

## AMENDED ACTION PROGRAMME 2004 FOR KOSOVO

### 1. IDENTIFICATION

<i>Form of programme:</i>	CARDS Action Programme
<i>Beneficiary:</i>	Kosovo <sup>1</sup>
<i>Budget year:</i>	2004
<i>Budget Line:</i>	19 07 03 (CARDS)
<i>Financial allocation:</i>	€ 75.4 million ( <i>originally €51.5 million</i> )
<i>Legal basis:</i>	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
<i>Contracting:</i>	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
<i>Implementation:</i>	The implementation of projects under this proposal must be concluded by 31.12.2009. Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2009.
<i>Annual programming/ Implementation:</i>	European Agency for Reconstruction €72.9 million ( <i>originally €49 million</i> ) Commission/AIDCO headquarters (Tempus and Customs) €2.5 million
<i>Related CSP and MIP:</i>	Country Strategy Paper for the FRY <sup>2</sup> (2002-6), including Kosovo, and the associated three-year (2002-4) Multi-annual Indicative Programme (MIP)
<i>Remarks:</i>	No administrative expenditure will be financed under this programme

### 2. SUMMARY OF THE PROGRAMME

The 2004 Action Programme for Kosovo focuses on institution building, promoting good governance and economic development in order to further prepare UN administered Kosovo for transition to a market economy and closer integration within both regional and wider European contexts - in line with the Stabilisation and Association process (SAP). The programme was planned and will be implemented in cooperation with other donors - particularly the EU Member States, Kosovo's Provisional Institutions of Self-Government (PISG) and UNMIK, including its EU Pillar. The programme will be implemented in conjunction with the regional and other national CARDS programmes. This Action Programme reflects the relevant CSP and MIP referred to in section 1 above. Taking the priority sectors of the MIP as headings, the Action Programme may be summarised as follows:

<sup>1</sup> Under international administration in line with UNSCR 1244 of 10 June 1999

<sup>2</sup> While the name of the State was changed in February 2003, the term FRY is maintained in references to earlier official documents.

*Good Governance and Institution Building*

*(approx. €15 million)*

The programme will assist the PISG to more effectively perform their governance roles - in line with EU best practice approaches, and to strengthen the rule of law. Priority interventions focus on: building the institutional capacity of the Assembly of Kosovo and all ministries, particularly the Office of the Prime Minister and the Ministry of Economy and Finance; strengthening the PISG's participation in the SAp process, including reinforced engagement in both the Kosovo SAp Tracking Mechanism, and UNMIK-PISG 'Standards' implementation plans; further developing customs and taxation systems; increasing the effectiveness of the courts, the judiciary and legal aid systems; and combating financial crime and corruption.

*Economic Reconstruction, Regeneration and Reform*

*(approx. € 54.9million)*

*(originally. €31 million)*

The programme aims to promote sustainable economic development for all of Kosovo's communities. Support will be provided to strengthen the financial viability and development of the energy sector – a prerequisite for economic growth. The capacity of the Ministries of Environment and Agriculture to implement necessary reforms will be further strengthened. Assistance will be provided to restructure Kosovo's publicly owned companies, improve the management and competitiveness of Kosovo's enterprises, increase the effectiveness of commercial banking services, and to establish an effective food safety control system. The programme will also further assist the economic and social development and re-integration of minority communities, and the development of a sustainable returns process.

*Social Development and Civil Society*

*(approx. €4 million)*

Addressing the high levels of unemployment is critical for social and political stability, while civil society has the potential to play a greater role in building a democratic society. The proposed interventions will further develop a modern vocational education and training system, enhance higher level education, and strengthen the capacity and effectiveness of civil society organisations.

*Other (GTAF and Programme Reserve)*

*(approx. €1.5 million)*

The General Technical Assistance Facility (GTAF) allows project preparation and the planning of future programmes to proceed in a quick and effective manner. The Programme Reserve will be used to cover 2004 programme related priorities and expenditures that are currently unforeseeable.

<b>SUMMARY OF THE MODIFICATION</b>
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Following the October elections in Kosovo, the newly elected members of the PISG must achieve tangible results in the creation of a democratic society, based on pluralism and multi-ethnicity and prepare for the expected comprehensive review of the implementation of the Standards for Kosovo during 2005. With a specific focus on the minorities in Kosovo, the additional CARDS funds will benefit all Communities, enhance inter-ethnic dialogue, and aim at decreasing tension. With the extra funds, the EC will reinforce its support for economic regeneration and employment creation in communities with a high level of minorities and will further assist the sustainable returns as well as providing for the possibility to assist the PISG in addressing the consequences of the March riots through the renovation of religious and cultural sites.

In addition, the funds will consolidate past EC investment in the energy sector, improving KEK's financial sustainability, and progressing towards the approximation of EU environmental standards, positively impacting public health.

This modification adds an additional €23.9 million of EC funds to the Action Programme 2004 for Kosovo, increasing the budget total from €51.5 million to €75.4 million. The additional funds will be managed by the European Agency for Reconstruction.

### **3. KOSOVO UPDATE**

#### Political:

In June 1999 the United Nations Security Council passed Resolution N° 1244, establishing the United Nations Interim Administration Mission in Kosovo (UNMIK). The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government' (PISG), and the division of responsibilities between UNMIK and the PISG.

Following the first general election for the Assembly of Kosovo in November 2001, a broad-based coalition government was formed in March 2002. The next general election is scheduled for autumn 2004. Under the Constitutional Framework, many administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to the SRSG. The reserved powers include foreign policy, protection of the rights of minority communities, oversight of the judiciary and the police, and the administration of publicly and socially owned enterprises. The SRSG retains final say on all issues in order to safeguard UNSCR 1244 and the Constitutional Framework. UNMIK is now nearing the completion of the transfer of competencies in non-reserved areas to the PISG. The challenge for the PISG is to build the institutional capacity to perform the new responsibilities with the necessary technical competence. Meanwhile Kosovo Albanian leaders continue to advocate for the transfer of UNMIK's 'reserved' powers.

Democracy, the rule of law, human rights and security are gradually improving across most of Kosovo. The administrative skills of the new PISG ministries are steadily increasing; two local elections have been successfully undertaken and some powers have been decentralised to local government; the Kosovo Police Service now numbering 6,000 is increasingly qualified to handle more advanced police tasks; and the judiciary is also being increasingly staffed and run by local residents. The challenges include further strengthening the institutional capacity of the Assembly, along with that of central and local government; maintaining close cooperation between UNMIK and the PISG; the implementation of the Government's ambitious legislative agenda; reforming local self-government; the further engagement of civil society; and combating organised crime and corruption.

The situation for ethnic minorities in Kosovo remains very difficult, while a number of tragic incidents of violence against minorities discourage many of the displaced from returning. Recent ICRC figures indicate that 85% of all IDPs in Serbia and Montenegro are still without permanent solutions and many of these may wish to return to Kosovo. In July 2003, Kosovo Albanian leaders made an open appeal to refugees and displaced people in Serbia, Montenegro and FYR Macedonia to return. The PISG agreed to the allocation of €7 million from the Kosovo budget to support returns projects. The UNMIK Office of Returns and Communities (ORC) continues to implement its strategy to support returns and minority protection issues. However, further efforts are needed to stop inter-ethnic violence, enable minority communities to fully participate in socio-economic development, and to increase minority participation in public administration, and thereby create a favourable climate for returns.

Kosovo, is included in the EU's Stabilisation and Association process (SAP) for the Western Balkans, and is therefore required to meet the political and economic reform conditions mandated by the process. The PISG and UNMIK are expected to approximate Kosovo's legislation and policies to European standards, so that Kosovo keeps up with the rest of the region. The Kosovo SAP Tracking Mechanism (STM) is a technical working group designed to assist the PISG and UNMIK to drive the wider reform and institution building process in Kosovo in an EU compatible manner, and to increase understanding on EU policies and standards. In this context, the European Commission assesses progress, formulates recommendations for UNMIK and the PISG, and where necessary, refines the targeting of EC assistance. The European Office within the Pillar IV of UNMIK is the key interlocutor in the STM process between Kosovo and the European Institutions.

The SRSG has developed a set of standards to measure progress towards the achievement of a multi-ethnic, tolerant and secure Kosovo. The standards are prerequisites for talks on final status. UNMIK and the PISG are currently developing an implementation plan to operationalise the eight standards. Strengthening the EU dimension within this process and its linkage to the STM will further strengthen Kosovo's progress towards European standards in the context of the SAP.

At the June 2003 EU-Western Balkans Summit in Thessaloniki, both Belgrade and Pristina made a political commitment to a dialogue process – one of the 'standards'. The dialogue was subsequently launched in Vienna in October, and four working groups are currently being established for further technical talks.

#### Socio-economic:

Gradual economic progress has been made in Kosovo since 1999 as a result of the interventions of the international community, together with the efforts of the entrepreneurial local population and the PISG. GDP has risen from under €1.2 billion in 2001 to almost €1.3<sup>3</sup> (projected) billion in 2003. Modern taxation, customs, banking and pension systems are being gradually put in place. A significant amount of enabling legislation for a modern market economy has already been established. A Free Trade Agreement (FTA) is in operation between Kosovo and Albania - the first such agreement for Kosovo. Kosovo has significant natural resources (including vast lignite coal deposits), close regional and EU markets, and most importantly a large young population with a strong desire to build a successful future.

However, the Kosovo economy remains underdeveloped. Half of the population lives in poverty, with around 12% living in extreme poverty. Unemployment is estimated at 30-60% (depending on how the labour force is defined). International assistance and workers' remittances to Kosovo are declining - contributing to a significant economic slowdown since 2002. The privatisation process has been hampered due to the need for legal clarification on the process. Foreign investor confidence is weak. The level of industrialisation remains low with the bulk of Kosovo's enterprises involved in the reconstruction, trade and services sectors. The economy also has a substantial trade deficit reflecting the current low capacity to export. Critical elements for the emergence of a modern business sector include: a successful privatisation process; the restructuring of public enterprises and ensuring their financial sustainability through improved revenue collection; enforcement of newly established legal

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<sup>3</sup> Much of the information and statistics presented in this section are sourced from a range of documents, including those of the IMF (Concluding Statement on IMF staff visit to Kosovo June 4-16, 2003); World Bank (Kosovo Poverty Assessment, December 2001); and the Ministry of Economy and Finance (editions of the Macro-economic monitor). However, the absence of proper national accounts makes statistical data unreliable.

frameworks; more long-term lending capital for businesses; and enhancing regional integration to promote exports.

Kosovo's need for capital investment remains high. As a result of declining donor funds, there is an increasing pressure for access to International Financial Institutions (IFIs), including the European Investment Bank, and additional private capital. Given Kosovo's limited budget resources, Kosovo requires a coherent investment strategy to ensure sustainable economic development.

#### 4. PAST EC ASSISTANCE AND LESSONS LEARNT

Between 1998-2003, the EC committed over €1.2 billion to Kosovo. These funds were used for humanitarian, reconstruction and development activities and for exceptional financial contributions to the Kosovo Consolidated Budget, made up as follows:

• Reconstruction and Development assistance (including CARDS/Obnova funding for Kosovo managed by the EAR)	€958 million <sup>4</sup>
• Exceptional financial assistance	€65 million
• Humanitarian assistance (through ECHO)	€157 million <sup>5</sup>
• Funding of EU Pillar of UNMIK	€66 million
<b>Total</b>	<b>€1,246 million<sup>6</sup></b>

Kosovo received international donor commitments totalling some €2.3 billion for the period 1999-2003. The European Union (EC and Member States) have donated over 65% of the overall funds<sup>7</sup> committed to Kosovo for this period.

As of 16 December 2003, the Agency's global rate of contracting for combined EC 1998-2002 programme funds for Kosovo, totalling €828.6 million, was 96% of commitments, with a payment rate of 87% of commitments; while the corresponding percentages for 2003 programme funds (€46 million, available since July 2003) were 44% contracted and 9% paid, as of the same date.

#### Lessons Learnt

Some of the more important lessons learned from EC and other donor programmes in Kosovo and applied to the 2004 programme, are as follows:

- To ensure ownership and the sustainability of results, programme design and implementation must reflect the capacity of local institutions and structures to effectively absorb the assistance. The absorption capacity of the PISG is generally impacted by low

<sup>4</sup> Includes cumulative programme funds managed by the European Agency for Reconstruction and also those managed directly by the European Commission (customs & taxation; Tempus higher education programme), and the Agency's cumulative administrative expenditures. Excludes funds from other donors under EAR management, and recycled 'counterpart' programme funds.

<sup>5</sup> This figure is the emergency and non-emergency assistance provided by ECHO *inside* Kosovo for the period 1999-2002. The figure includes €112 million from ECHO's overall 1999 emergency assistance funding of €378 million across several Balkan countries, provided in response to the 1999 Kosovo crisis. ECHO's regional contributions to the Red Cross and UN agencies, as well as support to IDPs and refugees in the region, are not included in these figures.

<sup>6</sup> All figures are rounded to the nearest € million.

<sup>7</sup> These funds exclude additional EU core funding contributions to the UN, OSCE and other international organisations, and to EU Civil Police and KFOR.

staffing, salary and experience levels. Therefore, project planning started early in 2003 so as to allow the necessary time for design studies and the dialogue to ensure the commitment of PISG partners to agreed project objectives and actions.

- To avoid overlaps and to ensure the best use of scarce donor and Kosovo budget resources, new interventions must be complementary to the on-going and planned actions of UNMIK and other donors. Therefore, focused and regular coordination with all other stakeholders from the project design stage onwards is essential. Coordination is particularly relevant for training and capacity building actions that target senior personnel to avoid the recipients becoming overwhelmed and fatigued by the assistance.
- The Commission's recommendations - developed through the STM process - to the Kosovo institutions, have provided a valuable framework for the planning of the EC 2004 programme for Kosovo. The Agency's participation with the STM process has ensured that a range of the 2004 actions will assist the PISG to meet the recommendations, and thereby advance the SAp reform process in Kosovo.
- A series of Agency-wide thematic meetings, on such areas as public administration reform, economic development and justice, have provided a productive forum for leveraging inter-centre lessons learnt from similar and complementary assistance programmes across the Agency's four operational centres, resulting in an improved planning process for the 2004 programmes.

## **5. PROGRAMME COMPONENTS**

*A description of the proposed project actions within each programme sector is provided in the following sections (with headings corresponding to the MIP). A background section is also provided for each sector so as to highlight the justification for the projects subsequently proposed. Further details (including log frames) on individual projects are available in a separate set of Project Fiches, which have a 'working document' status.*

### **5.1 GOOD GOVERNANCE AND INSTITUTION BUILDING (approx. €15 million)**

This section proposes projects on: public administration reform; justice and home affairs; customs and taxation.

#### **5.1.1 Public administration reform (approx. €7 million)**

##### Background

The 2004 public administration reform programme is oriented towards building the institutional capacity of the Kosovo Assembly and key ministries, so that these public institutions are in a position to more effectively perform their governance role in a transparent and accountable fashion. Support to public administration reform will encourage the adoption of EU best practice, whilst also assisting with approximation toward the EU 'acquis communautaire', in line with requirements of the Stabilisation and Association process.

The EC 2003 project to support the Assembly was launched in September 2003 and will be completed in early 2005. The Assembly Presidency has requested further assistance to strengthen and sustain the institutional capacity of the Assembly to effectively manage an ever-growing legislative workload. The election of a new Assembly, following Kosovo's second general election due in autumn 2004, will be an appropriate context for the introduction of reforms to the functioning of the Assembly. Further EC support to the Assembly in the 2004 programme was already envisaged in the text of the 2003 Action

Programme, and the inception phase of the 2003 project has identified further priority areas for assistance beyond the scope and duration of the 2003 project.

To more effectively monitor and coordinate reforms in line with the SAP, the PISG has established services for European approximation within the Office of the Prime Minister (OPM) and nominated high-level civil servants as focal points for European affairs in the PISG ministries. However, advancing Kosovo's participation in the SAP, requires further institution building assistance across the PISG, including the transfer of skills and knowledge on European affairs to the Kosovo civil service, and further assistance in the development of a coherent system for developing EU compatible policies and legislation in compliance with the 'acquis'.

Appropriate and efficient investments in Kosovo's infrastructure and services are essential to sustainable socio-economic growth. In line with IMF recommendations, the PISG intends to develop an integrated budget process, which incorporates a Public Investment Programme (PIP), the Mid-Term Expenditure Framework and the (annual) budgeting process, to establish an efficient and effective structure for public spending priorities. However, the Ministry of Finance and Economy requires institutional capacity assistance to effectively manage and coordinate this fiscal strategy.

The on-going EC 2003 project to strengthen government at the municipal level through support for the Association of Kosovo Municipalities will run until the end of 2004. Given the early stage of implementation of the 2003 project, further EC support for decentralisation, including support for the implementation of the Council of Europe recommendations on decentralisation (published in November 2003), will be considered under the EC 2005 programme.

## Coherence with wider EC policy, SAp and the MIP

The EC 2004 Action Programme intends to strengthen the PISG's capacity to coordinate and implement SAp related reforms. Substantially improving the functioning of the Assembly and passing key legislation quickly are European Commission recommendations arising from the STM process. In line with the MIP objectives, the projects described below will also assist Kosovo's public administration in the fields of policy definition, law-making processes compatible with the 'acquis', and the training of civil servants.

### Identified Projects

#### **5.1.1.1 Further Support to the Assembly of Kosovo**

The project will further build the institutional capacity of the Assembly of Kosovo to effectively process legislation, ensuring compliance with the *acquis communautaire* and EU best practice approaches, and to successfully manage an ever-growing legislative workload. The project has been designed in conjunction with the Assembly Presidency. The Agency will ensure that the project will be closely coordinated with the Assembly Support Initiative, an inter-agency body managed by the OSCE. Specifically, the project will:

- Strengthen the capacity of the Assembly's Secretariat, particularly the Assembly Committee Section, to support the members and committees of the Assembly to effectively participate in the legislative process. Some priority IT equipment will also be provided, with training, based on the IT development plan designed with the Assembly Secretariat as part of the EC 2003 project
- Assist the Members' Support Services to develop programmes to increase the members' understanding of: Assembly processes and procedures; EU policies, standards and the *acquis*; and interaction with their constituencies. This component will be particularly important for the new members of the Assembly following the 2004 general election.
- Increase the Assembly's capacity to engage with civil society, the media and the general public through support to the Media and Public Relations Division and other Assembly services.

The project is likely to involve a service contract, a supply contract for IT equipment.

#### **5.1.1.2 Strengthening the PISG's institutional capacity to participate in the Stabilisation and Association Process, and the UNMIK-PISG 'Standards' process**

This project will further build the capacity of the ministries of the Provisional Institutions of Self Government (PISG), and the Office of the Prime Minister (OPM) in particular, to effectively participate in the Stabilisation and Association process (SAp) through strengthening the capacity of Kosovo's public administration to adopt, implement and enforce reforms, policies and laws compatible with the *acquis communautaire*, EU standards and the UNMIK-PISG 'Standards' process. In cooperation with the European Office the project will:

- Improve the capacity of the OPM's services for European approximation and the PISG European Affairs' focal points within the ministries to co-ordinate, monitor and evaluate the implementation of EU-compatible policies and legislation– in line with the SAp reform conditions and the SAp Tracking Mechanism (STM).
- Further strengthen the capacity of the PISG to draft and formulate EU-compatible policies and laws - in line with EU standards. This component will build on the on-going 2002 AP project to build the OPM's capacity to coordinate the PISG's legislative drafting process.
- Reinforce the EU dimension within the UNMIK-PISG 'Standards' process and its linkage to the SAp, including the STM.

- Increase the knowledge and skills of civil servants on the *acquis* and European integration process. Activities will include training, seminars and study visits to EU member states and EU institutions. Support will also be provided to enhance the PISG capacity to effectively participate in technical EU fora and related follow up activities.

The project is likely to involve at least one service contract.

### **5.1.1.3 Institutional support to the Ministry of Economy and Finance**

The project aims to build the institutional capacity of the Ministry of Economy and Finance (MEF) to develop and implement, in coordination with other ministries, an integrated budgeting and investment planning strategy to set and meet the PISG's public spending priorities, in line with the limited budget and donor resources available. The project will involve the provision of expert assistance to the ministry, and the training of both MEF staff and counterparts in other ministries. This project will be complementary to the achievement and sustainability of the objectives under the economic development sector project 5.2.3.1 (below). The project is likely to involve at least one service contract, and a possible twinning arrangement.

### Cross-cutting Development Issues

The interventions seek to achieve progress towards the development of a stable, accountable and transparent public administration in Kosovo, in line with EU standards and best practice, and increased minority participation in Kosovo's institutions.

<h2><b>5.1.2 Justice and home affairs (approx. €6.5 million)</b></h2>
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### Background

Kosovo suffers from financial crime and corruption, while the lack of effective judicial administration and legal aid systems, and qualified prosecutors reduce the effectiveness of the courts.

Replacing the outdated manual system for the registry and follow-up of cases with a modern automated case management system and associated staff training would substantially improve the efficiency of Kosovo's courts and tackle the backlog of cases. Such a Case Management Information System has already been developed and successfully piloted with EC assistance and with technical assistance from the government of Finland. The system is currently being installed with EC assistance in Kosovo's district courts. A final phase of assistance is now required to extend the networked system to the remaining main courts, and to upgrade the system to cover all judicial cases. In addition, a greater number of local specialised prosecutors are required as part of UNMIK's emerging transfer of responsibility strategy to develop a specialised unit of highly skilled prosecutors and to enable the reduction in the numbers of international prosecutors in Kosovo.

Through past EC assistance, an effective legal aid system in civil matters has already been established through the Kosovo Chamber of Advocates and specialised NGOs. More than 13,000 vulnerable people have been assisted to date. However, Kosovo continues to lack an effective and sustainable legal aid system in criminal matters that complies with EU and international human rights standards. Legal aid in this area remains nominally under the management of UNMIK Pillar I, and is pending 'transfer' to an appropriate Kosovo institution. Therefore, EC assistance under the 2004 programme will establish an overall system of legal aid for Kosovo (including legal assistance, advice and representation in courts) across civil, administrative, commercial and criminal matters. The project design is being informed by an on-going EC funded design study for the development of appropriate legal aid systems that are cost efficient, sustainable, equitable and accessible, particularly for

Kosovo's vulnerable citizens, and by the recommendations from a forthcoming joint evaluation by the EAR Evaluation Unit and the Council of Europe, which will assess, in the context of EU standards, the current civil legal aid system in Kosovo.

Corruption is a major risk to the development of Kosovo's public institutions, the rule of law and the developing market economy. In one high-profile case, UNMIK's EU Pillar referred a case of suspected fraud to the European Anti-Fraud Office (OLAF); the subsequent investigation led to the return of over €3 million to the Kosovo budget and a successful prosecution. To robustly and immediately respond to fraud and financial crime, the SRSG established the Financial Investigation Unit (FIU), which began operations in January 2003. The FIU is a specialised law enforcement unit with full police powers that investigates and prosecutes corruption and other economic crime in public and publicly-funded entities – including those that have received substantial EU assistance. According to OLAF and UNMIK Pillar I, the Guardia di Finanzia is the most appropriately qualified and experienced specialised EU police service to operate the FIU in Kosovo. The FIU is located within Pillar I of UNMIK, and is currently part of the SRSG's reserved powers. The SRSG recently established an 'Investigative Task Force' to coordinate the activities of OLAF, the UN Office of Internal Oversight Services and the FIU. OLAF, SRSG Holkeri and the head of Pillar I have requested EC assistance to provide institutional support to UNMIK and its 'zero tolerance of corruption' strategy through assistance to the FIU.

#### Coherence with wider EC policy, SAp and the MIP

Further enhancing the efficiency of the courts is a key European Commission recommendation arising from the STM meeting of March 2003. The Commission recommended the establishment of specialised prosecution units for corruption and organised crime cases at the November 2002 'London' Ministerial Conference on Organised Crime in South East Europe. The actions within the 2004 Justice and home affairs programme are also in line with the MIP objectives/programmes to "improve court and case management", "education and training of staff", "adopt EU Member States' standards and best practices", and "strengthen the rule of law and ensure its proper enforcement with particular attention to anti-corruption measures". The 2004 programme will also link to JHA actions under the Regional CARDS programme, including projects for regional-level training for senior level magistrates (2001 regional programme), and policing and organised Crime (2003 regional programme).

#### Identified Projects

##### **5.1.2.1 Support to the Judiciary**

This project aims to further improve the efficiency of the courts by (i) providing the judiciary with a unified case management system across all of Kosovo's courts, and (ii) assisting UNMIK in the establishment of the Kosovo Special Prosecutors Office, in particular, through the design and delivery of training programmes for local specialised prosecutors in such areas as judicial investigations, organised crime, terrorism, human trafficking and corruption. This phase of EC assistance will extend the already developed information system for case management and administration, and legal reference to commercial, municipal and minor offences courts, thereby completing the development and implementation of a networked case management system encompassing all the main courts in Kosovo. Training for court and IT personnel will be provided to ensure the effective use, maintenance and on-going development of the system. The training for Special Prosecutors will be conducted in collaboration with the Kosovo Judicial Institute, established with EC assistance. The project is likely to be implemented through grant agreements with the UNMIK Pillar I, service and supply contracts, and a possible twinning arrangement for the training of special prosecutors.

### **5.1.2.2 Establishment of a legal aid system for Kosovo**

This project will support the establishment of a comprehensive, inclusive, cost-effective and sustainable legal aid system for Kosovo spanning civil, administrative, criminal and commercial matters that enables vulnerable members of society to access the justice system. The project is likely to involve a service contract for the setting up of an overall legal aid system and possibly a grant agreement with the Kosovo Chamber of Advocates for the continued provision of legal aid to vulnerable groups in society until the overall system is in place.

### **5.1.2.3 Combating fraud and financial crime in Kosovo**

The project aims to assist UNMIK to implement its strategy to reduce fraud and financial crime in Kosovo through support for the Financial Investigation Unit (FIU) of UNMIK Pillar I. The project will support (i) financial inspections, including analysis of financial documents and the physical searches of premises of public utilities, public enterprises or other organisations that have received funds from donors (including the EC) and the Kosovo Consolidated Budget, and (ii) full criminal investigations where evidence of suspected financial crime has been detected. A grant agreement is likely to be concluded with UNMIK for this project.

### Cross-cutting Development Issues

The programme aims to improve access, including for vulnerable citizens, to a more efficient and effective justice system. The selection of Special Prosecutors will seek to assure a balanced ethnic and gender representation. The work of the FIU is expected to result in improved management practices and transparency in the development of Kosovo's publicly owned enterprises

<b>5.1.3 Customs and taxation (approx. €1.5 million) - Commission managed</b>
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### Background

UNMIK manages the Customs Service, which was established with significant EU assistance based on experience from the EU enlargement process. The Service is now competent to operate without further assistance in many areas and an exit strategy is being developed for the run down of the international technical assistance team.

UNMIK has requested that the EU to provide support in the development of a VAT system. This will provide an opportunity to ensure that the VAT system is made fully EU compliant and that it is developed in line with the EU Taxation Blueprints prepared by the European Commission to support the Enlargement Process. It will also provide the opportunity to focus on compliance and enforcement issues with a view to improving taxpayer compliance and increasing the revenue yield, and notably on reducing the levels of fraud and corruption. Assistance will be delivered in cooperation with the US, which is also supporting the development of Kosovo's taxation system.

### Coherence with wider EC policy, SAp and the MIP

Customs is vital to promoting a single market and economic space within the region and to enhancing Kosovo's participation in the Stabilisation and Association process. The project will also contribute to a modern approach to border/boundary management in the region.

## Identified Projects

### **5.1.3.1 Customs and Taxation – Commission managed**

The project aims to further develop modern customs and taxation functions in Kosovo – in line with EU best practices and norms. In customs, the project will provide further support to the managers of the UNMIK Customs Service in their efforts to develop an efficient and effective Customs and Excise Service. Earlier support has resulted in the development of management structures within the UNMIK Customs covering most of the main functions expected in a modern Customs Administration. The next phase of the programme covers the remaining functions which need to be created (e.g. investigation) as well as providing the still inexperienced local management with adequate management and technical training as well as operational support. In taxation, the project aims to extend the efforts of the EU Customs and Fiscal Assistance Office to include support for the Kosovo Tax Administration. The project's main focus will be on VAT, where support will be offered in the areas of legislation, policy development, training and taxpayer audit, with a view improving compliance and increasing the revenue yield. Additionally the project will provide support to the tax administration, which is an integrated administration which has responsibility for the management of both direct and indirect, in their efforts to develop an Internal Audit Unit capable of providing a service for the administration as a whole. Due to its technical nature, the Commission will implement the programme. Implementation will be by physical and non-physical means, through a mixture of technical assistance, training and the provision of equipment. The implementation of the programme may require supply and service contracts. Award of contracts will be carried out in accordance with the provisions of Regulation (EC) 2666/2000. Participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons from Member States, States which are recipients under this Regulation and candidate countries for accession to the European Union.

### Cross-cutting Development Issues

Improvement in the efficiency and effectiveness of the customs and tax administrations will encourage the strengthening of the single market and the development of trade, facilitate legitimate trade, and improve the efficiency of revenue collection. The institutional support provided by the project, will assist Kosovo's institutions to become EU compatible service oriented organisations.

## **5.2 ECONOMIC RECONSTRUCTION, REGENERATION AND REFORM (APPROX. €31 MILLION)**

This component of the annual programme includes projects in the areas of energy; environment; economic development and the rural economy.

### **5.2.1 Energy (approx. €12 million) (originally €8m)**

#### Background

An efficient and financially viable energy sector remains a fundamental prerequisite for economic development. Since the 1999 conflict, the energy infrastructure and the reliability of electricity supply have been substantially improved, due mainly to EC and EU member state assistance. There have been significant set-backs too, including the fire which severely damaged the Kosovo B power station in July 2002. However, the EU Pillar and the Agency,

using EC and Kosovo budget funds, responded quickly to bring the power station back to operation.

KEK is in a critical financial situation and is unable to fund critical investments from its own resources due to a low billing rate (60% of the electricity generated), and a very low revenue collection rate (approximately 31% of the electricity delivered to the distribution network). To restructure and improve the management of KEK, UNMIK-PISG are putting in place a turn-around management team with executive powers, selected under an international tender and funded from the Kosovo Consolidated Budget – this team is expected to be in place from March 2004. The new KEK management team is expected to develop a strategy to increase revenue. The strategy will also assist to further defining the roles and division of tasks among the key stakeholders involved in electricity revenue collection. However, KEK, PISG and UNMIK will require assistance to successfully implement this strategy.

The ‘Energy Strategy and Policy of Kosovo’, was published as a White Paper in September 2003. However, follow-up studies and assessments are required to guide and define future investments in the energy sector – including possible IFI loan finance – and thereby progress towards meeting the policy objectives of the white paper, including improved integration with the South East Europe Regional Energy Market (REM)<sup>8</sup>.

The Energy Office (ENO), established in Pristina in January 2003 and located within the Prime Minister’s Office is responsible for the preparation and implementation of policies (including those in the above mentioned white paper), and legal frameworks for the development of Kosovo’s energy sector. The ENO requires institutional support to effectively manage its mandate.

The Mitrovica district heating system has deteriorated due to a long period of inadequate investment and maintenance, and a lack of proper equipment. The rehabilitation of this system could benefit over 20,000 residents and business on the north and south parts of the city and reduce the demand for electricity for heating purposes. The UNMIK Regional Administrator has requested EC assistance to rehabilitate the district heating system, as a priority for the ethnically divided Mitrovica area.

EC funded environmental studies have highlighted the severe environmental degradation and atmospheric pollution from the KEK managed coalmines, and identify actions to improve environmental conditions. Assistance is now required to implement the priority actions.

To increase the sustainability and ownership of the actions within the 2004 energy programme, the programme will also be implemented in cooperation with the Working Group on Energy, recently established by the Office of the Prime Minister, and which includes representatives from PISG ministries, the Kosovo Trust Agency, the Central Regulatory Unit, and donors (including EAR and USAID). One of the key aims of this group is to increase revenue collection.

#### Coherence with wider EC policy, SAp and the MIP

The 2004 energy programme will further enhance Kosovo’s capacity to integrate with the South East Europe Regional Energy Market (REM) and internal EU electricity markets. Undertaking efforts to exploit the possibilities opened by the REM and “drastically improving the rate of progress for metering billing and collection of payments revenue” are key STM recommendations, which are also highlighted in the MIP and responded to within the projects described below.

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<sup>8</sup> Two Memoranda of Understanding on the Regional Energy Market (REM) in South East Europe and its integration in the European Internal Electricity Market were signed by the energy ministers from all countries in South-East Europe, as well as the DSRSG of the EU Pillar of UNMIK on behalf of Kosovo, in November 2002 and December 2003 in Athens.

## Identified Projects

### **5.2.1.1 Improving revenue collection and investment planning in the energy sector**

This project aims to support the financing of a sustainable energy sector through focused actions to improve revenue collection, reduce non-technical losses (as required by the REM), and to guide priority investments in the sector. Assistance will be provided to KEK, the PISG and UNMIK to support the development and implementation of the KEK turnaround management's strategy on revenue collection and technical losses. Actions may include the supply and installation of meters to improve electricity-billing coverage, and other measures such as the development of more efficient and coordinated enforcement mechanisms for revenue collection (including KEK, KTA, UNMIK/PISG, police and judiciary). Support will also be provided to undertake assessment, feasibility and design studies to guide future investments in the energy sector - identified in cooperation with the EU Pillar of UNMIK, Kosovo Trust Agency, the PISG and KEK - that focus on:

- Projects to be funded from such sources as the Kosovo Consolidated Budget, and possible co-financing by international financial institutions - including the European Investment Bank. Actions in this area will be closely coordinated with actions under project 5.2.3.1.
- Further developing specific elements of the Energy Strategy and Policy of Kosovo, including Kosovo's integration into the SEE Regional Energy Market (REM), and facilitating KEK to move towards compliance with EU environmental standards.

Indicatively, a supply and a works tender may be required for the supply of meters, if necessary. A number of separate framework or service contracts may be required for the studies.

### **5.2.1.2 Institution building support to the Energy Sector**

The project will provide institution building support to the PISG and UNMIK, including the Energy Office (and possible successor bodies), for the development of energy policies, legislation, and regulatory frameworks - in line with the EU acquis - for the further development of the energy sector, including the meeting of institutional requirements for Kosovo's participation in the Regional Energy Market (REM). The project will also provide training and expert advice for the development of professional staff in order to assist the development of an 'Energy Authority' as required under the REM. The project is likely to require a service contract.

### **5.2.1.3 Rehabilitation of Mitrovica district heating system**

The project will significantly improve the district heating supply to businesses and residents in both the North and South parts of Mitrovica town through the rehabilitation of the town's district heating system. Sida is developing an engineering study to define the scope of EC funded refurbishment works, and will also provide complementary capacity building assistance to the Mitrovica district heating utility. UNMIK proposes to provide complementary funds for the project, to be managed by the Agency. At least one works contract and a service contract will be required.

### **5.2.1.4 Environmental actions in the coalmines**

This project aims to alleviate environmental degradation and atmospheric pollution at the opencast coalmines through support for priority and targeted actions selected in agreement with the Kosovo Trust Agency and KEK. The project will involve (i) the detailed investigation of underground coal fires and of dust emission points in the coal production and transport system; (ii) the installation of a fire fighting and de-dusting system with training, and (iii) the supply of equipment and training to reduce dust emissions from the coal mines, separation plants and coal yards during operation and transport. Project actions will be

complementary to those in the environment sector project 5.2.2.1 (below). A service contract and a supply/works tender are likely to be required.

#### **5.2.1.5 Environmental improvements to the Kosovo B power station and improved maintenance at KEK facilities (approx. €4 million)**

The project aims to (i) reduce pollution and improve air quality in the Pristina region through the reduction of dust emissions from the Kosovo B power station, which are a threat to public health, and moving the levels towards EU dust emission standards; and (ii) to improve preventative maintenance systems up to normal power industry standards at all of KEK's facilities. The project will: improve power generation and provision in Kosovo; enhance the financial sustainability of KEK through significantly reduced maintenance and cleaning costs; fewer forced stoppages at the power plants; and preserve the sustainability of the significant EC investments in KEK's facilities (totalling some €260 million between 1999 and 2004) as well as consolidate assistance to KEK's maintenance workshop.

Currently emission levels are around 600mg/m<sup>3</sup>, and this project aims to reduce the levels by approximately 70% to around 200mg/m<sup>3</sup>. This will be achieved through such actions as: the rehabilitation and upgrading of the existing B1 electro-static precipitator; replacement of ash collecting electrodes in the precipitator; calibration of the clean-gas dust measurement system; optimisation of the control system for dry ash removal; integration of the precipitator control signals into the power station's instrumentation and control unit; and reconfiguration of the air exhaust system. The reduction of dust emissions (including heavy metals) from the Kosovo B power station is a priority recommendation of the World Bank funded Energy Sector Technical Assistance Project, and is a significant step towards the implementation of the environmental measures referred to in the Athens Memorandum 2003 and the planned Treaty on the Regional Energy Market for South East Europe – under the auspices of the European Commission. The KEK turn around management team and the Kosovo Trust Agency have agreed that the project will be completed in summer 2006 when the B1 unit will be stopped for other essential maintenance work. This timing also allows for the lead times required for the delivery of equipment.

The project will also provide KEK with a modern electrical test field system (through the supply of MV gas insulated switch gear, testing HV transformers, EDDY current machine, voltage/current/power measuring devices, testing software etc), coupled with building the capacity of KEK staff to use modern electrical diagnostic testing equipment and maintenance technologies. The project will advance the development of an effective preventative and predictive maintenance programme at all KEK facilities. The project will result in reduced internal damage to electrical equipment, prolong the life of the electrical equipment, and reduce maintenance costs. This intervention completes the results of previous EC assistance to developing KEK's maintenance workshop (€7.2 million between 1999 and 2003), which would otherwise be endangered. This project was originally approved within the Action Programme 2002 for Kosovo but had to be deferred for inclusion in a later programme to provide sufficient funds for the emergency fire-damage repairs to the Kosovo B power station (as described in the Commission Decision to amend the Action Programme 2002 for Kosovo).

#### Cross-cutting Development Issues

The programme seeks to contribute to the development of a viable energy sector that: underpins industrial growth and employment; leads to reduced environmental degradation; and the further economic integration of Kosovo's within the region. The programme will benefit all of Kosovo's communities.

## 5.2.2 Environment (approx. € 2.5 million)

### Background

Preventing further environmental degradation in Kosovo while promoting improvements, are essential for safeguarding public health and balanced economic development. The polluting activities of publicly owned and private enterprises also need to be addressed. The Ministry of Environment and Spatial Planning (MESP) is developing environmental policies and enforcement mechanisms to meet these challenges, but a successful response requires further expert institution building assistance at both the central and municipal levels. Such assistance will complement past EC assistance which has upgraded Kosovo's water and waste infrastructure, and is assisting the MESP in water resource management and the development of secondary legislation in waste disposal and water management.

### Coherence with wider EC policy, SAp and the MIP

The project is consistent with MIP objectives and will link to environment actions under the Regional CARDS programme, including those of the Regional Environmental Reconstruction Programme (REReP). The project seeks to leverage the dedicated expertise (including training opportunities) of the European Commission's Joint Research Centre.

### Identified Projects

#### **5.2.2.1 Further institutional support for environmental management**

The project will further strengthen the institutional capacity of the Ministry of Environment and Spatial Planning (MESP) to develop, monitor and enforce environmental protection and resource management policies encompassing water resource, sanitation, solid waste and pollution, in line with EU standards and environmental acquis. The project will provide technical assistance and training to the MESP for the:

- Development of the Kosovo Environmental Action Plan, which will involve developing policy and strategies for implementation by the MESP. The Action Plan will also define the standards and permitting processes required of business and developers to limit the environmental impact of their activities. This component will be implemented in close cooperation with other donors and Sida, in particular.
- Development and enforcement of appropriate Environmental Impact Assessment processes. Actions will involve the development of mechanisms for monitoring and controlling the environmental results and consequences from the operations of private and publicly owned enterprises, including the development of monitoring and control systems in the areas around KEK facilities, and the development of public awareness systems. This action will include the supply of some equipment. Project actions will complement the energy sector project 5.2.1.4 (above).
- Implementation of environmental regulations at the municipal level, through, for example, the training of municipal inspectors and MESP staff.

The project is likely to require a service contract, and a supply contact (for equipment).

### Cross-cutting Development Issues

This project will contribute to a cleaner environment, improved industrial adherence to minimum EU environmental standards, and strengthened institutional capacity in the environmental sector

## **Economic development (approx. €40.4 million) (originally €20.5 million)**

### Background

The PISG and UNMIK established the Economic Strategy and Project Identification Group (ESPIG) to develop the PISG's capacity to formulate a sound medium-term economic strategy, and to identify and prepare bankable projects for international financial institution (IFI) financing. The ESPIG brings together PISG ministries (including the Prime Minister's Office and the Ministry of Economy & Finance), the European Pillar of UNMIK, the World Bank and the IMF, thereby presenting a single forum for the coordination and development of the economic strategy and for negotiations with the IFIs. The UN, European Commission, UNMIK and the EIB are currently working to finalise a 'package' of legal requirements and agreements to enable the EIB to establish lending operations for Kosovo. The EIB is prepared in principle to lend Kosovo some €75 million during the period 2004-2006. Agreements with the EIB are also expected to leverage arrangements with other international and bilateral financial institutions.

Minority communities in specific locations have limited freedom of movement and little real access to banks, business and social services or mainstream assistance interventions. However, the participation of these communities in the economic development of Kosovo is essential for reducing unemployment and poverty in minority areas, and for creating a favourable environment for returns. A successful and sustainable returns' process requires a multi-faceted approach that includes cross-boundary initiatives involving the IDPs from Kosovo currently living in Serbia and Montenegro; support for the returns' strategy developed by UNMIK Office of Returns and Communities, and building the capacity of the PISG to more effectively engage in the returns' and integration process.

The Kosovo Trust Agency (KTA) is responsible for overseeing the administration of Kosovo's publicly owned enterprises (POEs), among other responsibilities, and operates under the management of the UNMIK EU Pillar. POEs, which include post & telecommunications, railways, energy-KEK, and Pristina airport, are vital to Kosovo's economic development. However, KTA's ability to effectively govern and develop the POE sector is restricted by the current legal arrangements for these enterprises. Therefore, KTA's strategy is to incorporate the POEs in order to enable the necessary restructuring of POEs, and thereby ensure their future growth and financial sustainability.

A successful privatisation process also involves strengthening management capacity within potentially viable Socially Owned Enterprises (SOEs) - at the pre and post privatisation stages. EC funds are assisting the European Bank for Reconstruction and Development (EBRD) to implement turn-around management and business advisory programmes in Montenegro and Serbia. The extension of this programme to Kosovo will assist in the development of a more viable enterprise sector.

There is an inadequate level of organised education available within the banking sector, which threatens to slow the development of banking services including the introduction of much-needed loan projects. The Kosovo Banking Association (KBA), established in May 2003, includes all seven commercial banks as members. The KBA has developed a strategy for upgrading the general level of skills and knowledge in the financial sector through the

establishment of a financially sustainable training programme. However, the KBA requires expert external assistance for the initial design and establishment of the training programme.

Agriculture is an important contributor to the economy and a major source of employment. However, small scale and generally unprofitable farming enterprises predominate in Kosovo. The Ministry of Agriculture, Forestry and Rural Development (MAFRD) seeks to facilitate structural reforms in the rural economy to support employment creation and income generation. On-going EC assistance is currently strengthening the Ministry's policy making capacity. However, further assistance is required to strengthen the capacity of the MAFRD to develop and implement – in line with EU standards - coherent strategies, plans and legal frameworks to ensure that the Ministry can successfully lead reforms in the rural economy sector.

The MAFRD and the Ministry of Health are currently collaborating to establish a coordinated cost-effective food safety control system that protects public health and which would facilitate exports in food and beverages. Assistance is now required to develop a coherent food safety control system.

#### Coherence with wider EC policy, SAp and the MIP

Building the capacity of Kosovo institutions to define bankable projects is a European Commission recommendation arising from the STM process. The return and reintegration of Kosovo's minority communities is one of the 'Standards before Status' benchmarks, also advocated by the EU. The CSP foresees the treatment and integration of minorities as a cross-cutting intervention in socio-economic development programmes, therefore, all activities in this field are included under the MIP chapter of economic development. The 2004 project targeting minorities and returns has a strong focus on promoting economic growth in disadvantaged minority areas - in line with the MIP Economic Development objective: "Provide focused support to areas of high refugee population and/or areas of high levels of poverty." The other actions within the 2004 economic development programme are also in line with the MIP objectives to underpin sustainable economic development in Kosovo.

#### Identified Projects

##### **5.2.3.1 Formulation of economic development strategy and bankable projects**

The project aims to build the capacity of the PISG and UNMIK to formulate an economic development strategy for Kosovo, and to ensure the cost-efficient allocation of public resources and loans from international financial institutions (IFIs). The project will assist the PISG and UNMIK – chiefly through the Economic Strategy and Project Identification Group (ESPIG) - to achieve the following inter-related goals (i) the development of a medium-term economic development strategy – in close cooperation with the IMF, (ii) the identification of a prioritised list of potential projects suitable for IFI financing and public investment, and the drafting of pre-feasibility briefs on 'bankable' projects suitable for IFI finance, and (iii) the implementation of comprehensive feasibility studies for specific IFI loan finance projects (covering project design, structure and technical aspects) – in cooperation with IFIs. The project will be closely linked to project 5.1.1.3 (support to the Ministry of Economy and Finance). The Agency is working jointly with UK-DFID to develop the terms of reference for the project. A service contract is likely to be required for long-term experts, and also for the deployment of short term experts to prepare pre-feasibility studies. Separate service contracts are also likely to be required for any feasibility studies.

### **5.2.3.2 Further support for sustainable returns and the economic stabilisation of minority communities**

The project aims to further assist the economic and social development and re-integration of disadvantaged minority communities, and to improve the conditions for sustainable returns. The project will build on and extend the results of the minority community stabilisation and economic development projects under previous EC assistance programmes. Project activities will cover small enterprise development (typically grants, small loans, training and business advisory services), agriculture, community development, small-scale infrastructure, and the development of inter-ethnic linkages. The project will also be informed by the findings of an evaluation of EC support to minorities in Kosovo to be conducted by the Agency's Evaluation Unit in late 2003. At least one grant agreement is envisaged for this project component.

The modification adds an extra €5 to this project, thereby raising the project total from €7 to €12 million (approx.). The scope of the project - as defined in the Annual Programme text and project fiche - is unchanged. The extra funds are expected to be used for reinforcing the following already identified project component (first bullet point):

Further support for the returns' process will also be provided:

- Direct support for the resettlement of returnees to their communities through assistance for a priority range of projects identified in cooperation with the UNMIK Office of Returns and Communities (ORC). These projects, will typically involve multi-sectoral actions such as housing reconstruction, repairs to infrastructure, as well as social and economic development actions that aim to promote a sustainable returns' process.
- Building the Institutional capacity of the PISG at central and municipal level, particularly the office of the inter-ministerial coordinator on returns/minorities within the Prime Minister's Office, to support the returns process.
- Development of cross boundary returns initiatives (such as information campaigns involving IDP associations) that promote a more effective, demand driven and organised returns process.

Following a call for proposals, the returns component is likely to require grant agreements and one or more service contracts. This component will be closely linked to the 'Return/Reintegration of Refugees and IDP' sector within EC 2004 Action Programme for Serbia.

The additional funds will improve the outreach of EC assistance to support returns initiatives for all communities, including the potential resettlement of Roma, Ashkalija and Egyptian families living in Plementina Camp near Pristina.

### **5.2.3.3 Support to the Kosovo Trust Agency for the incorporation of Publicly Owned Enterprises**

This project aims to assist the Kosovo Trust Agency (KTA) to restructure and improve the management, financial sustainability and future growth of Publicly Owned Enterprises through the transformation of a number of POEs into joint stock companies or limited liability companies, as appropriate. The project will include for the provision of expert accounting, legal and management consulting support to the KTA. The POEs to be targeted by the project will be selected in conjunction with the KTA. The project follows a request from the EU Pillar to support the work of the KTA in the 2004 programme. The project is likely to be implemented through a service contract.

### **5.2.3.4 Turn Around Management (TAM) & Business Advisory Services (BAS) Programmes**

The programme will provide the management of potentially viable small, medium and large enterprises, including pre and post privatised socially owned enterprises and private

companies to restructure, improve competitiveness, attract investors, and increase employment. Senior industry experts, assisted by local consultancy companies, will provide advice in areas such as: developing and improving management skills; business planning; improving product design and productivity; reducing operating costs; adoption of EU standards; and developing both local and export markets. In general, the TAM programme will focus on large and medium-sized companies, while the BAS facility will focus on smaller businesses. The enterprise selection process will be done in conjunction with the KTA and the Ministry of Trade and Industry. The programme will be implemented through a grant agreement with the European Bank for Reconstruction and Development (EBRD).

#### **5.2.3.5 Institutional strengthening of the commercial banking sector**

The project aims to further strengthen the development of an effective commercial banking services sector in Kosovo through building the institutional capacity of the Kosovo Bankers' Association to design and deliver appropriate training programmes (short and long term, technical and managerial) for bank personnel. The members of the KBA will cover training costs, thereby ensuring the financial sustainability of the project results. This project also has the scope to provide technical assistance to commercial banks to complement and leverage possible credit lines, most likely by the EBRD and/or EIB, to the commercial banking sector. The project is likely to require at least one service contract, and in addition, possible grant agreements with international financial institutions.

#### **5.2.3.6 Further institution building support to the Ministry of Agriculture**

The project will assist the reform and development of Kosovo's rural economy through providing further institution building support to the Ministry of Agriculture, Forestry and Rural Development (MAFRD) in planning and implementing agricultural policies and strategies. Specifically, the project will:

- Assist the ministry to develop a time-bound, financially realistic *Agriculture Master Plan for Kosovo* which will define the ministry's goals, strategies, priority actions and financial requirements for the development of the rural economy sector. Support will also be provided to strengthen the capacity of the MAFRD to develop well researched and clear projects for presentation to donors and the Kosovo budget for the achievement of the ministry's Master Plan.
- Train MAFRD staff and Municipal agriculture offices to enhance the development and implementation of the Master Plan, and to institutionalise a consultation/participation planning process between the MAFRD and the municipalities.
- Further support to develop legislation and regulations – in accordance to EU standards - to enable the implementation of the MAFRD's policies.

The project is likely to require a service contract.

#### **5.2.3.7 Development of a food safety control system for Kosovo**

The project aims to improve consumer protection and food safety, to protect public health, and to enhance trade opportunities for the agri-business sector within the region and to the EU, by assisting the MAFRD and the Ministry of Health to establish an effective food safety control system to EU standards. Specifically, the project will

- Support the establishment and institutional development of the Food Agency, and the associated development of a food safety control policy for the introduction and enforcement of food safety and control requirements in Kosovo, in line with EU standards (regulations and decisions<sup>9</sup>).

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<sup>9</sup> Many EU Food Hygiene Directives are expected to be shortly replaced by Regulations

- Strengthen the capacity of MAFRD's laboratory and veterinary services – at the ministerial and municipal levels – to support the food safety control system. This component will also take into account any related training that may be offered under Sida's regional training programme.
- A food safety control system also requires the enforcement of complementary standards in agricultural and livestock production. Therefore, support should also be provided to strengthen Kosovo's animal disease surveillance, and animal identification and movement registration systems, and the implementation of standards on agricultural input supplies.

The project is likely to require at least two service contracts and a supply contract (for laboratory equipment).

#### Cross-cutting Development Issues

The programme aims to contribute to: increasing employment, rural development, and exports; and improving the quality of essential public services. The programme will actively seek to incorporate gender and ethnic minority mainstreaming, and the protection of the environment. The interventions will also assist in building inter-ethnic linkages, and thereby contribute to a peaceful resolution of the tensions between Kosovo's communities.

#### **5.2.3.8 Renovation of religious and cultural heritage sites of Kosovo (approx €2 million)**

The project aims to assist the reconstruction and restoration of Serbian Orthodox monuments damaged during the riots of March 2004, and to implement any accompanying measures that revitalise the sites.

The EC funds are intended as additional finance to the allocations by the PISG (currently €3.7 million from the Kosovo Consolidated Budget) for the reconstruction of religious sites. The SRSG has also allocated €0.5 million from the 'reserve fund'.

Implementation is expected to be planned and overseen in coordination with the already established *Independent International Commission for cultural heritage in Kosovo*, and the *Implementation Committee for the reconstruction of religious sites*, which included an expert appointed by the Council of Europe, and representatives from the PISG, the Serbian Orthodox Church and the Institute for the Protection of Monuments - Belgrade. However, the Serbian Orthodox Church representative is currently not participating in the committee meetings.

Assistance will be informed by the proposals, assessments and damage surveys developed by the joint Council of Europe/European Commission technical assessment team, and by a UNESCO team of experts, who have already completed a number of missions to religious sites in Kosovo since April 2004, on the invitation of the SRSG. The Council of Europe/European Commission team estimate that some €10 million is required for the immediate intervention and later restoration of the 35 damaged sites.

In the event of a failure to agree the implementation modalities and advance the implementation of the restoration works, the EC funds for this project will be reallocated within this modified Action Programme to other actions for the economic stabilisation of minority communities, returns, economic regeneration and employment creation

#### **5.2.3.9 Economic regeneration and employment creation (approx. €12.9 million)**

This project aims to promote balanced economic and social development, and sustainable job creation in areas of high unemployment, and in selected municipalities with mixed populations or a high potential for minority returns. This will be achieved through:

- (1) Investments, coupled with expert assistance, to increase the financial viability of socially and publicly owned industrial, mining, agriculture (including irrigation), and

manufacturing enterprises with significant employment potential. The assistance is also expected to make these enterprises more attractive candidates for privatisation/incorporation. A major focus will be to restart production of potentially viable parts of the Trepca mining and processing complex in the Mitrovica region to provide employment for members of all communities, in line with the composition of the local population. Assistance will be based on specific proposals developed by the KTA and in consultation with the PISG (including the Office of the Prime Minister, Ministry of Economy and Finance, Ministry of Trade and Industry and the Ministry of Environment and Spatial Planning), and UNMIK, particularly Pillar IV.

- (2) Assistance for local enterprise development and employment creation, as well as inter-ethnic business initiatives. This may include such actions as developing infrastructure to improve the business environment (e.g. business parks, agriculture produce/green markets), basic municipal infrastructure, training retrenched SOE employees, and establishing business incubators for services and manufacturing/processing. This programme will be undertaken in selected pilot municipalities - disadvantaged areas will receive particular attention. Projects will be identified through proposals submitted by municipalities and civil society organisations, including business associations, and selected according to criteria agreed with the PISG, municipalities and UNMIK.

This project reinforces previous and on-going EC assistance for balanced economic and social development in Kosovo, chiefly under 2000–2004 action programmes. Actions will also be implemented in close coordination with the EU Member States and other donors providing assistance for economic development and job creation, particularly USAID.

### **5.3 SOCIAL DEVELOPMENT/CIVIL SOCIETY (APPROX. €4 MILLION)**

The programme component below describes planned projects in support of vocational education; the (Commission managed) Tempus higher education cooperation programme; civil society.

#### **5.3.1 University education, vocational education & training (VET), and human resource development (approx. €3 million)**

##### ***Part A - Human Resource Development, including VET (approx. €2 million)***

###### Background

Addressing the current high levels of unemployment and absorbing the significant numbers of young people coming onto the labour market is critical for social and political stability in Kosovo. In response, the Ministry of Labour and Social Welfare (MLSW), and Ministry of Education, Science & Technology (MEST) are collaborating to further transform the vocational education and training system in Kosovo, including – with on-going EC assistance – the development of an employment strategy and a vocational education strategy. Further action is now required to build-on and extend the achievements of previous EC assistance to strengthen vocational education and training systems in Kosovo. In addition, a vocational training centre is required for the Pristina region, given that the current limited training facilities are inadequate for the size and skills' needs of the population and the labour market.

###### Coherence with wider EC policy, SAp and the MIP

The project is consistent with the MIP objectives to better prepare young people to enter the labour force and to modernise the VET system for both youth and adults in line with the

needs of the labour market. The implementation of a occupational classification system, as described in the project description below, is of particular relevance to the SAp, and will provide the basis for a vocational qualifications and recognition system necessary for workers, employers and the administration in view of future labour market cooperation and mobility in the region and wider Europe.

#### Identified Project

##### **5.3.1.1 Further development of Kosovo's vocational education and training system**

The project will further assist the MLSW and the MEST to further develop a modern EU compatible vocational education and training system (VET) that makes available for employment an appropriately skilled and qualified workforce. The project is particularly complementary to the on-going EC 2003 project which aims to strengthen the institutional capacity of the MLSW to develop and implement appropriate policies and legislation for employment support. The 2004 project has been developed and will be implemented in close cooperation with the European Training Foundation (ETF). The project will

- Provide technical assistance to the MLSW to successfully implement a market-driven occupation classification system for Kosovo, based on EU standards. This component will build on the results of an eight-month design study for an appropriate occupational classification system, including the necessary accompanying legal frameworks.
- Develop additional training curricula for Kosovo's VET programme, based on the needs of the labour market for vocational skills, and on gaps in the range of training currently available in Kosovo. The new curricula will be piloted across schools and adult training centres and will be accompanied with training for teachers/trainers.
- Complementary refurbishment and equipment support for the development of the MLSW's VET centre for the Pristina Region - the works will also be funded from Kosovo budget funds.

The project is likely to require a service contract for technical assistance, and works and supply contracts for any refurbishment works and equipment.

#### Cross-cutting Development Issues

The programme seeks to provide people with appropriate skills that meet the needs of the labour market, and thereby increase employment in Kosovo. Attention will also be given to the inclusion of minorities and to gender mainstreaming.

### ***Part B - University Education: Tempus (approx. €1 million) – Commission managed***

#### Background

The European Commission's Tempus III programme aims to promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the Member States of the European Union

A sustainable reform of higher education in Kosovo may only be possible in more stable institutional and legal contexts for the higher education system. The difficulties experienced in setting up the local Tempus Office in Kosovo reflect this. The current environment for the Tempus programme suggests a more cautious approach in the design of implementation of the programme in Kosovo.

#### Coherence with wider EC policy, SAp and the MIP

A priority for higher education systems in all south-east Europe is the achievement of the objectives of the Bologna Declaration, which aims at the establishment of a common

European higher education space by 2010. Its objectives include the establishment of a common degree system in Europe (Bachelor, Master, Ph.D.), the introduction of the European Credit Transfer System (ECTS), the strengthening of a European dimension in quality assurance and the removal of obstacles for the mobility of students and staff. Participation in the Bologna Process requires structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities.

#### Identified Project

##### **5.3.1.2 Tempus – Commission managed**

The programme aims at funding Joint European Projects (JEP) and Individual Mobility Grants and Structural and Complementary Measures. Joint European Projects can focus on one or more of the following areas: University Management; Curriculum Development; and Institution Building. Following an annual call for proposals, projects are assessed academically and technically according to general criteria and a list of priorities established in co-operation with the partner country authorities.

#### Cross-cutting Development Issues

The Tempus programme contributes to the sustainable development of Kosovo by promoting the establishment of curricula in relevant areas, but also in contributing to the development of necessary local expertise.

<b>5.3.2 Civil society (approx. €1 million)</b>
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#### Background

The civil society movement in Kosovo has the potential to play an even more constructive role in building a democratic multi-ethnic society and to assist the government and other stakeholders to develop and implement programmes that address the needs of the population, particularly the most vulnerable, including returns. The main focus of EC and donor assistance to date has been on the NGO sector, however, there is a need for greater emphasis on the development of community based organisations, including the social partners (typically, employers' groups, and trade unions), and other associations (such as those of farmers and teachers).

#### Coherence with wider EC policy, SAp and the MIP

The project is consistent with the MIP in aiming to build the capacity of civil society organisations to enter into consultative processes with government institutions at central and local levels.

#### Identified Project

##### **5.3.2.1 Strengthening civil society organisations**

The project aims to strengthen the capacity of civil society organisations (CSOs) to more effectively contribute to the development of Kosovo's economy, society and governance structures. The project will assist social partners as well as community and professional associations to provide better services for their members, and to develop more effective partnerships with government, typically at the municipal level. The project will provide technical assistance, training and support for projects developed by civil society organisations. The project may also assist, based on assessments and further discussions with CSOs, in developing regulatory frameworks to create an improved operational environment for CSOs. The project will require a service contract for technical assistance, and

indicatively, a number of grant agreements with associations and social partners for the implementation of projects.

#### Cross-cutting Development Issues

The programme will contribute to the increased engagement of civil society with central and local government, and thereby strengthen the democratic process. Support for residents' associations may lead to improved payments for public services (water, electricity etc) and thus their financial sustainability.

## **5.4 OTHER (APPROX. €1.5 MILLION)**

### **5.4.1 General Technical Assistance Facility (GTAF); and Programme Reserve (combined total of €1.5 million)**

The main purpose of the General Technical Assistance Facility (GTAF) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the 2004 Action Programme, and support the planning process for future programmes. Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, and tender evaluations; (ii) audits, thematic / programme / project evaluations; and (iii) project preparatory and start-up actions.

The Kosovo 2004 Programme Reserve component will be used to cover currently unforeseeable programme related priorities and expenditures, in particular to support the process of Standards implementation including in the area of decentralisation.

## **6. COMPLEMENTARY EC ASSISTANCE OUTSIDE THIS ACTION PROGRAMME**

The EC 2004 Action Programme for Kosovo builds on the results of previous EC assistance programmes to Kosovo and is complementary to components of the EC Action Programmes for Serbia, Montenegro and FYR Macedonia. The 2004 programme is also complementary to programmes under the EC's Regional Strategy 2002-2006, the CARDS Regional Programmes in particular, the potential actions under the EC's New Neighbourhood Programmes, the Commission managed European Initiative for Democracy and Human Rights (EIDHR), the European Training Foundation, the Joint Research Centre of the European Commission, and the development of the SEE Regional Energy Market. The programme also seeks complementarity with the regional Stability Pact initiatives including the Regional Environmental Reconstruction Programme (REReP) and the Migration, Asylum, Refugees Regional Initiative (MARRI). The Agency's own guidelines on social inclusion and gender mainstreaming have also informed the design and implementation plans of the proposed 2004 Action Programme.

## **7. CO-ORDINATION WITH OTHER DONORS**

Close co-ordination of programmes with the donor community remains crucial to maximising the benefits to Kosovo from the combined international assistance effort. Some of the major donors with significant on-going or planned activities in the sectors covered by the EC 2004 Action Programme for Kosovo include a range of EU Member States, Canada-CIDA, the IMF, Switzerland, USA-USAID and the World Bank. A number of the EC 2004 projects have been developed in close partnership with the Member State offices and other donors.

The regular Agency-chaired coordination meetings with EU Member States and the EU Pillar continues to provide an opportunity for coordination on EU funded actions during the planning and implementation stages of the 2004 programme and the adoption of common positions on issues of mutual concern. The Agency also regularly organises focused sector and project specific coordination meetings. Increasingly, the Agency is supporting PISG institutions to assume this coordination responsibility. Such meetings also facilitate on-going

coordination with other non-EU donors, UN organisations and the IFIs (including EIB, World Bank and the EBRD).

## **8. PROGRAMME IMPLEMENTATION**

### **8.1 Time-limit for signing the financing agreement**

The financing agreement corresponding to the 2004 Action Programme for Kosovo must be concluded at the latest by 31 December of the year following that in which the corresponding global financial commitment was adopted. Failing this, the funds assigned to it will be cancelled.

### **8.2 Performance period**

- (a) The implementation period of the financing agreement starts with the entry into force of the financing agreement and ends 31.12.2011.
- (b) This performance period falls into two separate phases:
  - (i) Operational implementation of the main activities. This phase starts with the entry into force of the financing agreement and ends 31.12.2009.
  - (ii) A closure phase during which the final audits and evaluation are carried out along with technical and financial closure of the contracts implementing the financing agreement. This phase starts with the end of the operational implementation phase and closes at the end of the performance period.
- (c) Expenditure arising from the main activities is not eligible for Community financing unless it is incurred during the operational implementation phase. Expenditure arising from final audits and evaluation and from closure activities is eligible until the end of the closure phase.
- (d) Any remaining balance of the Community contribution will be cancelled automatically six months after the end of the performance period.

### **8.3 Procedures for the award of contracts and of granting of subsidies**

All contracts implementing the financing agreement will be awarded using the standard Commission procedures and documents for implementing external operations in force at the time the procedure is initiated.

### **8.4 Contracts implementing the agreement**

- (a)\* The contracts which implement the financing agreement have to be signed by the two parties within three years of the Commission's adoption of the financial commitment. This deadline may not be extended. At that date any non-contracted funds will be cancelled. [This point does not apply to audit and evaluation contracts, which may be signed later].
- (b) Any contract that has not given rise to any payment within three years of its signing will be terminated automatically and the funds cancelled.

\* Point 8.4(a) does not apply to audit and evaluation contracts, which may be signed later.

All projects should be implemented in line with EU competition (including State aid) principles.

## 8.5 Monitoring, evaluations and audits

Appropriate planning and regular monitoring will take place throughout implementation, with regular reporting.

Evaluations of the CARDS Regulation (2666/2000) as well as the Regulation establishing the European Agency for Reconstruction (2667/2000) are currently ongoing managed by the Evaluation Unit of the RELEX family. In addition, the Agency's own evaluation team conducts sector evaluations at centre- and cross-centre level on the basis of an annual work programme.

The accounts and operations of the various programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Anti-Fraud Office (OLAF) and the European Union's Court of Auditors.

## 9. COST AND FINANCING

The Programme will be financed through a Community grant of € 51.5 million, allocated as follows among the different actions:

Priority Sectors	€ million (+/- 20%) <sup>10</sup>
<b>1. Good Governance and Institution Building</b>	
1.1 Public Administration Reform	7.0
1.2 Justice and Home Affairs	6.5
1.3 Customs & Taxation (Commission managed)	1.5
<b>2. Economic Reconstruction, Regeneration and Reform</b>	
2.1 Energy	12.0 (from 8.0)
2.2 Environment	2.5
2.3 Economic Development (including rural economy):	40.4 (from 20.5)
<b>3. Social Development and Civil Society</b>	
3.1 University Education, Vocational Education and Training, and Human Resources Development (including € 1 million for the Commission managed Tempus programme)	3.0
3.2 Support to Civil Society	1.0
<b>4. Other</b>	
4.1 General Technical Assistance Facility (GTAF) & Programme Reserve	1.5
<b>TOTAL</b>	<b>€75.4 million<sup>11</sup></b>

The total includes an extra €15 million allocation to Kosovo - part of the additional CARDS funds pledged to the region at the June 2003 EU - Western Balkan Summit in Thessaloniki.

<sup>10</sup> Individual financial allocations are subject to fluctuations of up to ± 20% over the programme's lifetime.

<sup>11</sup> Excludes the Agency's 2004 administrative appropriations of approx. €3.5 million for managing the cumulative portfolio of EC assistance to Kosovo, which are the subject of a separate 2004 financing proposal.

## **10. GOVERNMENT COMMITMENT AND CONDITIONALITIES**

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation, in particular respect of democratic principles and human rights, as well as the obligations of Kosovo's institutions as defined by the Stabilisation and Association Process (including the associated SAp Tracking Mechanism), and by the conditionality associated with the UNMIK 'standards before status' benchmarks. Programme and/or sectoral conditionality may be defined in the Financing Agreement to be signed between the Commission and the beneficiary authorities. Failure to comply with any defined conditionality may lead to delay, suspension or cancellation of the planned or committed assistance.