



EUROPEAN COMMISSION

Brussels, 27.6.2011
C(2011) 4381 final

COMMISSION IMPLEMENTING DECISION

of 27.6.2011

adopting a Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Kosovo*

* Under USNCR 1244/1999.

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)¹, and in particular Article 14(2)(a) thereof,

Whereas:

- (1) Regulation (EC) No 1085/2006 creates a coherent framework for European Union assistance for candidates and potential candidates. Article 6(1) of that Regulation requires that the assistance shall be provided on the basis of multi-annual indicative planning documents established for the country in close consultation with the national authorities. On 10 July 2009 the Commission adopted the MIPD 2009-2011 for Kosovo²,
- (2) In accordance with Article 6(3) of Regulation (EC) No 1085/2006 assistance for countries listed in Annex II to that Regulation shall be based on the European Partnerships and shall cover the priorities and overall strategy, resulting from a regular analysis of the situation in the country and on which preparation for further integration into the European Union must concentrate,
- (3) The Council established for all candidate countries and potential candidates an Accession Partnership or a European Partnership. On 18 February 2008, the Council adopted an update to the European Partnership with Serbia including Kosovo³,
- (4) The measures provided for by this Decision are in accordance with the opinion of the IPA Committee⁴,

* Under UNSCR 1244/1999.

¹ OJ L 210, 31.7.2006, p. 82.

² C (2009) 5438 of 10 July 2009.

³ Council Decision 2008/213/EC (OJ L80, 19.3.2008, p. 46).

⁴ Recalling the Council Conclusions of 18 February 2008, Member States declare that the adoption of the MIPD 2011-2013 for Kosovo does not prejudice the position of each individual Member State on the status of Kosovo, which will be decided in accordance with their national practice and international law.

HAS DECIDED AS FOLLOWS:

Sole article

The Multi-annual Indicative Planning Document (MIPD) for the years 2011-2013 for Kosovo attached to the present Decision is hereby adopted.

Done at Brussels, 27.6.2011.

*For the Commission,
Štefan FÜLE
Member of the Commission*

ANNEX

Instrument for Pre-Accession Assistance (IPA)

Multi-annual Indicative Planning Document

(MIPD)

2011-2013

Kosovo*

* Under UNSCR 1244/1999

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EXECUTIVE SUMMARY

The purpose of this Multi-annual Indicative Planning Document (MIPD) is to set out the EU's priorities for assistance to Kosovo for the programming period 2011-2013.

The MIPD is based on the needs identified in the Progress Report adopted on 9 November 2010, Kosovo's own strategies and the Commission's 2009 communication Kosovo-Fulfilling its European Perspective. The Government of Kosovo, local stakeholders, EU Member States and other donors have all been consulted in the design of this MIPD.

The Commission has taken a number of steps to enhance the strategic nature of this process over the last few years and to strengthen the link between the priorities established in the progress reports and the programming of assistance. To better illustrate this focus, and to strengthen ownership by the beneficiaries, the Commission will increase its use of a sector-based logic in its planning of pre-accession assistance.

To increase the impact of IPA assistance and to give greater focus to achievable results, the Commission has decided to concentrate its efforts on targeted sectors. A sector approach should facilitate cooperation among donors and beneficiaries, where possible under the lead of the authorities, eliminating duplication of efforts and leading to greater efficiency and effectiveness. This in turn should allow all stakeholders to focus increasingly on the impact of our combined efforts.

To date, the number of fully fledged sector programmes developed by IPA beneficiary countries is limited. Nonetheless, by beginning to focus increasingly on priority sectors now, the Commission can better support the development of such programmes on which EU and other donor assistance can then be based.

In its communication 'Kosovo – Fulfilling its European Perspective' of October 2009, the Commission identified the key priorities for Kosovo to focus on in its EU reform agenda. The communication confirmed that IPA resources would be targeted to support the rule of law, public administration reform and efforts to improve Kosovo's business environment. It confirmed that support for infrastructure would also be considered. It specified that the Commission would support the initiatives included in the communication's recommendations through financial and technical assistance. These initiatives envisaged that the Commission would help Kosovo to move forward in the areas of visas, trade, economic and fiscal surveillance, EU programmes, the Stabilisation and Association process (SAP) Dialogue and cross-border co-operation. These areas coincide with Kosovo's own European Agenda.

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will focus its assistance primarily on the following sectors:

- Justice and Home Affairs (focus on visa liberalisation and the judiciary)
- Private Sector Development (focus on trade and business environment)
- Public Administration Reform (focus on the functional review)

1. IPA STRATEGIC OBJECTIVE

The overall objective of EU financial assistance to Kosovo is to support its efforts for reform and towards compliance with EU standards and progress in the implementation of its European reform agenda.

The Europe 2020 agenda offers the enlargement countries an important inspiration for reforms. Kosovo is invited to consider the priorities of the strategy and adapt main challenges in the national context. Enlargement policy also supports the Europe 2020 strategy by extending the internal market and enhancing cooperation in areas where cross border cooperation is key.

2. BENEFICIARY CHALLENGES AND NEEDS ASSESSMENT

The conclusions of the Commission's 2010 Progress Report for Kosovo confirm that Kosovo has made progress as regards the political criteria. It has strengthened its commitment to the European agenda and policy reform. Kosovo has also made progress as regards reform of the judicial system, with the adoption of four important laws. The impact of the economic crisis on Kosovo's economy has been limited. Kosovo achieved limited progress towards establishing a functioning market economy. Progress in aligning Kosovo's legislation and policies with European standards continues to be mixed. In the area of the EU internal market there has been some progress as regards the development of the legal framework.

However, the report also confirms that the capacity of public administration remains weak and that the judiciary is not functioning effectively. The rule of law is in need of further strengthening and remains a serious concern. Results in the fight against corruption are limited. The main areas of concern continue to be the procurement process and the judicial and law enforcement systems. The capacity of the assembly to scrutinise draft legislation and to monitor its implementation after adoption remains weak. Parliamentary oversight of the government needs to be further strengthened. Public administration reform in Kosovo remains a major challenge. As regards the economic criteria, considerable reforms and investments are needed to enable Kosovo to cope over the long term with competitive pressure and market forces within the Union. Weak rule of law, uncertainty over property rights and high interest rates continue to impact negatively on the business environment and on economic development. The overall legal framework needs to be reinforced. Unemployment remains very high, particularly among the young.

Kosovo counts approximately 2.2 million inhabitants and covers a surface of 10 887 km². Kosovo declared independence on 17 February 2008. To date, Kosovo has been recognised by 71 countries, including 22 EU Member States. Kosovo also adopted a constitution, which is based on the Comprehensive Proposal for the Kosovo Status Settlement. The International Civilian Representative supervises the implementation of this proposal¹.

In July 2010, the International Court of Justice (ICJ) issued an advisory opinion, which concluded that Kosovo's declaration of independence did not violate general international law. The UN Secretary-General issued five reports on Kosovo — in September 2009, in January, April, June and October 2010. The Secretary-General noted that the changing circumstances on the ground have led to a gradual adjustment of the functions and priorities of the UN mission in Kosovo. The strategic goal of the mission is to promote security, stability and respect for human rights.

¹ The International Civilian Representative (ICR) reports to the International Steering Group on Kosovo.

KFOR, the NATO-led military presence, continues to provide security throughout Kosovo. During the reporting period, its presence in theatre has been gradually reduced. In this context, the Kosovo Police has taken over responsibility for the protection of certain religious sites.

The situation in northern Kosovo remains tense, but stable. The Kosovo authorities opened an office providing services to citizens. The lack of dialogue between Belgrade and Pristina has prevented progress in improving the lives of the local communities.

The international economic and financial crisis had a limited impact on Kosovo's economy, which was affected mainly through lower remittances inflows and reduced external demand and prices for Kosovo's main exports. According to the Statistical Office of Kosovo (SOK), real GDP growth decelerated from 6.9% in 2008 to 2.9% in 2009. The quality of available economic statistics somewhat improved over the year but still remains weak and does not allow for a comprehensive assessment of the economic situation in Kosovo². According to IMF estimates, GDP per capita³ in 2009 reached EUR 1,766, which corresponded to 7.5% of the EU-27 average compared with 7.1% in 2008.

Information about the labour market remained scarce and doubts about its accuracy persist. In the second and third quarter of 2010, the number of registered unemployed remained stable at around 335 thousand, though about 1% lower than a year ago. An estimated 30,000, mostly low-skilled, young people enter the labour market every year without having employment prospects and chances for professional development. Despite some positive developments, such as increased participation and employment rates, the labour market in 2009 remained problematic: the employment rate was only 26.4%, the unemployment rate stood very high at 45% and youth and long-term unemployment remained particularly high, at 73 % and 81% of all unemployed.

There is a lack of adequate action regarding the social inclusion of specific groups including Roma. Access of members of vulnerable groups to education, health care and social protection remain a serious concern. The effective social inclusion of all groups and communities is crucial to progress towards the reconciliation between communities that remains a major challenge in Kosovo.

Average inflation was negative (-2.4%) in 2009. Monthly inflation rates became positive by the end of 2009 and since then accelerated to reach 6.6% (year-on-year) in December 2010.

Kosovo is using the euro as official currency and the Central Bank of Kosovo (CBK) has only limited policy instruments. The Bank's efforts were directed mainly towards improving its financial sector supervision. The budget deficit increased from 0.2% of GDP in 2008 to 0.8% of GDP in 2009.

In July, Kosovo signed a stand-by agreement with the IMF.

² There are still divergences between the SOK data and the series used by the Ministry of Economy and Finance and the IMF.

³ A measure using PPP is not available for Kosovo.

2.1. Kosovo's strategies

Kosovo's latest Medium-Term Expenditure Framework (MTEF) was published in June 2010 and covers the period of 2012-2014. The 2010 budget was revised in July. Kosovo's Assembly did not manage to adopt the 2011 budget prior to its dissolution in October 2010. Furthermore, Kosovo annually adopts a legislative action plan and updated its European Partnership Action Plan (EPAP) in May 2010. The EPAP sets out actions Kosovo plans to take in response to challenges identified during the Stabilisation and Association Process Dialogue and in European Commission Progress Reports. Several sector strategies exist; some have been approved by the Parliament. However, Kosovo needs to link its strategies to the budgetary process. Kosovo should improve its prioritisation (i.e. filtering), also with a view of allocating IPA assistance.

A recent evaluation organised by the European Commission examined the feasibility of introducing a sector-based approach (SBA) in Kosovo. Five assessment criteria were used to assess the feasibility of introducing SBA, these are: (1) the existence of sector strategies which outline government objectives and can be used to develop annual plans based on agreed priorities; (2) sector strategies cover all areas of accession significance; (3) the national budget should reflect sector strategies and be developed within a mid-term perspective, ideally linked to the national expenditure planning process; (4) there should be a formalised, government-led, process that involves all significant stakeholders; (5) the existence of a monitoring system that focuses on results and can be used to assess progress towards the achievement of strategic objectives. The evaluation concluded that the first two of the five feasibility criteria are in place, and issued the following recommendations:

- Kosovo's sector strategies should cover all *acquis*-related sectors and MIPD priorities, at present there are significant gaps in coverage.
- The quality of most existing strategies needs to be improved principally by developing realistic action plans and adding indicators which can be used for performance monitoring.
- All priority sector strategies must be linked to the MTEF and be financially monitored by the Ministry of Finance.
- The government should set up the planned Strategy Planning Unit in the Prime Minister's Office.
- The Ministry of European Integration should take a leadership role in the sector strategic planning process. Currently it only undertakes a coordination role.
- A functioning system for monitoring the implementation of national strategies needs to be in place before a sector-based approach is introduced to Kosovo.
- Ministry of European Integration (MEI) staff and their counterparts in line institutions should receive training on sector strategic planning.

In March 2010, the Prime Minister of Kosovo appointed a Minister of European Integration. The new Ministry incorporated the former Agency for the Coordination of Development and European Integration, which was set up in 2008 following the Kosovo donors' conference. The Ministry's mission is to ensure the technical management, coordination and monitoring of the European Union integration process, through the approximation of national legislation with the *acquis*, the preparation of the European integration policies, the coordination of financial assistance and public information on the EU integration process. The Ministry

should raise the political profile of Kosovo's EU reform agenda and increase the efficiency and effectiveness of its implementation. It has put forward clear political priorities for Kosovo's European reform agenda, namely visa liberalisation and the wider field of rule of law, public administration reform, trade relations and regional cooperation.

The Kosovo government has adopted a number of sector strategies including in the fields of public administration reform, rule of law, including anti-corruption, integrated border management, crime prevention, combating organised crime, drugs, trafficking of human beings, and terrorism. Kosovo has also adopted its roadmap and action plan on visa liberalisation. It has also adopted a revised strategy and action plan for reintegration of repatriated persons. It has approved strategies on human rights and the rights of the child, the integration of Roma, Ashkali and Egyptians communities, intellectual property rights, e-learning, employment and energy. In addition, in February 2011 Kosovo adopted a forestry development strategy for the period 2010-2020. The Kosovo Education Strategic Plan (KESP) has been validated by the minister of education.

In order to enhance the Government's strategic policy planning, harmonisation and evaluation, in February 2010 the Prime Minister's Office established the Strategic Planning Office. It works closely with the Government Coordination Secretariat, the Ministry of European Integration as well as the Ministry of Economy and Finance. Concerning the systems for monitoring the implementation of Kosovo's strategies, there is a functional monitoring and reporting system on the European Partnership Action Plan as of the beginning of 2010. MEI and their counterparts in line ministries have received trainings on strategic planning, with particular focus on evaluation indicators and project cycle management.

2.2. Relations with the European Union

EU Member States decide on their relations with Kosovo in accordance with national practice and international law. 22 EU Member States have recognised Kosovo's independence. The absence of an agreed position on Kosovo's status has not prevented the EU from substantial engagement with Kosovo. At the General Affairs Council in December 2009 Member States invited "the Commission to take the necessary measures to support Kosovo progress towards the EU in line with the European perspective of the region"⁴.

The EU has appointed an EU Special Representative⁵ to advise and support Kosovo's political process and ensure the consistency of EU action. The EU has also deployed its largest civilian European Security and Defence Policy mission to date in Kosovo⁶. The European Union Rule of Law Mission in Kosovo (EULEX) monitors, mentors and advises Kosovo on the rule of law, notably on police, justice and customs, and retains certain executive responsibilities. In July 2008, the Commission organised a donors' conference for Kosovo, which resulted in €1.2 billion in pledges, including more than €500 million from the EU budget. Together, the EU and its Member States pledged almost €800 million. The Commission has already committed the funds it pledged and made very good progress in contracting IPA funds. Kosovo continues to benefit from EU financial assistance under the Instrument for Pre-accession Assistance, CARDS⁷, the Instrument for Stability and other initiatives. . Kosovo received the first tranche of the macro-financial assistance (EUR 30 million) in September.

⁴ GAC conclusions ref. 17169/09 of 8 December 2009.

⁵ Council Joint Action 2008/123/CFSP of 4 February 2008, as extended. The most recent extension expires on 30 April 2011.

⁶ Council Joint Action 2008/124/CFSP of 4 February 2008, as extended. The extension expires in June 2012.

⁷ Community Assistance for Reconstruction, Development and Stabilisation.

The second tranche of EUR 20 million was not disbursed, as a key condition for its release was not met before the assistance expired in December 2010.

In October 2009, the Commission adopted a communication to the European Parliament and the Council entitled "Kosovo – Fulfilling its European Perspective"⁸. The purpose of the communication was to take stock of developments, identify the challenges on Kosovo's road to Europe, confirm the measures Kosovo should take to address these challenges, and propose EU instruments to help Kosovo further its political and socio-economic development. In its communication, the Commission identified the key priorities for Kosovo to focus on in its EU reform agenda. The communication confirmed that IPA resources will be targeted to support the rule of law, public administration reform and efforts to improve Kosovo's business environment. It specified that the Commission will support the initiatives included in the communication's recommendations through financial and technical assistance. These initiatives envisaged the Commission to move forward in the areas of visas, trade, EU programmes, the SAP Dialogue and cross-border co-operation. These areas coincide with Kosovo's own European Agenda.

2.3. Lessons learned

Lessons learned from experience with CARDS and IPA suggest that donor coordination requires support. There should be clear links to Kosovo's development and action plans such as the budget and the Medium-Term Expenditure Framework (MTEF). Development of sectoral strategies in key sectors should help identify needs and secure the relevance of projects. Proper planning and sequencing of IPA assistance continues to be important to ensure sustainability and ownership.

A synthesis report on EU funded projects in Kosovo monitored in the period 2009 – 2010 issued by external monitors in November 2010 provides a summary analysis of individual IPA projects in 2009 and 2010. It provides a useful assessment of the performance of IPA projects in Kosovo and their evolution to date. The report concludes that in 2010 the overall average score of IPA projects improved by 6%, and that the share of 'very well' and 'well' performing projects increased by 9.5% as compared to previous years. The report states that the *Effectiveness* of IPA projects improved in particular. The report suggests that this is due to better project results and the use made of them by beneficiaries. This would confirm that the Commission's continued strong emphasis on impact and tangible results is working. The report also confirms that although projects are scoring well on *Relevance* and *Quality of Design*, these criteria require more attention. This suggests that more efforts are required both in programming and the drafting of Terms of Reference. The Commission is considering the establishment of a peer-review mechanism early in 2011 to this effect.

External monitoring has generally rated impact, or impact prospects of projects where impact to date could not yet be measured, as 'good'. Kosovo needs to build on this. IPA assistance needs to be targeted on a limited number of key priorities, which need to be closely aligned with Kosovo's European reform agenda and increasingly linked to costed sector strategies. Project selection should reflect improved planning, prioritisation and sequencing, and better coordination with other donors. The possibility to associate other donors to IPA management in areas where these have a comparative advantage will be further explored. Following the donors' conference in Brussels in July 2008, Kosovo's ownership of IPA projects should continue to be strengthened, and donor coordination should account for a gradual reduction in bilateral aid presence and an increasing focus on the effectiveness of IPA funding.

⁸ COM (2009) 5343 of 14 October 2009.

As Kosovo moves closer to Europe and alignment with European standards becomes increasingly important, the administrative and financial implications of *acquis* approximation for the Kosovo administration must be considered. The administration's absorption capacity must be taken into account when designing programmes to allow maximum benefit of assistance provided, including its capacity to develop internal evaluation mechanisms for institutional capacity assessment. Proper monitoring of programmes and projects, both by the beneficiaries and the Commission, is a key requirement to guarantee the desired results or adapt the activities to the rapidly developing environment.

2.4. Consultation with stakeholders and donors

The European Commission, the IPA beneficiaries, EU Member States and other donors agreed that there is need for a change in the approach to planning and programming IPA assistance, i.e. moving from a project-based to a sector- or programme-based approach. The Commission informed Kosovo authorities as well as EU Member States and other donors present in Kosovo about the revision of its planning approach in April 2010 and invited other stakeholders' input. In June 2010 stakeholders were invited to comment on a first draft of this MIPD. Stakeholders were again consulted in November 2010. Generally, other stakeholders' comments illustrated wide agreement on the future priorities of IPA assistance in Kosovo. All comments, including primarily those from the Kosovo administration itself, but also EU Member States and civil society, have been fully taken into account in drafting this MIPD.

To streamline Kosovo's and donors' efforts and thus improve the effectiveness and impact of programming in Kosovo, the Government has decided to embark on a sector-based approach to planning and implementing assistance. The Ministry of European Integration and donors have agreed to set up a mechanism which structures the interaction within the Kosovo government as well as vis-à-vis the donors. This mechanism has the following objectives:

- to create a forum where the Kosovo administration together with the donor community can discuss priority areas for support in line with the EPAP, MTEF and other core Governmental strategic documents;
- to streamline support activities to Kosovo among the donor community to avoid overlap and/or duplication of activities;
- to make optimal use of the scarce resources (both human and financial) that are available in and for Kosovo.

Kosovo has set up an Aid Management Platform with the support of the donor community, notably the European Commission and the US. This initiative should improve aid management and coordination, facilitate the linkage between donor assistance and the European Partnership Action Plan (EPAP), improve the alignment of EPAP to the Medium Term Expenditure Framework (MTEF), reduce transaction costs in gathering and reporting on donor assistance, improve the alignment of donor assistance to the Government's sector wide strategies, and provide up-to-date and publicly available information on ongoing and planned aid activities.

The European Commission Communication on the Enlargement Strategy and Main Challenges 2007-2008 and the related Strategy Documents (2008, 2009 and 2010) underlined the importance of civil society being able to play its role in a participatory democracy. The "Civil Society Facility" (CSF), financed under both the IPA multi-beneficiary and the IPA annual programmes, was set up as the tool to financially support the development of civil

society. The CSF includes actions to strengthen freedom of expression, as it represents a basic precondition for a functioning democracy. An adequate legal framework allowing media to operate freely needs to be put in place. A network of technical assistance desks (TACSO) has been established in the Western Balkans. This network became operational in autumn 2009. Also, Local Advisory Groups have been established consisting of representatives from the EU Delegations, governments, civil society and other donors.

2.5. Selected priorities for EU assistance

The conclusions of the 2010 Progress Report for Kosovo confirm that Kosovo faces major challenges. Kosovo has to make further progress in establishing and consolidating the rule of law and needs to improve the functioning and independence of its judiciary. It needs to establish a track record in the fight against corruption, money laundering and organised crime, demonstrating concrete results. Kosovo also needs to strengthen the capacity, independence and professionalism of its public administration and improve its business environment. Kosovo needs to establish a sustainable macro-economic and fiscal policy. Considerable reforms and investments must be pursued to enable it to cope over the long term with competitive pressure and market forces within the Union. Progress in aligning Kosovo's legislation and policies with European standards is mixed. The legal framework has been developed further in some areas, but approximation is only at an early stage in others. The implementation of European standards remains limited.

The Commission Communication "Kosovo – Fulfilling its European Perspective"⁹ highlights priorities for Kosovo to ensure progress on its European reform agenda and identifies measures the EU can take to help. The Commission proposed a number of measures to take the EU-Kosovo relationship forward. It proposed to move forward with a structured approach towards eventual visa liberalisation, to extend the Autonomous Trade Measures and to propose negotiating directives for a trade agreement once Kosovo fulfils the relevant requirements, to examine the opportunity for Kosovo to participate in EU programmes on Culture and Europe for Citizens, and to associate it with EU initiatives in areas such as employment, enterprise, education and youth. It also proposed the EU upgrade its political dialogue with Kosovo and widen the scope of EU financial assistance to Kosovo to include cross-border cooperation (CBC) under IPA component II. The Council took good note of the proposals to make use of Community instruments to assist Kosovo's political and socio-economic development in line with the European Council conclusions of December 2007 and June 2008. The Council attached importance to measures related to trade and visa, without prejudice to Member States' positions on status. It encouraged the Commission to open up for Kosovo taking part in Union programmes, integrating Kosovo into the economic and fiscal surveillance framework, activating the IPA second component, and strengthening the Stabilisation and Association Process dialogue. Following these conclusions of the General Affairs Council of 8 December 2009¹⁰, the Commission has taken these measures forward. However, substantive progress will continue to depend on the efforts made by Kosovo itself in implementing its EU reform agenda.

The following priorities for IPA support covered by this MIPD have been identified.

The first priority is to support Kosovo's efforts towards further progress in establishing and consolidating the rule of law and towards improving the functioning and independence of its judiciary, including the fight against corruption, as well as fight against organised crime,

⁹ COM (2009) 5343 of 14 October 2009.

¹⁰ GAC conclusions ref. 17169/09 of 8 December 2009.

trafficking in human beings and drugs, smuggling and money laundering. Support will inter alia include trainings for law enforcement and the judiciary, it will increase the capacity to deploy proactive investigations (also financial) and protect witnesses. Efforts should be aimed at supporting Kosovo's progress in the implementation of its visa liberalisation strategy. There is no single comprehensive rule of law sector strategy or approach. However, there are a number of composite strategies and action plans. A number of key reforms are needed, which the EU should support. This support may lead to the future development of a sector wide approach in the rule of law area.

The second priority is to support Kosovo's efforts to improve its business environment, to attract investment, stimulate growth and the creation of formal jobs to ensure that Kosovo's socio-economic development can continue. Efforts are primarily to be guided by the requirements of a possible trade agreement with the EU, and will aim to enhance Kosovo's administrative and technical capacity in this regard. These efforts will take place within the wider framework of activities to support Kosovo's socio-economic development, and will fit with a number of composite sector strategies, notably Kosovo's industry, SME and employment strategies. This second priority will be aligned with the European strategy for smart, sustainable and inclusive growth (Europe 2020).

The third priority is to support Kosovo in ensuring the delivery of public services to all people and establishing a professional, accountable, accessible, representative public administration free from political interference, in particular by supporting Kosovo's updated Strategy for Public Administration Reform and Action Plan, which the EU helped to develop.

3. MAIN SECTORS FOR EU SUPPORT FOR 2011-2013

IPA assistance aims to support Kosovo's participation in the European Union's Stabilisation and Association Process (SAP) for the Western Balkans. In particular, IPA should help Kosovo fulfil the European perspective it shares with the rest of the Western Balkans. Further to the Kosovo communication of 2009 and relevant Council Conclusions, IPA support for the period covered by this MIPD will be targeted at the rule of law; economy, trade and industry; and public administration reform. Both the SAP Dialogue and the European Partnership will continue to provide the framework for IPA assistance in Kosovo.

Under justice and home affairs, the MIPD will focus primarily, but not exclusively, on meeting the requirements for visa liberalisation, to be confirmed in Kosovo's visa liberalisation strategy. In addition, the MIPD will focus on strengthening the independence and the accountability of the judiciary; support Kosovo's efforts to reduce the length of court proceedings and decrease the backlog of cases; support Kosovo's efforts to fight organised crime, corruption, money laundering and trafficking of human beings and drugs; help prepare the relevant legislation to protect vulnerable groups in the penitentiary system and support its enforcement; support the improvement of data management and exchange within and between law enforcement agencies and develop sustainable training.

Under private sector development, the MIPD will primarily, but not exclusively, focus on the implementation of the recommendations related to a potential trade agreement following the trade fact-finding mission of July 2010. In addition, the MIPD will aim to improve the institutional and legal framework for SME-related public policies and develop public services to businesses and improve public procurement and competition policy. The MIPD will further help address any other challenge identified by the aforementioned fact finding mission or other issue immediately relevant to a possible trade agreement.

Under public administration reform, the MIPD will primarily, but not exclusively, focus on the implementation of the recommendations of the functional review of Kosovo's public administration. In addition, the MIPD will aim to enhance the independence of public administration; improve the efficiency and effectiveness of the public administration at both central and local level, able to meet the challenges of EU integration; improve financial management systems to better control public finances; strengthen control and supervision bodies within the public administration; and improve the production of statistics in all areas in line with EU requirements.

IPA may finance actions that fall outside the scope of the main sectors such as, but not limited to: i) project/sector programme identification and preparation; ii) *acquis* related actions that need to be adopted/implemented according to an established timetable (e.g. negotiating framework or NPAA); iii) participation in Union Programmes to which Kosovo becomes eligible unless they are included in one of the sectors chosen above; iv) support measures for the implementation, monitoring and audit of IPA programmes; (v) support to the dialogue on practical issues between Kosovo and Serbia; (vi) as well as investment.

In line with the Europe 2020 Strategy, Kosovo also needs to ensure that the challenges linked to climate change are addressed, in particular by reducing the emission intensity of its economic development. The aim to reduce greenhouse gas emissions shall be taken into account in all relevant sectors of the MIPD, in particular in the sector of transport, energy, environment and agriculture. Projects to support early closure of the Kosovo A power plant will contribute to these aims. Furthermore, all financial assistance must comply with the principle of sustainable development and meet the requirements of the relevant EU environment and climate *acquis*, in particular the EIA as well the Birds and Habitats directives.

To help introduce a sector-based approach in Kosovo, financial assistance will be considered to help design new joint modalities, the main objective of which should be to strengthen the government's donor's incentives to use these systems. This work will be carried out in close collaboration with other donors present in Kosovo.

In line with the recommendations of the 2010 ELARG strategy, fighting corruption is a crucial challenge for most of the countries in the enlargement process. Tangible results and credible track-record in the fight against corruption are important elements for moving forward in the stages of the EU accession process. Financial assistance will pay particular attention to this aspect, as corruption remains prevalent in many areas and needs to be tackled. Equal opportunities and non-discrimination will be respected as regards gender at the programming and implementation stage, particularly in relation to socio-economic support programmes. Persons belonging to minority communities and vulnerable groups' concerns will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socioeconomic development.

The current Multi-annual Indicative Financial Framework 2011-2013¹¹ allocates a further €212.4 million to Kosovo. Under the direct management of the Commission's Liaison Office in Pristina, Kosovo is making good progress in IPA implementation.

IPA support for the period covered by this MIPD will be targeted at the rule of law; economy, trade and industry, and public administration reform, as follows:

¹¹ COM (2009) 543 of 14 October 2009.

Indicative Financial Allocation per Sector (€million)			
2011-2013	<i>Period 2007 - 2010¹²</i>	<i>Period 2011 - 2013</i>	
Sector 1: Justice and Home Affairs	78.50 (18.46%)	61.09	30 %
Sector 2: Private Sector Development	192.93 (45.38 %)	97.75	48 %
Sector 3: Public Administration Reform	106.22 (24.98%)	20.35	10 %
Sector 4: Other	47.55 (11.18%)	24.42	12 %
TOTAL	425.20	203.61	100%

The financial assistance will be implemented through the relevant IPA components as follows:

In € million

Component	2011	2012	2013
I Transition Assistance and Institution Building	65.83	67.07	70.71
II Cross-Border Cooperation ¹	2.87	2.93	2.99
TOTAL	68.70	70.00	73.70

⁽¹⁾ IPA Component II, Cross-border cooperation, is dealt with in a separate CBC MIPD.

The financial allocations are indicative and may vary according to actual financial needs identified at the time of programming.

3.1. Justice and Home Affairs (focus on visa liberalisation and the judiciary)

3.1.1. Description of sector

Rule of law is a key priority for Kosovo to address on its path towards the EU. Rule of law is a prerequisite for good governance, a functioning public administration and socio-economic development. Kosovo's efforts to improve the rule of law in the period 2011-2013 are to be taken further with the prospect of visa liberalisation as their focal point. Kosovo's visa liberalisation strategy will set the benchmarks to measure its progress in the Justice and Home Affairs areas. Kosovo's progress will be further guided and assisted by the EU's rule of law mission EULEX. The mandate of the EULEX mission has been extended until June 2012. EULEX will continue to mentor, monitor and advise Kosovo on reforms in the areas of justice, police and customs. EULEX will continue to have some executive functions as well. Kosovo will have to follow developments in the *acquis* and European standards in what will continue to be one of the most dynamic areas of policy making for the foreseeable future. Kosovo will have to anticipate and adapt to the ongoing changes in legislation and practice that this will entail.

¹² The difference in terms of percentage between 2007-2010 and 2011-2013 is due to differences in categorisation, which complicate the matching of projects financed under previous programmes with the three plus one strategic sectors identified in this MIPD.

The reform process in the judiciary has begun with adoption of four reform laws on courts, judicial council, prosecutorial council and prosecution. Plans to implement these reforms need to be drawn up and resources allocated. The vetting of judges and prosecutors has also been completed. Over 340 judges and prosecutors have been appointed by the President to positions at all levels of the judiciary. This includes the appointment of local members of the Kosovo Judicial Council who have elected the Council's president. After passing the bar exam, the first prospective judges and prosecutors have graduated from the Kosovo Judicial Institute in December 2009. However, there have been cases of political interference in the judicial system, notably in the reappointment process of judges and prosecutors. There is still a significant backlog of cases, particularly in civil matters, including property rights. Kosovo institutions need to attach sufficient importance to support investigations and judicial follow-up of war crimes. Plans to implement the reform of judiciary need to be prepared and resources allocated. Kosovo is still at an early stage in addressing priorities in the area of justice.

To move ahead towards a visa liberalisation process, a number of criteria will have to be met. One concern is document security and the proper functioning of civil status related procedures. Due to the disruption of the civil status/civil registration system caused by the 1999 conflict a number of registers of births, deaths and marriages had been destroyed or removed. The civil status register provides the basis for the issuance of identity-proving documents and there remains the risk that official documents such as Kosovo passports contain wrong data. Municipal civil status databases across Kosovo are not interconnected. Hence, some legislation (adoption of amendments to the civil status law, identification as well as travel documents, including the relevant implementing instructions), the quality of civil status data, and the functioning of the civil status offices need to be improved.

Kosovo borders are porous and not fully secured. The North represents a particular challenge. The lack of full customs and police operations in this area prevents the efficient fight against organised crime. The cooperation between bodies involved in border management is insufficient. Kosovo needs to ensure that the IT system for border control and monitoring is in line with EU standards. Kosovo has only started to address its priorities as regards visa policy and border and boundary management. Kosovo needs to start developing a coherent visa policy in line with European standards.

While there is not one single comprehensive sector strategy or approach in this area, a number of composite strategies do exist. These touch upon Integrated Border Management, the fight against corruption, counter-terrorism, narcotics, organised crime, crime prevention, small and light arms control and collection, trafficking in human beings, migration, reintegration and visa liberalisation. A number of key reforms are still needed, which the EU should support. This support may lead to the future development of a sector-wide approach, possibly under the aegis of the Joint Rule of Law Coordination Board co-chaired by the Deputy Prime Minister and EULEX Head of Mission.

In terms of donor coordination the Sector Working Group on Rule of Law was identified as a key coordination group. The sector lead will be taken over by EULEX. Sub-sector working groups at a technical level may be established and are likely to focus on the judiciary, anti-corruption and organised crime, visas, asylum, border management, customs and police. The first meeting of the Rule of Law Donor Coordination Sector Working Group was held on 9 March 2010. All Kosovo institutions and representatives of the donor community, including EULEX, formally agreed with the newly-proposed sector structure for donor coordination and the next steps of coordinating efforts at the SSWG level. Kosovo's authorities are represented

by the following institutions: Ministry of European Integration, Ministry of Justice, Ministry of Internal Affairs, Ministry of Economy and Finance, Kosovo Customs, Kosovo Judicial Council, Kosovo Judicial Institute and Public Procurement Regulatory Council.

3.1.2. Past and ongoing assistance (EU and other donors)

EU assistance is already actively supporting the rule of law in Kosovo. Within the framework of progress towards opening a visa liberalisation, this included support for progress on readmission, migration and asylum issues. EU assistance has also helped improve the security of Kosovo borders, including integrated border management (IBM) policies, enhancing the efficiency of the flow of persons and goods through the borders, advancing adherence to EU human rights standards, fighting cross-border crime and enforcing laws related to the management of Kosovo's borders. The fight against organised crime and money laundering is one of the EU priority areas. The EU has supported the process of vetting Kosovo judges and prosecutors, as part of an effort to help Kosovo enhance the integrity of people working in the judiciary. It also supports legal education system reform, strengthens the administrative, policy making and legal drafting capacities of the Ministry of Justice. It helps reduce the backlog of cases in courts by setting up mechanisms for alternative dispute resolution, introducing arbitration proceedings and increasing the performance of the probation and correction services. The EU is co-funding the extension and upgrading of key court buildings in Kosovo, at last providing the judiciary with suitable and adequate premises. Kosovo's Ministry of Justice benefits from EU support to help it perform better in its work on juvenile justice, and a better execution of court orders. A project is supporting Kosovo's anti-corruption institutions aiming at the development and enforcement of anti-corruption policies and a legal framework. Past and ongoing EU assistance amounts to an approximate €90 million.

Key stakeholders and important players other than the Commission in the sector of the rule of law include EULEX, the United States Agency for International Development (USAID), the US Department of Justice, the Swiss Agency for Development and Cooperation (SDC), the Organisation for Security and Cooperation in Europe (OSCE), the UK Department of International Development (DFID), the United Nations Development Programme (UNDP), and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

3.1.3. Sector objectives for EU support over next three years

As confirmed by the December 2009 General Affairs Council conclusions, EU Member States agree that Kosovo citizens need to share further in the benefits of EU approximation, including the possibility to travel visa-free in the EU. This is only possible if Kosovo can ensure that relevant reforms are implemented and rules and procedures are respected so as to minimise the associated security risks for EU Member States. The starting point for these reforms is properly functioning readmission arrangements. Kosovo needs to adapt its legislation, strengthen its administrative capacity to process readmission requests and implement an effective reintegration strategy. It also needs to enhance the security of its borders and secure the management of civil registries and the issuance of documents.

Kosovo wants to move forward with a structured approach to bring Kosovo's citizens closer to the EU through a visa dialogue with the perspective of eventual visa liberalisation when the necessary reforms will have been undertaken. The Commission will continue to regularly assess Kosovo's progress in the implementation of necessary measures to fulfil the conditions for visa liberalisation, drawing on amongst others the evaluation missions by Member State and Commission experts. The Commission will support Kosovo in the implementation of its

strategy through technical and financial assistance. In addition, within the wider framework of the rule of law and as a corollary to EULEX's activities, the Commission will explore the possibility of involving Kosovo in judicial cooperation initiatives at the regional level, including the possible association of Kosovo with the work of Europol, Eurojust and Frontex, which is being examined¹³.

During the period 2011-2013, EU assistance in the area of rule of law is to primarily focus on the strategic requirements for visa liberalisation. This will ensure sufficient levels ownership, given Kosovo's often repeated desire to join the rest of the region in visa-free travel for its citizens. Requirements touch upon document security (passports/travel documents, ID cards and breeder documents); illegal migration, including readmission (border/boundary management, asylum policy, migration management); public order and security (fight against organised crime and corruption, judicial cooperation in criminal matters, law enforcement cooperation, data protection); and external relations (free movement of people, conditions and procedures for the issuing of identity documents, citizens right, including rights of persons belonging to minorities). Kosovo's efforts will aim to meet the requirements in a comprehensive manner, focusing on the requirements in their wider rule of law context.

EU assistance will aim to support progress in the wider framework of judicial reform. This will help ensure that legislation adopted and measures implemented achieve qualitative and tangible progress, as confirmed by assessments by EULEX. Indicators include the number of successful investigations initiated and concluded, the development of a track record of convictions, a decrease in the backlog of pending cases, and an increase in successful disciplinary investigations within the police and the judiciary, as well as public administration.

Progress will be measured against the indicators included in the rule of law area's composite strategies. The extensive support provided to improving Kosovo's integrated border management needs to continue, but its emphasis should change. The focus of EU assistance should focus on building and extending the skills and knowledge base of the border police. It will be important to help Kosovo stay abreast of the regional dimension and prevent third country nationals from discrimination. The provision of equipment will be required to help secure the green border.

Kosovo's fight against organised crime will have to focus amongst others on building its capacity to tackle money laundering. New initiatives should aim to help train and equip relevant institutions in the Kosovo administration within the framework of the transfer of responsibilities from EULEX to the Kosovo administration. Drug trafficking will need to be tackled with the help of EU assistance. Future assistance will need to focus on building capacity to investigate and carry out cross-border operations. Kosovo's capacity to engage in international legal cooperation is essential in the fight against cross-border organised crime. This will require EU assistance to help fund relevant training, equipment and secure premises. The success of Kosovo's fight against organised crime depends on the timely exchange of information. However, at the same time personal data need to be protected in observance of EU standards. Kosovo adopted data protection legislation in April 2010 and will require assistance in its implementation. This is likely to involve a thorough overhaul of its public administration. Systems and procedures will need to be put in place to protect data within the public administration as well as the private sector, to be supervised by an agency, which is yet

¹³ Europol: Article 42 of the Europol Convention and the Council Act of 3 November 1998; Eurojust: Article 26a of Decision 2002/187/EC as amended; Frontex: Article 14 of Council Regulation (EC) No 2007/2004 as amended by Regulation (EC) No 863/2007.

to be established. Relevant staff will have to be trained, at all levels, and the general public will need to be made aware of its rights.

The fight against corruption in public and private sectors will remain an important objective for Kosovo for the foreseeable future. In terms of EU assistance, follow-up activities emanating from the ongoing technical assistance project need to be developed. The relevant legislative framework needs to be completed and aligned with European standards. Its implementation will need to be monitored. Follow-up will need to focus on individual sub-sectors, including corruption in the police, judiciary, health, education, etc. Progress in these areas will have a direct impact on the prospects for visa liberalisation.

Finally, the development of the wider framework supporting the rule of law in Kosovo will depend on the successful reform of the judiciary as a whole. The focus needs to be on implementation of key legislation, including the Law on the Kosovo Judicial Council, the Kosovo Prosecutorial Council, the Courts and on the Prosecution, including the profound changes these laws will bring about in terms of structures and processes. EU assistance to help support this crucial process will need to be comprehensive, involving capacity building, monitoring, the development of administrative structures and the preparation and implementation of implementing legislation. The same applies to the reform of the Criminal Code and the Criminal Procedural Code.

In summary, the overall objective of IPA assistance over the next three years will be to support the efforts of Kosovo authorities to meet the requirements for visa liberalisation set within the overall objective to enforce the rule of law by strengthening the judiciary, promoting integrity of institutions, fighting various forms of crime and by aligning with and implementing the *acquis*. In particular, the focus will be on strengthening the judicial system in their fight against organised crime and corruption and on supporting police reforms. EU assistance will build on and closely coordinate with activities carried out by EULEX which acts as lead donor in this sector.

Types of indicators to measure developments towards these objectives include:

- Kosovo meeting the benchmarks set for visa liberalisation;
- Reduction in the length of court proceedings and reduction in backlog of cases;
- Establishment of an efficient and effective organisation of the judiciary, in particular improved court management system, including competent and effective court experts, adequate internal procedures and efficient use of alternative dispute resolution mechanisms;
- Number of successful prosecution for cases of organised crime, corruption, money laundering and trafficking of human beings and narcotics;
- Number of trainings (and number of trained participants) for law enforcement and judiciary;
- Increased amounts of recovered proceeds of crime;
- Completion of the legislative framework covering, inter alia, non-discrimination among different ethnic groups and equal treatment;

- Main rule of law strategies (i.e. Strategy Against Organised Crime and to Fight Corruption) implemented according to standard and schedule, proper monitoring ensured;
- Working conditions and infrastructure of the Kosovo judiciary upgraded, modernised and improved;
- Increased legislative compliance with European standards and *acquis*;
- Increased speed, pro-activeness, efficiency and effectiveness in intelligence gathering (including financial) and processing by Kosovo Police officers.

All activities will take account of and will be programmed within the framework of EULEX project activities.

3.2. Private Sector Development (focus on trade and business environment)

3.2.1. Description of sector

Kosovo benefited until 31 December 2010 from autonomous trade measures, which permitted duty free exports of manufactured products to the EU. In February 2010, the Commission proposed their extension until 2015. Kosovo has already taken its first steps in economic integration and it has been a member of the Central European Free Trade Agreement (CEFTA) since 2006. The agreement was signed by UNMIK on behalf of Kosovo. The agreement aims to unify, simplify and modernise trade relations among the Parties. The scope of the agreement was widened to include agricultural products, although the relevant protocol awaits the signature of all parties. It also provides for a Joint Committee a Secretariat, which support CEFTA's work.

Kosovo's efforts to increase its capacity to trade, improve the environment for business and ensure its continued socio-economic development are to be spearheaded by its preparations for possible future trade agreement negotiations with the EU. The Commission sent a trade fact-finding mission to Kosovo in July 2010. The mission assessed Kosovo's preparedness to negotiate and implement a trade agreement, and identified the measures Kosovo needs to take to ensure progress. The mission's findings are to guide Kosovo's initiatives it is to take in this regard. They will be an important factor in determining the scope and timing of IPA support to this sector.

Kosovo has several strategies affecting trade, the business environment and competitiveness. However, these could be better focused and overlap in places. The findings of the fact-finding mission will be included in an Action Plan that will provide for targeted and sequenced actions aimed to ensure follow-up to the specific recommendations. In 2009, Kosovo's Ministry of Industry and Trade adopted its Trade Strategy for Kosovo. The ministry also prepared a technical paper on Kosovo's industry strategy. It is working on a strategy for Small and Medium-sized Enterprises. In 2010, the Kosovo government adopted its Sustainable Employment Strategy, funded in part by the World Bank's multi-donor trust fund for Sustainable Employment Strategy and Development Programme to which the Commission contributed. The Kosovo government adopted a strategy for intellectual property 2010-14 in June 2010, which aims to reinforce the capacity of Kosovo's Intellectual Property Office and prepare key legislation in the areas of trademarks, patents and industrial design. Kosovo intends to set up a National Intellectual Property Council. In the area of free movement of goods, Kosovo intends to adopt a Strategy for the Development of Infrastructure of Metrology.

Kosovo is making progress in a number of areas. It intends to adopt legislation on the protection of competition and state aid, and to establish offices in charge of approving and monitoring state aid. Kosovo wants to reinforce its administrative capacity in the area of consumer protection. A new law on public procurement was adopted in October 2010, which is to be accompanied by an increase in the capacity of the relevant institutions. It should increase their independence. Kosovo is in the process of establishing one-stop shops to facilitate the setting up of new businesses and attract investment.

Developing a functional market economy with a sound financial basis is one of the priority areas of the Kosovo government. To this end, the Ministry of European Integration has created the Sector Working Groups (SWG) Economy/Trade and Industry Sector with the following sub-sectors: Privatisation and Public Private Partnerships (PPP), Competition and Internal Market, Private Sector Development and Small and Medium Size Enterprises (SME) and Regional Economic Development. The first meeting was held in March 2010. The Kosovo institutions and representatives of the donor community formally agreed with the newly-proposed sector structure for donor coordination and the next steps of coordinating efforts at the SSWG level. Kosovo's authorities are represented by the following institutions: Ministry of European Integration, Ministry of Trade and Industry, Ministry of Economy and Finance, Kosovo Agency for Privatisation, Ministry of Local Administration, and Agency for Public Procurement, and Kosovo Competition Commission. Promoting private businesses and employment is a key component for Kosovo's socio-economic development but this focus will continue to go hand in hand with support to an effective social inclusion of all groups and communities.

3.2.2. Past and ongoing assistance (EU and other donors)

Significant EU support has gone into Kosovo's economic development. This includes the multi-annual programme supporting an EU Regional Economic Development Approach in Kosovo, involving the establishment and putting into operation of five Regional Development Agencies and financial support via a linked grant scheme to small-scale regional socio-economic projects. The EU has also contributed to turn-around management and business advisory services. The EU has financed the development of an enabling economic environment for all Kosovo communities through improving the management and operational capacity of the Ministry of Trade and Industry, the Investment Promotion Agency and the new Industrial Property Office and Copyright Office. The EU supported the successor of the Kosovo Trust Agency to continue the privatisation and liquidation process. It supported enterprise growth and job creation through technical and advisory support for SMEs. Significant EU assistance has targeted local enterprise development and employment creation in Kosovo's northern municipalities, poverty alleviation in several marginalised municipalities and in disadvantaged minority areas. Past and ongoing EU assistance in this area amounts to an approximate €30 million.

The activities under this sector closely link to activities in justice and home affairs and public sector reform, as economic development is directly affected by the availability of a proper and functioning legal framework for conducting business.

Key stakeholders and important players in the sector of economy and trade other than the Commission include the World Bank, the Kreditanstalt für Wiederaufbau (KfW), USAID, DANIDA, GTZ, DFID, UNDP, EBRD, SIDA, and Norwegian Aid.

3.2.3. Sector objectives for EU support over next three years

Trade and the capacity to trade are essential for Kosovo to attract investment, stimulate growth and ensure its socio-economic development. The EU plays an important role in this. It is Kosovo's main trading partner, in par with the CEFTA partners. Kosovo's long-term economic development requires a substantive perspective for it to be sustainable, which can only be provided through a trade agreement. However, substantial progress is needed before Kosovo can benefit from a trade agreement. A stable and predictable legal framework for investors and market operators requires Kosovo's progress on intellectual property rights, competition, standards compliance and administrative cooperation. It requires Kosovo to advance with its reforms in all areas affecting the internal market, including administrative capacity. Kosovo needs to be able to conduct an effective trade policy and manage its borders. Kosovo businesses must be able to benefit from the opportunities an agreement offers and be able to withstand increased competitive pressure that will ensue.

The Commission has assessed Kosovo's progress in areas most relevant to a trade agreement. Kosovo submitted its replies to the Commission's trade-related questionnaire in April, SAPD sector meetings on trade and the internal market took place in May and the Commission organised a trade fact-finding mission to Kosovo in July 2010. The results of these initiatives will guide the identification of the measures for which IPA support will be considered. In addition to taking measures directly relevant to a potential trade agreement, Kosovo will need to implement sustainable macro-economic policies. IPA will be mobilised to help Kosovo address supply-side constraints such as infrastructure weaknesses, energy shortages, access to capital and low levels of skill.

Within the framework of the European strategy for smart, sustainable and inclusive growth (Europe 2020), IPA is to support actions aimed to improve the competitiveness of Kosovo's economy, increase the productivity and strength of its export sector, improve the skills levels and employment prospects of its workforce, particularly by enhancing the performance of education systems and by facilitating the transition from education to employment, entry of young people to the labour market and support their skills set through support for issues such as non-formal learning, participation, volunteering and mobility modernise its physical support infrastructure in a sustainable manner and encourage private investment.

Support for small and medium-sized enterprises needs to be improved to provide incentives for entrepreneurship, stimulate innovation and transform informal entrepreneurial activity into formal businesses. Kosovo would benefit from programmes aimed to raise the competitiveness of its economy, focusing on the adoption of new technology, increased productivity and value chain production, reduced labour costs and the generation of jobs. Such programmes should help increase the transparency of business regulation, including licences, permits and certification, and effective and independent supervision, and offer support for networking initiatives. Kosovo also needs to make further progress with privatisation. Kosovo would benefit from the further development of micro-finance institutions to support small businesses in sectors with growth potential, including agriculture and rural development, upgrading of agri-food establishments and introduction of EU requirements on food safety and quality systems, small-scale manufacturing and urban services. In addition to capacity building, Kosovo would benefit from increased investments in research and innovation and capital investments.

The EU has funded a study on the costs of decommissioning the (extremely-polluting) Kosovo A power plant, to comply with the Prime Minister's unconditional commitment that this plant be closed by 2015. The study identifies a staged process of actions, and, should

Kosovo carry out the necessary accompanying measures to comply with the 2015 deadline, the EU will fund some of the first stages in the decommissioning process.

In agriculture and food safety, the EU will continue to help Kosovo meet EU standards and therefore develop its export potential / import substitution potential whilst also helping Kosovo's rural economy. Measures that can be envisaged are continued support for strengthening the administrative capacity of the Ministry of Agriculture, Forestry and Rural Development, supporting agricultural establishments, planning and building Kosovo's first rendering plant (a measure that will help Kosovo meet EU standards in both food safety and environment), equipping Kosovo's food safety laboratory, helping develop its organic agriculture inspectorate and certification, registry of agri-food establishments and the IT system for Kosovo's animal registration and movement system. The EU will also continue to fund projects that help improve Kosovo's environment (particularly water, waste and air quality) to compensate for the extremely low funding this sector receives from the Kosovo budget.

In summary, the overall objective of IPA assistance over the next three years will be to support Kosovo's efforts to improve its business environment, to attract investment, stimulate growth and to ensure that Kosovo's socio-economic development can continue. Efforts are primarily to be guided by the requirements of a potential trade agreement with the EU, and will aim to enhance Kosovo's administrative and technical capacity in this regard. These efforts will take place within the wider framework of activities to support Kosovo's socio-economic development, and will fit with a number of composite sector strategies, notably Kosovo's industry, SME and employment strategies. Support will be aligned with the European strategy for smart, sustainable and inclusive growth (Europe 2020).

Types of indicators to measure developments towards these objectives include:

- Kosovo meeting the pre-conditions for a possible trade agreement negotiations to commence, to be confirmed by Commission monitoring;
- Increase in private investment rates;
- Skills levels of the workforce improved;
- Access of young people to the labour market improved;
- Increased access to finance for SMEs;
- Meeting selected EU standards in agriculture and food safety which help develop Kosovo's export / import substitution potential;
- Legal framework for enterprises in place;
- Increased investment in R&D and innovation;
- More efficient market entry and exit.

3.3. Public Administration Reform (focus on the functional review)

3.3.1. Description of sector

The Kosovo communication does not identify public administration as a sector in itself. However, it does confirm its importance in support of the communication's main initiatives. The communication clearly stipulates that the priority for Kosovo must be to ensure proper implementation of adopted legislation, including the allocation of appropriate staffing both at central and local level and equipment. Public administration therefore warrants targeted IPA support as a third priority area.

Kosovo's strategic objectives in the area of public administration (including public financial management) are comprehensive and ambitious. Kosovo needs to put in place a depoliticised and professional public administration, based on European policies and best practice for human resource management. This will entail the establishment of effective horizontal and vertical structures organised in a manner that will allow for the effective and efficient implementation of their respective competences. A system of checks and balances will need to be put in place, which should allow each entity to play its role. A functioning institutional set-up will need to provide for an implementing agent (Ministry of Public Administration), oversight (Inter-Ministerial PAR Committee) and accountability (Office of the Auditor General, Ombudsman, external audit by SAI, Anti-Corruption Agency), at all levels. This in turn requires the qualitative, transparent and accountable management of objectives and goals, effective communication with the general public and the provision of high quality public services. It also requires the effective management and supervision of public expenditure and reliable systems to prevent and fight corruption.

Further to the 2009 functional review of tasks and responsibilities within the public administration (financed by DFID), Kosovo has adopted its revised Strategy on Public Administration Reform and now needs to develop and adopt the action plan required for its implementation. SIGMA and TAIEX support is envisaged to support the finalisation of these documents and ensure the identification and articulation of Kosovo's priorities for the short and medium-term. These priorities will need to reflect the European Partnership with respect to public administration reform in Kosovo. Political support should be provided to the Ministry of Public Administration to allow it to drive forward public administration reform through developing a comprehensive sector strategy and a road map. Close cooperation between the Ministries of Public Administration and the Ministry of European Integration will be crucial in the coming years because the public administration reform agenda is closely linked to the EU integration process. Close cooperation between the Ministry of Public Administration and the Ministry of Economy and Finance is also required to ensure that public administration reforms are fiscally sustainable. These reforms need to be linked to ongoing improvements to Kosovo's public expenditure management guided by the Public Financial Management Reform Action Plan.

Kosovo needs to adopt relevant implementing legislation for the Laws on Civil Service and on Salaries. The implementation of the Law on Salaries will have to reflect Kosovo's recent agreement with the IMF. These two laws have entered into force in January 2011. The European Integration Committee in the Parliament will be responsible for verifying that legislation is in conformity with existing EU practice. The capacity of both Ministry of European Integration and Parliament needs to be strengthened and their EU knowledge base significantly improved. The strategic objective is to enhance their standing vis-à-vis local and international actors, and develop their confidence as champions and guardians of an EU-oriented process of public administration reform.

In 2010 the Parliament adopted for a second consecutive year an annual European Integration Action Plan that reflects the challenges for Kosovo's European integration process and thus provides guidance to the Parliamentary Committees. There has been progress on local government reform and decentralisation with the formation of four new municipalities and efforts to form another one. The Ministry of Local Governance should focus on the decentralisation of competences to municipalities, ensuring a link between budgets and service delivery at local level.

The government has increased its efforts in terms of donor coordination and European Integration in general. In April 2010 the Ministry of European Integration (MEI) was created as the main coordinating body. It is the mission of the Ministry to ensure the technical management, coordination and monitoring of the EU integration process, through the approximation of Kosovo's legislation with the *acquis*, preparation of the European integration policies, coordination of financial assistance and public information on the EU integration process.

Kosovo established a structure of bodies to coordinate, review and supervise the progress of the ongoing donor assistance related sector strategies, donor programmes and individual projects: High Level Forum (HLF), Sector Working Groups (SWG) and Sub-Sector Working Groups (SSWG). The Sector Working Group on Governance includes the following sub-sectors: Public Administration Reform, Local Governance and Decentralisation, as well as Culture and Heritage. The first meeting was held in March 2010 and the Kosovo institutions and representatives of the Donor Community formally agreed with the newly-proposed sector structure for donor coordination and the next steps of coordinating efforts at the SSWG level. Kosovo's authorities are represented by the following institutions: Ministry of European Integration, Ministry of Public Administration, Ministry of Local Government Administration, and Ministry of Culture Youth and Sports.

3.3.2. Past and ongoing assistance (EU and other donors)

This priority area has benefitted from significant EU assistance to date. This includes the multi-annual programme of EU scholarships in the civil service (Young Cell Scheme), which supports the development of a more efficient and effective administrative capacity of Kosovo's civil service. Local government and the wider decentralisation process have been supported both through assistance to the Ministry of the Local Government Administration as well as through multi-annual programmes at the municipal level, including significant investment in municipal infrastructure development. Furthermore, the Ministry of European Integration has received technical assistance and currently benefits from a twinning project.

Significant support has also been provided to improving the public finance management to ensure proper stewardship of public funds; transparency and effectiveness in public spending. This includes continuous assistance to the Office of the Auditor General, support the operation of the financial control framework and internal audit systems and support in improving the quality of public investment allocation decisions, through further development of the Public Investment Programme. In addition, assistance has been provided to public procurement bodies.

Key stakeholders and important players other than the Commission include USAID, DFID, OSCE, SIDA, the World Bank, GTZ and the Swiss office.

3.3.3. Sector objectives for EU support over next three years

The Kosovo Progress Report confirms that Kosovo completed its review of tasks and responsibilities within the public administration (the functional review). Several of the review's recommendations have been implemented. Separate reviews have been completed for some ministries. Working groups have been set up to oversee the public administration reform process.

The laws on civil service and on salaries of civil servants were passed by Parliament in May and promulgated in June 2010. The law on state administration was adopted in September 2010 and the law on government should be passed in 2011. Implementing legislation should be drafted towards the end of 2011. The labour law was passed in Parliament in June 2010 and approved in November 2010. These laws are essential since they should ensure the independence of the civil service. Now Kosovo needs to focus on their implementation. The Progress Report further confirms that the Kosovo Institute of Public Administration, which provides training and certification of civil servants, has limited capacity and resources, which affects both the quality and the quantity of training provided. The Institute needs to be better integrated in the activities of the Regional School for Public Administration. Further efforts are needed to reinforce the capacity of institutions in charge of public administration reform and to allow the transfer of knowledge and best practice across the region.

Ensuring the delivery of public services to all people in Kosovo and establishing a professional, accountable, accessible, representative public administration free from political interference continues to be a key European Partnership priority. It is also crucial in ensuring the sustainability of Kosovo's progress in the strategic areas of rule of law and trade/business environment. The Commission therefore proposes to focus IPA assistance on helping Kosovo progress with its public administration reform, within the strategic framework of the implementation of the functional review.

Public administration reform is a cross-cutting sector with relevance to all areas of Kosovo's EU reform agenda. IPA assistance should therefore be mobilised in a comprehensive manner. Assistance to public administration reform is to be guided by Kosovo's updated Strategy for Public Administration Reform. The original 2007 strategy identifies eight strategic areas where improvements would have a positive impact on the delivery of public services in Kosovo. These areas are human resources management, institutional structure, communication with citizens, management in public administration, e-Government, financing of public administration, anti-corruption, and improved policy and law making. IPA support could be envisaged in each of these areas. However, as a short-term priority, assistance should focus in particular on strengthening four central bodies: the Parliament, the Ministry of European Integration, the Ministry of Economy and Finance, and the Ministry of Public Administration as follows:

- Improving the performance of Kosovo's public administration with a specific focus on creating an accountable and efficient public administration at both central and local level, able to meet the challenges of EU integration.
- Improving the horizontal institutional capacity required for the implementation and enforcement of European sectoral strategies and policies (agriculture and rural development, food safety, public health, environment, climate change, energy, transport, employment and social development, media, electronic communications, information society, etc.) including mechanisms for the verification of EU compatibility of government policies and draft legislation.

- Improving the financial management systems to better control public finances, including performance auditing and control mechanisms for public procurement and tax collection, at all levels.
- Improving the production of statistics in line with EU requirements.
- Improving capacity of implementing services to deliver.

In summary, the overall objective of IPA assistance over the next three years will be to support Kosovo in ensuring the delivery of public services to all people and establishing a professional, accountable, accessible, representative public administration at both central and local level, free from political interference, in particular by supporting Kosovo's updated Strategy for Public Administration Reform and Action Plan, which the EU helped to develop. A Public Expenditure and Financial Accountability (PEFA) assessment in the area of Public Administration Reform is to be carried out.

Types of indicators to measure developments towards these objectives include:

- Civil service system's fit with European standards;
- Implementation of the recommendations of the functional review;
- Reduction in staff turnover in the public sector following elections;
- Increasing capacity of ministries to develop, assess and cost proposals;
- Establishment and development of sound public administration mechanisms, in line with European standards and best practice, as confirmed a comprehensive performance monitoring system in the civil service;
- Comprehensive action plan on public administration reform at national and local levels prepared, adopted and implemented at all levels, presenting coherence between objectives, tasks and budgetary allocations, timeframe and indicators, clear division of responsibilities between levels;
- Establishment and implementation of mechanisms allowing for the efficient and effective parliamentary monitoring and oversight of the legislative and executive process;
- Increased efficiency and effectiveness in the programming and implementation of donor assistance, as confirmed by the Aid Management Platform and measured by the indicators for monitoring the Paris Declaration on Aid Effectiveness;
- Establishment and implementation of internal control and audit functions and mechanisms, in line with requirements of the relevant EU *acquis*, standards and best practice;
- Establishment and implementation of public procurement procedures in line with requirements of the relevant standards, *acquis*, and best practice.
- Improved efficiency and effectiveness in services delivery, including at local level.

4. LIST OF ABBREVIATIONS

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross-border Cooperation
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
DANIDA	Danish International Development Agency
DFID	UK Department of International Development
EBRD	European Bank for Reconstruction and Development
EP	European Partnership
EPAP	European Partnership Action Plan
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HLF	High Level Forum
IBM	Integrated border management
ICJ	International Court of Justice
ICR	International Civilian Representative
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IT	Information Technology
KFOR	Kosovo Force
KfW	Kreditanstalt für Wiederaufbau
KPC-KJC	Kosovo Prosecutorial Council-Kosovo Judicial Council
MEI	Ministry of European Integration
MIPD	Multi-annual Indicative Planning Document
MTEF	Medium-Term Expenditure Framework
NATO	North Atlantic Treaty Organisation
OSCE	Organisation for Security and Cooperation in Europe
PAR	Public Administration Reform
PPP	Privatisation and Public Private Partnerships
SAP	Stabilisation and Association Process
SAPD	Stabilisation and Association Process Dialogue
SBA	Sector-based approach
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium Size Enterprises
SOK	Statistical Office of Kosovo
SSWG	Sub-Sector Working Group
SWG	Sector Working Group
TAIEX	Technical Assistance and Information Exchange Instrument
TAM/BAS	Turn-Around Management and Business Advisory Services
UN	United Nations
UNDP	United Nations Development Programme
UNGA	United Nations General Assembly
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development