

ANNEX 1

ACTION PROGRAMME FOR KOSOVO* FOR THE YEAR 2016 – PART II - SECTOR BUDGET SUPPORT

1 IDENTIFICATION

Beneficiary	<i>Kosovo</i>
CRIS/ABAC Commitment references	2016/039 747
Total cost	EUR 25 000 000
EU Contribution	EUR 25 000 000
Budget lines	22.02 01 01
Management Mode/ Entrusted entities	Direct management by the European Commission
Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary	At the latest by 31 December 2017
Final date for concluding <u>procurement and grant contracts</u>	3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation
Final date for operational implementation	6 years following the date of conclusion of the Financing Agreement.
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement.
Programming Unit	NEAR D3 The former Yugoslav Republic of Macedonia, Kosovo
Implementing Unit/ EU Delegation	European Union Office in Kosovo

* 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

2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- **Rationale for the selection of the specific sectors under this programme:**

The implementation of the Action Programme for Kosovo for the year 2016 – Part II - Sector Budget Support shall be supported under the sector of **democracy and governance**.

The sector budget support supports implementation of three key strategies of the Public Administration Reform (PAR) strategic package, adopted in 2014 and 2015: the Strategy for Improving Policy Planning and Coordination (2015), the Better Regulation Strategy (2014) and the Public Administration Reform Modernisation Strategy (2015). The first two strategies form Pillar I of the strategic package and address the PAR core area of policy development and coordination. The third strategy forms Pillar II and addresses three core PAR areas: public service and human resources management, service delivery and accountability.

The priority objectives supported under sector budget support are the following:

Pillar I (Policy Development & Coordination)

The first priority objective is the consolidation of the government's fragmented planning system, especially including the interface with resourcing processes through budget and aid. This objective is addressed under the Strategy for Improving Policy Planning and Coordination (SIPPC), which provides a roadmap for linking the main strategic planning processes and documents at government and sector level (i.e. the "National Development Strategy" – NDS, the "Economic Reform Programme" - ERP, sector strategies, Government Annual Work Plan) with the resourcing process (Medium Term Expenditure Frameworks - MTEF and aid coordination).

The second priority objective consists of improving the evidence basis of policy and legislative development, addressed through the Better Regulation Strategy. The core of this strategy focuses on introducing regulatory impact assessments, which should replace the current Concept Paper system, developing more systematic public consultations with stakeholders and supporting further efforts with regulatory simplification.

Pillar II (Public/Civil Service, Service Delivery, and Accountability)

The key objectives under this pillar are to develop the civil service system; rationalise procedures for administrative service delivery and to improve internal and external accountability of institutions. These objectives are addressed in the Public Administration Modernisation Strategy 2015-2020 and its first 3-year action plan.

The PAR modernisation strategy aims to improve management, monitoring and implementation of the civil service legislation. It also aims to improve service delivery, especially the quality and accessibility of administrative services to citizens and businesses, based on reasonable administrative procedures and using client-oriented delivery methods based on inter-operability of government's ICT systems and databases. It also aims to address accountability of institutions through harmonising lines of responsibility across and within institutions, clarify the standards of conduct required to their employees and make administrative action more transparent in its dealings with members of the public.

With assistance of OECD SIGMA, detailed costing of the new PAR strategic package was carried out in 2015. The costing was based on the completed action plans. The financing gap has been estimated to be EUR 23.500.000, or 10% of the cost of reforms in current action plans for the period 2016-2018. It should however be noted that the costs of implementing these three strategies until 2020 is likely to be higher, for example in the service delivery area, where additional financing pressures could be expected in the period 2018-2020.

The monitoring and evaluation system for overall PAR has also been developed with support of OECD SIGMA. It was adopted by the Ministerial Council on PAR in early 2016, and the lead institutions (the Office of Prime Minister and the Ministry of Public Administration) prepared the first annual monitoring reports on all three strategies in the first part of 2016.

The PAR strategic package is relevant, because it has been developed on the basis of the lessons learnt with implementation of PAR over the period 2007-14 and it responds to key identified weaknesses in the 2015 Kosovo baseline assessment against the Principles of Public Administration. Credibility of the strategic and monitoring/evaluation framework is further being improved during 2016, because the first 2015 annual monitoring reports indicate that some of the targets have been too ambitious and cannot be fully achieved in the planned timeframe and with existing administrative capacity. The monitoring and reporting system is

also being further improved to ensure a more coherent monitoring and reporting by all involved institutions.

- **Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:**

The actions under **democracy and governance** build on past EU assistance delivered through IPA I and IPA II 2014 and 2015: lessons learned from past evaluations and audits were taken in account when designing the actions herein, as well as complementarity with actions financed from other donors.

In the sector of **democracy and governance** previous EU assistance focused on strengthening the capacity of Kosovo institutions, including the assembly, in transposing, applying and implementing the EU acquis, especially in areas covered in the Stabilisation and Association Agreement (SAA). Furthermore, support was provided for the effective and efficient management and absorption of IPA funds, the implementation of the EU facilitated dialogue for the normalisation of relations between Belgrade and Pristina and increases in effectiveness, independence and accountability of the civil service.

List of Actions foreseen under the selected Sectors/Priorities:

Democracy and Governance

DIRECT MANAGEMENT	
Action 1: "Sector Reform Contract for Public Administration Reform"	EUR 25 000 000
TOTAL	EUR 25 000 000

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

SECTOR 1	Democracy and Governance		EUR 25 000 000
Action 1	Sector Reform Contract for Public Administration Reform	Direct management	EUR 22 000 000 (budget support) EUR 3 000 000 (complementary technical assistance)
		Total	EUR 25 000 000

Sector Budget Support

a) Eligibility for budget support

Public Policy: The Sector Reform Contract (SRC) will be linked to the objectives of the Kosovo Public Administration Reform (PAR) Strategic Package consisting of the Strategy for Improving Policy Planning and Coordination (SIPCC) with an action plan and costing adopted in June 2015, the Better Regulation Strategy (BRS) with an action plan and costing prepared and approved in May 2014, the Public Administration Modernisation Strategy (PAMS) adopted on 25 September 2015 and the National Development Strategy (NDS) adopted in January 2016. The entire package is budgeted and currently under implementation. The strategic package is **relevant** since it addresses shortcomings and weaknesses within the sector as identified under analytical studies such as the 2015 SIGMA baseline measurement. Based on the first annual government monitoring reports, **credibility** of the strategic framework is in the process of being improved, and the government is working closely with SIGMA on revision of some of the targets and on introduction of more precise indicators for the SIPCC and the BRS, together with ensuring an integrated monitoring and evaluation framework for all three strategies.

Macro-economic stability: According to the main macroeconomic indicators and according to the Stand-By Arrangement between Kosovo and the International Monetary Fund (IMF) signed on 29th of July 2015, there is a credible and relevant programme to restore and/or maintain macroeconomic stability. Economic governance between the EU and Kosovo was

enhanced in 2015 with the first elaboration of the Economic Reform Programme (ERP) for the period 2015-2017. A key objective of the ERP is to strengthen economic growth and competitiveness through accelerating economic reforms and improving further the business environment conducive to private sector growth

Public Finance Management: Kosovo's Public Financial Management (PFM) system is, according to PEFA and SIGMA assessments, at a level at least comparable to the region, which provides sufficient reassurances for the indirect management of donors' funds. Kosovo performs encouragingly in PFM, as the 2015 SIGMA Baseline Assessment suggests. It also completed 3 Public Expenditure and Financial Accountability (PEFA) assessment rounds at Kosovo level and 12 at local-level and incorporated the methodology in its work from 2009, when a committee and secretariat led by the Kosovo Ministry of Finance were set up to draft and implement a PEFA-based PFM Action Plan, evaluated via a further PEFA review in 2013. The EU Office in Kosovo contracted the new PEFA assessment in mid-May 2015 with its final conclusions released in February 2016. The key challenges identified in both SIGMA and PEFA assessments are: tax and payment arrears, non-compliance with treasury regulations, inadequate implementation of internal and external audit recommendations as well as slow implementation of the PIFC Strategy. These challenges are reflected in the PFM Strategy with its Action Plan and expected outcomes. As per above provided information, there is a credible and relevant programme to improve public financial management.

Budget Transparency: The government has published the enacted budget within the current budget cycle on the website of the Ministry of Finance (MoF) <https://mf.rks-gov.net/en-us/>. In addition, the approved budget law is published in the Official Gazette <https://gzk.rks-gov.net/default.aspx>. In the recent years the budget information available is more complex and detailed as the government is publishing not only the main budget document but also monthly statements, the quarterly report, mid-year report and the Annual Financial Report on the Ministry of Finance website <https://mf.rks-gov.net/en-us>. MoF publishes not only the Budget after its approval but also the draft budget proposal. Budgetary scrutiny is also ensured by The Assembly Budget and Finance Committee (BFC) and the Assembly Committee for the Oversight of Public Finance. Nevertheless the capacity of both committees remains weak in terms of scrutinizing the budgetary and financial management of government institutions and independent agencies.

b) Objectives

The **overall objective** of the sector budget support is to assist Kosovo in enhancing accountability, transparency and effectiveness of its public administration, with a focus on the needs of citizens and businesses. This objective is consistent with the implementation objectives of the Kosovo PAR Strategic Package.

The **specific objectives** are:

- Specific Objective 1: To improve government's policy and legislative planning system and procedures;
- Specific Objective 2: To contribute to better regulation and financially sustainable policies through inclusive and evidence based policy and legislative development;
- Specific Objective 3: To increase effectiveness, professionalization and depoliticisation of civil service;
- Specific Objective 4: To improve service delivery to citizens and businesses;
- Specific Objective 5: To improve accountability of Kosovo public administration.

c) Expected results

- **Improved policy and legislative planning, coordination and monitoring (linked to Specific Objective 1).** Key proposed indicators are:
 - the programming of external assistance from development partners is integrated into the cycle for the resourcing of government policies and
 - annual implementation backlog of planned commitments in the central planning documents (% of total Government Annual Work Programme commitments carried over to next year),
- **Policies and legislation increasingly developed according to inclusive and evidence based approach (linked to Specific Objective 2).** Key proposed indicators are:
 - Increased number of policy documents (strategies, laws and concept documents) that meet requirements set in the government's rules of procedure (including internal and external consultation, fiscal impact assessments) adopted;

- Number of Regulatory Impact Assessments used when adopting new legislation,
- **Increased professionalism and improved management of human resources in public administration (linked to Specific Objective 3).** Key proposed indicators are:
 - Law on Salaries, Law on Civil Service and Law on Organisation of Public Administration are developed according to inclusive and evidence based approach and in line with the Principles of Public Administration;
 - Increased number of implemented recommendations of Ombudsperson related to civil service;
 - Increased percentage of minority representation in Kosovo civil service at the central level (including managerial positions),
- **Administrative services for citizens and businesses are improved (linked to Specific Objective 4).** Key proposed indicator is:
 - Number of services provided through one stop shops,
- **Administrative burden for both citizens and businesses are reduced (linked to Specific Objective 4).** Key proposed indicator is:
 - Reduced percentage of special administrative procedures contradicting Law on General Administrative procedures,
- **Increased rationalization of the public administration with improved accountability lines (linked to Specific Objective 5).** Key proposed indicator is:
 - Percentage of key recommendations of the roadmap of for incremental rationalisation of the administration implemented,
- **Improved public access to governmental documents (linked to Specific Objective 5).** Key proposed indicator is:
 - Increased number of processed requests to access public documents,
- **Improved public access to administrative justice (linked to Specific Objective 5).** Key proposed indicator is:
 - Law on Administrative Disputes is developed according to inclusive and evidence based approaches.

d) Main sector budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

e) Complementary actions (under direct management)

Essential elements of the action

The global budgetary envelope reserved for procurement is EUR 3 000 000. This part of the action will be performed via an indicative number of three contracts (service and/or framework contracts) for:

- improving the outreach of Kosovo institutions in extending public administration reforms to individual institutions at the central and local level;
- capacity building for improving local capacities in monitoring the PAR framework in order to improve coordination, monitoring and evaluation in relation to the results of the public administration reform process;
- supporting the implementation of the monitoring and evaluation framework for the measurement of the specific targets and indicators.

Indicative time frame for launching the procurement procedure: as from Q2 2017

3 BUDGET

3.1 INDICATIVE BUDGET TABLE - ACTION PROGRAMME FOR KOSOVO

		Direct Management			
		EU Contribution	IPA II beneficiary Co-financing	Total expenditure	MM
Objective 1	Sector 1 Democracy and Governance	EUR 25 000 000		EUR 25 000 000	direct
	Action 1: Sector Reform Contract for Public Administration Reform	EUR 22 000 000		EUR 22 000 000	direct (sector budget support)
	Procurement - Complementary technical assistance	EUR 3 000 000		EUR 3 000 000	direct
Total Budget for Objective 1- budget line 22.02 01 01		EUR 25 000 000		EUR 25 000 000	direct
TOTALS		EUR 25 000 000		EUR 25 000 000	direct

4 IMPLEMENTATION MODALITIES AND GENERAL RULES FOR PROCUREMENT AND GRANT AWARD PROCEDURES

This programme shall be implemented by direct management by the EU Office in Kosovo in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part Two Title II Chapter 4 of its Rules of Application.

Under the Financial Regulation, Parts One and Three of the Financial Regulation and its Rules of Application shall apply to external actions except as otherwise provided in Part Two, Title IV.

The Commission may also use services and supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

5 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Coordinators (NIPACs) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from Kosovo.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by DG NEAR and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectorial Monitoring committees, which will ensure a monitoring process at sector level.