contribute to make Kosovo a more attractive location for business.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Government of Kosovo will adopt three key laws which include further alignment of Kosovo legislation with that of EU, respectively Law on Small and Medium Enterprises, Law on Economic Zones, and Law on Foreign Investments.

*Under an SAA, Kosovo would need to ensure that EU companies have the right of establishment in Kosovo. EU companies established in Kosovo should be granted either local treatment or most-favoured-nation (MFN) treatment, whichever is more favourable. During the transition period, the issue of extending these rights to EU nationals or Kosovans wishing to establish themselves as self-employed independents would be examined. Notwithstanding the provisions governing the free movement of workers under the agreement, special establishment provisions could be introduced for "key personnel".*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions have simplified the registration procedures of foreign businesses, applied by eliminating the provision which required a minimal deposit of initial capital (€5,000) for limited liability companies and by decreasing the requirement for the initial capital for joint stock companies from €25,000 to €10,000. These factors will facilitate the initial business start-up in Kosovo and, simultaneously, will reduce the time to start a business activity. Through these indicators, Kosovo institutions will continually consider the technical and economic criteria as the most advanced and in compliance with EU standards, in order to make Kosovo a more attractive place for business.

#### **3.4.3. Trade of services**

There is a comprehensive legislative and regulatory framework for the services industry in Kosovo. Commercial services are regulated by law on Business Organizations whereas financial services are regulated by law on Banks, Microfinance and Non-Bank Financial Institutions. Education services are regulated pursuant to respective laws on public and private education. Other relevant services legislation consists of the law on Telecommunications and Postal services, and Tourism industry.

Foreign-owned companies providing services have by law an equal treatment with domestic companies and trade in services is generally liberalized. Currently, Kosovo is negotiating a gradual liberalisation of services with Turkey part of a potential free trade agreement with this

country. Kosovo also has a positive trade balance in the trade of services. Services are considered as one of sectors with a growth potential including the potential for exporting, in particular in the area of information technology.

Main institutions for developing and implementing policies of the services industry are in place. Several ministries and other regulatory and public bodies have competencies for respective sectors. Ministry of Trade and Industry is the lead institution for commercial services as well as business organizations. The Central Bank of Kosovo is the main institution that contributes to the regulatory and supervisory of the financial services. The Telecommunications Authority and Ministry of Economic Development are responsible for telecommunications and information and communication technology respectively. A Coordination Body has been established for services legislation which serves as a horizontal coordination mechanism for issues related to services. This body is operational and has already held several meetings.

Despite the achievements, Kosovo still faces challenges to be addressed. More specifically, Kosovo should continue to progressively approximate its legislation with that of EU acquis in the field of Provision of Services and do more at improving services' statistics.

#### *Measures to meet obligations under an SAA*

*According to SAA, a liberal regime on provision of services will be offered in accordance with respective rules of WTO, especially Article V of GATS. Companies that are not established in the territory of other respective contracting party will gradually gain the right to provide services, in accordance with GATS provisions taking into account, especially, advancement at approximating legislation in the different fields. The Agreement will contain stand-still provisions. Implementation of this liberalization will be closely monitored based on the agreement.*

In order to *meet obligations under the Stabilization and Association Agreement*, for the further approximation of legislation with relevant Acquis, Kosovo will adopt the General Law on Services and will adopt Administrative Instructions. Aiming to improve services statistical data, a services database covering all services will be created. The database shall consist of three main components: TIS database 1 (statistics), TIS database 2 (Legal Regulatory), and TIS database 3 (main actors).

#### **3.4.4. Current payments and free movement of capital**

There are no restrictions in Kosovo's financial system on foreign investments or entry of foreign capital in this sector according to legislation in force. There also are no restrictions on foreign direct investments, capital and financial accounts in general. Payments system in Kosovo including the settlement and clearing of securities is operated and supervised by the Central Bank. This institution, should by law promote a safe, sustainable and efficient system of payments. For this purpose, CBK is in the preparatory stage for implementing the Real Time Gross Settlement System, has established an electronic trading platform for securities, has adopted the document on payments supervision policy, has approved operating rules and procedures of the electronic system for clearing and settlement of services, and has developed the direct debit system and the standard Kos-GIRO document.

CBK also supervises and monitors the banking and insurance systems in accordance to international and EU standards and principles. Supervision is carried out through the

implementation of the risk-based approach which includes on-site and off-site examinations. The software on financial supervision (for banks, pension funds and insurance) has been designed and implemented in order to strengthen the risk-based supervision. Also, the necessary rules, regulations and manuals have been adopted for the supervision of banks, insurance system and payments.

Although considerable progress has been made in the sector, further reform and progress of the financial supervision remains a challenge. More specifically, further alignment of the legislative framework with respective EU directives and Basel requirements on banks, insurance and pensions is needed.

#### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would commit itself to ensuring a liberal and non-discriminatory regime of both inward and outward movements of capital, in particular for direct investments. Protection of investors as regards liquidation and repatriation of investments and profits will also need to be covered.*

In order to *meet obligations under the Stabilization and Association Agreement*, institutions have planned to undertake measures on advancing financial supervision in accordance with Basel Standards (Banks), IAIS (Insurance), and IOPs (Pension) and EU directives. More specifically, the primary and secondary legislation on insurance will be revised for its alignment with EU directives and IAIS principles (International Association of Insurance Supervisors). Secondary legislation for law on banks will be drafted in line with Basel standards. As to the supervision, the current manuals on banking supervision will be revised so they are approximated with EU standards and respective directives, the regulatory manuals on pension supervision will be further aligned to EIOPA (European Insurance and Occupational Pensions Authority), EU directives and IOPS (International Organization of Pension Supervisors), and the regulations on supervision of securities market will be drafted.

### **3.5. Approximation, implementation and empowering the legislation**

#### **3.5.1. Competition**

Competition sector is essential to the efficient functioning of markets and as such plays a crucial role in Kosovo's economy. Protection of competition and creation of a genuine market are obligations that the Government of Kosovo has towards the European Union. These obligations are in the process of being fulfilled, given the recent legislative developments in this sector. The core legal framework is composed of the Law on Protection of Competition and the Law on State Aid. The main aim of the current law is to empower and stimulate economic and social development in Kosovo. More precisely, the Law on Protection of Competition prohibits actions that restrict, suppress or distort competition. The law is based on three main pillars including, abuse of dominant position, prohibited agreements in the form of cartels and mergers or concentration of enterprises. On the other hand, the Law on State Aid sets out the principles and procedures according to which state aid is allowed and controlled. It should be noted that the latter is enforced in early 2012.

In terms of institutional developments, the competent body responsible to implement the legislative framework is Kosovo Competition Authority. Additionally, this institution is responsible to promote competition among enterprises and protect consumers in Kosovo. Other

supportive and cooperative institutions include Ministry of Finance, Ministry of Trade and Assembly of the Republic of Kosovo.

Although some progress has been made in legal and institutional framework, more dedication and effort is needed to meet EU standards. Within the sector, areas which further impede its vital development include completion and implementation of legislative framework and institutional capacity building. Despite the fact that primary legislation as a whole is quite advanced, specific issues that deal with dominant position and concentration in the market require further alignment with the *acquis*. Another key challenge related to the Law on Protection of Competition is the adoption of secondary legislation without which effective exercise of KCA's activity is limited. In legislative settings, active commitment is required to monitor implementation of the Law on State Aid, which among others, needs to have secondary legislation approved. In terms of institutions, establishment of a key body, responsible for state aid activities is considered a challenge. Besides, making the office of the latter body operational and completion of a trained staff are challenges awaiting to be fulfilled. Further, a challenge is also the establishment of the State Aid Commission. Addressing the aforementioned challenges will shift the competition sector a step further towards fulfilling EU's required provisions.

#### Measures to meet obligations under an SAA

*Under a Stabilization and Association Agreement, Kosovo should commit itself to:*

1. *Prohibit and police:*
  - a. *All agreements between undertakings and concerted practices which prevent, restrict or distort competition*
  - b. *Abuse of a dominant position by one or more undertakings*
  - c. *Any state (public) aid which distorts or threatens to distort competition by favoring certain undertakings or certain products.*
2. *apply these rules to public undertakings and undertakings with special rights*
3. *Adjust state monopolies of a commercial character so that no discrimination exists regarding the conditions under which goods are procured and marketed*
4. *To ensure transparency in the area of state (public) aid by establishing comprehensive inventories of aid schemes and by reporting annually to the European Commission*

In order to *meet obligations under the Stabilization and Association Agreement*, the Kosovo Competition Authority in cooperation with competent ministries plans to complete the legal framework by amending the Law on Protection of Competition. Under this law, special attention will be drawn to the definition of a dominant position, abuse with a dominant position, concentrations of group undertakings and exemptions. In Parallel, adoption of secondary legislation to enforce the law on Competition is planned to occur. KCA will undertake measures to approve secondary legislation by implementing the Law on State Aid. Periodic activities that demonstrate enforcement of the emphasized law will be carried out including, a record keeping on law enforcement, control of resources allocated to aid, the decision to return the funds and the preparation of the assessment report for aid. In terms of institutional capacity building, the independent office for state aid will be established and operationalized. In addition, the number of officials' foreseen by law will be fulfilled. In this context, responsible officials will be adequately trained for state aid, which will enable effective performance of the foreseen duties. Among other things, Commission on State Aid will also be established.

### 3.5.2. Intellectual property rights

The sector of Intellectual Property Rights operates on the basis of laws, policies and institutions. For the purpose of harmonizing legislation with international and European standards, Kosovo institutions have taken concrete steps towards reforming the Intellectual Property legislation. As a result, progress has been made in the Copyright and Related Rights Law and laws on Patents and Trademarks, which are adopted and widely harmonized with EU provisions. Other laws crucial to this sector include those on Industrial Design, Protection of Plants Varieties and on Customs Measures for Protection of Intellectual Property Rights. Each of the aforementioned laws possess specific functions, however their general common aim is to regulate the field of intellectual property rights in Kosovo. Except legislation in force this sector has drafted a strategy on Intellectual Property Rights for a period of four years (2010-2014). The strategy aims to create an effective and stable system to protect intellectual property in the view of economic development of the country. Adequate implementation of this strategy will fulfill one criterion of the EU provisions.

Sector's institutional infrastructure is composed of a number of competent bodies: Ministry of Trade and Industry (MTI) under which Office for Intellectual Property (OIP) is established, responsible to implement laws regarding patents, trademarks and industrial design. Simultaneously, this body has to conduct public awareness on Intellectual Property Rights. Copyright office established under Ministry of Culture, Youth and Sports is a key body on the IPR sector. Its purpose is to accredit and supervise organizations representing rights holders and other parties active in the affairs of IPR. Other important mechanisms responsible to enforce IPR encompass of Judicial System, Kosovo Prosecutorial Council, Ministry of Internal Affairs, Ministry of Finance and Kosovo Customs. Lastly, Government of Kosovo established the State Council on Intellectual Property, which seeks, to enhance the level of cooperation and inter-institutional coordination. As a whole, each of the above institutions entails certain responsibilities that contribute to the vital development of the IPR sector.

Despite the progress achieved, there is still a need to further improve the legal framework, institutional capacity and other technical issues within the IPR sector. One of the key challenges remains the completion of legal framework including adoption of the Law on Geographical Indications and a number of Administrative Instructions relevant to the laws in force. In terms of institutional capacity, current achievements are characterized positive and advanced nevertheless, the shortcomings in this segment are still visible and, as such, require further commitment. Signing memorandums of cooperation with intellectual property institutions is another challenge and fulfilling it would enhance inter-institutional cooperation and coordination, stimulating more effective work within the sector. Fight against counterfeit goods, a practice that persists to impede the development of a real market in the country is also considered a challenge.

#### Measures to meet obligations under an SAA

*Under Stabilization and Association Agreement, Kosovo should commit itself to granting to EU companies a level of protection comparable to that of domestic companies. Progressively, Kosovo will need to work towards a comparable level of protection as granted in the EU.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Ministry of Trade and Industry will undertake concrete steps toward completing the legal framework by adopting

the Law on Geographic Indicators, AI on Registration Procedures of Geographic Indicators and Designations of Origin and AI on Representatives of IPO. In terms of institutional capacity, MTI will fulfill the number of officials as required by law. In addition, database for efficient use will be functionalized with the aim of organizing relevant trainings for responsible officials. Fields of training will be oriented towards advancing the knowledge of staff members regarding legislative enforcement of IP sector. To address the next challenge, the Ministry of Culture, Youth and Sports will sign a memorandum of understanding with the Intellectual Property Office, Market Inspectorate and Kosovo Police. Activities that will be undertaken to combat counterfeit goods include, reporting of commercial cargo control which will enable identification of counterfeit goods. Additionally, risk profiles for counterfeit goods will be created, the number of cases detected with Ex Officio and the number of increased cases of Ex Officio will be precisely reported. By fulfilling the above listed challenges the Government of Kosovo aims to create a genuine sector where intellectual property rights are recognized and respected by institutional stakeholders and the public at large.

### **3.5.3. Public procurement**

The public procurement sector is one of the most sensitive and vital sectors in Kosovo, which has made significant progress towards completing the legislative and institutional framework. Basic legal framework consists of the Law on Public Procurement, which entered into force in 2011 after a number of modifications in order to align with the *acquis*. The law brings new legislative provisions that foster and enable an efficient public procurement system. Its aim is to ensure the use of public funds in a transparent, proportionate and effective manner. It allows funding of projects in a more effective and concise way and as a result seeks to improve citizens' quality of life. Secondary legislation has been advanced significantly, being completely improved and simplified in order to fully operate the legal and regulatory framework.

In terms of institutional framework, organizational structures are established and functional. Independent Regulatory Agency, responsible to develop, functionalize and supervise the public procurement system is the Public Procurement Regulatory Commission (PPRC). Another key institution is the Central Procurement Agency (CPA) now within the Ministry of Finance, responsible to develop common procurement with contracting authorities. Whereas the Procurement Review Body (PRB) carries administrative reviews in relation to claims. Among others, the Kosovo institute for Public Administration (KIPA) is of significant importance which carries out trainings for public procurement officials. It is worth noting that the above mentioned institutions exercise their activities based on the new rules of procedures and guidelines.

Despite the achievements in legislative and institutional framework, a number of challenges impeding further development of this sector remain to be addressed and reviewed by competent state authorities. Increase of transparency in procurement processes including handling, monitoring and sanctioning of cases is considered a challenge. In institutional terms, enhancing employees capacities assigned to perform public procurement procedures is a crucial challenge including addressing the frequent turnover of procurement officials. Also, challenging remains the appointment of CPA Director. A challenge that requires technical commitment by the Government is the approval of the list of common-use items for mandatory central purchasing. Addressing the latter, among other things, would strengthen the ability of

the Central Procurement to carry out more effectively its activities. Last but not least, European Standards would be easily fulfilled if the aforementioned challenges are properly addressed.

#### Measures to meet obligations under an SAA

*Under Stabilization and Association Agreement, Kosovo is required to:*

- *Ensure that EU companies are granted access to contract award procedures under treatment no less favourable than that of domestic companies, subject to a transitional period to be negotiated for EU companies not established in Kosovo*
- *Ensure that its public procurement legislation is in line with that of the EU.*
- *Strengthen the relevant institutions and judiciary so that public procurement procedures are properly implemented.*

In order to *meet obligations under the Stabilization and Association Agreement*, PPRC will monitor enforcement of public procurement law aiming to ensure its proper implementation. In terms of transparency and applicability to the current law, exact figures will be reported regularly to show the negotiated procedures without public announcement of contract. Of the same accuracy the number of performances required by authorities responsible for prosecution of suspected cases will be reported. Among other things, PPRC with full responsibility will monitor the managing process of the public contract. Activities of Public Procurement Reviewing Body will also contribute to the process of transparency by presenting continually the number of claims, the number of fines imposed on Contracting Authorities, and the number of withdrawn public procurement professionalism certificates. From the institutional aspect, PPRC will take concrete measures to address human capacity building, initially by completing the working staff and secondly in cooperation with KIPA will organize trainings for public procurement staff. To complete the number of personnel, Ministry of Finance will also be engaged, concretely by appointing the CPA director. Further, the Government of Kosovo will approve the common-use items list for mandatory central purchasing which will further strengthen the capacity of the CPA to perform its activities more effectively.

#### **3.5.4. Standardization, Accrediting, conformity evaluation, Metrology, and market supervision**

The quality infrastructure in Kosovo is built on the basis of legislation on standardization, general products safety technical requirements with regards to conformity assessment and accreditation for products, which are approved progressively. Legal framework is composed of the key laws, such as: the Law on Consumer Protection, Law on Competition Protection, Law on Metrology, Law on Accrediting, Law on General Safety of Products, and Law on Market Inspectorate.

Key institutions that manage and coordinate the respective stakeholders' policy of quality infrastructure within the Ministry of Trade and Industry are: the Professional Council on Standardization, Professional Council on Accrediting, Department of Metrology, and the one on Market Surveillance. Despite significant achievements in the quality infrastructure sector, all of this is built based on key legislation on standardization, general safety of products, technical requirements with regards to conformity assessment and accreditation for products which are approved progressively.

Meanwhile, legislation on market surveillance is partially aligned with EU's *acquis*. Simultaneously, the Professional Council on Standardization, with coordination and development of policies for the standardization body, is operational and is composed of members from the public and private sector. However, the Government of Kosovo is still in the functionalizing phase of institutions and implementing its new legislation in force. Part of the challenges of responsible institutions remain the achievement of objectives in terms of administrative, procedural, institutional and technical in full compliance with international standards in order for Kosovo to become a location of business interest to stakeholders.

Measures to meet obligations under an SAA

*Under an SAA, Kosovo would commit itself to progressively align its legislation with the *acquis*, adopt the European standards (ENs) and build institutional capacities to ensure enforcement of the legislation. In particular, Kosovo would be required to:*

- i) promote the use of EU technical regulations, European standards and conformity assessment procedures,*
- ii) conclude, when appropriate, an agreement on conformity assessment and acceptance of industrial products,*
- iii) Foster the development of quality infrastructure: standardisation, metrology, accreditation and conformity assessment and market surveillance.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Government of Kosovo is continually aligning its internal legislation with EU's *acquis*, including the adoption and implementation of the Law on Market Surveillance and implementation of EU's technical regulations of conformity. Part of development is also the preparation of research conducted on the implementation of regulations. The progress achieved will be presented continually through periodic reports prepared by the inspectorate and supervision of Conformity Evaluation Bodies (CEB).

Part of implementing the legislation in force and related policies is foreseen to the rise of awareness to implement standards which aim to be enforced by organizing the World Day of Standards. Additionally, six round tables will be organized in order to raise awareness of businesses towards implementing the standardization criteria. All of this is part of Sectoral Strategy of MTI.

In the field of *metrology*, developmental part of the Agency of Metrology is the advancement of existing metrology laboratories in accordance with international standards including calibrated etalons, as well as the creation of new laboratories (length, pressure, time, and frequencies). Additionally, certification of staff in certain areas of metrology is part of development plan for further implementation.

Last but not less important, is the capacity building of relevant agencies and inter-institutional cooperation. This includes training of Market Inspectors and customs officials to implement directives/technical regulations of non-food industrial products, the creation of the database for exchange of information in accordance with RAPEX, completion of sectors of relevant institutions by recruiting additional officials, and providing trainings to functionalize the database of standards.



### 3.5.5. Customer Protection

Consumer protection is a sphere with specific significance, and as such has a great impact on trends and directions of economic and social development in the country. Knowing the importance of this field, the Government of Kosovo is strongly committed to improve the status of Consumer Protection. In legal terms, it is worth noting that the Law on Consumer Protection, after being amended several times, has entered into force at the end of October 2012. The law regulates and protects basic rights of consumers when purchasing goods, services and other forms of free market including liabilities of retailers, manufacturers and suppliers. The Law on Technical Requirements for Products and Conformity Assessment as well, seeks to protect and advance consumer rights. Additionally, the Law on General Product Safety is in force, which aims to ensure high quality of products within the country. Further, the Program on Consumer Protection 2010-2014 is a dynamic project, significant for the Government of Kosovo which sets adequate policies to protect consumers during the listed period. Specifically, the project aims to advance consumer protection, transforming it into a qualitative, continuous and comprehensive protection in relation to public health, environment, sustainable market and creation of favorable conditions for business.

Responsible institutions to create and implement policies on customer protection are established and in exercise of their respective activities. Ministry of Trade and Industry (MTI) through the Office of Consumer Protection is responsible to draft and implement policies. The advisory body composed of representatives from MTI, consumer protection associations, business representatives and independent experts in the field of consumer protection is the Consumer Protection Council.

Despite the progress made, the sector of Consumer Protection persists to face challenges that limit development and proper functioning of the sector as a whole. Completion of secondary legislation with relevant administrative instructions is one of the key challenges, which require full commitment from responsible institutions. Drafting of an action plan to implement the program on customer protection is another challenge. Institutional capacity building is rated as equally challenging, the lack of which causes backlog in the sector considering that the responsibilities cannot be implemented effectively. In technical terms, it is necessary to improve the system for addressing complaints to the division of Consumer Protection. Among other things, a genuine system of this sector will reveal problems and concerns faced by consumers in Kosovo.

#### Measures to meet obligations under an SAA

*In the framework of Stabilization and Association Agreement, Kosovo should:*

- 1. Develop active consumer protection policies, in accordance with the acquis, to guarantee consumer representation, information and education.*
- 2. Enhance capacities of administrative structures responsible for consumer protection to ensure essential health and safety requirements and the safeguard of consumers' economic interests.*

In order to *meet obligations under the Stabilization and Association Agreement*, the Ministry of Trade and Industry (MTI), in the context of completing secondary legislation, will approve three Administrative Instructions, including the one on Defective Goods, Auction Sales, and Discounted Goods. Further, MTI in collaboration with the Food and Veterinary Agency (AUV) will draft the plan to implement the program for customer protection. Food safety regulation

will be approved and moreover, campaigns will be organized in order to raise public awareness about customer protection. In terms of human capacity building and improvement of the system to address complaints, MTI will initially fill the number of staff required and will also organize trainings for responsible officials. Foreseen training modules include, the ability to research negative phenomena in the market and the ability to identify problematic issues that customers encounter or may encounter to proceed and address complaints on time. In this context, the role between inspectorate and consumer division is planned to be defined. Additionally, roundtables with relevant stakeholders will be organized. Fulfillment of the challenges related to customer protection would be incomplete if consumers are not aware of their rights. As a result, relevant published media will be used to raise customer awareness in respect to their rights.

### **3.6. Justice and home affairs**

#### **3.6.1. Reinforcement of institutions and rule of law**

According to Kosovo's Constitution, *the Rule of Law* presents one of the most basic principles and values on the basis of which Kosovo functions. In this context, Kosovo has adopted a considerable number of laws, to begin with the Criminal Code, the Criminal Procedure Code, the Juvenile Justice Code and other laws regulating police work, prosecution, courts, witness protection, personal data protection and other areas, involved in the rule of law and order. Besides the legal framework, a series of strategies, which underline the activity and assignment of responsibilities of rule of law agencies and judiciary, is also in place.

The last three-year period has also been marked by creation and building of capacities within law enforcement institutions. In this respect, the new organizational structure of the Kosovo Police has been approved and several novel mechanisms within the force have also been employed..

Despite the aforementioned achievements in the the rule of law, this area still faces some challenges. The Kosovo Police lacks in capacities to investigate complex criminal activities, whereas implementation of legislation regarding protection of personal data, remains inept. In order to achieve progress in the consolidation of the rule of law and order, cooperation with EULEX, including the latter's Special Task Force on Investigation, is imperative and requires immediate action.

#### Measures to meet obligations under an SAA

In order to begin negotiations on Stabilization and Association Agreement, the Feasibility Study has identified that Kosovo should:

1. *Support the work of the Special Investigative Task Force.*

In order to meet the criteria on *opening of the SAA negotiations*, Kosovo's relevant institutions have sent a letter to the Head of Mission of EULEX, asserting the commitment of local authorities to closely cooperate with the Special Task Force on Investigation and extending prosecutorial competencies should the need arise. However, the Task Force is still on the initial stage of investigations and no requests for cooperation have yet been received.

*Under an SAA, the contracting parties would attach particular importance to the consolidation of the rule of law in Kosovo and strengthening the relevant institutions in the administration in general and in*

*law enforcement and the judiciary in particular. An effective SAA will depend upon a safe, efficient and predictable legal space. Authorities and an independent judiciary working in line with proper democratic and professional standards are not only essential for establishing the rule of law for the immediate benefit of the public but also for international cooperation and as regards the economic development including attracting foreign investment. Contracting parties would cooperate on personal data protection legislation, ensuring sufficient resources for the independent supervisory body to monitor and guarantee the enforcement of the legislation.*

In order to meet obligations under the Stabilization and Association Agreement, local institutions will be committed to increasing capacities and independency of law-enforcement agencies, judiciary and the administration in general. Several specialized trainings have been planned in this regard. On the other hand, in order to ensure legal consistency in personal data protection, Kosovo's institutions have considered the evaluation of potential conflict of laws in the cited area. Furthermore, the State Agency on Personal Data Protection will continuously monitor implementation of legislation in this field, by conduction of inspections and controls in different local institutions.

### **3.6.2. Asylum, migration, visa policy, control of borders**

The Law on Asylum, Citizenship, Foreigners and the Law on Readmission are the basic laws which cover the fields of asylum, migration and visas in Kosovo, while the issue of border control is regulated by the Law on Supervision of Border Control. These laws underpin the basic rules and principles of the cited fields. The middle-term strategic framework on migration, readmission and integrated border management is approved and reviewed on a regular basis. On the other side, the visa policy encompasses the Decision on implementing this policy, as well as instructions and other relevant documents on the modalities of its implementation.

At institutional level, the Ministry of Internal Affairs is the primary institution in charge of drafting polices in the field of asylum, migration, foreigners, and coordinating their practical implementation. Meanwhile, coordination of integrated border management is based on the coordination structure and in accordance with the Strategy on Integrated Border Management, led by the National Coordinator and includes close cooperation between the Kosovo Police, Kosovo Customs, and Food and Veterinary Agency. Management of external borders is based on the principle "*open, yet secure borders*". As regards document security, Kosovo has in place the legal framework in the area of civil status and has approved measures to prevent possible abuse of authority by responsible officials in this field.

Despite the progress achieved in the areas of reintegration, asylum, migration, and border control, Kosovo still has a number of challenges to be addressed, among which the amendment of the Law on Asylum and harmonization of the Kosovo visa policy with *acquis*. In this regard, there is a need to build capacities related to these fields. Challenges identified in the field of readmission have mainly to do with cooperation with countries, which submit requests, as well as reaching agreements for readmission with countries of origin or transit, whereas one of the challenges in the area of reintegration is establishment of a case management system. As regards document security, there is uncertainty on whether all the requirements for issuing fully reliable documents have been met.

Measures to meet obligations under an SAA

*Under an SAA, Kosovo would need to ensure a framework for cooperation, including at regional level, in the fields of visa, border/boundary control, asylum and (legal and irregular) migration. A central element of cooperation in the area of preventing and controlling irregular migration would be the inclusion of provisions on readmission, and focus will also be on statistics exchange and enhancing capacities and efficiency.*

To meet its obligations under an Stabilization and Association Agreement, Kosovo will amend the Law on Asylum, which will ensure full compliance with the EU relevant legislation and will also include the UNHCR recommendations on the criteria for admission of asylum-seekers. As far as the increase of cooperation between local institutions is concerned, concrete measures will be taken in this regard, beginning with the establishment of a case management system and integration of databases. Readmission will continue to be at the focus of Kosovo institutions, wherein the Ministry of Internal Affairs, in cooperation with the Ministry of Foreign Affairs, is initiating/developing negotiations on achieving agreements with other countries. With respect to border control, border demarcation with Montenegro is planned to take place by the end of 2012, while in the field of *visa*, Kosovo will review the Decision on visa policy and ensure compliance of the decision, as well as the relevant Administrative Instructions, with the *Schengen Acquis*. As regards personal documents, Kosovo has envisaged a series of measures which would help increase document security. These measures include, among others, close cooperation between institutions involved in document security, including the CRA, the Kosovo Police and the courts.

### **3.6.3. Combating money laundering**

Kosovo is in the process of adopting the Draft-Law on amendments to the current law on preventing money laundering and financing of terrorism. The drafting of these amendments is based on the Feasibility Study and the Visa Liberalization Guide, with the aim of ensuring compliance of Kosovo's legislation with *acquis*. Kosovo has already established a five-year strategy on preventing money laundering and terrorism financing.

Key institutions on combating money laundering are in place and functional. The Financial Intelligence Unit (FIU), operating under the Ministry of Finance, is responsible for fighting and preventing money laundering and its mandate is derived from the intelligence centre of EULEX. In addition, the Department of Economic Crimes and Corruption Investigation of the Kosovo Police conducts investigations of suspicious cases involving money laundering. As part of the Customs, the Investigation Department is mandated with detection and prevention of money laundering. The aforementioned institutions coordinate their activities on a regular basis, in their fight against money laundering.

However, as far as prevention and fight against money laundering is concerned, adoption of the amended law on preventing money laundering and financing terrorism, which should be in compliance with *acquis*, remains a challenge. This law should also be adopted by the Kosovo Assembly. Despite the establishment of the FIU and the assistance provided by other institutions, Kosovo should ensure a clear appointment of responsibilities to institutions involved in prevention of money laundering, and also make sure their personnel receive adequate training.

Measures to meet obligations under an SAA

In order to begin negotiations for a Stabilization and Association Agreement, the Feasibility Study has identified the following short-term criterion to be fulfilled in order to begin SAA negotiations:

1. *Revise the Law on prevention of money laundering and financing of terrorism in order to bring it in with the acquis*

In order to meet the criteria on *opening of negotiations of an SAA*, the Government of Kosovo will submit the amended law on prevention of money laundering and financing of terrorism for approval at the Kosovo Assembly.

*Under an SAA, Kosovo would need to establish a framework for cooperation aimed at preventing the use of its financial systems for laundering the proceeds of criminal activities. Cooperation in this area would include administrative and technical assistance aimed at establishing appropriate standards to counter money laundering equivalent to those adopted by the EU and other international bodies on the field, in particular the FATF.*

*To meet its obligations under an Stabilization and Association Agreement, Kosovo will appoint the National Coordinator, who will ensure implementation of the Strategy on preventing money laundering and financing of terrorism and will enable better coordination between all the institutions involved in the fight and prevention of money laundering. Furthermore, the institutions have envisaged drafting of an SPO, which will encompass the Customs, the Police, the KTA and the FIU, and drafting of a manual regarding the typologies of money laundering. As part of their reporting of statistics on combating money laundering, relevant institutions will synchronize their statistics, in order to provide accurate and reliable data.*

#### **3.6.4. Preventing and combating organized crime and other criminal activities, including terrorism**

Significant progress has been made in fight against organized crime and other criminal activities. The basic legal framework is consolidated, including the new Criminal Code, the Criminal Procedure Code, and other laws associated with this field. The strategic framework encompasses a series of strategies, some of which have been reviewed and adopted in September of this year (the strategies against organized crime, drug trafficking, human trafficking, as well as the strategy against terrorism).

Institutions responsible for fight against organized crime are in place and have improved their capacities and efficiency over the past three years.. The main structure for fighting organized crime involves a chain formed by Police-Prosecution-Courts. In this respect, the Kosovo Police has continuously extended its capacities, by establishing new structures necessary for international cooperation and witness protection. In their efforts to combat organized crime, statistics show that the Kosovo Police has been most successful this year at fighting organized crime, especially at fighting drug trafficking, wherein statistics show an increase of 100% of results. The Kosovo Police Action Plan for 2013 is ready and envisages a considerable success in their fight against organized crime.

However, adopting of the Law on Confiscation and Seizure of Illegally Obtained Assets remains a challenge. The cited law has to be in compliance with European standards and practices in this field.

Despite the results achieved towards detection and punishment of organized crime, there are still challenges relating to synchronization of statistics in this field. Statistics are often reported in different ways by different institutions, which make room for confusion. Combating human trafficking, immigrant trafficking, drug and weapon trafficking continue to remain a challenge for Kosovo institutions.

#### Measures to meet obligations under an SAA

In order to begin negotiations for a Stabilization and Association Agreement, the Feasibility Study has identified the following short-term criteria to be fulfilled in order to begin SAA negotiations:

1. *Adopt the legislation on confiscation of assets;*
2. *Demonstrate a clear commitment to deliver results in the fight against organised crime and corruption, including launching investigations;*
3. *Ensure continuous good cooperation with EULEX.*

In order to meet the criteria on *opening of negotiations of an SAA*, Kosovo will adopt the Law on Confiscation of Illegally Obtained Assets this year. Furthermore, the Ministry of Justice is in the process of reviewing the five (5) basic laws regulating the judicial system, whereas law-enforcement institutions and the judiciary are committed to evidencing their success in combating organized crime through achieved results. With respect to Kosovo's cooperation with EULEX, after an invitation of the President of Kosovo on extending the mandate of this mission, the Assembly of Kosovo has ratified the agreement between the EU and the Republic of Kosovo on the European Union Rule of Law Mission in Kosovo. On the other hand, the Kosovo Prosecutorial Council (KPC), the Kosovo Judicial Council (KJC) and the Ministry of Justice, have sent an invitation to EULEX, inviting them to take part in the recruiting process of prosecutors, judges and senior staff of the Correctional Service.

*Under an SAA, Kosovo would need to develop a framework for cooperation aimed at fighting and preventing criminal activities, notably organised crime. Kosovo would be required to devote particular attention to issues such as trafficking in human beings, illegal economic activities (such as corruption and illegal transactions involving goods such as counterfeit products, industrial waste and radioactive material), illicit arms trafficking and terrorism. Kosovo would also need to be able to cope with the health and social consequences of different forms of drug abuse, preventing the diversion of chemical precursors and reinforcing structures for combating illicit trafficking of drugs.*

In order to *meet obligations under the Stabilization and Association Agreement*, in the field of fighting the organized crime and other crimes, Kosovo will adopt the Law on Interception which will provide a legal framework to regulate this field. At level of implementation, the database of law enforcement institutions will be integrated, which will improve the quality of statistics in fighting the organized crime. Further on, capacity building in the agencies and institutions fighting organized will continue by providing to them specialized trainings.

Kosovo will initiate international agreements as well as joining international relevant organizations on fighting crimes. These efforts will be made in coordination with international mechanisms acting in Kosovo.

### **3.7. Cooperation policy**

#### **3.7.1. Economic, monetary, statistical cooperation, and protection of EU's financial interests Statistics**

Kosovo has considerably improved legislation on statistics which is mainly in line with *acquis*. The basic legislation on statistics is the Law on Official Statistics; the purpose of this law is to determine the fundamental principles and to establish a legal framework for the organization, production and publication of official statistics of Kosovo in compliance with EU standards. Furthermore, there have been made amendments to the Law on Tax Procedures allowing the Tax Administration to provide the necessary administrative data for statistical registry of businesses. In addition, Kosovo has prepared the annual work plan 2013 and the Strategic Plan 2013-2017 on official statistics in order to develop and improve the quality of statistical data in consistency with international standards. The project on agriculture census is also taking place where a test has already been conducted, and KAS is preparing the general agriculture census that will take place in November 2013.

In order to advance and increase the authority of KAS and reduce the hierarchical levels of communication, Kosovo Agency of Statistics was moved from the Ministry of Public Administration to the Prime Minister Office. Moreover, the Law on Official Statistics has led to the establishment of the Statistical Council as an advisory body that is related to the production of official statistics; the Council provides recommendations, advice, monitoring, evaluation, supporting and ensuring the quality of official statistics. Meanwhile, the responsible institutions on producing and managing official statistics are as such: Kosovo Agency of Statistics (KAS), Ministry of Finance (MF), and Central Bank of Kosovo (CBK). However, KAS is the main responsible body on supervising and coordinating the official statistical data.

Kosovo has adopted the law on official statistics, established the statistical council, and moved KAS to Office of Prime Minister nevertheless, to further improve the situation of statistics; Kosovo needs to go through several challenges. One of the challenges is the quality improvement of statistics in all statistical fields, especially in the fields of business and macroeconomic statistics, and to have consistency between the EU's statistical data and the statistical data of Kosovo. In this context, Kosovo should produce short-term statistics on quarterly basis (short-term indicators), especially on macroeconomic issues, such as trade and employment. Among others, it is necessary strengthening the agency's management that would lead to the development of the institution and development of statistical system of Kosovo, it is also necessary to increase its capacities in the field of production of statistics and administrative statistics. In addition, some challenges on economic cooperation are the preparations on participating in the pre-accession economic and fiscal program and increase of analytical capacities on evaluations and macroeconomic predictions.

#### *Measures to meet obligations under an SAA*

*Kosovo would need to foster reform and economic integration into European structures by improving the formulation and enforcement of market-based economic policies. It would need to improve its capacity to provide information on macroeconomic performance and forecasts, to formulate economic policy and to develop the instruments necessary for its application. It would also need to take appropriate account in its policy development of the European Economic and Monetary Union. Kosovo would need to develop statistical systems, capable of providing the timely, reliable, objective and accurate data needed to plan and monitor transition and reform.*

In order to *meet its obligations under the Stabilization and Association Agreement* and to ensure the institutional development of KAS, there will be further alignment of the secondary legislation, implementation of the Administrative Instruction (AI) on reorganization of KAS foreseeing the creation of a department of policy, planning, coordination and communication. Furthermore, the Information Technology Department (TI) will be strengthened and there will be active participation in seminars, study visits, workshops which intend professional training of the KAS staff. To improve the businesses' statistics and macroeconomic statistics the Euro-stat's recommendations will be implemented, such as switching from NACE Rev. 1 to NACE Rev. 2, local units will be included in the Business Statistics' Registration and the register of enterprise groups will be established; while in the field of social statistics there will be produced labour market statistical indicators (employment and unemployment) as well as adding of some variables on measuring income from household economies (through the SILC variables) in the Household Economies Budget Survey (HEBS). In addition, regarding the economic cooperation there will be preparations on participating in the economic and fiscal program of pre-accession and the analytical capacities will increase on macroeconomic evaluations and predictions through the trainings conducted on macroeconomic evaluations and predictions.

### **3.7.2. Promotion and protection of investments, industrial cooperation, SMEs and tourism**

The legal framework of institutions of the Government of Kosovo places the path of promoting and protecting investments, a path which is based on the Law on Foreigners, law which ensures nondiscriminatory treatment of foreign investors in Kosovo. On the path to creating as more favorable conditions to foreign investments, the Kosovo responsible institutions during the last three years have approved some amendments, such as elimination of the initial capital and lowering the number of necessary permits. Furthermore, there has been prepared a Supporting Draft-Strategy on Sector Investments including recommendations and operative actions on improving the business and investment climate. This strategy identifies main sectors aimed by promotion activities, such as: the process of business from outside source, automobile components, production services contracts of electronic and agribusiness communication.

Activity and support of small and middle enterprises (SMEs) is based on the Law on Business Organizations and on the Law on Supporting Small and Medium Enterprises (LSSME). The Law on Supporting SMEs has been amended in 2007 being harmonized with EU directives on SMEs. Having its laws as principles, the Agency on Supporting Small and Medium Enterprises (ASSME), as key institution, has a number of tools and activities it uses to support and stimulate competition in the private sector, beginning from micro family businesses and up to medium enterprises. The Strategy on Developing SMEs in Kosovo 2012-2016 with a vision of 2020 has approved by the Government of Kosovo aiming to strongly support SMEs, since more than 99% of enterprises in Kosovo are SMEs and they have a visible effect on Economic Development of Kosovo. In general, the small enterprises sector dominates in Kosovo with about 90% of enterprises that have employed less than four persons. The Strategy on Developing SMEs is based in two main pillars - "The European Act on Small Businesses (EASB) which Kosovo is committed to implement, and the EU programs on Competition and Innovations (CIP) that Kosovo aspires to participate in a short future. Furthermore, the Working Group SMEs Strategy has analyzed and has taken into account the Government Vision and Priorities on Economic Development. Main components of this strategy have in their focus improving the business environment, setting the public-private dialogue, and Donor Coordination, improving of competition of SMEs in Kosovo, as well as the field of Public Information. The SMEs Agency is



also the main institution responsible on approving the strategies of funds from €1.3 million up to €30 million by the donors' community.

Kosovo Agency on Promotion of Investments (KAPI), in the framework of MTI, is the central institution focusing on efforts to attract foreign direct investments (FDI). Main objectives of this agency are efforts to attract Foreign Direct Investments through further liberalization of entry regime and promotion of SMEs at competition. Net incomes of FDI are estimated to have achieved €394.6 million (8.6% of GDP) in 2011, a bit higher than €365.8 million.

**Agency on Supporting Small and Medium Enterprises (ASSME)** is an agency within the MTI, which as primary focus has developing the private sector in Kosovo by creating better conditions for small and medium enterprises. ASSME is established in December 2006 after issuing the administrative instruction No. 2006/28. The Law on supporting SMEs has been amended in 2007 being harmonized with EU directives on SMEs. With its laws as principles, ASSME has a number of tools and activities that uses in order to support and stimulate competition in the private sector, starting from micro-family businesses up to middle enterprises. Simultaneously, Kosovo Agency on Business Registration is the responsible institution on new businesses registration and their re-registration. It is worth mentioning that the commitment of Kosovo's institutions for implementing the key principles of EU's document on small business has been part of implemented priorities.

Despite achievements in the field of legality and increasing institutions, a further part of developments is strengthening of policy and strategy implementation in respective sectors with which the Government of Kosovo should deal in the future. A necessary part to change is the simplification and revision of policy legislation on enterprises. It is also required by a regulatory impact assessment through relevant analysis. Compliance costs remain high. Part of the data exchange, the lack of complete information, non easy access and regularly updated information on important issues is part of an important barrier for SMEs operating in Kosovo. Moreover, the four existing incubators are still in a pilot phase and the scheme "voucher" ceased in 2011. Kosovo needs to place in line its support for SMEs with European Declaration on Small Business and improve classification of enterprises. It is necessary ensuring easier access to SMEs in finance. In general, the industry and development of SMEs continues facing difficulties on legal implementation of contracts, not a safe supply with energy, and limited and expensive access in finance. Although there has been improved the communication between education institutions and SMEs, it should continually grow coordination and cooperation between them, especially in the field of enterprises and industrial policy (public authorities, chamber of commerce, banking associations, courts, regional development agencies, etc). In general there are still to be approved the SMEs implementation plan and industrial strategies. Creation of an adequate budget for responsible authorities would further strengthen the activity of responsible institutions. Simultaneously, a challenging part remains nonofficial sector of Kosovo with defects in tax policy and expenditures as well as law implementation, included in the fight against corruption and organized crime. These directly affect in informal economy through reducing the tax base and efficiency of economic policies. Tourism also, which interlocks a considerable potential to contribute in economic growth, is necessary to invest in its infrastructure. Lastly, it is to be noted as a big challenge of economic institutions, the attraction of FDI in Kosovo.

### Measures to meet obligations under an SAA

*Cooperation according to SAA will aim supporting Kosovo at creating of a favorable climate for both domestic and foreign private investments to promote economic and industrial re-vitalization. Especially, Kosovo will need to continue at creating a legal framework with favorable opportunities for investments and their stimulation.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions will undertake the necessary actions on improving the doing business conditions. This is aimed to be achieved through organization of conferences with municipalities on exchanging, elaboration, and awareness increase at a general level on improving the administrative and technical conditions of doing business. This includes creation of a system of determining a unique number of business registrations. The manner of business registration will be advanced through providing this service electronically online. Kosovo continually aims and will work on increasing the number of agreements on investment protection. There will be organized conferences in continuity on promoting investments and exports. Simultaneously, the index of EU policies on small business will be based on regular reporting. A development part will also be the creation of enterprises' categorization which includes creation of a database and studying on existing enterprises, classifying and categorizing them on sector basis. In order to ease the access to finance for SMEs, there will be conducted a study on the possibilities and modalities of creating and functioning a credits guaranteeing scheme, application for membership in EU's development institutions (CIP, EU SME Week) and other donors with the aim of creating financial instruments on easing access to SMEs in finances. Also, the Government of Kosovo aims the membership in CIP and EU SME Week. Creation of a fund on functionalizing of a credits guaranteeing scheme will further support the SMEs sector. Lastly but not least important, remains the increase of cooperation between education institutions and SMEs on enterprises and industrial policy which is aimed to be achieved by country's institutions through implementing the Program "Business Internship" for 200 students, functionalizing of the Consultative Committee of SMEs, and adding the syllabus on entrepreneurship in the lower education curricula (MEST).

### **3.7.3. Agriculture**

Agriculture is an important economic sector which ensures the biggest part of employment in Kosovo. Kosovo's agriculture is characterized with small farms, low production and lack of advisory advanced services but, despite this, it contributes with approximately 12% of GDP of Kosovo, employees between 25% up to 30% of general employment, mainly in the non-formal sector, and composes about 16% of total exports value. About 60% of Kosovo population lives in rural areas. The agriculture and rural development sector is characterized with advanced legislation, where until now there have been approved a series of draft-laws which have created favorable conditions on sector development in the area of wine, production and processing of smoking, organic agriculture, land regulation, advisory services, plan protection, and rural development. On the other side, food safety is characterized with advanced primary and secondary legislation. Three basic laws, the Law on Veterinary, the Law on Welfare of Animals, and the Law on Food, comprise the legal basis towards setting the conditions for improving and fulfilling the EU standards. KFVA adapted a number of by-laws in line with Chapter 12 of *acquis* on food safety and veterinary issues.

MAFRD is in the process of drafting a Strategy and the new Plan on Agriculture and Rural Development 2014-2020; there have been foreseen six priorities which will be achieved with eight measures where, aside to rural development measures there have been added the direct support measures providing a clearer review of activities implemented and planned in the agriculture sector. The strategy is based on provisions of the Regulation of the Council on Supporting the Rural Development 2007-2013 (Council Regulation 1698/2005) and the European Agricultural Fund on Rural Development (EFARD). In order to develop the agriculture, forest, and rural sectors, Kosovo has approved the Strategy on Forest Development 2010-2020, aim of which is the sustainable development and protection of forest. The Strategy on Advisory Services in Agriculture and Rural Development 2012-2016, which is being implemented, aims at training the staff the services provided to farmers with the aim of increasing the agricultural production. In parallel to this, Kosovo is implementing a Strategy on Land Consolidation 2010-2020 and the Action Plan on implementing this strategy. *The purpose of the Strategy* is to create a long-term vision on implementing this strategy. There has been set up and functions the simple land identification parcel system (LIPS) and there has been drafted a master plan on implementing the LIPS system. Kosovo has also approved the Strategy on advancing agro-cultural enterprises which aims increasing the general quality of food operators, hygiene of production facilities, applying good production and hygienic practices, laboratory product- testing, and exercising of control by operators themselves. KFVA during the last year has increased human capacities with 20 new positions; additional budget has been allocated for construction of the recycling factory and has achieved progress at ensuring facilities for the regional offices to be operational.

During the last years, the Government of Kosovo has given a priority to the agriculture sector allocating considerable funds where, through ten supporting schemes, it has included about 15 thousand famers in the supporting structure thorough investments and direct payments on supporting different projects as well as the Local Groups of Actions (LGA). To implement the projects and action plans, with the National Program on Agriculture and Rural Development 2007-2013 there have been made direct payments and grants for farmers, which correspond with the measures of Pillars I and II of the EU's Common Agricultural Policy. Therefore, this support has had very positive influence at orienting the farmers towards the increase of production quality, implementation of production practices according to EU standards, and increasing the abilities on sustainable management of the farm. On the other side, forestry in Kosovo provides conditions to also develop and increase processing capacities, by focusing in using new and advanced technologies of using the wood with small diameter at processing. In Kosovo every year are forested about 500ha.

Main institution on implementing the agriculture policy is the Ministry of Agriculture, Forest and Rural Development which also is responsible on creating and implementing national policies, legislation and by-law acts. In order to implement the policies and legislation in force, there have been established some new institutions.

Main structures which are responsible on realization of the DRAP 2007-2013, which correspond with Common Agricultural Policies, are: Managing Authority (MA) which manage's the Program on Rural Development; the Monitoring Committee (MC) which monitors the DRAP 2009-2013; the Board on Forest Management which manages and supervises forest policies and implementation of the forest strategy. The Department of economic analysis is responsible for

sector analysis and other analysis of the costs of production and costs of investments. There have also been established the Department on Advisory Services, which is responsible on drafting policy on advisory services, and the Department of Payments, which executes direct payments and investing grants. Moreover, KFVA is the competent authority responsible for drafting the legislation and implementation in the area of food safety and veterinary.

Notwithstanding the increase of budget and other achievements, the agriculture sector and rural areas of Kosovo face with big challenges which have created uncertainty as regards sustainable economic development, generation of new jobs, and creation of welfare for inhabitants of those areas although those areas possess favorable agro-environment conditions, which are a condition on rural and agriculture development. To restructure the agriculture sector to be in line with that of EU and to improve the living standard of rural population in Kosovo, its competitive abilities should improve, as well as its productivity and quality of agricultural products. Also, a challenge remains establishment of new structures and advancement of capacities in drafting, implementing and monitoring the agricultural policies.

Challenging also remains the forest cutting and their use as economic resources. Notwithstanding the forestation of forests every year, Kosovo faces with illegal cutting by civil entities. To this phenomenon is also contributing the negligence of courts (dragging of cases) and the nonexistence of alternatives for heating. Also, fires and forest diseases are areas where bigger mobilization is needed. Meanwhile, the main challenge regarding food safety and animal health protection remains the complete transfer of municipal inspectors to KFVA as well as implementation of the Strategy on agro-food enterprises. In the context of policies, the key challenge remains the development of strategies on prevention of illegal slaughtering and control of animal markets. Furthermore, accreditation of Food Laboratory according to ISO 17025, increase of human capacities and systematic inclusion of data in the database on identification, movement, animal slaughtering, remain main challenges in the food safety sector and animal health protection.

#### Measures to meet obligations under an SAA

*Cooperation in the context of SAA will aim at helping Kosovo modernizing and restructuring agriculture and agro industrial sector. Especially this will include cooperation with producers and regulatory authorities to help them in fulfilling the safety criteria of food and EU's quality standards as well as EU's standards on animal health and plants in the form of assistance, training and organization of control in order to harmonize gradually with EU standards; added development of private farms and channels of distribution, methods of preservation and trading; modernization of rural infrastructure (transport, telecommunication, water provision, better management of forests at balancing the preservation of forests with use of economic sources, improving of productivity and quality by using the right methods and products; training and supervision in using methods against pollution related to the data on developing sustainable agricultural methods, including organic products; development and modernization of firms for processing and their methods of marketing; stimulation of industrial cooperation in agriculture and exchange of experiences.*

In order to meet obligations under the Stabilization and Association Agreement, from the legal aspect will be adopted: the Draft-law on Forest, Farming, Livestock Seeds, and Plant material, OMGs, Food, and the Draft-law on Agriculture Census.

Kosovo institution, with the measures foreseen with the Rural and Agricultural Development Plan 2007-2013, and with new plan of Agriculture and Rural Development 2014-2020 will continue implementing of measures (1, 2, 3, 4, 5 and 8). With measure 1 will be increased administrative and professional capacities in all areas; with measure 2 will be continued the restructuring of physical potential of farms in order to increase their competitive ability. There will be invested in the rehabilitation of watering system; primary, secondary, and tertiary systems of watering (measure 3). Meanwhile, as regards the improving of processing and agricultural marketing, with measure 4 it is aimed fulfillment of EU standards as regards the quality of food, where the producers and processors will be helped in all food assistance schemes by promoting the quality and safety of agricultural products. There have been foreseen concrete actions, where there will be built storehouses for collection, preservation and classification of agricultural products. As regards the measure 8 it is aimed the continuation of support of rural projects of Local Groups of Actions (LGA). Meanwhile, through measure 5, in the forest sector, there will be continued implementation of the Strategy on Forest by foresting the bared surfaces, application of sylvi-cultural measures in forest, inventorying of forest and managing plans for forests (10 years).

As regards food safety, KFVA will carry out the approximation of secondary legislation on food safety, animal health and welfare through the adoption of regulations deriving from the Hygienic package. The Government of Kosovo will implement the transfer of municipal inspectors to KFVA in order to address the strengthening of animal markets control, prevention of illegal trade and illegal animal slaughtering, as well as improving the phytosanitary control. KFVA will improve the phytosanitary control not only in the border, but throughout the entire territory of Kosovo. KFVA will continue to increase institutional and administrative capacities in order to address the challenges facing the food safety sector.

### **3.7.4. Customs, Taxes, and financial control**

#### **3.7.4.1. Customs**

Kosovo Customs is characterized with advanced legislation that is widely in compliance with the EU's Customs Code. The basic laws applied by the Kosovo Customs are as such: the Law on Customs and Excise Code, the Law on Customs Measures and Protection of Intellectual Property Rights, the Law on Excise tax for Smoking Products, the Law on Value Added Tax. Lately, the Kosovo Customs approved changes in the administrative instruction on disciplinary measures that has to deal with claims about nonprofessional conduct of customs personnel. The Customs is also characterized with the Operative Strategy Framework 2012-2014 (OSF). The Operative Strategy Framework 2012-2014 (OSF) indicates the offers Kosovo Customs provides towards the investment of public money by the Kosovo budget. OSF also determines the purposes and objectives that are achieved thorough operative units respectively through Directories composing the Kosovo Customs.

Kosovo Customs are responsible to ensure the right and uniform applications conform customs rules and other provisions applicable on goods. Furthermore, the Kosovo Customs is responsible to collect customs duties; in addition, the Kosovo Customs is the core institution to collect VAT and Excise Tax, as they are collected at the borders. Besides collecting revenues, Kosovo Customs is responsible also to protect the society from smuggling drugs and goods that lead to an economic crime that have harmful effect and to protect income evasion.

Kosovo has undertaken a number of operations against smuggling and organized crime in the area under the scope of customs. The goal of increasing the international customs cooperation has led to nine bilateral agreements signed between Kosovo and other countries and more agreements being negotiated at present time. The Customs Service has made important efforts on modernization; a continual advancement is visible in the area of administrative and operational capacities. It is important that in the beginning of September 2012 the system on processing customs statements (ASYCUDA) has become operational; this system eases customs clearance without papers. Also, the certificates on the origin of goods exported abroad originating from both the North and other part of Kosovo are certified by the Kosovo customs.

In spite of high achievements by the Customs, there still remain some challenges such as the improvement of the situation in the North by accessing the north territory and respecting the rules for the origin of goods in this territory. Moreover, a challenge remains further reformation and modernization of Kosovo Customs including the improvement of objects of some border crossing points (BCP). There is also a need to further schedule training for the staff and to increase capacities aiming on easing the trade, customs, customs cooperation, evaluation and implementation of intellectual property rights.

#### Measures to meet obligations under an SAA

*Kosovo needs to ensure that its customs authorities further enhance their effectiveness to meet the demands resulting from the liberalized, preferential trade under an SAA, in particular regarding the proper certification of origin and investigation and enforcement methods. Customs formalities should not be an obstacle to trade.*

In order to *meet its obligations under the Stabilization and Association Agreement*, and with the purpose of fighting the informal economy, Customs will increase cooperation with other law-enforcement agencies and add their anti-smuggling engagements, especially in the north part of Kosovo, Kosovo Customs will increase control on certification of goods and verification of certificates of origin from the north territory. There will also be improvement of existing infrastructure and building new facilities in BCP (Kulla, Vërmica, Hani i Elezit, Kuqishta). The Customs will provide training within and outside the country based on cooperation with other relevant agencies to increase capacities and professional development of the staff.

#### **3.7.4.2. Taxes**

Kosovo is characterized with advanced and generally complete legislation in the field of taxation. Major laws on taxation are the following: the Law on Tax Administration and Procedures, where this law is to establish the new complaint procedure against decisions of tax bodies; the Law on Personal Income Tax; the Law on Corporate Income Tax; the Law on Value Added Tax; and the Law on Pension Funds of Kosovo. An administrative instruction has been approved to clarify competencies of units, such as the unit on tax investigation and the unit dealing with complains. The Tax Administration has begun implementing the Strategy of 2010 to fulfil tax requirements and it is implementing the strategic management plan 2010-2015. The Strategy has been efficient by shortening procedures to deal with the taxpayers who do not report, requests for reimbursement, and complains.

Tax Administration of Kosovo is the executive authority on taxes, responsible for implementation of legislation related to taxes. TAK is composed of the General Director, the

Director on Internal Auditing, and the Senior Manager (executive office). The Tax Investigation Unit within the Tax Administration is created to deal with fiscal evasion. The number of electronic tax statements has considerably grown; moreover, significant advancement has been made by establishing joint offices on businesses and vehicles registration.

In spite of large achievements in the Tax Administration there still remain challenges related to the development of TAK. The Independent Review Board for Appeals by Businesses and Taxpayers has a significant backlog of cases; therefore, Kosovo needs to prepare legislation to integrate appeals decisions into the regular court system by establishing a fiscal division in the administrative court. Kosovo needs to increase the efficiency of this Board and the capacity of Board needs to be strengthened. Simultaneously, TAK should be ready to adapt its policies and identify the means to improve effectiveness on tax collection and to increase cooperation between TAK, the Police, and Courts. In order to increase the efficiency of IT system, the current IT system (SIGTAS) should be replaced with a modern infrastructure as well as the taxation structure needs to be more compatible with the EU.

#### Measures to meet obligations under an SAA

*Cooperation with the EU under an SAA would facilitate the reform of fiscal systems in Kosovo and foster further development of the tax administration to ensure effective tax collection and fight against fiscal fraud. Cooperation would aim at avoiding harmful tax competition.*

In order to *meet its obligations under the Stabilization and Association Agreement*, to strengthen the Independent Review Board for Appeals by Businesses and Taxpayers the administrative instruction will be approved for the payment of board members and the completion of this Board with members that will be appointed by the Assembly of Kosovo, in addition, administrative support will be provided for the Board by TAK, which would result at reducing the number of cases pending for a solution. To increase cooperation with other institutions common meetings will be held with the Kosovo Police and the Courts as well as there will be signed cooperation agreements with the Police and Courts. Besides, media campaigns on informing the taxpayers related to the tax obligations will be organized to fight fiscal evasion. In the aim of preventing the failure of fulfilling tax obligations visits and controls will be organized as well as random monitoring visits. Increasing amount of income by direct taxes compared to indirect taxes is expected to be from 11% in 2012 in about 14% in 2013. TAK aim is to make functional the online services system and this system to connect with information systems of other government institutions through fiscal cash registry. Tax Administration of Kosovo also needs technical assistance from donors to ensure the supply of an information system; it also needs financial and technical assistance in the construction/further development and integration with the informative existing sub-systems in TAK.

#### **3.7.4.3. Financial control**

Kosovo has a comprehensive legislative framework regulating the Public Internal Financial Control, with major legislation such as: Law on Public Financial Management and Accountability; Annual Budget Law of the Republic of Kosovo. Other laws that regulate the expenditure and collection of public money include the Treasury *Financial Rule 01* for Financial Management and Control; the Treasury Guidelines and Financial Rule 02 on Expenditure of Public Money, and the Financial Rule of Treasury 03 on revenue. Moreover, the Public Internal Financial Control Policy Document which was reviewed in April 2011 has been approved. In

addition, the Financial Management and Control Procedures Manual has been prepared, further Financial Management and Control Procedures dealing with delegation of expenditures, risk management, assets, budget, and payments have also been adopted.

Regarding the internal audit (IA), a solid legal base has been put in place for the efficient functioning of the system including the Law on Internal Audit, the necessary secondary legislation for internal audit units, audit committees, and licensing of internal auditors.. Furthermore, standards and internal audit manual have also been updated and harmonized with best EU professional practices. The Central Harmonization Unit for Internal Audit is actually designing an Administrative Instruction for licensing the certified auditors. The Strategy on the Functioning of the Internal Audit in Kosovo 2008-2012 was prepared jointly with international experts.

The legislation for the external audit is fairly progressive. The main reference legislation for the Office of the Auditor General consists of the Public Financial Management and Accountability Law and the Public Procurement Law. OAG has updated its Corporate Development Strategy where the objective of this Strategy is to set the path and guide OAG in creating the National Audit Office of Kosovo until the end of 2013.

From the institutional aspect, the concept of Public Internal Financial Control (PIFC) has been developed by the European Commission with the aim of developing the proper internal control in the public sector. As per legislation in effect, PIFC in Kosovo is composed of two main pillars: the Financial Management and Control (FMC) and Internal Audit (IA). The two pillars are supported and developed by two bodies:

- a) Central Harmonization Unit for Financial Management and Control (CHUFMC) - placed in the framework of Treasury and reports directly to the Minister of Finance through the General Director of Treasury;
- b) Central Harmonization Unit for Internal Audit (CHUIA) - which reports directly to the Minister of Finance for matters under its scope of work.

CHUFMC coordinates implementation of further development of FMC principles in all Budgetary Organizations (BO); drafts policies (Reference Guides and Procedures Manual); promotes FMC through the webpage and network exchange for FMC users; improves the quality of FMC implementers through the training program for Main Administrative Officials (accountable officials) and Managers (budget holders); monitors implementation of FMC through control lists of self-evaluation of good practices of FMC for managers of budgetary organizations; and reports regularly to the Minister on matters concerning the implementation of FMC. There are 67 internal audit units and 32 internal auditors have been certified.

Whereas, the Office of Auditor General (OAG) is pursuant to the constitution an independent institution whose role is to contribute to good governance and financial management in the public institutions. It reports directly to the Assembly of Republic of Kosovo.

Regardless of many positive developments in the area of financial control, there still exist challenges including the need to improve practices of daily internal control and the need to create and implement internal procedures on risk management. Another important challenge is that Kosovo institutions should pay special attention to the independent functioning of internal



audit at both central and local level. At the local level, creation of audit units in all municipalities remains a challenge. There is also a need for a greater understanding and acceptance of accountability within budget organizations to establish a culture of delegation of responsibilities and authorities. On the other side, OAG needs to strengthen its capacity to provide performance audits. Furthermore, strengthening of the functional independence of the OAG shall be of particular importance in order to ensure an effective external audit in line with international standards and best practices.

#### Measures to meet obligations under an SAA

*Cooperation with the EU under an SAA would focus on public internal financial control and external audit. The objective of the cooperation would be to set up and implement internal control and internal audit in the public sector and to strengthen the role of external audit in line with international frameworks and standards.*

In order to *meet obligations under the Stabilization and Association Agreement*, a new law that will ensure organizational, functional and financial independence of the Office of Auditor General (OAG) will be approved and implemented. Also the necessary secondary legislation for implementing the law will be approved. To ensure the institutional sustainability of OAG, it is planned to approve a Corporate Development Strategy for the period September 2012 – September 2015. The human quality and capacity of OAG will increase through the new certifying scheme compatible with ISSAI for the Regularity Auditors of public sector and the certifying scheme for Performance Auditors. Since good governance is of great importance, the OAG will make Regularity Audits mandatory for all budget spenders (including all municipalities), and will increase the number of Performance Audits, including the audits of the donors' funds, and different projects. On the other side, in order to improve the day-to-day practice of internal control, there will be conducted professional training in accordance to international best practices. To develop internal audit and Financial Management and Control (FMC) in the public sector in line with international standards and practices, the certification of auditors in an International Program on Training and Certification will take place; training and seminars will be held with participants as per modules of IPA Project 2011. An advanced professional training program on the level of a diploma is also planned to be developed.

### **3.7.5. Employment, social policy, public health policy, education and training, and research and development of technology**

#### **3.7.5.1. Employment, social policy, and public health policy**

In the field of employment and social policies, Kosovo has established the basic legal framework that regulates labour and employment issues, health and safety at work, labour inspection, trade unions, social dialogue, inclusion and social protection. The main legislation in force regulates pensions, social services and family care, as well as social schemes for people with special needs and elderly.

Labour law regulates the legal issues related to employment relationships. Approval of the Labour Law has regulated employment issues to some extent; however, its high cost remains a further challenge. The Social Assistance Scheme and the Law on Social and Family Services were reviewed and approved. The new Law on Occupational Safety, Health, and the Working Environment has been drafted, and it's expected to be approved by the Government. MSLW implements the Employment Strategy 2010-2012, and the Action Plan 2011-2013, which

strengthens and supports Sector Strategy 2009-2013. With the adoption of the Law on Social and Economic Council, the process of social dialogue, which was considered as a challenge, has been improved. Decentralization of social services is improving, but this process requires further financial support, especially in human capacities development that is responsible in carrying out this process.

Institutions at the central and local level are in place and functional. MLSW, which conducts its activities through seven Regional Employment Offices and twenty-three Municipal offices, is responsible for addressing issues related to employment. Regarding the vocational training issues MLSW operates through eight Vocational Training Centres. For social responsibility policies, the task directly falls under MLSW, respectively, under the Department of Social Welfare and Pension Administration. In order to oversee the implementation of the Labour Law and to regulate the labour and employment relationship, the responsible key actor is Labour Inspectorate who responds directly to the MLSW. After the adoption of the Law on Economic and Social Council (ESC), the Council has been functionalized. This Council has been established with the purpose of setting and developing social dialogue in the Republic of Kosovo for employees and employers on issues that have a special importance which are related to the fulfilment of their economic, social, and professional rights that are realized through the settlement of disputes with bilateral or trilateral agreements. This council has inter-institutional composition represented by trade unions, representatives of employers' organizations, KCC and KBA.

Responsible institutions for implementation of decentralization of social services are MLSW, MLGA, and institutions at municipal level.

The main challenges in the employment sector remain reforms of active employment policies, unemployment, particularly long-term unemployment, the provision of quality trainings that responds to the needs of the labour market.

Furthermore, employment sector is faced with challenges, either in terms of establishment and improvement of legal and institutional framework, or in human capacity. Despite the progress made so far in the regulation of employment and protection of workers at the workplace, a lot remains to be done in this regard. The new Law on Occupational Safety, Health, and the Working Environment is expected to be approved by the government. The lack of capacity of the labour inspectorate and other institutions related to implementation of the Law need to be addressed. Reporting and controlling mechanisms that are responsible for the implementation of occupational safety law need to be strengthened.

Human capacity should be strengthened, especially in the context of the Labour Inspectorate, which is the key responsible actor for implementing the Law on Occupational Safety, Health, and the Working Environment, but also for other laws under its jurisdiction. With regard to the Labour Law, as the basic law that regulates labour and employment relations, significant obstacles has been presented during its implementation and these obstacles will be addressed through a review of the law. Aspects that need to be addressed during the review of the law are: costs, maternity leave, and support to the Labour Inspectorate. Another issue that needs to be addressed is the informal labour market, which continues to be high.

Regarding the decentralization of social services, lack of human capacities presents the main obstacle, which will have the responsibilities that are guaranteed by the central level and definition of a funding formula for social services. In order to address the challenges of this process, MLSW has compiled the Strategy for Decentralization of Social Services 2013-2017, which is expected to be approved by the Government.

To address the improvement and reformation of Employment Policies as well as Social Policies, MLSW will review the Employment Strategy and Sector Strategy and will unify them into a single document. In order to increase the employment rate, MLSW will continue with reformation and modernization of Public Employment Services, advancement of database, expansion of programs for active labour market, complete the legal infrastructure in the field of employment, as well as to encourage development of cooperation inside and outside Kosovo.

#### Measures to meet obligations under an SAA

*Cooperation in this area under an SAA would aim at supporting Kosovo in the reform of its employment policies. It would also promote social dialogue as a key driving force for economic and social reform as well as legal approximation on labour law and health and safety at work. Under an SAA, the aim will be to cooperate to adapt Kosovo's social security systems to the evolving economic situation and the new social requirements. Kosovo would also be encouraged to adopt comprehensive social inclusion and anti-discrimination policies and measures to improve the situation of the most vulnerable social groups.*

In order to *meet obligations under the Stabilization and Association Agreement*, institutions of Kosovo will adopt the Law for amending and supplementing the Labour Law, the new Law on Occupational Safety, Health, and the Working Environment at workplace and adoption of new Law on Granting Permit for Work and Employment of Foreign Citizens in Republic of Kosovo.

Main challenges regarding the scope of regulation on labour relations, will be addressed through a harmonized legislation with that of the European Union that deals with all necessary legal changes and increase of efficiency of implementation. This should be done by strengthening labour inspectorate for implementation of the law not only by increasing the number of personnel but also by investing in their professional development. In this aspect, measures will be taken in combating informal labour market, improving employment statistics and electronic system of their management. Monitoring implementation of the laws and acceleration of procedures in Commercial Court which is responsible for violation of the labour law.

Within the social dialogue, the government will ensure that the level of operation of Economic and Social Council (ESC) will increase in order to enhance the dialogue between trade unions, government, and social partners.

Public health sector is one of the sectors of great importance because it is directly linked to people's well-being and health. This sector currently represents the priority of reform activities of the Government of Kosovo, particularly considering the fact that the current health system reflects the reality of emergency circumstances in the Kosovar health sector in the first post-war years. Health needs of the population and the scarce budget for adequate funding of health services make this reform even more important. Ongoing reform activities are based on a clear legal framework that is in full compliance with the Health Sector Strategy 2010 - 2014 and the

Acquis Communautaire and which is fully agreed with the World Bank, the International Monetary Fund and the World Health Organization. This legal framework envisages country's health system reform in carried out in two stages: the new Law on Health that was adopted in December 2012 by the Assembly of Kosovo envisages the first stage of structural and organizational reform of the health system aiming to secure greater autonomy, efficiency and effectiveness of public health care institutions and the full equality of public and private sector in health; while the Draft Law on Health Insurance, which is in the approval procedures, envisages also reforming the health sector financing system and aims increasing the necessary financial funds and fiscal sustainability. Other laws that will support this reform are: the Law on Chambers of Health Professionals, the Law on Tobacco Control; the Law on Organ Transplants; the Law on Tissue and Cell Transplantation and the Law on Medicinal Products and Equipment that are finalized and close to being adopted.

The highest health authority in the country is the Ministry of Health which is in charge of sectorial policies and strategies, whilst the system of health services, provided both by the public and private sector, is organized into three levels: the primary level- based on a concept of promoting public health and family medicine concept; and the secondary and tertiary level-based on a integrated health care concept.

There is still much work to be done in the public health sector when it comes to the obligations arising from the Feasibility Study in order to fulfil these obligations towards a SAA. Although progress is evident in regards of implementing the legal framework, further on, this segment requires commitment and as such still remains a challenge. In this regard, further development of health policies and building up the human capacities and infrastructure is needed. Another challenge remains the adoption or amendment of the legal framework, such as: the Law on Tobacco, the Law on Blood, Tissues and Cells, the Law on Donation and Transplantation of Organs as well as the Law on Communicable Diseases, the Draft Law on Chambers of Health Professionals since these laws fill in and complete the legal framework in the public health sector.

Another challenge is considered to be the Health Information System (HIS), having in mind that that the latter needs to be functionalized throughout all health institutions in Kosovo. Meanwhile, health information statistics need to be improved.

#### Measures to meet the obligations under a SAA

*To meet its obligations under an SAA, Kosovo needs to do more to promote social dialogue, further develop health protection policies, in compliance with the EU laws to improve health and prevent illness of its population, develop independent and effective administrative structures and enforcement powers to ensure essential health and safety requirements and the safeguard of patients' rights and to protect citizens from health threats and disease, promote healthy lifestyles and cooperate with the EU on health issues.*

In order to meet the requirements emerged from the *Stabilisation and Association Agreement*; the legislative framework should be amended and approved by improving the above-mentioned laws, such as: the Law on Health Insurance, the Law on Tobacco, the Law on Organ and Tissue Transplantation, the Law on Communicable Diseases and the Law on Chambers of Professionals. In addition to that, the Health Information System, which is of enormous

importance in terms of collecting data on malignant and rare diseases, will be functionalized. The National Institute of Public Health of Kosovo (NIPHK) has a major role in implementation of this system.

To improve the public health situation in Kosovo, the Ministry of Health should complete the primary and secondary legislation with all relevant sub-legal acts in order to address the challenges arising from the Feasibility Study.

There's a need to strengthen the monitoring, implementation, reporting and inspection and relevant documents, given the fact there's a lack of coordination in terms of these issues between health institutions responsible for the functioning of this sector.

### **3.7.5.2. Education, training, research and innovation**

Kosovo education system is characterized by a comprehensive legal framework for all levels, including pre-university education, higher education, vocational education and training. The law on Pre-University Education, which is harmonized with the Law on Education in the Municipalities, was revised and adopted in 2011. Vocational education is regulated by the Law on Vocational Education and Training, adopted in 2006 and reviewed in 2012 in order to close the gaps in vocational education and training. Laws on Scientific Research, National Qualification Framework, and Adult Education were also reviewed in 2012 in order to harmonize them with other national legislation in force. Higher Education in Kosovo is regulated by the Law on Higher Education, which was adopted in 2002 and revised in 2011.

Education is one of the few sectors that have developed a comprehensive strategic framework of the education sector which covers all sub-sectors of education (KESP 2011 - 2016). KESP sets out the policy framework towards meeting the EU standards.

Institutional framework in education sector is quite advanced; except MEST as the main institution responsible to design and implement education policies, there are also Public Universities (in Prishtina, Prizren, and Peja), Kosovo Institute of Albanology, Institute of History, National Qualifications Authority, Accreditation Agency, the National and University Library of Kosovo etc. MEST has established a Task Force in charge of carrying out financial analysis, defining and proposing possible financial resources for the implementation of the strategy. In addition, a Steering Committee of KESP will be established soon, that will be responsible for supervising its implementation.

Despite major achievements in the education sector, there are still some challenges that hinder effective implementation of the KESP and other reforms initiated by MEST. Although the primary legislation has been completed to a certain extent, bylaws still need to be compiled and approved in order to complete the legal infrastructure in this sector. Adequate conditions for minority education, including access to education in their own language has yet to be improved. Regarding human capacities, the establishment of a fund to support researchers and research capacities of institutions as well as the lack of highly qualified scientific personnel and low number of students with doctorate degree remain as challenges.

There are no sufficient laboratory equipments in Kosovo followed by inadequate technical practical knowledge. Kosovo's integration into the European Research Area remains as a long-term goal of the Government. Investments in education sector and research are still at a low

level. Kosovo scientific community remains isolated towards the international scientific community.

#### Measures to meet obligations under an SAA

*Cooperation under an SAA would build on the existing programmes and mechanisms and continue to help Kosovo raise the level of general education, higher education, vocational training and to promote youth cooperation. It could also encourage the development of an environment conducive to research, notably through joint research and innovation ventures and the transfer of technology and know-how.*

Kosovo Government will address these challenges through undertaking specific actions aimed at the academic advancement of Kosovo's society. Approval of the Law on Scientific Research, Innovation and Technology makes possible the increase of financial support to science and research; increases the number of doctoral and post-doctoral studies, as well as strengthens the capacity of universities for drafting and accrediting current and new doctoral programs. The National Strategy for Innovation will be drafted, for which purpose the working groups have already been established.

Through establishment of a national contact point system, Kosovo will take concrete steps for its integration into the European Research Area.

Government aims to continuously build capacities in the areas of energy efficiency, environment, food safety, health and social sciences, which are identified as priority sectors.

#### **3.7.6. Cultural services, audio visuals, telecommunications, postal and information society**

Regarding developments in the field of legislation, the sector of telecommunications and audiovisual policy has made substantial progress by adopting a considerable number of laws: *Law on electronic communications, Law on the information society services, Law on prevention and combating of Cyber-crimes, Law on Postal Services, Law on RTK, and Law on Independent Media Commission (IMC)*. Furthermore, these developments are also followed by adoption of a sufficient number of bylaws.

In order to effectively implement policies in the field of information society and media, a number of strategic plans are being implemented. Regarding this, in the field of telecommunications are being implemented the Policies of Telecommunication Sectors, which outline the vision, priorities, and objectives for regulation of different areas of social life and expands opportunities for the introduction of innovative alternatives. However, in the context of positive developments for the information society, based on a multi-sectorial partnership the National Strategy for Information Society has been adopted that aims at sustainable human development based on social justice, equal opportunities, freedom, and respect for cultural differences, civil participation and scientific progress through the use of information and communication technology. Moreover, in the framework of regional cooperation, the Government of Kosovo has signed "SEE Agenda + For the Development of Information Society in SEE 2007-2012", and has taken the full responsibility to implement the priorities and objectives as a positive step towards joint efforts for advancing and promotion of Information Society in SEE countries. As regards to improvement of electronic services for citizens, the Strategy of Electronic Governance, which aims to provide electronic governance for citizens, businesses and other categories through informative and communication technology (such as:

WAN, Internet, mobile network) is being implemented.

In the context of institutional responsibilities at the sectorial level, necessary institutions to draft of laws, strategies, and to implement policies have been established and functionalized as well. Key institutions for audio visual and telecommunication policies are MED and MPA, responsible for preparation of legislation and strategies in the area of electronic communications, information society, and e-governance. Whereas, Regulatory Authority of Electronic and Postal Communications (RAEPC, ex: Regulatory Authority of Telecommunications, RAT) and IMC are responsible for implementation and monitoring of the abovementioned documents. Moreover, RAEPC is responsible for regulating electronic communications, postal market, implementing policies and strategies for electronic communication sector and postal services adopted by the Government. RAEPC is also responsible for frequency spectrum management. On the other hand, the IMC is responsible for the regulation, management, and oversight of the frequency spectrum for radio-diffusive broadcasting, respectively the IMC regulates broadcasting rights, obligations and responsibilities of individuals and entities that provide audio and audiovisual media services.

However, despite substantial progress in the electronic communications sector, information society and audiovisual policy, a number of complex challenges facing responsible institutions are hampering the effective implementation of EU standards including the completion of the legislative framework, and building professional capacity for monitoring the implementation of reforms. In this regard, Kosovo needs to continue with the efforts to align and harmonize the legal and policy framework with EU. In this discourse of commitments, mid-term challenge is the completion of legal framework with the adoption of the Law on Government Bodies for Information Society and Law on Digital Terrestrial Radio -Diffusive Transmissions. However, in operational terms of audiovisual policies, the adoption of the strategy for transition from analogue to digital broadcasting still remains a challenge. Also, despite the adoption of the Law on RTK, long-term sustainability for the only public broadcaster remains crucial challenge. Furthermore, challenges that are related with institutional development are preservation of independence and professional capacity building of the RAEPC and the IMC. On the other hand, inability of the Kosovo institutions to join international organizations mainly for political obstacles is challenging the telecommunication sector and audiovisual policies by causing difficulties in issues such as getting country codes for fixed telephony and national domain for internet as well as insufficient allocation of spectrum, including digital transmissions.

#### Measures to meet obligations under an SAA

*In the context of signing of SAA, Kosovo through the alignment of the legislative framework in the sector of telecommunications and postal services with the *acquis communautaire* shall include in particular: i) further development of legal and regulatory aspects of telecommunications and postal services; ii) fast liberalization of the sector; iii) promotion of a friendly environment for investment in modernization of telecommunications network and integration into European and world networks, iv) institutional reforms suitable for a liberalized environment. Regarding audiovisual policies, SAA will promote cultural cooperation with a purpose of strengthening the capacity of Kosovo's cultural policies, strengthening the capacity of cultural actions and increase mutual understanding between individuals, minorities and people. Moreover, Kosovo will put in line the legislations and policies with those of EU, including cross-border transmissions and intellectual property rights for satellite or cable broadcasts and programs. Whereas, its institutional reforms should promote public broadcaster for a liberalized environment, as*

*well as preservation of independence and capacity of regulatory bodies. SAA will also include provisions to establish general principles for participation in EU Programs such as European Creativity Program.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo has to intensify efforts on the approximation of laws, effective implementation of policies, and enhance the institutional reforms. In the context of promotion and alignment of legislative framework, Kosovo will adopt the Law on Government Bodies for Information Society and Law on Digital terrestrial radio-diffusive transmissions. However, in order to effectively carry out comprehensive policies, the Government will develop and adopt sectorial strategies. Among others, the Government will adopt the Electronic Communication Sector Policy in order to set out the priorities, objectives, and activities of the development of information and communication technologies. In addition, Government will also adopt the Strategy for Digitalization as an essential roadmap for the transition from analogue to digital transmission system.

Nevertheless, except adoption of legislation and sector strategies as primary conditions, Government is committed in preservation of independence, strengthening of institutional and professional capacity building of regulators such as RAEPC and IMC. Additionally, in this ongoing commitments, MED will strengthen professional capacities regarding information society policy development and coordination, including the issues arising from Digital Agenda for Europe. Consequently, through institutional reforms, capacity building, intensification of international cooperation for ensuring the country codes for fixed telephony, national domain for internet, and getting membership in the International Telecommunication Union (ITU), Kosovo aims to modernize the telecommunication network, in order to be fully integrated into European networks and to participate actively in EU programs for respective sectors.

### **3.7.7. Transportation**

The most significant legislation in transport sector has been adopted, marking a crucial progress in terms of approximation of legislative framework with the *acquis communautaire*. In this context, some of the essential laws adopted in the field of transport are: *Law on Roads, Law on Road Traffic Safety, Law on Civil Aviation, and Law on Railways*. Furthermore, in order to implement the legislative framework, a number of bylaws have been approved. Also, in function of drafting effective policies in the field of transport, Ministry of Infrastructure (MI) is simultaneously updating and implementing the Multimodal Transport Strategy. The aim of this strategy is to create friendly environment for safety, qualitative, and functional development of transportation systems and human resources.

Also, pursuing the European Railways development, positive progress has been marked with separation of Kosovo Railways in two new public companies, respectively in InfraKos and TrainKos. Moreover, MI in close consultation with the Railways Regulatory Authority (RRA), TrainKos and InfraKos has adopted the Network Statement for 2013. In this context, as a result of positive institutional development is being implemented the legal framework towards gradual market-opening of rail transport.

On the other hand, through active involvement to the European Common Aviation Area (ECAA) Agreement, Kosovo has made a significant progress in adoption of EU standards, notably through introducing of new legislation in the field of civil aviation. In this context, MI



and Civil Aviation Authority (CAA) have made progressive steps in the adoption of economic and safety regulations, as direct requirements from the first phase of ECAA agreement. Whereas, in order to improve civil aviation security, Ministry of Internal Affairs (MIA) has adopted three National Civil Aviation Security Programs and has drafted the Manual for Inspectors of Civil Aviation Security that enables Inspectors to learn and recognize the modern investigation techniques. Therefore, keeping up with commitments, Kosovo has transposed all EU legislation derived from the first phase of the ECAA Agreement, and is ready to move forward with the second phase of this agreement.

Regarding institutional organizations and responsibilities, key institution in the transport sector is MI, mandated to implement laws and making policies with aim to contribute towards economic development by providing qualitative and sustainable services, ecological environment, and international integration. In order to reduce the number of road traffic accidents, Government has established the Council for Road Traffic Safety, an inter-institutional body that is chaired by the MI and aims to improve safety and reduce the rate of traffic accidents through joint and comprehensive activities.

Whereas, in the railway sector, MI drafts legislation and determines policies by providing long-term strategic challenges that railways are being coped with, while RRA is the responsible body for the regulation, supervision, organization of railway sectors, respectively RRA operates as a licensed body, a body responsible for interoperability issues, body for regulation of market and body for railway safety.

MI, MIA, CAA and Aeronautical Accident and Incident Investigations Commission (AAIIC) are responsible institutions in the field of civil aviation. MI is responsible for development of national policies for air transport and adopting economic regulations. Meanwhile, MIA is responsible for establishing and maintenance civil aviation security. In this context, the National Civil Aviation Security Committee, an inter-institutional structure chaired by MIA has been established and is responsible to monitor the implementation of EU legal framework in the field of civil aviation security. Whereas, CAA is an independent regulatory agency that is responsible for the regulation of civil aviation safety, economic regulation of airports and air navigation services in Kosovo, particularly to implement legislation of civil aviation by giving effect to policies adopted by the Government.. Also, AAIIC is a body responsible for investigation of accidents and incidents in railway and air transport.

However, despite substantial achievements, transport sector still faces multidimensional challenges in the process of European integration. In this context, a mid-term challenge regarding the advancement of legislation framework is the amendment of three laws (Amendment of Law No. 02/L-70 on Road Traffic Safety; Amendment of Law No. 02/L-127 on Road Transport; Amendment of Law No. 2004/06 on Transport of Dangerous Goods) and further harmonization with *acquis communautaire*. In a broader context, the issue of road traffic safety, explicitly high rate of road accidents continues to challenge MI and other responsible institutions for the respective segment of this sector. Moreover, limited capacity of inspection, old vehicles and low quality of road infrastructure are some of the challenges that are preventing full implementation of legislation by MI.

Some of the main challenges in the railway sector are lack of investments, further

harmonization of financial issues between InfraKos and TrainKos, as well as strengthening of RRA's budget and staff training. Despite the tremendous achievements in the aviation sector, capacity building for aviation security which is managed by MIA remains one of the main challenges. Whereas, political obstacles for participation and representation of Kosovo in various international institutions are the main challenges in terms advancing international cooperation in transport, which at the same time has a negative effect in the implementation of EU legislation and standards.

#### Measures to meet obligations under an SAA

*In transport, cooperation under an SAA would contribute to restructuring and modernizing Kosovo's transport systems and improving related infrastructures, improving the free movement of passengers and goods, achieving standards comparable to those prevailing in the EU, aligning transport legislation to that of the EU, and allowing progressive mutual access to the EU and Kosovo transport markets and facilities..*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo has to intensify efforts to complete the legal framework in line with the *acquis communautaire*, to balance investments with strategic priorities and to further strengthen professional capacities. In this regard, Kosovo will adopt Law on Air Navigation Agency (ANA), which will guarantee professional management and full independence of ANA. While, in order to improve the overall situation in transport sector, responsible institutions will take concrete measures towards full implementation of adopted legislation.

At the operational level, in order to reduce the number of accidents and improve road traffic safety, Government will adopt the strategy for road traffic safety. Whereas, in relation to orientation of strategic policies, upon completion of motorway R7 and beginning of implementation motorway R6, Government will continue to improve road infrastructure as a key determinant factor for further promotion of sustainable economic development. On the other hand, in order to balance the investments in transport sector, Government is committed to enhance current investment strategy in building new roads with adequate investments in other sectors; particularly rail sector will be mostly included. Consequently, particular attention will be given to long-term priorities in transport sector, such as restructuring and modernization of transport systems as well as full integration of Kosovo in regional and European road, rail and air transport networks. Regarding institutional developments in transport sector, respectively in the field of civil aviation, it's expected that within a short period of time the CAA will certify the Air Navigation Service Provider (ANSP). Moreover, the Government will continue to further strengthen and develop administrative and professional capacities through enhancing of institutional reforms by preparing responsible institutions to manage and coordinate the challenges of EU integration process in the most effective and efficient way.

#### **3.7.8. Energy, including nuclear safety**

Energy sector is regulated by respective legislation, policies, and institutions. The existing energy legal framework in Kosovo is in line with the second package of EU laws and obligations toward the Energy Community (EC). This framework consists of five key laws, such as: Law on Energy, Law on Electricity, Law on the Energy Regulator, Law on Energy Efficiency, and Law on Central Heating. The purpose of these laws is to regulate the sector, respectively set principles and rules of all activities within the sector. Besides energy, an approximation

progress has been marked in the field of nuclear safety by the adoption of the Law in force for Radiation Protection and Nuclear Safety, a law that aims to implement international norms and conventions as well as create healthy environment.

Government of Kosovo remains committed to the sector development, which is of vital importance for overall development of the country, considering at the same time the importance of environment protection. Therefore, taking these into account, except legal framework, Energy Strategy of the Republic of Kosovo 2009-2018 and Heating Strategy of the Republic of Kosovo 2011-2018 were approved, which define policies pertaining to energy sector development.

Energy strategy guides the development of appropriate policies for a faster conversion of the sector to a more sustainable and self-financing sector that offers qualitative energy services and are economically favourable for customers. It also identifies key policies and measures needed to be taken to further advance reforms and enable private investment attraction, as well as a more complete and faster integration of Kosovo's energy system in regional and European ones. The purpose of Heating Strategy is to contribute to a sustainable development of heat sector based on rational and efficient use of energy resources, especially natural energy resources towards achieving sustainable and qualitative supply of space heating and sanitary water for customers, and at the same time to protect the environment. Besides strategies, Kosovo has two key National Plans, that of Energy Efficiency and Renewable Energy.

Considering the sector's complexity, a structure of institutions is required, not only governmental but also regulatory ones for drafting, monitoring, and implementation of legislation and policies. Such structure has been established and is led by Ministry of Economic Development (MED), followed by Ministry of Environment and Spatial Planning (MESP), Ministry of Trade and Industry (MTI), Energy Regulatory Office (ERO). Towards the development of the sector, in particular the area of energy efficiency and nuclear safety, the Kosovo Agency for Energy Efficiency (KAEE) and Kosovo Agency for Radiation Protection and Nuclear Safety (KARPNS) have already been established. Besides these, there are also other enterprises that operate in this sector, such as: Transmission System and Market Operator (KOST), Kosovo Energy Corporation (KEK), and Kosovo's Electricity Distribution and Supply (KEDS), as well as two operating heating companies, Termokos in Prishtina, and City heating in Gjakova.

Even though Kosovo's recent progress, there is still work ahead towards the fulfilment of obligations for the SAA, starting by the preparation for implementation of the third legislation package on internal energy as of 2015. Further transposition of *acquis* remains to be done in the field of nuclear safety through amendment of the Law on Radiation Protection and Nuclear Safety, including the secondary legislation. Obligations should also be fulfilled in the implementation of EU rules on mandatory oil stocks and integration into the EU energy networks. However, in addition to challenges of legal framework, another issue that remains as a challenge is the strengthening and functioning of sector institutions, or more specifically, strengthening the ERO with resources and the adequate staffing of KARPNS and KAEE. Besides the abovementioned, Kosovo also remains to fulfil its obligations towards ECT, such as to continue with the development and restructuring of the sector, respectively building new

generating capacity which will facilitate the closure of Kosovo A power plant, as well as unbundling and further privatization according to the rules of Energy Community.

#### Measures to meet obligations under an SAA

*Cooperation under an SAA between Kosovo and the EU in the field of energy would need to take into account the principles of market economy and the Energy Community Treaty. Cooperation would focus in particular on the formulation and planning of energy policies improving interconnections and modernising infrastructure, establishment of a competitive electricity market, improving and diversifying supply, better management of energy utilities, strengthening the role of the regulator, improving demand management, developing energy resources and renewable energy, and promoting energy saving and energy efficiency, promoting nuclear safety and nuclear waste management.*

In order to meet obligations under the Stabilization and Association Agreement, the legal and regulative framework in force, respectively, five abovementioned laws will be amended in accordance with the third EU energy package, which shall be implemented as of 2015; Law on Radiation Protection and Nuclear Safety shall be amended ; oil sector will be regulated with the adoption the new Law on Trade of Petroleum and Petroleum Products that will enable the start of the implementation of EU rules on mandatory reserves. Moreover, the Government of Kosovo will adopt secondary legislation related to further transposition of these three areas. In order for these developments to be carried out in a precise manner, institutions will be established, strengthen, and functional by increasing their professional capacities and resources. More precisely, the operator for nuclear waste management, and within the MTI, the division for mandatory oil reserves will be established. Energy Regulatory Office, Agency of Nuclear Safety, and that of Energy Efficiency will be completed with new officials, capacity building and resources. Restructuring of the sector will continue, including continuation of the TPP “Kosova e Re” project, as well as developing new RES generation capacities. In order to achieve the supply from these resources and integration in EU network, the improvement of the transmission infrastructure will continue by increasing the transmission capacities in three levels.

#### **3.7.9. Environment**

In the sector of environment, a significant part of the environmental legislation has been adopted resulting to substantial progress regarding the approximation of horizontal legal framework with *acquis communautaire*. In this context, some of the fundamental laws adopted in the field of environment are the following: the Environmental Protection Law, Law on Environmental Impact Assessment, Law on Environmental Strategic Assessment, and the Waste Law. Furthermore, the legal framework to implement EU standards on air quality has been established. In addition, in line with its environmental policy making mandate, MESP is in the process of updating and implementing the Environmental Protection Strategy and Action Plan. The aim of this strategy is improvement of environmental conditions in accordance with the principle of sustainability which contributes in improvement of social welfare. Despite of the progress made in the legislation, we must emphasize that responsible institutions for implementation of policies have managed to stop illegal operation of quarries and prevention of exploitation of inert materials from rivers by rehabilitating and improving their situation.

Regarding the institutional structure and their responsibilities, responsible institutions of drafting, monitoring, and implementation of legislation in force and environmental policies, are established and in function. Key institution for environmental policies is MESP which is

supported by KEPA – responsible for environmental monitoring, data collection and reporting, which with their administrative capacity, as part of many other activities prepare yearly reports for environmental conditions, nature, and other sector reports in the territory of Kosovo. Recently, in order to address the challenges in the implementation of environmental policies, MESP has also increased the number of inspectors. Furthermore, the Water and Wastewater Regulatory Office (WWRO) is as an independent body responsible for regulation of water and wastewater services.

Despite substantial achievements, environmental sector is still faced with multi-dimensional challenges in the European integration process. In this context, even though the budget for this sector has been increased over the last two years, it is still low and insufficient for implementation of environmental protection policies. Moreover, low budget in this sector, hinders the process of approval of sector strategies. Regardless of the fact that horizontal legislation is almost completely transposed, enforcement of legislation remains a challenge to be fulfilled as in case of implementation of Law on Environmental Impact Assessment, where the quality of reports still remain weak, therefore, they require improvements. Institutional, administrative, and human capacity building is one of the most important challenges to enable the implementation of EU standards. Another important challenge in this sector is the inclusion and harmonization of environmental and climate policies in the policies of energy, transportation, industry, agriculture sector as well as in the education sector (environmental education).

Among other things, the challenge remains in transposition of legislation on climate changes as well as completion of national documents such as: Climate Change Strategy, national plan for climate change mitigation, and in the long term the challenge of completion of data inventory of greenhouse gases from all sectors.

#### Measures to meet obligations under an SAA

*Under an SAA, Kosovo would strengthen its cooperation with the EU in combating the deterioration of the environment as regards air and water quality, waste management and nature protection, monitoring and reduction of industrial emissions, promoting energy efficiency and safety at industrial installations, soil protection, classification and safe handling of chemicals and urban planning.*

*Cooperation under an SAA would also be used to develop Kosovo's climate policy and to help Kosovo's involvement in global efforts to mitigate and adapt to climate change. Strengthened cooperation with the EU would help Kosovo adopt the necessary legislation, as well as establish an adequate administrative setup. It would also assist Kosovo in mainstreaming climate consideration in energy, transport, industry, agriculture and education policies.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo should intensify efforts to complete the legal framework in harmonization with *acquis communautaire*. In this context, Kosovo will approve a number of laws, among the most important ones are: Draft law on Water Service Providers; Wastewater and Wholesale Water Suppliers; Draft law on Eco-fund, that will enable capital investments for implementation of environmental policies; Draft law for Kosovo Water; Draft law on Environmental Inspectorate, Water, Spatial Planning, and Construction, which aims strengthening the inspectorate to monitor implementation of environmental policies; Draft law on Spatial Planning; etc. Also, the field of alignment of

legislation with that of EU will be completed with the adoption of Strategy for Approximation of Environmental Legislation and investment plans in this sector. In order to improve sector policies, the Government will adopt strategies and action plans that regulate the field of air, waste management, water, river ponds and urban and spatial plans.

At the operational level, in order to improve the environmental situation in Kosovo, responsible institutions will put in full function the network for monitoring air quality by harmonizing data and increasing the quality of environmental data reports, as well as functionalizing seven plants for sterilization of medical waste. Additionally, Government will establish decision-making structures and programs necessary for protection of drinkable water, and monitoring of surface water and underground water by conducting feasibility studies in several centres in Kosovo for the treatment of sewage water. Furthermore, Government will continuously strengthen and develop administrative and professional capacities at central and local level, by preparation of responsible institutions for managing and coordinating in the most successful manner the challenges of EU integration process.

### **3.8. Financial cooperation**

Kosovo has significantly improved financial cooperation and the capacity of institutions for coordination of foreign assistance has been strengthened. In 2011, a regulation on donor coordination which outlines the responsibilities of institutions has been adopted.

Ministry of European Integration is the main institution for horizontal coordination, while necessary structures for donor coordination have been established in three levels: the High Level Forum at the highest political level, sector working groups and sub-working groups to coordinate donors which hold regular meetings. During IPA 2012 and IPA 2013 programming, the overall quality and level of programs has been improved and the focus of financial assistance in special sectors has been further streamlined. Ministry of European Integration has increased its capacities in the selection process of programs and projects funded by EU and assistance from other donors. As to the IPA component for Cross-Border Cooperation (CBC), Kosovo participates in three Cross-Border Cooperation Programs with Albania, Macedonia, and Montenegro. Bilateral agreements for the implementation of CBC 2011 have been signed with all three countries. Joint operational structures have been established for programs with Albania and Macedonia and the one with Montenegro is in the final phase of establishment. Implementation phase of the program with Albania has begun. The key institution for the implementation of these programs is Ministry of Local Government Administration, which also has the main role for the work of joint operational structures by Kosovo for these programs.

The amount allocated by EU for Kosovo, within the given financial assistance as a part of IPA 2007-2013 program, reaches over 630 million Euros.

Although there has been a continuous improvement in terms of financial cooperation, the main challenge still remains as to the inadequate planning policies and linking of financial assistance with state policies. The main difficulty lies in lack of a general guiding framework for public policies, which would integrate specific sector policies and priorities financed by foreign assistance.

*Measures to meet obligations under an SAA*

*An SAA with Kosovo would foresee continuing EU financial support to help Kosovo to achieve the objectives of the agreement. Such assistance could further focus on different areas of approximation of legislation and cooperation policies covered by the SAA.*

In order to *meet obligations under the Stabilization and Association Agreement*, Kosovo institutions should continue to improve their capacities for planning and programming of EU assistance by holding trainings for responsible staff. For effective implementation of cross-border cooperation programs, institutions have planned activities for monitoring and implementation of programs and operationalisation of necessary relevant structures (with Montenegro and Macedonia). Also, there is a need for intensification of efforts for effective donor coordination through the work of structures for donor coordination and incorporation of donor financed priorities in governmental strategic documents and budget processes. Kosovo institutions in particular should further strengthen the link between foreign assistance and priorities that arise from the EU stabilization-association process.