Action Summary

Overall objective:
To increase resilience and transparency in times of crisis and mitigate the socio-economic impact of the COVID-19 crisis in Kosovo, especially for vulnerable groups, farmers and micro and small enterprises, using a gender-responsive approach.

Specific Objective: Micro and small enterprises and self-employed women and men benefit from financial assistance to increase their resilience in the face of the COVID-19 pandemic. Agricultural holdings led by women and men with increased production capabilities and performance in 2021 compared to 2019 levels. Vulnerable women, men and children, including in minority communities, have their basic needs met during the crisis through additional services. Public services strengthened and increased transparency in the allocation of public funds.
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<th>Action Information</th>
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<td><strong>Action Programme Title</strong></td>
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<tr>
<th>Management and Implementation</th>
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| **Method of implementation** | Direct management  
Budget Support: Resilience Contract |
| **Direct management:** EU Office | Direct management by the EU Office in Kosovo |
| **Implementation responsibilities** | Implementation responsibilities concerning the Resilience Contract are to be shared between several key institutions in charge with the Treasury in a lead oversight role.  
Financial execution of the Resilience Contract: Ministry of Finance and Transfers (Treasury) |

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<td><strong>Zone benefiting from the action</strong></td>
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<td><strong>Final date for concluding Financing Agreement(s) with IPA II beneficiary</strong></td>
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<td><strong>Final date for concluding contribution/delegation agreements, procurement and grant contracts</strong></td>
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<td><strong>Final date for operational implementation</strong></td>
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<td><strong>Final date for implementing the Financing Agreement (date by which this programme should be de-</strong></td>
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### Policy objectives / Markers (DAC form)

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<th>General policy objective</th>
<th>Not targeted</th>
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\(^1\) These markers have a different scope/rationale than the DAC codes. Posting criteria related to the encoding of the financial breakdown in CRIS/ABAC

1. BACKGROUND AND CONTEXT DESCRIPTION

1.A CONTEXT AND PROBLEM DESCRIPTION

In line with the Stabilisation and Association Agreement signed between Kosovo and the EU in 2015, the response by the EU to the devastating effects of the COVID-19 crisis calls for a new budget support programme in the form of a Resilience Contract in order to assist with funding for the emergency and recovery response measures put in place by the Kosovo government.

Kosovo government responded quickly to contain the spread of COVID-19. The first case of the virus in Kosovo was declared on 13 March. However, the government decreed the temporary closures of schools, universities and all non-essential businesses, as well as social distancing already the day before, on 12 March. In addition, the air travel and land borders have been closed with only a minimum level of movement allowed since mid-March. Meanwhile, the movement of goods remains open and since 1 April tariffs on goods from Serbia and Bosnia-Herzegovina have been lifted. Since 13 April, additional movement restrictions are in force under the provisions of the Law on Public Health taken in coordination with municipalities and the Ministry of Health. A “Coronavirus Management Committee” has been set up to enhance preparedness and propose measures to contain the spread of the virus.

Kosovo faces limited health capacities, with shortages of medication, equipment and the overall medical supply chain. The Infection Clinic within the Clinical Centre Pristina is the only authorised medical centre for treatment of COVID-19 victims. The Ministry of Health has undertaken measures to prepare 100 additional beds in the new Sports Medicine facility, which together with further additional premises should make around 500 beds available in the case of a possible higher number of patients with COVID-19 in the clinic. Partners, including the EU, have assisted in the immediate health response with the provision of funds for medical equipment, including respirators, COVID-19 tests and personal protection equipment.

The restrictions on movement have already had a devastating effect on the economy and the International Monetary Fund (IMF) expects the economy to contract by -5% in 2020. The World Bank’s “Impact of the COVID-19 crisis in the private and financial sectors Kosovo Note” underlines that in the real sector, the pandemic simultaneously triggers (i) adverse supply shock through disruptions to supply chains and shortage of labour and (ii) adverse demand shock through a decline in consumer confidence and willingness to spend. On the supply side, many firms are forced to halt or reduce production as the disease spreads and social distancing measures are mandated, and the effect at the firm level is amplified through disruptions to global supply chain networks, especially as major economies, such as the United States, Europe and China, experience outbreak. On the demand side, firms postpone investment faced with high uncertainty, and consumers reduce spending amid social distancing measures and the evaporated wealth in the stock markets.

The key challenge for the Kosovo economy relates to its narrow production base and the lack of competitiveness as reflected in the persistently large merchandise trade deficit. Before the crisis hit, Kosovo was enjoying several years of relatively robust growth. However, the sharp downturn in the EU will have knock-on effects on the economy. The main transmission

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3 Since then, the number of confirmed cases has reached 985 as of 18 May with 29 deaths recorded.
channels will be dampened demand for exports and possibly reduced remittances. This may be exacerbated by many in the Kosovo diaspora working in the services sector and construction.

Key vulnerabilities of the economy relate to the fragility of the private sector due to the dominance of micro enterprises, formal and informal (self)-employment and limited liquidity. The closure of shops, restaurants and hotels has first affected employment and income in these sectors, which account for 23% of total employment. Although, in reality the number of people working in these sectors might be much higher due to widespread informal employment.

The need for unlocking the development potential of Kosovo’s agriculture has been dramatically brought into light by the COVID-19 outbreak. The crisis has emphasised the importance of exploiting wisely the available resources in view of securing the necessary food also in the time of crisis, while safeguarding of course the environment and meeting citizens’ concerns related to availability, price, variety, quality and safety of their food. It has also stressed the importance of the agriculture sector for economic development. Reforms are urgently needed to tackle challenges such as the small farm sizes, land fragmentation, obsolete facilities and equipment, lack of funding for investments, the informal economy and limited knowledge of modern production techniques and cadastral justice, especially as concerns legalisation of properties to which owners may not be able to prove ownership due to lack of access to property documents. Additionally, most farms do not meet the EU requirements on food safety and hygiene, animal welfare and environmental protection, which limits exports. Poor horizontal cooperation of farmers and their poor integration in the value chain represent other significant challenges.

Certain groups of the population are more vulnerable than others and they are likely to be the most affected by the crisis. An estimated 18% of Kosovo’s population live below the poverty line, and 5% live in extreme poverty. Households with three or more children have a poverty rate of 26.3% and extreme poverty rate of 8%. Overall, children have a poverty rate of 23%.

The poverty rate is higher in rural areas and among those in occasional employment and low productivity jobs, as well as among persons living with disability. Women and women-headed households are more likely to be poor, likely due to higher unemployment rates, unpaid care work, and low wages.

Unemployment and labour market inactivity rates remain high, particularly among women. The poor, including minority groups, face difficulties in accessing basic services, both with regard to social services and benefits, employment benefits, health and education. While 18% of the population live below the poverty line, only 6% of the population benefits from the social assistance services, whilst 11% of the population accounts as beneficiaries of the basic pension scheme. An estimated 4.3% of children under five suffer from chronic malnutrition, while the rate is more than threefold (14.9%) among Roma, Ashkali, and Egyptian children. Less than 54% of these children under five have been vaccinated against measles, compared to 94% of the rest of the child population. Moreover, the crisis has the potential to exacerbate already existing inequalities such as social, economic and physical insecurities, particularly for women.

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and girls. Particularly if they have a minority background or a disability, such women and girls face multiple discrimination. Gender inequalities are prevalent also in the agriculture sector. Until now, only 2% of all subsidy recipients have been women, and they received 32 times less funding than men. Many Roma women who are active in the agricultural sector remain a hidden seasonal workforce as they are primarily employed as informal workforce at lower wages and with fewer rights than non-Roma.

Political instability, such as the collapse of the newly established government coalition following a no-confidence vote on 25 March, poses challenges in the capacity of policy makers to effectively handle the COVID-19 crisis response. The government’s request to temporarily suspend the fiscal rules related to the budget fiscal deficit and the bank balance have not been accepted for discussion by the Assembly and such a derogation to the Law on Public Finance Management and Accountability has therefore not been approved.

Soon after the restrictive measures were introduced, the government approved measures to mitigate the effect of the crisis on businesses and households and on creating room for increased health spending. Key actions include: (i) transfers to small- and medium sized enterprises and other sectors most affected by the lockdown; (ii) advancing payment for social assistance schemes by one month to support families in need; (iii) extra allocations to the Ministry of Health to procure medical equipment; (iv) deferrals of corporate and personal income taxes, and VAT; and (v) temporary removal of VAT on imports of wheat and flour. These measures will be accommodated within a reduced total expenditure envelope through spending reallocations within goods and services and out of capital spending. The Central Bank of Kosovo also suspended the payment of loan instalments for businesses and individuals from 16 March until the end of April, with a possibility of extension of suspension.

1.B CORONAVIRUS POLICY RESPONSE/ROADMAP FOR RECOVERY

The government approved an Economic Emergency Package for economic and social recovery in response to the COVID-19 crisis, on 31 March 2020, amounting to EUR 179.6 million (Appendix 1), which is estimated at 2.5–3.5% of the Gross Domestic Product (GDP). The measures included in the package can be summed up as follows:

- **EUR 105 million financial support to the private sector and their employees (58.5% of the fiscal package):** targeted for rent subsidies, wage and pension contributions for affected companies and employees of those companies; guarantees for the financial liquidity through the Kosovo Credit Guarantee Fund for the affected micro-businesses and self-employed individuals; incentives for the informal businesses to formalise the employment of the informal workers and grant them minimum wages; and credit guarantees to the export oriented companies and increased agricultural subsidies.

- **EUR 29.6 million in support to the welfare system beneficiaries (16.5% of the fiscal package):** targeted for the beneficiaries of the social assistance for the poorest families and beneficiaries of the basic pension schemes. A new temporary general unemployment benefit introduced for those that lost their jobs due to the crisis, as well as support for initiatives to improve the living conditions of the most affected

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minority communities in Kosovo. Includes families who have no income or receiving any transfers from other schemes.

- **EUR 45 million to support public institutions and public enterprises (25% of the fiscal package):** targeted to support public institutions, such as municipalities, affected by the spread of the pandemic; support financial liquidity of the affected public enterprises and additional wage contributions to the public employees working on the frontline in supporting the prevention of the COVID-19.

Appendix 1 to this contract includes the operational plan of the package, adopted by the Minister of Finance and Transfers as authorised by the government. The Appendix sets out all the measures as well as the details around the measures in order to determine the criteria, terms, conditions, manner of implementation and other specifications necessary for their implementation, in accordance with the principles of public financial management. This Resilience Contract will be directed towards supporting the implementation of the government Economic Emergency Package. The policy dialogue under this Resilience Contract will focus in particular on the areas identified in the below policy analysis. These elements will be followed in the assessment of the public policy on the implementation of the Economic Emergency Package because they are relevant in the efficient pursuit of the overall crisis response approach. A further emergency package is planned by the Government.

**Public finances and transparency:** Transparency and proper oversight of the government activities is a key measure to gain the trust of citizens in the administration. Giving the public access to timely and relevant information and data is a fundamental principle for democratic societies and all governments should constantly strive to improve on the access in this regard. Trust is a crucial element not only of democracy, but can have significant influence on public finances as the formalisation and tax compliance go up as trust increases. At a time of crisis and dwindling revenues, this issue is key. For the measures foreseen in the Economic Emergency Package, oversight and transparency need to be ensured for confidence that social assistance and funds for economic recovery from the government and partners are being directed to the beneficiaries most in need and to viable businesses and farmers. Such information should be made public in a centralized portal that can easily be located and in a machine-readable (open data) format.

Transparent conditions and criteria for the allocation of support under all the foreseen measures, including for social assistance, unemployment benefits and support to businesses and farmers, are important. Information on the names of all legal entities receiving direct support either as guarantees, rent subsidies or grants should as a rule be publicly available on the government’s website without delay. Such transparency should apply to all transfers and subsidies to legal entities in the agriculture, manufacturing and service sectors, as well as transfers to micro, small and medium enterprises and non-governmental organisations. The government should therefore move to publicly disseminate the list of legal entities receiving budgetary subsidies or transfers (including from the Economic Emergency Package). For information that cannot be made public, such as data on beneficiaries of social benefit schemes or similar, relevant aggregated information should be made available, such as the number of beneficiaries, disaggregated by gender and ethnicity, where applicable.

Another key aspect of public spending is the link between public expenditures and the strategic objectives as set out in the government programme and strategies. Linking these within an overarching strategic management framework will enable a more focused implementation of reforms for the set objectives. For that, strengthened human resources and capacity is needed within the administration.
On the revenue side, the pressure to raise additional revenues and to improve the tax collection has increased as a result of the crisis. It is important that the revenue administration agencies can fully concentrate on their respective work and mandates. The impetus on reducing informality should be a key priority by both the tax and customs administrations. It is important to now build on the momentum for formalisation created by some of the measures in the Economic Emergency Package.

With regard to tax policies, when the crisis hit Kosovo there was no possibility for the government to react in the short term to raise revenues from increased excise levels or taxes without the approval of the Assembly. While the tax policy principles need to be contained in primary legislation, the mandate to decide on the exact tax- and excise levels should be considered to be moved from the Assembly to the government in order to be able to react to the need for increased revenues more swiftly. In general, over the years, the Personal Income Tax and excises on tobacco and alcoholic beverages for example have not significantly changed. Currently the personal income tax arrangements are narrow and proportional, with the flat rate of 10% in force at the moment. As this category of tax is typically used around the world to improve disposable income distribution by reducing the tax burden on low earners and gradually increasing the tax burden on middle- and higher-income taxpayers, there is room for middle-and-higher income taxpayers to contribute a higher portion of their income through their personal income taxes.

With regard to excises, the four-year excise calendar on tobacco and tobacco related products ended in 2019. Considering the pandemic and the strain the virus has imposed on public health institutions, there is a momentum to significantly raise the current excise duty of EUR 47 per 1 000 cigarettes in order to achieve the main objective of this excise: to reduce tobacco consumption. This would yield additional benefits in public health in terms of costs and prevention with direct links to respiratory diseases like Covid-19. The current excise in Kosovo is lower than in Albania for example and significantly lower compared to the minimum of EUR 90 per 1 000 cigarettes in place throughout the EU.

The availability of sales prices on all real estate transactions is critical to increased access to finance, contract enforcement, accurate and fair taxation, legal settlements that include property, inheritance, increasing the formal economy, etc. Currently in Kosovo, however, it is impossible to know the real value of the property as the sales prices of all real estate transactions are not known and available. While the Kosovo National Strategy on Property Rights calls for appraised values and sales prices to be published and available, this has not yet happened. Transparency in this regard would increase revenues in a time of crisis through better evaluations for taxation and increase access to finance for the private sector.

Public services: The COVID-19 crisis has made clear that a key priority going forward will be the need for Kosovo to advance on the digitalisation path. Digitalisation is not a goal in itself, but is considered as an enabler for achieving a range of policy goals, including establishing a more enabling business environment for economic growth, including increased resilience in the time of crisis. The COVID-19 pandemic has revealed the usefulness of digital-by-default, both in terms of governance and in the delivery of public services. While governments in the short-term are doing their best to accommodate and cope with the situation, in the medium-term, there needs to be a coordinated focus on sustainable solutions through a systematic and long-term vision and a commitment to invest in the foundations of e-governance.

There are at least three basic elements that need to be in place for the increased use of digital services: a) public service providers and businesses need to be able to reliably identify its users digitally; b) an interoperable data-sharing solution needs to be in place with a “once-only” principle for documents to be submitted and an exchange of data in the back-office; and, c)
service providers need to develop technological capacities and digital services to support the continuous digital transformation. According to the latest overview of e-services in Kosovo, drafted by the World Bank in 2019, the government at all levels provides over 700 services to businesses and citizens, of which only less than 10% are digitised due to the lack of the necessary infrastructure, systems and skills.

With regard to digital identity, Kosovo has not yet adopted the legislation related to the digital identity, which is one of the reasons why digital identity as a secure universal service does not exist. Furthermore, information security needs to be kept in mind as the trust of users is crucial for ensuring the uptake of digitised services and therefore needs to be an integral part of the design of any solution.

Businesses and citizens in Kosovo also face a considerable administrative burden when dealing with the public administration, which can hamper the creation of new businesses in the post-crisis period when it is needed the most. Work on reducing the administrative burden for businesses and citizens, taking into account the recently approved Concept Document in this regard, will need to intensify during the coming year. Strong leadership is needed from the Office of the Prime Minister to comprehensively address this horizontal issue, covering the processes for which the exchange of information and/or documentation is required: tax submissions, inspections, licenses, applications etc. For that, strengthened human resources and capacity is needed within the administration.

With regard to social services, Kosovo has a legal and institutional framework for decentralised social service delivery with the aim of bringing services closer to citizens. However, this is not matched by adequate funding and resources. Due to several legal, policy and budgetary challenges decentralisation in this regard has not yet been finalised.

The Ministry of Health is responsible for organising the provision and development of social and family services, while municipalities are responsible for delivery of social services. However, these social services are funded from the central budget in the general municipal grant without being earmarked. At the local level, the Municipal Directorates for Health and Social Welfare oversee the planning and development of services, while the Centres of Social Work are responsible for service delivery in all 38 municipalities (through 40 Centres). These Centres are the primary bodies mandated to assist potential beneficiaries for social assistance as well as to deliver social and family services like counselling, consultation on healthcare and social protection, or referral to other relevant services. Currently, the Centres serve more as providers of administrative support to people who apply for social assistance schemes, compensations for children with disabilities and payments for foster families, rather than as providers of psychological, social, or re-integration services.

The Centres face several policy and budgetary issues, which limit their capacity to respond to the needs of people such as finances, human resources, inappropriate facilities and infrastructure, and lack of cooperation with other stakeholders and non-governmental organisations.

Under such circumstances, the Centres have very limited capacity to respond to a crisis situation and often refer persons in need of social services to external service provider. These external service providers are non-governmental organisations, which are often underfunded.

The entire system of social service provision relies on these non-governmental organisations. Currently, 42 non-governmental organisations are licensed by the relevant Ministry for providing social and family services at the central and local level. The non-governmental organisations are only partially funded by the municipal budgets and instead operate on a
project basis with donor funds. Their financial sustainability is usually equal to zero. The government provides some additional funding distributed through an annual call, but for the past years every year the funding has been delayed, leaving them for several months without any budget.

Without parameters for a specific financial formula for social services to be allocated to municipalities, funding remains a challenge for the provision of services. A concept document for the reform of family and social services that would introduce a more adequate financing mechanism for social services was approved by the government in March 2019, but the new financing model requires amendment of the current Law on Local Government Finance as well as the completion of the new Law on Family and Social Services. A first crucial step to advance the reform of social services is the launch of public consultation of the draft Law of Family and Social Services, which has been developed with the support of EU assistance.

Attention to gender equality is essential to any response to the ongoing crisis. Already existing political, social and economic gender inequalities have been exacerbated by the COVID-19 pandemic. Given occupational gender stereotypes, women are at the frontlines of the pandemic, including as health and social workers. Women also face a heightened burden of unpaid work due to the closure of schools and work-places. The pandemic has also led to an increase in domestic violence due to isolation measures. Considering the gendered nature of the pandemic, gender neutral emergency measures may not address women’s and men’s different needs, priorities and situations nor the multiple discrimination that especially women and girls from minority communities face daily. In accordance with the Law on Gender Equality (LGE), Article 5, all institutions should ensure collection of gender-disaggregated data and its submission to the Kosovo Agency of Statistics. Gender-disaggregated data is especially relevant with regard to pension beneficiaries and the numbers of persons claiming social assistance on behalf of their families and on family members depending on said social assistance. Such data could facilitate the creation of a plan for the government to improve the distribution of social assistance within the household to better reach the most vulnerable groups (often women).

1.2 OTHER AREAS OF ASSESSMENT

1.2.1. Fundamental rights

Kosovo has demonstrated commitment to fundamental rights. Nonetheless, the following issues call for regular dialogue and monitoring:

- Implementation: While the legal framework guarantees the protection of fundamental rights in line with European Standards, additional efforts are needed to implement it. Human and financial resources are lacking and relevant authorities are still dependant on donor support, guidance and capacity building;

- Gender equality: the rights of women and children are legally recognised, but not effectively protected. Women face discrimination and inequalities in the labour market, in accessing finance, in ownership of property and access to justice, in the home environment and are underrepresented in decision making positions. Domestic violence continues to be the most prominent form of gender-based violence in Kosovo, and the occurrence of domestic violence has seen an increase during the first months of lockdown. Access to justice and institutional support, which was already weak, has
been further hampered by isolation measures. Generally, the COVID-19 pandemic has exacerbated existing gender inequalities, potentially worsening social, physical and economic insecurities affecting women. The pandemic has led to a heightened burden of unpaid work, primarily for women, due to the closure of schools and work-places, hindering women’s access to work. Women can also frequently be found at the frontlines of fighting the pandemic, including as health and social workers. Women from minority communities often face multiple discrimination.

- Persons with disabilities: Implementation of the legal framework protecting persons with disabilities remains limited and characterised by a clear gap in harmonising the legislation and policies with international conventions and the EU acquis on the rights of people with disabilities.

- Minority communities: Kosovo has a strong institutional and legal framework for the rights and protection of minorities including the applicable strategies and action plans. However, the implementation is weak and there is a large dependency on international donors for support to minority communities. Kosovo Roma, Ashkali and Egyptian communities remain among the most marginalised communities in Kosovo, hindered by poverty and unemployment, poor living conditions, limited access to water and health care, lack of access to personal and property documents, loans, as well as the normal and COVID-19-related socio-economic protection schemes and overall vulnerability, particularly among women. In the COVID-19 context, thousands of these families are affected exponentially, and require urgent health and food and non-food assistance. There also remain concerns about continued intimidation within the Kosovo Serb community, with the reach of the authorities to ensure effective protection of these entities still weak in the north of Kosovo. Continued efforts are needed to ensure a secure environment especially in areas where returnees live, accessing property, personal documentation, language rights, adequate provisions for education, employment and social welfare.

- Cultural heritage rights: There remain continuous concerns over some violations of special protection zones as guaranteed by the Ahtisaari-plan and non-implementation of constitutional court rulings. The Implementation and Monitoring Council, the only institutional mechanism between the government of Kosovo and the Serbian Orthodox Church has been largely non-functioning.

1.2.2 Macroeconomic policy

Kosovo has continued to implement stability-oriented policies since the last programme with the IMF ended in 2017. Prior to the COVID-19 crisis, Kosovo’s economy has consistently grown above the Western Balkans average for the last few years. According to the Kosovo Agency of Statistics, the preliminary annual growth rate for 2019 is 4.0%, while the annual growth in 2018 was 3.8%. In 2019 the current account deficit fell significantly to 3.2% of GDP as compared to a medium-term trend of 5-8% of GDP. The budget deficit fell to a record low of 0.3% of GDP, well within the 2% fiscal rule, albeit mainly due to the late approval of the

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budget law in 2019 and the low execution rate of capital projects. However, based on the latest available estimates, the COVID-19 crisis is expected to hit the economy significantly in the following way:

- **Growth, external accounts and financial sector:** Based on the latest IMF available estimates, the current crisis is expected to lead to a contraction in real GDP of 5% in 2020, followed by a recovery in 2021, presumeing that economic activity resumes in Q3 of 2020. The contraction could aggravate further by 6 percentage points if the containment measures extends through Q3. The effect of the COVID-19 containment measures will lead the current and capital account deficit to increase by 7.8% of GDP. Due to travel restrictions, external financial inflows are expected to contract by 7.4% of GDP. Considering the large share of Kosovo diaspora residing in EU member states, remittances are projected to decline by 10%, which will negatively impact private consumption. FDI and other financial inflows are expected to drop by 50% compared to 2019 (or 3.6% of GDP) and will impact mainly construction and real estate. Similarly, external inflows from the compensation of Kosovans working abroad are expected to decline by 19% due to adverse developments in Germany and Switzerland.

The financial sector has been performing well in Kosovo during recent years with an expansion on lending by 10% on a y-o-y basis. However, with the outbreak of the COVID-19, the financial sector might face challenges. Based on the latest IMF data, for 2020, bank lending is expected to contract by 2.4% compared to the previous year, while the deposits of the private sector are expected to fall by 4.2%. The Central Bank of Kosovo (CBK) together with the Kosovo Banking Association decided to suspend the payment of loan instalments for businesses and individuals from March 16 to April 30, with the option to extend it further. Suspension decisions will be made by banks on a case-by-case basis, and be targeted to sectors and individuals most affected by the crisis. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans. The banking system is in a position to absorb this measure, as banks’ NPLs remain low and liquidity and capital buffers are comfortably within regulatory limits. Therefore it is not advisable to weaken capital standards. Intensive supervision of banks with more concentrated portfolios and riskier clients is needed.

- **Exports/imports, reserves:** In 2019, Kosovo's trade deficit exceeded EUR 3 billion, with imports contributing by 89%, and exports share covering only 11% of the overall trade. The large trade deficit is counterbalanced by a positive trade balance in the trade in services. Due to the expected global recession during 2020, Kosovo exports of goods are expected to decrease by 17% considering that metal base and mineral products dominate Kosovo exports. Likewise, the travel-ban during the pandemic period will significantly impact the export on services, considering that travel services accounts for over 79% of the share of exports of services, mainly due to large diaspora travelling during the summer period. Overall, with the decline in disposable income and overall demand for goods and services, imports are projected to decline by 7.9% on an annual basis.

- **Tax/non-tax revenues, expenditures, deficit, debt:** The budget for the fiscal year 2020, approved in March, has a very narrow fiscal space and contracted debt in capital expenditure of around EUR 400 million from previous years. A substantial share of recurrent expenditure (50% of the approved budget, or over EUR 1.2 billion) is targeted for essential categories of payments such as wages, social assistance and untargeted pension payments, providing limited space for productive investment. Prior to the COVID-19 crisis, government maintained overall fiscal discipline by keeping the fiscal deficit and public debt
within the established fiscal rules, despite increasing pressure from social spending. The wage bill rule also remained below the ceiling in 2019. Other fiscal risks, as identified by an IMF mission in February 2020 following the establishment of the new government, include the strong pressure on the budget by the foreseen increase in public wages, as part of the currently suspended Law on Salaries.

On the revenue side, with the government's decision to defer tax collection as a countermeasure to support businesses against the lockdown, fiscal revenues are projected to decrease by 12% in 2020 due to a sharp fall in VAT and custom duties collection. Without accounting for external and domestic financing, the government bank balance is expected to contract by 3.4% of GDP, and the budget deficit is expected to contract by 5.6% of GDP. The IMF’s updated assessment of public debt indicates that it will remain sustainable, as it is currently one of the lowest in the Western Balkans (17.5% of GDP in 2019). Assuming that the government-requested deviation from the fiscal deficit rule is approved and only reinstated from 2022 onwards, public debt will increase to about 28% of GDP by 2025. As Kosovo does not have external market access, extending the maturity of domestic debt, diversifying the sources of financing, and making more use of the available IFI loans for capital investment projects should remain key policy priorities to contain financing risks.

The authorities have announced the following measures to cope with the crisis:

- (i) extra allocations to the Ministry of Health to procure medical gear; (ii) deferrals of corporate and personal income taxes and VAT; and (iii) temporary removal of VAT on imports of wheat and flour;
- The Central Bank of Kosovo suspended the payment of loan instalments for businesses and individuals from 16 March until the end of April, with a possibility of extension of suspension;
- The government approved the Economic Emergency Package on 31 March 2020, which accounts for between 2.5-3.5% of GDP. This package requires additional financing.

The authorities expect to receive additional support from a number of sources. In addition to the 50% of their quota under the IMF's Rapid Financing Instrument to access ca EUR 51 million in financing, the government also expressed its interest to access the EU Macro-Financial Assistance (MFA). The MFA omnibus adopted by the Commission proposes to lend EUR 100 million to Kosovo. In addition, the government has concluded the loan negotiations with the World Bank, amounting to USD 45 million to support the emergency of the social and health needs. In addition, the board of the Council of Europe Development Bank has approved Kosovo’s first sovereign loan in the amount of EUR 35 million, which enables financing to improve the services in the health sector as well. Other negotiation processes are ongoing with other IFIs to access additional external financing, such as new and re-arrangements of existing loans with the World Bank, the European Investment Bank, and the European Bank for Reconstruction and Development. Close monitoring of the situation will be performed in coordination with the IMF and other partners, such as the World Bank. In conclusion, the response to the crisis is assessed as relevant and credible to restore key macroeconomic balances.

Following the emergency phase of the crisis, the macroeconomic position of the government will worsen and this will subsequently need to be reflected in the macroeconomic policies that are pursued. The public debt will have risen significantly higher and revenues might not bounce back to the levels prior to the crisis. While for the economic recovery it might be important to
focus on keeping the capital investment levels at a relatively high level, there is a need to improve on the process for evaluating capital projects as an essential step to increase the budget’s impact on economic growth. Similarly, it is important to strengthen the institutional arrangements for oversight of Publicly Owned Enterprises. In order to better record assets, liabilities and fiscal risks related to Publicly-Owned Enterprises and Public-Private Partnerships (the government should include an annex for Public-Private Partnerships and Publicly-Owned Enterprises investments in the budget document and report on the contingent liabilities arising from Publicly-Owned Enterprises investments in the government’s annual financial statements.

Similarly, in order to stabilise public finances after the COVID-19, there will be a need to carefully assess the recurrent expenditures to see where there would be room for efficiency reforms. Every line ministry will need to find savings under their budget allocations. A freeze on new recruitments to replace retired public sector staff should be contemplated seriously, taking into account the large size of the public service in Kosovo in general.

As poverty and inequality are set to increase during the crisis, social benefit programmes need to be reformed as a matter of urgency to more effectively address inequalities (especially gender and minority inequalities including Roma, Ashkali and Egyptians), poverty and unemployment within the existing spending envelope. This includes strengthening mechanisms to ensure no double dipping, means-testing, removing disincentives to remain unemployed, strengthening the gender-responsiveness of policies, inclusion of minorities, penalising gender-based and minority-based discrimination, tightly administering and enforcing eligibility of schemes and making the system more equitable by e.g. aligning the disability threshold and payments for war veterans to the general disability benefits. Further, a credible re-classification and verification of war veterans, in line with the law, should be completed, which is necessary also for social spending to stay within the budget envelope. Given the fall in Gross Domestic Product and revenues, there will be no room in the budget for the introduction of any non-contributory permanent early retirement schemes for special groups (such as for the police).

With regard to social assistance scheme, the next step would be the review and approval by the government of the Concept Note for reforming the Social Assistance Scheme to eliminate discrimination, promote inclusion, equitability and overall effectiveness. The Concept Note is based on a thorough review of the assistance scheme, supported by the World Bank, and proposes reform of the targeting mechanism, with the objective of replacing the current inexact proxies of poverty and the powerful exclusion filters with a combination of a means test and a proxy means test.

1.2.3 Public Financial Management (PFM)

Kosovo has demonstrated progress in PFM and Domestic Revenue Mobilisation through the following key reforms:

- improved macro-economic forecasting capabilities demonstrated through a year-on-year decreasing deviation of projected tax revenues versus out-turn (-2.7% in 2018 and -4% in 2019 within forecast targets);
- increased central monitoring of the internal audit and control functions in budget organisations by the Central Harmonisation Unit;
- increased number of performance audits implemented by the Kosovo National Audit Office;
- increased fully implemented recommendations of the external auditor, from 34% to 39%;
- well-functioning e-procurement system mandatory for all procurement activities, including submission of bids by economic operators;
- procurement contracts published upon signature (however, still not in open data format);
• in the Treasury, from the beginning of 2019, all payments electronically authorised directly by the Treasury to the CBK System, including various controls, replacing the previous physical transactions sent manually and executed by the CBK with a lot of operational risks involved.
• adoption of new financial statement templates to support changes in IPSAS (cash basis), effective from 01.01.2020, and implementation of a disaster recovery and business continuity centre, which allows for the continuation of operations with up-to-date back-up data for all budget organisations.
• improved revenue collection performance during the years 2018 and 2019 (revenue increased around the same as GDP growth, albeit offset by the drop in revenue due to the SAA with the EU, equal to EUR 64 million in 2019 and EUR 43 million in 2018).
• VAT reimbursement time has decreased to 23 days from 30 days in the tax administration;
• increased collection of tax debt as 29.5% is reported during the first six months of the year in 2019, up from 25% in 2018. (Debt collection in 2018 amounted to EUR 77.2 million, compared to EUR 66.8 million in 2017, an increase of 15.6%. By the end of 2018, the total amount of tax arrears that are collectible was EUR 262.3 million. The annual report of 2019 is not yet out).
• progressive increase in the number of taxpayers who declare their income voluntarily on an annual basis from the baseline of 62,886 in 2015 to 68,838 in 2018;
• increase with regard to the timely fulfilment of VAT declarations and the number of taxpayers who declare their income voluntarily on an annual basis. The number of registered businesses for VAT has increased from 16,583 in 2015 to 25,806 in 2018.

The PFM Reform Strategy 2016-2020 remains relevant and credible and its implementation is overall on track. A new strategy is being prepared, with support from the EU PFM Technical Assistance, to replace the current one that ends at the end of this year. The day-to-day monitoring of the implementation of the Public Finance Management Reform Strategy continues to be managed by the Public Finance Management Coordination Group at the technical level, chaired by the Secretary-General of the Ministry of Finance and Transfers

The crisis context will require close monitoring of the Economic Emergency Package and the measures foreseen therein. Exceptional procedures or derogations used by the authorities, during the COVID-19 crisis, should come with the necessary safeguards/oversight in line with the regulatory framework and that expenditures are properly recorded, as they will most likely lead to payment arrears. The same applies to revenue, if tax relief is granted to businesses. These measures must be accounted for. Specific guidance has been issued as foreseen under the Law on Public Procurement in emergency situations. According to article 45 of the law, the tendering procedure can be shortened in cases of emergency, and article 35 foresees the derogation of the tendering procedure and application of negotiated procedure. The Public Procurement Regulatory Commission has informed all procurement bodies that if there is a requirement for fast procurement due to COVID-19, they can use these articles and have faster procurement of procedure. All other procurements are due to follow normal procedures.

The Minister of Finance, on 28 April also signed the Joint Procurement Agreement on Medical Procurement for COVID-19 with the European Commission, which enables Kosovo to participate in public procurement activities led by the European Commission. Kosovo benefits from this agreement in procurement procedures, as the provision of products as a countermeasure to COVID-19 can be provided outside the Kosovo market.
1.2.4 Transparency and oversight of the budget

The entry point is met since the draft and enacted Budget Laws of the last three years, including 2020 have been published in the required languages. Budgetary information is generally accessible, timely, comprehensive, and sound. The approved budget law is published in the Official Gazette, link [https://gzk.rks-gov.net/default.aspx](https://gzk.rks-gov.net/default.aspx).

Budget information, including financial statements, budget circulars, reports and forecasts are available to the general public on the website of the Ministry of Finance and Transfers, link [https://mf.rks-gov.net/en-us/](https://mf.rks-gov.net/en-us/). As these documents are in pdf-format, there is also since December 2018, a Transparency portal of the Ministry of Finance and Transfers, link: [https://ptmf.rks-gov.net/page.aspx?id=2,1](https://ptmf.rks-gov.net/page.aspx?id=2,1), which contains budget information in excel-format with possibilities for easy comparisons to be made between years (data available since 2015).

External audit and control are also performed. The crisis context will, however, require close monitoring of:

- Implementation of transparent disbursement criteria for the beneficiaries of the fiscal measures put in place in response to the COVID-19 crisis;
- Publicly available information on which economic operators, including companies, other entities and farmers, that will and/or have been awarded grants, subsidies or guarantees from the funds foreseen under the Economic Emergency Package of the government (excluding support to natural persons);
- Gender responsive budgeting and
- Periodic review of the use of funds disbursed to budget organisations from the COVID-19 special account by both the internal audit units and the Kosovo National Audit Office.

2. RISKS AND ASSUMPTIONS

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political instability, with either new elections or a new government taking place in the up-coming months</td>
<td>H</td>
<td>Conditions put into the contract to ensure spending on the foreseen and approved measures</td>
</tr>
<tr>
<td>Macroeconomic instability due to the drop in revenues and increase in the expenditures due to fiscal emergency measures</td>
<td>H</td>
<td>Low level of public debt preceding the crisis. Prudent fiscal policies, mitigating fiscal risks.</td>
</tr>
<tr>
<td>Essential longer term reforms are stalled due to frequent changes in the political leadership and political priorities</td>
<td>M</td>
<td>Government focus on improving the strategic management framework for better linkages between strategic objectives and budgetary documents, including dedicated EU assistance in this area.</td>
</tr>
<tr>
<td>Risk of the financial management systems not able to correctly record and control the expenditures</td>
<td>L</td>
<td>Government commitment to public finance management reforms. EU support to public finance management</td>
</tr>
</tbody>
</table>
allocated to the economic crisis


Heightened risk for mismanagement of public funds as the government’s Economic Emergency Package will channel large funds to new beneficiaries in a short period of time possibly leaving room for discretion in the allocation of funds


Assumptions

- The government continues the implementation of prudent fiscal policies, improving oversight and mitigation of fiscal risks.
- Continued government commitment to the objectives and measures foreseen in the Economic Emergency package.

3. **Link to Previous/Other Financial Assistance and Interventions by Other Cooperation Partners**

In the EU response to the crisis, synergies are sought between this programme and the following operations funded by the EU:

- On-going public finance management sector reform performance contract with accompanying technical and twinning assistance to the sector including for internal audit and control and for external audit;
- Planned action to improve social protection and gender equality to mitigate the socio-economic impact of the COVID-19;
- EU investment support to the agriculture sector under direct management (6 grant schemes that resulted in 101 contracts financed with more than EUR 33 million approved so far). The level of financing under the grant schemes implemented by the EU Office has been between EUR 100 000 to EUR 500 000 per grant, while the grants foreseen under Measure 11 are going to be from EUR 10 000 to EUR 100 000 allowing therefore for a much wider reach (and number of direct beneficiaries) than could realistically be foreseen under direct management by the EU Office in Kosovo;
- Planned action on private sector development to mitigate the socio-economic impact of COVID-19, which includes support to start-ups and digitalisation

In the response of the international community, close coordination will be ensured between the EU and the following entities:

- The International Monetary Fund (IMF)
- The World Bank (WB)
• The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)/the KfW Development Bank (GIZ/KfW)
• The United Nations Development Programme (UNDP)
• Regional Cooperation Council (RCC)

For the purpose of ensuring complementarity, synergy and coordination, the Commission may sign or enter into joint donor coordination declarations or statements and may participate in donor coordination structures, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

4. DESCRIPTION OF THE ACTION

The action consists of a new Resilience Contract. The action will focus on the implementation of the fiscal measures foreseen in the government’s Economic Emergency Package (Appendix 1).

With regard to policy dialogue the objectives will centre on the horizontal themes of:

i) The use of public funds in a transparent manner for better value-for-money and increased oversight to gain trust and willingness to contribute to revenues in the fiscal crisis and increased revenue collection for macro-economic stability after the crisis, and,

ii) Improved public services for businesses and citizens to increase resilience during the COVID-19 crisis and beyond.
<table>
<thead>
<tr>
<th>IMPACT</th>
<th>OUTCOME(S)</th>
<th>Results chain</th>
<th>Indicator</th>
<th>Source of data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Impact (overall objective)</td>
<td>To increase resilience and transparency in times of crisis and mitigate the socio-economic impact of the COVID-19 crisis in Kosovo, especially for vulnerable groups, farmers and micro and small enterprises, using a gender-responsive approach.</td>
<td>Number of people and legal entities reached for economic relief as a result of the activities supported under the measures foreseen under the Economic Emergency Package (disaggregated by gender) Publicly available information on the legal entities receiving grants and state aid</td>
<td>Government’s financial statements on the use of funds under the Special Covid-19 account Information made publicly available on the ministries’ websites about the (number of) beneficiaries of the support Kosovo external audit report on the special account</td>
</tr>
<tr>
<td></td>
<td>Outcome 1 (specific objective)</td>
<td>The effects of the disruptions of the economy on businesses, including microenterprises and self-employed women and men are reduced</td>
<td>Number of businesses, including self-employed and microenterprises benefitting from the measures foreseen under the Economic Emergency Package (disaggregated by ethnicity, whenever possible, and gender of the owner and size of the company)</td>
<td>Government’s financial statements on the use of funds under the Special Covid-19 account Information made publicly available on the ministries’ websites about the (number of) beneficiaries of the support</td>
</tr>
<tr>
<td></td>
<td>Outcome 2 (specific objective)</td>
<td>Agricultural holdings led by women and men with increased production capabilities and performance in 2021 compared to 2019 levels</td>
<td>Number of farmers with expanded production capacity as a result of the measures foreseen under the Economic Emergency Package (disaggregated by gender) % increase in the agricultural output of the farms benefitting from the measures foreseen under the Economic Emergency Package disaggregated by ethnicity, whenever possible, and gender of the owner % increase in the gross income generated in the farms supported under the measures foreseen under the Economic Emergency Package (disaggregated by ethnicity, whenever possible, and gender of the owner)</td>
<td>Monitoring Reports issued by Ministry of Agriculture, Forestry and Rural Development Reports on implementation of the SAA for the agriculture sector Report Ex-post Evaluation National Agriculture and Rural Development Programme (ARDP) 2014-2021 Report Evaluation IPA II assistance to agriculture sector Kosovo audit reports on</td>
</tr>
<tr>
<td>Results chain</td>
<td>Indicator</td>
<td>Source of data</td>
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<tr>
<td></td>
<td>Package disaggregated by ethnicity, whenever possible, and gender of the owner</td>
<td>implementation of agri-rural measure implemented under the measures foreseen under the Economic Emergency Package</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Outcome 3</strong></td>
<td>% increase in the gross income generated in the farms supported under the measures foreseen under the Economic Emergency Package disaggregated by ethnicity, whenever possible, and gender of the owner</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(specific objective)</td>
<td>Number of households benefitting from the measures foreseen under the Economic Emergency Package (disaggregated by gender of the head of household and ethnicity where applicable)</td>
<td>Information made publicly available on the ministries websites of the (number of) beneficiaries of the support Report “Situation Analysis: Legal and Fiscal Context as well as the Capacities of Social Service Providers in Kosovo” (Save the Children) (2020) Ad-hoc funding for some social services without financing formula or normative approach.</td>
<td></td>
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</tr>
<tr>
<td><strong>Outcome 4.</strong></td>
<td>Publicly available information on the government websites with regard to state aid and grants</td>
<td>Government meeting minutes Government open data portal</td>
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<tr>
<td>(specific objective)</td>
<td>Improved public services, and better oversight and targeting of public spending towards strategic objectives</td>
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<tr>
<td>Results chain</td>
<td>Indicator</td>
<td>Source of data</td>
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<tr>
<td><strong>Induced Output(s) related to Outcome 1</strong></td>
<td>1.1 More women and men in the formal labour market as a percentage of the total employed 1.2 Businesses receive support to survive and grow</td>
<td>Employment to population ratio (EPR) by ethnicity, whenever possible, and gender and age group (15-64)(^8) Informal employment as a percentage of total non-agricultural employment, by ethnicity, whenever possible, and sex(^9) Number of businesses that received support, disaggregated by gender of the owner.</td>
<td>Information made publicly available on the ministries websites of the (number of) beneficiaries of the support</td>
<td></td>
</tr>
<tr>
<td><strong>Induced Output(s) related to Outcome 2</strong></td>
<td>Relevant requirements and standards on food safety, hygiene, animal welfare, and environment better addressed by Kosovo’s farmers (ethnicity, whenever possible, and women and men) in 2021 compared to 2019.</td>
<td>Number of farmers that better meet the requirements and standards on food safety, hygiene, animal welfare, and environment as result of the measures foreseen under the Economic Emergency Package (disaggregated by ethnicity, whenever possible, and gender) Number of farmers that, as result of the measures foreseen under the Economic Emergency Package, will address climate change challenges in performing further their activities (disaggregated by ethnicity, whenever possible, and gender) Reduced imports of agricultural products and therefore strengthened resilience of the sector and the environment through increased local</td>
<td>Monitoring Reports issued by Ministry of Agriculture, Forestry and Rural Development Reports on implementation of the SAA for agriculture sector Report Ex-post Evaluation National Agriculture and Rural Development Programme (ARDP) 2014-2021 Report Evaluation IPA II assistance to agriculture sector</td>
<td></td>
</tr>
<tr>
<td>Results chain</td>
<td>Indicator</td>
<td>Source of data</td>
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</tr>
<tr>
<td>Induced Output(s) related to Outcome 3</td>
<td><strong>The most vulnerable women and men receive additional social transfers and services to endure the COVID-19-related crisis</strong></td>
<td>Number of individuals and households that received support, disaggregated by gender and ethnicity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Induced Output(s) related to Outcome 4</td>
<td><strong>Increased oversight in the spending of public funds</strong></td>
<td>Information available on the government website(s) on the beneficiaries</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Production (farm to fork component of the Green Deal)
For that purpose, the contract will assist Kosovo through financial transfers, policy dialogue and performance development.

**COMPLEMENTARY SUPPORT**

No complementary support will be financed under this contract. However, synergies will be sought from the action EU4 social protection following the COVID-19 crisis (IPA 2019) and EU4 small business recovery following the COVID-19 crisis (IPA 2020) to mitigate the socio-economic impact of the COVID-19. In addition, the programme will also benefit from the supervision from the on-going public finance management sector reform performance contract, with accompanying technical assistance focusing on the areas of public finance management coordination, domestic revenue mobilisation, internal audit and control and public procurement. An ongoing twinning in the area of external audit will also be assisting in terms of oversight on the disbursement of the funds. In addition, complementarity with the agricultural funds under direct management of the EU office will also be sought.

5. **IMPLEMENTATION ARRANGEMENTS**

5.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with Kosovo.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is **12 months** from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer.

5.3 Implementation of the budget support component.

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 26 500 000. This amount stems from the most recent IMF forecasts of the fiscal impact of the 2020 crisis, which could result in a shortfall of revenue and additional spending estimated to 12%, an expected expansion of the current and capital account deficit by 7.8% of GDP, and a projected contraction of external financial inflows by 7.4% of GDP. With the expected budget deficit to increase to 5.6% of GDP, and with the approval of the fiscal support package by the government to ease the impact of the crisis, additional spending is estimated to about 3% of GDP (EUR 209 million), for which access to additional financing is needed.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:
Satisfactory progress in the implementation of the COVID-19 policy response, in a transparent manner, through the Economic Emergency Package as set out in Appendix 1, and continued credibility and relevance thereof;

- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme; and,
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that are used for the variable tranche will aim at promoting actions that will support the economic recovery and improve the resilience of public finances and public services during and in the immediate period after the health and economic crisis caused by the COVID-19 pandemic. The indicators will be defined at the latest by the signature of the financing agreement.

The detailed performance indicators and targets for the disbursement of the variable tranche are outlined in Annex 1 Performance indicators used for disbursements. The disbursement arrangements and timetable are outlined in Annex 2.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the Ministry of Finance and Transfers, in coordination with the National IPA Coordinator may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the third month after the signature of the contract. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental rights, or in the case of audit findings of fraud or mismanagement in the allocation of the emergency response funds, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement. The chosen course of action in such a case will depend on the government’s response to address the findings. The chosen action will be discussed with the government prior to a final decision being made.

5.3.3 Budget support details

The budget support component consists of a fixed and a variable tranche. The fixed tranche shall be requested upon the entry into force of this Financing Agreement provided that the general conditions for disbursement mentioned in section 5.3.2 are met.

The variable tranche will be disbursed provided that the general conditions for disbursement mentioned in section 5.3.2 are met. Once compliance with the general conditions is confirmed, the variable tranche of maximum EUR 6 million will be calculated according to the
disbursement procedures specified in Annex 1. The indicators will be defined at the latest by the signature of the financing agreement.

Budget support is provided as direct untargeted budget support to the treasury’s special account opened for the response to the COVID-19 crisis, a sub-account to the Single Treasury Account.

5.4 Implementation modalities for complementary support to budget support

N/A

5.5 Scope of geographical eligibility for procurement and grants

N/A

5.6. Indicative budget

<table>
<thead>
<tr>
<th></th>
<th>EU contribution (amount in EUR)</th>
<th>Indicative third party contribution, in currency identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget support</td>
<td>26 500 000</td>
<td>N/A</td>
</tr>
<tr>
<td>Evaluation-Audit/expenditure verification</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Communication-visibility</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

5.7 Organisational set-up and responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5.8 Monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system and elaborate regular progress reports (not less than annual) reports. Every report shall provide an accurate account of implementation of the reform, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details. The final report, narrative and financial, will cover the entire period of the action implementation.

The government as a whole will be responsible for the overall execution of its measures as foreseen in the operational arrangements, approved by the Ministry of Finance and Transfers. The day to day monitoring of the Special COVID-19 Account will be performed by the Treasury under the Ministry of Finance and Transfers, and quarterly financial statements will be published as is current practice, with specific information relating to the special account. Budget organisation are using a special expense code “COVID-19” in order to be able to track the expenditures to be paid from the Special COVID-19 Account under the Single Treasury Account.

As there are significant amounts of funding being disbursed from the Special COVID-19 Account for extraordinary measures through a number of channels and budget organisations,
special external audit oversight is needed. Expenditures will be audited as part of the regular financial audits by the Kosovo National Audit Office (KNAO) of all budget organisations after the end of the financial year 2020. In addition, a performance audit will be performed by the KNAO to assess management of measures taken by the government against the COVID-19 crisis. Such an audit is foreseen to commence at the end of Q3 and an audit report is expected in Q1 of 2021.

The government should make publicly available the conditions and criteria for allocation of support under all the foreseen measures under this contract stemming from the Emergency Economic Package, including for social assistance, for unemployment benefits and for support to businesses and farmers. The information should be publicly available on the websites of the relevant ministries.

Similarly, once the fund allocations are decided upon, information (names, amount of publicly funded aid) should be publicly available on the relevant ministry’s or government’s website with regard to transfers and subsidies to legal entities in the agriculture, manufacturing and service sector.

For the Commission, the monitoring and assessment of the eligibility criteria for the disbursement of the tranches will be carried out by the EU Office in Kosovo (EUO and the geographical unit of DG NEAR supported, when necessary, by other Commission services and/or international organisations).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the nature of the action, the Commission may, during implementation, decide to undertake an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. An ex-post evaluation could be carried out for this action or for one of its components via independent consultants, contracted by the Commission. Financing for such an evaluation would be covered by another measure. Evaluations of the budget support component could be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the specific nature of the action as a crisis response. Any evaluation shall include a gender impact assessment.

Any evaluation reports shall be shared with the IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5.10. Communication and visibility

Communication and visibility are tools for implementation of sector reforms and will be given high importance during the implementation of the Action. The implementation of the communication activities shall be the responsibility of the IPA II beneficiary and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the EU communication and visibility requirements in force. All
stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II.

There will be a dedicated communication and visibility plan for the sector strategy and the budget support programme that should be updated regularly. It is the responsibility of the beneficiary to keep the European Union Office fully informed of the planning and implementation of the specific visibility and communication activities.

The plan should include communication narratives and master messages customised for the different target audiences (stakeholders, civil society, general public, etc.). The communication and visibility plan should also indicate how effectiveness of communication activities will be measured.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process, as well as the benefits of the action for the general public. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences, women and men, the added value and impact of the EU’s interventions and will promote transparency and accountability on the use of funds. Visibility and communication aspects shall be complementary to the activities implemented by DG NEAR and the EU Office in the field.

List of Appendixes:
1. Operational plan of the government for the Economic Emergency Package

List of Annexes:
1. Performance indicators used for disbursements
2. Disbursement arrangements and timetable