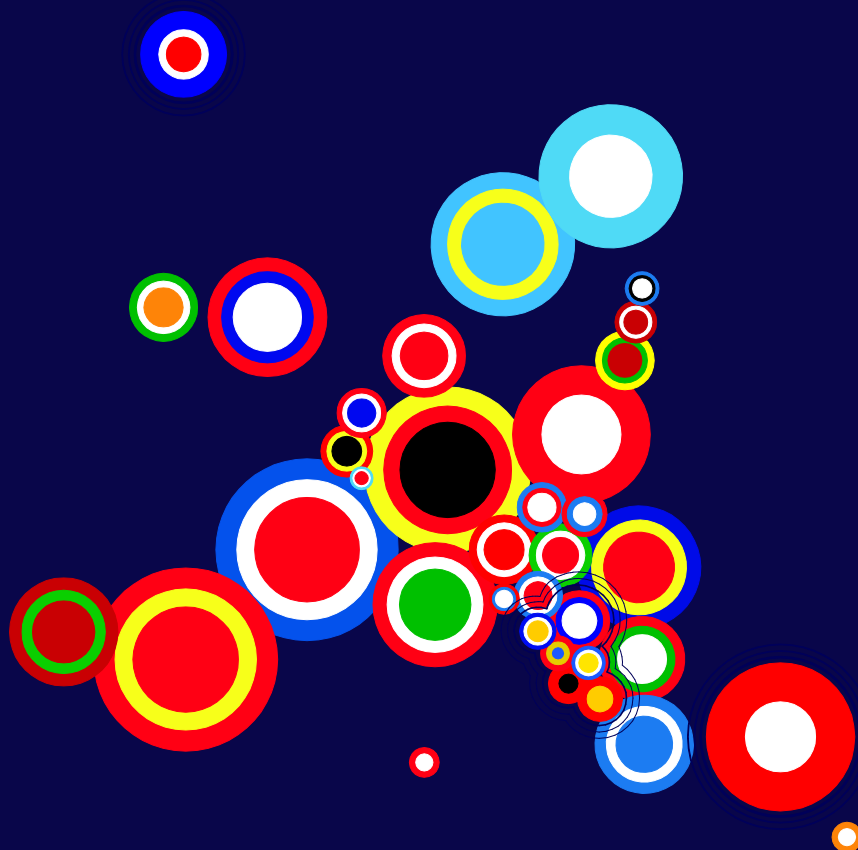




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



INDICATIVE STRATEGY PAPER FOR **Kosovo*** (2014-2020)

ADOPTED ON 20/08/2014

Enlargement

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

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PART I: INTRODUCTION

1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Kosovo in fulfilling its European perspective. It translates the political priorities set out in the enlargement policy framework into key areas where financial assistance is most needed to meet the relevant criteria.

The Instrument for Pre-accession Assistance (IPA II) is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU approximation. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*¹, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution and capacity building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

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

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

With a view to delivering on the priorities set for EU financial assistance for Kosovo for the coming seven years, this Strategy Paper sets meaningful and realistic objectives, identifies key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds from 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a "reward" on the basis of an assessment of performance

¹ Art 2, Regulation (EU) no 231/2014 of the European Parliament and of the Council.

and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper shall be reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

2. Consultation on this Strategy Paper

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

A strategic dialogue with the European parliament has been conducted. International organisations, other donors and Commission services have been consulted throughout its preparation. Consultations with IFIs were also organised, in particular through the local offices and the bilateral annual coordination meetings organised with the World Bank, the Kreditanstalt für Wiederaufbau, the European Bank for Reconstruction and Development, and the European Investment Bank. The Council of Europe Development Bank has been consulted as from June 2013, when Kosovo's request for membership was approved by its Governing Board.

PART II: ANALYSIS OF NEEDS AND CAPACITIES

1. Political and economic context

According to the census carried out in 2011, Kosovo has a population of 1.7 million people. Kosovo's political system is based on the principles of a parliamentary democracy with a central and a local government. For the majority of policy areas, Kosovo has put in place elements of a legislative framework in line with EU standards and basic administrative capacities. The fundamental structures for governance at central and local levels are in place. However, capacity varies across different ministries and is generally weak at the municipal level, thus preventing, together with lack of funding, the proper implementation of decentralised services, in particular in education, social services and healthcare.

Kosovo's EU relations are piloted by the Ministry of European Integration, which has set up a number of inter-ministerial coordination structures. The National Council for European Integration, established under the President's auspices, aims to bring together representatives from across Kosovo's political spectrum and society.

Kosovo is currently implementing its Public Administration Strategy 2010-2013 and will prepare a new strategy from 2015 onwards. Implementation of the action plan for public administration reform started late, which delayed the delivery of results. Public administration reform has also been hindered by lack of political will, professionalism and motivation and there continues to be undue political influence on the civil service. Kosovo is still experiencing difficulties in ensuring the right expertise and the necessary continuity of its civil service. The legal basis for a well-functioning public financial management system is in place, but implementation is lagging behind. Enforcement of tax legislation remains a challenge. The fight against the informal economy and tax evasion needs to be given priority and become more efficient.

In the rule of law area, the main institutions have been set up and legislation has been adopted. The legislative framework is largely complete. However, local capacity and expertise in the rule of law is still weak and interference in the judiciary is still a major concern. The fight against organised crime and corruption still remains a significant challenge: corruption and informal business practices including drug trafficking, are widespread and hinder economic development. Kosovo's experience and expertise in carrying out complex criminal investigations and conducting complex operations are improving, but are still limited. Institutional responsibilities are not always clearly attributed and can lead to a lack of accountability of the relevant institutions. The most sensitive organised crime trials continue to be presided over by mixed panels of local and EULEX judges. Key institutions of the judiciary are in place but are still weak despite a progressive increase in their capacity. As a consequence, Kosovo citizens have very little confidence in the judiciary.

Kosovo has adopted legislation enshrining the principles of impartiality, independence, accountability and efficiency of the judiciary and some related reforms have taken place. However, implementation of legislation and judicial independence continue to be a challenge. In this regard, the 'First agreement of principles governing the normalisation of relations between Kosovo and Serbia' reached in April 2013 foresees the integration of Serbian security personnel and judiciary authorities into Kosovo structures.

Kosovo's constitution lists international human rights instruments, which are directly applicable in Kosovo and form an integral part of its legal framework. As regards the promotion and enforcement of human rights, the key challenge is to improve the implementation of the existing legal framework and the enforcement of decisions remedying human rights infringements. Non-majority communities, for example, continue to face major challenges and discrimination: the implementation of the Strategy and Action Plan for the Integration of Roma, Ashkali and Egyptian Communities (2009-2015) remains weak and inconsistent. Some 17,000 individuals belonging to different ethnic groups are still believed to be displaced in Kosovo.

Kosovo has implemented initial reforms to establish a fully functioning market economy but the weak rule of law, a large informal economy and an underdeveloped policy framework

continue to hinder socio-economic growth. GDP per capita is EUR 2 794 in 2013², equal to 11% of the EU-27 average. Public debt is low, equal to 9.1% of GDP in 2013³. The inflation rate experienced a dramatic decrease from 7.3 % in 2011⁴ to 1.8% in 2013. However, 34.5% of the population still live in poverty, with less than EUR 1.55 per day and 12% in extreme poverty. Children are particularly vulnerable with an estimated 48.6% below 18 years of age living in poverty. Unemployment is very high at 30.9 %, according to a Labour Force Survey (LFS) conducted in 2012 and youth unemployment stands at 55.3%. The LFS highlighted that the high rate of unemployment is accompanied by a very low labour market participation overall (36.8%) and for women in particular (18.6%), as well as by an equally low employment rate (23.9% overall, 10.3% female).

The business climate in Kosovo is hindered by limited access to finance, unreliable energy supply, unfair competition and corruption. Kosovo's enterprise sector is dominated by small and micro-enterprises; retail trade continues to be the dominant sector. The trade deficit is large, with a deficit of 33.9%⁵ of GDP and a ratio of imports to exports of some 9:1. Kosovo's main trading partners are the EU, Albania, Serbia, the former Yugoslav Republic of Macedonia and Turkey. Currently, about 90% of exports consist of raw materials. Moreover, economic statistics (central accounts in particular) are extremely weak, making a comprehensive assessment of the economic situation difficult.

The agricultural sector contributes to about 14.1% of the GDP and is the largest employer in Kosovo, with a substantial proportion of Kosovars dependent on the rural economy. Its share of total employment accounts for approximately 35%. The Agricultural Household Survey 2012 accounted for about 379,000 ha of overall agricultural land and 277,364 ha (73%) of private agricultural land: 41% of this area is used as arable land and 26.0 % as meadows and pastures. Kosovo possesses diverse soils, even though its territory is small. It is estimated that 15% of Kosovo's soil is of high quality, 29% of medium quality, and 56% is of poor quality. Livestock production is particularly profitable and of high economic importance. Kosovo's agriculture is nonetheless hampered by lack of competitiveness linked to the small size of land parcels, as well as a lack of organisation (co-operatives, leasing schemes, irrigation programmes) and difficult access to finance. However, the agricultural sector has further growth potential, both in terms of production and trade. In 2013, the share of newly-created enterprises in agriculture is stable compared to 2012. Currently, the trade balance in agricultural products is negative: the value of exports of agricultural products of EUR 25.8 million in 2011 is dwarfed by the value of EUR 560.1 million in imports. The most significant imports in terms of value are food preparations, beverages, tobacco, meat, dairy products and sugar.

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

² Source: Eurostat

³ Source: Ministry of finance, Kosovo.

⁴ Idem.

⁵ Source: Eurostat 2012.

of the Food and Veterinary Agency. Agri-food establishments are being upgraded to meet EU standards.

Kosovo's most significant energy source is lignite. Approximately 98% of electricity generation comes from two outdated, inefficient and highly-polluting lignite-fired power plants: Kosovo A is in poor condition and the biggest source of pollution in Kosovo (the government is committed to shut this plant down in 2017), and Kosovo B, which needs rehabilitation to meet EU environmental standards. The level of bill collection has improved to 91 % of all electricity billed although the level of power produced and actually paid for is still low. Daily power cuts still occur in some areas at moments of high demand, thus negatively impacting on investment and business development.

The Law on Energy Efficiency was adopted in 2011, followed by secondary legislation in 2012, while in 2013 the government adopted a revised energy strategy. The Kosovo Energy Efficiency Action Plan (KEEAP) 2010-2018 has also been approved. This long-term strategic document covers most of the energy consuming sectors, such as transport, agriculture, industry and services. It requires municipalities to establish energy offices and prepare energy efficiency plans. As required by the Energy Community Secretariat, Kosovo's Energy Efficiency Agency (KEEA) has to prepare 3-year programmes to implement the KEEAP with clear measures and verification/evaluation mechanisms. Due to incompatibilities with the law on public finance, Kosovo still has not managed to establish an energy efficiency agency or fund. As a result, only limited funds from the Kosovo budget have been made available for energy efficiency measures. In 2013, the government adopted its renewable energy targets for 2013-2020, committing to a 29.4 % target share of energy from renewable sources in gross final consumption by 2020. The Energy Regulatory Office (ERO) has set feed-in tariffs for wind and hydro generation and biomass, but tariffs have to be further developed for solar, geothermal and other renewable energy sources. Unfavourable tariffs and complicated licensing and permit procedures are some of the obstacles to the further development of renewables.

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

A government strategy and action plan for cooperation with civil society was developed in partnership with civil society organisations and adopted in July 2013. However, cooperation between CSOs and the governmental institutions is still limited and often *ad hoc*.

Regarding gender equality the inclusion and participation of women at all levels of society remains a key challenge. Gender stereotypes existing in the society help to preserve a structural gender gap in economic, political and social areas. Women, particularly those belonging to minority communities, represent the most socially excluded groups. Empowerment of women is depended on improvements in education, health, and economic participation. Until recently, there has been very limited comprehensive information available on the situation of women in Kosovo society. In cooperation with international partners, a Gender Country Profile was established in 2014, providing relevant baseline data on gender differences at all levels, which will be used for monitoring future developments concerning gender equality in Kosovo.

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

2. Context for the planning of assistance

2.1 EU Enlargement Strategy

Kosovo shares its European perspective with the rest of the region and participates in the Stabilisation and Association Process for the Western Balkans. In June 2013, the Council authorised the opening of negotiations for a Stabilisation and Association Agreement (SAA) between the EU and Kosovo. SAA negotiations were launched in October 2013. To meet its obligations under an SAA, Kosovo will need in particular to: improve the rule of law, judiciary; increase the efficiency and transparency of its public administration; finalise the electoral reform; strengthen the functioning of the Assembly; strengthen the enforcement of human and fundamental rights; improve the protection of minorities; improve trade and internal market issues; progress in the alignment to the EU standards in the phytosanitary and veterinary field.

Following a resolution by the UN General Assembly of September 2010, the European Union has been facilitating a technical dialogue between Kosovo and Serbia. This dialogue has resulted in a number of technical agreements. The political dialogue at Prime Ministers' level has resulted in a 'First agreement of principles governing the normalisation of relations between Kosovo and Serbia' on 19 April 2013, followed by an implementation plan agreed on 22 May 2013. Following this landmark agreement, continued visible and sustainable progress in the normalisation of relations with Serbia, including the implementation of agreements reached so far, will remain essential. The EU supports the implementation of the agreements reached in the political dialogue through IPA and EULEX.

Improving the rule of law is one of the key priorities identified in the 2012 and 2013 Enlargement Strategies and in the Feasibility Study for an SAA. It is essential for improving the business climate and attracting investment and for fighting common security challenges as laid out in the EU's Internal Security Strategy: disruption of international criminal networks, prevention of terrorism and addressing radicalisation and recruitment, raising the levels of security for citizens and businesses in cyberspace, strengthening security through border management and increasing Europe's resilience to crises and disasters. The European Commission monitors Kosovo's progress in its fight against organised crime and corruption. The high-level Structured Dialogue on the Rule of Law was launched in October 2011. In January 2012, the Commission launched the visa liberalisation dialogue with Kosovo. Since 2008, the EU rule of law mission EULEX has been monitoring, mentoring and advising Kosovo on the rule of law, notably on police, justice, customs, civil registry matters and home affairs. It also has some executive responsibilities. In November 2012, the Kosovo government, the Head of the EU Office/EUSR and EULEX signed a joint rule of law agreement, the Compact, setting out common rule of law objectives until the end of the current EULEX mandate (June 2014). A Strategic Review of the EULEX mandate concluded

to continue a more focused mandate until June 2016. The NATO-led military presence of NATO's Kosovo Force (KFOR) continues to provide security throughout Kosovo.

Although the institutional framework is almost complete, improving good governance, including public administration reform, continues to be a key priority for Kosovo. Adequate administrative procedures, including human resources and public financial management, tax collection, as well as reliable and independent statistical systems are fundamental for the functioning of Kosovo institutions and for implementing the reforms needed for EU approximation. In view of the implementation of the future SAA, improving administrative capacities will become even more important. It will require Kosovo's public administration to have a solid strategic planning process in place, enabling a coherent and consistent approach in implementing the necessary reforms. The link between the strategic planning and the Medium-Term Expenditure Framework is also essential. Since June 2013, Kosovo is engaged in a structured policy dialogue with the EU on public administration reform (PAR). The Special Group on PAR offers the opportunity to review the state of implementation of the action plan on PAR and provides the necessary support to Kosovo and its institutions in incorporating best practice and common principles shared among EU Member States.

Kosovo currently benefits from unilateral trade concessions allowing it almost unlimited duty free access to the EU market. This trade regime is to be replaced or complemented by the trade provisions in the future SAA. Kosovo needs to improve its statistical data collection as there are significant differences between the EU and Kosovo data on trade and many other sectors.

An important cross-sector element under IPA II concerns economic governance and inclusive growth in view of enhancing Kosovo's socio-economic development. The 2013 enlargement strategy⁶ highlights a new EU approach towards economic governance in the enlargement countries. This approach responds more systematically to the economic criteria⁷, as defined by the Copenhagen European Council in 1993. Enlargement countries are invited to enhance economic policy and its governance through preparation of annual National Economic Reform Programmes and biennial Competitiveness and Growth Programmes. These programmes will be evaluated by the Commission, who will provide guidance on reforms needed to achieve further progress towards meeting the Copenhagen economic criteria. Countries are further invited to engage in comprehensive public financial management reform and prepare a multi-annual public financial management strategy and an action plan (a reform programme). Sound public financial management is key to sustainable structural economic reform. It will also be relevant for possible sector budget support under IPA II.

Kosovo is party to the Energy Community Treaty and has adopted a number of laws on the energy sector compatible with the EU *acquis*. The energy sector is governed by three laws adopted in 2010, reflecting the commitments of the second EU internal energy market package. In order to meet its energy community obligations, it will need to transpose the third energy package during 2014. Kosovo will need to begin alignment with the *acquis* on security

⁶ COM(2013)700 of 16.10.2013 - Communication from the Commission to the Council and the European Parliament, "Enlargement Strategy and Main Challenges 2013-2014" and corresponding progress reports

⁷ The first criterion concerns the functioning market economy, including market policy essentials, macroeconomic stability, interplay of market forces, market entry/exit, legal system and financial sector. The second criterion concerns the capacity to compete in the single market, including human and physical capital, sectoral structure of the economy, State influence on competition, and trade integration with the EU.

of supply, and continue its alignment with and implementation of the electricity, oil and nuclear safety and radiation protection *acquis*. Kosovo will need to undertake concrete steps to transpose and implement EU climate *acquis* including disaster risk reduction, starting from the monitoring mechanism legislation. In line with the expected EU 2030 framework for climate and energy policies Kosovo should start reflecting on its climate and energy framework.

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

Gender is a cross-cutting theme in EU policy and cooperation. The 'Strategy for equality between women and men' represents a comprehensive framework committing the European Commission to promote gender equality into all its policies. The 'Gender Equality and Women's Empowerment in Development - EU Plan of Action 2010-2015' (EU GAP) adopted in 2010 aims to place gender equality issues systematically on the agenda of dialogue with partner countries. The Gender Country Profile currently being established for Kosovo will serve as a reference document for the programming and implementation of assistance under the Instrument for Pre-Accession.

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

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

2.2 Relevant strategies

Kosovo does not currently have a comprehensive development strategy. However, a number of mid-term planning documents exist. The Strategy Paper takes into consideration Kosovo's Strategy for European Integration 2014 – 2020, the Declaration of Mid-Term Priority Policies 2014-2016, and the Mid-Term Expenditure Framework (MTEF) 2014-2016. The limitation of these documents is that important policy agendas such as European approximation and economic development are not yet integrated into the budget or MTEF. Steps in this direction have been taken in the last few years, but a holistic view on Kosovo's medium and long-term development is still missing. In general terms, sector planning in Kosovo is at an early stage. One of the aims of IPA II will therefore be to support Kosovo's institutions in developing comprehensive sector strategies, including the systematic use of strategic planning.

Kosovo has started developing multi-annual strategies in most sectors, but many are of limited scope or duration and are not accompanied by a budget. Nevertheless, in a few sectors, comprehensive and realistic sector strategies have been developed by the respective

ministries, often assisted by donor partners. Good examples are the Agricultural and Rural Development Plan 2014-2020, the Energy Strategy 2009-2018, and the Kosovo Education Strategic Plan 2011-2016. The main weakness of these strategies lies in their cost estimates and strategic planning. Future financial assistance will be provided to develop sector strategies in sectors where these are missing or need improvement.

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

2.3 Conditions for managing pre-accession assistance

The IPA II Regulation foresees preparation for the decentralisation of assistance management in potential candidates, in order to increase ownership and build capacities for managing EU funds under *Indirect Management* (formerly decentralised implementation system). The objective of indirect management in the context of the pre-accession strategy is to improve ownership and to enable candidate countries and potential candidates to implement EU funds themselves and demonstrate their ability to assume the relevant responsibilities.

The ownership of Kosovo institutions and the overall capacity to plan, programme, implement and monitor financial assistance have significantly increased over the years. Staff of the Ministry of European Integration is well-trained on EU matters. The level of knowledge and expertise is less developed among other institutions, especially at the local level. A roadmap for indirect management of EU assistance will be developed by 2015. Based on this roadmap, the government will upgrade existing structures and set up new ones to implement EU funds.

If the **sector approach** is to be applied in a particular area, certain criteria will have to be met. The Kosovo government will have to put in place policies and strategies, medium-term budget frameworks, coordination and monitoring mechanisms, and arrangements that allow for the evaluation of results and impact. Kosovo is at an early stage in this regard. It does not yet have a comprehensive development strategy and lacks the capacity to effectively coordinate government development priorities. Although there have been some positive developments, the link between sector strategies and the Medium-Term Expenditure Framework is still weak. Donor coordination mechanisms are in place through sector working groups coordinated by the Ministry for European Integration (see also section 2.4. below). However, monitoring and performance assessment are weak and require strengthening.

As concerns sector **budget support**, four key conditions need to be met. For Kosovo to be eligible, it will require: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of the budget; and credible and relevant sector strategies that are consistent with the EU approximation strategy. Once these minimum conditions are met, sector budget support could be considered in all sectors that benefit from a sound strategic basis for reform.

2.4 Donor coordination and complementarity with other EU assistance

Within the government, the Ministry of European Integration is responsible for coordinating donor assistance. The Aid Management Platform, established with EU support, is used as a main tool for monitoring of donor activities. Sector working groups, established with the aim to coordinate donor activities, are not yet fully functional and lack substantial involvement from donors and line institutions. However, progress has been achieved in some sectors, such as public administration reform, and agriculture and rural development where some monitoring and implementation structures have been set up. The EU Office hosts bi-monthly coordination meetings with EU Member States and other bilateral and multilateral donors (US, UN agencies etc.). Close cooperation has been developed with EULEX on EU assistance provided to the rule of law sector.

Despite the diminishing number of donors active in Kosovo, the international donor community is still very present: the European Union is the main donor, followed by the United States of America and Germany. Other Member States active are: the United Kingdom, France, Sweden, Austria, the Grand Duchy of Luxembourg, Belgium, Italy and the Netherlands. The donor community in Kosovo also includes Switzerland, Norway, Japan, and Turkey. IFIs active in Kosovo are: the European Investment Bank (EIB), the World Bank (WB), the International Monetary Fund (IMF), the Kreditanstalt für Wiederaufbau (KfW), the Council of Europe Development Bank (CEB) and the European Bank for Reconstruction and Development (EBRD). In addition to IPA, Kosovo receives EU assistance also through the European Instrument for Democracy and Human Rights (EIDHR) and the Instrument for Stability (IfS). Coordination with IPA assistance is ensured by the EU Office in Kosovo.

2.5 Consistency with EU policies

Financial assistance in the priority areas identified in this Indicative Strategy Paper will be granted in line with and in support of the enlargement strategy for Kosovo. It will be shaped to be consistent with EU policies in the same area, in particular with the Europe 2020 strategy and applicable macro-regional strategies, the flagship initiatives of the EU to boost growth and jobs, as well as the environment and climate policy objectives of the EU. The objectives set until 2020 reflect the expected level of economic development and the state of progress in Kosovo's integration process. The objectives agreed under the SEE 2020 Strategy are important benchmarks for Kosovo's reform efforts and financial assistance under IPA II will be used to support meeting these benchmarks.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO KOSOVO

Kosovo needs continued support to address political and economic priorities to ensure progress in the enlargement process. Ambitious reforms need to be planned and implemented, in line with the emphasis on the rule of law and economic governance. Financial assistance will complement reforms and support investment with a clear relevance for the integration process or which make a substantial contribution to the socio-economic development of Kosovo, with a view to converge with EU legislation or best practice.

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

Democracy and Rule of Law

Kosovo's public administration will need support within the framework of **democracy and governance**, especially in view of future SAA implementation. IPA II will support Kosovo in creating a de-politicised, reliable, transparent and accountable public administration and civil service at all levels, able to provide an efficient service to citizens and the business community, in line with EU standards. This is fundamental for the successful implementation of the necessary reforms. Democratic institutions, including the Assembly and the independent oversight bodies, will be supported to improve their capacity to provide checks and balances. The capacity of local level government also needs strengthening. Economic governance will be supported together with efforts to improve sound public financial management. Kosovo will also need to reinforce civil society, in order to stimulate participatory democracy.

Reforms in the **rule of law and fundamental rights** sector are a key strategic priority for pre-accession assistance to Kosovo because of their political significance for the enlargement process and relevance to a favourable environment for economic growth. Given their importance for EU approximation process, judicial reform and the fight against corruption and organized crime and drugs trafficking will continue to be considered strategic priorities. The same applies to efforts to enhance human rights and support to the inclusion of non-majority communities and vulnerable groups. IPA II assistance will also continue to support the implementation of Kosovo-Serbia dialogue agreements and support Kosovo in taking over responsibilities from the CSDP mission in Kosovo. IPA II will contribute to the creation of an accountable, independent and efficient judicial system which is aligned to EU legislation and best practice, and enhance the capacities to prevent, investigate, prosecute and convict cases of organised crime and corruption. It will also support effective implementation of the legal framework for the protection of human rights and protection of minorities, including the creation of sustainable livelihoods and durable integration into Kosovo society for returnees, IDPs and refugees wishing to settle in Kosovo.

Competitiveness and Growth

Given the general socio-economic indicators and trends described above, there is a clear need to continue supporting Kosovo's social and economic development to improve the living conditions for Kosovo citizens and bring them closer to EU levels. Support to **economic governance, competitiveness and innovation and education, employment and social policies** is of crucial importance to bring Kosovo's living standards and socio-economic development closer to the EU average and increase the competitiveness of Kosovo's economy. As far as the **competitiveness and innovation sector** is concerned, IPA II will

contribute to improving the capacity to design and implement competitiveness related policies, increasing the competitiveness of the Kosovo economy, including services, manufacturing as well as providing public services related to the needs of the private sector. In the **education, employment and social policies sector**, IPA II will aim to support Kosovo in implementing the employment and welfare strategy 2014-2020 and improving the institutional capacities to design and more importantly implement effective policies. As concerns education, IPA II will join other donors to support the implementation of the education strategy.

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

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

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

In the **environment and climate action** sector, Kosovo has significant needs to improve the living conditions for its population and ensure alignment with the EU *acquis*. Priority needs include developing the capacities at both central and local government levels to elaborate and implement policies. Considerable investment is needed to connect Kosovo's citizens to drinking water and waste water networks, which require further expansion; interventions in nature protection and river basin management are also needed. Waste management facilities need to be expanded, including capacity to separate waste streams and recycle. Investment needs across the sector are substantial whilst financial allocations for environment are limited and serious management capacity constraints exist. Insufficient revenue collection and limited

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

Kosovo's current **transport** policy, with a heavy emphasis on building new roads, favours the least environmentally-friendly mode and crowds out investment for other low emission modes of transport, particularly railways. The integration of Kosovo into regional (rail) transport networks will be facilitated via the Western Balkans Investment Framework WBIF and relevant regional programmes. In addition, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the integration process, which do not fall under the aforementioned priority sectors. This may include ad hoc and short-term technical assistance provided under the TAIEX instrument and through twinning projects.

The EU will continue, where necessary, its financial and technical contribution to the implementation of agreements reached within the framework of Kosovo's dialogue with Serbia. Subject to the development in the rule of Law sector, additional non-programmable assistance will be needed to support the transfer of rule of law responsibilities to the Kosovo authorities from the EULEX mission.

Outcome and impact indicators are proposed to track results to which the EU can contribute through policy dialogue or financial assistance. However, EU financial assistance is aimed at supporting the implementation of Kosovo's own sector strategies, which are implemented also with funding from Kosovo's own budget and other donor contributions. Complementary indicators at outcome and output level will be included in the sector programmes and actions.

Finally, while programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action across a number of sectors. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, strengthening of democracy, and human rights and civil society participation as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

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

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and Governance

1.1 Needs and capacities in the sector

The sector covers overall public sector management, including Public Administration Reform (PAR) coordination, civil service management and public administration organisation and functioning, public financial management (including revenue administration and collection, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control and external audit), and policy making capacities. Assistance in customs and taxation fields will also include support for interconnectivity and interoperability of IT systems with the EU standards, as well as further alignment to and efficient implementation of the EU *acquis* due to the specific requirements under the future SAA. In addition, the sector covers statistics, as well as evidence based policy development and the capacity to progressively adopt relevant EU legislation. Civil society development is also included in this sector. The fight against corruption is an important element of public sector performance and is covered by the ‘Rule of Law and fundamental rights’ sector.

Kosovo adopted its Public Administration Strategy in 2010, which is to be reviewed at the end of 2014. The Action Plan will be extended to allow for the completion of all the planned actions. Kosovo is currently starting preparations for a new strategy on public administration, which should be adopted at the beginning of 2015. The new strategy needs to be focused on the finalisation of the remaining legislative elements and on the implementation of legislation in place. The strategy should be accompanied by solid budgetary planning and reflect the main EU principles and best practices of public administration reform.

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

Policy coordination mechanisms and ownership on the side of the government have improved through various measures: the establishment of the Strategic Planning Office (SPO), the inclusion of the provisions related to strategic planning in the new Government Rules of Procedures 2011, the current assessment of sector strategies by the SPO, the establishment of departments for and policy coordination in line ministries and the

clarification of procedures and standards for the development of strategies and policies. The Office of the Prime Minister and the Ministry of European Integration have the capacity to coordinate the development of key strategic documents and provide a basic reporting and monitoring mechanism. Consolidation of a strategic planning system is the beginning of a lengthy process. However, development of realistic plans and the capacity to allow for timely implementation remains a major challenge.

The basic political and administrative structures of the Assembly are in place, in particular rules and regulations and processes at political and administrative level to plan the Assembly's work and carry out its main functions. Law making continues to dominate the parliamentary timetable, while executive scrutiny and oversight take second place. Further improvements need to be undertaken regarding independent oversight bodies, their independence and the enforcement of their decisions.

The **civil service** in Kosovo should be strengthened. Particular attention should be given to the finalisation of the measures regarding the appraisal and appointment system, both at central and local level. The strong politicisation of the civil service prevents its proper functioning, especially at the local level. There is a lack of knowledge and skills in the civil service, including a lack of digital skills. The fiscal decentralisation process has yet to be completed, which leaves uncertainty as concerns the division of responsibilities between central and local level. More support to municipalities is needed, since they have been so far left out of the decentralisation process. Also, the coordination between central and local level needs to be further improved. Proper functioning of institutions is still too much based on people rather than organisations and procedures. The lack of up-to-date and reliable statistics affects all sectors and needs to be addressed urgently. Statistics and data should be disaggregated by gender. E-government and e-inclusion need to be further strengthened to support inclusive development.

Economic governance needs further improvement. Fostering reforms and economic integration into European structures by improving the formulation and enforcement of market-based economic policies will require improvement in Kosovo's capacity to provide and process information on macro-economic performance and forecasts. This should allow it to formulate economic policy and develop the instruments necessary for its implementation. Challenges related to macro-economic stability strengthening public finances and supporting private sector development will be addressed by country-specific policy guidance. Implementation of targeted policy guidance will be subject to an annual cycle of stock-taking, and annual follow up actions will be prepared in cooperation with providers of technical assistance, in particular the IMF. As concerns public financial management, especially tax collection, strategic planning, budgeting, public procurement and public internal financial control and external audit need strengthening. There is no overall public financial management reform programme in place. Too often political priorities are not adequately reflected in the yearly budget statement, complicating reform. Kosovo has developed the basic legal framework for public internal financial control, but substantial efforts are still required to implement the concept of decentralised managerial accountability. Kosovo also needs to put more emphasis on ensuring compliance with European standards, in particular as concerns procurement agencies.

Previous IPA assistance has been provided for PAR, notably with a view to strengthening the capacities in crucial areas such as public financial management, including customs administration, public procurement, and statistics. EU support over the period 2007-13 included strengthening the institutional framework required to transpose and implement the

EU *acquis*, in particular regarding trade, public finance, agriculture and the overall coordination of the enlargement process.

Kosovo's progress in the adoption and implementation of the EU *acquis* will also require increased capacities and ownership in all phases of the management of IPA, in particular if it is to become eligible for sector budget support and comply with the requirement for indirect management. Management of EU funding requires a specific institutional set-up and special skills.

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

1.2 Objectives, results, actions and indicators

By 2020, the performance of Kosovo's **public administration** should be significantly improved if it is to meet the challenges of adopting the EU *acquis* and implementing a future SAA. Kosovo will be supported in its public administration reform efforts to create a de-politicised, reliable, transparent and accountable public administration at all levels, able to provide an efficient service to citizens and the business community, in line with EU standards. Kosovo will make consistent improvements toward the establishment of a fully functional market economy. **Economic governance** will be strengthened through country-specific policy guidance from the Commission, issued on the basis of the annual macro-economic and fiscal programmes and the bi-annual structural reforms and competitiveness programmes. Preparation for budget support and indirect management by Kosovo will be one of the main focuses of IPA II. Support will be provided to the implementation of a sequenced public financial management programme to strengthen sound public financial management in all relevant public finance sub-systems. Support to strategic planning will also be priorities. IPA II assistance will support Kosovo to continue its reform of public administration at central and local level, including the enforcement of legislation on the civil service. IPA II will support the alignment of the Kosovo institutional framework and capacities with the standards required by the *acquis* in particular the implementation of the future SAA, including *acquis* on environment. Support for improving governance at the local level may include municipal infrastructure relevant to local economic development, social service decentralisation and environmental protection.

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

IPA II will offer a combination of political and financial support to meet these priorities, employing a more strategic, effective and results-focused approach to deliver maximum

impact as envisaged in the guidelines for EU support to civil society in enlargement countries, 2014-2020⁸. Monitoring results and indicators will be done every year. The Commission will encourage Kosovo to make legislation more conducive to civil society. It will also promote the involvement of civil society in the integration process, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance. The above guidelines include indicators and baselines and targets are being set.

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

- Consolidated and coherent PAR coordination and policy planning mechanisms in place, as well as the mechanisms and capacities needed for alignment with the EU *acquis* and implementing the future SAA.
- A functioning public administration, accountable to Parliament and supervised by independent oversight bodies, providing services to citizens and businesses, and characterised by professionalism and sound administrative procedures, in line with EU principles.
- Capacities of democratic institutions, especially the parliament, are improved for efficient oversight;
- Legal predictability and enforcement of laws and court decisions is improved in the interest of businesses and citizens.
- Fiscal sustainability ensured by the application of a Medium-Term Expenditure Framework with financing decisions determined by government policies and good quality fiscal estimates, following the successful implementation of its economic reform programme, supported by clear accountability arrangements for budget planning and implementation.
- Public financial management is sustainable and effective, following implementation of a sequenced and comprehensive reform programme over a number of years, including efficient revenue administration and collection; improved budget preparation and execution with cash management; public debt management; efficient public procurement system in accordance with EU rules and international practice; improved accounting and reporting; and public internal financial control and external audit in line with EU requirements.
- IT interconnectivity and interoperability enhanced.
- Decision making processes based on quality statistical data collected and analysed in line with the statistics standards of Eurostat, including improved economic statistics.
- Creation of an environment conducive to civil society activities
- Civil society organisation, including social partners, in Kosovo effective and accountable independent actors fully participating in the policy making process.

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

- Progress made towards meeting Copenhagen criteria (EC);
- Composite indicator Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Statistical compliance (Eurostat).

⁸ http://www.tacso.org/doc/doc_guidelines_cs_support.pdf

1.3 Types of financing

The potential to learn and benefit from the experiences of other countries in the region will be encouraged. Regional initiatives for networking and sharing knowledge (such as RESPA, SIGMA) could provide added value and will be considered during programming. Significant emphasis will be put on efforts to coordinate with other donors active in the sector, in particular GIZ, USAID, and with IFIs (IB, EBRD, WB) as concerns the improvement of municipal infrastructure. Given the type of interventions needed, twinning, TAIEX and other institution building instruments will be mobilised to help Kosovo align with EU standards. The civil society facility (CSF) will use an appropriate mix of funding instruments to respond to different types of CSOs, needs and contexts.

1.4 Risks

- A lack of political will to pursue the necessary reforms. The EU will monitor and encourage Kosovo's commitment in the context of future SAA implementation and other forums for policy dialogue.
- Most current strategies are outdated or will be outdated by the time IPA II starts and will require review.
- As regards civil society development, the main risks are connected to the negative attitude of governments to engage in a dialogue with civil society. Risks will be minimised through a functioning of the civil society facility, the civil society task force, the working group including delegation task managers, and by technical assistance at national and regional levels, which will provide policy/financial assistance coordinated approach for the support to civil society and their dialogue with the government.

2. Rule of law and fundamental rights

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

The main EU actor in the area of the rule of law in Kosovo is the EU Rule of Law mission EULEX, whose mandate expires in June 2016. The rule of law is supported by various bilateral donors, especially the US and Germany, whose activities are focused on the judiciary, legal reform, legal education, and property rights. The EU Office seeks to ensure coordination and complementarity with other donor assistance through regular consultations during the programming and implementation of IPA assistance.

The 2012 Feasibility Study for a Stabilisation and Association Agreement between the EU and Kosovo and the Visa Liberalisation Roadmap set out clear requirements that Kosovo needs to meet in the rule of law area. The main sub-sectors to be addressed by IPA II assistance are Judiciary, Home Affairs (with a strong focus on the fight against organised crime and corruption), and Fundamental Rights and Protection of Minorities. IPA II will also be mobilised to support Kosovo in taking over responsibilities from EULEX as of 2014.

Kosovo has developed a large number of strategies and action plans for the rule of law sector, including the Strategy and Action Plan for the Fight against Corruption 2013-2017, the National Strategy against Organised Crime, the Strategy for Communities and Returns (2009-2013, 2014-2018 under preparation), and the Strategy for the Integration of Roma Ashkali and Egyptian Communities (RAE) in Kosovo 2009-2015, and others. In May 2014 Kosovo

adopted its Rule of Law Assistance Strategy, which will be the basis for the development of donor support to the sector for the period 2014-2019. The focus for Kosovo in the rule of law now needs to be on the implementation of strategies, action plans and legislation, to show results of the fight against organised crime and corruption, and to ensure independence of the judiciary.

2.1 Sub-Sector: Justice

2.1.1 Needs and capacities in the sub-sector

In order to improve the rule of law, Kosovo needs to strengthen the independence, effectiveness, accountability and impartiality of its judiciary in particular. An independent judiciary working in line with proper democratic and professional standards is not only essential for establishing the rule of law for the immediate benefit of the public, but also for international cooperation and economic development, including attracting foreign investment. Political interference in the work of the judiciary is a concern. The enforcement of judgments in both civil and criminal cases is weak. Both are major impediments towards creating confidence in the judiciary. The backlog of (old) cases has been decreasing, but the efficiency of the judicial system still needs to be improved by further reducing the backlog and ensuring good case management and handling. Kosovo needs to ensure harmonisation and consistency of legislation. This applies not only to the laws on the judicial system (courts and prosecutors), but also to criminal legislation and other legislation impacting on the criminal justice system, including probations, conditional releases, provision of forensic reports, etc.

Assistance provided under IPA I helped Kosovo improve the approximation of laws and the coherence of its legal framework. Support has been provided to the Kosovo Judicial and Prosecutorial Councils as well as to the areas of juvenile justice and international legal cooperation. IPA also supported legal education reform and the improvement of training of interpreters and translators in the judicial sector and legal linguists. In a country-wide vetting and re-appointment process all judges and prosecutors in Kosovo have been evaluated and selected based on merit. Key criteria included professional qualifications and experience, as well as professional and personal integrity. Correctional services have been strengthened thanks to IPA support through the construction of a high security prison (open early 2014) and a forensic institution to provide care for mentally ill prisoners.

2.1.2 Objectives, results, actions and indicators

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

public will require considerable assistance. Further support will also be needed for vulnerable prisoners, the rehabilitation of offenders and prison administration.

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

- Legislation is further enhanced to ensure the independence of the judiciary;
- Professionalism is strengthened through more and better training for magistrates and court staff;
- The independence, efficiency, integrity and accountability of the judiciary are strengthened at all levels of the judicial system;
- The backlog of open cases is substantially reduced;
- Improved enforcement of judicial rulings is ensured and consistency of jurisprudence is introduced and implemented;
- Access to justice is improved;
- The penitentiary system complies with international standards, including specific treatment for different categories of detainees.

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

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

2.1.3 Risks

Main risks in the area of justice are: the lack of human and financial capacities to implement reforms and to process cases in a reasonable timeframe, causing considerable backlogs and hampering access to justice for citizens and businesses; continued political interference in the judicial and correctional system, which can undermine the independence of the judiciary.

2.2 Sub-Sector: Home Affairs

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

IPA assistance supported the development and enforcement of policies and a legal framework in line with EU standards to combat organised crime, including financial and economic crime. This included support to the Agency for Management of Sequestered and Confiscated Assets (AMSCA) and Kosovo Customs, the Anti-Corruption Agency, Kosovo Police, the Financial Intelligence Unit, Kosovo Judicial Council and Kosovo Prosecutorial Council. A twinning project started in 2013 will help strengthen criminal investigation capacities at central and local level to fight organised crime and corruption.

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

complex criminal activities needs to be strengthened. There is insufficient local capacity in the special prosecution office.

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

2.2.2 Objectives, results and actions and indicators

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

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

- The institutional set-up to fight and prevent corruption is rationalised and co-operation between law enforcement bodies, the judiciary and relevant bodies has improved;
- Better trained/experienced staff in the different law enforcement institutions to deal with challenges related to economic and other forms of organised crime;
- Existence of a track record of successful investigations, prosecutions and final convictions in corruption and organised crime cases;
- Effective enforcement of anti-money laundering legislation.

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

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

2.2.3 Risks

The main risk for EU assistance lies in the potential delays in the implementation of key strategies on anti-corruption and the fight against organised crime. Reforms require sufficient political will to achieve the desired results. The organisational and administrative capacities may affect inter-institutional coordination and cooperation in this area. To mitigate these risks, specific capacity-building measures will be targeted to inter-agency cooperation to improve coordination and information sharing.

2.3 Sub- Sector: Fundamental Rights and Minorities

2.3.1 Needs and capacities in the sub-sector

Kosovo's human rights legislation is broadly in line with international standards, but implementation remains a challenge. The structures dealing with the protection, promotion and reporting on human rights need to be streamlined, both at central and local level. The overall implementation of the Roma, Ashkali and Egyptian Strategy and Action Plan remains weak and inconsistent as a result of several shortcomings, including a lack of political will, ownership and insufficient budgetary allocations. Moreover, there is a lack of coordination between central and local level institutions as well as effective inter-ministerial co-ordination. The sustainability of the return process continues to be undermined by real and perceived security threats, limited access to property, blocked or delayed property restitution proceedings, limited access to public services, and a lack of economic opportunities. Despite the fact that Kosovo's constitution has strong anti-discrimination provisions, implementation of anti-discrimination policies is weak. Members of the lesbian, gay, bisexual, transgender and intersex (LGBTI) community continue to face discrimination, threats and violence. Women's representation both in the public and the private sectors remains low, especially in senior positions. Access to justice for women is limited. Enforcement and protection of property rights is a key challenge and one of the priorities of the 2012 Feasibility Study. Media freedom and freedom of expression are still of great concern in Kosovo: media are still subject to political interference and the public broadcasting company is still completely dependent on the Kosovo budget.

IPA I has supported the stabilisation of minority communities through livelihood programmes; the alignment of Kosovo's legislation on asylum and migration issues to EU standards; and the construction of adequate structures for hosting refugees, asylum seekers, migrants. It has also supported the sustainable return and reintegration of IDPs and refugees through durable solutions (comprising housing, socio-economic support, legal aid) and increased involvement of central and municipal state and non-state actors.

According to 2013 figures of the Ministry of Communities and Returns, the number of potential voluntary returnees stands at 733 families. The estimated number of internally displaced persons (IDPs) within Kosovo also remains very high.

2.3.2 Objectives, results, and actions and indicators

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

The structures responsible for the protection, promotion, enforcement of and reporting on fundamental rights, including freedom of expression, need to be further strengthened and streamlined, both at central and local level. By 2020, the legal framework for the protection of

human rights and protection of minorities should be effectively implemented. IPA II will support Kosovo in strengthening the capacity of its institutions in charge of coordinating human rights policies and monitoring. Education and awareness-raising about fundamental rights and non-discrimination will be supported, including through civil society. With regard to rights of persons belonging to minorities, IPA II will continue to support Kosovo in effectively implementing the strategy and action plan for the Roma, Ashkali and Egyptian communities. Efforts will focus on education, social services, civil registration of these communities, as well as their integration into the labour market.

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

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

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

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

2.3.3 Risks

- The main risk is the lack of political will and commitment to implement the necessary reforms and measures.
- Needs for IPA II assistance may change, depending on developments in the sector.

2.4 Types of financing

For comprehensive support and monitoring of the sector, the use of simultaneous twinning actions in the key rule of law institutions (Ministry of Justice, Judicial Council, Prosecutorial Council, Pristina court, Assembly, Anti-Corruption Agency etc.) is envisaged, but other types of interventions cannot be excluded. All training/capacity-building measures will be programmed and designed in close coordination with EULEX and other actors and donors in the rule of law sector. Infrastructure support and supplies may be provided for key rule of law actors. Support will be provided to civil society to monitor progress on human rights, anti-discrimination etc., through IPA II as well as through the European Instrument for Democracy and Human Rights. As organised crime in the Western Balkans is often international, multi-country/regional programmes can contribute to the achievement of expected results in certain areas (fight against cross-border organised crime and corruption, regional cooperation between prosecutors, witness protection). Regional programmes can complement mainstream measures on returns and migration issues. TAIEX support may also be used.

3. Energy

3.1 Needs and capacities in the sector

The lack of a reliable and clean energy supply represents a major challenge for Kosovo's economic development and approximation to European environmental standards. Kosovo suffers from an extremely high dependence (97%) on power production from two thermal

plants burning indigenous lignite. Of these two plants, one (Kosovo A) cannot be upgraded to meet EU environmental and emissions standards, and is the worst single-point source of pollution in the region. It will need to be closed down, in accordance with Kosovo's obligations under the Energy Community Treaty, by 1 January 2018. The distribution and supply company was privatised in 2013. The new owners have pledged to invest in the company and improve its efficiency. Bill collection (as a proportion of energy produced) is still low and will need to be improved to improve the economic viability of the entire sector (and to reduce state subsidies).

Out-dated infrastructure and the lack of systematised maintenance expose Kosovo's electricity supply system to risks. This is not compliant with international standards and codes and has negative consequences for both system operators and consumers. Kosovo's transmission network needs a considerable upgrade to ensure a secure and reliable power supply and meet customers' demands and obligations derived from grid code requirements, as well as to be able to integrate Kosovo into a regional system. Despite the energy agreement reached with Serbia, Kosovo continues to lose revenue as a consequence of this isolation from regional power systems. The lack of control imperils the stability of Kosovo's power system. The investment needed to upgrade the transmission network in terms of capacity, security and reliability is very substantial, and in the mid-term cannot be covered from the Kosovo budget and/or the Transmission System and Market Operator (KOSTT) revenues. On the other hand, the alignment of the transmission network with European technical standards is a requirement deriving from the Energy Community Treaty. Heating of facilities comprises around 70% of the overall thermal energy consumption in Kosovo. Most public sector buildings have very poor thermal insulation and those built before the 1990's do not have any insulation at all. The district heating system is limited and inefficient.

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

Kosovo has set up the basic institutions in the energy sector, including the Ministry for Economic Development, the Agency for Radiation Protection and Nuclear Safety, the Energy Regulatory Office, and its Transmission System Operator (KOSTT) separate from other utilities. Kosovo needs to develop its energy policies to ensure its gradual integration into EU policies and networks. It needs to implement its current energy market legislation and significantly improve the level of bill collection and payment. Kosovo also needs to strengthen the legal framework and implementation mechanisms to meet its own 9% target for energy efficiency improvement by 2018, as laid down in its National Energy Efficiency Action Plan (NEEAP) 2010-2018. The legal and regulatory framework to develop renewable energies also needs to be improved if Kosovo is to meet its target to produce 29% of its electricity from renewable sources by 2020 (up from the current level of less than 3%). In order to allow for private investment in the energy sector, Kosovo institutions must create a favourable market environment. Measures are needed in terms of legislation, enforcement of contracts and courts decisions, and tariff methodology. Kosovo should also foresee incentives

to increase the use of renewable energy (both in terms of favourable tariffs and easier permitting and licensing procedures), and promote business development in the field of renewable energies and energy efficiency measures.

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

3.2 Objectives, results, actions and indicators

The overall objective of IPA II in the energy sector is to help Kosovo ensure a reliable energy supply to citizens and enterprises, and align its legislation to EU energy standards. Regarding energy production, the objective is to contribute to the reduction of its environmental and health impact. The main results expected in the sector by 2020 are the implementation of the decommissioning plan of Power plant Kosovo A, the completion of the legislative framework in the area of energy and climate change, including the regulatory framework, secondary legislation, and the implementation of the Third Energy Package, improved alignment of Kosovo's energy sector with EU acquis and best practices. Kosovo will also work towards improved institutional and human capacities in the relevant institutions and enhanced competitiveness of the private sector in the renewable energy and energy efficiency sector, including job creation.

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

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

- implementation of the decommissioning plan of Power plant Kosovo A;
- completion of the legislative framework in the area of energy and climate change; including the regulatory framework, secondary legislation;
- the implementation of the third Energy package;
- introduction of energy efficiency measures in public buildings and in district heating systems.

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

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

3.3 Types of financing

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

3.4 Risks

- Because of delays in the construction of the new power plant Kosovo C, Kosovo A may not be able to be switched off before the agreed deadline of 31 December 2017;
- Kosovo authorities will not allocate the necessary resources to meet the energy efficiency and Renewable Energy Sources (RES) targets for 2018 and 2020;
- Key institutions, such as the Energy Regulatory Office (ERO), the Agency for Protection from Radiation of Kosovo and the Kosovo Energy Efficiency Agency, will not be allocated sufficient financial and staff resources - this could limit their functioning and, in particular for ERO, undermine the independence of the institution;
- Lack of interest from private investors in RES.

4. Competitiveness and innovation

4.1 Needs and capacities in the sector

This sector aims to boost the competitiveness of Kosovo's economy, in particular SME development and regional development. Support to this sector complements efforts in the fields of economic governance, public administration and public financial management referred to under 'Democracy and governance'. Kosovo does not have a single, comprehensive strategy for economic development. There is an Economic Vision Plan 2011-2014 with the general objective to improve the environment for investment and the private sector. The Private Sector Development Strategy and Action Plan 2013-2017 is supported by five pillars and aims to make Kosovo and its companies globally competitive. Key features are the promotion of investments and exports; further improvement of the quality infrastructure; and improvement of trade policies to further improve Kosovo's trade balance. The institutions which support private sector development do not have sufficient capacity to promote foreign investment, particularly given the fierce competition from other countries in the region. Among the main challenges for private sector development in Kosovo are limited access to finance for SMEs, unfair competition among business actors and lack of competitiveness caused by an unfavourable business environment, a lack of creative

entrepreneurship, and innovation capacity. There is a need to support the ability of both new and traditional businesses to compete and innovate through ICT and broadband improvements, training and digital skills development. Shortcomings in management expertise and corporate governance, such as insufficient quality management, limited management sophistication and corporate professionalism, low levels of efficiency and value added, pose additional obstacles to private sector development.

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

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

4.2 Objectives, results, actions and indicators

IPA II will support the strengthening of institutional capacity in the socio-economic sector and assist Kosovo in developing sound economic governance policies and an economic and legal environment that is conducive to foreign and domestic investment. The development and implementation of a comprehensive strategy for economic development, which identifies sectors with potential for growth, will also be supported. The implementation of the Small Business Act will be continued. Increasing the competitiveness of Kosovo's private sector, especially SMEs, and promoting private investments including technological upgrade and innovation capacity will be the main objective for IPA II support. Other serious constraints to private sector development in Kosovo, such as energy supply, enforcement of the rule of law and public administration obstacles, will also be addressed through sector measures. IPA II will offer support to stimulate innovation, cooperation among SMEs themselves and with educational and research institutions, and supporting the work of the authorities involved in regulating the market. Other support will be given to creating and strengthening business advisory services, local incubators, capacities of municipalities to support businesses, and to strengthen the competition authorities. Support to local economic development will include interventions at municipal level on infrastructure in key areas, including environmental protection. In addition, support to improving the provision of training and skills at all levels will be supported.

As regards access to finance for enterprises, IPA II will closely coordinate with IFI interventions in the sector. IPA II will continue to provide grant support for micro-enterprises and start-up businesses with a special focus on innovative business models, export-oriented services and female entrepreneurs. At the same time, as IFI support to Kosovo increases, SMEs will be supported and encouraged to make use of other financing opportunities. The capacity of the SME Development and Promotion Agency to implement and monitor SME support programmes and schemes should be increased, enabling it to progressively take over the activities currently funded and managed by donors. Another objective for IPA II assistance will be the improvement of quality infrastructure by increasing the number and

capacity of laboratories and bodies for conformity assessments. Consumer rights and consumer protection will be promoted, including through increased civil society involvement.

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

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

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

- Progress made towards meeting Copenhagen criteria (EC);
- Distance to frontier, Doing business - score (WB).

4.3 Types of Financing

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

4.4 Risks

- Insufficiently developed financial sector to channel the resources available to the industrial sector;
- Interest rates offered by commercial banks will not be increased despite an increase in SME capacities, undermining the envisaged gradual phase-out of donor support and normalisation of the lending market in Kosovo;
- Insufficient absorption capacity of SMEs and lack of demand for modern financing sources.

5. Education, employment and social policies

5.1 Needs and capacities in the sector

Kosovo has the youngest population in Europe with 50% under 25 years of age. Human capital plays a crucial role in ensuring sustainable socio-economic development. As confirmed in the 2013 Progress Report, significant investment is necessary. The education sector is still affected by the lack of adequate facilities, maintenance and quality assurance. Crucial challenges to be tackled in the education sector include improving the quality of primary and secondary education, vocational education and training; strengthening transparency in the education system; investment in teacher skills. Higher education in

Kosovo is subject of reform in line with the Bologna process, but many reforms still need to be implemented. Participation in the Erasmus+ programme and its external dimension supporting the modernisation of higher education will help improve higher education. As youth aged 15-24 make up 31% of the working age population, youth unemployment is a particular challenge. Unemployment remains very high, with significant structural weaknesses and skill gaps in the labour market. The labour market remains underdeveloped. As a result, there are few job opportunities for young entrants (about 30.000 per year). The informal nature of the economy has a consistent impact on the shape of the labour market of Kosovo, by limiting skills development and trapping people into low skilled/low productivity jobs. Of the many unemployed, about 60% are unskilled. However, the number of unemployed persons with a university education has also increased, signalling a mismatch between the skills needed on the labour market and those provided by the education system. Increasing the level and relevance of skills and qualifications of the labour force is therefore one of the main challenges.

The Employment and Welfare Strategy 2014-2020 is a comprehensive strategy that aims to improve the functioning of the labour market, promote skills development, overhaul the social welfare system and consolidate the role of social partners.

Among the objectives listed in the Kosovo Education Strategic Plan 2011-2016, the Kosovo government has identified a reduction in the number of shifts in schools as a key priority. At present half the registered schools still work in two shifts and many others in three. Schools lack science laboratories, sports facilities and appropriate school building maintenance. Better alignment of education and training programmes with labour market needs is another priority. IPA assistance has been successful in helping Kosovo introduce a sector-wide approach in education and draft a comprehensive sector strategy.

5.2 Objectives, results, actions and indicators

The EU will support Kosovo in implementing the Employment and Welfare Strategy 2014-2020 and in improving the institutional capacities to design and implement effective policies. It will also support specific and targeted policies aimed to raise the employability and social inclusion among particularly vulnerable groups such as long-term unemployed, marginalised communities, youth and women, with a view to promoting active inclusion. In order to design effective support measures, earlier policies and IPA assistance will be carefully evaluated before programming new support. IPA II will assist Kosovo in pursuing this objective by supporting educational reform, enhancing cooperation with private sector, expansion of apprenticeship and scholarship schemes and development of vocational skills according to labour market demands. Improving inclusiveness of both education sector and labour market, by ensuring access to education and training, reducing drop-out levels among the most vulnerable groups, especially girls, students from minority communities and students with disabilities, is another important objective for the sector until 2020. In the area of social welfare, a number of projects were initiated over the last few years that will require increasing support from the Kosovo authorities, both in terms of political commitment and budget allocation, and some further IPA assistance to become sustainable. In order to design effective support measures, earlier policies and IPA assistance will be carefully evaluated before programming new support.

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

- Increased alignment of education and training programmes with labour market needs

- improvement of the inclusiveness of both the education sector and the labour market;
- increase in the employment rate among particularly vulnerable groups such as long-term unemployed, marginalised communities, youth and women;

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

- Progress made towards meeting Copenhagen criteria (EC);
- Employment rate 15 to 64 years, total % (Eurostat).

5.3 Types of financing

In the medium term, there is less need for technical assistance in the education sector as ongoing IPA programmes will provide assistance for the period 2013-2016. Reduced technical assistance for labour market relevant education and training programme reform will be needed as from 2017. While IPA-funded technical assistance to social service decentralisation will cover the period 2014-2016, further support will be necessary, particularly at municipal level, after that period. Given the positive results of the grant schemes implemented through IPA in favour of SMEs to promote employment, grant schemes will be continued under IPA II. Cooperation with IFIs will be sought in the area of educational infrastructure as grant funds will be insufficient to cover all needs; regional initiatives involving IFIs will also be considered. In the area of vocational education, there is a need to coordinate with other donors, who are already active (especially Germany and Luxembourg). IPA II multi-country programmes may be used to ensure Kosovo's participation in regional cooperation initiatives in the areas of education, research and public health. On-going regional initiatives (such as SEE 2020 and the European Fund for Southeast Europe - EFSE) will be reviewed regarding their potential to add value and multiplier effects. Participation of Kosovo in the relevant EU programmes in the area of education, research and culture will be encouraged. TAIEX and twinning support may also be used.

5.4 Risks

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

6. Agriculture and Rural Development

6.1 Needs and capacities in the sector

The sector of agriculture and rural development plays a very important role in providing employment opportunities and generating income. The sector has potential for growth and exports. At present, however, the sector is characterized by unfavourable farm structures (holdings are mostly semi-subsistent, land parcels are fragmented and small in size, and animal herds small limited in numbers), outdated farm technologies, lack of technical expertise, sub-optimal use of inputs, outmoded farm management practices, weak rural infrastructure, a rudimentary rural advisory system and limited access to credit and

investment capital. Combined with the uncontrolled urbanisation and the absence of proper procedures to value and reclassify land, Kosovo's agriculture faces serious obstacles to competitiveness. Agricultural productivity and yields are low, and small farm sizes mean that farmers cannot produce enough surpluses for commercialisation. A significant portion of the production is self-consumed by the households and only a limited amount is brought to the market, usually without long term contractual arrangement and outside of proper controls or management.

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

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

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

6.2 Objectives, results, actions and indicators

The overall objective of IPA II assistance in this sector is to support Kosovo institutions aligning and implementing the Common Agricultural Policy and meeting EU standard food control mechanisms; to increase the competitiveness of the agri-food sector; to increase the capacity of food business operators to meet EU food safety standards and their competitiveness; to improve its adaptation to climate change phenomena; and to improve the living standards of Kosovo's rural population. While pursuing these objectives, IPA II assistance will also help Kosovo in addressing challenges of climate change by promoting resource efficiency in the agriculture, food and forestry sectors; social dialogue and transfer of knowledge and innovation; and social and economic inclusion. Even though the Food and Veterinary Laboratory has benefited from investments by the World Bank, the government and the EU, further support is needed to bring food safety standards in line with the acquis. Support will be provided to improve systematised and reliable data collection and production of statistics in line with EU requirements. In the context of preparing for budget support and indirect management of EU funds, Kosovo will be supported in establishing the necessary structures and capacities for managing IPARD funds. Climate change adaptation measures will be included in the development of the agricultural and rural sector in Kosovo.

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

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

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

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

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

- Progress made towards meeting Copenhagen criteria (EC);
- Total investment generated via IPA in agri-food sector and rural development (DG AGRI).

6.3 Types of financing

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

6.4 Risks

- Insufficient national budget allocated to the implementation of ARDP and food safety standards and regulations;

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

7. Regional cooperation and territorial cooperation

Kosovo started programming cross-border cooperation CBC programmes with the former Yugoslav Republic of Macedonia and Albania in 2010 and Montenegro in 2011. During the period 2014-2020 the European Union will continue to support the cross border programmes Kosovo already established. In line with the objective of reconciliation and normalisation of relations with Serbia, IPA II assistance will be provided for the development of territorial cooperation with Serbia, in the medium term at the latest. Development of this cooperation will have to be agreed and prepared jointly, in line with the ongoing dialogue between Belgrade and Pristina facilitated by the EU. The programmes to be developed for the period 2014-2020 shall focus on the socio-economic development of the border/boundary areas. Specific objectives, results and indicators per thematic priority shall be established in each cross-border cooperation programme. Continuation of people-to-people actions, human resource development and information sharing has to remain as an essential part of the individual CBC programmes.

Scope, objectives and thematic priorities of each cross-border programme are laid down in a dedicated seven years multi-annual programming document, which has been drafted on the basis of extensive consultation with local stakeholders. The multi-annual programming document foresees indicative annual budget allocations and defines a set of indicators to measure the impact of the programme and identifies the specific bordering areas, which are eligible for funding.

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

As concerns the transport sector, IPA II will support only the interventions aimed at connecting Kosovo with its neighbours. Assistance will be channelled through regional interventions, in particular in the railway sector, through WBIF coordination.

In general, economically feasible and bankable projects should be funded by loans provided by IFI or other donors. The fiscal space for taking up loans is limited following the impact of the economic crisis in recent years. Grant funding for investments is therefore important but at the same time inherently limited. Consequently, there is a need for a mechanism to agree on overall national and regional investment priorities between the government, the European Union, other donors, relevant regional organisations and the IFI, as well as for blending of

grants and loans. This coordinating platform will be the Western Balkans Investment Framework (WBIF).

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

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

- Number of involved municipalities (MIS)

ANNEX 1: INDICATIVE ALLOCATION (MILLION EUR)¹ per policy area and sectors

Kosovo	2014	2015	2016	2017	2018-2020	Total 2014-2020 (*)	Of which climate change relevant (%) (**)
a. Reforms in preparation for EU approximation	37.3	34.0	31.0	35.2	99.1	236.6	
Democracy and governance	64.4				46.0	110.4	
Rule of law and fundamental rights	73.1				53.1	126.2	
b. Socio-economic and Regional development	20.0	37.9	33.0	30.0	114.1	235.0	
Energy	46				54	100.0	80%
Competitiveness and innovation	74.9				60.1	135.0	
c. Employment, social policies, education, promotion of gender equality, and human resources development	14.5	7.0	10.0	16.7	46.0	94.2	
Employment, social policies, education, promotion of gender equality, and human resources development	48.2				46.0	94.2	
d. Agriculture and rural development	12.0	7.0	14.7	10.0	36.0	79.7	
Agriculture and rural development	43.7				36.0	79.7	20%
TOTAL	83.8	85.9	88.7	91.9	295.3	645.5	

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

ANNEX 2: INDICATORS AND TARGETS

Table 1a: Context indicators

Indicator	Source	Baseline	Last value	
		2010	year	value
Public debt (% of GDP)	Eurostat:	6,06		
Real GDP growth rate (average last three years - %)	Eurostat:	3,2		
Unemployment Rate (%)	Eurostat:	35,1 (2012)		
GDP per capita at current prices (EUR)	Eurostat:	2418		
FDI per capita €	Eurostat:	165,8		

Table 1 b: Outcome and impact indicators *

Sector	Indicator	Baseline	Last value		Milestone	Target
		2010	year	value	2017	2020
Composite indicator (average ranking provided by eight external sources)	Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	43,8				
Progress made in reaching the political criteria provided	DG ELARG – Progress Report					
Progress made on implementation of acquis	DG ELARG – Progress Report					
Progress made in meeting economic criteria	DG ELARG – Progress Report					

* Targets will be provided at a later stage

Table 2: Sector Indicators *

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Governance and Democracy	Governance and PAR	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
		Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) - 1 (Worst) - 100 (Best)	World Bank, World Economic Forum	42,03				
	Public Financial Management	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
	Statistics	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
		Statistical compliance - % 0 (Worst) - 100 (Best)	Eurostat:	4% - 10% (2013)				
Rule of law and fundamental rights	Judicial reform	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
		Composite indicator (average of Access to Justice and Judicial independence)	World Justice Project, World Economic Forum					
	Fight against corruption and organised crime	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
		Composite indicator (average of Global Corruption and Control of Corruption) 1 (Worst) - 100 (Best)	Transparency International, World Bank	30,45				
	Fundamental Rights	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					
		Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)	Freedom House, Reporters Without Borders	37,92				
	Refugees and Border management	Progress made towards meeting Copenhagen criteria	DG ELARG – Progress Report					

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Energy		Progress made towards meeting Copenhagen criteria	ELARG – Progress report					
		Quality of electricity supply 1 (Worst) - 7 (Best)	World Economic Forum	N/A				
Competitiveness and Innovation		Progress made towards meeting Copenhagen criteria	DG ELARG – Progress report					
		Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	World Bank - Doing Business:	54,35				
Education, employment and social policies		Progress made towards meeting Copenhagen criteria	DG ELARG – Progress report					
		Employment rate (15-64 years), total - %	Eurostat:	23,9 (2012)				
Agriculture		Progress made towards meeting Copenhagen criteria	DG ELARG – Progress report					
		Total investment generated via IPA in agri-food sector and rural development (EUR)	DG AGRI					
Territorial Cooperation and Regional Cooperation		Number of involved municipalities	European Commission Management Information System					

* Targets will be provided at a later stage.