

Strategy Paper for Kosovo (draft version September 2013)

2014-2020

Part I: Introduction

1. Purpose

This Country Strategy Paper sets out the priorities for EU financial assistance for the period 2014-2020 to support Kosovo on its path to accession. It translates the political priorities as defined in the Enlargement Strategy and the most recent Annual Progress Reports into key areas where financial assistance is most useful to meet the accession criteria. The Instrument for Pre-accession Assistance (IPA II) is the main financial instrument to provide EU support to the beneficiary countries in implementing reforms with a view to Union Membership. 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 beneficiary country to fulfil the (future) obligations stemming from membership in the EU by supporting progressive alignment with the Union acquis, (d) strengthening regional integration and territorial cooperation.

In order to increase the impact of EU financial assistance, funding shall be concentrated on the areas where reform and investment are most needed to meet accession criteria. It will be tailored to take into account the capacity of Kosovo to meet these needs. Assistance shall be planned in a coherent and comprehensive manner to best meet the four specific objectives. However, 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 own means of the beneficiary country as well as of the support provided through other EU instruments and by other stakeholders, in particular the international community, bilateral donors or International Financial Institutions. Preference shall be given to provide financial assistance under a sector approach where possible. This should ensure a long-term, coherent and sustainable approach and will allow for increased ownership of national authorities. It also facilitates cooperation among donors, eliminates duplication of efforts 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 Country Strategy Paper sets meaningful and realistic objectives, identifies the 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 in 2014 to 2020.

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

2. Consultation on this Strategy Paper

The CSP 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 consultations with line ministries and provided significant inputs for the CSP at different stages of the drafting process. Consultations with EULEX were launched in March 2013 and continued throughout the drafting process. EULEX and the

EEAS provided essential input on the needs for IPA 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 a consultation process organised with the help of a facilitator. At the SAPD Plenary with Civil society organisations held in July 2013, CSOs had another opportunity to comment on the initial draft of the CSP. CSOs also provided written input on the needs and priorities to be addressed in the CSP. 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. Consultation with IFIs were held throughout the drafting process: the WB-EC days in May 2013 was preceded by a series of bilateral meetings with both the local WB office and the office in Vienna; EIB was consulted in the context of the Donor Conference on Sustainable Energy as well as through regular telephone and email contacts. Consultations with KfW took place in the field and at a joint meeting in Brussels in April 2013. The CEB has been consulted since July 2013 when it became part of the donor community in Kosovo. [to be completed]

Part II: Analysis of the needs and capacities

1. Country description

Kosovo has a population of around 1.8 million. In February 2008, Kosovo declared independence and adopted a constitution based on the Comprehensive Proposal for the Kosovo Status Settlement (Ahtisaari Plan). Kosovo's political system is based on the principles of a parliamentary democracy.

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 both central and local levels are in place. However, capacity varies across different ministries and is particularly weak at the municipal level. The basic political and administrative structures of the Assembly are in place, in particular rules and regulations, and processes at political and administrative levels 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. As regards EU integration, the Standing Committee for European Integration has been given extensive responsibilities under the Assembly's rules of procedure, with a special focus on the review and supervision of "the process of harmonisation of laws enacted by the assembly with the legislation of the European Union". Kosovo adopted its Public Administration Strategy in 2010. The government started implementing the Action Plan of the PAR strategy and organized donor coordination meetings to seek donor support for specific objectives of the action plan. In practice, public administration reform has been hindered by a lack of political will, professionalism and motivation. There is continued political interference in the civil service.

In the rule of law area, the main institutions have been set up and legislation has been adopted. The legislative framework is complex. Especially the fight against organised crime and corruption remain a significant challenge. Corruption and informal business practices are widespread and remain important obstacles to economic development. Kosovo's experience and expertise to tackle complex criminal investigations is limited. Institutional responsibilities are not always clearly divided. The most sensitive organised crimes trials continue to be presided over by mixed panels of local and EULEX judges. Key institutions of the judiciary are in place and are progressively increasing their capacity. Kosovo has adopted legislation for major judicial reform, which aims to enshrine the principles of impartiality, independence, accountability and efficiency of the

judiciary. 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 with the assistance of EULEX where necessary.

Kosovo's constitution lists international human rights instruments, which are directly applicable in Kosovo and form an integral part of Kosovo's legal framework. As regards the promotion and enforcement of human rights, the key challenge for Kosovo is to improve implementation of the existing legal framework and the enforcement of decisions remedying human rights infringements. Non-majority communities continue to face major challenges and discrimination. 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. Out of these, 878 (or 326 households) are still living in 37 collective centres. The number of potential voluntary returnees in 2013, according to the Ministry of Community and Returns, stands at 733 families or 3231 individuals (564 families/2324 individuals from Serbia; Montenegro 122 families/677 individuals from Montenegro, and 47 families/230 individuals from FYRoM).

Kosovo has implemented some 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 hamper the economy. GDP per capita is estimated to be € 2 760 in 2012, equal to 11.0 % of the EU-27 average. 34.5% of the population still live in poverty, with less than 1.55€/day and 12% are in extreme poverty. Children are particularly vulnerable with an estimated 48.6% of children below 18 years of age living in poverty. Unemployment is very high at 35.1 %, according to a Labour Force Survey conducted in 2012; youth unemployment stands at 55.3%. The business climate in Kosovo is hampered 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. Kosovo has a negative trade balance. Its main trading partners are the EU, Albania, Serbia, the former Yugoslav Republic of Macedonia and Turkey. Currently about 90% of Kosovo's exports consist of raw materials. Economic statistics, national accounts in particular, are extremely weak, impeding a comprehensive assessment of the economic situation.

The agricultural sector contributes about 14.1% to 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 agricultural land overall 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% is of medium quality, and 56% is of poor quality. Livestock production is particularly profitable and of high economic importance. The agricultural sector has further growth potential, both in terms of production and trade. In 2012, the share of newly-created enterprises in agriculture more than doubled. Currently, the balance of trade in agricultural products of Kosovo is negative: the value of exports of agricultural products of € 25.8 million in 2011 is dwarfed by the value of € 560.1 million in imports of agricultural products. The most important 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 for farmers to improve productivity and quality of agricultural products and increase production with the aim of import substitution. Animal health is monitored

through regular zero-surveillance programmes, annual vaccination schemes and passive surveillance systems whereby veterinarians and farmers report occurring disease to the Animal Health Department of the Food and Veterinary Agency.

Kosovo's only indigenous energy source is lignite. 98% of electricity generation in Kosovo comes from two obsolete, inefficient and highly polluting lignite-fired power plants: Kosovo A (345 MW, built in 1962) is in poor condition, the biggest source of pollution in Kosovo and expected to be shut down in 2017. Kosovo B (540 MW, built in 1983) needs rehabilitation to meet EU environmental standards. The level of bill collection has improved to 91 % of all electricity billed. Daily power cuts in some parts of the country still have a negative impact on investment and business development.

In 2011 the Law on Energy Efficiency was adopted, followed by secondary legislation in 2012. The Kosovo Energy Efficiency Action Plan (KEEAP) 2010-2018 has been approved. This long-term strategic document covers most of the energy consuming sector such as transport, agriculture, industry and services sector. It requires municipalities to establish energy offices and prepare municipal energy efficiency plans. As required by the Energy Community Secretariat, Kosovo Energy Efficiency Agency (KEEA) has to prepare 3 year programmes to implement the KEEAP with clear measures and verification/evaluation mechanisms. So far, only limited funds have been made available for energy efficiency measures. In 2013, the government adopted its renewable energy targets for 2013-2020, committing it 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, but tariffs have to be further developed for solar, geothermal and other renewable energy sources.

The power 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 population is still not connected to drinking water.

A government strategy and action plan for cooperation with civil society was developed in cooperation with civil society organisations and adopted in July 2013. In practice, cooperation between civil society organisations and the institutions of Kosovo is still limited and often ad hoc.

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 and became a member of the Council of Europe Development Bank in July 2013.

2. Context for the planning of assistance

2.1 EU Enlargement Strategy and relations with the EU

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 between the EU and Kosovo. To meet its obligations under a Stabilisation and Association Agreement, Kosovo will need in particular to improve the rule of law, judiciary, public administration, electoral reform and the Assembly, human and fundamental rights, protection of minorities, trade and internal market issues, and phytosanitary and veterinary issues.

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 resulted in a 'First agreement of principles governing the normalisation of relations between Kosovo and Serbia' in April 2013, followed by an implementation plan agreed on 22 May 2013. The EU supports the implementation of the agreements reached in the political Dialogue through IPA.

Improving the rule of law is one of the key priorities identified in the Enlargement Strategy and the SAA feasibility study for Kosovo. It is essential for improving the business climate and attracting investment, and also indispensable 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. It helps guide the reinforcement of its judiciary through the high-level Structured Dialogue on the Rule of Law. 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 and customs. It has also retains some executive responsibilities. The current EULEX mandate expires in June 2014. The NATO-led military presence KFOR continues to provide security throughout Kosovo.

Although the institutional framework is almost complete, good governance, including public administration reform, continues to be a key priority for Kosovo on its European path. Adequate administrative procedures, including those concerning human resources and public financial management, tax collection, as well as reliable and independent statistical systems are of fundamental importance for the functioning of Kosovo institutions and for implementing the reforms needed for EU approximation. In view of the upcoming SAA negotiations and implementation, improving administrative capacities will become even more crucial. Since June 2013, Kosovo is engaged in a structured policy dialogue with the EU on Public Administration Reform, the Special Group on PAR. The group offers the opportunity to review regularly 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 by the SAA when it is agreed. The agricultural trade deficit with the EU amounted to € 138 million in 2011. Under an SAA, Kosovo will have to continue agricultural structural reforms and accelerate the harmonisation of veterinary, sanitary and phytosanitary rules with EU standards to help its exports meet international requirements. Kosovo needs to urgently improve its statistical data collection as there are significant differences between the EU and Kosovo data on (agricultural) trade and many other sectors.

Kosovo is party to the Energy Community Treaty. It has therefore already 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. Kosovo will need to begin alignment with the acquis on security 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 change and mitigation acquis, starting from the monitoring mechanism legislation. In line with the EU Green Paper on

"A 2030 framework for climate and energy policies" Kosovo should start reflecting on its climate and energy framework for 2030.

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 in itself a crucial component of any democracy. Support to civil society within the enlargement policy is focused on enabling and stimulating participatory democracy. This is 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. 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.

Kosovo has been benefitting from the Instrument for Pre-Accession Assistance (IPA) since 2007. The EU allocated a total amount of approximately € 635 million for Kosovo under IPA in the period 2007-2013.

Given the upcoming SAA negotiations, the on-going political dialogue with Serbia and dynamics in the European Council, the relations between the EU and Kosovo are expected to remain dynamic in 2014-2020. To be able to respond to these dynamics, it is important that IPA assistance can be implemented in a flexible way.

2.2 Relevant national/regional strategies

Kosovo does not currently have a comprehensive national development strategy. However, a number of mid-term planning documents exist. The CSP 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 2014-2016. The limitation of these documents is that important policy agendas such as European integration and economic development are not integrated into the budget or MTEF. Steps in this direction have been taken in the latest years, but a holistic view on Kosovo's medium and long-term development is still missing.

Kosovo has started developing multi-annual strategies in most sectors, but many are of limited scope or duration and not matched by a budget. In a number of sectors, comprehensive, realistic and costed sector strategies have been developed by the respective ministries, often assisted by donor partners. Good examples are the Agricultural and Rural Development Plan 2007-2013 and 2014-2020, the Energy Strategy 2009-2018, the Strategy on public administration reform 2010-2013, and the Kosovo Education Strategic Plan 2011-2016. Future IPA support will be provided to develop sector strategies in sectors where these are missing or in need of improvement.

Regional cooperation and good neighbourly relations are an essential element of Kosovo's European integration process. Following a technical dialogue agreement with Serbia in February 2012, Kosovo's participation in regional cooperation arrangements has improved. Nevertheless, status issues continue to hinder Kosovo's full integration into regional cooperation mechanisms. Kosovo is part of the Central European Free Trade Agreement. 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 is ready to fully participate in other regional initiatives,

including the 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 Regulation foresees preparation for the decentralisation of assistance management in potential candidate countries, in order to increase ownership and build capacities for managing EU funds under the Decentralised Implementation System (DIS). The objective of decentralising 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 to demonstrate their ability to assume the responsibilities of membership in this respect.

The ownership of Kosovo institutions and the overall capacities to plan, programme, implement and monitor IPA assistance have significantly increased over the years. The Ministry of European Integration has well-trained, professional staff. The level of knowledge and expertise on European integration matters is less developed among other institutions, especially at the local level. A roadmap for indirect management of EU assistance is to be developed by 2015. Based on this roadmap, the government will upgrade existing structures and set up new ones required for the implementation of EU funds. Similarly, the conditions for budget support are not yet in place but will have to be developed in the next years.

2.4 Donor coordination and complementarity with other EU assistance

Within the government, the Ministry of European Integration is responsible for the coordination of 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 is sought with EULEX on EU assistance provided to the rule of law sector.

In addition to IPA, Kosovo is receiving limited EU assistance 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 CSP 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 climate policy objectives of the EU. The objectives set until 2020 reflect the 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

1. Policy areas and sectors of assistance for 2014-2020

As mentioned before, sector planning is in an early stage. One aim of IPA II will therefore be to support Kosovo's institutions in developing comprehensive sector strategies. The main challenge for Kosovo, however, is not the drafting of legislation, strategies or action plans, but their implementation. This is a challenge across many sectors, mainly due to limited capacity, expertise and experience in the responsible institutions. As Kosovo has only recently started setting up its public administration, improving **public sector management and public administration reform**, remains a major challenge. Currently, Kosovo's public administration is characterised by disconnected planning and policy-making at government and ministerial levels. Plans are often developed in an ad hoc manner responding to requirements of the international community. Moreover, the number of ministries has increased, with some new ministries formed through mergers. As a result, there has been little or no coherence between long-term and medium-term goals, especially between important strategies such as the European agenda and economic development.

Policy coordination mechanisms and ownership on the side of the government have improved through various measures: the establishment of the Strategic Planning Office, the inclusion of the provisions related to strategic planning in the new Government Rules of Procedures 2011, the current assessment of the sector strategies proceeded to the government by the SPO, establishment of Departments for EU Integration and policy coordination in line ministries, the clarification of procedures and standards for the development of strategies and policies. The Plan for the implementation of the Economic Vision 2011-2014 has established a good basis for the development of medium-term comprehensive planning. The OPM and MEI have the capacity to coordinate development of key strategic documents and provide a basic reporting and monitoring mechanism. Consolidation of a strategic planning system is at the beginning of a long improvement process, with some positive trends in 2013. However, development of realistic plans and capacity of timely implementation remains a major challenge for the government. The first objective of the PAR action plan is related to the reforms and capacity building of the institutions dealing with strategic planning and EU policies. To reach this objective, an integrated approach to PAR is crucial. This approach should address weaknesses in planning and prepare Kosovo institutions to streamline policy-making, which will allow the government to better allocate available resources to develop and analyse priorities.

The MEI's overall role in coordinating European integration is clear and undisputed, which provides a good base for the development of more specific functions, such as the legislative scrutiny and harmonisation that the SAA process requires. The main focus of the Government has been on gradual implementation of the Rules of Procedure and creation of pre-conditions for the upcoming SAA process. Line Ministries have launched structures to deal with European integration coordination, strategic planning and policy development. The capacity of these units to deliver is hampered by a lack of status and, more importantly, a shortage of staff and the lack of skills and expertise.

There are relatively low retention rates among civil servants, which hampers the building up of institutional capacity. Poor management and uncertain career prospects contribute to high staff turnover in public institutions. As regards implementation, the division of responsibilities between central and local level is not always clear. There is limited

capacity within public institutions at municipal level. This relates mainly to a lack of knowledge and skills, and uncompleted fiscal decentralisation. In the incoming years more support needs to be given to the decentralisation process involving the municipalities that are not yet part of the process. Also, the coordination between central and local level needs to be further improved. Proper functioning of institutions is still too much based on persons rather than institutions. The lack of up-to-date and reliable statistics affects all sectors and needs to be addressed urgently.

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. Public financial management is still a concern in Kosovo. Too often political priorities are not adequately reflected in the yearly budget statement. 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 information on macroeconomic performance and forecasts, to formulate economic policy and to develop the instruments necessary for its application. Kosovo needs to put more emphasis on ensuring compliance with European standards, in particular as concerns the Procurement Agencies.

With the start of negotiations of an SAA, Kosovo needs to strengthen its structures, in particular in those domains directly touched by the SAA and the mechanisms of reporting and monitoring, which will play a fundamental role in the implementation of the Agreement. In particular, Kosovo will need to work on the implementation of the trade measures included in the SAA. With the entry into force of the trade measures, Kosovo will need to adapt its system of taxation to the reduction of custom revenues. Hence, the tax authority needs to be able to adjust policies and identify the means to improve the effectiveness of tax collection with a focus on enforcement. Further support is needed for the reform of fiscal systems in Kosovo and further development of the tax administration to ensure effective tax collection and fight against fiscal fraud. The customs authorities need to further enhance their effectiveness to meet the demands resulting from the visa liberalisation process and liberalised trade under an SAA. Kosovo's progress in the European integration process will also require increased capacities and ownership in all phases of the management of IPA funds. Management of EU funding requires a specific institutional setup and special skills.

In order to improve the **rule of law**, Kosovo particularly needs to strengthen the independence, effectiveness, accountability and impartiality of its judiciary. 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 continues to be 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 cases has been decreasing, but the efficiency of the judicial system still needs to be improved. Kosovo institutions dealing with reforms in the judiciary have not yet created an effective high level forum to coordinate reform efforts, elaborate policies and address the major issues and structural weaknesses of the system. As a result, laws adopted contain inconsistencies. This applies not only to the laws on the judicial system (courts and prosecutors), but also to criminal legislation and other legislation which impacts on the criminal justice system such as probations, conditional releases, provision of forensic reports, etc.

Although the legislative framework on anti-corruption is largely in place, the institutional set-up remains complex. Kosovo needs to effectively 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 to investigate complex criminal activities and fight corruption needs to be improved and the cooperation between the enforcement and judicial authorities enhanced. Under an SAA, Kosovo will need to develop a framework for cooperation aimed at fighting and preventing criminal activities, notably organised crime. Particular attention will need to be paid to issues such as trafficking in human beings, illegal economic activities (such as corruption and illegal transactions involving goods such as counterfeit products, industrial waste and radioactive material), illicit arms trafficking and terrorism. The capacity of the Kosovo Police to investigate complex criminal activities is limited and needs to be strengthened.

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 a lack of 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. The estimated number of internally displaced persons (IDPs) living in collective centres within Kosovo remains very high and their living conditions have not been adequately addressed.

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 feasibility study.

Kosovo has developed a 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 Organized Crime, the Strategy for Communities and Returns (2009-2013, 2014-2018 under preparation), and the Strategy for the Integration of RAE Communities in Kosovo 2009-2015.

The lack of reliable, clean **energy** supply represents a major challenge for Kosovo's economic development and approximation to European environmental standards. Kosovo's Transmission Network needs a considerable upgrade to ensure a secure and reliable power supply, and thereby fulfil customers' demands and the obligations derived by grid code requirements. The obsolete infrastructure and the lack of systematised maintenance expose Kosovo's Electricity Supply System very often to risks. This is not compliant with international standards and codes and has negative consequences for both system operators and consumers. Kosovo loses revenue and 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 are very costly, and in the mid-term time frame cannot be covered from the Kosovo budget and/or 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 insulation at all. The District Heating system is inefficient.

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. Since 2010, several projects have been 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.

In conclusion, considerable steps are needed to reduce the air, water and soil pollution in Kosovo, mainly caused by Kosovo A. Electricity distribution suffers from significant technical losses, and investment in energy efficiency and renewable sources of energy is insufficient to meet Kosovo's 2020 goals. Energy efficiency planning at municipal level has improved slightly, but capacity at local level remains weak. The main objective of IPA assistance to the energy sector will therefore be to support Kosovo in closing down the Kosovo A power plant and increase energy efficiency and the use of renewable energy sources.

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. Kosovo has the youngest population in Europe with 50% of the population under 25 years of age. Education plays a crucial role in ensuring sustainable socio-economic development. The education sector is still affected by the lack of adequate facilities, maintenance and quality assurance. As youth aged 15-24 make up 31% of the working age population, youth unemployment is a particular challenge. The labour market remains rigid, and there are few job opportunities for young entrants (about 30.000 per year). Of the many unemployed, about 60% are unskilled. 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 thus one of the main challenges of the labour market. 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. Furthermore, businesses face difficulties accessing the financial market. Quality infrastructure needs to be improved to meet EU standards and allow for the development of production, services and trade. Educational institutions lack adequate curricula for teaching entrepreneurship. As a result, there is a lack of innovation and demand-driven creation of businesses. The economy suffers from a large informal sector, fuelled by weaknesses in tax and expenditure policies as well as law enforcement. This reduces the tax base and the efficiency of economic policies. The social exclusion of marginalized groups such as ethnic minorities, youth, women and people with disabilities is aggravated by a lack of economic opportunities and perspective. Language barriers and the lack of relevant school materials are major obstacles to the integration of returnees and readmitted children into the education system. There is a need to establish a functioning social welfare and social service system to reduce poverty and exclusion.

The sector of **agriculture and rural development** plays a very important role in providing employment opportunities and generating incomes. The sector has potential for

growth and exporting. At present, however, the sector is characterized by unfavourable farm structures (holdings are mostly semi-subsistent, land parcels are fragmented and animal herds small), 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 commercialization. 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.

Vegetable production in Kosovo is one of the main branches of agricultural production and in some regions represents the main economic activity. Generally vegetable production is still seasonal and the market cannot be continuously supplied over the year. In order to overcome the seasonal vegetable production, the Agriculture and Rural Development Plan (ARDP) 2010-2013 has supported the establishment of greenhouses to extend the production period of vegetable. Fruit production is currently not well developed but the recent trend shows that it is developing fast, with the aim is to substitute high import of fruits and fruit products with domestic production. The milk processing industry continues to face unfair competition from the informal market and unlicensed operators, which cover around 30% of the total amount of milk produced and present a risk to the health of consumers. The meat processing sector faces problems with the provision of domestic raw material because of the small livestock provided for slaughter and the competition from traditional (house) slaughtering. Technologies installed in industrial slaughterhouses have appropriate technical standards but the meat industry makes limited use of the capacities for slaughter whilst the processing industry mainly uses imported raw material. The sector is lacking standards for the categorisation of carcasses, meat and meat products and there is no appropriate control of the quality of meat and meat products. Unregistered and traditional slaughters cause additional problems for human health and the environment such as the spread of diseases and uncontrolled waste disposal.

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 reorganization. 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 investments, 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. The quality control of products remains one of the problems to be addressed in the coming years to increase and safeguard quality standards of agro-food processing.

Unemployment is still one of the most severe problems Kosovo's rural areas. Very often agriculture is the sole source of job creation, but many young and educated rural people prefer to work in other professional areas. Thus, young rural inhabitants intend to remain unemployed or to migrate to urban centres which offer more job opportunities. Other parts of the rural population are willing to invest in start-up businesses related to non-agricultural activities or to become active in agricultural production, but have no access to the necessary financing. The potential for innovation and knowledge transfer is constrained by limited co-operation between farmers, advisory services and research

institutes and universities. Very small farms, which receive small individual benefits from participation in producer groups, are so far reluctant to organise themselves collectively. Therefore, there is a need to start supporting smaller producer groups of commercially oriented farmers, which in the long-run, through a demonstration effect, will contribute to the development of co-operation between farmers.

In the **environment** sector, Kosovo has significant investment needs to improve the living conditions for its population and ensure alignment with the EU acquis. Heavy investments are needed, for example, to connect Kosovo's citizens to drinking water and waste water networks. Waste management facilities need to be expanded. Grant funding for investments is inherently restricted, and the fiscal space is limited following the severe impact of the economic crisis. 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 International Financial Institutions, as well as for blending of grants and loans. Therefore, Kosovo will use the Western Balkans Investment Framework (WBIF), which not only provides a unique facility for blending loans and grants, but also provides a mechanism for upstream coordination to provide a single agreed pipeline of priority investments comprised of those projects identified by the participating countries as crucial for the implementation of national and regional strategies and commitments, thus ensuring support by all relevant actors. As such, the WBIF provides an opportunity to secure greater political commitment to the reforms and assistance necessary to allow these investments to proceed, as well as an efficient upstream assistance instrument to facilitate all the necessary steps to develop mature and implementable projects. 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 modes of transport, particularly railways. The integration of Kosovo into regional (rail) transport networks will be facilitated via the WBIF and relevant regional programmes. As Kosovo lacks sufficient human and administrative capacities to develop and implement EU environmental and climate standards, additional support and expertise will be mobilised through TAIX.

Kosovo faces a range of challenges, especially in areas such as the rule of law, the economy and social cohesion. **Civil Society Organisations** - understood as all non-state, not-for-profit structures in which people organise to pursue shared objectives and ideals - can make a substantial contribution to addressing many of these challenges through their lobbying, advocacy and oversight activities at national, regional and local level. To date, the involvement of civil society on policy formulation and monitoring remains limited. Even when public consultations on draft legislation take place, follow-up by the government is often unsatisfactory. There is limited public funding for social services delivered by civil society on behalf of the authorities. The central and local authorities need to improve cooperation with civil society, notably as regards defining and executing public policies. The Commission will encourage the Kosovo government to make legislation more conducive to civil society and to actively implement its strategy for cooperation with Civil Society. Among CSOs, social partners play an important role in promoting the right to association and enhancing sectorial 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.

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

continue bilateral CBC programmes between Kosovo and its neighbours. The capacities of the institutions involved in CBC programmes will be strengthened.

The EU will also continue, where necessary, its financial and technical contribution to the implementation of agreements reached within the framework of Kosovo's dialogue with Serbia. Depending on the Strategic Review of EULEX, additional non-programmable assistance may be needed to support the handover of rule of law responsibilities to Kosovo authorities.

2. Indicative allocation per policy area and sector

see Annex 1.

Part IV: EU assistance during the period 2014-2020

Justice, Home Affairs and Fundamental Rights

Rule of Law is a wider policy area with a substantial number of national and international stakeholders, which makes coordination and cooperation particularly challenging. The main Kosovo actors are the Ministry of Internal Affairs, Ministry of Justice, Ministry of Communities and Returns, Kosovo Police, Customs, Kosovo Anti-Corruption Agency, Kosovo Judicial Council, Kosovo Prosecutorial Council, Courts and Prosecution Offices, Kosovo Judicial Institute, Kosovo Academy for Public Safety, Anti-Corruption Agency, Agency for the Management of Sequestered and Confiscated Assets, National Agency for the Protection of Personal Data, Civil Registration Agency, Kosovo Property Agency (KPA).

The main EU actor is the EU Rule of Law mission EULEX whose current mandate expires in June 2014. The rule of law sector is supported by various bilateral donors, especially the US and Germany whose activities are currently focused on judiciary, legal reforms, legal education, and property rights. The US Department of Justice is funding an International Criminal Investigative Training Assistance Programme. The EU Office seeks to ensure coordination and complementarity with other donor assistance through consultations during the programming and implementation of IPA assistance.

The SAA Feasibility Study and the Visa 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 may also need to be mobilised to support the handover of responsibilities from the EU rule of law actors to Kosovo authorities.

Sub-Sector: Justice

Assistance provided under IPA I has helped Kosovo improve the approximation of laws and the coherence of the legal framework. Support has been provided to the Kosovo Judicial and Prosecutorial Councils as well as in the fields of juvenile justice and international legal cooperation. IPA has also supported the Legal Education Reform and the improvement of training of interpreters and translator 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, in terms of professional qualifications and experience, as well as professional and personal integrity.

Until 2020, Kosovo should invest heavily 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 enforce judicial decisions. For Kosovo to reach these objectives, IPA 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. Capital investments that have a direct effect on access to courts, delivery of justice and independence and impartiality of the judiciary will also be considered.

Indicators:

- Cases pending for more than 1 year per capita
- Cases per staff treated in anti-corruption, anti-trust and audit institutions
- Number of cases registered and processed in case management system per year

Sub-Sector: Home Affairs

IPA assistance has 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 has 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 starting in 2013 will help strengthen criminal investigation capacities at central and local level to effectively fight organised crime and corruption.

In the coming years, Kosovo will need to produce concrete evidence of results in fighting organised crime 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 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 in key institutions, EU assistance will aim to further increase capacities of the individual institutions as well as inter-institutional cooperation. Civil society will be strengthened to monitor and report on corruption and organised crime. IPA II will also support regional cooperation to fight cross-border organised crime and trafficking. Depending on the responsibilities transferred in the context of the EULEX Strategic Review and the progress made on the visa roadmap, IPA assistance may be required in other areas such as civil registration, IBM, migration and asylum.

Indicators:

- Kosovo's ranking in Transparency International Corruption Perceptions Index improved
- Kosovo's Actual Implementation Score in the Global Integrity Report improved
- Number of investigations and convictions of high level organised crime and corruption cases increased

- Number of declarations of assets by public officials increased
- Number of confiscated assets increased

Sub- Sector: Fundamental Rights and Minorities

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; the construction of adequate structures for hosting refugees, asylum seekers, migrants; as well as sustainable return and reintegration of IDPs and refugees through durable solutions (comprising housing, socio-economic support, an legal aid) and increased involvement of central and municipal state and non-state actors.

According to the Ministry of Communities and Returns, the number of potential voluntary returnees in 2013 stands at 733 families or 3231 individuals. The UNHCR Joint IDP Profiling Services from 2011 states that 21.6% out of 22,886 IDP families i.e. around 4,900 families may be willing to return from Serbia. Returns to the North of Kosovo may increase with political stability in the north. The estimated number of internally displaced persons (IDPs) within Kosovo remains very high. In addition, there is a need to find durable solutions for 900 refugees from Croatia and Bosnia-Herzegovina who are living in collective centres throughout Kosovo since 1994/1995.

There is a need to continue assistance for the return and reintegration process and the stabilisation of minority communities. The main objective of the interventions will be to enable sustainable livelihoods and 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 those for other socially marginalised groups. IPA 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 and reporting on fundamental rights 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 minority rights, IPA 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.

Indicators:

- Number of people returned to Kosovo and registered
- Number of collective centres closed
- Increased rates of school attendance and decreased drop-out rates among children from returnee and minority families, girls, and students with disabilities
- % of activities from the RAE Action Plan implemented
- Reduction in the number of claims recorded by the Kosovo Property Agency and adjudicated by the Kosovo Property Claims Commission.

Types of financing:

For comprehensive support and monitoring of the sector, the use of simultaneous Twinning in the key rule of law institutions (MoJ, Judicial Council, Prosecutorial Council, Pristina court, Assembly, Anti-Corruption Agency etc.) is envisaged, but other types of IPA intervention will not 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. Multi-beneficiary/regional programmes may 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.

Risks:

- The main risk is the lack of political will and commitment to implement the necessary reforms and measures.
- Depending on the outcomes of the Strategic Review of EULEX, needs for IPA assistance in the sector may change as Kosovo institutions will be expected to gradually take over responsibilities from EULEX.

Governance and Public Administration Reform

Kosovo needs to improve the professionalism, accountability, efficiency and effectiveness of its public administration at all levels. This is fundamental for the successful implementation of the necessary reforms. Independent oversight as well as checks and balances of the governance system need to be improved. A transparent and accountable procurement system needs to be set up and political interference in the selection and awarding process eliminated. The capacities of local level government need to be strengthened. Financial management systems have to be improved to better control public finances, including performance auditing and control mechanisms for public procurement and tax collection, at all levels. The ultimate aim of these efforts is the proper functioning of public institutions for the benefit of the population. Moreover, Kosovo is likely to start implementation of a Stabilisation and Association Agreement with the EU in the foreseeable future. This important step in the EU integration process will require all ministries and other relevant institutions to build the capacities and secure the resources to be able to address the key challenges arising from the EU integration process. In the area of public finance management, there is a need for improvement in terms of checks and balances. Further improvement is necessary in internal and external control, procurement, budget planning and execution, also with a view to moving towards the conferral of responsibilities for the management of EU funds.

By 2020, the performance of Kosovo's public administration should be significantly improved if it is to meet the challenges of EU integration and implementation of the SAA. Institutions in charge of internal and external control should be able to ensure sound financial management of public resources, including EU funds. Another objective in this sector is the completion and full implementation of the PAR strategy, including the enforcement of legislation on the civil service. The capacity and accountability of local government are expected to be enhanced and the fiscal decentralisation process finalised. Kosovo is expected to put in place systematic and reliable data collection and production of statistics in line with EU requirements, also in view of the census 2020.

IPA II assistance will support Kosovo to continue its reform of the Public Administration at central and local level. Public Financial Management, Public Procurement and Statistics are an additional focus for assistance. IPA II will where necessary support the alignment of the Kosovo institutional framework and capacities to the standards required by the EU acquis, including the implementation of the SAA. Support for improving governance at the local level may include municipal infrastructure relevant to local economic development, social service decentralisation and environmental protection.

Indicators:

- Reduction in staff turnover in the public administration;
- Mechanisms allowing for the efficient and effective parliamentary monitoring and oversight of the legislative and executive process put in place;
- Percentage of legislation aligned with EU legislation steadily increased, entered into force and effectively implemented
- Internal control and audit functions and mechanisms in line with requirements of the relevant EU acquis, structures and capacities for indirect management of EU funds put in place
- Establishment and implementation of public procurement procedures in line with requirements of the relevant standards, acquis, and best practice.
- Data collection and statistics produced in line with EU and international requirements; number of international reports/rankings including data on Kosovo increased

Type 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 of knowledge (such as RESPA, SIGMA) could provide added value and will be considered during the programming phase. Great emphasis will be given to efforts to coordinate with other donors active in the sector, in particular GIZ and USAID, and with IFIs as concerns the improvement of municipal infrastructure. Given the type of interventions needed, twinning, TAIEX and other institution building instruments will be important to help Kosovo align with EU standards.

Risks:

- A lack of political will to pursue the necessary reforms. The EU will monitor and encourage Kosovo's commitment in the context of SAA implementation and other forums for policy dialogue.
- Most current strategies are outdated or will be outdated when IPA II starts and will need to be renewed.

Energy

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 the Transmission System Operator (KOSTT). 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 Energy Strategy 2009-2018. 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 energy from renewable sources by 2020 (up from the current level of less than 3%). In order to allow for private investment, 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, 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 the Transmission System and Market Operator (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 in Kosovo to reduce power losses and improve the power supply in Kosovo. Another aspect tackled is the promotion of 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.

The main expected results 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 will in particular support Kosovo in the approximation to the EU acquis in the field of energy, 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 will also support education, research, innovation, training and business development in the areas of energy and climate change. Climate change mitigation measures will also considered in the development of the energy sector.

Indicators:

- Reduction of GHG emissions (total, per capita)
- Decrease of primary energy consumption of public buildings, SMEs and households
- Improved reliability and security of supply
- Jobs created in the renewable energy and energy efficiency sector,

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-beneficiary initiatives considered beneficial for achieving the abovementioned targets will be taken in consideration. According to the priorities identified by the beneficiary countries, energy and climate change could be tackled also at cross-border cooperation level.

Risks:

- Because of delays in the construction of the new power plant Kosovo C, Kosovo A will be switched off beyond the agreed deadline of 31 December 2017.
- Kosovo authorities will not allocate the necessary resources to meet the energy efficiency and RES targets for 2018 and 2020.
- Key institutions, such as the Energy Regulatory Office, 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.

Competitiveness and Innovation

Kosovo does not currently have a comprehensive strategy for national/economic development. There is an Economic Vision Plan 2011-2014 with the general objective to improve the environment for investment and improvement of the private sector. The Private Sector Development Strategy and Action Plan 2013-2017 is supported by five pillars and aims to make Kosovo and Kosovo enterprises globally competitive; promotion of investments and exports; further improvement of the quality infrastructure; and improvement of trade policies to further improve Kosovo's trade balance. Among the main challenges for private sector development in Kosovo are limited access to finance for SMEs, unfair competition and lack of competitiveness caused by an unfavourable business environment and lack of creative entrepreneurship. The fight against the grey economy is a cross-cutting challenge that needs to be addressed from different angles. Adequate infrastructure is a necessity for technological development, production, services and trade. Metrology laboratories are yet not fully functional since they lack the necessary human resources, the knowledge and equipment to ensure effective regulation. There are no institutions to assess the conformity of industrial goods and there is a lack of quality standards. Only a small number are being transposed. The market surveillance inspectorate has insufficient administrative capacity and citizens are not aware of their rights as consumers.

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, may also be supported. While energy supply and rule of law issues that hamper private sector development will

be addressed through respective sectoral measures, increasing the competitiveness of Kosovo's private sector, especially SMEs, and promoting private investments will be the main objective for IPA support in this sector. These objectives will be achieved, among other things, by encouraging innovation, cooperation with educational and research institutions, and by supporting the work of the authorities involved in regulating the market. As regards access to finance for enterprises, IPA 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 numbers and capacities of laboratories and bodies for conformity assessments. Consumer rights and consumer protection will be promoted, including through increased civil society involvement.

Indicators:

- Kosovo's ranking in the WB Doing Business report improved
- FDI per capita increased
- Decreased unemployment rate
- Trade balance improved

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.

Risks:

- Interest rates offered by commercial banks will not be increased despite an increase in SME's capacities, undermining the envisaged gradual phase-out of donor support and normalisation of the lending market in Kosovo.

Employment, Social Policies and Human Resources

As confirmed in the 2013 Progress Report, significant investment in human capital is necessary to support Kosovo's socio-economic development. Unemployment remains very high, with significant structural weaknesses and skill gaps in the labour market. The EU will support Kosovo in improving the institutional capacities to design and implement effective policies and active labour market measures. It will also support specific labour market policies aimed to raise employment among particularly vulnerable groups such as long-term unemployed, marginalised communities, youth and women. In order to design effective support measures, earlier policies and IPA assistance will be carefully evaluated before programming new support. IPA assistance has been successful in helping Kosovo introduce a sector-wide approach in education and draft a comprehensive sector strategy. Among the objectives listed in the Kosovo Education Strategic Plan 2011-2016, the Kosovo government has identified the reduction of the number of shifts in schools as a key priority. At present half of 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 objective. IPA II will assist Kosovo in pursuing this objective by supporting educational reform, enhancing cooperation with the private sector, expansion of apprenticeship and scholarship schemes and development of vocational skills according to labour market demands. Improving the inclusiveness of both the education sector and the labour market, by ensuring access to education and 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 years that will require increasing support from the Kosovo authorities and some further IPA assistance under in order to become sustainable.

Indicators:

- Decreased unemployment rate
- Kosovo's ranking in the Human Development Index improved
- Percentage of schools working in shift system decreased
- Poverty level decreased

Types of financing:

In medium term, there is less need for technical assistance in education sector as ongoing IPA programmes will provide technical assistance for the period 2013-2016. A lighter level of technical assistance for labour market relevant education and training programme reform will be needed 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. 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, which are already active (especially Germany and Luxembourg). IPA multi-beneficiary programmes may be used to ensure Kosovo's participation in regional cooperation initiatives in the areas of education and research. On-going regional initiatives (such as SEE 2020 and 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.

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 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.

Agriculture and Rural Development

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 Kosovo Veterinary and Food Agency (KVFA) implements food safety requirements and EU food safety, animal health and plant health standards. Just as the Ministry, the Agency is a professional and motivated body. The Agriculture and Rural Development Plan 2007-2013 was one of the first comprehensive sector strategies developed in Kosovo. The MAFRD has now finalised the Agriculture and Rural Development Programme (ARDP) for the period 2014-2020. 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 support will be in line with the priorities and objectives of the sector strategy ARDP 2014-2020.

The overall objective of IPA assistance in this sector is to support Kosovo institutions meeting EU standard food control mechanisms, to increase the capacity of food business operators to meet EU food safety standards and their competitiveness, to improve the competitiveness of Kosovar agriculture and its adaptation to climate change phenomena; and to improve the living standards of Kosovo's rural population. While pursuing these main objectives, IPA assistance in this sector will also help Kosovo in addressing the challenge of climate change by promoting resource efficiency and supporting the shift towards a low carbon economy in the agriculture, food and forestry sectors; promoting social dialogue and transfer of knowledge and innovation; and promoting social and economic inclusion. Even though the Food and Veterinary Laboratory has benefited from investments by the World Bank, the Kosovo government and the EU, further support will be needed to bring food safety standards in Kosovo 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 the conferral of management of EU funds, Kosovo will be supported in establishing the 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.

With regard to food safety, veterinary and phytosanitary, IPA 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.
- Operational Animal Health and Welfare control system, including disease reporting and implementation of control and eradication measures. Annual and Multi Animal Health programmes are prepared and shared with EU and O.I.E. Disease outbreaks and control measures taken reported locally and internationally.
- Infrastructure at the border is improved to fulfil minimum EU requirements;
- Establishment of rendering plant for disposal of animal by-products
- Food and Veterinary Laboratory fully accredited and tests performed are validated (international recognition of the tests produced by the FVA laboratory);
- 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 statistician

Indicators for food safety, veterinary and phytosanitary:

- Uniform implementation of food safety controls and legislation in all municipalities by KVFA;
- Number of agro-food establishments upgraded and compliant with EU food safety standards;
- Number of agro-food establishment capable to export to EU;
- Reduce number of food borne diseases;
- Multi-annual/annual surveillance and control animal disease programmes are in place and implemented.
- Animal registration and movement control system is functional
- Production and supply part of the food safety chain is regularly monitored according to annual/multi-annual control programmes;
- Early Warning System established and operational;
- Number of trainings to municipal inspectors, farmers and industry on food safety standards;

In the sub-sector of Agriculture and rural development, IPA assistance will support Kosovo in meeting the following expected results by 2020:

- Food business operators and producers prepared to be competitive in the regional and EU market, once food safety standards are met, including the availability of advisory services;
- Farmers are trained and familiar with the management of funds for agriculture, in order to be ready to use the CAP funds.
- 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.
- Reduced illegal construction in agriculture land
- 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 country water strategy developed by MESP

Indicators for Agriculture and rural development:

- Number of beneficiaries, who received training or advisory services in agriculture and rural development
- N. of economic entities benefitting from IPA assistance developing additional or diversified sources of income in rural areas
- Number of economic entities progressively upgrading towards EU standards in the agri-food sector
- Gross number of jobs created in the entire food chain and in rural areas outside agriculture

Type of financing

The potential to learn and benefit from the experience of other enlargement countries should be encouraged. 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.

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 funds will be used to help Kosovo in improving its statistical information.
- Lack of identification of property ownership. IPA assistance in the rule of law sector will support Kosovo in addressing property issues.

Sector: Cross-border Cooperation (CBC) and regional cooperation

Kosovo started programming CBC programmes with fYRoM and Albania in 2010 and with Montenegro in 2011. During the period 2014-2020 the European Union will continue to support the cross border programmes Kosovo already established. The possibility of starting CBC activities with Serbia is to be explored. The programmes to be developed for the period 2014-2020 shall focus on the socio-economic development of the border 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.

Each programme will have a set of four specific priority axes chosen from the thematic priorities below:

1. Competitiveness, business and SME development, trade and investment.
2. Employment, labour mobility and social inclusion
3. Research, technological development and innovation and ICT
4. Environmental protection, climate change and risk prevention
5. Transport and public infrastructures
6. Tourism and cultural heritage
7. Youth and Education
8. Local and regional governance, planning and administration capacity building.

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 of local stakeholders. The multi-annual programming document foresees indicative annual budget allocations; defines a set of indicators to measure the impact of the programme and identifies the specific bordering areas, which are eligible for funding.

Indicators:

Depending on the priorities selected for each programme, different indicators will be developed.

Type of financing:

Assistance will be provided primarily through grant contracts. Investments may also be financed depending of the objectives of each programme. Technical assistance will be provided to improve the capacity of the institutions involved in the implementation of the programmes.

Risks:

During the programming period 2007-2013, attempts to implement strategic projects including infrastructure, have been approved, but not yet implemented. The delays are mainly due to the limited capacity of the beneficiary countries. Following the experience under IPA 2007-2013 it is important to take such difficulties and constraints into account.