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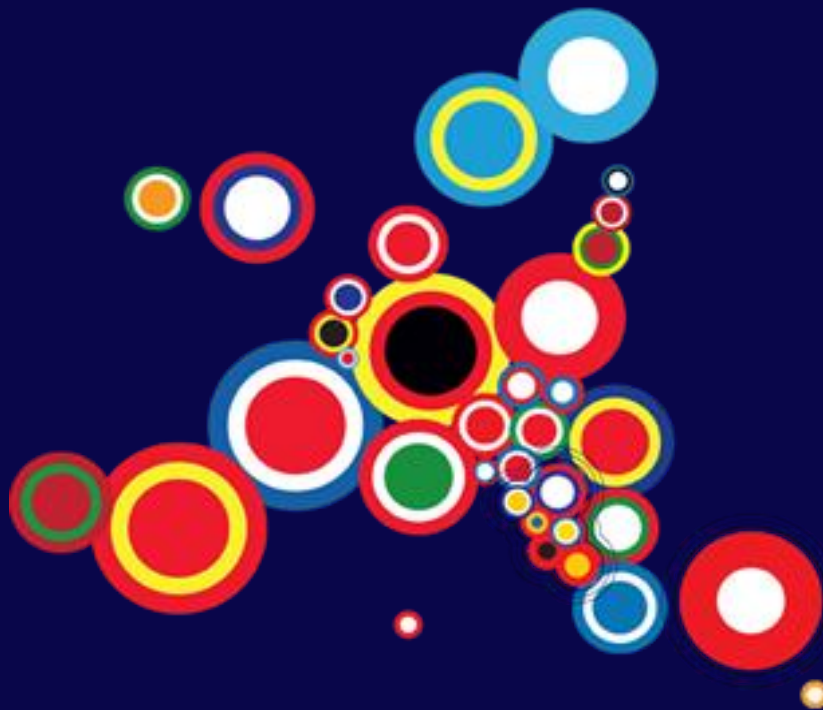
to the

COMMISSION IMPLEMENTING DECISION

**amending Commission Decision C(2014)5772 of 20.8.2014 adopting the Indicative
Strategy Paper for Kosovo* for the period 2014-2020**



INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



REVISED INDICATIVE STRATEGY PAPER FOR **Kosovo*** (2014-2020) ADOPTED ON 10/08/2018

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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PART I: INTRODUCTION

1. Purpose

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms.

The Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Kosovo on its European path. It translates the political priorities set out in the enlargement policy framework into key areas where financial assistance is most useful. Priorities are aligned with the 2030 Agenda and its Sustainable Development Goals (SDGs). This strategy paper - initially adopted by the European Commission with decision C(2014) 5772 final of 20 August 2014 - has been revised and updated at mid-term in accordance with Article 6.4 of the IPA II Regulation.. It may also be revised at any time upon the initiative of the European Commission.

Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union acquis, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed, and tailored to take into account the capacities of Kosovo to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account is taken of the beneficiary' own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or international financial institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Kosovo for the seven year period, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be

¹ OJ L 77, 15.03.2014, p. 11.

measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-)annual programming of IPA II funds.

The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017.

A performance reward exercise has been conducted during 2017 on the basis of an assessment of performance and progress; a second performance reward exercise will be conducted by 2020, as defined in Article 14 of the IPA II Regulation.

2. Consultation on this Strategy Paper

The Strategy Paper has been established in partnership with Kosovo and takes into account its strategies and priorities. Between December 2012 and December 2013, various consultation meetings were held with the Ministry of European Integration (MEI). The MEI organised further consultations with line ministries and provided significant inputs for the Strategy Paper at different stages of the drafting process. The European Union Rule of Law Mission (EULEX) and the European External Action Service (EEAS) provided relevant input on the needs for IPA II assistance in the rule of law area. In June 2013, a first consultation meeting with civil society was organised jointly by the EU Office in Kosovo and the MEI, followed by others organised with the help of a facilitator. At the Stabilisation and Association Process Dialogue (SAPD) Plenary with civil society organisations (CSOs) held in June 2013, CSOs had another opportunity to comment on the initial draft. CSOs also provided written input and were again consulted at local level. Consultations with EU Member States and other bilateral and multilateral donors took place in the context of the bi-monthly donor coordination meetings ("MS+ meeting") hosted by the EU Office in Kosovo.

Strategic dialogues with the European Parliament were conducted both when the document was initially drafted in 2014 and at mid-term in 2018. International organisations, other donors and Commission services have been consulted throughout its preparation. Consultations with international financial institutions (IFIs) were also organised, in particular through the local offices and the bilateral annual coordination meetings organised with the World Bank, the Kreditanstalt für Wiederaufbau, the European Bank for Reconstruction and Development, and the European Investment Bank. The Council of Europe Development Bank has been consulted as from June 2013, when Kosovo's request for membership was approved by its Governing Board.

Furthermore, during October 2016 the mid-term review process was initiated and several consultation meetings have been held with the MEI, Member States, IFIs and CSOs.

PART II: ANALYSIS OF NEEDS AND CAPACITIES

1. Political and economic context

Kosovo has a population of 1.7 million people. Kosovo's political system is based on the principles of a parliamentary democracy with a central and local government. For the majority of policy areas, Kosovo has put in place some elements for a legislative framework aiming for alignment with the EU *acquis* as well as basic administrative capacities. The fundamental structures for governance at central and local levels are in place. However, capacity varies

across different ministries and is generally weak at the municipal level, thus preventing, together with lack of funding, the proper implementation of decentralised services, in particular in education, social services, and healthcare.

Kosovo's relations with the EU are piloted by the Ministry of European Integration, which has set up a number of inter-ministerial coordination structures.. Under the fundamental pillar of Economic Governance, a special inter-ministerial coordination structure steered by the Ministry of Finance and the Prime Minister's Office has been established to prepare the Economic Reform Programme (ERP), the key exercise in EU-Kosovo economic relations.

The legal basis and institutional structures for coherent and coordinated policy-making system are largely in place. In 2015, the government adopted a National Development Strategy (NDS) for the next six years (2016-2021), which contains all the key priorities of the government. The government has also adopted a medium-term Economic Reform Programme (ERP) every year since 2015 that is fully in line with the NDS but with a specific focus on competitiveness-enhancing economic reforms. The Stabilisation and Association Agreement (SAA) between Kosovo and the European Union entered into force in 2016 and establishes a permanent free trade arrangement with the EU. If complemented by specific reforms, it will facilitate economic development in Kosovo. In December 2015, the government adopted a National Programme for the Implementation of the Stabilisation and Association Agreement, outlining short and medium-term priorities. In November 2016, Kosovo also adopted the European Reform Agenda (ERA) that focuses on a limited number of urgent priorities in the fields of good governance and rule of law, competitiveness and investment climate, and employment and education. Kosovo is committed to SDGs and has contributed much to setting this new global agenda. Its commitment to the SDGs began with extensive public consultations from 2012 to 2015, and culminated in January 2018, with the formal endorsement by the Parliament of Kosovo of a Resolution on the SDGs. The NDS 2016-2021 and the UN Common Development Plan (CDP) 2016-2020 are two separate programs, which are getting closer in integration into each other, on specific targets and indicators that will be measured for progress over the next years. Both the NDS and CDP focus and have integrated SDG 1,2, 4, 5, 8, 10, 12 and 15 into a common sphere.

Kosovo will need to strengthen its structures, in particular in those domains directly affected by the SAA and the mechanisms for reporting and monitoring, which will play a fundamental role in its implementation. In implementing the SAA, Kosovo would need to focus its efforts on the effects of trade liberalisation: the reduction in import tariff revenues will need to be compensated and customs revenues and taxation will need to be rebalanced. Further support is needed for the reform of fiscal systems in Kosovo and the development of the tax administration to ensure effective tax collection and the fight against fiscal fraud. The customs authorities and fiscal courts need to enhance their efficiency and effectiveness in meeting the challenges of liberalised trade under an SAA.

Policy coordination mechanisms and ownership on the side of the government have improved through various measures: the establishment of the Strategic Planning Office (SPO), the inclusion of the provisions related to strategic planning in the Government Rules of Procedures 2011, the current assessment of sector strategies by the SPO, the establishment of departments for and policy coordination in line ministries and the clarification of procedures and standards for the development of strategies and policies. The Office of the Prime Minister and the Ministry of European Integration have the capacity to coordinate the development of key strategic documents and provide a basic reporting and monitoring mechanism. Consolidation of a strategic planning system is the beginning of a lengthy

process. However, development of realistic plans and the capacity to allow for timely implementation remains a major challenge.

However, Kosovo continues to face difficulties meeting deadlines set out in its strategies and work plans. A strong focus on key priorities, especially those identified in the European Reform Agenda and the Economic Reform Programme, backed up by strong inter-ministerial coordination, is crucial in this regard.

In 2017, some progress was made in improving cooperation between civil society and the government. Further efforts are needed to ensure meaningful involvement and cooperation also at local level. The publication of a first government report on public funding of civil society organisations resulted in more transparency. Another progress was the entry into force of two regulations setting standards for public consultation and laying down criteria and procedures for the public funding of Non-Governmental Organisations, as part of Kosovo's Government Strategy for Cooperation with Civil Society. Nevertheless, several ministries and municipalities are still not ready to fulfil the obligations under the new regulations.

In the **rule of law** area, the main institutions have been set up and legislation has been adopted. The legislative framework is largely complete. Key institutions of the judiciary are in place but are still weak despite a progressive increase in their capacity. Kosovo has adopted legislation enshrining the principles of impartiality, independence, accountability and efficiency of the judiciary and some related reforms have taken place. However, implementation of legislation and judicial independence continue to be a challenge. As a consequence, Kosovo citizens have very little confidence in the judiciary.

The fight against organised crime and corruption remains a challenge. Corruption is widespread and remains an issue of concern. This has significant negative effects on private sector development and thus hinders economic development. Kosovo's experience and expertise in carrying out complex criminal investigations and conducting complex operations are improving, but further work is needed on financial investigations. Some progress has been made on the track record for the investigation and prosecution of high-level cases, including final convictions. For the purposes of measuring progress on this outstanding requirement, the established an advanced IT tracking mechanism functions well and this enables the co-ordination and monitoring of targeted cases on corruption and organised crime cases at all stages of criminal proceedings. Institutional responsibilities are not always clearly attributed and can lead to a lack of accountability of the relevant institutions. The Law on State Prosecutor and the Law on the Prevention of the Conflict of Interest in the Discharge of a Public function will significantly contribute to the transparency and regularity of processes in democracy and the rule of law.

Kosovo's Constitution lists international **human rights** instruments, which are directly applicable in Kosovo and form an integral part of its legal framework. As regards the promotion and enforcement of human rights, the key challenge is to improve the implementation of the existing legal framework and the enforcement of decisions remedying human rights infringements. Women continue to face major challenges and discrimination. Gender stereotypes help to preserve a structural gender gap in economic, political and social areas. Particularly women belonging to minority communities (mainly Roma, Ashkali, Egyptian, Gorani, and Turkish), represent the most socially excluded groups. Women remain significantly under-represented within the civil service, particularly in decision-making positions in the economy and in politics. Domestic violence and sexual harassment remain widespread, affecting women more than men. Lesbian, Gay, Bisexual, Transgender and Intersex persons (LGBTI) face discrimination. As of December 2017, some 16,400

individuals belonging to different minority communities are still believed to be displaced within Kosovo.

Kosovo authorities have made progress in managing regular and irregular migration. According to the latest data (as published by the migration profile), average remittances sent per year in the past five years are close to EUR 620 million, but there are few efforts to channel this to invest in Kosovo's development. Asylum applications from Kosovo have decreased in the past years and readmission rates from the Schengen zone remain high. Some enforcement gaps remain however, which should be addressed.

Kosovo has stepped up efforts to fight terrorism and counter violent extremism, and continues to tackle the phenomenon of foreign fighters and radicalisation. Challenges remain with the lack of programmes on prevention, de-radicalisation, rehabilitation and reintegration, of returned fighters and their families.

Kosovo is still at an early stage when it comes to the Copenhagen **economic criteria** of a fully functioning market economy that can withstand competitive pressures from the EU single market. The weak rule of law, unreliable energy supply, large informal economy, poor education outcomes and underdeveloped social policy framework continue to hinder inclusive growth and job creation. The Kosovo government's strategic documents show a strengthened commitment to pursuing economic reforms, not least through the government's dedication to the Economic Reform Programme exercise. However, Kosovo's economic policy continues to be characterised by ad hoc decision-making and slow implementation. The ERP and the National Development Strategy both reflect a commitment to pursue a stable fiscal policy and structural reforms, but their implementation need to be stepped up. Public finances were temporarily brought under control in 2015, under the aegis of the ongoing IMF programme. However, the next IMF disbursement has been delayed due to the unsustainable costs stemming from the introduction of new benefits for war veterans, which can represent a significant risk for Kosovo's fiscal stability.

Average annual growth was 3 % in the last five years, but is now picking up. Consumption and investment are the largest contributors to growth, while exports remain weak. Private consumption is fuelled by high remittances. Kosovo's growth model still mainly relies on consumption and investments in infrastructure as other production capacities are underdeveloped.

The economy show external imbalances with a very high trade deficit of 30.4 % of GDP in 2015 and a high current account deficit of 9.1 % of GDP in 2015 only partly helped by a very high inflow of remittances (13 % of GDP in 2015). Transfers to the government have been declining. FDI inflows amount to 5.6 % of GDP, but almost 60 % of all FDI go into real estate and only 7.1 % to the manufacturing sector., reflecting a weak business environment.. Kosovo's gross external debt remained relatively low at 33.4 %² of GDP.

Agriculture plays a significant role in Kosovo's economy. It is a leading contributor to GDP, accounting for about 12% of GDP in 2015. In addition, 62% of Kosovo's population live in rural areas and depend, directly or indirectly, on the agricultural sector for their livelihood.

The lack of a reliable and clean **energy** supply represents a major challenge for Kosovo's economic development and alignment with European environmental standards. Kosovo

² Central Bank of Kosovo data

suffers from an extremely high dependence (97%) on power production from two outdated, inefficient and highly polluting lignite-fired power plants.

Regional cooperation and good neighbourly relations are an essential element of Kosovo's European path. Following the agreement within the framework of the EU-facilitated dialogue on Arrangements regarding Regional Representation and Cooperation in 2012, Kosovo's participation in regional cooperation arrangements has improved. In certain instances, difficulties persist with regard to Kosovo's practical participation in regional cooperation mechanisms as well as its membership of some international or regional bodies managing technical issues linked to the acquis. Kosovo is part of the Central European Free Trade Agreement (CEFTA) and assumed its chairmanship in 2018. The share of exports to CEFTA members was about 26% in 2011 and 46.6% in 2016. Kosovo joined the Regional Cooperation Council (RCC) in early 2013. Kosovo also participates in the South East Europe Transport Observatory (SEETO) forum, the European Common Aviation Area Agreement, the Energy Community Treaty, the South East Europe (SEE) Centre for Entrepreneurial Learning, the Regional Rural Development Standing Working Group in the SEE, the Regional Environmental Network for Accession, and the Network of Associations of Local Authorities of the SEE, and other regional organisations and fora. Kosovo has committed itself to the regional South East Europe 2020 growth targets, which were agreed by a Ministerial Conference of the South East Europe Investment Committee of the Regional Cooperation Council, and is a signatory of the Transport Community Treaty. Kosovo is ready to participate fully in other regional initiatives, including judicial cooperation, arrangements for employment and social policies within the framework of the SEE Employment and Social Policy Network and the SEE Health Network, as well as the Roma Decade.

Kosovo joined the World Bank and the International Monetary Fund in 2009 and has been a full member of the European Bank for Reconstruction and Development since December 2012. In June 2013, Kosovo signed a framework agreement with the EIB. It became a member of the Council of Europe Development Bank in November 2013.

2. Context for the planning of assistance

2.1 EU Enlargement Strategy

On 6 February 2018, the Commission adopted a Communication on **“A credible enlargement perspective for and enhanced EU engagement with the Western Balkans.”** This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path.

For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six flagship initiatives presented in the Communication. These flagship initiatives include the initiative to strengthen the rule of law; to reinforce engagement on security and migration; to enhance support for socio-economic development; to increase transport and energy connectivity; for a Digital Agenda for the Western Balkans; and finally, to support reconciliation and good neighbourly relations.

The principle of **“fundamentals first”** remains essential. As the Strategy confirms, the Commission will continue to focus efforts on the rule of law, including security, fundamental rights, democratic institutions and public administration reform, as well as on economic development and competitiveness.

Kosovo shares its European perspective with the rest of the region and participates in the Stabilisation and Association process for the Western Balkans. On 1 April 2016, the **Stabilisation and Association Agreement (SAA)** between the EU and Kosovo entered into force. To meet its obligations under the SAA, Kosovo will need in particular to: improve rule of law; increase the efficiency and transparency of its public administration; finalise electoral reform; strengthen the functioning of the Assembly; strengthen enforcement of human and fundamental rights; improve protection of minorities; improve trade and internal market issues; raise the level of general education and training to promote skills development, employability, social inclusion and economic development; strengthen regional and local development to reduce regional imbalances; make progress in alignment with EU standards in the phytosanitary and veterinary field.

Following a resolution by the UN General Assembly of September 2010, the European Union has been facilitating a **dialogue between Belgrade and Pristina**. This dialogue has resulted in a number of agreements. Continued visible and sustainable progress in the normalisation of relations with Serbia, including the implementation of agreements reached so far, will remain essential. Through facilitation of the HR/VP, the Presidents of Kosovo and Serbia, since July 2017, are working on a comprehensive normalisation of relations in the form of a legally binding agreement. The EU supports the implementation of the agreements reached in the political dialogue through IPA and the work of EULEX.

The following are essential for improving the business climate and attracting investment and for fighting common security challenges as laid out in the **EU's Internal Security Strategy**: disruption of international criminal networks, prevention of terrorism and addressing radicalisation and recruitment, raising the levels of security for citizens and businesses in cyberspace, strengthening security through border/boundary management and increasing Europe's resilience to crises and disasters. The European Commission monitors Kosovo's progress in its fight against organised crime and corruption. In January 2012, the Commission launched the visa liberalisation dialogue with Kosovo.

Since 2008, the EU rule of law mission **EULEX** has been monitoring, mentoring and advising Kosovo on the rule of law, notably on police, justice, customs, civil registry matters and home affairs and assumed some executive responsibilities. Procedures are currently ongoing between the EU and Kosovo authorities to extend the Mission until June 2020 with a revised mandate. The NATO-led military presence of NATO's Kosovo Force (KFOR) continues to provide security throughout Kosovo.

An important cross-sector element under IPA II concerns economic governance and inclusive growth in view of enhancing Kosovo's **socio-economic development**. The 2013 Enlargement Strategy³ introduced a new EU approach towards economic governance. This approach responds more systematically to the economic criteria⁴, as defined by the Copenhagen European Council in 1993. The Economic Reform Programme (ERP) and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main

³ COM(2013)700 of 16.10.2013 - Communication from the Commission to the Council and the European Parliament, "Enlargement Strategy and Main Challenges 2013-2014" and corresponding progress reports

⁴ The first criterion concerns a functioning market economy, including economic governance, macroeconomic stability, functioning of product markets, the financial market and the labour market. The second criterion concerns the capacity to compete in the single market, including education and innovation, physical capital and quality of infrastructure, sectoral and enterprise structures and economic integration with the EU and price competitiveness.

instruments for economic policy dialogue with Kosovo. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth by sector and a list of structural reform measures to address these. Assistance under IPA II shall take the identified key constraints and the reform priorities identified by Kosovo in the ERP and in the jointly adopted policy guidance into account in its programming and shall support the implementation of both the reform measures included in the ERP and the policy guidance.

The European Commission and Kosovo launched a European Reform Agenda in November 2016, to maximise the economic and political benefits of the SAA. For this purpose, short term priorities have been agreed in the areas of (I) good governance and rule of law, (II) competitiveness and investment climate and (III) education and employment.

The Digital Agenda for the Western Balkans – as one of the six flagship initiatives will also induce a stronger emphasis on preparing Kosovo for a digital transformation in order to maximally reap benefits of today's digital economy and society. Five areas will be placed central and should lead to several deliverables over the next three years. These five action areas are: the lowering the cost of roaming; the deployment of broadband; the development of eGovernment, eProcurement, eHealth, & digital skills; capacity building in digital trust and security, in parallel to efforts to enhance digitalisation of industries; the adoption, implementation and enforcement of the acquis.

An empowered civil society can play an important role in ensuring that the principles of human dignity, freedom, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities are upheld in practice. It is also a crucial component of any democracy. The involvement of civil society contributes to a deepening of citizens' understanding of the reforms that need to be completed in order for Kosovo to move forward in its European agenda. This can help ensure that it is not just a government-driven exercise and stimulate a balanced public debate, which is crucial to achieving further progress.

EU assistance to gender mainstreaming provided through IPA II shall be ensured by all stakeholders and implementing partners throughout all phases of the programme cycle. IPA assistance shall include a gender analysis of the different situations and needs for women and men and translate this assessment into indicators, activities and results. In accordance with the EU Gender Action Plan (2016-2020), Kosovo will be encouraged to implement gender responsive budgeting in planning, implementing, and evaluating these public expenditures.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for gender mainstreaming shall also contribute to the reaching of Goal 5 - "Achieve gender equality and empower all women and girls".

Kosovo has been benefitting from the Instrument for Pre-Accession Assistance (IPA) since 2007. The EU allocated a total amount of approximately EUR 660 million for Kosovo under IPA in the period 2007-2013.

Given the developments related to the SAA and the need for continuing normalisation of relations between Belgrade and Pristina, EU-Kosovo relations are expected to remain dynamic in 2014-2020. To be able to respond to these challenges it is essential that IPA II assistance can be implemented in a flexible way.

2.2 Relevant strategies

Kosovo has adopted a National Development Strategy and National Programme for the Implementation of the SAA, but the latter is only partially aligned with the government's

annual work plan. Adequate administrative procedures, including human resources and public financial management, including improved tax collection, are fundamental for the functioning of Kosovo institutions and for implementing the reforms needed for Kosovo to progress on its European path. It will evolve into a comprehensive strategic planning framework towards medium to long-term planning. Based on the strategy, coherent, financed, mutually consistent sector and cross-cutting strategies will be developed that serve as the policy basis for the annual Medium Term Expenditure Framework (MTEF) process. While retaining focus on growth and economic development, the NDS's primary mandate is to ensure that Kosovo's goals are appropriately reflected in its policy-making. The NDS will identify higher-level indicators and use focused monitoring to determine how well Kosovo is progressing towards its long- and medium-term goals. For this purpose, the Strategic Planning Office (SPO) has prepared roadmaps as a mechanism for effective monitoring of NDS implementation.

In June 2015, the government approved the Strategy for Improving Policy Planning and Coordination in Kosovo (SIPPC). The primary purpose of this strategy is to improve the planning system in Kosovo and avoid fragmentation and duplication between the government's core policy and financial planning processes.

In this regard, the SPO has launched a review of Administrative Instruction no. 02/2012 on procedures, criteria, and methodology for the preparation and approval of strategic documents and plans for their implementation in Kosovo. This has been done in pursuance of improving the quality of the planning, design, implementation and monitoring of strategic initiatives in order to meet the EU requirements for development of strategic documents.

In early 2016, the Strategic Planning Committee (SPC) was established, which leads the process of the Integrated Planning System (IPS) in Kosovo and has the responsibility of planning the priority policies before these are submitted for final decision by the government. SPC members comprise of the Prime Minister as Chairman, Deputy Prime Minister, Minister of Finance, Minister of European Integration and other ministers depending on the issues to be discussed.

Kosovo has started developing multi-annual strategies in most sectors, but many are of limited scope or duration and are not accompanied by a budget. The main weakness of these strategies lies in their cost estimates and strategic planning. Nevertheless, in a few sectors, comprehensive and realistic sector strategies have been developed by the respective ministries, often assisted by donor partners. The public administration reform strategy framework, under the umbrella of the National Development Strategy 2015-2020, consists of strategies on better regulation, policy planning and coordination, modernisation of administration and public financial management. A comprehensive Public Financial Management Reform Strategy 2016-2020 and Action Plan 2016-2018 have been adopted for which the legal basis for a well-functioning public financial management system is in place, but implementation is lagging behind. The 2016-2020 strategy and action plan on protection against domestic violence were adopted in December 2016 but their implementation is weak.

Kosovo has adopted a single investment project pipeline, which includes the most strategic priority investment projects in the transport, energy and environment sectors for the coming years. Kosovo authorities have adopted in 2015 the related methodology, which defines both eligibility and selection criteria for investment projects. The eligibility criteria assess the consistency of the proposed projects with Kosovo strategic framework and sector strategies as well as relevance with Kosovo European perspective. The selection criteria further take into account aspects such as the state of technical preparations and financial sustainability. The new methodology is applied by all beneficiary institutions, resulting into a single project

pipeline with most strategic, technically feasible and financially viable projects to be finally adopted by the government. A National Investment Committee was established to monitor its implementation. IPA II funding concentrates exclusively on those priority investment projects included in the pipeline.

2.3 Conditions for managing pre-accession assistance

The ownership of Kosovo institutions and their overall capacity to plan, programme, implement and monitor financial assistance have increased over the years. Staff of the Ministry of European Integration is well-trained on EU matters. The level of knowledge and expertise is less developed among other institutions, especially at the local level.

The sector approach is an overarching principle of IPA II for which assessment criteria have been established to determine the level at which a beneficiary qualifies for fully-fledged sector support. The ability of beneficiaries to design sector support programmes is an important success factor for IPA II programming, and therefore represents also a key element of performance measurement.

The thematic evaluation on the sector approach launched in 2017 by the Commission will be relevant for future orientation on the sector approach in Kosovo.

When appropriate, IPA II support may be delivered through sector reform performance contracts to support key reforms in candidates and potential candidates upon meeting the eligibility criteria: a stable macroeconomic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies. Once these minimum conditions are met, sector budget support could be considered in all sectors that benefit from a sound strategic basis for reform.

Kosovo is at an early stage in this regard. It lacks the capacity to effectively coordinate government development priorities. Although there have been some positive developments with the adoption of two sector budget support operations on Public Administration Reform in 2016 and on Public Finance Management in 2017, the link between sector strategies and the Medium-Term Expenditure Framework is still weak. Donor coordination mechanisms are in place through sector working groups coordinated by the Ministry for European Integration (see also section 2.4. below). However, monitoring and performance assessment are weak and require strengthening. Kosovo needs to improve its statistical data collection, as there are significant differences between EU and Kosovo data on trade and many other sectors.

All stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II throughout all phases of the programme cycle. They shall ensure communication about the results of the activities implemented through this assistance. Visibility and communication aspects shall follow the guidance provided by the Communication and Visibility manual for EU external actions and shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field.

In this regard, any visibility or communication measures linked to IPA II assistance shall highlight the impact of EU's interventions and promote transparency and accountability on the use of funds.

2.4 Donor coordination and complementarity with other EU assistance

Within the government, the Ministry of European Integration is responsible for coordinating donor assistance. The Aid Management Platform, established with EU support, is used as a main tool for monitoring of donor activities. Sector working groups, established with the aim to coordinate donor activities, are not yet fully functional and lack substantial involvement from donors and line institutions. However, progress has been achieved in some sectors, such as public administration reform, and agriculture and rural development where some monitoring and implementation structures have been set up. The EU Office regularly participates in the Donor Consultation Meeting (DCM) which includes most EU Member States and other bilateral and multilateral donors (US, UN agencies etc.). This meeting is now chaired by the Ministry of European Integration.

Despite the diminishing number of donors active in Kosovo, the international donor community is still very present: the European Union is the main donor, followed by the United States of America and Germany. Other Member States active are: Belgium, France, Italy, Luxembourg, Netherlands, Sweden, and the United Kingdom. The donor community in Kosovo also includes Switzerland, Norway, Japan, and Turkey. IFIs active in Kosovo are: the European Investment Bank (EIB), the World Bank (WB), the International Monetary Fund (IMF), the Kreditanstalt für Wiederaufbau (KfW), the Council of Europe Development Bank (CEB) and the European Bank for Reconstruction and Development (EBRD). In addition to IPA, Kosovo receives EU assistance also through the European Instrument for Democracy and Human Rights (EIDHR) and the Instrument contributing to Stability and Peace (IcSP). Coordination with IPA assistance is ensured by the EU Office in Kosovo. Where resources are granted through the budget of Kosovo, or where Kosovo contributes to the selection of the specific interventions to be supported, applicable State Aid rules should be complied with.

The Council adopted the Integrated Internal Security Governance (IISG) late 2016. It consists of a Counter Terrorism Initiative (WBCTi), a Border Security Initiative (WBBSi) and a Counter Serious Crime Initiative (WBCSCi) and their corresponding Integrative Plans of Action. The main aim is to integrate EU and international assistance and regional cooperation, minimizing duplications of action and maximizing cost-benefit efficiency.

2.5 Consistency with EU policies

Financial assistance to the sectors identified in this Strategy Paper will be granted in line with and in support of Kosovo's European path, and shaped to contribute to policies relevant for the respective sectors. Attention will be paid in particular to ensure alignment with the European Agenda on Migration, the EU agenda on security, the EU global strategy on foreign and security policy, the EU better regulation agenda, the EU gender action plan 2016-2020 as well as with the Europe 2020, the EUSAIR, and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives. The objectives set until 2020 reflect the level of economic development and Kosovo's level of preparedness to the European path. Finally, priorities for IPA II assistance shall also contribute to the reaching of the 17 goals of the Agenda 2030 for Sustainable Development and to the 2030 EU Framework on climate and energy policies.

PART III: THE OVERALL DESIGN OF ASSISTANCE TO KOSOVO

The EU is determined to strengthen and intensify its engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkans partners.

Kosovo needs continued support to ensure progress in its European path. Ambitious reforms need to be planned and implemented, in line with the Commission's emphasis on the rule of law, including security, fundamental rights, democratic institutions and public administration reform, as well as on economic development and competitiveness.

Financial assistance will complement reforms and support investment which make a substantial contribution to the socio-economic development of Kosovo, with a view to converge with EU legislation or best practice.

The needs of Kosovo as regards the process of institutional and legislative reforms, but also with respect to investments in the development of infrastructure, cannot be met by resources available from the Kosovo budget, IPA or other donors alone. Therefore prioritisation is essential. Taking into account present and future needs, financial assistance for the period 2014-2020 will focus on the priorities highlighted hereafter.

Democracy and Rule of Law

Kosovo's public administration reform efforts will need support within the framework of **democracy and governance**, especially in view of SAA implementation and the priorities of the European Reform Agenda. In line with the Principles of Public Administration, IPA II assistance will support Kosovo to create a de-politicised, reliable, digital, transparent and accountable public administration and civil service at all levels, able to efficiently provide services to citizens and businesses Kosovo's overall policy planning system and the administration's capacity to develop policies and laws in an inclusive and evidence-based process needs to be considerably enhanced. These horizontal administrative reforms are fundamental for the successful implementation of the necessary sectoral reforms. Democratic institutions, especially the Assembly should improve their capacity to provide checks and balances. The capacities of local government also need to be strengthened. Economic governance and in particular the implementation of the Economic Reform Programme and the Ministerial policy guidance will be supported together with efforts to improve sound public financial management. Kosovo will also need to reinforce civil society, in order to stimulate participatory democracy.

IPA II assistance will also support the improvement of the electoral framework in Kosovo. The EU will continue, where necessary, its financial and technical contribution to the implementation of agreements reached within the framework of the normalisation of relations between Pristina and Belgrade.

Reforms in the **rule of law and fundamental rights** sector are a key strategic priority for assistance to Kosovo because of their political link with the SAA and Kosovo's European path and relevance to a favourable environment for economic growth. Given their importance for the alignment with the EU acquis, judicial reform and the fight against corruption and organised crime will continue to be considered strategic priorities. Synergies with the operational support provided through the European multidisciplinary platform against criminal threats (EMPACT) policy cycle, to which Kosovo is associated need to be ensured. The same applies to efforts to enhance human rights and support to the inclusion of women,

non-majority communities and vulnerable groups. IPA II assistance will also continue to support Kosovo in taking over responsibilities from the Common Security and Defence Policy mission (EULEX) in Kosovo. IPA II will contribute to the creation of an accountable, independent and efficient judicial system, which is aligned to EU legislation and best practice, and enhance the capacities to prevent, investigate, prosecute and convict cases of organised crime and corruption. It will also support effective implementation of the legal framework for the protection of human rights, including women's, children's rights, LGBTI rights, and protection of minorities, including access to justice. This also involves the creation of sustainable livelihoods and durable integration into Kosovo society for returnees, IDPs and refugees wishing to return to Kosovo.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the global approach to migration and mobility and the European agenda on migration), IPA II supports legal migration; mobility, including through maximising the development impacts of migration; the development of functioning asylum systems; the improvement of Integrated Border Management; and reduction of irregular migration through both focused actions and technical assistance.

IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles (i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency in each step of the programming, implementation, monitoring and evaluation of its support.

The Commission's 2018 "Western Balkans Strategy" reiterates the importance of Roma integration as part of the Fundamental Rights priorities. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance will also take into account the Kosovo policy framework (Roma and Ashkali integration Strategy and Action Plan), the commitments taken under the SAA, the visa liberalisation roadmap and the conclusions of the Roma Seminar.

On **security**, the issue of radicalisation leading to violent extremism is increasingly a part of policy discussions in the Western Balkans.

As stated in the EU Global Strategy on Foreign and Security Policy (dated June 2016), the EU will work on preventing and countering violent extremism by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue.

Within the scope of the current enlargement policy, the challenges of terrorism and organised crime are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the IISG.

IPA assistance to Kosovo is in line with the above-mentioned priorities, as it targets inter alia the fight against terrorism, the prevention of radicalisation and of violent extremism, including through strengthening cooperation with civil society and other relevant stakeholders in this sector. The IPA multi-beneficiary programmes (IPA 2016 on CVE and IPA 2017 on fight against organised crime) complement IPA support to Kosovo and help respond to the necessity for an integrative and complementary approach on the fight against terrorism aimed

at reducing overlapping and avoiding duplication in order to successfully link internal and external dimensions of internal security, as emphasized by EU Internal and Security Policies.

In cooperation with international partners, a gender profile was researched and written in 2014, providing relevant baseline data on gender differences at all levels and in diverse sectors. This document is being used to inform programmatic planning, as well as for monitoring progress concerning gender equality in Kosovo. Further, the EU Office contracted the Kosovo Women's Network (KWN) to conduct a rapid gender analysis as an update to the gender profile in order to inform the new Gender Action Plan for Kosovo. This Plan will guide the programming for future years, setting baselines and targets for furthering gender equality in diverse sectors.

On Competitiveness and Growth, given the general socio-economic indicators and trends described above, there is a clear need to continue supporting Kosovo's social and economic development to improve the living conditions for Kosovo citizens. Support to **economic governance, competitiveness and innovation and education, employment and social policies** is of crucial importance to bring Kosovo's living standards and socio-economic development closer to the EU average and increase the competitiveness of Kosovo's economy.

The Economic Reform Programme and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with Kosovo. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth by sector and a list of structural reform measures to address these. Assistance under IPA II shall take the identified key constraints and the reform priorities identified by Kosovo in the ERP and in the jointly adopted policy guidance into account in its programming and shall support the implementation of both the reform measures included in the ERP and the policy guidance.

IPA II will contribute to improving the capacity to design and implement competitiveness related policies, in line with the European Reform Agenda and the Economic Reform Programme, and meet the economic Copenhagen criteria, i.e. existence of a functioning market economy and capacity to cope with the competitive pressure and market forces within the EU. IPA II will help increasing the competitiveness of the Kosovo economy, including services, manufacturing as well as providing public services related to the needs of the private sector.

Investments in a further digitalisation of Kosovo are also needed to roll-out for example large-scale broadband infrastructure projects to address low penetration rates, rural-urban divide; but also to prepare the business environment for a digital transformation.

In the **education, employment and social policies sector**, support to youth and education policies shall be supported and mainstreamed through IPA II, in line with the major EU policies in the area, in particular the Education and training 2020 and the Bruges - Copenhagen Process for Vocational Education and Training. IPA II will aim to support Kosovo in implementing the Education Strategic Plan 2017-2021, as well as the education, employment and social policy aspects of the annual Economic Reform Programme. The 2018-2022 sectoral Strategy for Employment and Social Welfare and its action plan should be supported through IPA II. The action plan for tackling youth unemployment based on an assessment of the challenges and focussing on improving education outcomes including through improved teacher training and supporting school-to-work transitions needs to be

implemented also through IPA I. As concerns education, IPA II will join other donors to support the implementation of the education strategy, the Economic Reform Programme's and the National Development Strategy's priority to increase childcare availability.

The sectors **agriculture and rural development** and **energy** are also key for IPA II assistance because of their economic potential and because they are *acquis*-intensive. These sectors benefit from comprehensive sector strategies that should allow for the introduction of a sector approach within the next few years. In the **energy** sector, IPA II will support Kosovo in ensuring a reliable and sustainable energy supply to citizens and enterprises, in increasing its energy efficiency and the use of renewable energy sources, and in aligning its legislation with EU energy standards. Regarding energy production, IPA II will aim to contribute to the reduction of its environmental and health impact. **Agriculture** employs most of the population and counts as the main source of income for Kosovo citizens. IPA II will therefore contribute to substantially increase the competitiveness of Kosovo's agriculture and food production, to raise food safety standards of local products and to improve the living standards of Kosovo's rural population and to increase its resilience to effects of climate change. The existence of a reliable strategy for the period 2014-2020 and a limited number of stakeholders should facilitate the progressive introduction of the sector approach.

Assistance for **territorial and regional cooperation** aims to foster good relations between regions and countries and familiarise them with the rules and procedures governing the European Territorial Objective under the Structural Funds. The Cross-Border Cooperation programme has shown positive effects on neighbourly relations and the lives of people in border regions.

Kosovo faces a range of challenges, especially in the rule of law, the economy and social cohesion. **Civil Society Organisations**, such as non-governmental non-profit organisations and independent political foundations, community-based organisations and private sector non-profit agencies, institutions and organisations and networks at all levels, can make a substantial contribution to addressing many of these challenges through lobbying, advocacy and oversight activities at all levels. Social partners play an important role in promoting the right to association and enhancing sector policies. Professional and business associations can contribute significantly to the formulation, implementation and monitoring of sector strategies in the sectors supported by EU financial assistance.

In the **environment and climate action** sector, Kosovo urgently needs to improve the living conditions for its population and ensure alignment with the EU *acquis*. Priority needs include developing the capacities at all levels to elaborate and implement the environment and climate change policies. Considerable investment is needed to connect Kosovo's citizens to drinking water and waste water treatment networks, which require further expansion; better protection of areas of natural and biodiversity value is also needed. The existing waste management facilities need to be overhauled and expanded, including capacity to separately collect waste streams and recycle. Investment needs across the sector are substantial whilst financial allocations for environment are limited and serious management capacity constraints exist. Insufficient revenue collection, management deficiencies and limited budget for maintenance of infrastructures undermines the sustainability of possible investments. IPA II assistance can focus on supporting the implementation of policies and legislation already aligned to the EU *acquis* and build the necessary capacity to plan, operate and sustain large infrastructure investment.

The programming frameworks for IPA need to be aligned with EU policy on the transition to a low carbon, resource efficient and circular economy. Challenges and benefits of circular

economy could be further reflected. Moreover, the switch to circular economy principles and goals with measures covering the whole cycle - from production and consumption to waste management and the market for secondary raw materials - will help Kosovo to boost its global competitiveness, foster sustainable economic growth and generate new jobs. Specific areas where the macro-economic relevance of the circular economy and improved resource efficiency are significant are green public procurement, investments in waste and water infrastructure, sustainable construction, critical raw materials, biofuels and biochemical Energy and climate related investments should also reflect the alignment with the relevant *acquis*. Circular economy provides benefits both in economic and sustainability terms, for the health of the citizens and the protection of the environment.

Kosovo needs to develop and implement a comprehensive **climate action** policy and strategy. Work on this has already started, but special attention should be given to integration of climate relevant issues into the (sector) development strategies. IPA II will in particular address these issues through interventions in the energy, transport and agriculture sector, not excluding additional measures in other sectors. Also, Kosovo is required to undertake concrete steps in alignment and implementation of the EU climate *acquis*. Climate change mitigation activities will focus on strengthening the institutional capacity to design, implement and monitor mitigation policies, and improve capacity for transition to a low carbon economy. Particular attention should be given to GHG emission reduction activities at the urban/local level, with a system for economy-wide and systematic data collection to gradually comply with EU requirements on monitoring, reporting and verification. Climate change adaptation activities will focus on building the relevant institutional capacities at all levels and enhancing resilience of vulnerable persons (e.g... women), economic sectors and infrastructure to climate change. Climate action represents a cross-sector element that applies to most sectors in the Indicative Strategy Paper, notably transport, energy, agriculture and rural development, not excluding additional measures in other sectors. Climate action relevant expenditure will be tracked across the range of IPA II interventions in Kosovo, in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

Further mainstreaming of climate related actions within the priorities highlighted for IPA II assistance shall be enhanced and ensured by all relevant stakeholders. This will be done keeping in mind the aim to gradually increase climate spending with a view to contributing to reaching the 20% target by 2020 for IPA II. Increasing share of these resources shall be invested in emissions reduction, adaptation and facilitating innovation as well as in capacity building.

Kosovo's current **transport** policy, with a heavy emphasis on building new roads, favours the least environmentally-friendly mode and reduces investment for other low emission modes of transport, particularly railways. The participation of Kosovo in regional (rail) transport networks will be facilitated via the Western Balkans Investment Framework (WBIF), the Transport Community Treaty and relevant regional programmes.

In addition, IPA II support may also be mobilised in response to unforeseen priority needs, which do not fall under the aforementioned priority sectors. This may include ad hoc and short-term technical assistance provided under the TAIEX instrument and through twinning projects.

Outcome and impact indicators are proposed to track results to which the EU can contribute through policy dialogue or financial assistance. However, EU financial assistance is aimed at supporting the implementation of Kosovo's own sector strategies, which are implemented also

with funding from Kosovo's own budget and other donor contributions. Complementary indicators at outcome and output level will be included in the sector programmes and actions.

Keeping in mind the importance of public administration reform, the commitment of Kosovo to meet the Principles of Public Administration in its public administration reform strategies and the commitment of the EU to the Better Regulation agenda, the key elements of public administration reform will be systematically addressed in all IPA II sector interventions. IPA II assistance will especially ensure the **Better Regulation approach**, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) in an inclusive approach involving both internal and external stakeholders.

The indicative financial allocations per policy area and sector resulting from the priorities defined in this strategy paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and Governance

1.1 Needs and capacities in the sector

This sector covers democratic and independent institutions and public administration reform (PAR), including public financial management (PFM), which covers revenue administration and collection, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control and external audit. Needs on Economic governance focus especially on the development of the annual Economic Reform Programme.

This sector further addresses customs and taxation fields, especially support for developing interconnectivity and interoperability of IT systems according to the EU standards as well as statistics. Further alignment to and efficient implementation of the EU *acquis* in different sectors due to the specific requirements under the SAA is also addressed, with a specific focus on alignment of legislation according to the better regulation approach. Civil society development is also addressed in this sector.

As concerns **democratic and independent institutions**, the basic political and administrative structures of the Assembly are in place, in particular rules and regulations and processes at political and administrative level to plan the Assembly's work and carry out its main functions. Political polarisation hampers effective law making while executive scrutiny and oversight take second place. The Assembly lacks the powers and capacity to effectively supervise the 32 agencies / bodies which report directly to it.

Public administration reform, including public financial management, in line with the Principles of Public Administration, continues to be a key priority for Kosovo. Public administration reform includes the following key dimensions: PAR strategy framework coordination and monitoring; policy development and coordination; public service and human resources management; public administration organisation and accountability; service delivery to citizens and businesses. An improved policy planning system, depoliticisation of public service, increased transparency, accountability and effectiveness of public administration with greater focus on the needs of citizens and business and a more efficient public financial management system are the key fundamental reforms that Kosovo needs to address in order to be able to implement the other sectoral reforms needed for Kosovo's European path. Kosovo has adopted three strategies and related action plans to cover different

dimensions of PAR: PAR modernisation strategy 2015-20 (to address public service and human resource management, accountability and service delivery and is subject to a midterm review in 2018), the better regulation strategy 2017 -2021 (to address inclusive and evidence based policy and legislative development) and the strategy for Improvement Planning and Policy Coordination 2017-2021 (to address policy development and coordination). Kosovo is gradually developing, with EU support, its capacities for efficient monitoring and coordination of PAR. While there is political commitment to PAR, financial sustainability of the planned reforms needs to be more efficiently ensured.

E-government and the modest number of e-service need to be further strengthened. At the same time extending e-governance and e-services must be accompanied with a commitment to some key principles such as digital-by default, digital inclusiveness and accessibility; the once-only principle for key public services: and strengthened data protection capacity.

The lack of professionalisation of the public administration remains a serious concern. There continues to be weak capacity, poor coordination and undue political influence on the civil service. The organisation of the administration is fragmented and does not ensure effective lines of accountability, and the overlap of responsibilities of government agencies needs to be addressed. Parliamentary oversight of government activities should increase. The recommendations of oversight institutions are not properly followed so that good governance and accountability are ensured and enforcement of tax legislation remains a challenge. The reform of the public administration should also increasingly be carried out with the aim of improving gender equality.

As concerns public financial management, Kosovo has embarked in its Public Finance Management (PFM) reform for many years now. Kosovo has adopted the PFM Reform Strategy 2016-2020 in June 2016. The strategy is developed through four main pillars: fiscal discipline; allocation efficiency; operational efficiency; and PFM cross cutting issues. This policy document is developed upon diagnoses conducted through PEFA 2015 report, SIGMA baseline assessment 2015, TADAT and other relevant assessments conducted in Kosovo in PFM area. Therefore it identifies the key challenges and proposes concrete actions that would lead towards the achievement of the main objectives. The Strategy's main goal is to achieve sound financial management by improving the systems that ensure (1) 'fiscal discipline', (2) 'operational efficiency' and (3) 'effective allocation' of Kosovo's public resources. Given the importance of budgetary resources for public service delivery, improvement in the Public Finance Management system will affect all service areas and benefit the citizens making use of them.

Previous assistance focused on strengthening the capacity of Kosovo institutions, including the Assembly, in transposing, applying and implementing the EU acquis, especially in areas covered by the Stabilisation and Association Agreement. Furthermore, support was provided for the effective and efficient management and absorption of IPA funds, the implementation of the EU facilitated dialogue between Belgrade and Pristina and increases in effectiveness, independence and accountability of Kosovo's civil service. In the case of support to statistics the experience from donors like Swedish Government through Statistics Sweden (SCB) and the long-term cooperation with Eurostat which has proven both required and successful will be taken into account. A first budget support programme on public administration reform has been adopted in 2016 followed by a budget support programme on public finance management that has been adopted in 2017, notably with a view to strengthening the capacities in crucial areas such as public financial management, including customs administration, public procurement, and statistics.

Economic governance has improved since Kosovo started to participate in the Economic Reform Programme exercise in 2015. Especially analytical capacities, inter-ministerial coordination and involvement of external stakeholders in economic policy-making have improved, albeit from a low level. Further efforts are needed to improve all these aspects. IPA II is used in a multi-country context to support the Kosovo government to improve all aspects of economic governance. Challenges related to economic governance and policy-making are addressed in the annual Kosovo-specific policy guidance jointly adopted at Ministerial level by the Kosovo government and the EU. The implementation of these targeted policy guidance will depend on further strengthening of the government's capacity for effective economic governance.

The lack of up-to-date and reliable **statistics** affects all sectors and needs to be addressed urgently. In September 2016, Eurostat had reiterated that statistics and indicators based on National Accounts, Government Finance Statistics as well as Debt and Deficit reporting are becoming increasingly important and the government should continue its efforts to align these data with the ESA 2010 regulation. Data should be disaggregated by sex and reflect gender issues.

Involvement of **civil society** in policy formulation and monitoring in Kosovo can be further developed. This includes the social partners (employers' organisations and trade-unions) and women's rights organisations. Public funding for social services delivery by civil society on behalf of the authorities is limited. Cooperation between the central and local authorities with civil society can be improved, notably as regards defining and executing public policies.

1.2 Objectives, results, actions and indicators

By 2020, the performance of Kosovo's **public administration** should be significantly improved if it is to meet the challenges of adopting the EU *acquis* and implementing the SAA. Kosovo will be supported in its public administration reform efforts to create a more de-politicised, reliable, digital, transparent and accountable public administration at all levels, able to provide an efficient service to citizens and the business community, in line with the Principles of Public Administration. Kosovo will make consistent improvements toward the establishment of a fully functional market economy. **Economic governance** will be further strengthened through Kosovo's participation in the Economic Reform Programme exercise and the implementation of the annual Ministerial policy guidance. Improved preparation for budget support by Kosovo will be one of the main focuses of IPA II. Support will be provided to the implementation of a sequenced public financial management programme to strengthen sound public financial management in all relevant public finance sub-systems. Support to strategic planning will also be priorities. IPA II assistance will support Kosovo to continue its reform of public administration at central and local level, including the enforcement of legislation on the civil service. IPA II will support the alignment of the Kosovo institutional framework and capacities with the standards required by the *acquis* in particular the implementation of the SAA, including *acquis* on environment. IPA II assistance will also support the improvement of the electoral framework in Kosovo. The EU will continue, where necessary, its financial and technical contribution to the implementation of agreements reached within the framework of the normalisation of relations between Pristina and Belgrade.

Support for improving governance at the local level may include municipal infrastructure relevant to local economic development, social service decentralisation and environmental protection.

In order to implement sector strategies and sector support programmes the need for reliable statistics is fundamental in the different areas of public institutions. Moreover, economic policies and decisions need accurate statistical data measuring the performance of the different economic sectors. In this context, IPA II will support the institutions responsible for statistics, including in gathering more accurate sex-disaggregated data.

Support to civil society should be focused on enabling and stimulating participatory democracy. This should be reflected in two main goals: achieving an environment that is conducive to civil society activities and building the capacity of CSOs to be effective and accountable independent actors. Having adequate structures and mechanisms for civil society cooperation with public institutions as well as free, clear and accessible flows of information on matters of public interest is of critical importance. Moreover, capacities of CSOs should be strengthened to improve their autonomy, representation and accountability. CSOs should extend their membership base and strengthen their fundraising skills. Support for CSOs working on women's rights should continue.

IPA II will offer a combination of political and financial support to meet these priorities, employing a more strategic, effective and results-focused approach to deliver maximum impact as envisaged in "the guidelines for EU support to civil society in enlargement countries, 2014-2020⁵". Monitoring results and indicators will be done every year. The Commission will encourage Kosovo to make legislation more conducive to civil society. It will also promote the involvement of civil society, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance including from a gender perspective. The above guidelines include indicators and baselines and targets are being set.

Expected **results** in the field of democracy and governance by 2020 include:

- A consolidated and coherent PAR coordination and monitoring system in place;
- Policy and legislative planning systems are improved;
- Public access to governmental documents is improved;
- Professionalism and management of human resources in public administration are improved;
- Policy and legislative development, including for alignment with the EU *acquis* and for implementing the SAA, increasingly done in an inclusive and evidence-based process;
- Increased rationalisation of the public administration with improved accountability lines and a gradual reduction of overlapping functions between ministries and agencies;
- Service delivery to citizens and businesses is improved through better administrative procedures, reduced administrative burden and improved e-government;
- Improved access to administrative justice;
- Public financial management is more sustainable and effective, following implementation of a medium-term and sequenced PFM reform programme that contributes to efficient revenue administration and collection; improved budget preparation and execution; public debt management; efficient public procurement system in accordance with EU rules and international practice; improved accounting

⁵ http://www.tacso.org/doc/doc_guidelines_cs_support.pdf

and reporting; and public internal financial control and external audit in line with EU requirements;

- Timely submission of the annual Economic Reform Programme of a gradually improving quality and consistent implementation of the reforms contained in the programme and of the Ministerial policy guidance jointly adopted each year;
- Fiscal sustainability ensured by the application of a Medium-Term Expenditure Framework with financing decisions determined by government policies and good quality fiscal estimates, following the successful implementation of its Economic Reform Programme, supported by clear accountability arrangements for budget planning and implementation;
- IT interconnectivity and interoperability enhanced in customs and taxation areas;
- Decision making processes based on quality statistical data collected and analysed in line with the statistics standards of Eurostat, including improved gender and economic statistics;
- Creation of an environment conducive to civil society activities;
- Civil society organisation, including social partners and women's rights organisations, effective and accountable independent actors fully participating in the policy making process.

Indicators (for details see Annex 2, table 2):

- Extent of progress made towards meeting Copenhagen criteria (EC);
- Composite indicator Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Composite indicators Global Corruption (TI) and Control of Corruption (WB);
- Statistical compliance (Eurostat).

1.3 Types of financing

The potential to learn and benefit from the experiences of other countries in the region will be encouraged. Significant emphasis will be put on efforts to coordinate with other donors active in the sector, in particular GIZ, USAID, and with IFIs (IB, EBRD, WB) as concerns the improvement of municipal infrastructure. Sector budget support is used since 2016 to support PAR, and Kosovo has met the four pre-conditions for sector budget support. Complementary support to PAR is provided from the IPA II multi-country programme through cooperation with SIGMA (OECD). Given the type of interventions needed, twinning, TAIEX and other institution building instruments will be mobilised to help Kosovo align with EU standards. The civil society facility (CSF) will use an appropriate mix of funding instruments to respond to different types of CSOs, needs and contexts.

1.4 Risks

- A lack of political will and weak administrative capacity to pursue the necessary reforms. The EU will monitor and encourage Kosovo's commitment in the context of the SAA implementation and other fora for policy dialogue.
- Lack of efficient coordination between line-ministries in analysis, design and implementation of economic reforms. With the adoption of the NDS, the ERP and the ERA and most recently with the PAR SBS, the coordination mechanism and the policy dialogue have already started to improve.
- As regards civil society development, the main risks are connected to a) the reluctance of governments to engage in a dialogue with civil society; and b) competition of CSOs to access donors' funding and lack of cooperation within the sector may deteriorate the already uneven landscape where a few strong actors were able to access EU funding and

engage in dialogue with relevant institutions. Risks will be minimised through a functioning of the IPA Civil Society Facility, the civil society task force, the working group including delegation task managers, strengthen coordination of donor assistance to the sector, and by technical assistance at Kosovo and regional levels, which will provide policy/financial assistance coordinated approach for the support to civil society and their dialogue with the government.

2. Rule of law and fundamental rights

Rule of Law is a wide policy area with a substantial number of stakeholders at Kosovo and international level, which makes coordination and cooperation particularly challenging.

The main EU actor in the area of the rule of law in Kosovo is the EU Rule of Law mission EULEX, whose mandate has been extended until June 2018. The rule of law is supported by various bilateral donors, especially the US and Germany, where their main activities are focused on the judiciary, legal reform, legal education, and property rights. The EU Office seeks to ensure coordination and complementarity with EULEX and donor assistance through regular consultations during the programming and implementation of IPA assistance.

The main sub-sectors to be addressed by IPA II assistance are Judiciary, Home Affairs (with a strong focus on the fight against organised crime and corruption), and Fundamental Rights and Protection of Minorities. Depending on the needs and the circumstances, IPA II will also continue to be mobilised to support Kosovo with a view to gradually transferring more responsibilities from EULEX to the authorities in charge and strengthening their ownership.

Kosovo has developed a large number of strategies and action plans for the rule of law sector. This includes the Strategy and Action Plan for the Fight against Corruption 2013-2017 and 2018-2022, the 2012-2017 Strategy against Organised Crime, the 2014-2018 Strategy for Communities and Returns, the 2009-2015 Strategy for the Integration of Roma Ashkali and Egyptian Communities in Kosovo, and the 2017-2021 Strategy and Action Plan for the Inclusion of Roma and Ashkali Communities in Kosovo Society among others. In May 2014, Kosovo adopted its Rule of Law Assistance Strategy, which is the basis for the development of donor support to the sector for the period 2014-2019. The focus for Kosovo in the rule of law now needs to be on the implementation of strategies, action plans and legislation, to show results of the fight against organised crime and corruption, and to ensure independence of the judiciary.

2.1 Sub-Sector: Justice

2.1.1 Needs and capacities in the sub-sector

In order to improve the rule of law, Kosovo needs to strengthen the independence, accountability, professionalism and efficiency of its judiciary in particular. An independent judiciary working in line with proper democratic and professional standards is not only essential for establishing the rule of law for the immediate benefit of the public, but also for international cooperation and economic development, including attracting foreign investment. The judiciary is still vulnerable to undue political influence and needs sustained efforts to build up its capacities. The efficiency of the judicial system still needs to be improved by further reducing the backlog and ensuring good case management and handling. The lack of a functioning case management system also makes it more difficult to monitor for example

cases involving gender-based violence throughout the justice system. Kosovo needs to ensure harmonisation and consistency of legislation and jurisprudence.

Assistance provided under IPA I helped Kosovo improve the alignment of laws with the EU acquis and the coherence of its legal framework. Support has been provided to the Kosovo Judicial and Prosecutorial Councils as well as to the areas of juvenile justice and international legal cooperation. IPA also supported legal education reform and the improvement of training of interpreters and translators in the judicial sector and legal linguists. All judges and prosecutors in Kosovo have been evaluated or re-evaluated and selected based on merit. Key criteria included professional qualifications and experience, as well as professional and personal integrity. Correctional services have been strengthened thanks to IPA support through the construction of a high security prison (open early 2014) and a forensic institution to provide care for mentally ill prisoners. IPA II assistance under IPA 2014 and 2015 is focused on providing a criminal records system, reforming the regulatory framework on property rights, strengthening the framework of the penitentiary system, improving correctional, probation and legal forensic services as well as protection of personal data. Support was also provided in strengthening legal education to increase levels of professionalism, accountability and efficiency of the judiciary.

2.1.2 Objectives, results, actions and indicators

Until 2020, Kosovo should provide substantial investment to significantly improve the independence, accountability, professionalism and efficiency of the judiciary. Another important objective is to improve the capacity and mechanisms to implement legislation and strategies and to enforce judicial decisions. Access to justice will have to be enhanced, in particular for women (particularly related to gender-based violence), non-majority communities and vulnerable groups (including in northern Kosovo). For Kosovo to reach these objectives, IPA II will continue to provide assistance for the alignment of the legal system with EU standards through capacity-building, advising and monitoring of judicial institutions. EU assistance will also support judicial education and training in all official Kosovo languages. Supporting Kosovo's economic development, competitiveness and growth in a comprehensive manner will also require support in the area of civil justice. Capital investment with a direct effect on access to courts, delivery of justice and independence and impartiality of the judiciary will also be considered. IPA II will also continue to support the Kosovo correctional service. Improving security in prisons and increasing safety of staff, prisoners and the general public will require considerable assistance. Further support will also be needed for vulnerable prisoners, the rehabilitation of offenders and prison administration.

The expected **results** to be achieved with EU support include:

- Legislation is further enhanced to ensure the independence of the judiciary;
- Professionalism is strengthened through more and better training (including in specialised areas such as economic crimes, confiscation, public procurement and gender-based violence, particularly sexual harassment) for magistrates and court staff;
- The independence, accountability, professionalism and efficiency, of the judiciary are strengthened at all levels of the judicial system;
- The backlog of open cases is substantially reduced;
- Improved enforcement of judicial rulings is ensured and consistency of jurisprudence is introduced and implemented;
- Access to justice for women and men is improved;

- The penitentiary system complies with international standards, including specific treatment for different categories of detainees.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria (EC);
- Composite indicator Access to Justice (WJP) and Judicial independence (WEF).

2.1.3 Risks

Main risks in the area of justice are: the lack of human and financial capacities to implement reforms and to process cases in a reasonable timeframe, causing considerable backlogs and hampering access to justice for citizens and businesses; continued political interference in the judicial and correctional system, which can undermine the independence of the judiciary. IPA II contributes to mitigating these risks by supporting capacity building and strengthening financial capacities. The policy dialogue with Kosovo also aims to address these risks.

2.2 Sub-Sector: Home Affairs

2.2.1 Description of the needs and capacities in the sub-sector

IPA assistance supported the development and enforcement of policies and a legal framework in line with EU standards to combat organised crime, including financial and economic crime. This included support to the Agency for Management of Sequestrated and Confiscated Assets (AMSCA) and Kosovo Customs, the Anti-Corruption Agency, Kosovo Police, the Financial Intelligence Unit, Kosovo Judicial Council and Kosovo Prosecutorial Council. A twinning project started in 2013 will help strengthen criminal investigation capacities at central and local level to fight organised crime and corruption. Under previous IPA II, focus was on increasing efficiency and effectiveness of law enforcement and rule of law institutions in their provision of services to the "justice" sub-sector and Kosovo society in general. Activities aimed to strengthen the structures dealing with migration in line with the relevant benchmarks of the visa roadmap and strengthen institutions fighting trafficking in humans beings.

IPA assistance will be provided to further support to Kosovo Police Reform, including a component on radicalisation and violent extremism. In addition, assistance will be provided to support the Kosovo institutions in their fight against organised crime and corruption, including a component on supporting Kosovo institutions in preventing and countering violent extremism.

Although the legislative framework on anti-corruption is largely in place, the institutional set-up is complex. Kosovo needs to implement its anti-corruption legislation and establish an effective mechanism for the prevention of corruption, including successful investigations and mechanisms for suspension or removal of appointed and elected officials respectively indicted and sentenced for corruption. The functioning of the police and other law enforcement bodies, in particular the Kosovo prosecution, to investigate complex criminal activities and fight corruption needs to be improved and the cooperation between the enforcement and judicial authorities enhanced. Kosovo needs to develop a more systematic and pro-active, intelligence- and information-based approach to fight against organised crime and corruption. Particular attention will need to be paid to issues such as trafficking in human beings, illegal economic activities, drug and arms trafficking, and terrorism. Kosovo's capacities in anti-

money laundering (both prevention and enforcement) need to be strengthened. The capacity of the Kosovo police and prosecution to investigate complex criminal activities also needs to be strengthened. Also Kosovo's capacities in judicial cooperation need to be further enhanced. Staffing in the Special Prosecution Office should be strengthened, and more trainings should be held, especially related to financial investigations and asset confiscation.

Kosovo needs to develop appropriate institutional responses towards corruption. Structural reforms in the vulnerable areas such as procurement, taxes, privatisation, health care and public services need to establish functional mechanisms to prevent corruption. This includes regulatory bodies, sublegal acts and procedures, IT systems and oversight mechanisms as well as increases in the transparency and accountability of the institutions.

Kosovo needs to adopt an overall approach to address the issue of **cybercrime**. Existing capacities to combat cybercrime and respond to cyber security threats need to be strengthened, including through specialised trainings. On the level of **cyber security**, Kosovo needs to allocate the necessary resources to implement the cybersecurity strategy and action plan 2016-2019.

2.2.2 Objectives, results and actions and indicators

In the coming years, Kosovo will need to continue to provide results in fighting corruption and organised crime as a matter of priority. This will require political will and commitment. Kosovo will need to enhance its capacity to prevent, investigate, prosecute and convict cases of organised crime, including, trafficking in human beings and narcotics, economic crime, money laundering and cybercrime. By 2020, effective criminal investigations and proactive intelligence-led policing on organised crime and corruption should be the norm. Civilian oversight of the rule of law institutions will have to be enhanced. IPA will support Kosovo's efforts through the provision of capacity building and equipment for police, customs, tax administration, and other rule of law institutions. Through advising and monitoring key institutions, EU assistance will aim to further increase capacities of the individual institutions as well as inter-institutional cooperation. The role of civil society in monitoring and reporting on corruption and organised crime will be enhanced. IPA II will also support regional cooperation to fight cross-border organised crime and trafficking. Depending on the developments in the sector and progress made on the visa roadmap, IPA assistance may be required in other areas such as civil registration, Integrated Border Management, migration and asylum.

The expected **results** to be achieved with EU support include:

- The institutional set-up to fight and prevent corruption is rationalised and co-operation between law enforcement bodies, the judiciary and relevant bodies has improved;
- Better trained/experienced staff in the different law enforcement institutions to deal with all forms of corruption and organised crime;
- Continued progress, including successful investigations, prosecutions and final convictions, on the track record of high-level corruption and organised crime cases;
- Effective amendments to and enforcement of anti-money laundering legislation.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria (EC);
- Composite indicators Global Corruption (TI) and Control of Corruption (WB).

2.2.3 Risks

The main risk for EU assistance lies in the need for a concerted a strategic approach to the problem of anti-corruption and organised crime. Lack of coordination and potential delays in the implementation of key strategies could exacerbate problems. . Reforms require sufficient political will to achieve the desired results. Organisational and administrative capacities may affect inter-institutional coordination and cooperation in this area. To mitigate these risks, specific capacity-building measures will be used to improve inter-agency cooperation in order to better coordination and information sharing.

2.3 Sub- Sector: Fundamental Rights and Minorities

2.3.1 Needs and capacities in the sub-sector

Kosovo's human rights legislation is broadly in line with international standards. It has been improved with the adoption of a package of laws on human rights including the Law on the Ombudsperson, the Law on Gender Equality and the Law on Protection from Discrimination in May 2015. However, the effective implementation of the legal framework still remains a challenge. The structures dealing with the protection, promotion and reporting on human rights need to be streamlined, both at central and local level. Institutions dealing with non-discrimination and gender-equality, including the Ombudsperson institution, need to be further strengthened. The overall implementation of the strategy and action plan for integration of Roma, Ashkali and Egyptian communities in Kosovo (2009-2015) remained weak and inconsistent as a result of several shortcomings, including a lack of political will, ownership and insufficient budgetary allocations. Moreover, there is a lack of coordination between central and local level institutions as well as effective inter-ministerial co-ordination. The 2017-2021 strategy and action plan for the inclusion of Roma and Ashkali communities in the Kosovo society was adopted in April 2017 and needs to be effectively implemented. The sustainability of the return process continues to be undermined by real and perceived security threats, limited access to property, blocked or delayed property restitution proceedings, limited access to public services, and a lack of socio-economic opportunities. According to the Ministry of Communities and Returns, an estimated 10,000 people displaced in the Balkans region have expressed their willingness to return to Kosovo. As of December 2017, some 16,400 individuals belonging to different minority communities are still believed to be displaced within Kosovo. More efforts are needed to counter intolerance towards lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, who remain at risk of discrimination and abuse. Women's representation both in the public and the private sectors remains low, especially in senior positions. Gender-based violence remains prevalent, particularly domestic violence and sexual harassment. Enforcement and protection of property rights is a key challenge. Media freedom and freedom of expression are still of concern in Kosovo: threats and attacks against journalist have continued and the public broadcaster remains directly funded by the Kosovo budget which leaves it prone to political influence. Data protection needs to be improved and the relevant agency strengthened.

To date, IPA I and IPA II have supported the stabilisation of minority communities through livelihood programmes; the alignment of Kosovo's legislation on asylum and migration issues to EU standards; and the construction of adequate structures for hosting refugees, asylum seekers, migrants. It has also supported the sustainable return and reintegration of women and

men IDPs and refugees through durable solutions (comprising housing, socio-economic support, legal aid) and increased involvement of central and municipal public and non-governmental actors. Support to the National Agency for the Protection of Personal Data (NAPPD) to increase its capacities and support to the implementation of the Law on Protection of Personal Data has been provided. On fundamental rights, the Ombudsperson institution has been supported.

2.3.2 Objectives, results, and actions and indicators

There is a need to continue assistance for the return and reintegration process and the stabilisation of minority communities. In addition, there is a need to find durable solutions for refugees from Croatia and Bosnia-Herzegovina who have been living in collective centres throughout Kosovo since 1994/1995. The main objective of IPA II interventions in this regard will be to enable sustainable livelihoods and the durable integration into Kosovo society for women and men, returnees, IDPs and refugees who want to return to Kosovo. Kosovo will not only need to provide land and housing solutions, but also improve access to education and employment opportunities for returnees, as well as other socially marginalised groups including women. IPA II will also continue to support the stabilisation of different communities in Kosovo through socio-economic and livelihood measures.

By 2020, the structures responsible for the protection, promotion, enforcement of and reporting on fundamental rights both at central and local level should be further strengthened and the legal framework for the protection of human rights including women's rights and protection of minorities should be effectively implemented. IPA II will support Kosovo in strengthening the capacity of the relevant institutions. Education and awareness-raising about fundamental rights and non-discrimination will be supported, including through civil society. IPA II will also help Kosovo in effectively implementing the strategy and action plan for the inclusion of Roma and Ashkali communities in Kosovo society 2017-2021. Efforts will focus on education, social services, civil registration of these communities, as well as their integration into the labour market, particularly for women.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for human rights and minorities sector shall also contribute to the reaching of Goal 16 – "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

The expected **results** to be achieved with EU support include:

- solid implementation of commitments in terms of anti-discrimination including for women, Roma, Ashkali and Egyptian, LGBTI and other vulnerable groups (such as disabled and children);
- structures responsible for the protection, promotion, enforcement and reporting on fundamental rights, both at central and local level are streamlined and strengthened.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria (EC);
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB).

2.3.3 Risks

The main risk is the lack of political will and commitment to implement the necessary reforms and measures. Sociocultural norms that allow for gender-based discrimination and preclude reporting and appropriate treatment of discrimination cases also constitute a risk. The policy dialogue with Kosovo aims to address these risks.

2.4 Types of financing

For comprehensive support and monitoring of the sector, the use of simultaneous twinning actions in the key rule of law institutions (Ministry of Justice, Judicial Council, Prosecutorial Council, Pristina court, Assembly, Anti-Corruption Agency etc.) is envisaged, as well as other types of interventions such as grants or services. All training/capacity-building measures will be programmed and designed in close coordination with stakeholders and donors in the rule of law sector. Infrastructure support and supplies may be provided for key rule of law actors. Support will be provided to civil society to monitor progress on human rights, anti-discrimination etc., through IPA II as well as through the European Instrument for Democracy and Human Rights. As organised crime in the Western Balkans is often international, regional programmes can contribute to the achievement of expected results in certain areas (fight against organised crime and corruption, regional cooperation between prosecutors, witness protection). Regional programmes can complement mainstream measures on returns and migration issues. TAIEX support may also be used.

3. Environment, climate action and energy

3.1 Needs and Capacities in the sector

Environment and climate action

Kosovo is at an early stage of preparation in the area of environment protection and management of natural resources. The EU support to the MESP provided through the IPA I and previous EU assistance programmes contributed to substantial progress in aligning the legislation to the EU Acquis. Implementation of the legislation is however very limited. Institutional capacity remains low and there are systemic problems at all levels of environment management, including water, waste and air quality. Kosovo has inherited serious pollution problems, categorised as environmental hot-spots from the industrial activities in the past, in addition to serious air and soil pollution caused at present by the coal based energy production, mining exploration sites and cement industry.

Despite a recent increase in financing water infrastructure projects, government funding for the environment remains very low.

The Strategy on Environment, 2011-2015 needs to be updated and the priority measures need to be redefined. The government prepared a list of priority infrastructure projects, addressing the immediate needs of the environment sector. However, there are no concrete commitments on funding these projects and are currently not reflected in the expenditure plans. Significant efforts are needed to achieve systemic improvements and enforce legislation in all environment and climate change areas.

Implementation of strategic environmental (SEA) and environmental impact assessments (EIA) needs to be improved considerably, especially for plans, programmes and projects in all sectors with significant effects on the environment including meaningful involvement of the public and civil society. Specifically, the process of selection and licencing of experts to develop the SEA and EIA studies and reports should ensure an appropriate level of professionalism, transparency and avoid being limited to only Kosovo expertise. Air pollution is a dramatic problem, especially in urban areas. Uncontrolled pollution from traffic, incineration of waste and other toxic materials remains a serious problem specifically in the urban areas. The air quality monitoring system equipment is in place since the year 2011 but still not fully operational. Kosovo institutions need to undertake immediate measures to improve air quality assessments, particularly in affected areas. Financial resources and the capacity to support the maintenance and calibration of equipment need to be ensured, as does support for the automatic air quality monitoring network. Real-time measurement of air pollution needs to become operational so that immediate action can be taken to reduce emissions if limits are exceeded. Air quality plans for zones where the levels of pollutants exceed limit values by a wide margin, especially in winter, still need to be prepared and adopted.

Another challenge is the waste management is one of them. In the current period, of building its waste infrastructure and management, Kosovo tries to coordinate its functions and actions in terms of sustainability following the European norms. In Kosovo, despite the obvious difficulties, slow but significant progress is taking place in the waste management sector. Important efforts have been made in recent years to improve legislation, infrastructure and services, creating expectations for significant developments in the short term. Yet, as economic growth is fast and consumption is growing, waste volumes are rising and improvements are more than ever considered essential.

The legal framework is partially aligned but not completed and waste remains one of the most visible problems in Kosovo. The draft master plan has been finalised, defining the concept of prevention, reuse and recycling of waste. However, the Ministry of Environment and Spatial Planning should begin implementation and increase opportunities for investment in this sector. Basic waste management definitions and concepts, such as recycling and recovery of different waste streams, are not sufficiently supported by current legislation, limiting opportunities for private sector involvement. The high number of illegal landfills needs to be addressed urgently. Most existing landfills are poorly managed and are at the end of their storage capacity threatening a long-term environmental risk, especially contamination of groundwater. The strong reliance on landfills need to be avoided while reuse, recycling and separate collection system/infrastructure need to be encouraged in line with the EU waste policy objectives and waste hierarchy.

Utility prices need to reflect the full costs of services, including e.g. waste management and/or wastewater treatment. The polluter-pays principle should generate revenues that will be used to fund environmental protection measures.

In the **water** sector, Water Strategy and Action Plan drafted with the EU technical support, have not yet been adopted. River mining, unprotected water zones and untreated sewage remains the main source of pollution and a serious threat to water resources. There is no groundwater monitoring system and surface water quality monitoring needs substantial improvements.

Alignment with the *acquis* on **nature protection**, in particular the Habitats and Birds Directives, has only begun. In February 2016, the assembly passed an amendment on international trade in endangered species of flora and fauna. However, effective protection for designated protected areas is not in place. Combating illegal construction in protected areas needs to be enforced effectively. Planning of investments in infrastructure such as hydropower plants, tourism and the industry sector need to ensure that environmental assessments, water and nature protection legislation are respected. This applies especially to protected areas including water protection zones and areas of high natural value that could potentially become protected Natura 2000 sites.

On **industrial pollution and risk management**, alignment with most of the relevant EU directives and regulations (IED, Seveso III) is at an early stage. Insufficient enforcement of legislation is hampering progress in preventing industrial and chemical accidents. The procedures to nominate an operator for management of hazardous waste have been launched.

On **chemicals**, the alignment with the *acquis* is at an early stage.

Kosovo is not party to the Rotterdam Convention, but a regulatory framework on export and import of hazardous chemicals was provided by the Administrative Instruction No. 23/2015, which now needs to be implemented.

On **climate change**, the level of alignment is limited. The strategy on climate change has been finalised but remains to be adopted. Its implementation should be consistent with the EU 2030 framework of climate and energy policies and well integrated into all relevant sectors. In addition to mitigation, efforts need to be made to adapt to climate change. The National Council for Environment and Climate Change should take more concrete measures to mainstream climate action. Although it is not a signatory to the UN Framework Convention on Climate Change and therefore has not prepared an Intended Nationally Determined Contribution to the 2015 Paris Agreement, Kosovo is willing to implement a climate change strategy helping to reach the low emissions and climate-resilient objectives of the agreement. Regarding the transparency of climate action, responsibility for compiling greenhouse gas (GHG) inventory reports lies with the Kosovo Environment Protection Agency. The GHG report for 2012-2013 has been submitted to the European Environment Agency. Partial alignment with the Monitoring Mechanism Regulation has been achieved through two by-laws. Legislation has yet to be drafted and adopted on GHG emissions monitoring, reporting and verification in order to align with the EU Emissions Trading System. Urgent actions should be taken in the field of emission standards and control of pollution from transport, on enforcing the legislation on technical control of vehicles, on fuel quality, as well as on ozone depleting substances and fluorinated gases. Water resources adaptation to climate change has not started, e.g. assessing the need to develop new water resources, flood protection measures

and drought risk management, Administrative capacity and awareness-raising activities need to be considerably strengthened.

Energy

The lack of a reliable and clean energy supply represents a major challenge for Kosovo's economic development and alignment with European environmental standards. Kosovo suffers from an extremely high dependence (97%) on power production from two outdated inefficient and highly-polluting lignite-fired power plants. Of these two plants, one (Kosovo A) cannot be upgraded to meet EU environmental and emissions standards, and is the main source of air pollution in the region. In accordance with Kosovo's obligations under the Energy Community Treaty, Kosovo government has committed itself to decommission Kosovo A by 1 January 2018, but progress is much slower than expected and nothing will be done before 2023 when the new power plant is supposed to start working.. Kosovo B power plant could potentially be upgraded to comply with the Industrial Emissions Directive and with Kosovo's obligations under the Energy Community Treaty. Should Kosovo B remain under public ownership (it has been confirmed in a 2017 letter from the Prime Minister that this remain a public private partnership for the next 10 years), funding for its upgrading could be considered.

Power cuts still occur in some areas at moments of high demand, with a negative impact on investment and business development. However, billing and collection levels have improved significantly since privatisation was completed in May 2013. Based on the 5 year investment plan approved from the Energy Regulatory Office, the new owner is obliged to invest EUR 107.2 million for period 2013-2017. Until now around EUR 76 million have been invested.

The Kosovo Agency for Energy Efficiency (KEEA) is understaffed and has insufficient capacity to monitor, evaluate and verify progress towards targets. It will need considerable capacity building to prepare and implement Kosovo's energy efficiency plan and to ensure that adequate mechanisms for verification and evaluation of results are put in place. KEEA still does not have a dedicated energy efficiency fund (due to problems in establishing a separate budget line). Since 2010, several projects have started to introduce energy efficiency measures in public buildings both at central and municipal level. The main obstacles to implementing energy efficiency measures in Kosovo have been the lack of capital required for investment measures, lack of subsidies from the government; low level of awareness regarding insulation cost-effectiveness; and lack of implementing standards in building construction and materials supply.

The energy sector is the main source of air, water and soil pollution in Kosovo. Environmental standards and climate targets are not mainstreamed into other policies, particularly energy, transport, forestry, agriculture and industry. There are insufficient capacities for waste management and a significant part of the households does still not have direct access to drinking water.

Out-dated infrastructure and the lack of systematised maintenance expose Kosovo's electricity supply system to risks. This is not compliant with international standards and codes and has negative consequences for both system operators and consumers. Kosovo's transmission network needs a considerable upgrade to ensure a secure and reliable power supply and meet customers' demands and obligations derived from grid code requirements, as well as to be able to integrate Kosovo into a regional system. Despite the energy agreement reached with

Serbia, Kosovo continues to lose revenue as a consequence of this isolation from regional power systems. The lack of control imperils the stability of Kosovo's power system. The investment needed to upgrade the transmission network in terms of capacity, security and reliability is very substantial, and in the mid-term cannot be covered from the Kosovo budget and/or the Transmission System and Market Operator (KOSTT) revenues. On the other hand, the alignment of the transmission network with European technical standards is a requirement deriving from the Energy Community Treaty. Heating of facilities comprises around 70% of the overall thermal energy consumption in Kosovo. Most public sector buildings have very poor thermal insulation and those built before the 1990s have no insulation. The district heating system is limited and inefficient.

Kosovo has set up the basic institutions in the energy sector, including the Ministry for Economic Development, the Agency for Radiation Protection and Nuclear Safety, the Energy Regulatory Office, and its Transmission System Operator (KOSTT) separate from other utilities. The legal framework and implementation mechanisms would need to be strengthened would Kosovo wish to meet its own 9% target for energy efficiency improvement by 2018, as laid down in its National Energy Efficiency Action Plan (NEEAP) 2010-2018. Kosovo is now in the process of preparing the 2019-2027 Action Plan on Energy Efficiency. Kosovo still has not set up its own Energy Efficiency Fund.

The legal and regulatory framework to develop renewable energies also needs to be improved if Kosovo is to meet its target to produce 29% of its electricity from renewable sources by 2020 (up from the current level of less than 3%). In order to allow for private investment in the energy sector, Kosovo institutions must create a favourable market environment and, ensuring more investments in energy efficiency measures, ideally combined with other environmental measures, in the public as well as the residential sector. Measures are also needed in terms of legislation, enforcement of contracts and court decisions, and tariff methodology. Kosovo should also foresee incentives to increase the use of renewable energy, and promote business development in the field of renewable energies and energy efficiency measures.

Kosovo's Renewable Energy Action Plan 2013-2020 envisages a very ambitious 29.47% renewables share by 2020. However, it is very unlikely that Kosovo will even meet the mandatory target of a 25% share.

Under IPA I and II, the EU has supported the Energy Regulatory Office (ERO) and KOSTT in further developing and effectively implementing the regulatory framework and the requirement of the energy market in compliance with the Energy Community Treaty of South East Europe. The Ministry of Economic Development has been supported in preparatory work for the decommissioning of the Kosovo A Thermal Power Plant (TTP). In terms of infrastructure interventions, significant investments have been made in this area by the EU, in particular in strengthening the transmission system to reduce power losses and improve the power supply in Kosovo. Another aspect is promoting energy efficiency and the use of renewable energy resources in public buildings, both in terms of public infrastructure and support to SMEs to implement energy efficiency and renewable energy investments. In cooperation with KfW, the EU has supported heat produced through co-generation at the Kosovo B power plant, improvements in the distribution network and increased efficiency of heat supply. Especially in the area of transmission and grids, most projects have been carried out in cooperation with IFIs which have contributed consistently both in terms of financial support (loans) and project management.

3.2 Objectives, results, actions and indicators

Environment and climate action

The overall objective of IPA II rests on the principles of reducing pollution and emissions at source and preventing environmental degradation, in order to limit the risk to the human health and the environment.

Achievement of the above objective is only possible through substantial improvement of the environment infrastructure and in particular waste physical infrastructure followed by systemic improvements and establishment of sustainable institutional structures embedded in the overall social and political framework.

The expected **results** to be achieved with EU support include:

- Developed strategic framework for low-emissions development, with climate action mitigation and adaptation measures;
- Improved system of GHG monitoring and reporting;
- Waste management improved in line with the EU requirements, including improved physical infrastructure and increased recycling rates;
- Improved efficiency of waste management institutions and operators;
- Implementation of waste separation and recycling and 'pollution pay's principle';
- Introduction of concepts of 'circular economy' in the strategic planning documents;
- Water management and municipal wastewater collection (sewage) and waste-water treatment, including physical infrastructure, in the largest agglomerations improved in line with the EU Directives;
- Air quality improved in line with the Ambient Air Quality Directive 2008/50/EC through adoption and implementation of cleaner air plans for all agglomerations.

Indicators:

- Waste sorting and categorisation infrastructure in place in at least two locations;
- Operators equipped with permits and funding collected through the 'Polluters Pay' tax on the economic operators;
- Statistics on material consumptions, export of recyclable waste;
- Improved water infrastructure, number of waste water plants in function.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for environment and climate action shall also contribute to the reaching of Goal 6 – "Ensure availability and sustainable management of water and sanitation".

Energy

The overall objective of IPA II in the energy sector is to help Kosovo ensure a reliable and clean energy supply to citizens and enterprises, and align its legislation to EU energy standards. Regarding energy production, the objective is to contribute to the reduction of its environmental and health impact on women and men. The main results expected in the sector

by 2020 are the implementation of the decommissioning plan of Power plant Kosovo A, the completion of the legislative framework in the area of energy and climate change, including the regulatory framework, secondary legislation, and the implementation of the Third Energy Package, improved alignment of Kosovo's energy sector with the EU *acquis* and best practices and in line with the Ministerial ERP policy guidance from 25 May 2016, the establishment of an energy efficiency fund that extends to incentives for the private sector and households and the adoption of a plan for the gradual adjustment of energy tariffs to reflect actual costs. Kosovo will also work towards improved institutional and human capacities in the relevant institutions and enhanced competitiveness of the private sector in the renewable energy and energy efficiency sector, including job creation for women and men.

IPA II will support Kosovo in the alignment with the EU *acquis* in the field of energy, environment, climate change and nuclear safety, in particular by supporting the closure and decommissioning of the Kosovo A power plant. Assistance will be provided to help implement energy efficiency measures and explore renewable energy resources. In order to enhance competitiveness, IPA II will also support education targeting women and men, research and innovation capacity building, training and business development in the areas of energy and climate change. Climate change mitigation measures will also be considered.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for energy sector shall also contribute to the reaching of Goal 7 – "Ensure access to affordable, reliable, sustainable and modern energy for all", and Goal 13 – "Take urgent action to combat climate change and its impacts".

The expected **results** to be achieved with EU support include:

- implementation of the decommissioning plan of Power plant Kosovo A (only for the non working parts of the PP – for the active part, nothing will be done before 2023 and only if Kosovo C will start working within that date.;
- upgrading of the Power Plant Kosovo B (whether it remains under public ownership)
- completion of the legislative framework in the area of energy and climate change; including the regulatory framework, secondary legislation;
- the implementation of the third Energy package;
- introduction of energy efficiency measures in public and private buildings and in district heating systems.
- Supporting incentives/mechanisms of energy efficiency and environmental measures in the public and private sectors, including households.
- support to the development of renewable energy production in order to reduce carbon-dioxide emissions (limited perspectives in hydropower and wind power, more concrete perspectives in solar while in biomass, clarification is needed on the use of wood from illegal logging)
- Adoption of a plan for the gradual adjustment of energy tariffs to reflect actual costs.

Indicators (for details see Annex 2, table 2):

- Progress made toward meeting Copenhagen criteria (EC);
- Quality of Electricity Supply (WEF).

3.3 Types of Financing

Environment and climate action

Support to the environment sector at present almost entirely depends on donor support. Fortunately, many donors and IFIs are committed to continue their support and Kosovo in pushing forward the environment agenda. Cooperation with IFIs is of crucial importance, due to the size and complexities of infrastructure investments. Therefore structured efforts are required to enforce the cooperation and encourage Kosovo to maintain the level of investments needed in achieving the common goals in improvement of the environment conditions.

EU and Member States support to the government in gaining access to the international funding mechanisms is of crucial importance. Kosovo step up its efforts and demonstrate its commitment to tackle the environment problems.

Energy

Following the donors conference for sustainable energy in Kosovo in May 2013, all donors and IFIs committed to supporting Kosovo meeting its energy needs. Given the common goals of the Kosovo authorities, the EU, other donors and IFIs, close cooperation is foreseen. Building on the successful cooperation established under IPA I, efforts of IPA II will partially focus on leveraging IFI support, in particular in high investment areas such as energy efficiency, renewable energy sources and support to private sector activities. The framework of this cooperation will be decided during programming, but the WBIF could be considered as a means to channel IPA contributions for these actions. Regional initiatives considered beneficial for achieving the abovementioned targets will be taken into consideration. According to the priorities identified by the beneficiaries, energy and climate change could be tackled also at regional cooperation level. Twinning and TAIEX support may also be used.

3.4 Risks

Environment and climate action

Solid waste pollution is considered as one of the most serious challenges due to its direct relation with economic growth, and production and distribution of goods, a large percentage of which becomes waste and complexities that relates to waste management process. Highly polluting mining activities in the past and outdated power facilities presents an additional burden resolution of which requires substantial investments.

Some of the underlying assumptions for this sector include:

- The government and other stakeholders still show little interest to promote development of the environment and waste sector in particular, including waste infrastructure.

- The practice of favouring a centralised approach and political nominations of management boards of public utilities and in decision making institutions is widespread.
- Limited inter-institutional cooperation and cooperation with the Municipalities and public operators, and inefficient monitoring systems and information flow.
- Insufficient support and involvement of the MESP, MLGA, MED, MF, MAFRD and other relevant institutions in providing human and financial resources necessary to support the implementation of Strategies and related Action Plans / Master Plan.
- Insufficient donor coordination and duplication of activities among donors.

Energy

- Kosovo A may not be decommissioned by the agreed deadline of 31 December 2017;
- Kosovo authorities will not allocate the necessary resources to meet the energy efficiency and Renewable Energy Sources (RES) targets for 2018 and 2020;
- Key institutions, such as the Energy Regulatory Office (ERO), the Agency for Protection from Radiation of Kosovo and the Kosovo Energy Efficiency Agency, will not be allocated sufficient financial and staff resources - this could limit their functioning and, in particular for ERO, undermine the independence of the institution;
- Lack of interest from private investors in RES.
- Lack of public support for gradual adjustments in the energy tariffs to cost recovery levels.
- Lack of implementation of the agreement with Serbia may result with further loss of the revenue for Kosovo which may result in a continuous destabilisation of the system in the region.

4. Competitiveness, innovation agriculture and rural development

4.1 Needs and capacities in the sector

Competitiveness and innovation

This area of support, which is cross-sectoral in nature, aims to boost innovation and overall competitiveness of Kosovo's economy through SME development and regional development. Support to this area complements efforts in the fields of economic governance, public administration reform and public financial management referred to under 'Democracy and governance'.

The National Development Plan, the annual Economic Reform Programme and the European Reform Agenda should provide the basis for any intervention in the area of competitiveness and innovation. Kosovo also has a Private Sector Development Strategy and Action Plan 2013-2017, which aims to make Kosovo and its companies globally competitive, but the Strategy needs to be updated to ensure a close coordination between the relevant administrations and stakeholders. Key features of all of these strategies are the promotion of investments and exports; further improvement of the quality infrastructure; and improvement of trade policies to further improve Kosovo's trade balance. However, the institutions which support private sector development do not have sufficient capacity to promote foreign investment, and need to ensure better coordination to be effective, particularly given the fierce competition from other countries in the region. Among the main challenges for private sector

development in Kosovo are limited access to finance for SMEs, unfair competition among business actors and lack of competitiveness caused by an unfavourable business environment, a lack of creative entrepreneurship and innovation capacity. There is a need to support the ability of both new and traditional businesses to compete and innovate through ICT and broadband improvements, and especially training and digital skills development. Kosovo should try to map and incentivize (potential) start-up ecosystems; stimulate the entrepreneurial culture in order to combat the high levels of youth employment; develop digitising strategies in order to optimally prepare businesses and to lever upon the digital transformation. Furthermore, broadband infrastructure investments need to happen - both fixed and mobile/wireless, particularly in more rural regions, to reduce the digital divide and the digital gap with the EU. The handling procedure for access to existing infrastructure should be simplified. Furthermore, one or multiple Broadband Competence Offices (BCO) have to be established to advise local and regional authorities on ways to invest effectively in broadband, and help citizens and businesses get better access to broadband services.

Shortcomings in management expertise and corporate governance, such as insufficient quality management, limited management sophistication and corporate professionalism, low levels of efficiency and value added pose additional obstacles to private sector development.

The fight against the grey economy is a cross-cutting challenge that needs to be addressed from different angles. In this respect the main challenges for the Kosovo economy are weak law enforcement, especially as regards contracts, and a high perception of corruption, especially in the tax and customs administration. There are concerns regarding the security of land titles and ownership (property rights) and constraints for businesses in getting reliable power supply.

Adequate quality infrastructure is a necessity for technological development, the production of innovative goods and services, and a competitive trade environment. Metrology laboratories are not fully functional since they lack the necessary human resources, the knowledge and scientific equipment to ensure effective regulation. There are no institutions to assess the conformity of industrial goods. The market surveillance inspectorate has insufficient administrative capacity and citizens are not aware of their rights as consumers.

Prior IPA II assistance focused on improvement of municipal infrastructure, support to regional development agencies, social enterprises and social service providers, private sector development including support to digital and traditional businesses.

Agriculture and Rural Development

Agriculture plays a significant role in Kosovo's economy. It is a leading contributor to the GDP, accounting for about 12 % of GDP in 2015. In addition, 62% of Kosovo's population live in rural areas and depend, directly or indirectly, on the agricultural sector for their livelihood. The sector is the largest private employer, although primarily on an informal basis. About 90% of the population have land for cultivation and 55% own livestock. Beyond economic considerations, Kosovo's reliance on agriculture has a crucial social dimension—being pervasive as a safety net for much of its population. On a per capita basis, Kosovo is one of the largest importers of food in Europe. The value of exports of agricultural products of EUR 10.5 million in 2015 is dwarfed by the value of EUR 291.01 million in imports of agriculture products. This is largely due to the fact that the sector has remained predominantly subsistent/semi-subsistent in nature and faces several diverse and inter-related challenges (fragmented land holdings; outdated farm technologies; lack of diversification of agricultural products; lack of investments in irrigation; access to finance; limited processing facilities;

limited implementation of food safety and hygiene standards) that are reducing competitiveness and preventing it from meeting its production potential.

In line with the government's objectives for economic development, the budget for the agricultural sector has continuously increased over the past years. It is mainly used for direct support to farmers to improve the productivity and the quality of agricultural products and to increase production for import substitution. Animal health is monitored through regular sero-surveillance programmes, annual vaccination schemes and passive surveillance systems whereby veterinarians and farmers report occurring diseases to the Animal Health Department of the Food and Veterinary Agency. Agro-food establishments are being upgraded to meet EU standards.

With the promulgation of the Law on Food Safety in April 2009, the food safety and control system in Kosovo was subject to a major reorganisation. The establishment of the executive Food and Veterinary Agency and ensuing transfer of staff and competencies related to veterinary, phytosanitary/sanitary matters were key actions in the implementation of the food law. The transfer of staff and responsibilities, including at regional and municipal level still needs to be implemented. In addition, fundamental changes in the food control system, as well as major investments are also needed, both in infrastructure and in building the capacities of staff at headquarters and regional offices to implement the integrated and risk-based system in the area of food safety and quality. Quality control remains one of the challenges in the coming years.

The lead ministry in the sector is the Ministry of Agriculture, Forestry and Rural Development (MAFRD). The Ministry runs a limited number of support schemes that are managed by a Paying Agency. It has also begun developing a Farmer Register and simplified Land Parcel Identification System to contribute to overseeing the current rural grant schemes.

The Agriculture and Rural Development Programme (ARDP) for the period 2014-2020 was adopted by the government in 2013. The strategy, drafted with the support of twinning assistance, aims at restructuring Kosovo's agro-rural sector in line with the EU acquis and standards; and improving the living standard of Kosovo's rural population. IPA II support will be in line with the priorities and objectives of this sector strategy.

On Fisheries, Kosovo would need to proceed in the establishment of a fish inventory and work on alignment to the EU's Common Fisheries Policy acquis.

Kosovo's annual Economic Reform Programme contains an analysis of key obstacles to competitiveness, growth and job creation within the agricultural sector. It also contains several reform measures planned to be implemented over a three-year period. IPA II should support these reforms where relevant.

Previous IPA II assistance focused on growth and employment in the agricultural sector and improving veterinary, sanitary and phytosanitary standards. It also included support to the Kosovo Food and Veterinary Agency.

4.2 Objectives, results, actions and indicators

Competitiveness and innovation

IPA II will support the development of the private sector and assist Kosovo in developing a sound economic and legal environment that is conducive to foreign and domestic investment.

IPA II will also be supportive of related reforms of the business environment, trade and investment facilitation and research and innovation foreseen in the Economic Reform Programme. In this context, the development of a Smart Specialisation Strategy supporting prioritisation of Kosovo research efforts and allocation of necessary resources would be encouraged. The implementation of the Small Business Act will be continued. Increasing the competitiveness of Kosovo's private sector, especially SMEs (including women-led SMEs), and promoting private investments including technological upgrade and innovation capacity will be the main objective for IPA II support. Other serious constraints to private sector development in Kosovo, such as energy supply, enforcement of the rule of law and public administration obstacles, will also be addressed through sector measures.

Support could be provided for digital projects that are aimed at preparing society and the business environment for digital transformation. This support should for example create a better overview of the start-up ecosystem and enable more informed decision-making, stimulate the entrepreneurial culture of the young generation, enable the development of digitising industry strategies.

IPA II will offer support to stimulate innovation, cooperation among SMEs themselves and with educational and research institutions, (including the setting up of a Kosovar National Research and Education Network and its connection to GÉANT) and will offer support to the work of the authorities involved in regulating the market. Other support will be given to creating and strengthening business advisory services, local incubators, capacities of municipalities to support businesses, and to strengthen the competition authorities. In addition, support to improving the provision of training and skills of women and men at all levels will be supported.

As regards access to finance for enterprises, IPA II will closely coordinate with IFI interventions in the sector. IPA II will continue to provide grant support for micro-enterprises and start-up businesses with a special focus on innovative business models, export-oriented services and female entrepreneurs. At the same time, as IFI support to Kosovo increases, SMEs will be supported and encouraged to make use of other financing opportunities. The capacity of the Kosovo Investment and Enterprise Support Agency (KIESA) and the Small and Medium-sized Enterprises Development and Promotion Agency to implement and monitor SME support programmes and schemes should be increased, enabling it to progressively take over the activities currently funded and managed by donors. Another objective for IPA II assistance will be the improvement of quality infrastructure by increasing the number and capacity of laboratories and bodies for conformity assessments. In addition, assistance will focus on improving statistics and supporting capacity building of the Competition and State Aid bodies to ensure an effective implementation of the legislation. Consumer rights and consumer protection will be promoted, including through increased civil society involvement.

Within the framework of **regional economic integration**, its agenda has accelerated over the years leading to new agreements (for instance Trade Facilitation Agreement in 2016, Agreement on Trade in Services in 2017 as additional protocols to CEFTA); these agreements, based on compliance with the EU *acquis*, will require significant involvement of the Ministry of Trade and other governmental stakeholders (custom authority, phyto-sanitary agency, market surveillance, etc.) to be able to implement them smoothly. In this context, the National Committee for Trade Facilitation, whose Secretariat will have a key role to implement the aforesaid agreements, may need support to reinforce its capacity. This could be also the case for other governmental stakeholders involved in the process.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for competitiveness and innovation sector shall also contribute to the reaching of Goal 8 – "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" and Goal 6 – "Ensure availability and sustainable management of water and sanitation".

The expected **results** to be achieved with EU support include:

- sound economic governance policies developed, an economic and legal environment established, allowing domestic companies to become more competitive through an increase in their share of trade with the EU and the region;
- Kosovar companies made competitive on the international markets, domestic investments and FDIs increased;
- the access to finance is improved, allowing companies, including (M)SMEs, to access credit and to do so at more favourable conditions;
- setting up of a Kosovo National Research and Education Network and its connection to GÉANT.
- Market surveillance, focussing especially on product safety and aimed at consumer protection, is improved;

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria (EC);
- Distance to frontier, Doing business score (WB);
- Progress in the implementation of the Small Business Act assessment recommendations.

Agriculture and rural development

The overall objective of IPA II assistance in this sector is to support Kosovo institutions aligning and implementing the Common Agricultural Policy and meeting EU standard food control mechanisms; to increase the productivity and competitiveness of the agri-food sector; to increase the capacity of food business operators to meet EU food safety standards and their competitiveness; to improve its adaptation to climate change phenomena; and to improve the living standards of women and men living in rural areas. While pursuing these objectives, IPA II assistance will also help Kosovo in addressing challenges of climate change by promoting resource efficiency in the agriculture, food and forestry sectors; social dialogue and transfer of knowledge and innovation; and social and economic inclusion.

Even though the Food and Veterinary Laboratory has benefited from investments by the World Bank, the government and the EU, further support is needed to bring food safety standards in line with the *acquis*. Support will be provided to improve systematised and reliable data collection and production of statistics in line with EU requirements. Climate change adaptation measures will be included in the development of the agricultural and rural sector in Kosovo.

In agriculture and rural development, IPA II assistance will support Kosovo in achieving the following **results** by 2020:

- Kosovo legislation on agriculture and rural development policy aligned with the EU *acquis* and implemented;

- Administrative capacity for the development and implementation of agriculture and rural development policy strengthened;
- Improved and upgraded data collection, storage and reporting system for all sectors in the Ministry for Agriculture and Rural Development;
- Food business operators and producers prepared to be competitive in the regional and EU market, including through the establishment and functioning of advisory services;
- Enhanced access to credit for farmers with respect of gender equality policy and agri-food operators (in cooperation with IFIs);
- Increased employment and income generation for women and men in the agro-food sector and rural services, including the introduction of vocational training education, farm management and farm accounting education;
- Efficient land management and land market organisation, including the reduction of illegal construction on agricultural land;
- Efficient water management/irrigation, including a clear link with the overall Kosovo water strategy developed by the Ministry for environment and Spatial Planning (MESP);
- Adaptation measures to improve resilience to the impacts of climate change implemented.

In the specific area of **food safety, veterinary and phytosanitary**, IPA II assistance will support Kosovo in reaching the following **results** by 2020:

- Fully functional and uniform food control system in line with the requirements of the food law and relevant sub laws;
- Improved and upgraded data collection, storage and reporting system for all sectors in the KVFA;
- Improved overall performance of the phytosanitary sector, including disease recognition and reporting;
- Systematised and reliable data collection and production of statistics (including sex-disaggregated where relevant) in line with EU requirements, established training practise for statisticians.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria;
- Total investment generated via IPA in agri-food sector and rural development disaggregated by sex of direct and indirect recipients.

4.3 Types of Financing

Competitiveness and innovation

Technical assistance for private sector development will be needed as from 2018. Given the positive results of the grant schemes implemented through IPA in favour of SMEs to improve competitiveness, grant schemes might be continued under IPA II.

Close coordination and collaboration with IFIs will be sought, in particular as concerns access to finance for SMEs. Support through regional instruments such as the WBIF and EDIF will be considered following an assessment carried out in cooperation with the Kosovo institutions. TAIEX support may also be used.

Agriculture and rural development

The potential to learn and benefit from the experience of other beneficiaries should be encouraged. Given the positive results of the grant schemes implemented through IPA in support to rural development and agriculture, the grant schemes will be continued under IPA II. Special attention will be paid to the coordination with other donors, in particular the World Bank and the EBRD. Given the positive experience in the use of TAIEX and twinning under IPA 2007-2013, this type of cooperation with Member States will be encouraged.

4.4 Risks

Competitiveness and innovation

- Insufficiently developed financial sector to channel the resources available to the private sector. IPA II funds will support related reforms of the business environment, trade and investment facilitation;
- Interest rates offered by commercial banks will not be decreased despite an increase in SME capacities, undermining the envisaged gradual phase-out of donor support and normalisation of the lending market in Kosovo;
- Insufficient absorption capacity of SMEs and lack of demand for modern financing sources.

Agriculture and rural development

- Insufficient budget allocated to the implementation of ARDP and food safety standards and regulations;
- High turnover of staff at MAFRD and KVFA. This should be improved through human resources measures at central level and delay in transferring the veterinaries from the municipalities to the KFVA;
- Lack of knowledge on the government side to audit and guide the implementation and maintenance of food safety and quality system;
- Lack of proper statistical data on number of farmers, animals, arable land, etc. IPA II funds will be used to help Kosovo in improving its statistical information;
- Lack of identification of property ownership. (IPA II assistance in the rule of law sector will support Kosovo in addressing property issues).

5. Education, employment and social policies

5.1 Needs and capacities in the sector

Kosovo has the youngest population in Europe with 50% under 25 years of age. Human capital plays a crucial role in ensuring sustainable socio-economic development. As confirmed in the annual enlargement packages, significant investment is necessary. The education sector is still affected by the lack of adequate facilities, maintenance and quality assurance. Crucial challenges to be tackled in the education sector include: expanding pre-school facilities, ensuring increased access to education for all by increasing enrolment in early childhood education and care (despite some efforts rates currently remain very low) and primary education, enhancing relevant infrastructure, improving the quality of primary and secondary education, vocational education and training, and ensuring the skills provided are relevant to the labour market needs.

Total public spending on education is 4.7% of GDP. This is broadly in line with middle income countries with similar age profiles. Moreover, considering the large number of

students, Kosovo spends considerably less than some neighbouring countries per student in primary and secondary education. Furthermore, 75% of overall spending on education is for salaries and increases in education spending are used almost entirely for salary increases rather than education quality improvement (only 0.2% of education spending was allocated for training of teachers). The attendance rates in pre-school and pre-primary education are still very low (18% and 74% respectively) undermining efforts to create a level playing field for the beginning of primary school. Kosovo participated in the PISA⁶ assessment for the first time in 2015 and showed very poor results. Out of 72, Kosovo was placed 69th. Compared to regional peers, Kosovo students scored similar to those of the former Yugoslav Republic of Macedonia, but well behind Montenegro and Albania (the top scorer in the region)⁷. Preparations for the final stage of PISA 2018 round of testing are underway. As these tests are taken at the age of 15, it is crucial to improve the overall quality of **pre-primary, primary and lower secondary education**. In order to do this, the implementation of the core curriculum should continue and the review of curricula should also increasingly include the development of functional literacy and cognitive skills, including eSkills on different levels, and not only concentrate on the knowledge component. Improved infrastructures, updated textbooks and learning materials, as well as increased training to address the lack of necessary skills among teachers should be the priorities that will enable Kosovo to improve quality of education at all levels and reduce the significant current skills gap, highlighting that 40% of graduates with a vocational diploma and 35% of graduates with a university degree do not have the necessary skills demanded by the labour market.

Around half of all students in upper secondary choose vocational education and Kosovo has continuously received EU support to reform this sector. However progress remains slow, the link to the labour market remains weak and programmes lack practical and applied courses with only a few being accredited by the National Qualifications Authority. The role and future of the Agency for Vocational Education and Training and Adult Education remain unclear. The government needs to ensure the implementation of the quality assurance strategy and establish quality assurance mechanisms at the municipal level. **Vocational education and training programmes** are poorly coordinated, lack appropriate strategies and priorities, and do not reinforce Kosovo's economic development strategies.

Increasing internationalisation of **higher education** institutions is still a challenge and more work needs to be done in building the capacities of these institutions, streamlining research as a priority, improving the collection of relevant statistics and the proper use of collected data, strengthening transparency in the education system; investment in teacher skills and leadership at school level; enhancing the capacities in relevant institutions and authorities. Higher education in Kosovo is subject to reform in line with the Bologna process, but many reforms still need to be implemented. Participation in the Erasmus+ programme and its external dimension supporting the modernisation of higher education is helping to improve higher education. To increase the quality of higher education institutions, Kosovo needs to improve transparency in the operation of higher education institutions to address politicised recruitment. There are challenges to Quality Assurance Agency (QAA) independence in Kosovo after the Kosovo Accreditation Agency (KAA) was removed from the European Quality Assurance Register for Higher Education (EQAR) in February 2018. The EQAR Register Committee concluded that, as a consequence of the dismissal of the QAA's council

⁶ OECD's Programme for International Student Assessment

⁷ Bosnia and Herzegovina and Serbia did not participate in the PISA 2015.

and director by the government, the agency is no longer able to “act autonomously” and is no longer in a position to assume “full responsibility for [its] operations”, which is required by one of EQAR’s standards for registration (ESG 2015⁸ standard 3.3).

Education remains a high risk sector for corruption and political influence, especially in higher education. The government also decided to dismiss the members of the Presiding Board of the University of Pristina, which deprives the institution from having a stable management able to carry out their duties and reforms

As youth aged 15-24 make up 31% of the working age population, youth unemployment is a particular challenge especially young women’s unemployment. Unemployment remains very high, with significant structural weaknesses and skill gaps in the labour market. Gender norms lead to women and men enrolling to different extents in education programmes in particular fields. As a result, certain occupations do not have enough qualified men (e.g. teaching professions) or women (e.g. engineering, veterinary medicine), which means that women or men are under-represented in these sectors. Discrimination against women exists and women's labour rights are being violated. The labour market remains underdeveloped. As a result, there are few job opportunities for young entrants (about 30.000 per year). The informal nature of the economy has a consistent impact on the shape of the labour market of Kosovo, by limiting skills development and trapping people into low skilled/low productivity jobs. Informality also has a significant negative impact on workers' right and safety. Of the many unemployed, about 60% are unskilled. However, the number of unemployed persons with a university education has also increased, signalling a mismatch between the skills needed on the labour market and those provided by the education system. Increasing the level and relevance of skills and qualifications of the labour force is therefore one of the main challenges.

The 2018-2022 Strategy for Employment and Social Welfare is a comprehensive strategy that aims to improve the functioning of the labour market, promotes skills development, overhauls the social welfare system and consolidates the role of social partners. Kosovo needs to monitor closely its implementation.

The Kosovo Education Strategic Plan 2017-2021 and its action plan were adopted in July 2017. The strategy covers participation and inclusion, management of education system, quality assurance, teacher development, early and preschool education, vocational education and training, adult education, and higher education. The strategy and action plan now need to be implemented and the necessary resources allocated. More specifically, Kosovo has identified seven strategic objectives: 1) Increasing participation and providing equal opportunities for the development, training, and education of every individual in pre-university education; 2) Improving the quality and efficient management of the education system, based on transparency and accountability; 3) Developing a functioning quality assurance system, in accordance with international standards; 4) Enhancing teaching quality through an effective and sustainable system for teacher professional development and preparation; 5) Maximising learning through quality teaching, implementing competency-based curricula, and by using high-quality teaching resources; 6) Harmonising vocational education and training with labour market requirements in Kosovo and abroad, and creating an open system for adult education.; 7) Upgrading the quality and competitiveness of higher education through the promotion of excellence in teaching, scientific research, artistic

⁸ The Standards and guidelines for quality assurance in the European Higher Education Area

creation, innovation, and internationalisation. The strategy and action plan now need to be implemented and the necessary resources allocated.

Kosovo's annual Economic Reform Programme contains an analysis of key obstacles to competitiveness, growth and job creation within the education sector and the labour market. It also contains several reform measures planned to be implemented over a three-year period. The Ministerial ERP policy guidance also contains recommendations for reforms within these two areas. In particular, Kosovo needs to set up an action plan for tackling youth unemployment, based on an assessment of the challenges and focusing on improving education outcomes and supporting school-to-work transition and broadly consult it before its adoption. IPA II should support these reforms where relevant.

Support to culture, youth and education policies shall be supported and mainstreamed through IPA II. This is in line with the major EU policies in the area, in particular the Strategic framework Education & Training 2020.

Prior IPA II assistance focused at promoting inclusiveness of vulnerable groups in the labour market and education system, at improving the enrolment inclusion of children in pre-primary education and enhancing the quality of pre-school education as well as boosting reforms in public administration. Construction of pre-primary and primary education facilities was also supported.

5.2 Objectives, results, actions and indicators

The EU will support Kosovo in implementing the Sectorial Strategy for Employment and Social Policy 2015-2020 and in improving the institutional capacities to design and implement effective policies. It will also support specific and targeted policies aimed to raise the employability and social inclusion among particularly vulnerable groups such as long-term unemployed, marginalised communities, youth and women, with a view to promoting active inclusion.

The EU will support in particular the education and employment reforms foreseen in the ERP exercise.

In order to design effective support measures, earlier policies and IPA assistance will be carefully evaluated before programming new support. IPA II will assist Kosovo in pursuing this objective by supporting educational reform, enhancing cooperation with private sector, expansion of apprenticeship and scholarship schemes development of vocational skills according to labour market demands and investing in preschool education. Improving inclusiveness of both education sector and labour market, by ensuring access to education and training, reducing drop-out levels among the most vulnerable groups, students from minority communities and students with disabilities, is another important objective for the sector until 2020.

Projects that aim at creating a common understanding of digital competences, enabling education systems to adapt to the ongoing digital transformation, enable people to develop these competences and enhance their employability or participation could also be supported under IPA II.

It should be noted that investments in education have a much bigger impact on growth and competitiveness the earlier the investment occurs. IPA II should therefore be geared towards interventions improving early childhood education and care and primary education.

In the area of social welfare, a number of projects were initiated over the last few years that will require increasing support from the Kosovo authorities, both in terms of political commitment and budget allocation, and some further IPA assistance to become sustainable. In order to design effective support measures, earlier policies and IPA assistance will be carefully evaluated before programming new support.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for education, employment and social policy sector shall also contribute to the reaching of Goal 4 – "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all".

The expected **results** to be achieved with EU support include:

- Increased alignment of education and training programmes with labour market needs;
- Increased competitiveness of the Kosovo economy as the skills of the labour force are better adapted to the needs;
- improvement of the inclusiveness of both the education sector and the labour market encouraging women and men to enter occupations where their sex is under-represented;
- updated teaching methods and enhancement of staff mobility opportunities;
- increase in the employment rate among particularly vulnerable groups such as long-term unemployed, marginalised communities, youth and women;

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting Copenhagen criteria and Barcelona Objectives;
- Employment rate 15 to 64 years, total % (Eurostat) disaggregated by sex;
- Labour force participation rate, total %, sex disaggregated;
- Enrolment rates in early childhood and care, primary, secondary (including VET) and tertiary education, sex disaggregated;
- Drop-out rates at all levels, sex disaggregated.

5.3 Types of financing

Reduced technical assistance for labour market relevant education and training programme reform will be needed as from 2017. Given the positive results of the grant schemes implemented through IPA in favour of SMEs to promote employment, grant schemes will be continued under IPA II. Cooperation with IFIs will be sought in the area of educational infrastructure as grant funds will be insufficient to cover all needs; regional initiatives involving IFIs will also be considered. In the area of vocational education, there is a need to coordinate with other donors, who are already active (especially Germany and Luxembourg). IPA II regional programmes may be used to ensure Kosovo's participation in regional cooperation initiatives in the areas of education, research and public health. On-going regional initiatives (such as SEE 2020 and the European Fund for Southeast Europe - EFSE) will be reviewed regarding their potential to add value and multiplier effects. Participation of Kosovo in the relevant EU programmes in the area of education, research and culture will be encouraged. TAIEX and twinning support may also be used.

5.4 Risks

- There is an increased risk in this sector that the government will rely too heavily on donor funding and neglect its own funding responsibilities. For example, the budget allocation for active labour market measures (less than 1% of the consolidated Budget in 2013) is clearly insufficient to effectively address needs. IPA II support in this area will therefore be made strictly conditional on the government's own sustained investment in the sector.
- In particular, the government will be expected to provide adequate co-financing for school building programmes and a guaranteed budget for recurrent costs to assure maintenance of school facilities.

6. Regional cooperation and territorial cooperation

6.1 Needs and capacities in the sector

In addition to the needs and objectives identified in this Strategy Paper, Kosovo will benefit, together with the other IPA II beneficiaries, from support under the EU horizontal and regional pre-accession financial assistance programmes.

The regional priorities are set in a Multi-country Strategy Paper, designed to complement the objectives set in the Indicative Strategy Papers. Regional assistance will be delivered along the following four axes, each one representing one dimension of the added value of the horizontal and regional programming: i) Horizontal support to sector policies and reforms; ii) Regional structures and networks; iii) Regional investment support; iv) Territorial cooperation.

As regards **regional investment support**, the WBIF will function as a mechanism for donor coordination and blending of grants and loans. The Western Balkans alongside the EU, the IFIs and bilateral donors can identify, prepare and implement priority socio-economic investments through the pooling of expertise and financial resources. WBIF will work on the basis of a prioritisation of infrastructure development using one single mechanism involving the relevant stakeholders.

In the environment sector there is a strong need for investment, in particular in water and waste management. Although officially Kosovo considers the environment as one of the main priorities for action, this is not reflected in actual budget planning and repartition. Kosovo will use the Western Balkans Investment Framework (WBIF) to address investment needs in the environmental sector. Kosovo will work with the Environment and Climate Regional Accession Network (ECRAN), which will enable Kosovo to build its capacities in the environment field, as well as establishing good cooperation in the region.

As concerns the transport sector, IPA II will support only the interventions aimed at connecting Kosovo with its neighbours. In this context the government of Kosovo is working closely with WBIF (Western Balkan Investment Framework) in order to improve the status of railway infrastructure along Route 10 corridor of the Ten-T network. The integration of Kosovo transport network in the wider system of transport in the Western Balkans will enable the connection to the rest of Europe. In addition safety and efficiency of the network will improve.

In addition, IPA II regional programmes may be used to ensure Kosovo's participation in regional cooperation initiatives in the areas of education, research and health.

Territorial cooperation is a the key instrument of the European Union to support cooperation between partners across borders/boundaries, with the aim to tackle common challenges together and find shared solutions. As the third objective of cohesion policy, European Territorial Cooperation (ETC) is central to the construction of a common European space, and a cornerstone to the European path. It has clear European added value: helping to ensure that borders are not barriers, bringing Europeans closer together, helping to solve common problems, facilitating the sharing of ideas and assets, and encouraging strategic work towards common goals.

There is also a particular need to foster sustainable local development and increasing the prosperity of people and communities in remote and rural border/boundary areas which are often lagging behind economically. Moreover in the Western Balkans there is a need to foster reconciliation and promotion of good neighbourly relations which is particularly relevant in a post-conflict area.

During the programming period 2007-2013 Kosovo started programming cross-border cooperation (CBC) programmes with the former Yugoslav Republic of Macedonia and Albania in 2010 and Montenegro in 2011.

Against this background, IPA assistance will continue to support Kosovo's already established cross-border cooperation with the former Yugoslav Republic of Macedonia, Albania and Montenegro. In line with the objective of reconciliation and normalisation of relations between Pristina and Belgrade, and once the conditions are in place, IPA assistance will also be provided for the development of territorial cooperation with Serbia. Development of this cooperation will be agreed and prepared jointly, in line with the on-going EU facilitated dialogue between Pristina and Belgrade.

6.2 Objectives, results, actions and indicators

The regional programmes under the pillars horizontal support to sector policies and reforms, regional structures and networks and regional investment support will complement and contribute to the objectives, actions, results and indicators established under the sectors included in this Strategy Paper from a regional perspective.

Cross-border cooperation programmes (CBC) aim at promoting reconciliation, confidence-building, reconstruction and improvement of neighbourly relations. At the same time, they aim at fostering socio-economic development and strengthening of neighbourly relations in the cross border/boundary area, improving the living conditions of the population in the border/boundary regions.

Kosovo participates in three CBC programmes with other IPA beneficiaries, each of them with a thematic focus tailored to the needs of the specific border/boundary region. Thematic priorities are selected by the two beneficiaries participating in the programme following an analysis of the needs of the programme area and extensive consultation with local stakeholders.

The 2014-2020 CBC Kosovo – the former Yugoslav Republic of Macedonia focus on the following thematic priorities: (1) enhancing competitiveness, business and SME development, trade and investment; (2) encouraging tourism and cultural and natural heritage; and (3) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management.

The specific objectives, results actions and indicators to be achieved within the thematic areas selected in each territorial cooperation programme are laid down in the specific multi-annual programmes. The programmes also include indicative annual budget allocations until 2020, and indications on how the programmes are going to be implemented.

The **indicator** to be used to measure the accomplishment of the expected results of EU assistance in this area will include (see table 2 in annex 2):

- Number of involved municipalities (Management Information System)

6.3 Types of financing

Support will be provided primary through grants. Investments can also be financed if within the objectives of the programme. Technical assistance is provided in order to improve the capacities of the institutions involved in the implementation of territorial cooperation programmes.

6.4 Risks

Any deterioration of good neighbourly relations can be countered through addressing this at high political level. Insufficient commitment and limited capacities for managing programmes at institutional level can be mitigated through emphasising, in political dialogue, the importance of such programmes. Insufficient capacities of potential beneficiaries to apply and implement projects can be mitigated through information sessions, seminars and other educational and technical assistance-related activities.

ANNEX 1: REVISED FINANCIAL ALLOCATIONS (MILLION EUR)¹

Kosovo								TOTAL 2018-2020	TOTAL 2014- 2020²	Of which climate change relevant (%) (**)
	2014	2015	2016	2017	2018	2019	2020			
DEMOCRACY AND RULE OF LAW	38.60	35.10	46.86	47.96	24.20	29.90	40.90	95.00	263.52	
Democracy and governance	18.00	12.10	38.86	44.96	8.20	24.40	22.90	55.50	169.42	
Rule of law and fundamental rights	20.60	23.00	8.00	3.00	16.00	5.50	18.00	39.50	94.10	
COMPETITIVENESS AND GROWTH	28.15	47.00	27.00	30.20	76.5	69.00	60.80	206.30	338.65	
Environment, climate action and energy	5.50	33.00		10.00	51.50	22.00	21.80	95.30	143.8	0.40
Competitiveness, innovation, agriculture and rural development	22.65	14.00	10.00	8.20	9.00	37.50	23.00	69.50	124.35	
Education, employment and social policies			17.00	12.00	16.00	9.50	16.00	41.50	70.5	
TOTAL	66,75	82.10	73.86	78.16	100.70³	98.9	101.7	301.3	602.10	

¹ Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

² The budget for the agriculture and rural development programme is EUR 50.1 million

³ Including EUR 6 million coming from Performance Reward

ANNEX 2: Indicators and targets

Context indicators

Indicators	Baseline (2010)	Last value (year)
Public debt/GDP (%) (Eurostat)	6.1	12.8 (2015)
Average real GDP growth rate in the last 3 years (%) (Eurostat)	3.8 (2009-2011)	2.9 (2014-16)
Unemployment rate (%) (Eurostat)	30.9 (2012)	27.5 (2016)
GDP per capita at current prices (€) (Eurostat)	2480	3304 (2016)
Inward FDI flows in the reporting economy, per capita (€) (Eurostat)	167	124 (2016)
CO2 Equivalent emission		

Outcome and impact indicator

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Composite indicator - average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	44.02	2016	46.47	

Common Sector Indicators *

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Democracy and Governance	Governance and PAR	Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) - 1 (Worst) - 100 (Best)	World Bank, World Economic Forum	42.58	2016	41.50	42.55	42.8
	Statistics	Statistical compliance - % 0 (Worst) - 100 (Best)	<u>Eurostat:</u>	5%-11% (2013)	2015	10-16%	41-51%	60%-70%
Rule of law and fundamental rights	Judicial reform	Composite indicator (average of Access to Justice and Judicial independence)	World Justice Project, World Economic Forum	NA	2016	-0.38	> -0.38	> -0.35
	Fight against corruption and organised crime	Composite indicator (average of Global Corruption and Control of Corruption) 1 (Worst) - 100 (Best)	Transparency International, World Bank	30,45	2016	39/100	> 39/100	> 42/100
	Fundamental Rights	Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)	Freedom House, Reporters Without Borders	37,92	2016	39.75		
Environment, climate action and energy	Climate action	climate change strategies (a) developed and/or (b) implemented with EU support		No strategy in place	2016	Strategy prepared but not yet adopted	Strategy prepared but not yet adopted	Strategy adopted
	Energy	Quality of electricity supply 1 (Worst) - 7 (Best)	<u>World Economic Forum</u>	N/A		NA		
Competitiveness and Innovation, agriculture and rural development	Competitiveness and Innovation	Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	<u>World Bank - Doing Business:</u>	55.71	2015	66.22		
	Agriculture and Rural Development	Total investment generated via IPA in agri-food sector and rural development (EUR) by gender of beneficiaries	European Commission					
Education, employment and social policies		Employment rate (15-64 years), total - % disaggregated by gender	<u>Eurostat:</u>	29.7 (2012) Male 46.6 Female 12.4	2016	32.2 Male: 49.9 Female: 14.6		

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Regional and territorial cooperation		Number of involved municipalities	European Commission Management Information System					

* Note: only common strategic indicators are included in this template