2018 Commission report on Kosovo

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PURPOSE: to present a Commission staff working document on the Kosovo 2018 report in the context of EU enlargement.

BACKGROUND: the EU-Kosovo Stabilisation and Association Agreement (SAA) has been in force since April 2016. In order to define reform priorities, the Kosovo government together with the European Commission launched in November 2016 the European Reform Agenda (ERA). The Agenda outlines priority actions in the fields of good governance and the rule of law, competitiveness and investment climate, and employment and education. The implementation of the ERA is ongoing.

CONTENT: as regards alignment with European standards, Kosovo is at an early stage. Legislative alignment has continued in some areas but implementation is weak. Some progress was made in the area of free movement of goods and services, public procurement and competition as well as in improving the business environment. In the area of taxation and customs, some progress was also made in collecting revenue and simplifying administrative procedures, but Kosovo should step up the fight against the informal economy and tax evasion. The energy sector continues to face serious challenges. No progress has been achieved to address environmental issues. Overall, Kosovo needs to improve its administrative capacity and coordination, across all sectors, to ensure effective implementation of the *acquis*.

A summary of the main chapters of the report is as follows:

Political and economic dialogue: Kosovo held early elections in June 2017. A new Assembly and government took office in September. So far, however, the new ruling coalition has had limited success in bringing forward EU related reforms and building consensus on key strategic issues for Kosovo. The continuing political fragmentation and polarisation have adversely affected the role of the Assembly and have impacted the effectiveness of the government. The ratification of the border/boundary demarcation agreement with Montenegro in March 2018 was an important breakthrough.

As regards the **economic criteria**, Kosovo has made good progress and is at an early stage of developing a functioning market economy. The business environment has improved. However, the informal economy remains widespread. Kosovo has made some progress and is at an early stage in terms of capacity to cope with competitive pressure and market forces within the EU. No progress was made on improving the quality of education and addressing skills gaps in the labour market. Kosovo made some progress in improving road infrastructure but large infrastructure gaps in the railway and energy sectors remain. Structural changes in the economy are slow as it remains reliant on the retail trade sector. Integration with the EU is hampered by the slow implementation of the SAA.

Judicial system: Kosovo's judicial system is at an early stage. The integration of Kosovo Serb judges and prosecutors and their support staff across Kosovo into the Kosovo judicial system was a big achievement of 2017. The judiciary is still vulnerable to undue political influence and rule of law institutions need sustained efforts to build up their capacities. The administration of justice remains slow and inefficient.

Corruption and organised crime: Kosovo is at an early stage of preparation in the fight against corruption and organised crime. Law enforcement agencies struggle to effectively fight organised crime in the north of Kosovo. Some progress was made in the fight against terrorism, including through measures to tackle violent extremism and radicalisation and in preventing citizens from joining conflicts abroad. The Kosovo authorities need to be more effective in their efforts to fight money laundering and the relevant law should be brought in line with EU *acquis* and international standards.