



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria –Vlada–Government

KOSOVO ECONOMIC REFORM PROGRAMME (ERP)
2017

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Abbreviations

ARDP	Agriculture and Rural Development Programme	MTI	Ministry of Trade and Industry
CBK	Central Bank of Kosovo	NDS	National Development Strategy
CEFTA	Central European Free Trade Agreement	NIC	National Investment Committee
CMIS	Case Management and Information Systems	NPL	Non-Performing Loans
CPI	Consumer Price Index	NPSAA	National Programme for Implementation of the SAA
DEPP	Department for Economic and Public Policy (MoF)	OECD	Organisation for Economic Cooperation and Development
DMU	Debt Management Unit (MoF)	OG	Output Gap
EBRD	European Bank for Reconstruction and Development	OSP	Office for Strategic Planning
EC	European Commission	PAK	Privatisation Agency of Kosovo
EE	Energy Efficiency	PPP	Public Private Partnership
EIB	European Investment Bank	PEFA	Public Expenditure and Financial Accountability
EU	European Union	PFM	Public Finance Management
FDI	Foreign Direct Investment	PFR	Public Finance Review
GDP	Gross Domestic Product	PTK	Post and Telecommunication of Kosovo
GoK	Government of Kosovo	RE	Renewable Energy
ICT	Information and Communications Technology	RCC	Regional Cooperation Council
IIP	International Investment Position	RDI	Research, Development and Innovation
IMF	International Monetary Fund	SAA	Stabilization-Association Agreement
IPPR	Immovable Property Rights Register	SAK	Statistical Agency of Kosovo
KIESA	Kosovo Investment and Enterprise Support Agency	SEE	South East Europe
KCC	Kosovo Chamber of Commerce	SEETO	South East Europe Transport Observatory
KCGF	Kosovo Credit Guarantee Fund	SME	Small and Medium Businesses
KPST	Kosovo Pension Savings Trust	SPP	Single Project Pipeline
KODE	Kosovo Digital Economy	TAK	Tax Administration of Kosovo
KOSTT	Kosovo Transmission System and Market Operator	TPP	Thermo Power Plant
LFS	Labour Force Survey	USAID	United States Agency for International Development
LPFMA	Law on Public Financial Management and Accountability	VAT	Value Added Tax
MAFRD	Ministry of Agriculture, Forestry and Rural Development	VECM	Vector Error Correction Model
MEST	Ministry of Education, Science and Technology	WB	World Bank
MoF	Ministry of Finance		
MTEF	Medium Term Expenditure Framework		

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Government of Kosovo launched the ERP 2017-2019 drafting process through appointment of the Minister of Finance as National Coordinator as well as area coordinators, including a detailed working calendar. The coordinators of ERP have utilized the past submissions as a learning process and have attempted to integrate the lessons learned from last year's submission, and combined it with the recommendations/policy guidance received from the Economic and Fiscal Dialogue, adopted in Joint Council Conclusions of May 2016.

The Government remains committed to maintaining a stable macroeconomic environment and increasing Kosovo's potential growth and long-term employment prospects by; *containing the fiscal deficit and making the budget composition more growth-friendly by generating space for key infrastructure projects* (carried out through support via the recent SBA with the IMF); *further enhancing the banking sector's regulatory and supervisory framework and reducing remaining obstacles to bank lending to productive sector*; and *improving Kosovo's business environment by enhancing the public procurement system*

Based on the growth constraint analysis, priorities of structural reforms aim to address access to finance for SMEs through a credit guarantee scheme established in 2016. Weak contract enforcement remains, which also has a negative impact on access to finance, remains a binding constraint and is being addressed by reform measures aiming to strengthen the property rights system (measure #10) and increasing judicial efficiency (measure #11).

The government committed to reduce the costs of construction permits and to fully implement the strategy for the fight against informal economy, including the merger of tax and customs authorities (measure #13) and addressing informality in the immovable property sector (measure #10). Business environment will be further improved by introducing better regulation principles and evidence based policy making (measure #9), increasing cost-effectiveness of international trade transactions (measure #15) and electronic public procurement (measure #1). Development of industrial clusters (measure #7), quality infrastructure (measure #16), ICT infrastructure (measure #4) and improving innovation policies and capacities (measure #14) will help reduce the coordination failures.

The new power transmission line to Albania built in 2016 improved security of supply and connected the country with regional electricity markets, but will only become operational after Kosovo is admitted to the European Network of Transmission System Operators. Investing in new power generation capacity (measure #3) and improving energy efficiency (measure #2) remain among key priorities for action in order to address insufficient and unreliable electricity supply.

The mismatch between the skills structure and needs of the labour market is addressed in ERP by improving public employment services and active labour market policy (measure #19), actions to improve the quality of education by modernising curricula, developing professional standards and improving the teacher career system (measures #17 and #18). Other ERP measures that are aimed at supporting innovations (measure #14) and competitiveness in general will contribute to higher demand for skilled labour force in the labour market.

Overall, policy framework for the medium term derive from the National Development Strategy 2016-2021, which addresses key obstacles to growth and competitiveness, and which is in line with Government Programme 2015-2018. In order to maximise the economic and political benefits of SAA Prime Minister Mustafa and Commissioner Hahn agreed to to develop a 'European Reform Agenda', which embeds short term priorities in the areas of (I) good governance and the rule of law, (II) competitiveness and investment climate and (III) education and employment . Hence, the policy framework established through the underlined documents has guided main policy objectives under the ERP. Thus, the Economic Reform Programme, in concert with the National Development Strategy remains the key overarching policy document guiding macroeconomic and fiscal reforms, including recommendations to boost competitiveness and alleviate labour market pressures

Working groups, including all relevant line ministries and/or other government agencies, have met regularly to discuss the content of the measures which are to be contained in the ERP 2017, as well as the harmonisation between the latter and the over-arching policies laid out in other strategic planning documents of the Government. Particular importance this year was paid to the link between the structural reform part and budgeting. The Budget Department of the Ministry of Finance had a selected representative who was present during meetings, hearings, workshops and consultations in order to maintain and establish a link between reforms and budget plans.

As per EC guidelines and in the interest of a shared ownership, the document was made available to various institutional and NGO representatives through public consultations and presentations as well as having been published online through the website of the Prime Minister's office (more details in the part on Structural Reforms of this document). Relevant stakeholders include representatives from the business sector, Chamber(s) for economic cooperation, civil society, as well as other stakeholders deemed pertinent to the agenda. As per legal requirement the Government adopted the Economic Reform Programme on 27 January 2017.

Box 1. Response to the targeted policy guidance adopted by the Economic and Financial Dialogue in May 2016

1. "To improve forecast accuracy, enhance technical capacities of the services preparing the macro fiscal framework, strengthen parliamentary oversight capacities in evaluating budget planning and execution as well as fiscal risks and take first steps towards establishing an independent fiscal body."

The Macroeconomics Unit within the Ministry of Finance continuously strives to find ways to enhance technical capacities with regard to policy analysis, as well as forecast of main indicators, which is the main scope of work of the unit. Difficulties in recruitment persist, as it is very difficult to find (and even more so to keep) highly-qualified, well-trained staff who are equipped for the specificities of the job. Regarding the establishment of the independent fiscal body, discussions on how to best set up this body have been held and practices from other countries have been consulted, in the interest of coming up with an entity that will serve its purpose as best as possible.

2. "Identify offsetting measures for recent increases in categorical benefits while preserving the share of capital spending and address persistent under spending of the capital budget by improving project preparation and management capacities at central and local administration levels."

Kosovo has made considerable efforts in maintaining healthy public finances and increasing accountability, which is also one of the main objectives of the **current SBA with the IMF**. This programme entails many measures the goal of which is to preserve capital spending while curtailing current expenditure;

- Current expenditures will be kept constant as a share of GDP compared to 2016. This includes a modest wage increase (0.5 percent nominal), ongoing savings from tightened residency criteria on basic pensions, and maintaining social and pension benefits at 2016 nominal levels. These will make room for needed hiring in the law and order institutions, as well as for higher goods and services spending tied to scaled-up capital investment. Spending on all war related pension schemes has been capped at 1¼ percent of GDP, which we consider a sustainable level
- During end-December, an explicit clause has been included in the budget law to cap the overall budget allocation for war veterans (€38 million) and war disabled (€12 million) at €50 million. This clause gives the government the legal right to adjust the individual benefits to safeguard these budgetary caps.
- The capital budget has been substantially increased relative to 2016 budget. The budget-financed capital spending in 2017 will be around 8 percent of GDP. In addition, external-financed (loans and donor contributions) and PAK-financed capital spending, as part of the new investment clause, has been raised considerably to implement growth-enhancing large infrastructure projects, with a total amount slightly above 3 percent of GDP.
- On the current expenditure side, strong pressures have emerged from war veteran pensions (see below for details). However, thanks to savings in other social and pension schemes including by tightening residency criteria for the basic pension, the 2016 supplementary budget increased the total allocation for current spending by only €10 million (less than 0.2 percent of GDP). Spending has been well within allocations, and the 2016 budget deficit target of €98 million agreed upon with the IMF under the SBA, now stands at €66 million¹.

3. *“Further address the underlying legal and institutional factors responsible for both high cost of credit and difficulties in access to finance so as to increase financial intermediation in the economy, while establishing a reliable measure of private sector inflation expectations so as to better gauge price developments.”*

Recent developments in the banking sector indicate substantial improvements in both aspects: the cost of financing and the level of financial intermediation in the economy. The average loan interest rate has declined sharply over the past year, dropping to 7.3 percent in November 2016 compared with 8.2 percent in November 2015 and 9.9 percent in November 2014. There are various factors that have contributed to lower interest rates on loans such as the improved quality of the loan portfolio, as well as the banks’ strategy to accelerate the lending activity driven by increased competition in the market. Moreover, reforms in the justice system (the functionalization of private bailiffs especially) may have had a significant contribution to the reduction of interest rates, considering their contribution on addressing one of the most problematic issues for the banking sector - that of contract enforcement.

The accelerated lending activity has contributed in an increase in the degree of financial intermediation in the economy. In November 2016, the total value of banking sector loans reached 2.21 billion euro, which represents an annual increase of 9.8%, compared with the annual growth rates

¹ The deficit is based on the preliminary report provided by the Treasury Department, given that the final report is not yet published as their official deadline is January 31

of 8.3% in November 2015 and 3.2 percent in November 2014. Regarding the private sector inflation expectations, we are considering the potential options on how to develop an inflation expectations survey.

The CBK has taken several steps in particular to reduce structural impediments to bank lending:

- The CBK has put in place *a single account registry*, which allows for garnishment. Following the completion of the implementation stage (August 2016), the single account registry will allow private enforcement agents (PEAs) to automatically garnish bank accounts. This will substantially improve and accelerate the asset recovery process for banks while reducing barriers to lending. We are committed to carefully monitoring the use of this system to ensure that the garnishment process does not result in permanently blocked bank accounts for a large number of debtors (which could have negative economic effects), and we are confident that we have sufficient data needed to carry out this monitoring.
- *Increasing the number of PEAs*. Last September, we added 10 PEAs bringing the total number of working PEAs to 35, and our plan is to continue offering targeted examinations in order to work towards the target of 69 as set in the law.
- *Improving enforcement procedures*. We have submitted to the Parliament the amendments to the Law on Enforcement Procedures. These amendments, prepared in cooperation with the IMF, are aimed at addressing gaps in the law that allow for excessive appeals of enforcement orders of debtors. The draft law also includes provisions to improve the efficiency of the auction system, the supervision of PEAs, and the PEAs' fee structure. The amended Law on Enforcement Procedures will also enable the Ministry of Justice to establish of a supervisory mechanism over PEAs.
- *Improving case statistics*. Working with the Kosovo Judicial Council, we are in the process of collecting data on the number, composition, and duration of commercial cases by category and, once fully compiled, will publish them. This will help us to more accurately assess the performance of the claims enforcement system and improve the system's accountability. The process is made difficult by IT and other capacity constraints in the KJC, but we are working with our European partners to addressing them.

The Ministry of Finance and the European Bank for Reconstruction and Development (EBRD) have signed to extend a €24 million **stand-by credit line to the Deposit Insurance Fund of Kosovo (DIFK)**, an independent public institution with the objective to protect small depositors from loss in case of bank failure. The credit line is fully guaranteed by the Republic of Kosovo. If and when required, the stand-by credit line will provide immediate funds to DIFK to fulfil its mandate in compensating the insured depositors. It is part of DIFK's contingency financing instruments, which ensures prudent coverage of insured deposits in support of the legally prescribed gradual increase of the coverage limit per depositor. This stand-by credit line follows on from the first stand-by credit line made available in 2013, confirming the EBRD's continuous support to DIFK. Effective deposit insurance systems are crucial for a well-functioning banking system. By providing depositors with insurance for their deposits, DIFK contributes to Kosovo's financial stability by increasing depositor confidence in Kosovo banks. Well-functioning deposit insurance funds encourage households to deposit their money in these banks and decrease the risk of a run on banks in times of crisis.

4. *"Implement the action plan of the strategy for the fight against the informal economy. In particular, speed up the risk assessments focusing on the sectors and branches most vulnerable to informalities in order to identify and apply appropriate corrective measures."*

The Secretariat for monitoring the Strategy implementation has been reactivated this year for purposes of implementing the Action Plan for Prevention and Combating Informal Economy, Money Laundering, Financing of Terrorism and Financial Crime 2014-2018. This year the Secretariat has held two meetings and by the end of 2016, it will finalize the second report on the implementation of the Strategy's Action Plan. This secretariat has a wide scope including monitoring of administrative phases and up to execution of court decisions in terms of informal economy and economic crimes. During 2017, the Secretariat will review the Action Plan and develop a Risk Assessment Plan for specific areas, as well as prioritize Action Plan activities to be implemented in the first part of the year. The risk assessment in the construction sector has been completed so far.

5. *“Increase energy security by reinforcing the planned energy efficiency measures to include incentives for the private sector and households and by adopting a plan for the gradual adjustment of energy tariffs to reflect actual costs.”*

For the purpose of implementing policy guidance, the Government continued implementation of policies towards achieving energy saving targets of 9%, which corresponds to the reduction of consumption in the amount of approximately 92 ktoe by 2018. Also, government policies include transposing the new EE directive, which will be incorporated into respective legislation through review and adoption of the new law on EE, development of relevant financial mechanisms, such as the EE fund, and institutional development and capacity building in this field.

ERO has designed the tariff structure with incentives for customers who save energy, whereby the categories of domestic customers and consumers through block tariffs, and costumers who consume electricity during off-peak loads save energy and pay bills with lower cost of electricity. So, the costumers get charged with low prices when the system is not congested and considerably higher prices when the electricity power system is congested and there is a lack of producing capacities in Kosovo, reflecting the fact that marginal costs of supply are significantly higher at the peak time, which is aggravated further by very high prices of import, and very. This tariff structure has been set to better match the consumption needs with the offer of energy production in Kosovo.

6. *“Set up an action plan for tackling youth unemployment based on an assessment of the challenges and focusing on improving education outcomes including through improved teacher training and supporting school-to-work transitions. Ensure that the Employment Agency has sufficient capacity. Take measures to increase labor market participation of women.”*

Within the process of reviewing the Sectoral Strategy for employment and social policy 2015 – 2020, the Action Plan for youth employment is foreseen to be drafted in the following year, which plans specific targets for youth employment for the period 2017-2018. These targets will enable to monitor the success of active labour market policy programs and projects, specifically for youth employment. Drafting of International Standard Classification of Occupations ISCO 08 was conducted in order to implement policies to facilitate the transition from school to work, which is a basis for the description of occupations, drafting of occupation standards and a basis for a new approach to drafting competency-based curricula. In this context, offices for student services in four centres were also established which include Offices for Career Guidance. With the aim of increasing school-business cooperation agreements with businesses were signed.

EARK Employment Policy 2016-2018, which defines the policy orientations for MLSW as well as specific objectives for the following three years, was drafted regarding the functioning of the

Employment Agency of the Republic of Kosovo, based on the Regulation adopted for the operation of the agency.

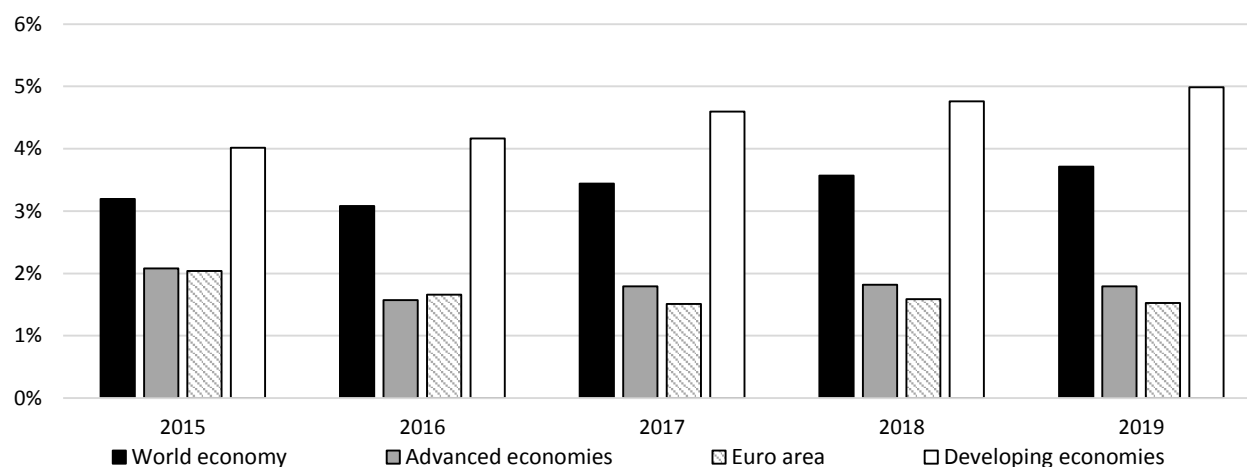
2. MACROECONOMIC FRAMEWORK

Global recovery continues, albeit at an increasingly fragile pace, thus reducing potential output and with it, consumption and investment. Significant uncertainty also emerged from the U.K. referendum process, the financial markets' response to which was severe but generally orderly. As of mid-July 2016, the pound has weakened by about 10%, and despite some rebound equity prices are lower in some sectors, especially for European banks, and yields on safe assets have declined. Expectations for more favorable monetary policy in developing economies were stalled. The months since the last global outlook assessments have seen a renewed episode of global asset market volatility, some loss of growth momentum in advanced economies, and continuing headwinds for emerging market economies and lower-income countries.

While growth in emerging market and developing economies still accounts for the lion's share of projected world growth in 2016, prospects across countries remain uneven and generally weaker than over the past two decades and the major macroeconomic realignments are affecting prospects differently across countries and regions. These include the slowdown and rebalancing in China, and a further decline in commodity prices, especially for oil. In addition, political, geopolitical, or natural developments also pose threats to global economic activity. Fear of terrorism may result in increasingly nationalistic policies, including protectionist ones. All these realignments together generated substantial uncertainty and risks of weaker global growth rose, so the global outlook for 2016-17 has worsened.

Estimates show that the world economy grew at a rate of 3.1% in 2016. Advanced economies experienced a growth rate of 1.6% in comparison to a rate of 4.2% for developing economies. This growth is expected to remain modest during the upcoming medium-term period 2017-2019, with the world economy growth averaging at a rate of around 3.6%.

Graph 1. Annual growth of GDP, in %

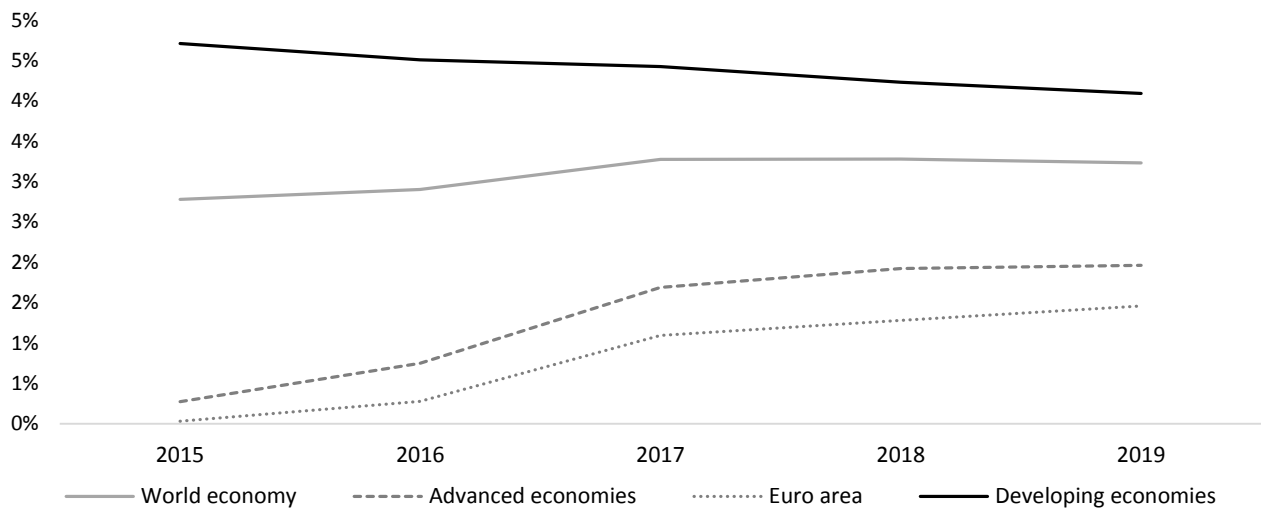


Source: IMF WEO database, October 2016

Short-term interest rates are expected to remain negative in the euro area throughout the first part of 2017. Monetary policy stances across emerging market economies remain divergent, reflecting the variety in circumstances, exposing a general uncertainty of the actual environment as a whole. The main factor affecting the evolution of global current account balances in 2015 has once again been the decline in oil prices. Another indicator is the improvement of energy efficiency forecasts, which

is essentially a decline in the demand for oil that is independent of global GDP growth, leading to lower oil prices. This efficiency-related decline in the price of oil has a small positive impact on global GDP, with the benefits accruing largely to advanced economies.

Graph 2. Inflation



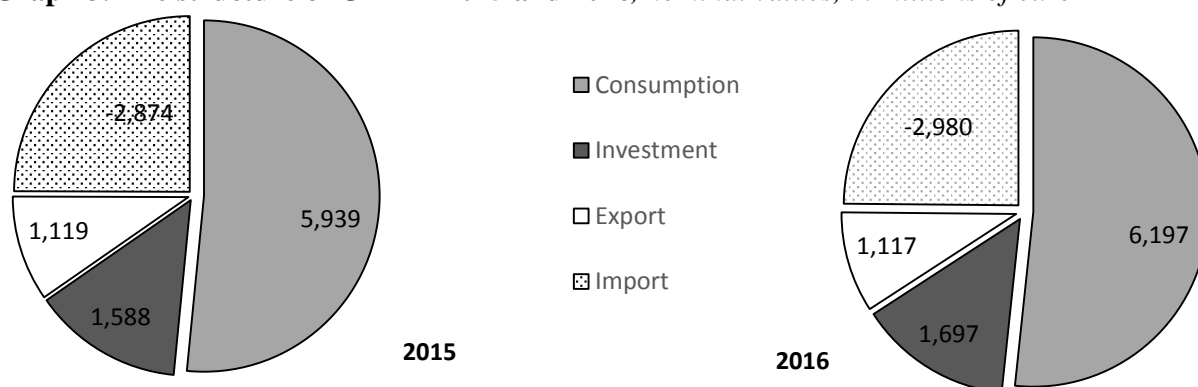
Source: IMF WEO Database, October 2016

Headline inflation in advanced economies in 2016 marked 0.7%, mostly reflecting the aftermath of the sharp decline in commodity prices, with a pickup in the later part of 2015. Similarly, inflation in the Eurozone is estimated to reach 0.3% during 2016; forecasted to average at 1.3% during the upcoming period with support from monetary policy easing by the ECB. Inflation in the world economy marked 2.9% in 2016, with an increase expected for the period 2017-2019, averaging at 3.3%.

2.1. RECENT ECONOMIC DEVELOPMENTS

The Kosovar economy is estimated to have grown considerably during 2015 compared to the previous year. According to the Statistical Agency of Kosovo, preliminary data on the year 2015 shows a real growth rate of 4.0%, compared to the 1.2% real growth rate in 2014. The beginning of 2015 brought about a recovery resulting from an increased security among economic agents, particularly compared to the instability which characterized most of 2014. Consumption and imports continue to be the main drivers of Kosovar GDP, with signs of increased investment in 2016. The latter increased significantly in 2015 and 2016 compared to low levels of 2014, due mainly to an improved business environment. Graph 3 shows that **consumption** is expected to amount to 6,197 million euros by end of 2016, slightly higher than in the previous year.. The fall (by more than 30% during the past two years) of interest rates on loans, as well as the recent fall in oil prices, is estimated to have contributed to an increase in disposable income of the private sector and households. **Import** continues to be a large component of GDP, expected to amount to 2,980 million euros by end of 2016.

Graph 3. The structure of GDP in 2015 and 2016, nominal values, in millions of euro



Source: SAK and Macro Unit forecasts (for 2016), November 2016

A slowdown in **exports** was observed during this period, a category which is expected to amount to 1,117 million euros by the end of this year; a slight fall compared to 1,119 million euros worth of exports registered by end of 2015. The decline in global metal prices (as a result of the fall of Chinese demand for these products as a global driver regarding industrial production) had considerable impact on the Kosovar economy. According to global assessors, 70% of nickel-dependent global industrial markets have “been loss-making” during 2015.

Table 1. Global nickel demand and nickel prices

Indicator	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global demand growth	4.0%	7.1%	4.8%	1.7%	2.7%	3.5%	3.8%	2.6%	2.2%
Price (US\$ / ton.)	17,524	15,034	16,891	11,905	10,692	12,236	14,550	16,535	17,637

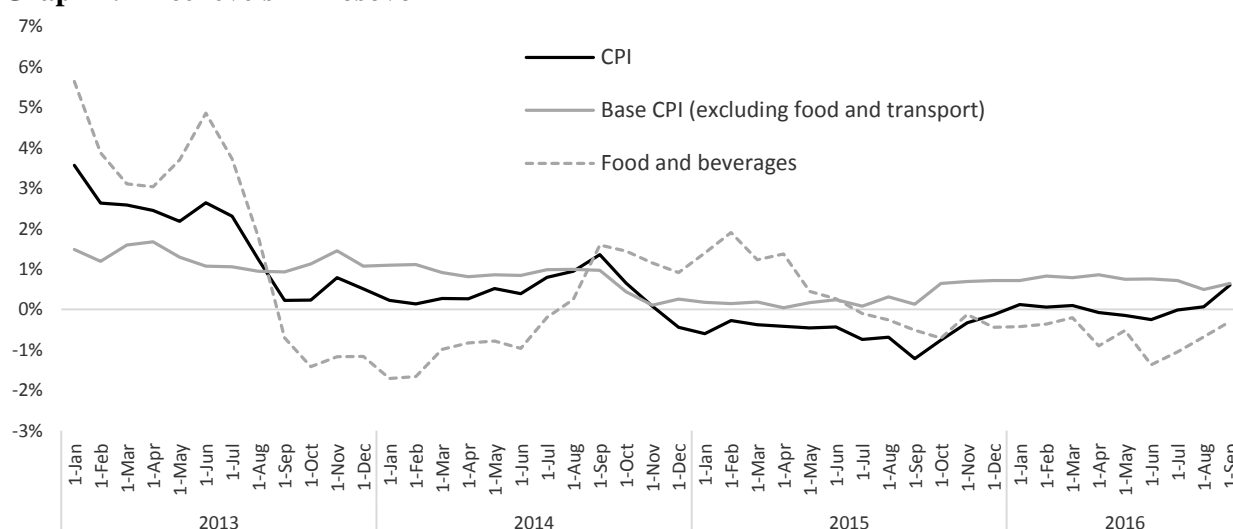
Source: Morgan Stanley, Global Metals Playbook 2016 Q1

This external shock affected ‘Ferronikel’, one of the main exporters of nickel-based metal products. Given the dominance of metal products in Kosovar exports, despite Government efforts towards stimulating local production with the aim of diversifying exports and improving the trade balance, exports are expected to maintain a level similar to that of last year (with a slight decline going towards the end of the year). A shock of this magnitude is difficult to alleviate through fiscal and

administrative efforts, despite the Governments' willingness to support one of Kosovo's main exporters during this challenging period. Nonetheless, it is important to note that going towards 2017 and onwards (as can be seen from table 1) a recovery of global demand for nickel-based metal products is expected, as well as a rebound in the price of this commodity. The year 2016 is expected to be characterized by higher **investment**, amounting to 1,700 million euros compared to 1,588 million euros registered by end of 2015. This is mainly driven by public investment followed by an intensification of private investment as a result of a more favourable business environment.

The Harmonized Consumer Price Index provided by the Statistical Agency has shown a slight fall in prices during 2016 compared to the previous year. The graph below shows that 'food and beverages' have fallen by 0.7% on average (given the most recent month available) whereas oil prices continued to decline, albeit at a slower pace than last year, averaging at 2.5% during this period.

Graph 4. Price levels in Kosovo



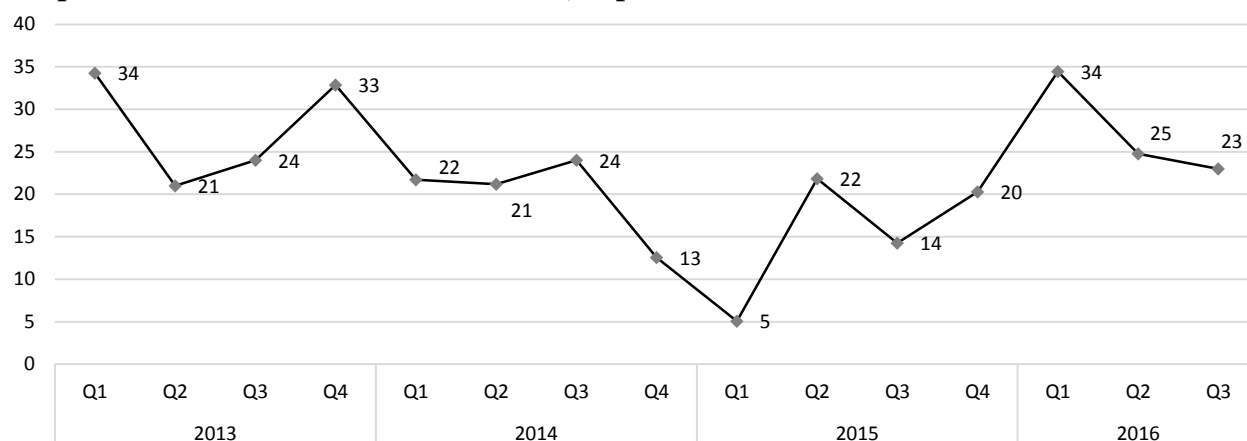
Source: SAK

While the world economy continues to be characterized by a declining trend (albeit at a slower pace than last year) in oil prices, this has been passed through only partially to Kosovar price levels. As a result, CPI has registered a neutral level during this period, averaging at 0%.

Business Climate

The Kosovo Chamber of Commerce has been conducting a nation-wide survey with businesses from five sectors of the economy, which provides us with businesses' ***assessments of the current situation*** of the economy as well as their ***expectations*** for the near future. The resulting Business Climate Indicator is graphed below.

Graph 5. Business Climate Indicator (BCI), in points

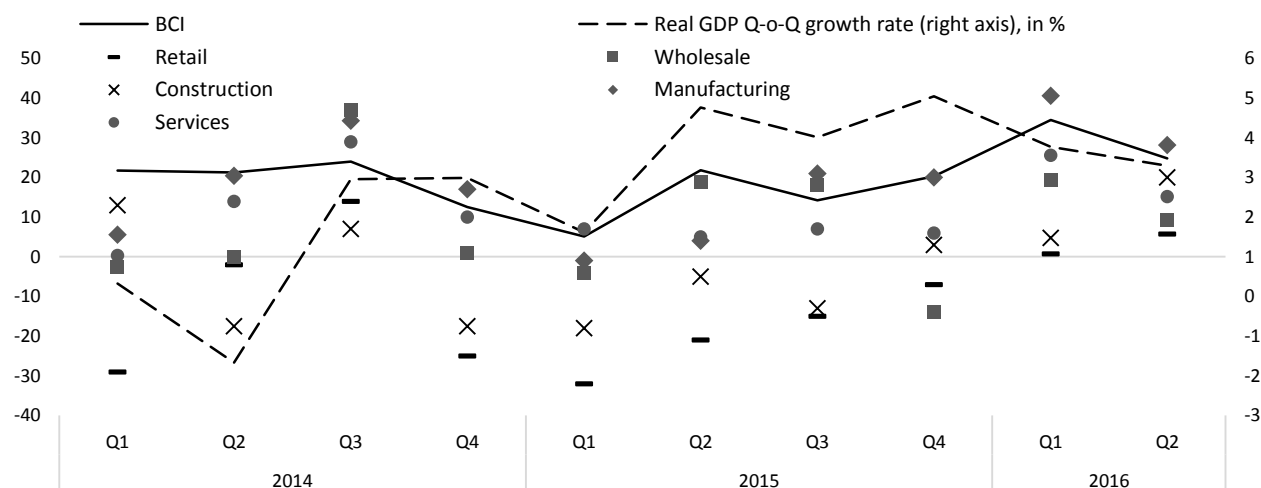


Source: 'The Kosovo Business Climate Findings from the 3rd quarter of 2016' Kosovo Chamber of Commerce

Given the scarcity of data regarding economic developments in general, it is helpful to look such survey data on the private sectors' assessment of the current business climate as well as expectations for the upcoming months. These are difficult to be incorporated directly into official estimations for growth and production, but they may serve as a proxy for economic developments in the country as well as help explain trends.

Graph 6 shows that the third quarter of each year maintains the same index with the exception of 2015 in which it is lower by 10 points. No particular seasonal trend is observable, as this index behaves differently when comparing quarters to each other; a common problem with short data series.

Graph 6. Balances of the 'current situation assessment' of business sectors² (featuring the Business Climate Indicator and real GDP growth)



Source: 'The Kosovo Business Climate Findings from the 3rd quarter of 2016' KCC, SAK, and Macro Unit Analysis

² The analysis is shortened to adapt to the existing series for quarterly GDP published by SAK, which is available only for the period 2013 Q1 - 2016 Q2

‘Balance’ represents the difference between the percentage of businesses that had a positive assessment and those that had a negative assessment of the current business climate. Graph 6 shows the interplay between sectorial ‘balances’ and (real) GDP quarterly growth, as well as the general BCI. Considering that 2014 was a year of a prolonged institutional stalemate, one may consider the quarters between 2014 and 2015 outliers, as they are not representative of a typical environment, which greatly influences the expectations of businesses. The BCI plunged in the first quarter of 2015 (as a reflection of the political turmoil; the migration wave of the last months of 2014/beginning of 2015) which makes it even more difficult to infer a trend characteristic in the context of a short series. Nevertheless, one can see that the picture this data provides is very much in line with real developments of the past years, which makes it an interesting index to observe.

Employment, productivity, and wages

An important consideration with regard to the labour market during the past year is that the Statistics Agency began to provide the Labour Force Survey on a quarterly basis. Initial signals from the first two quarters are quite positive, with the unemployment rate being 27.7% in the first quarter of 2016 and then falling to 26.2% during the second quarter, whereas the employment rate was 25.5% in the first quarter and rose to 27.9% during the second quarter of 2016. However, given that these are the only two quarters available, they cannot serve as such to the main analysis which compares yearly data. Thus, the below findings regarding employment, productivity and wages is based on the latest yearly LFS, which is that of 2015.

According to the latest Labour Force Survey conducted by the SAK³, in **2015** the working age population in Kosovo stood at 1,176,147 people, maintaining the equal gender distribution exhibited in the past. However, the active labour force (the population between the ages of 15 and 64) stands at 442,716 people, of which only 105,597 are female. Consequently, the **labour force participation rate (LFPR)**⁴ for women is much lower than that of men (18% and 56.7% respectively), with the total LFPR standing at 37.6% for 2015.

Table 2. Main labour market indicators

Indicator	2012	2013	2014	2015
Total population	1,807,126	1,811,372	1,811,521	1,757,843
Male	913,528	910,524	911,131	888,231
Female	893,598	900,848	900,390	869,612
Working age population	1,189,019	1,191,630	1,202,489	1,176,147
Male	601,994	593,111	600,481	594,262
Female	587,025	598,519	602,008	581,885
Labour force	438,544	483,193	500,251	442,716
Male	333,789	357,186	371,276	337,119
Female	104,755	126,007	128,975	105,597
Employed	302,844	338,364	323,508	296,940
Male	240,005	261,244	248,224	229,957
Female	62,839	77,120	75,284	66,983
Labour Force Participation Rate (LFPR)	36.9%	40.5%	41.6%	37.6%
Employment Rate	25.5%	28.4%	26.9%	25.2%

Source: SAK Labour Force Survey 2015 (published June 2016)

³ The latest LFS, that of 2014 was published in June 2015

⁴ Measured as the labour force as a percentage of the total working age population; i.e. citizens who are either employed or actively seeking employment

Total population in 2015 decreased by 3% compared to 2014, which translated to a 2% decrease of the working age population compared to the previous year. During 2015 there were 296,940 employed people in Kosovo (a 25.2% employment rate), representing a decrease of around 8% compared to 2014. Similar to previous years, in 2015 the four main categories which employed more than half of the total number of employees are production (15%), retail trade and wholesale (14%), education (12%), and construction (9%). The data shows significant gender disparities; where the main categories employing men are production, retail trade and wholesale, and construction, whereas women work mainly in education, activities of human health and social work, as well as retail trade and wholesale.

Comparing LFS data of 2015 to 2014 and 2013, the ‘total productive hours’ on a national level has continued to fall, mainly because of the lower level of employment since average working hours stayed the same.

Table 3. Labour productivity and ULC

Indicator	2012	2013	2014	2015
Hours worked per week per person (LFS)	42	42	41	41
Average wage (TAK)	405	418	440	471
Number of hours worked in a year per person	2171	2171	2119	2132
Employment (LFS)	302,844	338,364	323,508	296,940
Nominal GDP (in million euros)	5,058.8	5,326.6	5,567.6	5,771.5
Total hours worked in the country (in million euros)	657.4	734.5	685.5	633.1
Labour productivity (euro per hour)	7.7	7.2	8.1	9.1
Total labour compensation (in million euros)	1,471.8	1,701.2	1,708.2	1,678.9
ULC (ratio)	0.29	0.31	0.30	0.29
Labour productivity		-5.8%	12%	12%
ULC		9.7%	-3.9%	-5.2%

Sources: TAK, SAK, Macro Unit analysis

Given the level of GDP for 2015, this has translated into an increase of around 12% in **labour productivity**⁵ compared to the previous year. On the other hand, concerning cost competitiveness, the ratio of **ULC**⁶ in 2014 has decreased by 5% compared to the previous year. The fall in employment numbers in 2015 comes as a result of the swift migration wave that January of 2015 experienced. The effect of this social distress is however expected to be short-term, given that host countries of these migrants have made it clear that more than 90% of these migrants are not eligible for asylum and are being returned to Kosovo. This has been observed during 2016, although official numbers are yet to be published by relevant authorities, and should be reflected in the upcoming LFS (that of 2016). It is interesting to note that the level of ‘total labour compensation’ of the country in 2014 remains similar to that of 2013 despite the fall in total hours worked, whereas the fall in total labour compensation in 2015 is marginal, implying that the (slight) increase in average wage (below) continues to make up for the fall in employment, from a national-level point of view.

Unlike employment and productivity which are based on official SAK data, wages shall be analysed using Tax Administration (TAK) data. Thus, there may be differences between main indicators when compared between the two sources, but these are largely a result of differences in recording;

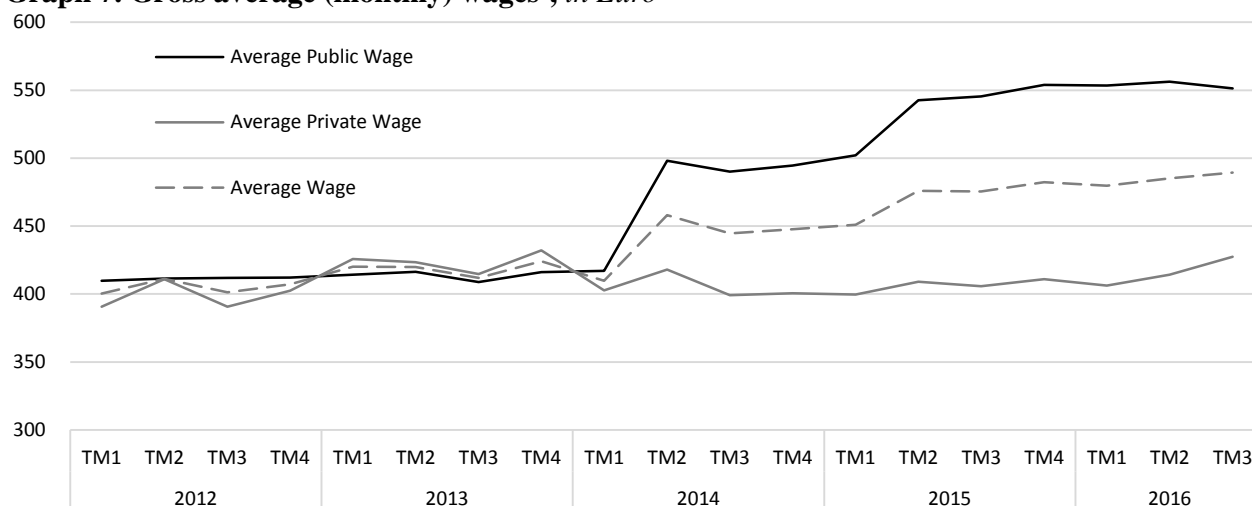
⁵ Measured here as nominal output produced per hour of work, on national level. Productivity and ULC are calculated according to OECD methodology. Minor changes in data may result from the change of the data source in this ERP submission.

⁶ Measured here as total labour compensation per nominal output, on national level

for example, the Tax Administration cannot record the self-employed or the informal sector so one may expect significant under-estimation, whereas the survey carried out by the Statistical Agency does not offer data on the public and private sector separately, which is central to our analysis of wages⁷.

The graph below shows very similar levels between the **public** and **private average wage level** in Kosovo. This however drastically deteriorates after the second quarter of 2014, as a result of the decision to increase public sector wages by 25%. This gap between the average private and the average public wage persisted until a year later (second quarter of 2015) at which point a slight increase is visible, attributable to the implementation of the collective agreement for the public sector. The average wage for 2015 is estimated to be 471 euro; 536 euro being the average wage in the public sector and 406 euro in the private sector. Whereas, until Q3 of 2016 the average wage marked 485 euro; 554 in the public sector and 416 in the private sector⁸.

Graph 7. Gross average (monthly) wages⁹, in Euro



Source: TAK data, Macroeconomic Unit analysis

⁷ The previous ERP based this analysis on KPST (Kosovo Pension Savings Trust) data who in turn work with Tax Administration data. The latter have provided us with the necessary data this year, so the analysis will employ taxpayer declaration data as it is, straight from the source

⁸ A more detailed analysis with regard to wages in Kosovo is available in the Kosovo ERP 2016-2018

⁹ Previous analysis regarding the average wage was carried out through KPST data, whereas this year we have made efforts to retrieve the data straight from the source, which is the Tax Administration. The data is available only beginning from 2012 onwards

2.2. MEDIUM-TERM MACROECONOMIC SCENARIO

Real sector

In recent years, Kosovo recorded average GDP growth rates among the highest in the region. Considering that the growth has been mainly driven by remittances and public investment, the structure of the economy is characterized by high levels of consumption and investment in non-productive sectors (mainly construction), which has somewhat predetermined the import structure. Recent developments in the Eurozone have continued to result in slower than expected growth.

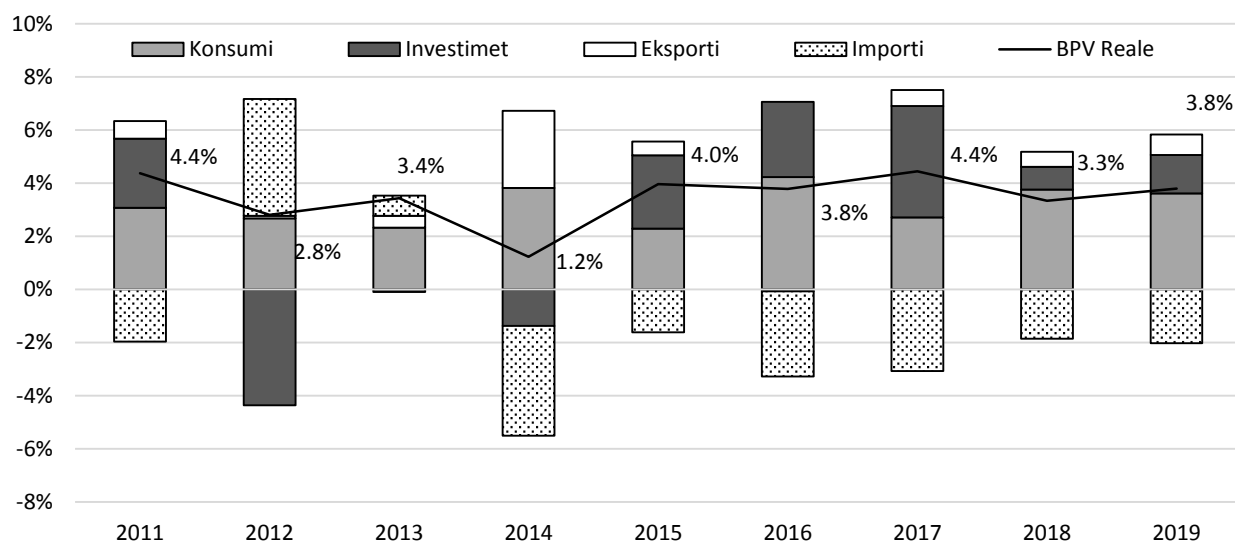
Economic indicators show that 2016 has been a year of invigoration of the economy as a result of improving credit conditions as well as a more stable business environment. This has been reflected through an increase in import of consumption as well as investment goods. The utilization of the investment clause (please refer to Box 3 for detailed information), the recent changes in tax policy which support local production, as well as the continuous fall in interest rates on loans are expected to fuel consumption and investment during the upcoming mid-term period. Baseline assumptions underpinning the outlook for 2017-2019 result in a real GDP growth rate of 3.9% on average.

During the forecasted period, general consumption (in nominal terms) is expected to grow at an average rate of 4.3% contributing thusly by 3.4 percentage points to the real GDP growth rate. This increase in consumption is driven by private consumption, mainly as a result of higher expected private consumption and investment given improvements in access to credit, and (albeit to a lesser magnitude compared to previous years) remittances.

During 2015, the Government of Kosovo has entered a Stand-By Arrangement with the IMF, under which an investment clause has been negotiated. This clause serves as an opportunity to increase capital expenditure above the current budget constraints imposed by the fiscal rule. It has been negotiated in order to accommodate Kosovo's need for infrastructure development within the framework of preserving stable public finances; given that it only allows such expenditure when it is linked to capital projects of a developmental character financed by credible, renowned IFIs. This clause is explained in more detail in Box 3, which serves as a summary of the main projects planned by the Government. It is expected that the coming-into-force of this clause through the implementation of the listed capital projects will result in public investment becoming a main driver of the growth rate of Kosovo's economy for the upcoming period, mainly for 2017 given that the beginning of implementation of the investment clause will transmit itself as an injection to the economy for this particular year. Consequently, an invigorated environment, in combination with recent tax changes favouring local production, is foreseen to carry through to the private sector as well, contributing to an increase in private investment during the remaining two years of the forecasted period.

As a result, total investment will increase at an average rate of around 8% for the period 2017-2019, contributing by 2.2 percentage points to the real growth rate for this period.

The negative trade balance continues to be a structural challenge for the Kosovar economy. The persisting dominance of metal-based products in total exports continues to be the most concerning issue, even more so than that of the low base of total exports.

Graph 8. Contribution to real GDP growth

Source: SAK, and Macro Unit forecasts

As a result, the trend of export of goods is conditioned by international metal prices and global demand for this commodity. This is clearly illustrated by the years 2015 and 2016, during which a slowdown in exports was observed, attributable to the situation in which 'Ferronikeli' found itself (explained in detail in the previous section). Table 1 provides a forecast of global demand for nickel as well as its' price, from which can be seen that a rather rapid recovery is projected beginning from 2017. This will be reflected in an increase in Kosovar export of goods, the forecast average growth rate of which during the relevant period is 4.7%. The export of services is also expected to maintain current trends and continue to increase, growing at an average rate of 5.6% for the period 2017-2019.

The propensity of investment, consumption and export of goods to import has been around 30%, a level which is expected to remain the same for the medium-term period to come. As a result, the import of goods is expected to grow at a real average rate 5.3% whereas the import of services (dominated by transport and travel) is expected to grow at an average real growth rate of 2% for the forecasted period. Total imports will thus register a real average growth rate of 4.9% for the period 2017-2019.

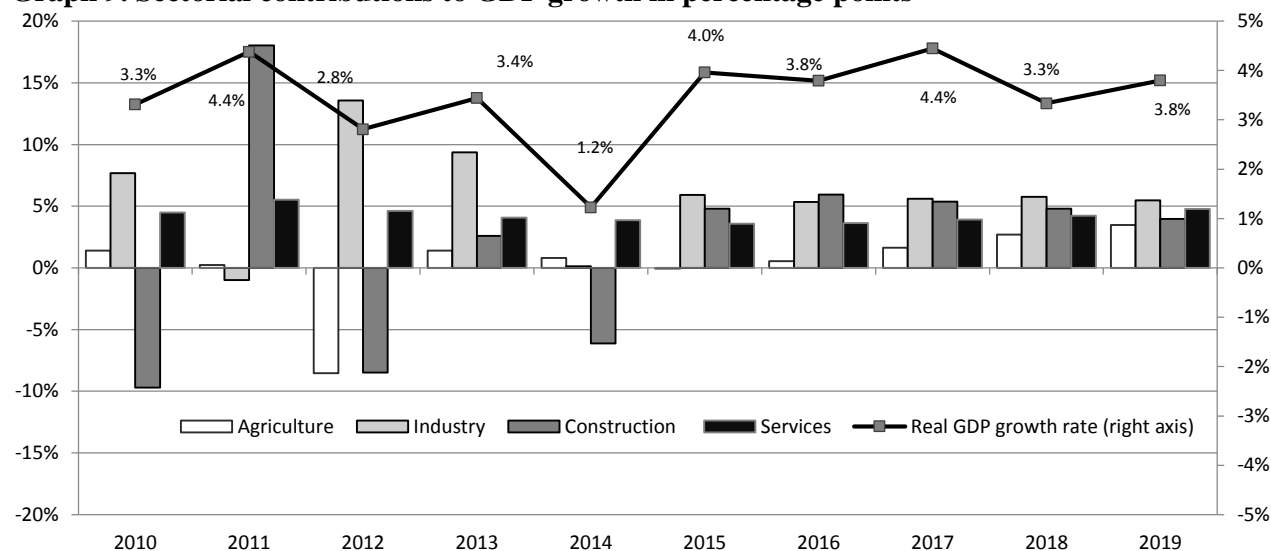
On the **production side**, the services sector remains the largest contributor to the economic growth, representing more than half of the GDP. Similar to its historical trends, services are projected to continue with increasing trend, marking on average 4.3% growth during the forecast horizon. While trade is expected to contribute largely during forecasted period, the category of services are also expected to benefit from the transportation, IT and housing services. The second largest sector, the industry sector, is expected to recover gradually from the weakening growth in the manufacture sector last year. Although there is large potential to develop labour intensive manufacturing in Kosovo, this sector remains relatively small mainly because it has been hindered by a shortage of (costly) skilled labour, and unreliable energy supply. However, over the forecast period, the growth of this sector is expected to mark 5.6% on average, reflecting the effect of the implementation of tax initiatives supportive to production sector and the reform measures aimed at improving labour supply, energy supply, access to finance and lower cost of funding.

Construction is an important driver of growth although its growth reduced in recent years reflecting the completion of the construction of highway Merdare - Morine and the introduction of rather

restrictive criteria for obtaining the construction permits by the municipality of Prishtina. The sector however, is projected to pick up speed through 2016 and onwards, supported by the continued housing investment and road/ highway infrastructure investment.

The agricultural sector comprises small share of GDP and it is projected to stage a faster resurgence underpinned by continuous government subsidies provided to this sector and measures to improve the sector's competitiveness. Hence, during the forecasted period, agriculture is projected to increase by 2.6%, on average.

Graph 9. Sectorial contributions to GDP growth in percentage points



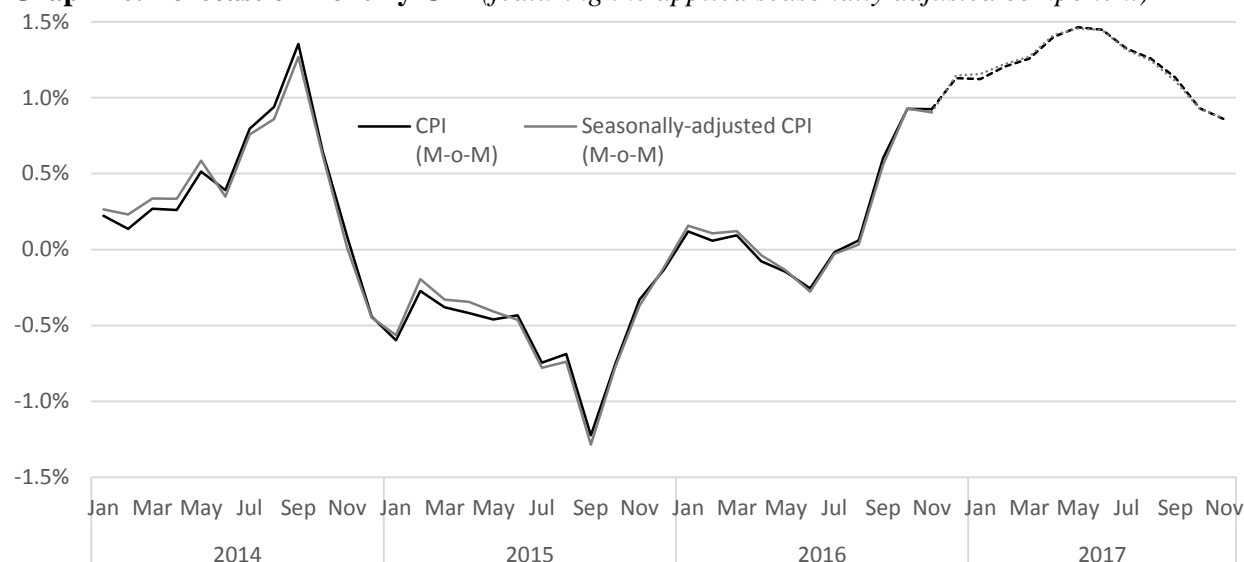
Source: SAK and DEPP/Macroeconomics Unit calculations

Monetary and exchange rate policy and inflation

Kosovo adopted euro unilaterally at the time it was launched and since then it uses it as its official currency. As a consequence, the country is limited in terms of the availability of traditional monetary policy instruments, which implies that Kosovo lacks the traditional means required to control the inflation developments in its economy. In the absence of such instruments, and due to the high reliance of Kosovo's economy on imports, inflation developments are mainly driven by fluctuations in international commodity prices. Thus, there has been a rather neutral price level maintained throughout 2016, with inflation picking up slightly towards the end of the year (CPI marked 0.9% in November, the highest it has been throughout the year).

The Euro area in particular during the past year experienced a period of more favourable monetary policy initiated by the European Central Bank, which for the upcoming period foresees an inflation rate of 1%. Thus, the CPI in Kosovo is expected to stabilize at an average rate of 0.7% for the period 2017-2019.

Graph 10. Forecast of monthly CPI (featuring the applied seasonally adjusted component)



Source: ASK data, Macro Unit forecasts (seasonal adjustment and forecast carried out with Demetra+)

External sector and its medium-term sustainability

During 2015, the **current account deficit** marked 9.1% of GDP and based on mid-year actual data and forecasted values thereafter, current account deficit is expected to increase to 11% in 2016. This indicator is expected to maintain such levels all through the forecasted period (averaging at 11.4%) driven mainly by the (planned) public infrastructure projects. The trade balance for 2016 is estimated to amount to around -37.7% of GDP; to average at a similar level going towards the forecasted period 2017-2019.

Table 4 below shows that there has been a shift in the share of exported goods from the 'base metals' category towards mineral products. Other product categories remain largely the same in their share to total export of goods. This table serves as an illustration of the above discussion on the dominance of exports by metal-based products; where shocks to this particular category has impacted the total export of goods. This is the main underlying motive of the Government with regard to creating incentives for increasing local production.

Table 4. The share of exported goods to total export of goods

Description	2014	2015	2016 /1
Base metals and articles from base metal	51.6%	48.5%	35.8%
Mineral products	13.8%	12.8%	21.1 %
Vegetable products	5.7%	4.8%	5.3%
Plastic, rubber and articles thereof	5.0%	7.2%	9.4%
Other	23.9%	26.7%	27.7%

Source: Calculations based on SAK, External Trade Statistics, 1/ Data available until November 2016

It is evident that diversification of exports is potentially one of the best ways to secure sustainability of exports, thus contributing to an improvement in the trade balance of the country. The implied chain of events (increased domestic production leading to import substitution which opens the path for diversification and increase of exports) is proving to play out at a rather slower pace than expected. Besides the fact that it takes time for economic agents to adopt and fully utilize changes

to legal (in this case, tax) framework, 2016 has also been a year of political/international developments. April marked the month in which the SAA came into force, bringing about novelties in the way the country approaches trade. While preparing themselves for a vastly larger market (i.e. the EU), it is crucial that products adhere to certain standards of quality. Although on the right path, such changes may require a longer time for the local business environment to adapt.

Table 5 below represents the countries/country groups which (in each year) make up more than 80% of Kosovo's total exports. The export of goods to EU countries has decreased more or less across the group, with the exception of Bulgaria, Germany and the Netherlands, to which countries Kosovo exported slightly more in 2016 compared to the previous year. On the other hand, exports to CEFTA countries have increased which mainly comes from an increase in exports to Serbia and Macedonia.

The drastic fall in exports to Italy is considered to come about as a result of the fall in export of metals following the situation facing Ferronikeli discussed in the previous section, and a similar story is observable in the case of China and India. However, a pick-up in exports toward China is observed during the latter part of 2016, possibly signalling a slow but steadily improving outlook for Ferronikeli. However, given the magnitude of last years' shock, this should be taken with a degree of caution regarding the outlook.

Table 5. Geographical composition of exports, in '000 euro

	2013	2014	2015	2016 /1
EU	118,422	98,086	106,052	64,986
<i>of which Italy</i>	74,363	49,660	19,568	5,435
CEFTA	104,503	127,146	123,747	132,273
Switzerland	7,155	10,038	11,721	15,634
Turkey	7,393	10,365	9,212	6,995
Japan	-	507	2,062	79
China	1,290	42,152	206	7,626
India	28,953	27,425	47,029	8,708
Total exports	293,842	324,543	325,294	285,168

Source: Calculations based on SAK, External Trade Statistics

1/ Data available until November 2016

With regard to trade, even though Kosovo is a small (land-locked), open economy with a liberal trade regime, it is characterized by low **trade openness**¹⁰. Although Kosovo imports a great deal, the export base remains low, and is one of the main structural challenges the economy is facing. This directly impacts the trade openness index, and the recent changes to stimulate domestic production with the aim of diversifying and increasing exports is one of the ways in which the Government is tackling this issue.

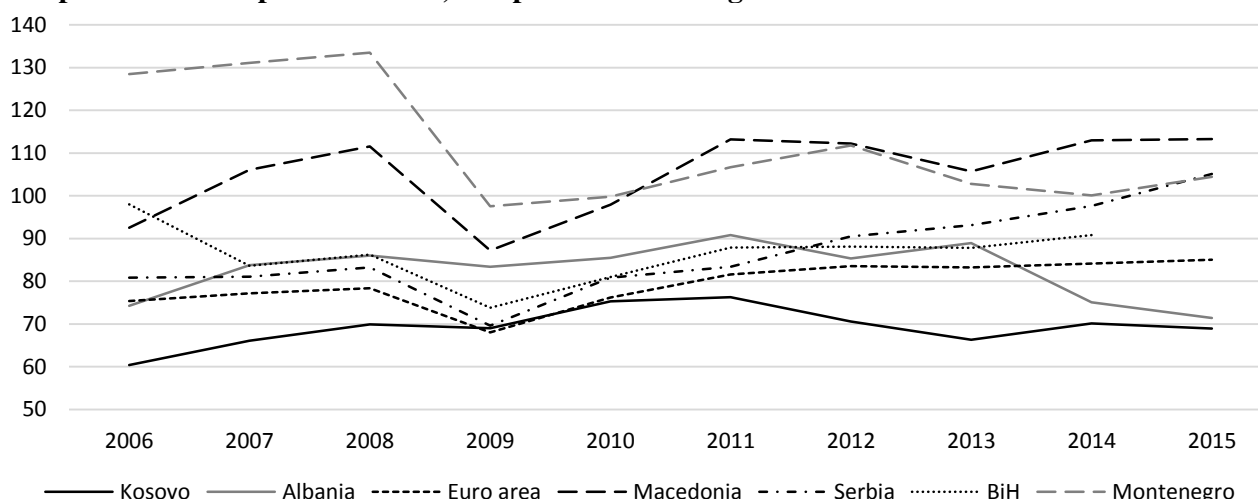
Graph 11 illustrates the low index of trade openness, particularly in comparison to neighbouring countries. As compared to 2014, the index for Kosovo for the year 2015 has decreased slightly, whereas neighbours such as Serbia, Macedonia and Montenegro have registered improvements (or stayed the same).

Kosovo is a signatory to some free trade agreements of which the most important are the SAA (the free market movement with the EU) and CEFTA. Given that the SAA has been in force as of April 2016, it is of interest to understand whether similar agreements have affected the trade openness of

¹⁰ The trade-to-GDP ratio is calculated as the simple average (i.e. the mean) of total trade (i.e. the sum of exports and imports of goods and services) relative to GDP, and is interpreted as "the higher the index, the more influence trade has in that country's domestic activity"

our neighbours. As a result of particular political challenges that Kosovo has faced during the past years, progress with regard to regional/international integration has been slower than expected. This has often been the result of specific political agendas underlying the context of the region (also one of the reasons why Kosovo was the last western Balkan country to sign the SAA).

Graph 11. Trade Openness Index, comparison to the region and Euro area



Source: SAK and World Bank data

The income account has maintained positive balances. Compensation of employees¹¹ continues to be the largest contributor to the **primary income account** balance. Until July 2016, the income from compensation of employees dropped by 10.2% compared to the same period of 2015, and is expected to grow at an average rate of around 5% for the forecasted period 2017-2019, thus contributing to a rebound in the primary income balance going towards the end of the period.

Remittances continue to represent more than half of the **secondary income account** balance. Until July 2016 remittances marked about 369 million euros, a slight fall compared to the same period of the previous year. This is possibly attributable to recently heightened insecurities concerning the economic outlook in advanced economies, where growth keeps stalling despite initial positive signs, particularly in Europe.

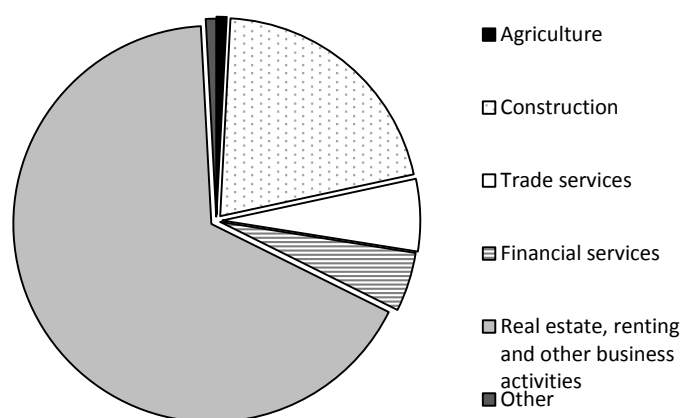
Nonetheless, remittances have reflected this development only moderately given that the registered decrease in remittances was only about 3%. In this sense, remittances remain an important one as regards contribution to the current account balance, and hence are expected to grow at an average rate of 2% during the forecasted period, while maintaining a 12% share to GDP on average.

Low and stable price levels have contributed to a relatively stable real effective exchange rate (REER)¹². Up to August 2016, REER devaluated by approximately 0.3% on average.

¹¹ Revenues from the income of Kosovo employees abroad

¹² REER is provided by the CBK (available until July 2016)

Graph 12. Structure of FDI by sectors in 2016



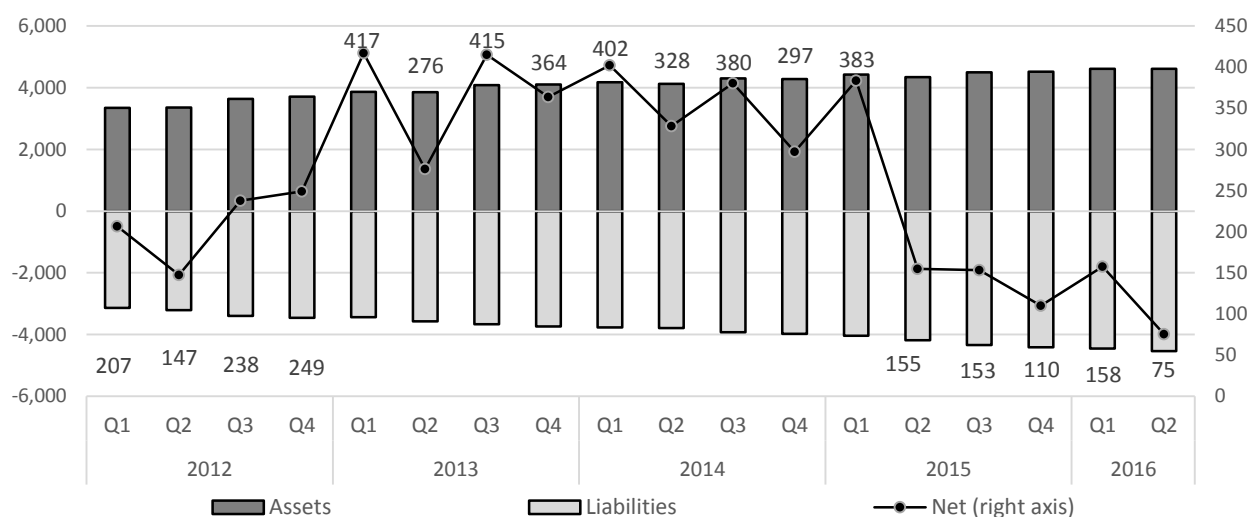
By October 2016, total FDI amounted to around 203 million euros. The structure of FDI remains largely unchanged in 2016 compared to previous years. More than 60% of FDI in 2016 has gone towards real estate and renting activities.

Construction follows as the second largest absorber of FDI, making up 21% of total FDI. It is followed by the trade services sector and financial services sector, which represent 6% and 5% of total FDI for 2016 respectively.

Source: CBK, data available until October 2016

In the second quarter of 2016, the net balance of **international investment position (IIP)** reached 75.5 million euros, which is 51.3% lower compared to the second quarter in the previous year. The structure of assets is dominated by investments in the form of debt which composed around 72.1% of the assets, followed by investments in equity capital which compose 27.9% of the assets. On the other hand, foreign direct investments continue to be the largest category within liabilities, comprising around 73.5% of total liabilities by end of Q2 2016.

Graph 13. International Investment Position (IIP), end-of-period, in millions of euro



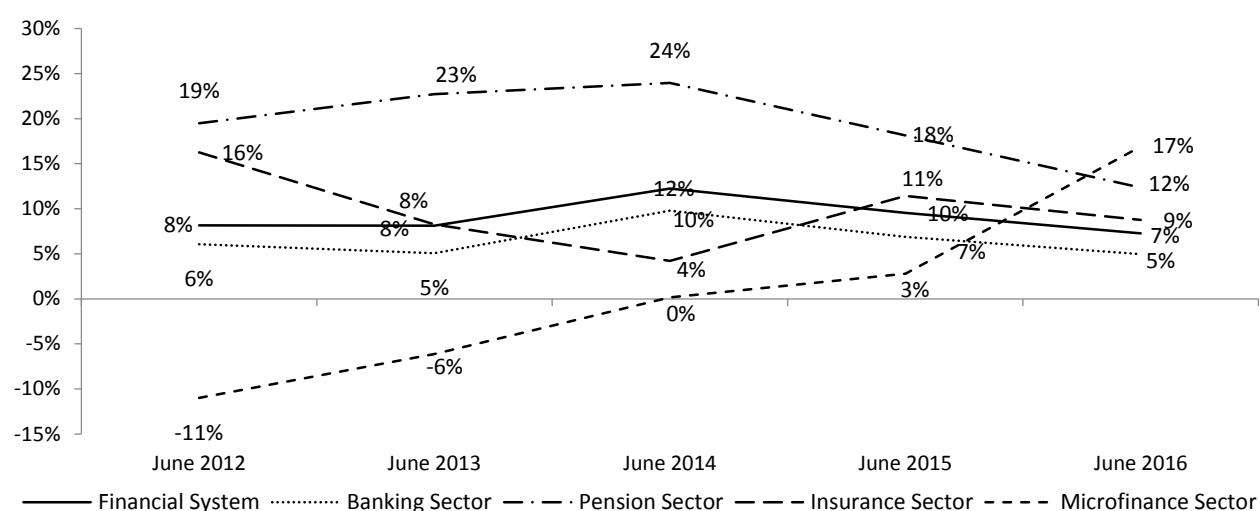
Source: Central Bank of the Republic of Kosovo (2016)

Regarding sectorial distribution of assets, item 'other sector' composes around 51.8% of total assets (53.2% in Q2 2015), followed by CBK with 33.1% of total assets (30.8% in Q2 2015) and commercial banks with around 15.1% of total assets (16.0% in Q2 2015). On the liability side, IIP is also dominated by 'other sector' which composes around 83.9% (84.2% in Q2 2015), followed by government with 8.5% (7.9% in Q2 2015) and banking sector (commercial banks and CBK) with 7.6% of total liabilities (7.9% in Q2 2015).

Financial sector

Kosovo's financial system continued its positive growth trend during the first half of 2016. Total assets¹³ of the financial system marked an annual growth of 7.3%, standing at 5.1 billion euro (around 85% of GDP) as of June 2016. Banks represent 67.6% of the total assets of the financial system, followed by Pension Funds (26.2%), Insurance Companies (3.2%), Microfinance Institutions and Non-banking Financial Institutions (2.7%). Banking sector assets remain dominated by foreign-owned banks' assets, which represent around 90% of total banking sector assets. The degree of market concentration, measured by the market share of the three largest banks (assets), decreased in June 2016 to 63.3%, compared to 65.3% in June 2015. In addition, the degree of market concentration measured by HHI dropped to 1,718 points in June 2016, compared to 1,792 points in June 2015.

Graph 14. Development trend of the financial system and the financial sectors' assets

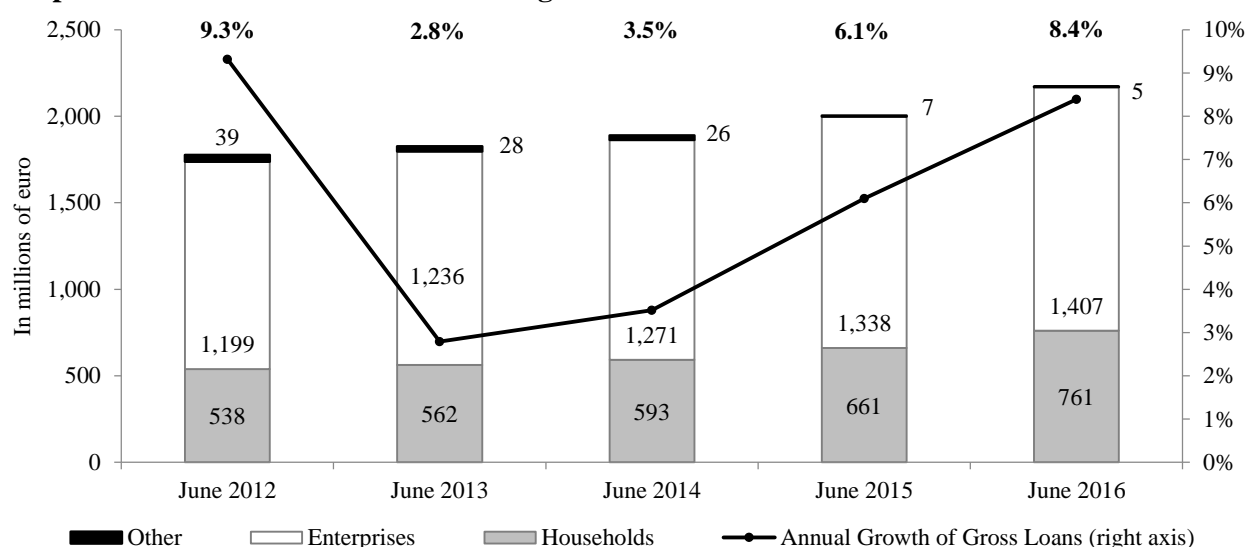


Source: Central Bank of the Republic of Kosovo (2016)

Banking sector loans continued to grow at an accelerated rate. Up to June 2016, total loans reached at 2.2 billion euro, marking an annual growth of 8.4% (6.1% in June 2015). Loans to enterprises grew annually by 5.2% and continued to dominate the loan portfolio with a share of 64.8% (66.7% in June 2015), whereas household loans marked an annual growth of 15.2% and represented 35.0% of total loans (33.0% in June 2015). Compared to the previous year, loans to the financial service and real estate sector had the highest growth rate of 38.3% in June 2016. Agriculture sector remained among the sectors with the highest increase of loans, recording an annual growth of 10.4% in June 2016. The trade sector, which represents the largest share of enterprise loans, was characterized by a slower growth rate of 1.1%, compared to the growth of 8.8% registered in June 2015. During this period, loans to the manufacturing sector marked a decline of 0.6%, an overturn compared to the increase of 10.6% registered in the previous year.

¹³ Excluding the assets of the Central Bank of the Republic of Kosovo

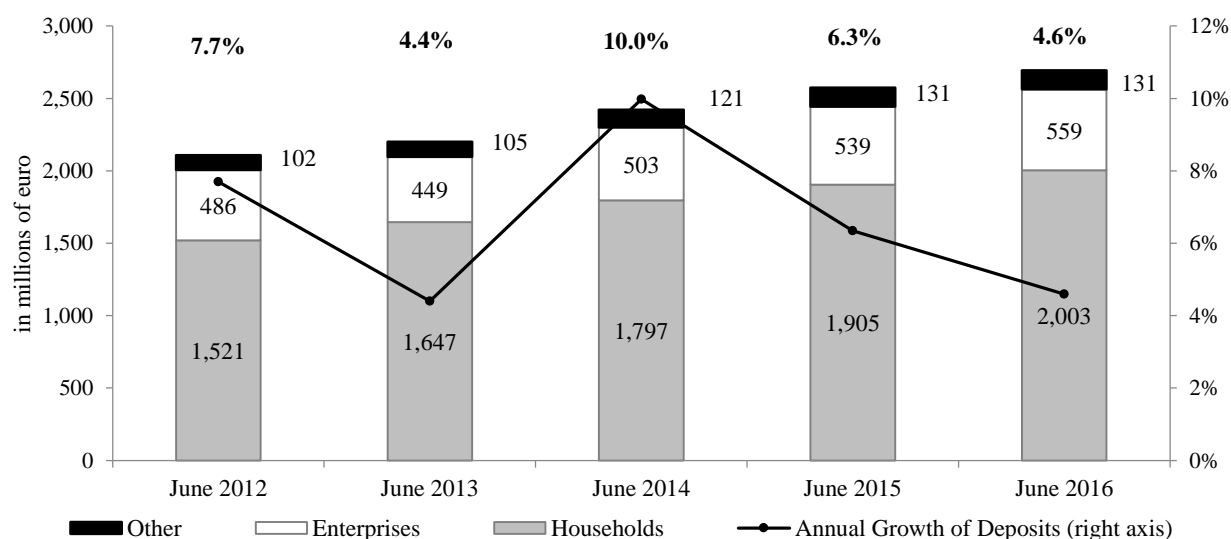
Graph 15. Structure of loans and annual growth rate



Source: Central Bank of the Republic of Kosovo (2016)

Regarding the demand for loans in the reporting period (March - August 2016), banks reported an increased demand for loans from enterprises as well as households. In the following six months (September 2016 - February 2017), credit standards are expected to tighten somewhat for enterprises, while in the same period, to ease somewhat for households. BLS results indicate that banks expect an increase in the demand for loans during the same period.

Graph 16. The structure of deposits and annual growth rate



Source: Central Bank of the Republic of Kosovo (2016)

The banking activity in Kosovo continues to be financed mainly by domestically collected deposits, which have shown to be a sustainable source of financing. Up to June 2016, deposits reached the value of 2.7 billion euro, marking an annual increase of 4.6%. Nevertheless, a slowdown of the deposits growth trend is being noticed in the last two years. The structure of deposits is mainly composed of households' deposits which represent 74.4% of total deposits (Graph 17).

Financial intermediation in Kosovo, up to June 2016, has been characterized by declining interest rates on loans, whereas interest rates on deposits marked a slight increase. The interest rate on loans decreased to 7.2% in June 2016 from 7.6% in June 2015, whereas the interest rate on deposits increased slightly to 1.03% from 0.81% in June 2015. This led to a decline in the interest rate spread between loans and deposits to 6.2 percentage points, compared to 6.8 percentage points in June 2015.

Table 6. Financial Soundness Indicators*, in %

Banking sector	Core set	June 2013	June 2014	June 2015	June 2016
Capital Adequacy	Regulatory capital to risk-weighted assets	15.3	17.4	19.0	18.7
	Regulatory Tier I Capital to risk-weighted assets	12.4	13.5	15.9	16.4
Assets quality	Nonperforming loans to total gross loans	7.8	8.2	7.2	5.3
Profitability	Return on assets (ROA)*	1.0	2.0	3.1	2.6
	Return on equity (ROAE)*	10.6	21.1	29.1	20.8
	Interest margin to gross income	74.0	74.5	76.4	74.4
	Noninterest expenses to gross income	82.0	68.8	52.7	47.1
Liquidity	Liquid assets (broad) to short-term liabilities	38.5	43.7	41.9	41.5

**ROAA and ROAE are annualized. Net income before tax is considered*
Guide: Financial Soundness Indicators, Compilation Guide, IMF (2006)
Source: Central Bank of the Republic of Kosovo (2016)

The banking sector remained profitable, recording a net profit of 37.7 million euros up to June 2016 which, however, is lower than the profit of 44.9 million euro which was recorded during the same period of last year. The decrease of profit during this period reflects the declining trend of revenues (interest income) and the slight increase of expenditures (non-interest expenditures) after three years of a continuous decline. The decrease in interest income mainly reflects a decrease in interest rate on loans while non-interest expenditure increased mainly as a result of an increase in provisions held for loan losses and an increase in fees and commissions.

The risk to the banking sector in Kosovo continues to remain low. The liquidity position of the banking sector remains at a satisfactory level. The liquid assets to short-term liabilities stood at 41.5% which is well above a minimum regulatory requirement ratio of 25%. As of June 2016, the loan to deposit ratio increased to 80.7% compared to 77.9% in June 2015. Furthermore, the CBK liquidity stress-test results, as of June 2016, indicate that the banking sector in Kosovo is resilient to adverse simulated liquidity shocks.

Credit risk exposure of the banking sector continued to decline for the second year in a row. In June 2016, the non-performing loans to total loans declined to 5.3%, from 7.2% in June 2015. This improvement in NPL ratio is mainly as a result of a decrease of non-performing loans value by 20.9%. In addition, non-performing loans remained well-covered by loan-loss provisions, a ratio that stood at 119.9% (119.1% in June 2015).

As of June 2016, the quality of loan portfolio improved in most sectors (table 7). Financial services sector marked the highest decrease in non-performing loans, from 7.9% to 1.0% in June 2016. The trade sector, that dominates the structures of total loans, marked the second highest decrease of non-performing loans, standing at 5.7% of total loans in June 2016 (10.0 % in June 2015). Non-performing loans to total loans for agriculture sector recorded a slight decline to 6.5% from 7.2% in

June 2015. Whereas, the NPL ratio for the household sector continues to remain low, being 2.5% in June 2016.

Table 7. Non-Performing Loans by economic sector, in %

NPL by economic sector	June 2013	June 2014	June 2015	June 2016
Agriculture, forestry and fishing	3.6	9.7	7.2	6.5
Manufacturing	15.7	12.2	10.1	8.6
Electricity, gas, water supply etc.	11.5	14.8	11.5	11.5
Accommodation, food serv., transport etc.	10.3	9.3	8.1	8.1
Trade	10.3	11.5	10.0	5.7
Financial services	0.0	0.0	7.9	1.0
Real Estate	11.5	11.5	8.2	6.1
Households	2.5	2.8	2.6	2.5

Source: Central Bank of the Republic of Kosovo (2016)

Furthermore, the banking sector remains well-capitalized, with a capital adequacy ratio of 18.7% (table 6), which is well above the minimum regulatory requirement of 12.0%. Credit risk stress testing results as of June 2016 suggests that the sector is capable to withstand severe shocks to its credit portfolio, along with simulated interest rate and exchange rate shocks.

2.3. ALTERNATIVE SCENARIOS AND SENSITIVITY TO FISCAL RISKS

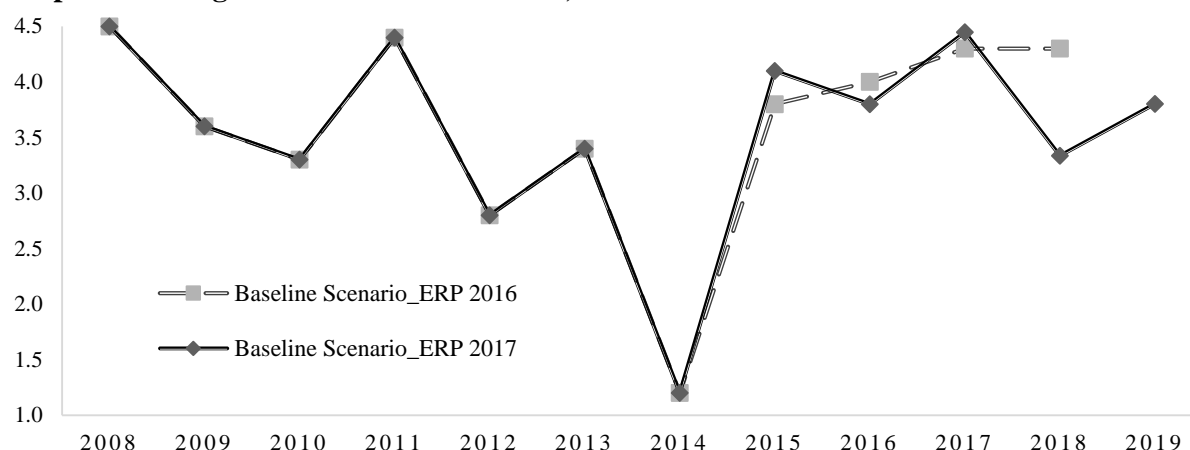
The baseline macroeconomic scenario that underpins the medium term budget projections - and the outlook presented on this update of the ERP - results from a careful consideration of both downside and upside risk factors associated with economic developments expected in the medium term.

For the 2017 update of the ERP, the baseline scenario assumptions incorporate a number of changes that reflect the partial materialization a number upside and downside risks identified in the 2016 ERP. Baseline assumptions are also revised using the latest available national accounts data. The following are the main changes to the baseline scenario:

- Higher than projected actual growth in 2015 - expected real GDP growth for the year 2016 in the last ERP was 3.8%, while actual national accounts data show growth exceeded the projection by 0.3%, reaching 4.1% in 2015
- Inclusion of large scale public infrastructure projects as part of the baseline – the effect of additional spending on high growth impact infrastructure projects financed from International Financial Institutions was presented only as an upside risk in the last update of ERP; however, following the entry into effect of the modification of the fiscal rule - the introduction of the so called “investment clause”- to allow higher capital spending, and the practical implementation of this legal provision as part of the budget cycle, the impact of this additional spending is incorporated in the baseline scenario
- Deceleration in export and remittance growth – reduced export and remittance growth was identified as one the key downside risks to the 2016 ERP baseline scenario. Low international commodity prices, and subdued growth in the Kosovo diaspora host countries, have the led to the materialization of this identified risk. As a result, for the 2017 baseline scenario, both export and remittance growth assumptions are revised downwards

In line with the principles of prudent policymaking, and based on the cumulative effect of the revision to the baseline assumptions, the medium term growth outlook is revised downwards by 0.2 percentage points. For the year 2017, however, growth is expected to be higher by 0.1 percentage points compared to the previous update of the ERP.

Graph 17. Changes to the baseline scenario, in %



For this year's assessment, the key upside risk to the baseline scenario remains the construction of new electricity production capacities. Preparations for the commencement of a new electricity power plant construction project are at a final stage, and the potential direct and indirect positive effects of this project could significantly improve the medium term growth outlook. At the same time, lack of new investment on the existing energy production capacities leave Kosovo under the constant threat of fragile energy supply, thus representing an important downside risk factor to the baseline scenario.

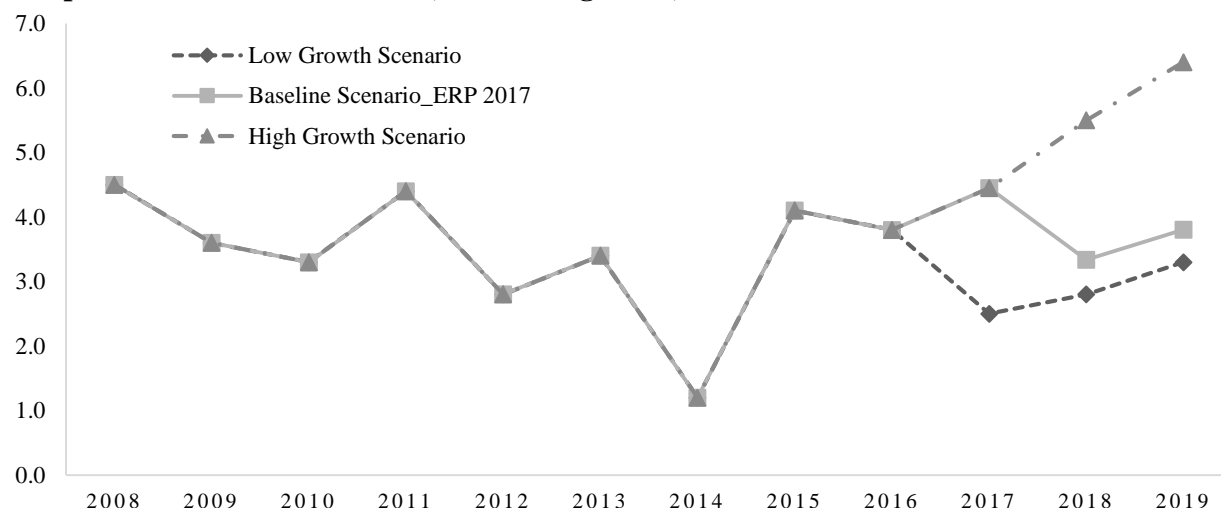
The baseline scenario also leaves out the potential effect of two important institutional reforms, the impact of the Government of Kosovo Doing Business reforms, and the impact of tax incentives provided through an upcoming fiscal reform package that will primarily reduce the tax burden on imported raw materials. Both sets of reforms represent a significant upside risk to the baseline outlook.

Systematic downside risk factors, which originate from long standing structural constraints that define Kosovo's growth model - low export competitiveness, reliance on high inflow of remittances, high trade deficit - continue to be important downside risk factors. However, the deterioration of the external position is already incorporated in the baseline scenario, thus further exacerbation of the medium term outlook due to these risk factors is highly unlikely.

Specific downside risks include potential fiscal pressure from the performance of Publicly Owned Enterprise, and limited capital project execution capacities. Both risk factors are fully acknowledged in the Medium Term Expenditure Framework 2017-2019.

Graph 16 below displays a summary of the updated high growth and low growth scenario, estimated by incorporating assumptions on the identified upside and downside fiscal risks, and in comparison to the revised baseline for the 2017 update of the ERP:

Graph 18. Alternative Scenarios, real GDP growth, in %



Medium term risks 2017 – 2019

Upside risks - Growth expectations relative to the baseline are amplified by the expected construction of a new electricity power plant, and an investment impetus created through significant institutional reforms.

While the long term effects of the power plant project and institutional reforms- through the removal of obstacles for private sector development – takes precedence over the medium term effects, the initial implementation is expected to provide a positive shock to domestic absorption, thus giving a boost to growth and employment in the medium term as well.

The following is a list of upside risk factors which have the potential to stimulate more accelerated growth as compared to the baseline scenario:

Development of New Energy Production Capacities (reform measure #3): the Government has announced the winning private bidder for the construction and operation of new energy production capacities. With an estimated total investment of Eur. 1,000 million over 5 years, the construction of new generation capacities is expected to start in late 2017 or early 2018. In addition to new generation capacities, investment on the update of the transmission system is also expected to accelerate beyond baseline scenario assumptions.

Increased Private Sector Investment as a Result of Institutional and Fiscal Reforms: Kosovo's ranking in the World Bank Doing Business Report improved significantly in 2016. Building on this momentum, the Government of Kosovo has adopted an ambitious reform agenda to remove obstacles to private sector development, including trade facilitation measures, streamlined tax administration procedures, improved contract enforcement, a more effective construction permitting system, and an efficient legal environment for resolving insolvency. At the same time, the Government of Kosovo is planning to adopt a second fiscal reform package which aims to provide producers with tax incentives that lower the cost of production input and boost their competitiveness. The positive impact of these reforms is considered to represent a key upside risk factor which has the potential to boost private sector investment, shift upwards projected medium term growth.

Downside risks – As presented in the last update of the ERP, Kosovo’s structural constraints expose its economy to both external and domestic shocks. *The main volatility through which an external shock affects Kosovo’s economy is:*

Dependence on Remittances: Kosovo still receives a sizable inflow of migrants’ remittances, which mostly affects household consumption. A macroeconomic shock on the two main economies that employ the Kosovo’s diaspora - Germany and Switzerland - can be transferred to Kosovo’s economy through a reduction in the level of remittances, and thus a reduction in domestic consumption. Nevertheless, such a shock is unlikely, as the experience with the 2008 financial crisis has shown that such shocks have little to no effect on remittance flows to Kosovo. This is most likely due to the employment characteristics of the Kosovo migrants, namely their employment in low to medium skilled sectors which are not prone to direct business cycle effects. Another contributing factor to this relationship may be the use of migrants’ savings to smoothen out the flow of remittances sent to recipient households in Kosovo.

The main downside risks related to domestic volatilities are:

Fragile Domestic Energy Production Capacity– The baseline scenario assumes the current structure of domestic energy production will be maintained in the medium term. This implies there will be no need for additional Government subsidies for the energy sector, and that the ratio between imported energy vs. domestically produced energy will remain in line with historical trends. Nevertheless, Kosovo’s energy production capacities are depreciated and prone to malfunctions which may ultimately lead to financing needs for the energy sector and energy import patterns different from the assumptions of the baseline scenario.

Weakening Performance of Publicly Owned Enterprises (POEs) – ownership of POEs, which are primarily designated for the provision of public goods and may operate under natural monopolies, exposes the Government of Kosovo to significant risks either through the need to guarantee stable provision of public goods, water supply and sewage services for example, or through exposure to potential contingent financial liabilities.

Constrained Absorption of IFI Financing – one of the key assumptions to the baseline scenario is the inclusion of increased public investment through new public infrastructure projects (105 million Euros in 2017, and 100 per annum in the medium term). In addition, in 2017, additional public spending financed through privatization proceeds was added to the baseline scenario. In total, public investment is expected to increase by more than 50% in 2017. While such a policy provides significant impetus to annual growth, for this effect to materialize, spending agencies will need to enhance their absorption capacities of IFI financing, and avoid under execution of the budget appropriations.

Alternative Scenarios - based on the qualitative examination of the upside risks and the downside risks to the baseline scenario, two alternative scenarios are presented in this section.

High Growth Scenario Assumptions: incorporate into the baseline the commencement of the electricity power plant construction. This scenario also includes “positive shock” assumptions of increased investment from the implementation of institutional reforms. More specifically, these assumptions are:

- The construction of the new electricity power plant will increase private investment by 1.5 percentage points of the baseline projected GDP in 2018, and 2.8 percentage points in 2019
- The implementation of institutional and fiscal reforms will boost private investment by 0.6 percentage points of the baseline projected GDP in 2018, and 1 percentage points in 2019

All other estimated macroeconomic parameters are maintained as in the baseline scenario.

Low Growth Scenario Assumptions: for the construction of the low growth scenario, the assumptions that are alternated relative to the baseline scenario are:

- An increase in subsidy spending for POEs related to their weakening performance and in response to a shock in electricity production. For the purposes of this exercise, it is assumed that under such an event, subsidies would increase by 0.7% percentage points of the baseline projected GDP in the period of 2017-2019 at the cost of public capital spending
- A less than expected level of execution of capital projects – where for the purposes for of this exercise it is assumed that only 60% of non-regular financed (IFI or privatization proceeds) are implemented in a year
- Electricity imports are higher as a result of lower domestic energy production

The assumptions on price movements in the baseline scenario and the high growth scenario are the same, with a slight increase in consumption prices in the low growth scenario due to a higher imported electricity relative to the price of domestic production. The main channel through which the shocks are applied to the baseline scenario are private and public investment. Second round effects on consumption and investment are modelled through their effect on private disposable income. None of the alternative scenarios results with a negative growth trajectory. Rather, there are marked differences in the rate of positive growth between the different alternatives. The realization of low growth assumptions would reduce average medium term growth from 3.9% to 2.8%. On the other hand, projected medium term average growth under the high growth scenario is 5.5%, or 1.6 pp over the baseline scenario projection.

Table 8. Alternative macro-fiscal scenarios

*(L) Low growth scenario; (B) Baseline scenario; (H) High growth scenario

Description	2017			2018			2019		
	(L)	(B)	(H)	(L)	(B)	(H)	(L)	(B)	(H)
Real growth rates (%)									
GDP	2.5	4.4	4.4	2.8	3.3	5.5	3.3	3.8	6.4
Consumption	1.7	2.6	2.6	3.2	3.8	4.9	3.3	3.6	5.4
Investment	8.6	14.9	14.9	2.3	2.8	9.8	4.6	8.7	11.7
Exports	3.2	3.2	3.2	2.7	3.1	3.1	3.1	4.8	4.6
Imports	4.5	6.2	6.2	3.2	3.8	6.1	4.1	5.6	7.0
Price changes (%)									
CPI (annual monthly average)	1.0	0.9	0.4	0.8	0.7	0.7	0.7	0.6	0.6
GDP deflator	1.8	1.8	0.6	0.6	1.4	1.5	0.7	1.3	1.3
Import prices	-0.4	-0.4	-0.1	-0.2	0.3	0.3	0.2	0.1	0.1
Memorandum items (in millions of Euros):									
Nominal GDP	6,288	6,410	6,410	6,557	6,716	6,850	6,856	7,058	7,380
Tax Revenues	1,483	1,512	1,512	1,539	1,576	1,607	1,623	1,671	1,747
Recurrent Expenditure	1,319	1,275	1,275	1,356	1,310	1,310	1,396	1,348	1,348
Capital Expenditure	557	722	722	589	753	753	646	810	810

Sensitivity to Baseline Assessment

In the context of fiscal stability, the low growth and high growth scenario pose provide limited changes to the baseline assessment of the fiscal space. Under the low growth scenario, revenues would underperform by an average of 2.5% relative to current budget projections. Under high growth scenario, revenues would over perform by 3% relative to baseline projections for 2018 and 2019.

3. FISCAL FRAMEWORK

3.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVES

The Government continues to have as its principal objective of fiscal policy the maintenance of the sustainable fiscal position and responsible public financial management, also being one of the recommendations arising from the last Progress Report and previous ERP submissions. To preserve this commitment, the Government adopted the fiscal rule, which limits the overall deficit level to 2% of GDP. Considering the relationship that Kosovo has with the IMF as one of the main partners in terms of designing the macro-fiscal framework within the current SBA, Kosovo has considerably limited the space within which it can accommodate policies set forth in the government program. As Kosovo is not characterized by any considerable fiscal and balance of payments risks and has no monetary policy, this program has a particular focus on boosting the sustainable economic growth of the country.

The existing high structural bottlenecks facing the economy have caused the government to amend the LPFMA to adopt the investment clause which allows spending for large growth-enhancing projects financed by IFIs (described in more detail in Box 3). In this line, the government is committed to implement the structural reform agenda set forth in the government program.

Another approach with which the Government plans to tackle difficulties in local production are fiscal incentives. The Ministry of Finance, being one of the key institutions in creating and promoting the most favourable fiscal policies, in cooperation with the business community has been continuously working on compiling a package of tax policy changes, as a follow-up to the reforms undertaken last year. As a result, it has been agreed upon the conception of a new fiscal package (box 2 below) based on the requirements and needs raised by businesses. This package is designed to improve the environment of doing business, in the attempt to invigorate local production and job creation on the way towards sustainable economic growth.

Box 2. Fiscal Package for 2017

Expanding the list of products that are considered as raw material for customs duty exemption
Based on the requirements and needs of businesses for exemption from customs duties for products that are considered as raw material in the production process, a list of such products has been compiled, which products belong mainly to sectors such as the industry of food, beverages, metallurgy , agriculture and some other sectors.

Only in 2015, the total value of imports of these products was around 58.2 million euro. Moreover, based on the increase of imports from year to year, it is estimated the import value of these products for 2017, and as a result it is estimated that after exemption of customs duties, the import of these products will increase by approximately 20% of the value of import in 2015 (increase of import in 2015 relative to 2014 was around 18%).

Cutting the excise rate on crude oil

Given that crude oil is used (imported) by medium and large companies, as a result of large amounts of import, their cash flow is put in awkward positions despite the possibility of refund. Only in 2015, the value of imports of this product appeared to be about 7.1 million euro.

As a result, in order to avoid bureaucratic procedures with the aim of saving time and costs for businesses, the excise tax rate for this product is intended to be removed.

Amendments/ supplements to the list of products subject to 0% or reduced rate of (8%) VAT

With the fiscal package of last year, ever since the entry into force of the Law on VAT, the reduced rate of VAT is calculated and paid at eight percent (8%) for some essential products, such as bread, milk, salt, oil, water supply, power supply, pharmaceuticals, IT equipment etc. Based on requests coming from different fields of specific importance, it is envisaged to amend / supplement the list of products with the reduced rate of VAT.

Administrative Instruction on Tax Holidays

Based on the objectives of the Government of the Republic of Kosovo to improve the environment of doing business, the Ministry of Finance, through the team in charge has drawn up a draft Administrative Instruction on Tax Holidays, in which are set the criteria for the benefit of the tax holidays for businesses that make new investments and generate new jobs.

Banners on the packages of flour for special conditions of recording, control and marking of flour which is placed in free circulation in the market of the Republic of Kosovo

Positive effects of such an initiative are estimated to be: The reduction or elimination of 'informal market' and the promotion of legitimate trade in the sector of production of bread and other flour products; safety enhancement for consumers in particular, but also for the producers and importers; increasing competitiveness and continuously improving the domestic products as opposed to the imported ones

Evaporation, loss in weight under certain conditions which are accepted (recognized) losses from decay, evaporation or loss of weight of oil and its products

Positive effects of such an initiative are estimated to be: Improving the environment for doing business and responding to requirements of the business community, increasing competitiveness and continuous improvement of production and trade sector, approximation with EU directives

3.2. BUDGET IMPLEMENTATION IN 2016

The budget for 2016 was approved on December 14, 2015 by the Assembly of the Republic of Kosovo.¹⁴ During the course of the year, policies with foreseeable fiscal impact became effective and some carried on from 2015. In April 2016, the Stabilization Association Agreement (SAA) with the European Union entered into force. Furthermore, the law on debt forgiveness, which went into effect in September 2015, has been extended until April 2017, thus giving Kosovar citizens and businesses the chance to apply for debt forgiveness throughout the entire course of 2016.¹⁵ Additionally, the fiscal package that became effective in September 2015 had a whole fiscal year to reflect its full impact on the governmental budget.¹⁶

In comparison to 2015, policymakers planned both larger revenues and larger expenditures for the budget of 2016. The following table demonstrates that this increasing trend is expected to continue in 2017 as well. The budget deficit in 2016 was 1.6% as a share of GDP, which is in alignment with both Kosovar legislation and SBA arrangement with the IMF.

Table 9. General Government revenues and expenditures, in million euro

Description	2015	2016	2017 proj.	2018 proj.	2019 proj.
<i>in millions of euros</i>					
1. TOTAL REVENUES	1,470	1,634	1,725	1,793	1,892
2. TOTAL EXPENDITURES	1,564	1,732	2,001	2,064	2,160
2.1 CURRENT SPENDING	1,149	1,221	1,275	1,310	1,348
2.2 CAPITAL EXPENDITURES	404	500	722	753	810
3. PRIMARY BALANCE	-94	-98	-276	-272	-268
Interests payment	-17	-25	-23	-30	-30
4. Overall balance (as per fiscal rule)	-78	-95	-97	-96	-83
5. OVERALL BALANCE	-111	-122	-300	-302	-298
GDP	5,568	6,031	6,410	6,716	7,058
Overall deficit as % of GDP	-1.4%	-1.6%	-1.5%	-1.4%	-1.2%
Bank balance as % of GDP	3.6%	5.5%	5.5%	5.4%	4.8%
Current expenditure as % of GDP	20.6%	20.3%	19.9%	19.5%	19.1%

Source: Treasury, Budget 2016 and Macro Unit calculations

a) Revenue performance during 2016

Overall fiscal performance during 2016 materialized significantly better than the initial projections during the budget preparations in the end of 2015, this as a result of continuation of conservative approach towards fiscal projections but also as a result of better than expected economic performance. In this consideration, in the mid of 2016 the budget review took place in order to reflect these positive outcomes.

Although the end year financial reports prepared by the Treasury take place in the end of January 2017 – for the need of this section – we utilize the daily reports data which may vary marginally with the end year financial report. With that in mind, based on the daily reports of the 31st of December 2016 we can observe that total revenues realized to 1,605 million of euros, or 98.2% of the planned revenues. The largest share of realized revenues in 2016 is accredited to tax revenues

¹⁴ <http://www.kuvendikosoves.org/common/docs/ligjet/05-L-071%20sh.pdf>

¹⁵ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=11017>

¹⁶ The main changes that were adopted include the increase of the standardized VAT rate from 16% to 18% and the introduction of a reduced VAT rate of 8% on numerous basic goods from the consumer basket.

with 1,403 million euros or 99.5% realization of planned tax revenues. Out of which, direct tax revenues by the end of 2016 amounted to 233.4 million or 102.7% of planned revenues. Within direct tax revenues, corporate income tax and property tax surpassed considerably the planned revenues from respective sources. Due to increased economic activity and more specifically increase in declared profit of the banks, corporate income tax materialized at 109.1% of planned revenues. While due to the implementation of the law on debt forgiveness, the property tax surpassed the initial projections by around 22%, hence, amounting to 122.9% of the planned revenues.

With regard to indirect taxes – revenues collected at the border – where to a large extent in line with budget projections. Where despite the implementation of the SAA agreement and also the full effect of tax exemption that went into effect from September of 2015, total indirect tax revenues materialized at 100.1% or 1.2 billion euros. More specifically, the largest contributors to the indirect tax revenues, VAT and Excise taxes materialized at 100% and 101.2%, respectively. While non-tax revenues, planned at 212 million euros materialized only to 80.3%, reflecting the low collection of revenues from own source revenues at municipalities.

During 2016, the plan for merging the customs and tax administrations into a single revenue agency have continued in its due course. The merger is expected to be undertaken in 2017 and the long-term goal of such a structural alteration is to generate synergies aiming towards improvement of collection of revenues.

b) Expenditure execution during 2016

General government expenditures have increased substantially during 2016 as compared to realized expenditures during 2015. The main drivers of this increase in the overall expenditures can be attributed to the increase in capital expenditures and to a lesser extent to the increase in expenditures for subsidies and transfer. Besides the new capital project that has been financed during 2016, the highway from Prishtina to Skopje has contributed significantly to this increase in capital expenditures. Nevertheless, despite the higher budgeting of capital expenditures and also their execution, yet there remain challenges to complete execution of the budgeted capital expenditures. While with regard to subsidies and transfers, the initiation of implementation of the law on war related categories is the main contributor to this increase of expenditures in subsidies and transfers category and therefore in the overall expenditures.

The **wage** bill for 2016 amounted to 543.7 million euro (98.8% execution rate), representing an increase by 3.5% as compared to overall execution rate in 2015. This increase in overall expenditures for wages and salaries by a large extent can be attributed to the increase in wages for public sector employees as a result of work experience (0.5% annual increase) and the remaining part can be attributed to the partial of vacancy position in different government organizations.

Expenditure on **goods and services** have followed the same trend of the year before, with a slight decrease of about 3% compared to last year. This category amounted to 199.8 million euro (this includes 23.4 million euro expenditure on the municipal level); a 96.7% execution of its end-year plan.

Expenditure on **subsidies and transfers**, category that includes also the subsidies for agriculture sector, has increase in 2016 as compared to 2015 end-year expenditures. Expenditures on this category have maintained the increasing expenditures for subsidies on agriculture sector, however, the largest increase came from the initiation of payment of benefits for war related category. By the end of 2016, total expenditures amounted to 474.9 million euro (99% execution rate), figure that represent an increase by 13.6% as compared to 2015.

Capital expenditure have increased substantially in 2016 as compared to 2015 (25% higher budgeted capital expenditures in 2016 as compared to 2015). Nevertheless, challenges still remain into complete execution of budgeted capital expenditures. The preliminary data available, indicate that execution rate of capital expenditures amounted to around 88%.

c) Deficit and financing during 2016

Since the fiscal rule has been in place, the planned and the actual budget deficit was in line with fiscal rule requirements. As a result, Kosovo's planned budget deficit for 2016 was at 1.6% as a share of GDP, or at around 95 million of euros. According to the preliminary data, by the end of the year, the budget deficit marked around 1% of GDP, around 66 million euro¹⁷. The main sources of financing of government deficit remain the domestic issuance of Government treasury bills and also the IMF financing.

3.3.MEDIUM-TERM BUDGETARY OUTLOOK

The medium-term budgetary projections follows the main objectives of Government program, namely, via fiscal policy ensuring the medium term sustainability of public finance and at a same time ensure that public expenditures are directed towards higher capital expenditures that are supportive to growth and overall macroeconomic stability. Following these principals, the presented medium-term budget framework has been under intensive discussion with IMF during the mission conducted under the Stand by Arrangement (SBA) program and have the full accordance with regard to structure of expenditures as well as projected revenues revenue. Following the IMF agreement, the presented budget framework has been approved in due time in the Government and is expected to follow accordingly the foreseen procedures of approval in the Parliament.

Medium term revenue projection 2017-2019

The overall medium term revenue projections are based on the overall macroeconomic developments and the effect of these developments on the tax base. In addition, besides the overall economic developments, the revenue projection take into account also the revenue performance over the previous medium term. As such, the forecasted revenues are based on average real economic growth rate of 3.9% over the medium term. The satisfactory real economic growth materialized during 2015 and also during first half of 2016, together with satisfactory tax performance during 2015, and in particular during 2016, make the total budget revenues forecast for the medium term to be considered as moderate (conservative). The revenue forecast can be considered conservative since the nominal GDP growth rate is expected to grow at 5.4% (nominal GDP growth is the main determinant of tax collection) whilst the rate of growth of tax revenue is lower for 0.4 percentage points.¹⁸ Consequently, the projection of revenues on an optimistic approach would initially take into account the full amount of the nominal GDP growth rate as a determinant of tax revenue as well as the fight against informal economy and the efficiency advancements in revenue collection by the collection agencies. However, as a result of uncertainty

¹⁷ The deficit is based on the preliminary report provided by the Treasury Department, given that the final report is not yet published as their official deadline is January 31

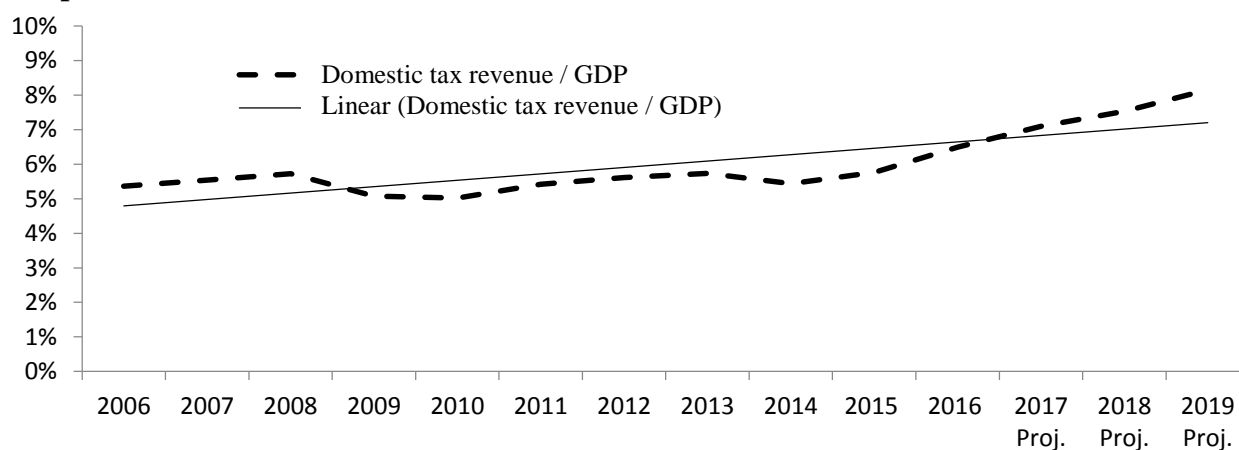
¹⁸ In addition, revenues during 2016 are expected to grow at around 12% as compared to the realized revenues in 2015.

about the full materialisation of these revenues, the conservative approach is always recommended in order to ensure manageable level of expenditures.

Based on this prudent fiscal planning, the total projected revenues as a share of GDP over the medium term are expected to amount to an average of 23.6%, representing an increase by 0.2 percentage points as compared to 2016 budget.¹⁹ More specifically for 2017, the revenues are projected to amount to €1,725 million, representing an increase by 5.6% as compared to 2016 budget. The total budget revenues, in particular tax revenues, are expected to continue to be dominated by the revenues collected at the border, although the recent amendments in the Law on VAT are expected to gradually shift the collection of tax domestically. The forecasted growth in tax revenue are expected to materialized mainly from indirect taxes, i.e. VAT and excises, whilst a gradual decrease in revenue from customs duties has been foreseen as a result of the commencement of the implementation of SAA agreements. A gradual increase in revenues from direct tax is projected, nevertheless, the base remains low.

Although the base of domestic revenue remains low, domestic revenue performance in 2015 and 2016, have given positive signals of an accelerated growth driven by increase in economic activity and also supported by structural reforms that have been undertaken. Hence, based on previous performance (actual data) and economic rational, domestic tax collection follows closely the developments in economic activity. Therefore, as seen from the graphic below (see Graph 19), the domestic revenues collection is expected to follow a more accelerated growth pace over the medium-term, resulting from expected increase in economic activity. Nevertheless, following the conservative approach in revenue projection, despite the expected accelerated GDP growth rate, the share of domestic revenues to GDP is expected to increase over the medium term by 0.3 percentage points as compared to 2016 budget.

Graph 19. Tax revenues trend for 2006-2019 and the ratio with economic indicators



Source: Treasury and estimations of the Macroeconomic Unit, MF

In 2017, domestic revenues are forecasted to amount to €410 million and are projected to reach €470 million at the end of 2019.²⁰ Projected domestic revenues for 2017 are higher by around 9% as

¹⁹ Worth mentioning - for the medium term - there are no revenue measures foreseen, with the exception of implementation of excise calendar on tobacco.

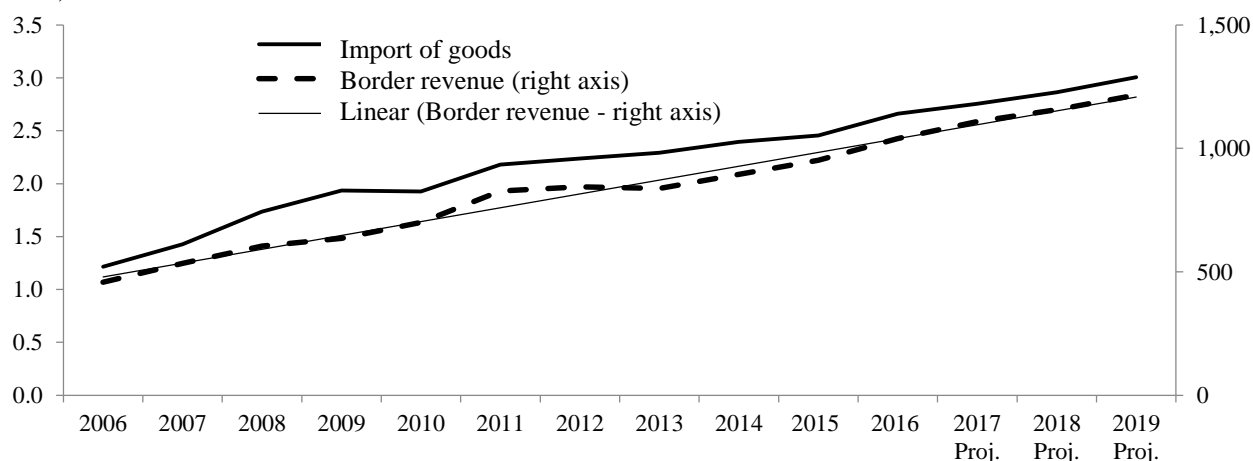
²⁰ The projected amount from domestic tax revenues are excluding revenues generated from TAK on behalf of the Law on Debt Forgiveness and revenues from SOEs debts.

compared to 2016 and with an average 7% increase in the years to follow. More specifically, domestic revenues according to categories are expected to be materialized as follows:

- The corporate income tax: are forecasted to amount to €84 million in 2017, representing an increase of 13.4% as compared to 2016 budget and increasing at an average rate of 9% in the medium term. The projected increase for 2017 results from the increased economic activity during 2015 and 2016 and due to expectations for 2017 and also as a result of higher profits declared by the private sector, in particular financial sector.²¹
- Domestic VAT: is forecasted to amount to €184 million, representing an increase of 9.5% as compared to 2016 budget and increasing at an average rate of 5% in the medium term. The projected increase results from overall increase in consumption (consumption is the main driver of growth), where VAT remains an important indicator of private consumption. In addition, this increase is based on tax changes in 2015, where the exemption from the VAT payments at the border for lines of production will reflect in the increase declaration of VAT domestically in the following years.
- Personal income tax²², for 2017 are forecasted to amount to €135 million, representing an increase of 8.7% compared with 2016 and increasing at an average rate of 9% in the medium term. This forecasted increase is based on developments in the economic performance and its effects on the labour market.

With regard to border revenues, in the absence of changes in the tax rates, border revenues have historically followed the value and quantity of import.²³ Hence, as the imports are forecasted to continue increasing at moderate rate, border revenues are expected to increase, albeit at a slower rate. This slowdown in increase of revenues collected at the border is due to implementation of SAA and VAT exemptions resulting from policy tax changes as of September 2015.

Graph 20. Tax revenues trend 2006-2019 and the ratio with economic indicators, (in billion euro)



Source: Treasury and estimations of the Macroeconomic Unit, MF

In 2017, revenues collected by customs are planned to amount to €1,108 million, representing an increase by 6.5% as compared with the budget of 2016 and over the medium term, revenues

²¹ According to Central Bank data, the banking sector has declared an annual profit of 94.7 million during 2015 and 61.3 million until September 2016.

²² This item encompasses withhold taxes, tax on individual business income as well as the tax on interest, dividends, rent and gambling.

²³ The amount of imported is used to forecast revenue collection from excise taxes.

collected at the boarder are forecasted to increase by an average of 4.7%. More specifically, revenues from customs braked down into categories are expected to be generated as follows:

- Border VAT: as one of the major contributors to customs revenues, VAT collection at border is projected to amount to €564 million, an increase of 9.6% as compared to 2016 budget and increase at an average rate of 5.6% over the medium term.
- Excise Tax: is projected to amount to €422 million in 2017, representing an increase of 8% compared to 2016 budget and increasing at 5.8% over the medium term. This projection is based on the increase in excise rate of tobacco products according to the excise calendar. In addition, the increase in quantity of oil imported during 2016, as a result of decline and stabilisation oil prices in the international markets, is expected to continue and to further support the increasing demand for oil products.
- Customs duty: are expected to amount to €116 million, representing a decline by 9.8% as compared to 2016 and further declining over the medium term by an average of around 4%. This declining trend is as a result of SAA implementation.

With regard to non-tax revenues for 2017, a slowdown in the collection of revenues is projected, reflecting the slowdown of collection of revenues at the municipal level. Specifically, during 2017, as a result of lower collection than planned in the previous years, projections of the local level OSR are projected to amount to €54 million. Moreover, revenues from the royalty payments would be projected to represent 1.9% of total revenues during the forecasted period. In addition, PTK dividend of €5 million and €9 million from the tax concession to the airport "Adem Jashari" are forecasted to be collected under the non-tax revenues.

Table 10: The structure of budget revenues, as % of GDP

Description	2014	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.
Total revenues	24.2	26.4	27.1	26.9	26.7	26.8
Tax Revenues	20.9	22.8	23.4	23.6	23.5	23.7
Non-Tax Revenues and OSR	3.1	3.4	3.5	3.1	3.1	3.0

Medium Term Budget Expenditure 2017-2019

The budget expenditures projections for 2017 and the underlying projections for 2018 and 2019 have been prepared based on the space provided by the budget revenues projections and the level of mandatory budget deficit (maximum level of 2% of GDP) as defined under the fiscal rule in the Law on Public Financial Management and Accountability and obligations arising from the Stand by Agreement (SBA) with the International Monetary Fund.

This serves as a guarantee of budgetary discipline which enables the preservation of macro-fiscal stability at the very planning stage. However, in the context of this budget, preservation of macro-fiscal stability is not a purpose in itself, but a prerequisite for achieving the ultimate goal of supporting the country's overall economic development.

Given this purpose, the proposed budget has been projected in four main components:

- (1) Maintaining the level of current expenditures – thus provide adequate financing for the provision of public services and direct support to improve the business environment and welfare of citizens;
- (2) Increased financing for capital projects, funded by regular budget revenues;
- (3) Utilisation of the space created for strategic capital projects for development through investment clause;
- (4) And the use of funds by the liquidation of SOEs and establish a link to direct the funds to specific capital projects.

Based on these budget pillars, the expenditures for 2016 are planned to amount to around €2 billion, the highest amount ever since the establishment of the institutions of the Republic of Kosovo. Despite the sharp increase in the total expenditures compared to the expenditures executed in 2015 and 2016, as a result of a good fiscal performance during the past two years, the total budget deficit is planned to be kept under the ceilings sets forth in the fiscal rule. In this consideration, the total budget expenditures for 2017 are planned to be around 15.6% higher than in 2016 and 29% higher than the realized expenditures in 2015.

This significant increase in overall expenditures, driven by the significant increase in capital expenditures, follows the principles set forth in the Government Program which require a clear prioritisation of expenditures that contributes to economic development without undermining the improvement of social welfare and by accommodating the needs of the Kosovo integration agenda. As a result of these additional expenditures enabled by the increase of regular budget revenues and the creation of new spaces for financing development capital expenditures, the structure of the total budget expenditures has shifted towards the capital expenditures, after the setback during the previous period.

Budget expenditure by economic category

The next table decomposes government expenditure by economic categories. It covers actual expenditure for 2015, budgeted and reviewed expenditure for 2016, as well as projected expenditure for 2017, 2018, and 2019. As can be deduced from the table, government expenditure in 2017 is projected to be about 16% higher than in 2016. In comparison to the actual budget expenditure from 2015, the projected expenditure for 2017 imply an increase of almost 28% followed by gradual increases going towards 2019, amounting to well above 2 billion euros.

It is important to note that this expenditure stems mainly from the planned realization foreign-financed capital projects (i.e. the investment clause as well as the employment of the PAK liquidation receipts). Increasing productive expenditure while containing non-productive expenditure is one of the main objectives of the Government of Kosovo, in the attempt to maintain stable public finances which can contribute to economic development.

Table 11. Expenditure by economic categories, in million euros

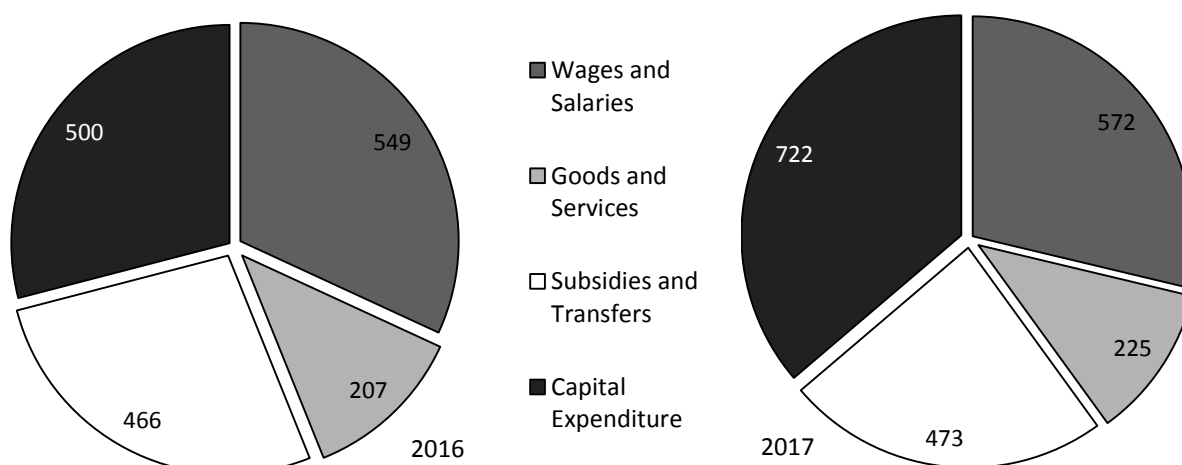
Description	2015	2016	2017 proj.	2018 proj.	2019 proj.
in millions of euros					
TOTAL EXPENDITURES	1,564	1,732	2,001	2,064	2,160
CURRENT SPENDING	1,149	1,221	1,275	1,310	1,348
Wages and Salaries	525	549	572	597	622
Goods and Services	205	207	225	228	232
Subsidies and Transfers	418	466	473	479	492
CAPITAL EXPENDITURE	404	500	722	753	810

Source: Treasury, MF

The structure of expenditure by economic category is also expected to remain relatively similar to last years' except for an increase in capital expenditure. The following graph visualizes the amount of expenditures by economic categories for both the (reviewed) budget for 2016 and the projected budget for 2017. The graph suggests that overall government expenditure in both periods is dominated by current expenditure, which comprises about 70% in 2016 and falls to approximately 63.7% in the projected budget for 2017.

Similarly, current expenditure represents more than 20% of GDP in 2016 and are expected to continuously drop below this level throughout 2017-2019. Capital expenditure represents around 29% of total government expenditure in 2016. However, a significant increase in the share of capital expenditure is planned in the following year resulting in this share increasing to 36%. In terms of share to GDP, this implies a shift from 8.3% in the budget review of 2016 to an 11.3% share of GDP in the projected budget for 2017.

Wages and salaries account for the largest share of expenditure in 2016. As the graph implies, wages and salaries are planned to increase from 549 million euro in 2016 to approximately 572 million euro in 2017, an increase of 4.3% between the two periods. **Subsidies and transfers** are expected to total 473 million euro in 2017, a level similar to that of last year. This category of spending, which includes social transfers and subsidies to POEs, is expected to amount to 27% of total expenditures in 2017.

Graph 21. The structure of expenditure by categories, in millions of euros

Source: Treasury, MF

Goods and services are expected to increase from approximately 207 million euro in the reviewed budget for 2016 to a projected 225 million euro in 2017. This implies an increase of 8.6% in expenditure for goods and services between 2016 and 2017. Despite the increase in absolute terms,

in relation to total spending the expected share of this category gradually decreases going towards the future. It is to be noted that the government is currently undergoing important reforms with regard to improving the efficiency in public spending by implementing more advanced procurement techniques (such as electronic procurement, which is to gradually encompass all levels of government in the country).

Capital expenditure in 2017 is expected to amount to 722 million euro. This amount represents 36% of projected government expenditure for 2017 and about 11% of GDP of the same year. Some of the capital projects that are incorporated in the budget include the highway between Prishtina and Skopje, the M2 road to Mitrovica, and the M9 road to Peja. The projected budget also foresees infrastructure projects for other areas of interest such as education and sports.

Box 3. The Investment Clause under the Stand-By Arrangement with the IMF

In 2012, as part of the Program with the IMF, the Parliament approved amendments to the Law on Public Finance Management and Accountability (LPFMA), including the adoption of the fiscal rule, which among others sets a government deficit to GDP ratio of 2%.

In early 2015 the Ministry of Finance and the Central Bank of the Republic of Kosovo initiated discussions with the IMF on the possibility of negotiating a new program with this institution, whereby a number of actions would be undertaken to support fiscal, financial and structural reforms of the Government. An integral part of the discussions with the IMF was the need for relaxation of the fiscal rule, thus enabling borrowing for financing public investment projects.

Relaxation of this rule enables the Government to enter into negotiations with well-known IFIs and donors, with high standards of control (International Financial Institutions, European Union with its institutions, foreign governments and the International Development Agency), for financing capital projects of public importance, which directly and indirectly affect the development of the private sector. The IMF agreed to this amendment, and has provided technical assistance for its implementation.

This amendment relates to Article 22A - sub paragraphs 22.A.5 and 22.A.6 of the LPFMA - that lists the exclusion of expenditures from the deficit limit of 2% of GDP. This change is known as the "investment clause" under Article add 22.A.7. of the LPFMA.

After many discussions and elaboration of many proposals, it was decided to propose the following amendments:

- *To exempt all expenditures for capital projects financed by IFIs and donors from the regular deficit restriction of 2%;*
- *These exemptions shall apply only to new projects, contracted after the entry into force of the legal amendments - therefore, loans obtained for funding capital projects previously contracted cannot be excluded from the regular deficit;*
- *These exceptions shall apply at the time when total Government debt exceeds or is likely to exceed 30% of GDP, and*
- *These exemptions expire 10 years after the entry into force.*

It is worth mentioning that the investment clause also includes borrowings to finance capital projects of publicly-owned enterprises, if such borrowings are guaranteed by the Government. This is because any government guarantee, under the Law on Public Debt, is counted as part of the total government debt. The above-mentioned amendments, proposed in form of amendments to the LPFMA, were approved by the Assembly through the Law no. 05 / L -063, which came into force on 21 January 2016.

The government may count on the financing of capital investments with of a developmental nature provided that the accumulated government debt - including the planned debt for new projects - does not exceed 30% of GDP. The Government of Kosovo remains committed to include the capital projects implemented through investment clause in the budget process in a balanced manner.

The Investment Clause encompasses 15 capital projects, briefly described below:

1. Rehabilitation of Railway Route 10 – the implementing institution for this the project is the Public Enterprise 'Infrakos', Pristina. The total project cost is expected to be EUR 195.4 million. The EBRD, the European Investment Bank and the European Union fund this project. The financial agreements with the EBRD and the EIB have been signed and ratified, while the one with the EU is expected to be signed soon. However, implementation is expected to commence this year

2. Construction and upgrading of the railway route Prishtina – Fushe Kosovo - Airport of Prishtina "Adem Jashari" – The implementing institution for this project is the Ministry of Infrastructure. The total cost estimate is EUR 40.2 million while the EBRD or any other IFN is as a possible funding. Commencement of the project is expected to occur during 2017

3. Rehabilitation of Iber-Lepenc – the implementing institution for this project is the Public Enterprise of "Iber Lepenc" and the assessment of the total cost is EUR 25 million. Negotiations on this project have been developed by the World Bank and the signing of the financing agreement is expected. As far as implementation is concerned, the project is expected to commence in 2017

4. Rehabilitation of regional roads - the implementing institution for this project is the Ministry of Infrastructure. The Financing Agreement was signed and the project is worth EUR 29 million with the EBRD financing. Implementation is expected to commence this year

5. Construction of N9 road Pristina - Peja (SEETO Route 6 A) the part from Kijevë -Kline to Zahaq - the implementing institution for this project is the Ministry of Infrastructure. The project is worth EUR 60.8 million. The EBRD and the European Investment Bank are as potential financiers while implementation is expected to commence in 2017

6. General rehabilitation of the eastern and southern railway route (border with Serbia - Podujeva - Fushe Kosovo and Kline - Prizren) - the implementing institution for this project is the Public Enterprise 'Infrakos. The assessment of the total cost is EUR 158.5 million with possible funding from the EBRD and the European Investment Bank. The project is expected to be implemented during 2018

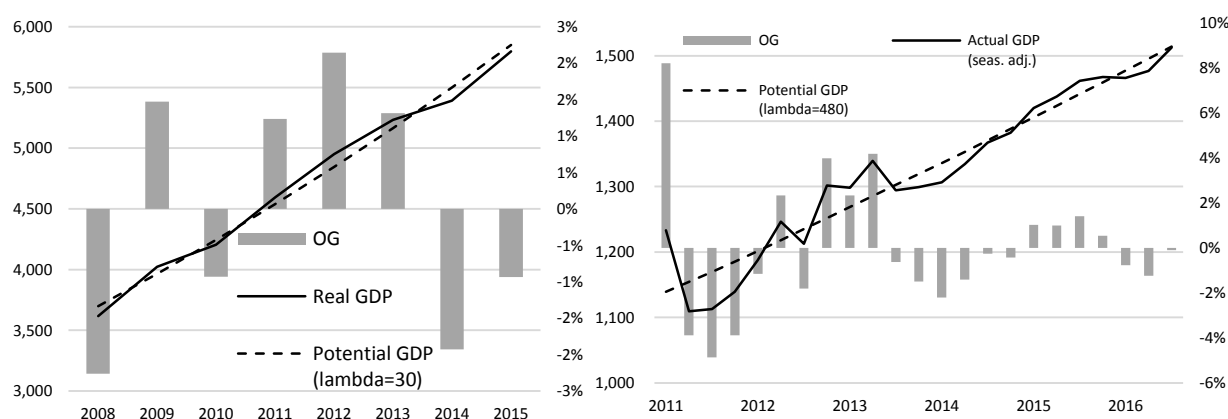
7. Expansion of irrigation system of "Radoniqi" Company - Phase II - the implementing institution for this project is the Public Enterprise 'Radoniqi'. According to a study done by the enterprise itself, the total cost estimate is EUR 31.5 million. As the project is still in progress, the financier has not been discussed yet, while implementation is expected to occur in the medium-term period
8. Construction of Prishtina - Gjilan - Dheu i Bardhë highway (border with Serbia) - the implementing institution for this project is the Ministry of Infrastructure. The project is worth EUR 272 million. The Ministry of Infrastructure has prepared the documentation for the development of the feasibility study and the financier is expected to be set in the future
9. Project for Public Transportation Reformation in Pristina - the implementing institution for this project is the Public enterprise "Urban Traffic", Pristina. The total project cost is EUR 10 million. The project is financed by the EBRD. The implementation of the project has begun in the second half of 2016 and it is expected to be completed by the end of this year
10. Improvement of Transmission Network, Phase VI-VII - the implementing institution for this project is the Public Enterprise 'KOSTT – Transmission, System and Market Operator. The total project cost is expected to be EUR 25.5 million (on-lending by the Government of Kosovo to KOSTT). KfW finances the project. Implementation of the project is expected to be during 2017
11. Employment and Competitiveness - the implementing institution for this project is the Ministry of Trade and Industry (MTI) and the Ministry of Labor and Social Welfare (MLSW). The project is financed by the World Bank and the project implementation is expected to be done during 2017
12. Construction of the main collector for wastewater in Podujeva municipality and the waste water system improvements in Gjilan municipality – the municipality of Podujeva and Gjilan are the implementing institutions of this project. The total estimated cost of the project is expected to be EUR 5.3 and 7.5 million, respectively, in total EUR 12.8 million. The financing of this project is done through a financial agreement on soft loans between the Government of Kosovo and Austria. The implementation of projects are expected to commence in 2016
13. Protection of Lake Batlava from wastewater (wastewater treatment in Batlava accumulation) - the Ministry of Environment and Spatial Planning is the implementing institution of this project. The total project cost is expected to be estimated by the feasibility study. The financing of this project is under negotiation within the framework agreement on soft loans between the Republic of Kosovo and the Government of Hungary. The estimated value of the project may amount to EUR 62 million
14. Treatment of waste water in Prishtina (Construction of the plant for treatment of wastewater in Pristina region) - the Ministry of Environment and Spatial Planning is the implementing institution for this project. The total project cost is expected to be evaluated by the feasibility study. Financing of this project is under negotiation within the framework agreement between the Government of the Republic of Kosovo and the Government of France. The estimated value of the project may amount more than EUR 80 million

15. Expansion of Broadband Telecommunications Infrastructure - the Ministry of Economic Development is the implementing institution for this project. The total project cost is expected to be EUR 37 million. The World Bank will fund this project. The implementation of the project is expected to be during 2018

3.4. STRUCTURAL BALANCE (CYCLICAL COMPONENT OF THE DEFICIT, ONE-OFF AND TEMPORARY MEASURES, FISCAL STANCE)

Considering the limited availability of GDP data, both of annual and quarterly frequency, the structural balance calculated in this section should be interpreted with a great degree of caution. This year's consideration of the Structural Balance includes 5 more quarters, namely from Q3 2015 to Q3 2016. Following the methodology established in last year's submission, the structural balance is calculated in two steps. First, potential GDP is generated using the Hodrick-Prescott filter applying the same smoothing parameters (as suggested by ECB²⁴ at $\lambda=480$ for quarterly data and $\lambda=30$ for annual data). Actual GDP, potential GDP and the resulting GDP gap (OG) are presented in the graphs below, for quarterly and annual GDP data.

Graph 22. Actual and potential GDP, annual and quarterly data



Even after adding five more observations, the 'end-year problem' of this filter is apparent, as the trend derived from applying annual GDP data differs compared to the results generated from quarterly GDP data. This is an issue particularly when working with short time-series, conditioning the analysis to be based mainly on the estimations derived from the quarterly GDP data. One can see that the economy seems to have been growing above its potential in 2011 and 2013, whereas 2014 and onwards represent a period where actual GDP was very close to the estimated potential GDP levels.

The second step entails computing the elasticities of the fiscal variables employing the methodology applied by the OECD and European Commission. The elasticity for each individual budget tax revenue is estimated relative to GDP using simple OLS analysis²⁵. The elasticity of each revenue

²⁴ Bouthevillain et al. (ECB 2001), "Cyclically adjusted budget balance: An alternative approach"

²⁵ Considering that the computation is made using quarterly data, the GDP and revenue series are first adjusted for the seasonality and then transformed into logs. The OLS is then employed in the transformed series.

category is presented in the table below. On the expenditure side, however, the elasticity is kept at zero considering that there are no unemployment benefits provided by the Government and other budget expenditures are largely incompressible, thus independent from economic cycle fluctuations—an important consideration to be reiterated in this section as it is a constant in the analysis.

Table 12. The elasticity of tax revenues with respect to GDP²⁶

Revenue category	CIT	PIT	Indirect taxes	Other taxes	Property tax	Weighted average
Elasticity	1.01	1.4	0.8	1.7	2.1	-
Weighted elasticity	0.06	0.12	0.7	0.001	0.03	0.92

The cyclically adjusted primary balance ‘*capb*’ as a share to potential GDP is then computed using the formula below:

$$capb = \frac{CAPB}{Yp} = r(1 + gap)^{-(\varepsilon_R-1)} - g(1 + gap)^{-(\varepsilon_G-1)}$$

‘Gap’ denoting the output gap, the letters *r* and *g* are ratios of revenue and expenditures to potential GDP, and ε is the elasticity of fiscal variables to GDP, applied to annual data in the interest of comparability. The output gap and the computed cyclically-adjusted budget balance are presented in the graphs below. The graph on quarterly data shows that fiscal policy was predominantly countercyclical during periods of negative output gap and managed well to offset the effects of the economic slowdown. Some larger temporary increases in the cyclically-adjusted deficits were not justified by business cycle developments, nevertheless, the deficit remained below 3% of GDP (on average, as it is also conditioned by law for the most part of the period presented) and has been financed by accumulated bank balances from past surpluses.

An important note to make regarding the annual vs. quarterly comparison is that the analysis based on annual data may be less conclusive regarding the fiscal policy stance but are also less reliable given the short time series and the fact that revenue elasticities were calculated using quarterly data, nonetheless they are presented.

Table 13. The output Gap (OG), Cyclically adjusted budget balance, primary²⁷ balance and the cyclical component of the balance

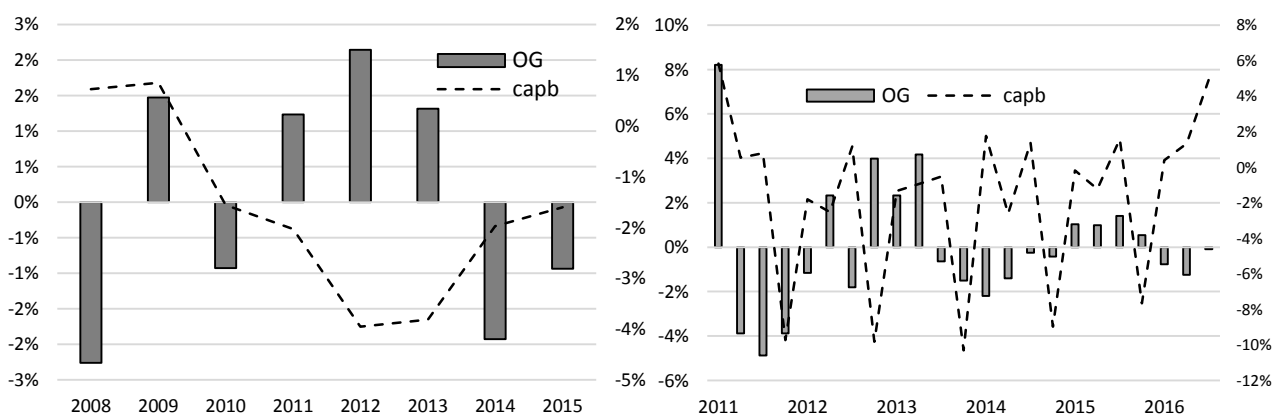
Period	OG	capb	Primary balance	Cyclical component
In % of GDP				
2011Q1	8.2%	5.8%	7.9%	2.0%
2011Q2	-3.9%	0.5%	-0.5%	-1.1%
2011Q3	-4.9%	0.8%	-0.9%	-1.7%
2011Q4	-3.9%	-9.7%	-11.2%	-1.4%
2012Q1	-1.2%	-1.8%	-3.0%	-1.2%
2012Q2	2.3%	-2.5%	-1.9%	0.7%
2012Q3	-1.8%	1.2%	0.3%	-0.8%

²⁶ Slight differences in the elasticities presented here in comparison to the previous submission have come about as a result of the added observation points (until Q3 2016)

²⁷ Considering that the debt interest payments are still low due to the low level of public debt, in this exercise only the primary budget balance is considered

2012Q4	4.0%	-9.8%	-7.8%	2.0%
2013Q1	2.3%	-1.3%	-1.5%	-0.2%
2013Q2	4.2%	-0.9%	0.0%	1.0%
2013Q3	-0.6%	-0.5%	-1.0%	-0.5%
2013Q4	-1.5%	-10.3%	-10.6%	-0.3%
2014Q1	-2.2%	1.8%	1.2%	-0.5%
2014Q2	-1.4%	-2.6%	-3.0%	-0.4%
2014Q3	-0.3%	1.4%	0.9%	-0.5%
2014Q4	-0.4%	-9.0%	-8.9%	0.1%
2015Q1	1.0%	-0.2%	-0.4%	-0.3%
2015Q2	1.0%	-1.2%	-1.1%	0.1%
2015Q3	1.4%	1.6%	1.4%	-0.2%
2015Q4	0.5%	-7.7%	-7.4%	0.3%
2016Q1	-0.8%	0.4%	-0.2%	-0.6%
2016Q2	-1.2%	1.3%	0.8%	-0.5%
2016Q3	-0.1%	4.9%	4.1%	-0.9%

Graph 23. Cyclically adjusted budget balance and the output gap, annual and quarterly results



3.5. DEBT LEVELS AND DEVELOPMENTS, ANALYSIS OF BELOW-THE-LINE OPERATIONS AND STOCK-FLOW ADJUSTMENTS

Kosovo has adopted very tight Constitutional and legal frameworks to prevent unsustainable debt policies. According to the Law on Public Debt, the Minister of Finance is the only authorized person to incur and negotiate the conditions of international debt on behalf of Kosovo. Under the Constitution, these agreements need to be ratified by a two-thirds majority in Parliament. A new regulation on issuing government debt has been approved and it requires that individual loans are negotiated by a team that consists of a member from the following departments: Debt Management Unit (DMU), Legal Department, Minister's cabinet, Fiscal Policies Department, Budget Department, and the respective Budget Organization.

The Public Debt Law allows the central and municipal authorities to contract debt and issue guarantees; this was approved by Parliament in 2010. The law was endorsed by the IMF and includes several provisions that ensure fiscal stability, including a ceiling on public debt (40 percent of GDP) as well as tight limitations on municipal borrowing. The Public Debt Law mandates regular

reporting to the Assembly (Article 15, Sections 2.4, 2.5, and 2.10, in particular) and the preparation of a State Debt Program, which includes the annual and medium term debt strategy to be submitted to Government for approval and to the Assembly for information. The debt management is in full compliance with these requirements. An amendment was added to the Law on Public Finance Management and Accountability (LPFMA) which limits the annual budget deficit to no more than 2 percent of forecasted GDP. Another amendment to the LPFMA was added in 2015 which allows the government to contract debt in excess of the 2 percent rule, given that the financing comes from international financial institutions and it is dedicated for capital projects.

The issuance of domestic government securities is authorized by the Law on Public Debt, and it is regulated by the regulation on Primary and Secondary Market for Government Securities. The DMU has initiated the amendment of said regulation in order to reflect the needs for trading in the secondary market. A regulation on issuing government debt and guarantees has been approved in 2013 and it sets the procedures for negotiating and contracting external debt as well as issuing domestic debt. The debt management is in full compliance with these requirements.

Table 14. Total Government Debt, in million euro (unless otherwise indicated)

Description	2012	2013	2014	2015	2016 Est.
International Debt	336.6	323.8	326.4	371.2	373.4
Domestic Debt	73.3	152.5	256.5	377.8	478.6
Total Government Debt	409.9	476.3	582.9	749.0	852.0
State Guarantees	0	0	10	10	20
Debt/GDP (<i>includes states guarantees</i>)	8.44%	9.10%	10.63%	12.98%	14.44%

Contingent liabilities

So far, two State Guarantees in the amount of 20 million Euro were issued. It is expected that another State Guarantee will be issued in 2017, which would bring the total amount of explicit guarantees to 40 million euros.

3.6. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS

There have been no major changes/updates pertaining to fiscal governance and budgetary frameworks which would differ substantially from what has been reported in last year's submission, namely:

Wage rule; Following the adoption of the deficit rule, the Law on Public Financial Management and Accountability was amended in 2015 to include a wage rule linking the public wage bill to the rate of nominal GDP in an attempt to account for productivity. Details regarding this rule are presented in last year's submission, or the law itself.

Investment clause; elaborated in more detail throughout this document as it is now included in the macro-fiscal framework and outlook for 2017-2019

Public Finance Management; a key development in this regard in 2016 is the amendments to the budget regarding re-allocations and transfers of amounts appropriated within sub-economic categories and sub-programs. This is now done on a much more specific categorization (5-digit budgetary codes), entailing a considerable change in reporting methodology both within the

Treasury as well as local and central budgetary organizations, all in the interest of better management of the budget and increased transparency.

3.7.SUSTAINABILITY OF PUBLIC FINANCES

Debt sustainability analysis

As a small open economy, Kosovo, has managed to experience positive economic growth mainly from consumption and investments, a budget which was largely financed from remittances and western donation. The government debt level remains the lowest in the region and also far below the maximum level allowed under the law on ‘Public Finance Management’. One of the main factors to contribute to such low debt level is its short history of debt issuance dated from 2012. Furthermore, in 2014, the government adopted the fiscal rule that limits the overall deficit at 2% of GDP, with the intention to stabilize the debt levels below the threshold allowed by the law (i.e. 40% of GDP). Given the low level of debt to GDP and the need to further upgrade country infrastructure, during 2015 ‘investment clause’ was introduced to allow the Government finance additional growth boosting projects mainly financed by IFIs. Therefore, DSA conducted in this section, examines two main scenarios, the baseline and the investment clause followed by further sensitivity analysis of debt subject to changes in the underlying macroeconomic indicators.

DSA is conducted using the tool developed by the macro unit within the Ministry of Finance, and several assumptions have been made on the baseline macroeconomic indicators as well as the debt indicators. The debt levels are examined using the risk indicators compiled by the World Bank-IMF for countries at the medium policy performer category²⁸, as follows:

- Net Present Value (NPV) of Debt to GDP – 40%
- NPV of debt to exports of goods and services – 150%
- NPV of debt to budget revenues – 250%
- NPV of debt servicing to exports of goods and services – 20%
- NPV of debt servicing to budget revenues – 30%

Assumptions on main macroeconomic indicators and debt are as follows:

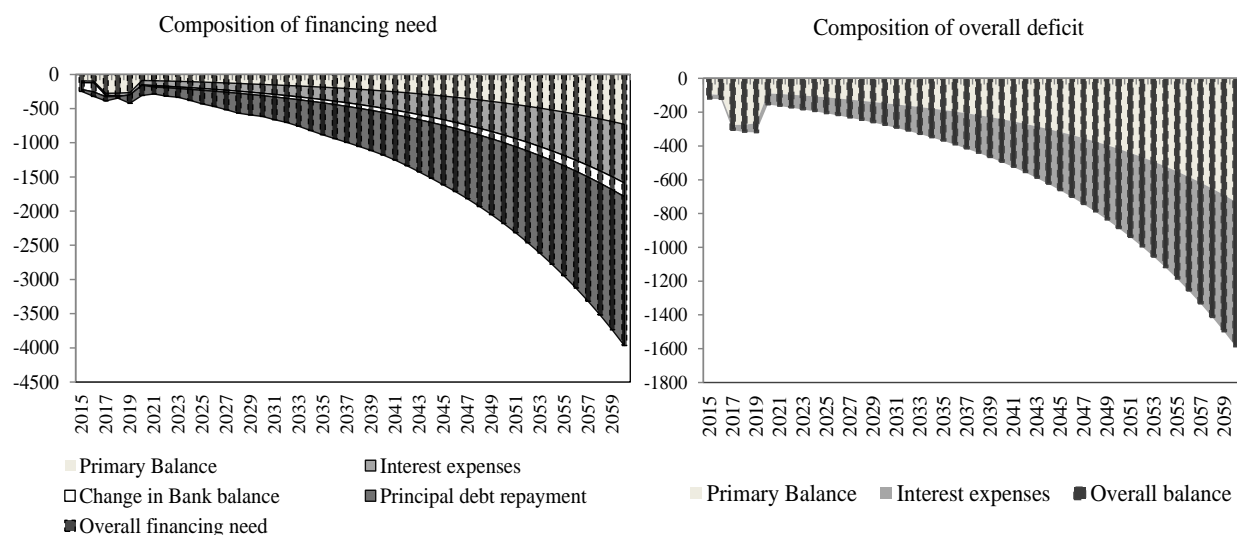
- Nominal GDP growth of 6.0%
- Exports share to GDP growth by 0.2 p.p.
- Interest rate on commercial loan 4.5%
- New concessional loan interest rate at 0.75%
- Commercial loan matures in 5 years
- Concessional loan matures in 10 years
- Bank balance to GDP at 4.5%
- Overall deficit to GDP at 2%

Graph 24. Illustrates changes in the composition of deficit and financing need over the forecast horizon under the baseline scenario. The share of interest expenditures relative to the share of primary deficit remains low in the early years. However, as the financing demand grows and the debt increases, interest expenditures will continue to capture an important fraction of the overall deficit. Also, the contribution of the deficit to the overall net financing need appears low relative to

²⁸ World Bank’s Country Policy and Institutional Assessment (CPIA)

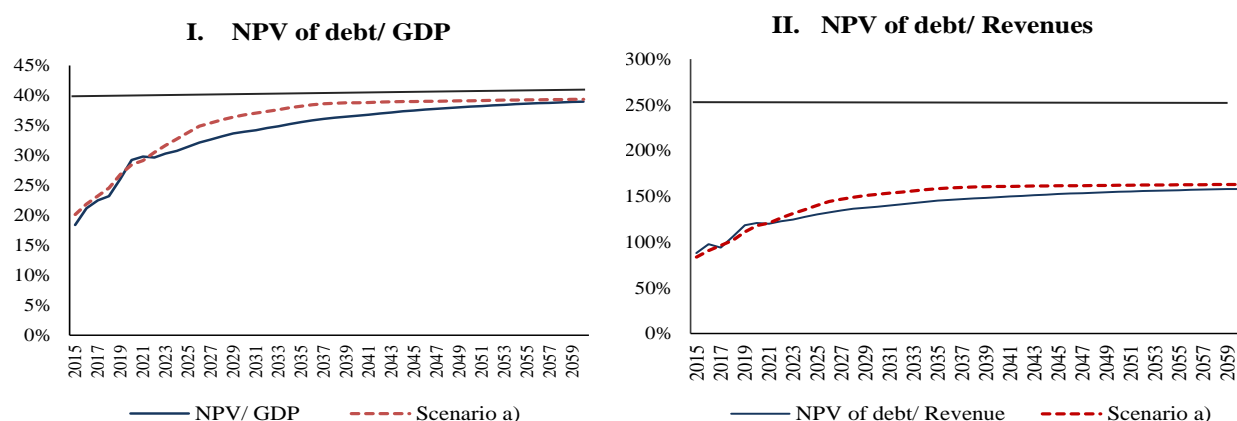
the contribution of debt servicing in total. Interest expense as well as debt stock are main factors in setting overall deficit.

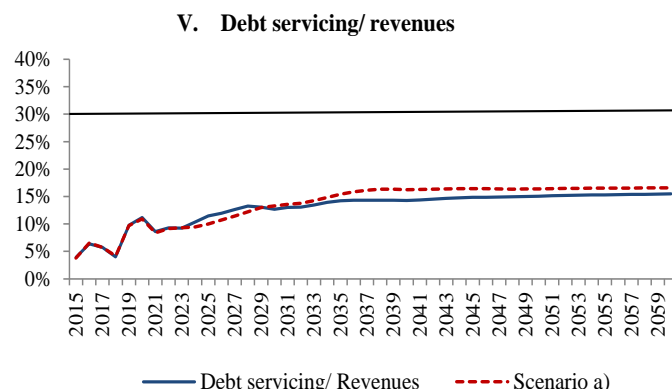
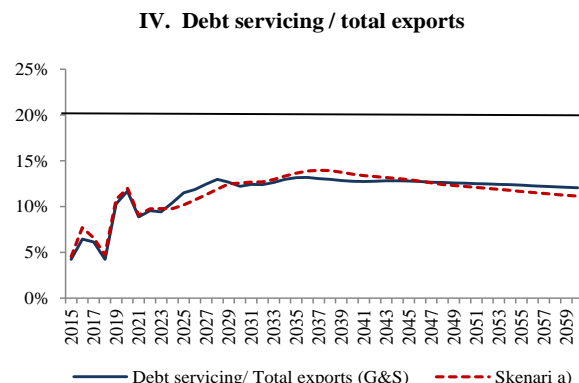
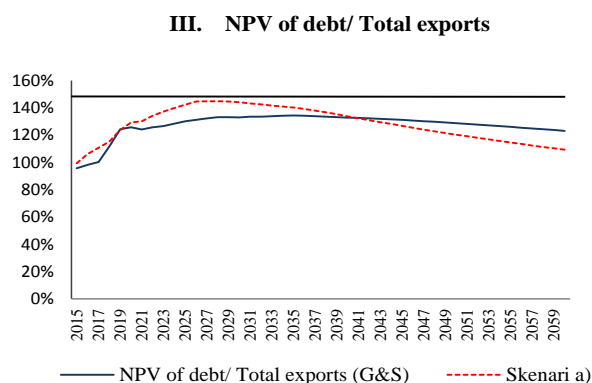
Graph 24. Composition of overall deficit and financing need



The baseline scenario suggests that the country would not experience debt distress at least throughout forecasted horizon. The two main indicators, liquidity and solvency, stand below the threshold (see graph 24), that indicates that the country is not expected to experience debt service distress. Under the baseline scenario, the debt to GDP ratio as well as debt to total exports stays under the thresholds of 40% throughout forecasted period. Moreover, the trend of debt to total export is expected to improve after a period of 10 years, amongst others, possibly reflecting results of improvements in doing business reforms.

Graph 25. Indicators of public debt under baseline and investment clause scenarios



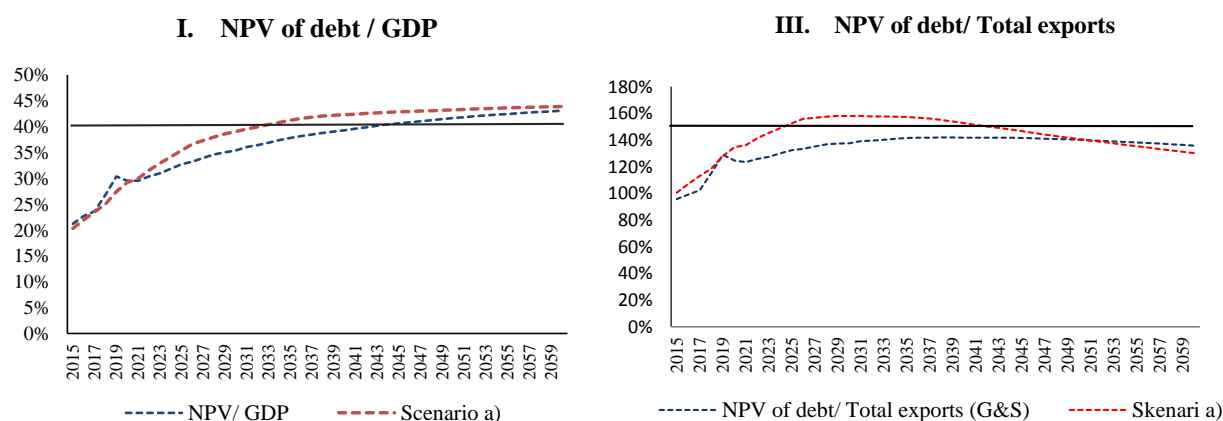


Source: MF, Macro Unit calculations

As depicted on the graph above, introduction of the investment clause shifts the debt level towards the threshold by increasing the risk of distress. Moreover, it is worth mention that GDP growth was set at an optimistic level reflecting growth potentials from additional investment. In order to have clearer picture of debt level movements, additional stress test exercise were introduced and are shown in the graph xx depicted below. The exercise includes changes to PV of debt and its impact on total exports.

Lowering nominal GDP growth by 1 p.p. compared to the baseline: This scenario is built on the assumption of the permanent 1 p.p. change in the nominal GDP growth. As specified above, the fall in GDP by only one p.p. increases the debt levels above the specified boundaries, suggesting that the threshold is breached in 2030 under the investment clause scenario, and 10 years later under the baseline scenario, showing that later on the trend of two scenarios converge. Furthermore, due to lower and concentrated base of exports under the alternative scenario ‘debt to total exports’ hits the threshold during 2024. It shall take about 10 years to return below the threshold reflecting impact of additional long term commercial borrowing.

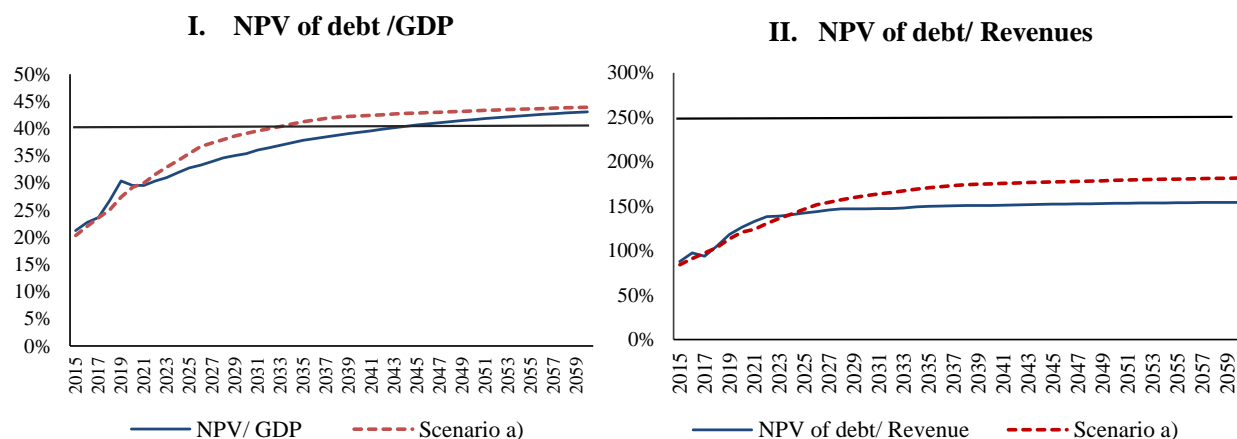
Graph 26. Scenario analysis: Decreasing the permanent GDP growth by 1 p.p.



Lowering the bank balance from 4.5% to 3% of GDP:

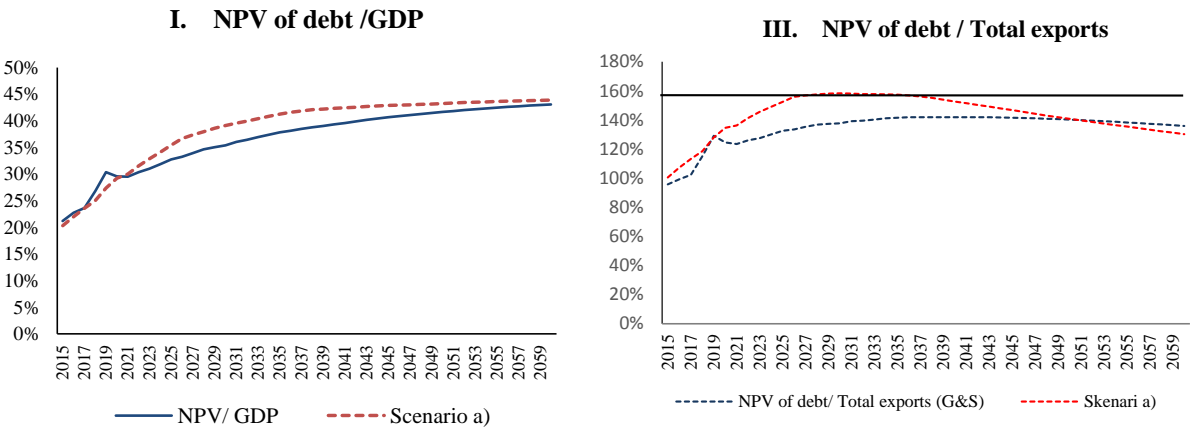
Considering that a significant amount of financing need stems from the necessity to retain adequate levels of bank balances, the analysis was conducted to see the movements in debt levels if the bank balance is reduced to 3% of GDP while retaining the nominal GDP growth at 5%. The graphs below, suggest that lowering the bank balance doesn't change the debt levels significantly, except that it slightly improves the PV of the debt to export indicator.

Graph 27. Scenario analysis: Reducing permanently the bank balance to 3.0% of GDP



Temporarily increasing the overall deficit to 5% of GDP: an exercise is considered where binding fiscal rule increases temporarily by 5% of GDP and slowly stabilizes in 2024. A change to overall deficit will permanently shift debt to GDP ratio above the threshold under any scenario. The exercise shows that any shock to overall deficit shall be compensated by higher and sustainable GDP growth.

Graph 28. Scenario analysis: Temporary increase in the overall deficit in 2020



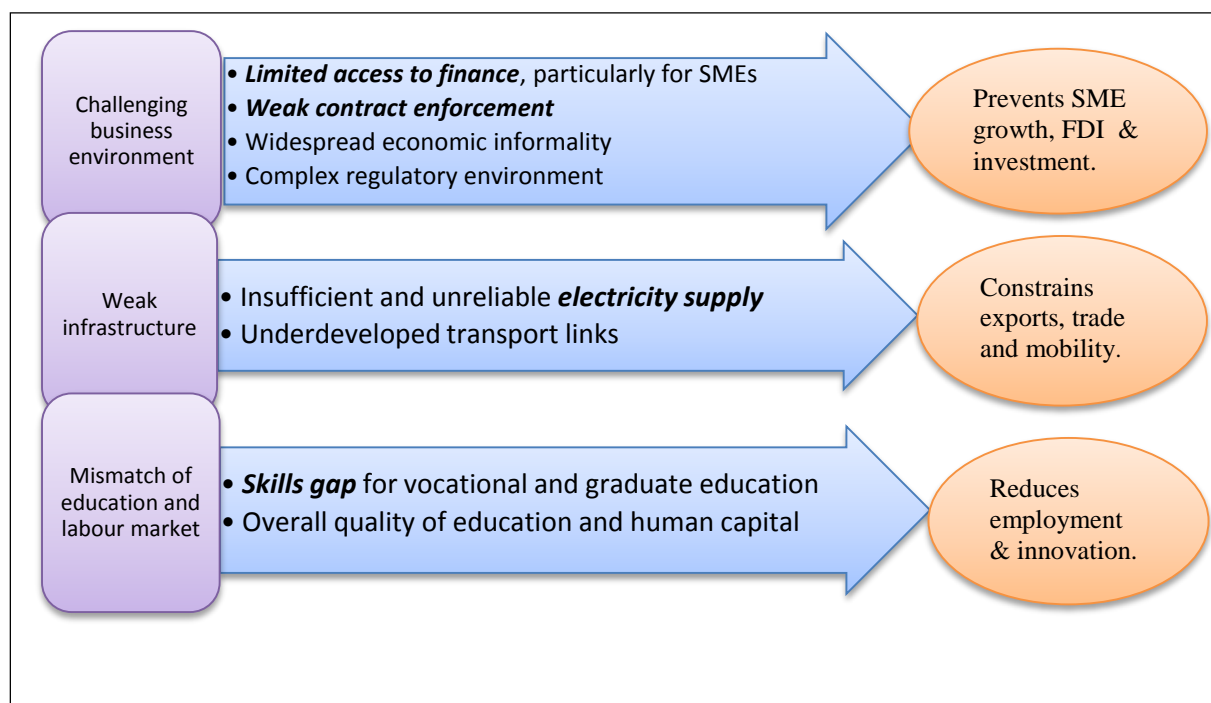
4. STRUCTURAL REFORM PRIORITIES FOR 2017-2019

4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

Over recent years, Kosovo recorded economic growth rates among the highest in the region, but the growth was based on a specific development model consisting of two pillars. The first pillar entails large remittances and FDI inflows from diaspora that boosted domestic demand through household consumption, while the core of the second pillar is a high level of public investments. The resulting economic structure is characterized by high levels of consumption and investment in non-productive sectors (mainly construction) and, on the other hand, one of the least diverse export baskets in the region, comprising almost solely of low value added goods. The combination of high consumption and low exports has resulted in very high trade deficits. Given the risks associated with such a development model, the main challenge for Kosovo is to establish conditions conducive to self-sustained growth based on increased domestic productivity and export competitiveness, and aimed at reducing high unemployment and poverty.

To support selection of priority measures for addressing this challenge, two growth diagnostics studies were conducted during preparation of Kosovo's ERPs and identified binding constraints to economic growth. This section reports on developments with respect to the identified growth constraints since last ERP submission.

Graph 29. Obstacles to growth in Kosovo*



* The **constraints in bold** are considered to be **binding**, while others are important and may become binding in future. The figure is based on the OECD growth diagnostics for Kosovo (2015) and a study prepared by the EU technical assistance for ERP (2014). The Millennium Challenge Corporation (MCC) compact development team prepared another growth constraint analysis in 2016 and their findings are also used in the text of this section.

Access to finance for SME: This obstacle was directly addressed by a credit guarantee scheme established in 2016 that will be expanded further through the Kosovo Fund for Credit Guarantee (measure #12). Recent data show that this obstacle was somewhat reduced. Nominal interest rates for commercial loans declined from over 10% in 2014 to around 7% in 2016 and, in the same period, the annual growth rate of loans to non-financial corporations grew from around 2% to 6%. These favourable developments led the recent MCC study to consider the obstacle as not binding anymore for medium and large companies. Nevertheless, with the banking sector remaining highly concentrated and thus recording high profit rates, it is not assured that current trends in interest rates will continue. The ERP measure #12, focused on SMEs, thus remains pertinent.

Weak contract enforcement. Introduction of a private bailiff system considerably improved enforcement of contracts, with Kosovo now ranking 44th in this Doing Business indicator (up from rank 138 in 2014). The time for resolving a claim shrunk from 420 to 330 days, but the cost of enforcement remains at a third of the claim's value. On the other hand, no improvement has been recorded in resolving insolvencies or in corruption perceptions among businesses. Weak contract enforcement, which also has a negative impact on access to finance, remains a binding constraint and is being addressed by reform measures aiming to strengthen the property rights system (measure #10) and increasing judicial efficiency (measure #11), the latter specifically focusing on the Economic Department and the Fiscal Division of the Prishtina Basic Court.

Growth diagnostic studies found the overall **business environment** to be challenging, stressing the issues of burdensome regulation, large informal economy (estimated at 39% of GDP), and coordination externalities constraining FDI and exports. Some progress in this area was noted by Kosovo's continued improvement in the overall Ease of Doing Business indicator (now ranking 60th compared to 75th two years ago), but the situation related to obtaining construction permits has not yet improved.

With the recent European Reform Agenda (ERA), the Government committed to reduce the costs of construction permits and fully implement the Strategy for the Fight Against Informal Economy, including the merger of tax and customs authorities (measure #13) and addressing informality in the immovable property sector (measure #10). Business environment will be further improved by introducing better regulation principles and evidence-based policymaking (measure #9), increasing cost-effectiveness of international trade transactions (measure #15) and electronic public procurement (measure #1). Development of industrial clusters (measure #7), quality infrastructure (measure #16), ICT infrastructure (measure #4) and improving innovation policies and capacities (measure #14) will help reduce the coordination failures.

Insufficient and unreliable electricity supply. The new power transmission line to Albania built in 2016 improved the reliability of energy supply and connected the country with regional electricity markets, but it will only become operational after Kosovo is admitted to the European Network of Transmission System Operators. Investing in new power generation capacity (measure #3) and improving energy efficiency (measure #2) remain among key priorities to be undertaken.

Compared to electricity supply, underdeveloped **transport links** are considered a less binding constraint at the moment. They are nevertheless important for facilitating trade flows and labour mobility and will be further improved by continued ongoing investments in road and railway infrastructure.

Skills gap between education and labour market needs. Based on evidence of higher employment rates among persons with tertiary and vocational secondary education and survey results, where

businesses cited inadequate skills as an important obstacle, both growth diagnostics studies concluded that skills gap is a binding or potentially binding constraint on growth. The skills gap may not only relate to the level of education, but also to specific competencies and skills that are lacking in the labour force, or to the *quality of education* in general.

As pointed out by the recent MCC growth diagnostics study, the demand side of the labour market is part of the problem. Although education does increase employment opportunities, unemployment rates are high also among the better educated. This means that the current economic structure, largely based on unsophisticated and lower value added products and services, is not able to create a sufficient number of high-skilled jobs. On the positive side, labour force surveys in the first two quarters of 2016 recorded a decline in unemployment rates of persons with tertiary and both vocational and general secondary education. To a large extent these improvements may be purely cyclical, following an increase in unemployment and emigration during the economic slowdown of 2014 and 2015.

The mismatch between the skills structure and labour market needs is addressed in ERP through improvement of public employment services and active labour market policy (measure #19), actions to improve the quality of education by modernising curricula, developing professional standards and improving the teacher career system (measures #17 and #18). Other ERP measures that are aimed at supporting innovations (measure #14) and competitiveness in general will contribute to higher demand for skilled labour force in the labour market.

4.2. SUMMARY OF REFORM PRIORITIES

The following section provides 20 priority structural reform measures identified for the Economic Reform Programme covering the period 2017-2019. Selected measures represent existing and new strategic priorities that Kosovo has identified as most important in order to address key obstacles to growth and competitiveness as outlined in the section 4.1. The measures presented here have been elaborated within a comprehensive policy dialogue across central and local government structures, private sector and civil society. In general, they derive from the Government Programme 2015-2018, the National Development Strategy 2016-2021, European Reform Agenda and relevant sector strategies of the country.

I. Public Financial Management
Measure #1: Improvement of public procurement through application of electronic procurement - Addresses development and promotes wider use of electronic public procurement by central and local authorities, through an adequate system of information and communication technology, in order to increase efficiency and transparency.
II. Energy markets, infrastructure and telecommunications
Measure #2: Reducing energy consumption through energy efficiency measures – Aims to contribute to achieve the energy saving target of 9% by 2018, through the implementation of EE measures and renewable energy sources in central and local levels of public buildings. The measure is related to Policy Guidance #5. ²⁹

²⁹ Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, 25 May 2016.

Measure #3: Further development of energy generation capacities - Main objective of the measure is to address the energy security through establishment of new generation capacities, rehabilitation of Kosovo B, and investments in renewable energy sources.

Measure #4: Extending relevant ICT network infrastructure for socio-economic development - The reform measure aims to extend the ICT broadband network infrastructure to 98% of households by 2021.

III. Sectorial developments – agriculture, industry and services

Measure #5: Investments in the agricultural infrastructure and agro-processing - Addresses the challenges related to agricultural infrastructure, diversification of products, coverage of the irrigation system, with a focus on supporting investment projects in priority sectors.

Measure #6: Regulation and consolidation of agricultural lands - By applying the regulation and projects for voluntary consolidation of agricultural land, the aim is to increase the average farm size, facilitate access to cadastral parcels, and rational use of agricultural land in general.

Measure #7: Support development of industrial clusters - This reform addresses SME development in Kosovo through development of industrial clusters in priority sectors of industrial policy.

Measure #8: Development of tourism products in Kosovo touristic regions - The purpose of this measure is to promote identification and development of local and regional tourism products with the aim of increasing economic value of tourism.

IV. Business environment and reduction of informal economy

Measure #9: An enabling regulatory system through evidence based policy development - The purpose of the measure is to simplify the legislation and the regulatory system, including the possibility to reduce administrative burdens for businesses.

Measure #10: Ensuring property rights by addressing informalities in the real-estate sector – the main objective is to strengthen the system of property rights on immovable property in order to ensure citizens' access to efficient and financially affordable administrative processes related to establishing and transferring property titles. By increasing security of property rights and enabling the use of property as collateral, this measure contributes to implementing Policy Guidance #3 by addressing the underlying causes for insufficient and costly access to finance.

Measure #11: Increase judicial efficiency through reduction of court case backlog - This measure aims to improve the judiciary's efficiency in dealing with economic issues by reducing the case backlog and improving the case management system. By improving contract enforcement through the legal system, this measure contributes to implementing Policy Guidance #3 by addressing the underlying causes for insufficient and costly access to finance.

Measure #12: Improving access to funding for SMEs through the Kosovo Credit Guarantee Fund (KCGF) - This measure attempts to expand credit guarantees and improve information on the credit history of individuals and businesses through further functionalizing of KCGF, which would allow for businesses to have better access to finance at lower interest rates. The measure directly contributes to implementing Policy Guidance #3.

Measure #13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency - The purpose of the measure is to address the informal economy by reducing

the "tax gap" through simplified and more effective revenue collection structures. The measure directly contributes to implementing Policy Guidance #4.

V. Research and Innovation

Measure #14: Improving the policy and strategic framework for research and innovation - aims to establish a policy framework, the legal basis and build internal capacities for research and innovation, as well as increase the level of participation by local scientific institutions into European and regional projects and programs.

VI. Foreign trade and facilitation of investment

Measure #15: Increasing cost-efficiency of international commercial transactions - Aims to increase cost effectiveness of international trade transactions by simplifying and standardizing all border formalities and procedures, with a view of harmonizing practices in accordance with multilateral agreements.

Measure #16: Improvement of Quality Infrastructure - addresses the modernization of quality infrastructure for businesses, such as standardization, metrology, accreditation and conformity assessment bodies.

VII. Education and skills

Measure #17: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula - This measure aims to harmonize educational programs with labour market demands by developing skills, occupational standards, reviewing existing curricula and developing a new curricula based on priority areas, and teacher training.

Measure #18: Implementing and improving the teachers' career system - The objective of this measure is to implement a system for professional development and evaluation of teachers' performance via the licensing scheme for teachers' career advancement, and implementation of the strategic framework for teacher development.

VIII. Labour market and employment

Measure #19: Improvement of employment services through functionalising the Employment Agency and active labour market measures - The measure focuses on the reform and modernization of the Public Employment Service through the functionalization of the Employment Agency and its capacities as well as by planning, implementing and effectively monitoring the active labour market measures.

XI. Social inclusion, reduction of poverty and equal opportunities

Measure #20: Improvement of social and healthcare services - Aims to strengthen the social protection system and healthcare services through the establishment of a sustainable system for funding social services and establishing a health insurance fund.

4.3. ANALYSIS BY AREA AND THE STRUCTURAL REFORM PRIORITIES

4.3.1 PUBLIC FINANCIAL MANAGEMENT (PFM)

a. Analysis of main obstacles

State of play: Although PFM is not identified as a major obstacle to economic growth and the most recent PEFA report (2016) has noted significant progress, external assessments (PEFA -2016 and SIGMA/OECD) have pointed out the need for further improvements in the field of PFM for increasing the government's possibility to budget the policy priorities, and ensure transparency and efficiency of budgetary allocations.

Public procurement in Kosovo comprises a wide range of public expenditures. Only in 2015, around 10,895 contracts were awarded, and this amounted to EUR 401 million (about 7, 5% of GDP). Out of these contracts, 76% have been granted through open procedures, marking a 3% increase compared to 2014. The high-value contracts represent about 57% of all contracts, whereby the average number of total tenders has decreased from 6.1 in 2014 to 5.8 in 2015³⁰. Given that the public procurement system is facing numerous problems, recent reforms have addressed some fundamental shortcomings with the aim of increasing transparency and ensuring competitiveness.

Reforms on implementation of electronic procurement and promotion of centralized procurement have already commenced, however further efforts are required in these fields. European Commission Report on Kosovo for 2016 concludes that continuous efforts must be taken in order to improve transparency in all stages of public procurement, particularly by systematically monitoring the implementation of public procurement tenders through strengthening the system and ensuring the proper functioning of e-procurement.

Structural obstacles: Public procurement is an area which is particularly vulnerable to corruption, given the government's high expenditures and the relatively small private sector, followed by the low level of transparency and accountability. Particularly, the lack of transparency at all levels of public procurement, and the lack of a systematic monitoring of tenders and a proper compensation system, remain the most emphasised challenges. Moreover, it is considered that there is a lack of capacity among responsible public procurement bodies, which disables efficiency and transparency, and a non-functional remedy systems.

Impact of structural obstacles: Lack of transparency and application of advanced public procurement procedures increases the misuses and causes for exclusion of small businesses from competition for public contracts. Money lost because of subversion of the public procurement process represents waste of public funds. The resulting loss to public infrastructure and services, whether in quality or range, typically has the heaviest detrimental impact on the most disadvantaged in society, who rely on public provision to the greatest extent. Collusion in public procurement may diminish public confidence in the competitive process, and undermine the benefits of a competitive marketplace. Moreover, distortion of the public procurement process is detrimental for democracy and for sound public governance, and it inhibits investment and economic development.³¹

³⁰ European Commission's Report on Kosovo for 2016.

³¹ <https://www.oecd.org/daf/competition/sectors/48315205.pdf>

b. Priority reform plans

Reform measure #1: Improvement of public procurement through application of electronic procurement

Description of the measure: In continuity of reforms from ERP 2016, the main focus of the measure is to increase efficiency and transparency of public procurement procedures, ensure the best use of public funds, reduce procedural costs and encourage economic operators to participate in public procurement procedures. Pursuant to the decision of the Government, since 1st September 2016, the application of e-tendering module for central authorities has commenced. Also, in 2016 a number of operational manuals were developed, and several trainings were held for procurement officials in both levels of government (central and local). This measure is in line with the NDS and the PFM Reform Strategy 2016-2020, namely Pillar 3 "Operational Efficiency", Priority 7 "Public Procurement".

Activities per year: 2017: 1) Effective implementation of e-procurement legislation and relevant operational guidelines; 2) Launching and implementation of the remaining modules (e-contracting), and expanding application of mandatory procurement in all budgetary organizations; 3) Increasing administrative capacities - recruitment of six officials in the Public Procurement Regulatory Commission (PPRC) - and delivering basic training to procurement officials, including training of trainers. **2018:** 1) Assessment of electronic procurement system application; 2) Provision of advanced e-procurement trainings by PPRC for ensuring effective implementation of legislation and operational guidelines; 3) Monitoring of procurement activities, reports, contract award notices and contract management processes in 30 contracting authorities. **2019:** 1) Compulsory implementation of e-procurement in all budgetary organizations will continue; and 2) System maintenance and monitoring of public procurement activities.

Costing and budgetary impact: Implementation cost for the three years period (2017-2019) as estimated by the PFM Reform Strategy is almost €1 mil, namely €430,052 for 2017, €431,583 for 2018 and 434,669 for 2019. This includes costs for establishment and maintenance of the system and training. Initial capacity building activities are covered through the existing World Bank Project, but there will be costs associated with the future training activities. The corresponding amounts of costs are budgeted in the 2017 Budget. The current Budget 2017 doesn't include the cost for implementation of the activity: maintenance of supplies of e-procurement system (2018); however, this activity is expected to be covered with the Budget 2018.

Expected impact on competitiveness: Increased transparency in public procurement process, increased contracting authorities accountability, increased professional independence of procurement officials and improved control of corruption, all these will enable a larger number of companies, including SMEs and foreign bidders, to compete for public contracts on an equal basis.

Expected impact on social outcomes: Impact on social outcomes will be indirect. Easier access of SMEs to procurement contracts may lead to increased employment in SMEs. Increased cost-efficiency of procurement will increase the amount and quality of goods and services that are provided to citizen through public procurement contracts.

Potential risks: The main risk is related to the need for further support at political and expert level in order to continue with implementation of public procurement reforms, including the introduction of electronic procurement practices. Last but not least, another risk related to these reforms is the

need to establish a reliable system of information technology that will enable the performance of procurement procedures.

4.3.2 ENERGY, TRANSPORT AND TELECOMMUNICATIONS MARKET

a. Analysis of the main obstacles

State of play: Despite improvements, *the unstable supply with electricity continues to be present in Kosovo*. High losses in the distribution network and a low level of energy efficiency still aggravate the security of electricity supply. Average duration of unplanned interruptions in the distribution network of electricity in 2015 was 81.74 hours per customer per year, while the quality standard is 30 hours per customer per year. Local electricity production capacities cover around 90% of demand, while 10% is covered by imports. Production of electricity from RES accounts for only 3%. Prices of electricity in the household sector in 2015 were 61 Eurocent/kWh, while in the industrial sector 81 Eurocent/KWh.

Production capacities of TPP Kosova A are outdated and should be replaced, while TPP Kosovo B has entered the fourth decade of its operation and should be rehabilitated. The electricity distribution network is very old. Due to significant investments in electricity transmission, the situation in this system is very good and the capacities are sufficient to meet the system's needs. Heating is done mostly with firewood. The heating from the District Heating covers only 3-5% of the amount needed to cover all premises. Also, electricity is significantly used for heating premises (estimated about 800GWh).

Kosovo has a relatively high-energy intensity of 0.509 that is more than four times as high as the EU-27 average of 0.11 and the OECD average of 0.14; in the Balkans region, energy intensities range from 0.20 (Albania) to 0.57 (Serbia). The residential sector represents the largest portion of energy consumption at 39% (499 ktce). Industry and transport make up 27 (337 ktce) and 23% (291 ktce) respectively and services consume 9% (115 ktce). The remaining 2% (21 ktce) of consumption comes from the agricultural sector.³²

Regarding transportation, Kosovo's geographical position underlines the importance of developing an efficient road network, and fully integrating it with neighbouring countries and the region. Roads represent more than 90% of the transport infrastructure in length, and 98% in terms of providing services (WB, PFR, 2014). Kosovo has a "high density of road transport", but when measured as "average length of road for thousands of people", Kosovo's road density is at an average level (WB, PFR, 2014).

In the railway sector, SEETO has defined the main railway corridors for SEE, and Kosovo is part of these corridors with railway route 10 (Leshak-Hani i Elezit) which belongs to the comprehensive network of SEETO and connects Kosovo with Serbia and Macedonia. Kosovo railways extend throughout Kosovo, with a length of 335km of open railway line, 105km with stations and 103km of industrial lines, but most railways lines need upgrading to allow better transport services. Kosovo has the Law on Railway which is in line with EU legislation and enables opening the market for providing transport services for passengers and goods.

Regarding air transport, Kosovo has no special law on transportation of goods, but this type of transportation is provided along with the transport of passengers. As for transportation of goods in

³² <http://documents.worldbank.org/curated/en/437581468265751164/pdf/PAD7540PAD0P14010Box385222B00OUO090.pdf>

2015, based on Cargo statistics, 1,017,132 kg of goods were transported. The development of air transport takes place under the agreement for joint use of European space. Kosovo has yet no domestic airlines. The legislation that regulates the field of air transport is harmonized with EU legislation; therefore, the legislation enables competition and market liberalization without obstacles.

Regarding telecommunications, landline telecommunications networks are widespread in urban areas. Landline telephony penetration per capita has fallen below 4%. Mobile phone penetration has now reached 97% of the population. Broadband internet penetration (landline access) at the national level is 13%, while 75% of households have landline internet access; penetration of mobile broadband internet (with 3G and 4G) is 61%.

Structural obstacles: Unreliable supply with electricity is a result of: (i) insufficient and outdated energy generation capacities; (ii) outdated and limited capacity of electricity distribution network; (iii) low diversity of energy sources which aggravates the burden on electricity to meet the needs for space heating and other needs; (iv) inefficient use of electricity and lack of incentives for efficient electricity use by businesses and households; (v) non-functioning of open energy market and tariff subsidies that are the detriment to the business sector, although not to the extent of the previous years.

In **transport**, the main obstacles are: (i) insufficient capacity of most roads on the main trading and commuting routes; (ii) inadequate maintenance of existing roads; (iii) poor status of railway lines; (iv) lack of railway rolling stock; (v) lack of operational railway in the north between Kosovo and Serbia, due to political barriers.

The main obstacle for development of **telecommunication markets** is an unbalanced distribution of ICT infrastructure. The rural areas, many cities' neighbourhoods, schools, libraries, healthcare and other institutions and government agencies suffer from lack of access to broadband infrastructure and it is not expected that this gap will be covered by private investment. "According to government estimates, 43% of rural households are currently unconnected to the broadband and one-third of these households - without an all-inclusive intervention— are unlikely to be connected to the network anytime soon".³³

Impact of structural obstacles: Unstable **energy supply** creates constant uncertainty among businesses, increases costs and negatively affects competitiveness. Reliability of electricity supply is a significant factor in the decision-making process, whether for establishing new businesses or investing in expansion of existing ones. The price of electricity is another important factor affecting competitiveness. Currently, the prices of electricity in the industry sector of Kosovo are higher compared to most countries in the region. Unreliable electricity supply, inefficient use of electricity and the lack of distance heating networks reduce wellbeing of the population and increase costs.

In the area of **transport**, inadequate road network increases transport and travel times and costs, thus reducing trade flows and mobility of labour force with negative effect on employment. Inadequate international railway lines reduce the level of passengers and goods transport and have a negative impact on development of competition in railway transport. Lack of railway network has caused an overload of the road network, using it for transport of goods.

³³ <http://www.worldbank.org/en/news/press-release/2015/02/25/world-bank-supports-kosovo-in-extending-internet-in-rural-areas>

Lack of broadband internet infrastructure impacts negatively on productivity and global competitiveness of companies in Kosovo and reduces the options for self-employment, distance working, e-learning and e-commerce.

b. Report on policy guidance implementation since May 2016

Increase energy security by reinforcing the planned energy efficiency measures to include incentives for the private sector and households and by adopting a plan for the gradual adjustment of energy tariffs to reflect actual costs.³⁴

For the purpose of implementing policy guidance, the Government continued implementation of policies towards achieving energy saving targets of 9%, which corresponds to the reduction of consumption in the amount of approximately 92 ktoe by 2018. Also, government policies include transposing the new EE directive, which will be incorporated into respective legislation through review and adoption of the new law on EE, development of relevant financial mechanisms, such as the EE fund, and institutional development and capacity building in this field.

ERO has designed the tariff structure with incentives for customers who save energy, whereby the categories of domestic customers and consumers through block tariffs, and costumers who consume electricity during off-peak loads save energy and pay bills with lower cost of electricity. So, the costumers get charged with low prices when the system is not congested and considerably higher prices when the electricity power system is congested and there is a lack of producing capacities in Kosovo, reflecting the fact that marginal costs of supply are significantly higher at the peak time, which is aggravated further by very high prices of import. This tariff structure has been set to better match the consumption needs with the offer of energy production in Kosovo.

c. Plans for priority reforms

Reform measure #2: Reduce energy consumption through energy efficiency measures

Description of the measure: As a continuation of the ERP 2016-2018, the aim of the measure is to implement energy efficiency measures in the public sector in order to contribute to reducing energy consumption and achieving the goals of energy saving of 9% by 2018, based on the Energy Efficiency Action Plan 2010-2018. To implement this measure, the tender is open for implementation of EE measures in buildings of the central level funded by WB loan for 19 buildings, for which reason, two companies were selected for project implementation. The energy efficiency measure is in line with the broader strategic context of Kosovo, including the NDS and the draft of the Energy Sector Strategy.

Activities per year - 2017: 1) Implementation of EE measures in 5 buildings – funded by Kosovo budget; 2) Implementation of EE and renewable energy measures in 20 central and local public buildings – funded through WB project; 3) Implementation of EE measures in 15 local public buildings – funded through German Government and EU funds. **2018:** 1) Implementation of EE measures in 5 buildings – funded by Kosovo budget; 2) Implementation of EE and renewable energy measures in 15 central and local public buildings – funded through WB project; 3) Implementation of EE measures in 15 local public buildings – funded through German Government (KfW) and EU funds. **2019:** Implementation of EE and renewable energy measures in 15 central and local public buildings – funded through WB project.

³⁴Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey: <http://www.consilium.europa.eu/en/press/press-releases/2016/05/25-conclusions-dialogue-eu-western-balkans-turkey/>

Costing and budgetary impact: Improvement of energy efficiency for the period 2017-2019 is expected to cost around €21 million during the period 2017-2019. This cost is included in the budget of 2017 for all the activities presented within this measure. This budget includes €2.87 million from the budget of Kosovo (+1 million from PAK) in the category of capital expenditures for Kosovo Agency for Energy Efficiency, the borrowing from the World Bank 2017-2019 (€ 3.65 million, € 5.4 million, € 6.083 million) and borrowing for the municipality of Prishtina, Gjilan, Ferizaj and Gjakova from Government of Germany (€ 1.150 million, € 1.150 million). On the other hand, estimates show that the Government of Kosovo (GoK) spends about EUR 41 million per year on energy for its buildings and could save up to EUR 18.85 million per year through EE cost-effective measures.

Expected impact on competitiveness: Implementation of energy efficiency measure will contribute to reducing domestic consumption. The reduction of energy consumption will help address issues related to energy security (reducing current deficits and imports) and to reducing public expenditure on electricity. The expected savings from EE measures in government institutions are estimated to be 8.35 ktoe per year according to the level of 50% savings from EE measures from the total energy consumption of 16.7 ktoe.

Expected impact on social outcomes: By investing and promoting EE in public facilities, a wide segment of the economically disadvantaged population will benefit. The economically poorer members of the population that cannot afford private facilities, especially in education and health, rely heavily on these public services and buildings. By investing in energy saving measures, the public facilities will be able to reduce their operating costs and improve service and comfort levels, without any economic burden being transferred upon the beneficiary.

Potential risks: The main risks for the measure are potential delays in tendering and in execution of investments.

Reform measure #3: Further development of energy generation capacities

Description of the measure: In order to ensure stable supply of electricity, building of new capacities for electricity generation remains a priority of Kosovo's economic reforms. This measure is in line with strategic priorities expressed through the NDS³⁵ and the draft Energy Strategy which included a comprehensive review process with internal and external stakeholders. As per implementation of the measure during 2016 the following actions were undertaken: regarding the TPP "Kosova e Re" (TPP KR), the necessary agreements such as commercial and financial agreements, as well as agreement with operators etc., were prepared; regarding the rehabilitation of TPP Kosovo B, the work was contracted and realization of the feasibility study commenced; also at the same time activities related to RES were implemented and four small hydropower plants (SHP) with a total capacity of 26.93 MW entered into operation, as well as two new photovoltaic plants with total capacity of 0.6 MW.

Activities per year – 2017: 1) Complete arrangements for the construction of TPP Kosova e Re; 2) Finalise feasibility study for rehabilitation of TPP Kosovo B; 3) Two new hydropower plants with a capacity of 8.5 MW and 4) Three solar power plants with a total capacity of 9 MW. **2018:** 1) Commence construction of TPP Kosova e Re; 2) Select funding modalities for rehabilitation of TPP

³⁵ NDS Measure 2: Further development of power generation capacities, accompanied by measures to open the energy market and increase the efficiency of energy use, and is precisely aimed at enhancing the security of stable, uninterrupted, qualitative and more cost efficient supply.

Kosova B; 3) Four new projects with generation capacity of 18 MW of electricity from SHP. **2019:** 1) Continue construction of TPP Kosova e Re; 2) Fourteen new projects of SHP with total capacity of 61.8 MW and 3) Two new projects of wind energy with a total capacity of 66.29 MW.

Costing and budgetary impact: The total cost of building the TPP KR is foreseen to be €1,000 million. Whereas, during the period 2017-2019, €400 million are expected to be invested. This project will be developed by the private sector. Throughout these three years (2017-2019) the budget expenditures will be €3.6 million for consulting services. This value is budgeted within the budget for Administrative Services Program, namely under MED for consulting services, in the category of Goods and Services. There is still no estimate of the cost of rehabilitation of TPP Kosovo B, but it is expected to be over €300 million. The projects for building RES power plants are expected to have a total cost of €250 million for the period of 3 years, which are expected to be realized by private investors.

Expected impact on competitiveness: Uninterrupted, high-quality, reliable and affordable supply of electricity is a prerequisite for sustainable business development. From the studies conducted by USAID in 2012 on the effect of unreliable electricity supply for businesses, it turned out that the annual losses of businesses as a result of unreliable supply of electricity were €260 million per year and therefore there was a loss in competitiveness.

Expected impact on social issues: Although there is no special study on the social impact of the project for building TPP KR, it is expected that this project will affect employment growth during the entire 5 year period (2018-2022) of construction. Project TPP KR is expected to have an effect in the amount of €200 million per year to the GDP (or 3% of added value of GDP only by this project). Also the development of power plants projects from RES will have an effect on employment growth and will increase annual investment by €70 million. Replacing Kosovo A and rehabilitating Kosovo B will reduce emissions; for instance 95% of annual dust emissions from about 20,000 tons to 6-700 tons.³⁶

Potential risks: A potential risk can be considered the delaying of the construction processes of TPP KR and rehabilitation of TPP Kosova B. The consequences of this risk can be mitigated by importing electricity.

Reform measure #4: Extending relevant ICT network infrastructure for socio-economic development

Description of the measure: As a continuation of ERP 2016-2018, this measure is aimed to enhance access and use of ICT through the extension of broadband infrastructure and supporting digital businesses to fully participate and maximize the benefits of digital economy in a global market. Based on NDS, Digital Agenda for Kosovo 2013-2020³⁷ and Strategy on IT³⁸, through this measure it is aimed to achieve the coverage (penetration) with broadband infrastructure to the extent of 98% households.

Activities per year - 2017: 1) Implementation of the pilot project for the extension of broadband infrastructure that will include a rural area (some villages); 2) Completion of the loan agreement with WB which will cover investments during the upcoming three years; 3) Adapting and functionalizing the digital technology park for the needs of ICT businesses. **2018 & 2019:** 1) the

³⁶ http://siteresources.worldbank.org/KOSOVOEXTN/Resources/297769-1329940905064/kosovo_slideshow.pdf

³⁷ [Digital Agenda for Kosovo 2013-2020](#)

³⁸ [Kosovo IT Strategy](#)

Expansion of high-speed broadband infrastructure will continue in uncovered areas with a focus on rural areas and including all schools, libraries, health institutions that are in that area.

Costing and budgetary impact: Activities related to the 2017 are budgeted through the Budget of 2017. This cost of €2.0 million is included within the Department of the Post, Telecommunications and Information Technology (MED), in the category of capital expenditures. Whereas the activities planned for the years 2018-2019, such as extension of broadband infrastructure, are planned to be financed by the World Bank loan in the amount of €9.0 million for the years 2018-2019. This loan is expected to be negotiated during 2017 and shall begin the implementation from 2018.

Expected impact on competitiveness: Creating suitable conditions through expansion of relevant network infrastructure and provision of broadband services will enable delivery of information with lower cost, improvement of access to international markets, development of new business models by allowing people and companies to work regardless of location and with flexible schedule, and generally speeding up procedures and processes by increasing economic dynamism and improving competitiveness. A study by the World Bank³⁹ concludes that a 10% penetration growth of fixed broadband is followed by GDP growth of 1.21% in developed economies and 1.38% in developing economies.

Expected impact on social outcomes: According to some surveys⁴⁰ broadband infrastructure is considered as the main facilitator of flexible work in more than three-quarters of businesses, citing as a reason the speed and flexibility enabled by broadband infrastructure. It is also estimated that broadband enabled a third of small companies and almost half of self-employed entrepreneurs to create a better work-life balance by spending a great deal of their own work schedule away from the office.

Potential risks: A potential risks for the implementation may come from potential delays in securing the funding, i.e. in the process of ratification by the Assembly of Republic of Kosovo of the intended loan agreement from the World Bank.

4.3.3. SECTORIAL DEVELOPMENTS – AGRICULTURE, INDUSTRY AND SERVICES

a. Analysis of main obstacles

State of play: Agriculture sector plays an important role in economic development and employment. Participation of agriculture sector in GDP during 2015 is estimated to be around 12%.⁴¹ Currently around 26.7% of the total number of employees are estimated to be in agriculture and the agricultural products constitute around 12% of total export value. Despite investments in the agriculture sector, Kosovo is still facing negative trade deficit of agriculture products. Imports of agricultural products remain relatively high, accounting for about 10% of all imports. Out of this amount, 30% consists of food and food products. Kosovo is one of the largest importers of food per capita in Europe.

Inadequate situation in primary production is directly reflected in the agro-food industry, and as a result the agro-food industry is quite fragmented. Within the processing industry, food-product processing constitutes the largest part of financial turnover (50%), whereas the processing of beverages participates with 25%. Besides processing industry, other important business activities

³⁹ [Exploring the Relationship Between Broadband and Economic Growth](#)

⁴⁰ <http://businessclub.bt.com/stateofthenation.pdf>

⁴¹ KSA, GDP by activities

are also the crop and animal production, hunting and related services with a turnover of 15%, production of wood, wood products and cork participates with 9% and fishing with aquaculture with 1%.

Kosovo industry continues to face low level of competitiveness due to internal and external factors. The relative size of the industry (mining and manufacturing), measured through its added value in GDP, in the period 2010-2015 was about 13%. Participation of industry in GDP is comparable to some of the regional countries, but taking into account the development needs, including the need to create jobs, this can be considered low.

Recent data indicate that the sector with the largest number of employees and enterprises and the highest turnover in 2015, but also during the previous years, remains the food products industry followed by the production of mineral non-metallic products sector. In 2015, Kosovo's economy recorded a negative trade balance of -2109 of GDP, whereas the foreign direct investment oriented in industry sector reached the highest amount in the last four years. Unlike the previous year, when there was a reduction of FDI in the amount of €34 million, in 2015 the industry sector absorbed €20.7 million of FDI.

Over the recent years **development of the services sector** had a significant impact on the economy of Kosovo, mainly by closing the huge gap from the low level of exports of goods, and contributed to the reduction of other structural problems in the economy, especially unemployment. In the last decade, export of services was much higher than imports and in some years the difference was twice the value of the imports. In 2015, the trade balance of services amounted to €354.4 million, an annual increase of 5.5%, which was the result of faster growth of exports of services compared to imported services. Three major contributors to the export of services in 2015 were the sector of travelling and tourism with over €564 million, communications and ICT with around €60 million and other business services with €45 million.

Revenues from international travel in 2015 rose to €564 mil from €504 in 2014, contributing around 65% of total exports of services and around 20% of total exports of goods and services of Kosovo, which is a significant percentage when compared with some countries with developed tourism. Tourism has a positive effect on the balance of payments of Kosovo. Net income from travelling is estimated to have reached around €370 million in 2016 and covered approximately 18% of the country's trade deficit. It is estimated that growth in tourism business activity during the past two years was about 25%, but expectations for growth in the upcoming years are even higher than 40%.

Structural obstacles: As a key sector of Kosovo economy, **agriculture is full with systemic and structural challenges** that will need to be addressed so that it can be used its competitive potential and growth. The small size of farms and fragmentation of agricultural land is a very important limiting factor that prevents using "economies of scale" and leads to uncompetitive farms, where the majority of farms belong to subsistence farmers.

Outdated farm technologies and lack of knowledge/modern agricultural skills among farmers and agro-processors is another structural obstacle. Outdated agricultural vehicles and equipment on one hand and small parcels that make up the most productive cultivation areas on the other are causing significant yield losses in plant production.

Lack of investment in irrigation system constitutes another structural obstacle, whereby less than 12% of the total area of agricultural land in 2015, which was 410,478.57 hectares, had irrigation system and irrigation possibilities. The main reason why there is no efficient agricultural production

in Kosovo and the main stumbling block in increasing the competitiveness of the agricultural sector is the lack of diversification of agricultural products in general.

Regarding food security, small opportunities for investment in the food industry in order to reach international standards of quality, as well as for quality and safety of food products, represent restrictions on the competitiveness of local products in the local market but also in the region and beyond.

Similar to other sectors of the economy, **the structure of enterprises in the industrial sector in Kosovo** is dominated by SMEs. Among important problems that limit the contribution and multiplier effect of the industry in economic development of the country are still high imports, low level of FDI and weak linkages between production sectors. Obstacles to development of the industrial sector are associated with obstacles to development of industrial clusters. Particularly they include weak cooperation between companies and weak coordination through industry associations which do not perform well, as well as the poor educational and research institutions that would have supplied the SME sector with relevant business knowledge.

A related obstacle is the lack of competitive edges (due to the lack of qualified labour or lack of innovations) for integration of local groups in regional or global value chains. Additionally, the lack of certification of products and production processes hampers efforts for integration of local groups in the SME sector in general.

Despite positive developments in the recent years, **available tourism products and services are still limited**. There is very few printed or electronic information about tourist sites, attractions as well as available products and services. There are very few tourist offers with mountain and rural tourism products, or cross border tourism. There is lack of development in communities and by tour operators of potential tourism products in rural and mountainous areas which could be offered for sale.

Until now, the tourism sector was not treated as a priority sector and most of the activities were supported by donors and there was no proper institutional coordination of these activities. Given the natural and cultural resources, the main pillars of the tourism product are the cultural tourism; mountain and alpine tourism; rural tourism, ecological and alternative, active tourism; cross-border travel; meetings and conferences.

Impact of structural obstacles: As a result of constraining factors mentioned above **agricultural production has an underdeveloped primary production** – non consistent production, difficulties in permanent supply of the market, lack of processing of raw materials, lack of application and enforcement of quality and safety standards by the food value chain actors, and lack of vertical and horizontal coordination in the food value chain.

As a result of the enterprise structure and obstacles for cooperation and participation in regional values chains, **industrial production** is dominated by low value added product, lacks innovation and remains uncompetitive in export markets and also in the domestic markets compared to better quality imported product.

Similarly, due to the lack of attention to tourism and development of attractive tourism products, the current level of development of the **tourism sector** is far from its potential. Opportunities for revenues and employment/new jobs thus remain unexploited.

b. Priority reforms plans

Reform measure # 5: Investment in agricultural infrastructure and agro-processing

Description of the measure: As a continuation of the measure introduced in ERP 2016-2018, this measure aims to address identified obstacles related to agricultural infrastructure, diversification of products, and irrigation system coverage. The measure is in line with the Kosovo's strategic framework, respectively the NDS and ARDP 2014-2020. In particular, measure is focused on supporting the investment projects in priority sectors set out in ARDP 2014-2020 which aims to increase productivity through boosting competitiveness and technical progress, ensuring quality of agricultural products and increasing farm efficiency.

Activities per year: Investments in physical infrastructure - adding new production areas in horticulture sector (vegetable areas in greenhouses and open fields, orchards, vineyards, nurseries) and increasing production capacity in livestock and poultry. In this regard, the financial support will continue with expansion of production capacities for over 450 farms each year (the sector of vegetables 30%, greenhouses 26%, the meat sector 14%, the milk sector 13.7%, the grape sector 13.3% and eggs sector 3%). The investment in infrastructure for the coming years will focus on expanding areas under irrigation by about 13.5% on annual basis. **Investments in agro-processing sector** comprising investments in storage and warehousing and expanding the number of testing laboratories for verification of quality of production. For the next three years, around 55 food processing enterprises will be supported on annual basis (18.2% in milk processing, 22% in meat processing, 38.2% in processing of fruit and vegetables and 21.6% in wine production). For improving/implementation of national and EU standards on food safety/animal welfare/environment 35 companies will be supported annually. Number of modernized enterprises with new technological equipment and introduction of new product lines and new products will be 40 companies each year. The number of enterprises that will introduce proper waste and scrap management will exceed 10 companies per each year.

During next three years another focus will be on **implementation of an integrated agriculture information system (IAIS)**, including tendering of the project for integration of the agricultural information system, testing and data analysis, staff training, data collection and updating, and maintenance of the system. The project includes establishment of links and integration into one database for existing systems as FADN, IACS, sLIPS, REF, animal registry and register of trade statistics.

Costing and budgetary impact: The total cost for the implementation of planned measure activities is 49.9 million in 2017, 48.5 mil in 2018 and 48.7 in 2019. The cost for implementation of this measure is budgeted in the 2017 Budget. During this period it is expected that donors are also involved mainly in irrigation projects and projects related to IT infrastructure.

Expected impact on competitiveness: As a result of this measure, - as the net added gross value in supported enterprises is expected to be 15%. Increasing labour productivity, as growth (in %) of additional revenue, gross for each position, farms supported during this period are expected 15%, while increasing employment of supported farmers is expected to reach around 2% . Furthermore, by advancing food quality standards it is intended to facilitate replacement of imported agricultural products with local products and export of agricultural products. The growth of export of supported product is expected to be 20%, while import substitution and reduction of 10% is expected.

Expected impact on social policies: The measure will stimulate the population in rural areas to

maintain and increase their farming and processing activities and cultivation of agricultural land, introduce specific production cultures which are prioritized and have the potential of being competitive. The measure is expected to have a direct impact on the economic situation of families dealing with agriculture through the increase of their income levels.

Potential risks: No potential risk is anticipated, except the insufficient availability of public support.

Reform measure # 6: Regulation and consolidation of agricultural land

Description of the measure: GoK aims to continue efforts for expansion of agricultural farms through consolidation of agricultural land. Consolidation of agricultural land will be facilitated by legal and institutional measures, establishment of agricultural land plots in regular geometric shape. This measure is based on the NDS, ARDP and Property Rights Strategy.

Activities per year – 2017: 1) Review of complaints of participants from the land consolidation project uncompleted by the Municipal Committee for Land Consolidation in Glllogoc (with an area of 4,790 ha. of agricultural land) and the Municipal Commission for land consolidation in Vushtrri (with an area of 487 ha. of agricultural land). This includes data entry in the Registry of Immovable Property (RDIP) from the cadastre of respective municipalities 2) Implementation of a pilot project funded by FAO for voluntary consolidation, which includes 25 hectares of agricultural land in the Cadastral zone Celina, Municipality of Rahovec. Continuation of the voluntary consolidation project of the agricultural land in 10 Cadastral Zones in Municipality of Viti with surface of 2,790 ha of agricultural land, including informing the owners, property dispute resolution and the review of complaints of participants in project. **2018:** 1) Continuation of the project of voluntary consolidation of agricultural land in 10 Cadastral Zones in Municipality of Viti with an area of 2,790 ha of agricultural land. Commencing the incomplete project in the Municipality of Mitrovica in 4 Cadastral Zones in the area of 725 ha. **2019:** 1) Data entry in the Registry for Immovable Property RDIP by officials of the Office of Cadastre in the Municipality of Mitrovica; and 2) Commencing the incomplete project in the Municipality of Obiliq in 7 Cadastral Zones covering an area of 2000 ha.

Cost and the budgetary impact: The total cost for the implementation of this measure during 2017-2019 is €1.5 million, and an amount of €500,000 has been allocated each year.

Expected impact on competitiveness: Projects for voluntary consolidation of land will contribute to the growth of farm size, better access to property, resolution of property issues etc., which present the basis for reduction of unit costs, increase of agricultural productivity, competitiveness of agricultural products in the market and thus increasing the farmer's revenues. Resolving the property issues and property consolidation will help farmers by provision of land ownership security, better access to loans and to investment projects of MAFRD for Rural Development. It will also contribute to a fair distribution of subsidies from the state budget to the owners and users of these properties, better control of these land properties and better monitoring of subsidies.

Expected impact on social outcomes: The implementation of this measure is expected to facilitate a land reform through development of a land market (security of property rights, higher volume of trading, and creation of standard lease contracts), preventing further plots fragmentation, and improving control of unplanned construction in areas covered by consolidation. The measure will help farmers to move from the current subsistence farming to competitive production and to create

jobs in agricultural production, whereas passive land owners not active in farming will be able to achieve some revenue from selling or leasing the land.

Potential risk: Lack of cooperation and lack of expression of will by citizens for the voluntary land consolidation. The critical assumption on which the voluntary land consolidation rests is the ability of the Ministry to offer free technical assistance and transaction costs as a strong incentive to which farmers can respond.⁴²

Reform measure # 7: Support the development of industrial clusters

Description of the measure: This priority is a continuation of measures from the ERP 2016-2018. It addresses the fragmentation and consequently the poor level of coordination and interaction of private sector with stakeholders of the other sectors, which is considered as industrial clustering. This measure is directly related to one of the main objectives of NDS and the draft Private Sector Development Strategy.

Activities per year: During 2017, MTI will focus on the functioning of the Council/Forum for drafting policies for stimulation of competitiveness and entrepreneurship in industrial sectors, and analysis of value chains in the potentially competitive industrial sectors (identification of missing links and measures for their development). Same as in 2017 it will continue with support to development of groups/clusters and value chains in industrial sectors. In 2019 it will continue with support for development of groups/clusters.

Budget impact: For implementation of activities of the measure, were allocated €10,000 from the Kosovo Budget for 2017, while €293,000 were allocated from the EC's ICEP Project.

Expected impact on competitiveness: SMEs gathered in clusters are proven to mark an increased and more innovative development. Consequently, regions with clusters attract more businesses related to new value chains created within clusters. Implementation of this measure will enable increase of interconnection between enterprises in value chains and larger participation of the industrial sector in GDP. Cooperation between companies will create synergies, increase of innovation and will enable growth of new industries based on the activities of companies that are part of clusters.

Expected impact on social outcomes: The establishment of industrial clusters based on economic interest of businesses itself will improve the use of facilities and result with better coordination by businesses and other stakeholders rather than acting lonely or not well coordinated. Furthermore, this measure will also result with the distribution of knowledge about the opportunities and risks in foreign and domestic markets, promote the culture of cooperation among local businesses, and orientate the youth into study areas which are required in today's market or tomorrow's jobs.

Potential Risks: Lack of understanding the benefits from acting in industrial clusters by the majority of businesses, which in fact are in desperate need for integration.

Reform measure #8: Development of tourism products in Kosovo touristic regions

Description of the measure: The purpose of this measure is to promote development of tourism products in order to increase the economic value of tourism. The focus is on identifying local products and those with regional potential which would significantly contribute to tourism development in Kosovo, growth of tourist capacity, increase of number of visitors, especially

⁴² http://www.fao.org/fileadmin/user_upload/Europe/documents/Events_2007/Land2007/Kosovo.pdf

foreigners, increase income from tourism, and boost the economy (employment, regional development, development of SMEs). Among other things, this measure includes increased institutional coordination and improvement of legal infrastructure.

Activities per year – 2017: 1) Improvement of the legal, institutional and policy framework for the tourism sector; 2) Review of international standards on improvement of service quality in tourism and catering; 3) Product research in the touristic regions of Prishtina and Mitrovica, focusing on identification of development priority products and information of businesses on touristic products; 4) The Ministry of Trade will draft the guide on unification of touristic signalling in all the country and will continue supporting municipalities on establishment of Tourist Information Offices. **2018:** 1) Conduct a study about the potential and needs of the accommodation sector in different regions and countries as a promising basis for catering investors and companies; 2) Product research in the touristic region of Anamorava – Data collection in touristic regions focusing on identification of development priority products and information of businesses on touristic products. **2019:** 1) Potential evaluation and encouragement of group approach in different regions and areas (wine and viniculture, healthcare/spas and village tourism, hiking and active tourism, etc.; and 2) Analysis of the potential and needs related to facilities for conferences and meetings.

Costing and budgetary impact: In order to implement activities of the measure, €10,000 will be allocated from the Kosovo Budget for each of the years 2017-2019. The expected donor support during 2017-2019 is €16,000, €20,000 and €16,000, respectively.

Expected impact on competitiveness: Identification and development of new touristic products will result in increasing the number of touristic businesses and of employees in touristic businesses selling these products, expanding the touristic offer of Kosovo as a destination and improving the quality of touristic services delivery. As a result, Kosovo is expected to become more attractive to visitors, which will result in increased income generation and have a direct impact on increasing the GDP.

Expected impact on social outcomes: Development of attractive and tourist targeted offers creates opportunities for new jobs, as by its nature this sector requires great engagement of the workforce (intensive labour). Considering that the potential for tourism in Kosovo is largely in rural and mountainous areas, development of the tourism sector will boost employment generation and increase of family businesses providing easy employment opportunities for women, particularly in culinary services (offering local traditional foods) and handicrafts. This will increase the wellbeing of population in rural areas.

Potential risks: Lack of institutional human capacity in tourism may be a risk for full implementation of this measure. Considering that many activities are linked to municipalities and other support institutions, this may represent a risk if they do not express readiness to implement the activities completely.

4.3.4. BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY

a. Analysis of main obstacles

State of play: Over the recent years, Kosovo has marked progress in indicators such as the World Bank's Doing Business Report and the European Commission Small Business Act. The Doing Business Report 2017 ranks Kosovo four positions higher (from the 64th to the 60th place), with progress marked in the indicators of starting a business, paying taxes and trading across borders.

However, Kosovo has not marked any progress in a number of other important indicators, such as enforcing contracts, resolving insolvency, getting electricity, dealing with construction permits and protecting minority investors.

As an example, according to data presented in the World Bank Report, enforcing contracts takes 330 days and costs 34.4% of the contract value. However, it is considered that the introduction of the private bailiff system has facilitated the process of enforcing contracts (helping reduction of the level of non-performing loans). In another important indicator, which consists of procedures for resolving insolvency, Kosovo ranks in the 163rd place and, according to the report data, insolvency procedures take approximately 2 years and cost 15% of the debtor's assets. No progress has been made in terms of access to electricity and Kosovo ranks in the 114th place. Dealing with construction permits remains an indicator where Kosovo has marked regress from the 125th to the 129th place.

On the other hand, private sector crediting is improving gradually in the majority of Southeast Europe countries, whereas Kosovo has a lower crediting rate and reduced trust has affected corporate crediting in the first part of 2016. Informality and lack of financial transparency on individual profit and business income, and the low quality of financial reporting (particularly in the segment of MSMEs) has resulted in a high level of collateralized crediting instead of cash flow analysis from banks.

Informal economy remains a major problem in Kosovo. Analysis of data from companies shows that the number of enterprises affected by competition of informal enterprises is among the highest in the world. The level of informal economy is high compared to the group of countries with a similar level of development and the highest in regional. Informal economy is estimated at 39% of GDP, creating unfair competition to formal businesses, with 41% of companies stating that informal competition represents a serious obstacle to doing business.

Structural obstacles: The main obstacles and challenges are the poor access to financing, particularly for SMEs; slow and inconsistent law enforcement in economic contexts; frequent, uncoordinated and costly inspections; poor coordination of public and private institutions, especially financial institutions, in terms of collection and sharing of financial information of enterprises to reduce informal economy.

Based on OECD's analysis of key obstacles to economic growth, cost of financing is considered a major obstacle to economic growth, coupled with the low level of credit compared to GDP and the highest collateral requirements in the region. The majority of small enterprises use their income or capital to finance investment and capital markets are generally underdeveloped. Related obstacles include weak contract enforcement, inability to execute collateral value due to gaps in the property rights system (in terms of availability and credibility of documents), lack of a secondary market and costs associated with initial credits because of the high level of informality and transaction costs. Competitive practices in the informal sector are emphasized as one of the main obstacles by companies in the Business Environment and Enterprise Performance Survey (BEEPS).

Rights over other types of property, including state, public and municipal, as well as the rights of foreign citizens to own property in Kosovo, are not clearly defined in the law. Legislation defining property rights must be sufficiently accessible, precise and foreseeable in its application to meet basic standards of legal certainty and prevent arbitrary implementation. In particular, Kosovo's property rights legal framework still retain concepts of socially owned property left over from the Socialist Federal Republic of Yugoslavia (SFRY) property rights legal framework.

Impact of structural obstacles: The aforementioned obstacles reduce the competitiveness of Kosovo enterprises by affecting negatively the opportunities and capacities of SMEs in securing financing for their investment projects, increasing export and/or substituting import, inability to get involved in international value chains, unequal market competition, and lack of trust in judicial institutions and their ability to resolve economic disputes in a timely, fair and consistent manner. Simultaneously, informal economy does not only decrease fiscal revenues, it also affects enterprises by preventing them from drawing finance as well as decreasing international investors and trade partners, thus continuing the cycle of poor finances, poor management, low employment and, finally, low competitiveness compared to the countries of the region.

Impact of obstacles on social outcomes: Unfair competition from the informal economy reduces opportunities for formal employment and for establishment and expansion of small companies and individual businesses. It contributes to high unemployment or temporary employment in the informal sector with no job security. Slow and inconsistent enforcement of contracts undermine the trust in state institutions and the legal security of people.

b. Report on policy guidance implementation since May 2016

Implement the action plan of the strategy for the fight against the informal economy. In particular, speed up the risk assessments focusing on the sectors and branches most vulnerable to informalities in order to identify and apply appropriate corrective measures.

The Secretariat for monitoring the Strategy implementation has been reactivated this year for purposes of implementing the Action Plan for Prevention and Combating Informal Economy, Money Laundering, Financing of Terrorism and Financial Crime 2014-2018. This year the Secretariat has held two meetings and by the end of 2016, it will finalize the second report on the implementation of the Strategy's Action Plan. This secretariat has a wide scope including monitoring of administrative phases and up to execution of court decisions in terms of informal economy and economic crimes. During 2017, the Secretariat will review the Action Plan and develop a Risk Assessment Plan for specific areas, as well as prioritize Action Plan activities to be implemented in the first part of the year. The risk assessment in the construction sector has been completed so far.

c. Priority reform plans

Reform measure #9: An enabling regulatory system through evidence based policy development

Description of the measure: As a continuation of essential reforms aimed at simplifying legislation and introducing the regulatory impact assessment system, this measure aims to improve policy and legislation development based on evidence and a genuine consultation process. In this regard, Kosovo will strengthen the current concept document system for the preparation of policy and legislation proposals, which will be replaced eventually with an impact assessment system. In addition, Kosovo will analyse the possibility to set up a programme for addressing administrative burdens set against a reduction target of 25%. This measure is in compliance with NDS, and the revised Better Regulation Strategy 2017-2021.

Activities per year: 2017: 1) Introduce updated and improved guidelines for ex-ante policy analysis; 2) Strengthen quality control by the Centre Government on ex-ante policy analysis; 3) Develop and apply analytical tools that focus on enhancing competitiveness: Standard Cost Model,

SME Test and Regulatory Competitiveness Test; 3) Training of civil servants on the application of the guidelines and analytical tools for ex-ante policy analysis; 4) Conduct three legislative evaluations. **2018:** 1) Adoption of the Government decision on administrative burden reduction; 2) Further training of staff on the application of the guidelines and analytical tools for ex-ante policy analysis; 3) Finalizing the outline of the Impact Assessment Database with data to further improve evidence-based decision-making; and 4) Conduct five legislative evaluations. **2019:** 1) Implementing the Government's decision on administrative burden reduction; 2) Conduct seven legislative evaluations; and 3) Further training of staff on the application of the guidelines and analytical tools for ex-ante policy analysis.

Costing and budgetary impact: In order to implement activities of the measure, € 290,000 are planned for each of the years 2017-2019, through direct budget support and €100,000 each year for the expertise.. These funds will be provided by the SIDA project.

Expected impact on competitiveness: The quality of policies and legislation will be improved and unnecessary obstacles will be removed. Introduction of the standard cost model will promote understanding of the impact of legislation on businesses and citizens. The SME Test will raise the awareness of policy-makers and decision-makers about the specific needs of businesses, particularly of micro enterprises, which dominate the economic structure of Kosovo. The regulatory competitiveness test will contribute to a more competitive business environment and improved business and regulatory profile in Kosovo compared to other countries in the region.

Expected impact on social outcomes: Improving the business environment will contribute to economic growth by encouraging business start-ups and formalization of business activities. Moreover, the introduction of additional tools for policy analysis focused on increasing competitiveness is associated with the integration of a gender impact assessment in the policy development process. This will contribute to a policy and regulatory framework that is focused on gender policies and in accordance with the Kosovo agenda for gender equality.

Potential risks: The main risk consists of the lack of budget allocation for the development of the impact assessment database. The budget implications of the database are unclear. This issue will be monitored within the Better Regulation Strategy 2017-2021 and the Government will take appropriate actions for specific decisions in this regard.

Reform measure #10: Ensuring property rights by addressing informalities in the real-estate sector

Description of the measure: As a continuation of reforms presented under ERP 2016-2018 on strengthening the property rights system; this measure focuses on addressing legalisation on property rights by tackling informality in the immovable property sector. It aims to provide citizens access to efficient and affordable administrative processes for the legal recognition of rights they use de facto. Legal recognition of these rights will allow citizens to register them in the cadastre, thus enabling more effective application of these rights by courts and state bodies, as well as their alienation in the assets market. The measure is based on the NDS and recently government adopted Property Rights Strategy.

Activities per year – 2017: 1) Improvement of legal framework, including the preparation of the concept document on amending the Law on Inheritance and the Law on Notary; 2) Preparation of concept documents on amending the Law on Property and Other Real Rights, the Law on Contested Procedure and the Law on Non-contested procedure; 3) Stimulation of property rights registration

in the cadastre by simplifying registration procedures and removing barriers in order to complete the legalisation process; 4) Conduct a complete analysis of the Cadastre Agency procedures and develop policy to ensure efficiency, simplicity, affordability, transparency and predictability of the registration process; and 5) Stimulation and avoidance of barriers to promote property rights registration. **2018:** 1) Adopt legal framework on property rights; 2) Draft and adopt the integrated Law on Cadastre, which would include the Law on Cadastre, the Law on establishment of the immovable property rights register and the Law on Mortgages, and would require vertical organisation of cadastre; 3) Municipal taxes for ownership transfer will be abolished and shall apply only fees set by AI 08/2014 on Fees for Services for Registering the Immovable Property Rights from Municipal Cadastral Offices. Interventions within this priority will also include relevant information and capacity building activities. **2019:** 1) Raising awareness and capacity building activities; 2) Unification of cadastral documents with Serbian archives and the decision on the set of documents that can be taken as proof/evidence on property rights in Kosovo.

Costing and budgetary impact: The total cost of implementing this measure during 2017-2018 is €2,661,800, out of which € 84,500 will be provided by the Kosovo Budget and €2,577,300 from development partners (USAID and EC). The estimated allocation by year is €1,245,850 for 2017 and €1,415,950 for 2018.

Expected impact on competitiveness: Establishing an effective property rights system creates legal certainty for investors and consequently increases investment opportunities. This in turn creates more opportunities for citizens to use property as collateral and thus improves access to finance. The impact of this measure also includes reducing the cost of property registration, reducing the total number of property registration procedures required by law, reducing the number of days required for property registration and improving land management (reliability of infrastructure, transparency of information, geographic coverage and resolution of disputes over land) – issues that were all assessed as problematic also by the World Bank's doing business report.

Impact on social outcome: Strengthening property rights ensures economic autonomy of the individual, which translates into economic and social empowerment of the property owner. This impact is even more prominent in ensuring women property rights, contributing to their economic independence and easier access to financing.

Potential risks: No risks are envisaged in terms of implementing this measure, except potential political disputes that cause problems and delays in decision making.

Reform measure #11: Increase judicial efficiency through reduction of court case backlog

Description of the measure: Similarly to 2016-2018 ERP, the main focus of this measure aims to improve the judiciary's efficiency in dealing with economic issues by reducing the case backlog and improving the case management system. The focus on improving the efficiency of judiciary will be on decreasing the backlog through incentives and speedy court settlements, temporary increase in hiring additional manpower to sort out cases, capacity building of the Administration Department's Fiscal Division of the Basic Court in Prishtina, which deals also with areas of taxes and customs, aimed at reduction of backlogged cases. This measure is a continuation of ERP 2016-2018 and is based on the NDS and ERA.

Activities per year - 2017: 1) Recruitment of 50 professional associates to deal with backlog on civil and criminal cases to achieve reduction of case backlog by 30% by the end of 2017; 2) Conduct assessment on increasing the number of judges and professional associates within the Fiscal

Division; 3) Complete development of Case Management Information System (CMIS) software and criminal field system prototype for the general department, followed by the criminal field system for serious and juvenile crimes; 4) Initiating preparation of the hardware infrastructure of the database and computer network of courts and prosecution offices; 5) Capacity-building activities based on a training plan and commence with implementation at the Basic Court in Ferizaj, which is the CMIS pilot model. **2018:** 1) Implement case backlog reduction target by 60%; 2) Recruitment of judges based on needs assessment, reduction of cases in the fiscal division; 3) Implementation of the training programs for system users and application in courts and prosecution offices. **2019:** 1) To achieve zero backlogs by 2020, further advancement of judges in the Fiscal Division of the Basic Court in Prishtina will continue and 2) full automatization of the Kosovo judiciary.

Costing and budgetary impact: The activities to achieve the zero backlog targets cost about €7000,000 for the next two years. This relates to the payment of salaries for 50 court counsellors with a monthly salary of € 550 to support the adjudication of 90 thousand backlogged civil and criminal cases within 2 years. Furthermore in the course of 2017 and 2018 net direct impact on the budget will be € 350,000, where €330,000 will be used for salaries and 20,000 for other expenditures. The costing of the second activity (Fiscal Division) will be done after completion of the needs assessment, which is expected to be completed during the first quarter of 2017. The cost for the third activity (CMIS) is € 6,700,000. This includes software and implementation costs for the introduction of the CMIS. For 2017, €355,000 are available from the Kosovo budget, where €205,000 are allocated for the purchase of computers and €150,000 for audio equipment.

Impact on competitiveness: The impact of reforms for judicial efficiency on economic growth, competitiveness and FDI is indirect. The time and cost spared by reducing the time of case adjudication is significant. In addition, quick access to justice and, henceforth, improved rule of law and legal security could attract new investments. To determine the monetary value of time saving, the high arbitration prices were analysed. The value of one saved day is €8.1, defined as the marginal cost of judgments/arbitration divided by marginal time saving. Using this parameter, the quick disposition of a case saves €2.5 thousand and when this is multiplied by the total number of cases, the total value of saving for the society is €140 million.

Impact on social outcomes: Although the measure is focused on economic legal disputes, once implemented, solutions for reduction of backlogs and introduction of CMIS can be easily extended to other areas of court adjudication. Reduced disposition time and increased court efficiency and legal security will be valuable for everyone seeking justice in the courts.

Potential risks: Mains risks are associated with willingness of different stakeholders within the judicial system and beyond to implement reforms.

Reform measure #12: Improved access to finances for SMEs through the Kosovo Credit Guarantee Fund

Description of the measure: This measure is a continuation of the measure envisaged in ERP 2016-2018 which aims to address one of the main obstacles to Kosovo businesses, especially SME. Expansion of the credit guarantee scheme and improvement of information on the credit history of businesses and individuals would enable many businesses to have better access to finances at lower interest rates. Considering that the Kosovo Credit Guarantee Fund (KCGF) is currently in its first year of functioning, it mainly focuses on establishment of cooperation with all commercial banks in

the country for increasing credit, regardless of size, sector, demography, number of employees, growth potential, etc. between banks and SMEs.

Activities per year – 2017: 1) Transfer of amount of € 1,000,000 to KCGF 2) Functionalise the fund, selection of managing and completion of structure; 2) Continue with signing the agreements with commercial banks in Kosovo for inclusion of their credit portfolios within the fund guarantee.

2018: 1) Development and dissemination of training and promotion programmes for SMEs and the public, and continue training and promotion programmes. **2019:** 2) Development and dissemination of training and promotion programmes for SMEs and the public, and continue training and promotion.

Costing and budgetary impact: The contributing capital of KCGF is €22 million, of which the Government of Kosovo, namely KIESA\MTI has contributed an initial investment of €2 million and an additional €1 million will be provided by the end of 2017. The rest of funding for the measure is expected to be allocated as technical assistance by USAID with € 6.0 million for 2017 and 2018 each.

Expected impact on competitiveness: More than 4,150 loans for SMEs will be supported from KCGF worth \$360 million in cumulative value. Better access to finance increases opportunities for expansion of the business, innovation and reduction of risks. This measure will have a direct impact on the country's economic growth through increased productivity, added value and profitability.

Expected impact on social outcomes: It is anticipated that in the first six years of operation of the fund, more than 20,000 new jobs will be created by SMEs due to expansion of their activities enabled by better access to finance. In particular, this effect may be more prominent for businesses run by women and marginalized social groups which currently face even higher barriers in access to finance.

Potential risks: Despite the fact that so far six commercial banks have signed agreements with KCGF, they may have had limited human, management, technical and operational capacities to absorb KCGF's guarantee limits. In addition, close monitoring of banks' lending policy is required because the guarantee can increase risk appetite. Finally, as over 40% of SMEs stated that access to finance is a major challenge to their growth, their capacities and growth potential and, consequently, their absorption capacity of the marginal lending limit are not clear.

Reform measure #13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency

Description of the measure: One of the key elements of reforms aimed to address informal economy consists of merging the two existing revenue collection agencies, the Customs and the Tax Administration. Establishment of a single Revenue Collection Agency is based on the need to improve services to taxpayers and to reduce the "tax gap" through simplified and more effective revenue collection structures. This will increase the efficiency, and reduce the cost, of revenue collection and increase the autonomy of institutional structures that deal with revenue collection. This reform measure also aims to improve the services provided to the tax-payers and therefore have a positive impact in the doing business environment. This measure is a continuation of EPR 2016-2018 and is based on NDS and PFM Reform Strategy. Activities for implementation of the measure are based on a master plan of activities to be developed during 2017 in order to orient further merging process.

Activities per year: 2017: 1) Adoption of the Law on Tax and Customs Agency; 2) Inter-institutional cooperation to achieve the gradual convergence of processes and the following integration of both institutions. 3) Complete organizational structure of the agency, paying attention to the optimization of tax collection processes by minimizing resources, eliminating losses of funds and saving time; 3) Undertake necessary legal amendment for establishment of a unified administration for revenue collection. 2018: 1) Implement the model of good governance, implementing joint activities, harmonizing processes and developing organizational structure. 2019: 1) Complete full operationalisation of the agency.

Costing and budgetary impact: In the 2017 budget, €7,757,624 have been allocated for the construction of TAK – Customs building for the period 2017-2019, namely €2,757,624 for 2017, €1,250,000 for 2018 and €3,750,000 for 2019.

Expected impact on competitiveness: The purpose of merging two agencies in a single revenue collection agency is to enhance the tax basis and decrease informality, which would improve competition in the market, making that fairer and stimulating formalisation of businesses. At the same time, this will enhance the conditions for free competition of businesses, as well as create better conditions for investments and economic growth.

Expected impact on social outcome: Increase of budgetary revenues, which would be fostered by institutional efficiency of a single Revenue Collection Agency, would create an opportunity for reallocation of revenues towards targeted social policies that would directly impact the citizens' welfare.

Possible risks: Insufficient resources dedicated to the process of TAK – KC merging; delays in decision-making from the reform initiator.

4.3.5 RESEARCH AND INNOVATION

a. Analysis of the main obstacles

State of play: Support for the field of research and innovation in Kosovo is low, with around €4.7 million allocated per year from the budget for science and research, which is only around 0, 1% of GDP. Based on the Law on Scientific – Research Activities, government of Kosovo should allocate 0.7% of the annual budget, which would amount to €11 million or more than double of the current amount. Based on the data of the Department for Science and Technology of MEST, the number of employees in R&D is only 833, 3 employees in one million residents.

According to our current data, Patent Office in MTI has approved 32 patents since 2016, whereas European Patent Office has not approved any. The only scientific infrastructure of the country is laboratories of scientific research institutions. Universities have no activities for creating incubators, start-ups, etc. Kosovo Association of Information and Communication Technology (STIKK) has assisted in establishing 30 small enterprises (start-ups) in the field of IT; however, they may not be considered as activities related to the research.

Structural obstacles: The main obstacle is the lack of legal and policy framework for supporting R&D. Currently, there is no relevant legislation for research and development (R&D) and no bylaws governing the field of innovation and transfer of technology and knowledge. In terms of policies, there are no tax reliefs for R&D activity and no public grants allocated specifically for enterprises for purposes of R&D. MEST provides grants which are allocated to scientific research institutions and which are conditioned by the element of innovation, but the total amount allocated by MEST

amounts to only €600,000. There is no government plan to stimulate SMEs to cooperate with the Academy and towards innovation and there is no cooperation between ministries or joint inter-ministerial bodies.

Another set of obstacles relates to interests and activities of stakeholders. There are four scientific research institutions involved as partners in projects of Horizon 2020. Although so far Kosovo's position within this framework programme reduced the possibility of benefiting from it, this could be improved as Kosovo signed the agreement with EU enabling Kosovo to participate as associated member in some framework programmes, including also Horizon 2020. Projects developed so far in scientific research institutions are focused on scientific work, whereas the commercialization of the research and scientific activity shows no development. Scientific research institutions are more oriented on basic teaching and research. This resulted in the lack of results in commercialization. On the other hand, the recent support offered through vouchers for innovation for individuals and SMEs showed that SMEs did not express any interest for absorbing these vouchers.

Impact of structural obstacles: The lack of investments in this field, and especially the lack of private investments contributes to low competitiveness of SMEs and the country's economy in general. It results in reduction of opportunities of SMEs and economy for creating new products and services and following the market opening, it might lead the SMEs to risk their chance to survive the market conditions. The lack of orientation towards innovation results in lower employment; by some estimates, the employment rate is 15% lower compared to the situation when SMEs would be innovative enterprises.⁴³

Non-participation in programmes of Horizon 2020 prevents enterprises from cooperation in the field of smart growth, aimed for the innovative industries, thus causing them to lose the opportunity to be involved in the modern industrial developments regarding new goods and services.

b. Priority reforms plan

Reform measure #14: Improving the policy and strategic framework for research and innovation

Description of measure: Based on ERP 2016-2018, the purpose of this measure is to establish a solid strategic and legal basis and to create an appropriate environment for increasing the scientific-research opportunities of the country in order to strengthen the research as a factor of development. Also, the Government will make efforts to increase the level of participation of scientific institutions in European and regional programmes and projects, especially in Horizon 2020. The focus will be also on funding of small scientific projects, mobility of scientists, publications in leading international and country journals as well as on allocating innovation vouchers and awarding a prize for scientist of the year. The measure is based on NDS and Kosovo Education Strategic Plan 2017-2012

Activities per year - 2017: 1) Approval of the Law on innovation and knowledge and technology transfer; 2) Review and approval of the Innovation Strategy; 2018: 1) Drafting and approving the secondary legislation deriving from the new innovation law, including the establishment of the state council for innovation and inter-ministerial mechanisms in the field of innovation; 2019: 1) Operationalization of the state council for innovation and inter-ministerial mechanisms in the field of innovation. During the next three years the Government will continue to provide support by

⁴³ Seker, M. (2013) – Background paper for the technical assistance on Western Balkans Innovation Strategy

funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises. 20 grants for PhD students in 500 best universities in the world and awarding a prize for the best scientist of the year and young scientist of the year.

Costing and budgetary impact: For implementation of activities during 2017-2019, the planned budgetary cost is € 560,000 for each year of implementation.

Expected impact on competitiveness: Strengthening legislative and strategic framework for research and innovation will have positive impact in competitiveness since it will increase it establishes sound basis for cooperation between institutions and enterprises on innovation, knowledge transfer and technology. Improved quality of research and access to innovation leads to a better understanding of business needs for new technological solutions and, in turn, the research and innovation concepts applied in business activities result in higher quality and more competitive products and services with higher export potential and added value.

Expected impact on social outcomes: From a social point of view, the implementation of this measure will contribute to the creation of a more employable workforce. Social and economic effects will be long term and will be accompanied by growing income for workers and enterprises. Creating a more agile workforce will help attract foreign direct investment.

Potential risks: Delays in adoption of legislation and strategy, as well as lack of the competitive ability in the goods and service market, as well as in the international scientific and innovative competition.

4.3.6. FOREIGN TRADE AND INVESTMENT FACILITIES

a. Analysis of main obstacles

State of play: During the first months of 2016, the foreign trade of Kosovo recorded an amount of 1 billion and €450 million, which is an increase of €89 million compared to the same period of the previous year. Goods exported in this period amounted to €152 million, a decrease of 5.6%. In this period, the foreign trade of Kosovo was constituted of 89% of imports and 11% of exports. The structure of partners remained mainly the same for exports and imports. During the last ten years, Kosovo has exported an average of 40 % of its exports to the EU countries. EU market has been followed by neighbouring countries, which received 37% of total exports during 2005-2014.

Regional trade marked an increase especially following the declaration of independence in 2008, when Kosovo businesses have begun to move more in other market, especially EU and countries such as China and India, where the demand for natural resources is greater. Lack of diversification of products is especially acute when it comes to Kosovo exports in markets of developed countries (EU, EFTA) with Herfindahl-Hirschman Index of 0.52 and 0.6. On the other hand, exports in CEFTA are more diversified with HH Index of 0.248.

After the war, Kosovo has made important steps in liberalization of trade. A major step was the membership in CEFTA. In addition, Stabilization and Association Agreement with the EU entered into force in 2016.

At the regional level, Kosovo is participating in reforms for facilitating the trade through CEFTA mechanisms, which are related to the WTO Trade Facilitation Agreement. According to the self-evaluation report of Kosovo, based on the WTO Agreement, immediate measures are required for

a number of issues, including: information exchange, post-clearance control, risk management, procedures prior to arrival, electronic payment, notification procedures, consultation procedures, fees and charges on imports and exports, authorized operators and other fields.

Export of services constitutes a significant part of Kosovo exports and is an important factor of future competition of Kosovo. Therefore, the removal of trade barriers for the service sector is essential.

Structural obstacles: Based on the World Bank indicator for cross-border trade, region of CEFTA has been assessed with 72.6. For the region of CEFTA, poor results relate to the number of documents required for imports and exports, which is twice higher than the average in OECD countries. Among CEFTA countries, Kosovo and Serbia have the highest average cost of imports and exports, even though during the last two years Kosovo has significantly reduced the import cost.

The overall ranking for this indicator places Kosovo in the 118th position from 189 countries. Sources of unnecessary trade expenditures include: unfavourable procedures, document requirements, excessive and underdeveloped risk-based systems of inspection, underdeveloped and corrupted administration, lack of technical capacities, insufficient information flow, poor cooperation between border agencies, etc.

In addition to the reduction in procedural costs, certification of product quality is another obstacle to export and import substitution. The reduction of technical barriers to trade is therefore an equally important element of trade facilitation. Similarly, Kosovo has identified logistical and border barriers as one of the greatest obstacles for a greater circulation of goods between regional partners, as well as for deeper integration with the other parts of the world.

Impact of structural obstacles: Obstacles and high costs of cross-border trading reduce the level of Kosovo's exports and increase the cost of imports, which affects both the majority of Kosovo's producers who use import materials, as well as final consumers of imported goods. Even more importantly, reduction of procedural, quality, logistical and border obstacles to export would contribute to increasing the currently very low share of exports in Kosovo's GDP.

b. Plans of priority reforms

Reform measure #15: Increasing cost-efficiency of international commercial transactions

Description of measure: Trade facilitation, in wider sense, may be defined as any measure or set of measures that aims to increase the cost-effectiveness of international trade transactions. This measure will address and reduce these obstacles – specifically, by simplification and standardization of all formalities and procedures at borders, which are expected to reduce cross-border expenditures.

Activities per year: 2017: 1) Implementation of risk management in border agencies; 2) Effective implementation of the programme for Authorized Economic Operators; 3) Operationalization of Transit Agreement with Albania; 4) Drafting the legal and regulatory framework on advance rulings; 5) Amendment of Customs Code and its implementation; 6) Supplementing and amending the Law on Customs Measures for Protection of Intellectual Property; 7) Sustainable operation of the National Committee for Trade Facilitation (awareness-raising and information for the private sector); and Time Release Study (TRS for measuring the actual performance of Customs activities; 8) Initiate establishing National Single Window with all state agencies involved in trading process: Veterinary Agency, Police, Kosovo Agency for Equipment and Medical Products; 9) Adoption of Key Performance Indicators for monitoring the work of institutions requiring documents and check

for trade through measurement of the time and cost for border compliance and documents. **2018:** 1) Continue procedures for merging systems of key institutions within the National Single Window; 2) Advance paperless Customs through usage of ‘digital signature’ technology; 3) Regulation of fees for the use of custom terminals through development of procedures with the Ministry of Infrastructure on setting out fees; 4) Development of system to adhere in the National Common Transit System (NCTS) and SEED Plus. **2019:** 1) Complete the establishment of the National Single Window; 2) Advance paperless Customs through usage of ‘digital signature’ technology; 3) Continue procedures for adhering in NCTS and SEED Plus.

Cost and budgetary impact: Funding sources for the measure will be the Kosovo budget and donations from WB, IFC and IPA (which are expected to be confirmed during the next year). From Kosovo budget, €10, 000 has been budgeted for each year of the period 2017 - 2019.

Expected impact on competitiveness: Analysis shows that at the macro level, in several countries, the reduction of the time for trade for only one day may increase the trade activity for more than 5%. At the firm level, exporters in developing countries that have more efficient customs agencies produce better and more diversified products, as well as increasing export. As indicated by the World Economic Forum (2013), the most direct benefit from the elimination of supply chain barriers is reduction in costs for commercial companies and thus lower prices for consumers and businesses that import materials used in their manufacturing activities. Reduction of import costs would be of great importance for Kosovo, as the Kosovo production sector is mainly based on the imported inputs. OECD has estimated that trade facilitation reforms may reduce the trade costs by 15.5%. According to OECD, Trade Facilitation is related to the easier, cost-efficient and more rapid and efficient trade transactions, thus facilitating trade flows. In addition to the easier export and import of goods and services, Trade Facilitation measures also increase the attractiveness of a country for direct foreign investments.

Expected impact on social issues: The measure aims to increasing investments, building human and institutional capacities, as well as job opening.

Potential risks: Risks related to the implementation of the measure include the lack of cooperation between agencies, as well as the lack of professional staff. An obstacle associated with other reforms is the process of merging the tax administration and customs, which as a process may cause delays in implementing activities of this measure. The delay in approving the Protocol 5 to facilitate the trade within CEFTA will hinder the efficiency of activities related to the trade facilitation at regional level.

Reform measure #16: Improvement of quality infrastructure

Description of measure: The purpose of the measure is to further develop the quality infrastructure (*Technical Rules and Standards*), by approximating the legislation with EU acquis and its implementation as a basis for strengthening the coordinated inter-institutional system, raising awareness of businesses and other stakeholders for the role and importance of Quality Infrastructure, as well as membership to European and International Standardization Organizations. The overall objective for improving the Quality Infrastructure is the approximation and implementation of EU legislation for the framework (NLF: 764/2008/EC, 765/2008/EC, 768/2008/EC, including directives of *New Approach and Old Approach* as well as Regulation 1025/2012/EU) for the purpose of increasing the quality and safety of products and services provided in domestic market, integration in the EU market and other countries, and elimination of technical barriers to trade.

Activities per year: 2017: 1) Approval of the amendments of the Law on technical requirements for products and conformity assessment, as well as supplement with other bylaws and its implementation. 2) Approval of new Law for Construction Products and its supplement with other bylaws for certain construction products and their implementation in compliance with Regulation (EU) of the European Parliament No. 305/2011; 3) Approval of the Law on Standardization (new law) and approval/transposition of new European and International standards (4000 new standards for the period 2017-2019) giving priority to harmonized standards. 4) Transposition of Regulations for construction products (Regulation 305/2011/EU) and lifts (Directive 2014/33/EU). **2018:** 1) Approve secondary legislation, including structuring of the Kosovo Standardisation Agency, organization and functioning of Technical Committees and General Council on Standardisation; 2) Transposition of Regulations for textile names and textile fibres (1007/2011/EU) and appliances burning gaseous fuels (Regulation 2016/426/EU); **2019:** 1) Transposition of Regulations for machineries (2006/42/EC + amendments) and Personal Protective Equipment (Regulation 2016/425/EU). **During the three-year period,** cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields (*lifts, construction products, electrical appliances, textile products, footwear and toy safety*), increase of the number and performance of Conformity Assessment Bodies, as well as raising awareness of businesses and other stakeholders for the role and importance of applying standards.

Costing and budgetary impact: For implementation of the measure activities, Kosovo Budget has allocated € 66,300 for each year of the period 2017-2019. This amount has been planned in the Budget of 2017 within the Department of Industry (MTI) and Kosovo Agency for Standardisation, category of Goods and Services, Wages and Salaries.

Expected impact on competitiveness: Improvement of Quality Infrastructure is a mechanism and the most sustainable solution for increasing competitive abilities of businesses. By implementing the technical legislation and standards, Kosovo products will become more competitive against those imported as the businesses will be able to prove that domestic products have been subject to the same security requirements and have implemented the same standards as products imported from the European market. In addition, the improvement of Quality infrastructure has a crucial impact on commercial integration as businesses which implement the Kosovo legislation that transposes that of the EU will gain the opportunity to export in the internal market of the European Union without implementing additional requirements.

Expected impact on social outcomes: Improvement of Quality Infrastructure is expected to have a wider impact on society through the promotion of private sector investment and encouraging businesses to implement standards to achieve quality and safety of products which in turn makes it possible for the Kosovar consumers to enjoy a safer product consumption.

Potential risks: Delays in approval of necessary pieces of legislation, respectively amendment of laws and approximation with EC Directives and Regulations.

4.3.7. EDUCATION AND SKILLS

a. Analysis of main obstacles

State of play: During recent years significant progress is evidenced in the development of skills, in improving quality and access to education. Inclusion in pre-primary education has been 79.6%, in primary 96.4%, in lower secondary 99.5%, in upper secondary education 84.5% while higher

education (18-24) 49.6% is considered a challenge compared to other levels of education. Kosovo has started the implementation of a revised curriculum framework and based on the assessment made in the pilot schools, new curriculum framework is implemented only in 94 schools. In the academic year 2017-2018, the process will be expanded to all schools.

Although some activities were undertaken with regard to education quality assurance such as curricula revision, training, and salary increases for teachers, there is much to be done. Currently, two types of external tests are applied for pupils' assessment, the achievement test in semi-matura (62.60% in 2015), and the state matura exam (54.50% in 2015). Pupil Assessment system, after the conclusion of fifth grade was piloted but still expected to be implemented in a systematic way. In 2015 Kosovo participated for the first time in the Program for International Student Assessment (PISA) and was ranked 69 from the 72 countries assessed for math, science and reading for pupils from age group of 15.

Currently, about 40% of teachers do not have adequate qualifications prescribed by the relevant administrative instruction for teaching; this is reflected in the quality of education. Some positive developments were observed in the teacher re-qualification programs, but further progress is needed to ensure that all teachers meet minimum standards of teaching.

Despite the positive results in vocational education, there are still concerns about the mismatch of skills offered with the labour market needs. About 50% pupils of upper secondary education choose a vocational education profiles, this involvement is comparable to the involvement rate in regional countries. Linking vocational education with labour market remains a challenge for around 30% of vocational schools offering profiles that are not highly demanded by the labour market. Based on Enterprise Survey (KAS, 2013), about 25% of enterprises engaged in manufacturing pointed the lack of adequate skills as a major obstacle in their business activity. The results of BEEPS Enterprises Survey (World Bank, 2013) indicate that about 76% of enterprises in Kosovo report that the skills and education of the workforce is a problem for business operations.

Recently, the enrolment in higher education has increased, and the current figures rank Kosovo among regional countries with most students per 100,000 inhabitants. The teacher/student ratio has deteriorated significantly and this is a quantitative indicator of quality in higher education in Kosovo. Current educational offer is not fully in line with labour market needs and the needs for skills in strategic sectors of the government.

Structural obstacles regarding the fields of education and skills include low involvement of children in preschool education as a result of the lack of proper funding, lack of curriculum for age group 0-3, lack of regulating and licensing of private institutions, lack of professional development of educators and development of national instruments for determining the quality of preschool education, are challenges that are affecting the entire education system. Development of skills for most relevant professional fields does not correspond to the requirements and causes negative effects on economic development.

Other obstacles include the small number of occupational standards and revision of vocational education curricula; quality assurance tools and practices are still underdeveloped; Overall quality of teaching, training of teachers at all levels and of those in vocational education.

Impact of structural obstacles: Non-inclusion of children in preschool education negatively affects their success at other levels of education, as a consequence in long-term aspects it has an impact on workforce skills. Findings indicate that it also prevents the participation of women in the

labour market. In general, the lack of aligning education with labour market has an effect on reduction of investments and hinders economic development, and in increased unemployment and poverty and unnecessary budget spending. Quality teaching is essential for preparing a skilled workforce for the labour market.

b. Priority plans of reforms

Reform measure #17: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula

Description of the measure: The main objective of this measure is the harmonization of education and training with the requirements of the labour market. The measure is a continuation of ERP 2016 and is linked with NDS and ERA. Reforms contributing to achieving this objective are presented in a wider context and specified in more detail in the Kosovo Education Strategic Plan 2017-2021, which was approved in December 2016. During 2016 the new Kosovo curriculum framework and the Core Curriculum for three levels of pre-university programs were revised, 61 syllabuses were designed and all textbooks regarding their contents were revised. Also two conferences and roundtables were held with businesses and other education stakeholders.

Activities per year: 2017: 1) 20 new occupational standards will be drafted and verified. 2) Development of VET Core curriculum based on the new curricula of Kosovo; 3) Revision of the VET curriculums, training curriculums, training of trainers and teachers based on the Core curriculum of MEST, MLSW; 4) Development of teaching materials for VET for two priority profiles by MEST and MLSW and 5) the expansion of a new curriculum for preschool and I, VI, and X grades in all schools. **2018:** 1) 10 new occupational standards will be drafted and verified. 2) expanding new curriculum for preschool and II, IV and XI grades in all schools; 3) drafting of at least three new curricula for vocational education and training according to requirements of labour market; 4) training of teachers for implementation of new curricula and development of teaching materials for VET priority profiles according to the needs of the economy. **2019:** 1) 10 new occupational standards will be drafted and verified. 2) Expanding the new curriculum for preschool and III, VIII and XII grades in all schools; 3) training of teachers for implementation of the new curricula and development of teaching materials for VET priority profiles according to the market needs.

Costing and budgetary impact: Budget plans to implement activities during 2017 are: 225.000 € from Kosovo Budget (15.000 from National Qualifications Authority (NQA), 15.000 € from MLSW, 195.000 € from Agency for Vocational Education Training and Adult Education (AVETA) and MEST, and 112.000 € from donors. During 2018 are planned 275, 000€ form Kosovo Budget (15.000 from National Qualifications Authority (NQA), 15.000 from MLSW, 145 000 from Agency for Vocational Education and Training and Adult Education (AVETA) and MEST and 100.000 from donors. During 2019 are planned 225.000€ from KCB (15.000 from National Qualifications Authority (NQA), 15.000 from MLSW, 195 000 from Agency for Vocational Education and Training and Adult Education (AVETA) and MEST and 100.000 € from donors.

Expected impact on competitiveness: The implementation of this measure will contribute to the development of a skilled and more productive labour force, create opportunities for self-employment and employment in general. By providing more adequate and better educated human resources, the measure will foster innovation and enhance the quality and efficiency of products and companies, development of the industry and increased foreign investment.

Expected impact on social outcome will be long-term and will be reflected in increased incomes of employees and enterprises and at the same time will increase employment, reduce youth unemployment rates and contribute to the welfare of the population.

Potential risks. The slowdown in the implementation of the new curriculum and the slowdown of the process of developing new standards. Lack of interest of businesses to cooperate and the low economic development of the country.

Reform measure #18: Implementing and improving the teachers' career system

Description of the measure: The objective of this measure is to improve the quality of education by the implementation of the teachers' professional development system and teachers' performance assessment implemented through the licensing system of teachers for advancement in their career. The measure is a continuation of ERP 2016 and is linked with NDS and ERA. Activities are based on the newly adopted Kosovo Education Strategic Plan 2017-2021. During 2016 the Administrative Instruction for licensing of teachers was revised, the strategic framework for professional development of teachers was drafted and over 2000 teachers were trained on implementation of the new Kosovo Curriculum Framework in 71 schools. Also 2400 teachers were trained on other programs within natural science programs.

Activities per year: 2017: 1) Completion of the legal framework for the professional development of teachers; 2) Training of 8000 teachers in implementation of the core curriculum for pre-primary grade, and 1, 6, 10 grades in the general and vocational education; 3) Review and approval of the strategic framework for development of teachers; 4) Modification and development of database for licensing and updating the catalogue and prioritization of accredited programs by MEST. **2018:** 1) Implementation of the induction phase for new teachers (Induction phase) before career commencement; 2) development of the database for licensing under the new scheme of data integration system of EMIS – MEST (Education Management Information System); 3) teachers performance evaluation (5%) that are graded by the licensing system; 4) training of 8000 teachers in the implementation of core curriculum for grades – 2, 7, 11 in general and vocational education; and 5) creation of mechanisms for implementation of strategic framework for development of teachers. **2019:** 1) Continuation with the renewal of licenses and grading for teachers within the licensing process. 2) Connection with the payroll system according to the funding formula, 3) training of 8000 teachers for implementation of the core curriculum for grades 3, 8, 12 of the general and professional education and 4) implementation of the strategic framework for the development of teachers in the school level, MEDs and MEST.

Costing and budgetary impact: For implementation of activities in 2017, 700,000 € are planned from Kosovo Budget and 150,000 from the WB program (ESIP). For activities during 2018, 600,000 € are planned from the Kosovo Budget and 200,000 from the WB program (ESIP). For activities during 2019, 600,000 € are planned from the Kosovo Budget and 550,000 from the WB program (ESIP).

Expected impact on competitiveness: This measure improves and increases the pupil's learning outcomes and increases the quality in the education system, which will improve the quality of the labour force and contribute to increase in investments and economic development.

Expected impact on social outcomes: This measure in the longer run enhances employment opportunities of better educated young population and contributes to reduction of youth unemployment and increased welfare of the population.

Potential Risks: Activities would have budgetary implications that need to be sustained over a long term. These would include recurrent costs on maintenance of the new EMIS modules and the upgraded DSME, salary increases derived from teacher career advancement etc.

4.3.8. EMPLOYMENT AND LABOUR MARKETS

a. Analysis of the main obstacles

State of play: Kosovo has a high rate of unemployment, which is two times higher than the regional average (32.9% in 2015 and down to 26.2% in Q2 2016, according to the LFS) and four times higher than the EU average, especially for women (36.3% in 2015, 30.3% in Q2 2016) compared to men (31.8% in 2015, 25.0% in Q2 2016). Gender differences are even more present in the employment rate, which in Q2 2016 was 42.9% for men (up from 38.7% in 2015), but only 12.6% for women (11.5% in 2015).

Leading labour market indicators, according to LFS for Q2 2016, such as the rate of labour force participation (37.8%; 37.6% in 2015) and employment rate (27.9%; 25.2% in 2015), are the lowest in the Western Balkans region, much lower than the EU average and only about 1/3 of the “Europe 2020” objective (75% employment rate). The inactivity rate (percentage of the population that does not participate in the labour force) was 62.2% in Q2 2016 and much higher among women (81.9%) compared to 42.9% for men.

The share of employment in vulnerable jobs (people who are self-employed and do not have employees and those who work for free in a family business) decreased from 24.9% (2014) to 22.8% in 2015. The main employment sectors in 2015 were manufacturing, trade, education and construction.

Unemployment rate among the young people (age group 14-24) remains very high despite some recent improvement. It declined from 61.0% in 2014 to 57.7% in 2015 and 51.0% in Q2 2016. At the same time, little improvement was recorded in the percentage of young people who belong to the NEET category (Not in Education, Employment, or Training for responders aged 15-24); their share was 30.2% in 2014, 31.4% in 2015 and 29.3% in Q2 2016.

Official statistics show that there has been also recent improvement in the long-term unemployment rate (percentage of the unemployed who have been unemployed for more than 12 months). It was 68.9% in 2014, 72.2% in 2015 and 65.0% in Q2 2016. Unemployment is also an acute problem for the elderly unemployed, due to the limited capacity of this group to adapt to the needs of the labour market.

The unemployment rate for people with tertiary education was 19.0% in 2015, compared to 46.7% in 2015 for those with primary education, 35.9% for graduates of vocational high schools and 29.6% for those with general secondary education. The latest LFS (for Q2 of 2016) marked a decrease in unemployment for all education levels. People with vocational secondary school are more likely to be employed in the private sector than in the public sector, and the opposite is true for those who have completed higher education (in 2015, 58.4% of all public sector employees had tertiary education, whereas 42.4% of employees in private companies had vocational secondary education). Moreover, as a sign of growing importance of relevant training for the labour market, 36.2% of all employed persons had vocational secondary education, 21.2% had general secondary education and 27.5% had tertiary education.

Structural obstacles: The high rate of inactive population is a serious obstacle for the use of potential human resources for economic growth and strengthening of competitiveness. This is due to the low demand for labour because of low economic development; mismatch of market needs with the skills offers by the formal and professional system of education; non-adequate development of vocational training system, including the integration of learning with work and discrepancy between curricula content and market needs; the low overall rate of participation in the labour force and even lower participation of women.⁴⁴

There is a considerably high level of remittances, which according to some studies (e.g. UNDP survey on remittances) increase the reservation wage and potentially discourage participation in the labour market.

Regarding the employment services, the main challenges consist in the lack of staff and capacities in public employment offices, resulting in a high number of job seekers per employment adviser (1200 jobseekers per adviser).

Impact of structural obstacles: Weak capacities of employment services prevent effective matching between job seekers and employers, as well as providing trainings and other employment facilities. Discrepancy between skills and labour market has a significant negative impact on competitiveness and economic growth, in particular due to the fact that it produces inadequate manpower that directly affects the quality and quantity of investment in economy. In addition, there the discrepancy results in high structural unemployment. The high level of structural unemployment (of youth, women, and long-term unemployed) results in a burden on public finances, high dependency of youth on support schemes and families, and reduces the potential for long-term economic growth.

b. Report on policy guidance implementation since May 2016

Set up an action plan for tackling youth unemployment based on an assessment of the challenges and focussing on improving education outcomes including through improved teacher training and supporting school-to-work transitions. Ensure that the Employment Agency has sufficient capacity. Take measures to increase labour market participation of women.

Within the process of reviewing the Sectorial Strategy for employment and social policy 2015 – 2020, the Action Plan for youth employment is foreseen to be drafted in the following year, which plans specific targets for youth employment for the period 2017-2018. These targets will enable to monitor the success of active labour market policy programs and projects, specifically for youth employment. Drafting of International Standard Classification of Occupations ISCO 08 was conducted in order to implement policies to facilitate the transition from school to work, which is a basis for the description of occupations, drafting of occupation standards and a basis for a new approach to drafting competency-based curricula. In this context, offices for student services in four centres were also established which include Offices for Career Guidance. With the aim of increasing school-business cooperation agreements with businesses were signed.⁴⁵

EARK Employment Policy 2016-2018, which defines the policy orientations for MLSW as well as specific objectives for the following three years, was drafted regarding the functioning of the

⁴⁴These obstacles were identified by European Commission's assessment of Kosovo ERP 2016 -2018

⁴⁵ The actions taken and planned for improving education outcomes and teacher training, which are also related to the policy guidance, are explained in more detail in Section 4.3.7.

Employment Agency of the Republic of Kosovo, based on the Regulation adopted for the operation of the agency.

c. Plans of priority reforms

Reform measure #19: Improvement of employment services through functionalising the Employment Agency and active labour market measures

Description of measure: This measure is continuation of the reforms undertaken in 2016 on improving the capacities of public employment services (PES) to enhance its services for jobseekers and employers. Steps undertaken in 2016 to implement the measure include the adoption of the regulation on internal organization of the Employment Agency as an independent body. Services of non-public providers are expected to be monitored upon the establishment of the agency. Implementation of this measure will result in a more effective planning, drafting, implementing and monitoring of active labour market policy measures implementing the 'grant scheme' for vulnerable groups, especially for women and young people. This measure derives from the 2015-2020 Sectorial Strategy of the Ministry of Labour and Social Welfare (MLSW), and also MTEF 2017-2019.

Activities per year: 2017: 1) Functioning of EARK, including the transfer of existing staff and assets from MLSW. 2) Complete drafting of the regulation for the advisory board, as well as the drafting of necessary sublegal acts. 3) Licensing of non-public employment service providers to improve the delivery of employment measures (for implementation of active measures of labour market). 4) Training of employment advisers and review of performance results. 5) Improving the integration of the Labour Market Information System (LMIS) with the Education Management Information System (EMIS). 6) Modernization of services provided by vocational training. **2018:** 1) Application of an internal training system of the Agency, which includes trainings for better designing, implementing and monitoring the active labour market measures; 2) Implementation of a training program to strengthen the technical capacities for monitoring the EARK staff regarding the functioning and performance of non-public employment service providers, who can be contracted for the implementation of ALM; 3) implementation of the grant scheme (IPA) for the ALM which will target vulnerable groups, particularly women and youth. **2019:** Continuation of internal training of the Agency, with increased focus on assessing the impact of active measures of the labour market with a view to improve the effect of such measures.

Costing and budgetary impact: For the implementation of activities related to the functioning of EARK, the amounts planned are: €175,000 (2017), €130,000 (2018), €130,000 (2019), as part of the regular budget of the Employment Department (salaries and wages, goods and services). For the Integrated Information System of the Labour Market, as part of the Budget 2017, €100,000 was budgeted for 2017 in the category of Capital Expenditures (MLSW). As for the implementation of the wage subsidy scheme, the 2017 Budget plans €9.0 mil for 2017-2019 (€3.0 mil each year) in the category of Subsidies and Transfers - Employment Department. Within this category €600,000 are also planned for 2017 for modernization of services provided by vocational training. Additionally, other activities of active labour market policy measures are expected to be supported from the IPA project with € 500,000 in 2018 and 2019.

Expected impact on competitiveness: Functionalization of EARK is expected to improve the services which will increase employment of jobseekers. This measure aims to improve opportunities for sustainable employment, particularly through strengthening employment services, which improve the employment offer, increase the employment, especially among the long-term

unemployed. Various measures of active labour market policy target the most vulnerable individuals and groups, including youth, women, people with disabilities, minority groups, but also individuals who aim to establish their own businesses.

Expected impact on social outcomes: This measure will enhance employment and income opportunities, particularly for vulnerable groups, with special emphasis on the long-term unemployed, youth, women, minority groups and people with disabilities. The expansion of the grant scheme for implementation of active labour market measures will also provide support for social enterprises, including support of social enterprises with a focus on women and other groups in need (costs are already included in the funding of ALMPs above). The measure will also reduce dependency on social schemes.

Potential risks. Potential delays may occur regarding the formal creation of EARK. Licensing of non-public providers of employment services also requires sufficient monitoring capacity to be developed within EARK to adequately supervise the contracting of public resources for non-public providers. Risk also remains in the failure to agree for a unified system of active employment measures.

4.3.9. SOCIAL INCLUSION, REDUCTION OF POVERTY AND EQUAL OPPORTUNITIES

a. Analysis of main obstacles

State of play: According to the recent report related to the Consumption Poverty by the KAS and the World Bank, the poverty in Kosovo remains high, especially in rural zones where families headed by women are more at risk of poverty compared to the families headed by men (families headed by women are 4% poorer, and also families with more than 7 members are poorer). With a GDP of around €3,000 per capita, Kosovo is one of the poorest countries in Europe, but with a relatively low GINI index (World Bank 2013) and flat distribution of consumption. Around 29.3% of population lives under the poverty line of €1.72 per adult equivalent per day, whereas 10.2% still live in extreme poverty, with less than €1.20 per adult equivalent per day. Around 32.8% of children in Kosovo live in poverty and 10.6% live in extreme poverty

With respect to the gender issues, it is reported that the involvement of women in the economy and other spheres of life is low: in leading positions, females constitute 19.9% at the central level and 19.7% at the local level; 14.4% in the whole public administration are females, where 12% are from minorities. Participation rate in the labour market for women is the lowest in the region (21.4% in 2015) and there is a significant gender gap with regards to the attendance at the higher and superior educational level. According to UNDP report on Human Development (2016), RAE communities and persons with special needs have limited access to education: only 10% of children with disabilities attend education due to the lack of physical infrastructure adapted to their needs, whereas 13.3% of adults in RAE communities are illiterate, compared to 1.6% among the Albanian community in Kosovo. According to the KAS and UNICEF, children of RAE communities have lower percentage of attendance, especially at the secondary education level (53.4% compared to 90.4% for the entire population). Resource Centres and travelling teachers support around 166 pupils with special educational needs in the entire territory of Kosovo.

Social protection system in Kosovo is based on the cash benefits schemes and professional services. The system is generally funded by the State Budget for the central and the local level. Programmes of benefits in Kosovo (pensions and social assistance), according to the data, cover around 15% of

the population. Expenditures for Pension Schemes during 2015 amounted to € 220,108,114, whereas expenditures for Social Assistance Schemes amounted to € 25,285,403. Due to the population structure, pension expenditures are relatively low compared to GDP. Pension scheme is based on fully funded mandatory contributions, thus ensuring its fiscal sustainability. According to IMF (2016), expenditures related to the war categories comprise the largest part of social transfers.

Structural obstacles: Obstacles are related to the large number of groups, families and individuals at the risk of poverty and social exclusion. Number of citizens and families in need for social protection, health care and other social services continues to be high. Social protection system continues to face challenges due to the budgetary limitations and other limitations that infringe on the efficiency of policy and legislation implementation. A challenge remains the maintenance and advancement of a social protection system and health care. Social support policies are not sufficiently synchronized with active labour market policy measures.

A key obstacle to address the issues of social exclusion and inclusion of marginalized groups is the lack of specific grant for funding social services at the local level. Also, the system of social protection, combined with other policies at ministry and government level, should improve the targeting of women and girls in need, as well as disabled people, RAE communities, long-term unemployed and other vulnerable groups. Obstacles for inclusion of children with special needs are: low awareness for inclusion, inadequate infrastructure in schools and preparation of teachers for inclusion of pupils with special needs, lack of an assessment of needs and opportunities for pupils with special needs, lack of professional staff for support, as well as the lack of funds for staff employment.

Impact of structural obstacles: The obstacles result in inequality in incomes, insufficient inclusion in education, poor health conditions and lack employment opportunities. Inequalities in incomes and social exclusion undermine the economic performance in the long-term, and this is related to two aspects: higher inequalities hamper the economic growth and the inequality also impacts on the education results and abilities; therefore, it may generally impact the human capital of the country. Higher level of poverty increases receipts from the welfare system, whereas the inefficient health system negatively impacts the economic growth by poor health conditions of the labour force and in an indirect way through high expenditures that are not necessarily translated into expected results.

b. Plans of priority reforms.

Reform measure #20: Improvement of social and healthcare services

Description of measure: The proposed measure aims to strengthen the social protection system through improved health and social services. It aims to define a sustainable system for financing social services, licensing of NGOs for the provision of social and family services; operationalisation of the institutional infrastructure for the establishment of the health insurance fund, including exemption of health insurance payment for the vulnerable groups in accordance with the Law on Health Insurance. This measure is based on the draft Sectorial Strategy of the Ministry of Labour and Social Welfare (MLSW), 2015-2020.

Activities per year - 2017: 1) Creating and drafting of the financing formula for social and family services (minimum 6% of the General Grant for social services); 2) Inclusion of the "specific grant for social services" within the system for financing the municipalities by the central government, by including it in the amendment of the Law on Local Government Finances; 3) Grants support to licensed NGOs to provide social and family services; 4) Development, support and financing of

social enterprises that provide social services; 5) Development and promotion of Integrated Information System of social payments, which also includes statistics on gender basis; 6) Collection of health insurance premiums from citizens; 7) Coverage of premium cost for social categories from the Kosovo Budget. **2018:** 1) Support with grants the licensed NGOs to provide social and family services; 2) Development, support and financing of social enterprises that provide social services; 3) Improving and maintenance of the Integrated Information System of Social Payments; 4) Execution of payments for health insurance services of the insured. **2019:** 1) Support licensed NGOs with grants to provide social and family services; 2) Continuation of development, support and financing of social enterprises that provide social services; 3) Continuation of the development and progress of the Integrated Information System of Social Payments; 4) Coverage of premiums cost for social categories from the Kosovo Budget.

Costing and budgetary impact: Inclusion of the "specific grant for social services" within the system for financing the municipalities by the central government will be covered by reallocating €3,000,000 in 2018 and €5,000,000 in 2019 from the General Grant Grant for licensed NGOs will amount to €750,000 in 2017 (€500,000 from the EU and €250,000 from the budget); €900,000 in 2018 (€700,000 from the EU and €200,000 from the budget); €900,000 in 2019 (€700,000 from the EU and €200,000 from the budget) with a total of €2,550,000. Development, support and financing of social enterprises that provide social services: €800,000 in 2018 (€500,000 from the EU and €300,000 from the budget); €1,000,000 in 2019 (€500,000 from the EU and €500,000 from the budget) amounting in total amount to €1,800,000. Development and promotion of the Integrated Information System: €300,000 in 2017 (€200,000 from donors and €100,000 from the budget). Payments of health insurance premiums for employees in the public sector: €51 million for the period 2017-2019 (€17 million budgeted in the Kosovo budget each year). Premiums collected for health insurances from citizens are estimated at €60 million per year, whereas the amount needed to cover of premium for vulnerable categories from the Kosovo Budget is still to be verified.

Expected impact on competitiveness: Better access to social and health services will have an indirect impact on competitiveness of the economy by improving possibilities of vulnerable groups to participate in the labour market and improving the health status of the labour force.

Expected impact on social outcomes: Implementation of the measure will improve the access to social services and especially enable better access to health care and improvement of health care through additional funding from the health fund. Improved welfare and health of targeted categories should also be favourable for improving the performance and competitiveness of the labour market in general. The measure will improve social services especially for marginalized groups and people with special needs.

Potential risk: Potential delays may occur in the approval of the amendment of the Law on Local Government Finances. There may also be delays in the collection of premiums under the Law No. 04/L-249 on Health Insurance.

5. BUDGETARY IMPLICATION OF STRUCTURAL REFORMS

The reforms identified in the previous section entail existing and new policies of the Government in order to address key obstacles to growth, competitiveness and job creation. These reforms are mainly funded through Kosovo budget, but also external funding from financial institutions, grants and technical assistance from development partners.

As far as budgetary expenditure are concerned, the implementation of structural reforms is associated with increase in the expenditures part. The total budgetary impact arising from the implementation of 20 envisaged structural reforms amounts to €273 mil for the period 2017-2019. The total possible non budgetary funding is expected to be at €93mil for the period 2017-2019. Out of this amount, €44.8mil are IPA committed funds, or borrowings from international financial institutions. Financing from borrowings is accounted, under the total Impact on budgetary expenditures, since the loans are recorded as part of the budget. These are mainly existing policies which have received respective funding from Kosovo budget and commitments from the development partners. Of all the priority areas, the most significant increase of budgetary expenditures is related to investments in agriculture infrastructure and agro-processing.

On revenue side, the impact of the structural reform measures is significant on upgrading and/or rehabilitating both physical and energy infrastructure, improving the procurement system, assisting agriculture in the function of competitiveness, increasing competition and revenues through proper industrial policy making, improving business environment through tackling contract enforcement and judicial reforms, labour market reforms as well as improving the access to finance for Kosovar SMEs.

	2016	2017	2018	2019
A. Duration of the reforms				
B. Net direct budgetary impact (if any) (in €)	1,906,000.0	84,149,279.3	74,879,182.3	77,158,768.3
B.1 Direct impact on budgetary revenue (in €)	-	-	-	-
B.2 Direct impact on budgetary expenditure (in €)	1,906,000.0	84,149,279.3	74,615,182.3	77,188,768.3
B.3 Possible non-budgetary financing (in €)	-	24,786,850.0	37,530,950.0	30,041,913.0
- B.3.1 Of which committed IPA funding including WBIF funding (in €)	100,000.0	13,450,000.0	15,500,000.0	15,850,000.0
<i>Total Net Budgetary Impact</i>				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	2,906,000.0	89,093,279.3	90,375,182.3	92,822,681.3

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

This section presents the institutional process for the preparation and approval of the Economic Reform Programme as well as the consultation of national stakeholders (national parliament, regional and local authorities, social partners and civil society) during the preparation process. As a result of the endeavours of Kosovo Government to involve a wide range of stakeholders in the process, a very satisfactory involvement and participation of all stakeholders from all sectors was achieved in order to ensure ownership and facilitate their later involvement on the implementation of the programme. To coordinate the process, the Government of the Republic of Kosovo has adopted the Decision No. 11/100, to initiate the drafting of Economic Reform Programme as part of the dialogue between the EU and the Republic of Kosovo within the economic governance area.

According to this decision, the Minister of Finance was appointed as the National Coordinator of ERP 2017-2019, whose work was supported by the Strategic Planning Office (SPO) within the Office of Prime Minister; the Department of Economic and Public Policies and International Financial Cooperation (DEPPIFC) in the Ministry of Finance; and coordinators of respective fields in the line Ministries: Ministry of Finance, Ministry of Economic Development, Ministry of Trade and Industry, Ministry of Agriculture, Forestry and Rural Development, Ministry of Education, Science and Technology, Ministry of Labour and Social Welfare, Ministry of Public Administration, Ministry of Environment and Spatial Planning, Ministry of Justice, Ministry of Infrastructure, and Ministry of European Integration and other supporting bodies and agencies.

Based on the instructions of the National Coordinator, SPO invited ministries and other institutions designated by the guideline of European Commission (EC) to a kick-off meeting, in order to request contributions to the ERP drafting process. In early November a workshop with the OECD was held, in order to review the first draft of measures. Subsequently, based on OECD comments/feedbacks the coordinators of respective fields worked on consolidation and operationalisation of measures. The first draft was introduced to EC on 22nd November. Afterwards individual meetings with coordinators were held, where all EC comments/feedbacks were addressed. The National Coordinator has carried out the review of measures for prioritization. Also, the draft of ERP 2017-2019 on 19th December was discussed and endorsed by the Strategic Planning Committee, chaired by the Prime Minister.

In order the program to reach the widest possible consensus, the GoK during December involved also social partners, civil society organizations, business associations, foreign development partners and parliamentarians by consulting them during the preparation of the program and ensuring their inputs are taken into account. During December the public consultation as such involved a meeting with civil society organizations and development partners and sending to them also by mail the draft of ERP to get their comments, and we also published it online at the OPM website. SPO is not satisfied with the level of engagement and quality of comments and inputs received from CSOs during this process. Also the program was presented to the National Economic Development Council – a mechanism chaired by the Prime Minister, with members from key ministries and private sector representatives (business associations and chambers of commerce); and the MCC Compact Development Team. The draft was also presented to members of the National Parliamentary Committee for Economic Development, Infrastructure, Trade and Industry for information and discussion.

ANNEX 1. TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	2015	2015	2016	2017	2018	2019
		Level (mil. €)	Rate of change				
1. Real GDP at market prices	B1* ^g	5,391.900	4.0	3.8	4.5	3.3	3.8
2. Current GDP at market prices	B1* ^g	5,567.900	3.7	4.5	6.3	4.8	5.1
Components of real GDP							
3. Private consumption expenditure	P3	4,901.000	3.3	4.9	2.9	4.4	4.2
4. Government consumption expenditure	P3	842.000	-3.8	-0.6	1.5	0.0	0.1
5. Gross fixed capital formation	P51	1,278.700	11.0	11.3	16.1	0.4	4.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	119.200	7.6	0.5	2.4	30.8	4.7
7. Exports of goods and services	P6	1,082.000	2.7	-0.4	3.2	3.2	4.2
8. Imports of goods and services	P7	2,831.000	3.2	6.4	6.2	3.8	4.1
Contribution to real GDP growth							
9. Final domestic demand		7,021.7	4.9	7.0	6.9	3.9	4.9
10. Change in inventories and net acquisition of valuables	P52+P53	119.2	0.2	0.0	0.1	0.7	0.1
11. External balance of goods/services	B11	-1,749.0	-1.1	-3.3	-2.5	-1.3	-1.3

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	2015	2016	2017	2018	2019
1. GDP deflator		-0.3	0.7	1.7	1.4	1.2
2. Private consumption deflator		-1.3	0.0	0.9	0.7	0.6
3. HICP		:	:	:	:	:
4. National CPI change		-0.5	0.0	0.9	0.6	0.7
5. Public consumption deflator		2.3	1.8	1.5	2.6	2.9
6. Investment deflator		0.0	-3.2	1.0	0.9	0.6
7. Export price deflator (goods & services)		-0.2	0.2	1.8	2.0	1.5
8. Import price deflator (goods & services)		-1.0	-2.6	-0.2	0.4	0.3

Table 1c: Labour market developments

	ESA Code	2015	2015	2016	2017	2018	2019
		Level	Level/Rate of change				
1. Population (thousands)/1		1,837	1,757.8	1,837.0	1,847.6	1,857.9	1,867.5
2. Population (growth rate in %)			-3.0	4.5	0.6	0.6	0.5
3. Working-age population (persons)			1,176.1	1,199.7	1,223.7	1,248.1	1,273.1
4. Participation rate			37.6	0.0	0.0	0.0	0.0
5. Employment, persons			296.9	320.7	333.5	346.9	360.7
6. Employment, hours worked/2			633,100.0	:	:	:	:
7. Employment (growth rate in %)			-8.2	8.0	4.0	4.0	4.0
8. Public sector employment (persons)			78.4	80.0	82.0	:	:
9. Public sector employment (growth in %)			-1.2	2.1	2.5	:	:
10. Unemployment rate			32.9	:	:	:	:
11. Labour productivity, persons		16,666	13.3	-3.9	0.4	-0.6	-0.2
12. Labour productivity, hours worked			12.6	:	:	:	:
13. Compensation of employees	D1	1,728	-1.7	2.0	4.0	4.0	4.0

1/The Statistical Agency of Kosovo has developed 3 demographic trend scenarios, of which the middle scenario is recommended for planning and analysis

2/Total hours worked within the year on national level

Table 1d: Sectoral balances

Percentages of GDP	ESA code	2015	2016	2017	2018	2019
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-7.8	-9.1	-11.0	-11.6	-11.4
<i>of which:</i>						
- Balance of goods and services		-37.0	-36.5	-37.7	-37.7	-37.7
- Balance of primary incomes and transfers		28.7	27.0	26.3	25.8	25.9
- Capital account		0.4	0.5	0.4	0.4	0.4
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-6.2	-8.1	-6.7	-7.5	-7.6
3. Net lending/borrowing of general government		-1.6	-1.1	-4.3	-4.0	-3.8
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	2015	2016	2017	2018	2019
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	5771.8	6031.3	6409.3	6715.8	7057.8
Investment ratio (% of GDP)		24.9	25.7	28.3	27.4	27.4
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		0.0	0.6	1.6	2.7	3.5
2. Industry (excluding construction)		5.9	5.3	5.6	5.8	5.5
3. Construction		4.8	6.0	5.4	4.8	4.0
4. Services		3.6	3.6	3.9	4.2	4.8

Table 1f: External sector developments

Million Euro unless otherwise indicated		2015	2016	2017	2018	2019
1. Current account balance (% of GDP)	% of GDP	-8.9	-11.0	-11.6	-11.4	-11.4
2. Export of goods	Million EUR	322.5	306.3	326.3	338.3	351.1
3. Import of goods	Million EUR	2,431.8	2,577.9	2,744.0	2,869.9	3,010.9
4. Trade balance	Million EUR	-2,109.3	-2,271.6	-2,417.6	-2,531.6	-2,659.8
5. Export of services	Million EUR	796.4	810.5	847.9	896.6	955.3
6. Import of services	Million EUR	442.0	402.1	415.1	420.7	427.3
7. Service balance	Million EUR	354.4	408.3	432.8	475.9	528.0
8. Net interest payments from abroad	Million EUR	16.3	20.1	19.5	19.2	19.1
9. Other net factor income from abroad	Million EUR	76.4	61.7	79.8	97.8	112.8
10. Current transfers	Million EUR	1,149.2	1,118.4	1,143.6	1,171.6	1,198.5
11. <i>Of which</i> from EU	Million EUR	:	:	:	:	:
12. Current account balance	Million EUR	-513.0	-663.0	-741.9	-767.1	-801.4
13. Capital and financial account	Million EUR	265.3	302.0	326.4	371.7	409.7
14. Foreign direct investment	Million EUR	271.8	258.2	275.1	285.2	295.9
15. Foreign reserves	Million EUR	-111.8	76.7	111.1	150.7	177.9
16. Foreign debt	Million EUR	:	:	:	:	:
17. <i>Of which</i> : public	Million EUR	:	:	:	:	:
18. <i>O/w</i> : foreign currency denominated	Million EUR	:	:	:	:	:
19. <i>O/w</i> : repayments due	Million EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	20.5	20.3	20.0	20.4	20.7
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	7.0	7.8	10.7	10.0	9.7

Table 1g: Sustainability indicators

	Dimension	2012	2013	2014	2015	2016
1. Current Account Balance	% of GDP	-6.6	-5.6	-9.9	-10.5	-12.3
2. Net International Investment Position	% of GDP	2.4	4.3	3.5	-0.3	1.2
3. Export market shares	%, yoy	-	-	-	-	-
4. Real Effective Exchange Rate	%, yoy	-0.3	0.4	0.2	-1.9	-0.1
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	1.1	0.7	1.2	1.8	:
7. Private sector debt	% of GDP	19.3	20.3	24.1	24.5	:
8. General Government Debt	% of GDP	5.8	8.0	10.5	13.0	14.2

Table 2a: General government budgetary prospects

Table 2a: General government budgetary prospects							
	ESA code	2015	2015	2016	2017	2018	2019
		Level (mil. €)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government /1	S13	-94.1	-1.6	-1.1	-4.3	-4.0	-3.8
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1,469.7	25.5	26.6	26.9	26.7	26.8
7. Total expenditure	TE	1,563.8	27.1	27.7	31.2	30.7	30.6
8. Net borrowing/lending	EDP.B9	-94.1	-1.6	-1.1	-4.3	-4.0	-3.8
9. Interest expenditure	EDP.D41 incl. FISIM	17.3	0.3	0.3	0.4	0.5	0.4
10. Primary balance		-76.8	-1.3	-0.7	-4.0	-3.6	-3.4
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,304.4	22.6	24.3	24.1	24.2	24.4
12a. Taxes on production and imports	D2	1,106.6	19.2	20.4	20.2	20.1	20.1
12b. Current taxes on income and wealth	D5	197.8	3.4	3.9	3.9	4.1	4.3
12c. Capital taxes	D91	0.0	:	:	:	:	:
13. Social contributions	D61	0.0	:	:	:	:	:
14. Property income	D4	15.0	0.3	:	0.1	0.1	0.1
15. Other (15 = 16-(12+13+14))		150.4	2.6	2.4	2.8	2.5	2.4
16 = 6. Total revenue	TR	1,469.7	25.5	26.6	26.9	26.7	26.8
p.m.: Tax burden (D2+D5+D61+D91-D995)		1,304.4	22.6	24.3	24.1	24.2	24.4
Selected components of expenditures							
16. Collective consumption	P32	730.5	12.7	12.4	12.4	12.3	12.1
17. Total social transfers	D62 + D63	399.8	7.2	7.9	7.4	7.1	7.0
17a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind/2	D62	399.8	7.2	7.9	7.4	7.1	7.0
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	17.3	0.3	0.3	0.4	0.5	0.4
19. Subsidies	D3	:	:	:	:	:	:
20. Gross fixed capital formation	P51	403.9	7.0	7.4	11.3	11.2	11.5
21. Other (21 = 22-(16+17+18+19+20))		12.4	:	:	:	:	:
22. Total expenditures	TE [1]	1,563.8	27.1	27.7	31.2	30.7	30.6
p.m. compensation of employees	D1	525.0	9.1	9.0	8.9	8.9	8.8

1/ The deficit presented here is not calculated in accordance with the fiscal rule definition as per LPFMA

2/ This is 'Subsidies and Transfers'

Table 2b: General government budgetary prospects

	ESA code	2015	2016	2017	2018	2019
Millions of euros						
Net lending (B9) by sub-sectors						
1. General government /1	S13	-94.1	-63.8	-276.5	-271.6	-267.9
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	1469.7	1,607.0	1,724.9	1,792.6	1,891.6
7. Total expenditure	TE	1,563.8	1,670.8	2,001.4	2,064.1	2,159.5
8. Net borrowing/lending	EDP.B9	-94.1	-63.8	-276.5	-271.6	-267.9
9. Interest expenditure	EDP.D41 incl. FISIM	17.3	19.2	23.2	30.4	30.4
10. Primary balance		-76.8	-44.6	-253.3	-241.2	-237.5
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1304.4	1462.9	1543.3	1622.1	1719.6
12a. Taxes on production and imports	D2	1106.6	1228.7	1292.1	1349.4	1417.9
12b. Current taxes on income and wealth	D5	197.8	234.3	251.1	272.7	301.7
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	15.0	0.0	5.0	5.0	5.0
15. Other (15 = 16-(12+13+14))		150.4	144.1	176.7	165.5	167.1
16 = 6. Total revenue	TR	1469.7	1607.0	1724.9	1792.6	1891.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		1,304.4	1,462.9	1,543.3	1,622.1	1,719.6
Selected components of expenditures						
16. Collective consumption	P32	730.5	745.4	797.0	825.4	854.0
17. Total social transfers	D62 + D63	418.1	474.7	473.3	479.2	491.6
17a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind/2	D62	418.1	474.7	473.3	479.2	491.6
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	17.3	19.2	23.2	30.4	30.4
19. Subsidies	D3	:	:	:	:	:
20. Gross fixed capital formation	P51	403.9	443.6	721.7	753.0	810.0
21. Other (21 = 22-(16+17+18+19+20))		:	:	:	:	:
22. Total expenditures	TE [1]	1563.8	1670.8	2001.4	2064.1	2159.5
p.m. compensation of employees	D1	525.0	543.7	572.3	597.1	621.5

1/ The deficit presented here is not calculated in accordance with the fiscal rule definition as per the LPFMA

2/ This is 'Subsidies and Transfers'

Table 3: General government expenditure by function

The data for this categorisation of expenditure has not been made available this year

Table 4: General government debt developments

% of GDP	ESA code	2015	2016	2017	2018	2019
1. Gross debt		13.0	14.2	17.9	20.4	22.0
2. Change in gross debt ratio		2.5	1.2	3.7	2.5	1.5
Contributions to change in gross debt						
3. Primary balance		1.33	0.7	4.0	3.6	3.4
4. Interest expenditure	EDP D.41	0.30	0.3	0.4	0.5	0.4
5. Stock-flow adjustment		0.9	0.1	-0.6	-1.5	-2.2
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		3.0	2.6	2.7	2.7	2.2
Other relevant variables						
6. Liquid financial assets		0	0.03	0.06	0.06	0.05
7. Net financial debt (7 = 1 - 6)		10.6	12.9	15.3	18.2	21.9

Table 5: Cyclical developments

% of GDP	ESA Code	2015	2016	2017	2018	2019
1. Real GDP growth (% , yoy)	B1g	4.0	3.8	4.5	3.3	3.8
2. Net lending of general government	EDP.B.9	-1.6	-1.1	-4.3	-4.0	-3.8
3. Interest expenditure	EDP.D.41	0.3	0.3	0.4	0.5	0.4
4. One-off and other temporary measures		:	:	:	:	:
5. Potential GDP growth (% , yoy)		:	:	:	:	:
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		:	:	:	:	:
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance (8+3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	2015	2016	2017	2018	2019
1. GDP growth (% , yoy)					
Previous programme	3.8	4.0	4.3	4.3	:
Latest update	4.0	3.8	4.5	3.3	:
Difference (percentage points)	0.1	-0.2	0.2	-1.0	:
2. General government net lending (% of GDP)					
Previous programme	-2.0	-1.9	-2.1	-2.1	:
Latest update	-1.6	-1.1	-4.3	-4.0	:
Difference	0.4	0.8	-2.3	-1.9	:
3. General government gross debt (% of GDP)					
Previous programme	13.5	17.3	20.0	22.0	:
Latest update	13.0	14.2	17.9	20.4	:
Difference	-0.6	-3.2	-2.1	-1.5	:

Table 7: N/A

Table 7a: Contingent liabilities

% of GDP	2016	2017
Public guarantees	0.4	0.3
<i>Of which: linked to the financial sector</i>	0.3	0.3

Table 8: Basic assumptions on the external economic environment underlying the programme framework

(Purely) technical assumptions	Dimension	2015	2016	2017	2018	2019
Short-term interest rate, Euro-area19 /1	Annual average	-0.02	-0.26	-0.30	-0.30	:
Long-term interest rate, Euro-area19 /1	Annual average	1.14	0.77	0.59	0.56	:
USD/EUR exchange	Annual average	1.11	1.11	1.09	1.09	:
Nominal effective exchange rate /2	Annual average	99.6	104.0	103.6	103.6	:
Exchange rate vis-à-vis the EUR	Annual average	1.0	1.0	1.0	1.0	1.0
Global GDP growth, excluding EU /3	Annual average	3.3	3.2	3.7	3.8	:
EU GDP growth/3	Annual average	2.2	1.8	1.6	1.8	:
<i>Growth of relevant foreign markets /3</i>	<i>Annual average</i>					
Germany	Annual average	1.7	1.9	1.5	1.7	:
Switzerland	Annual average	0.8	1.2	1.5	1.7	:
World import volumes, excluding EU /4	Annual average	0.8	1.0	3.0	3.3	:
Oil prices /5	Annual average	95.20	79.25	92.61	97.95	102.09

1/ 2/ OECD, *Financial Data, Economic Outlook Annex Tables*

3/ World GDP, volume (percentage change on preceding year), *EEF Autumn 2016*

4/ World imports of goods and services, volume (percentage change on preceding year), *EEF Autumn 2016*

5/ IMF, *Financial Data, spot crude*

Table 9. Selected employment and social indicators

	Data source	2012	2013	2014	2015	2016
1. Labour market participation rate (%) total	LFS (SAK)	36.9 (15-64)	40.5	41.6	37.6	n/a
- male	LFS (SAK)	55.4	60.2	61.8	56.7	n/a
- female	LFS (SAK)	17.8	21.1	21.4	18.1	n/a
2. Employment rate (%) total	LFS (SAK)	25.5 (15-64)	28.4	26.9	25.2	n/a
- male	LFS (SAK)	39.9	44	41.3	38.7	n/a
- female	LFS (SAK)	10.7	12.9	12.5	11.5	n/a
3. Unemployment rate (%) total	LFS (SAK)	30.9	30	35.3	32.9	n/a
- male	LFS (SAK)	28.1	26.9	33.1	31.8	n/a
- female	LFS (SAK)	40	38.8	41.6	36.6	n/a
4. Long-term unemployment rate (%) total		n/a	n/a	n/a	n/a	n/a
- male	e	n/a	n/a	n/a	n/a	n/a
- female	e	n/a	n/a	n/a	n/a	n/a
5. Youth unemployment (15-24 yrs) rate (%) total	LFS (SAK)	55.3	55.9	61	57.7	n/a
- male	LFS (SAK)	52	50.4	56.2	54.2	n/a
- female	LFS (SAK)	63.8	68.4	71.7	67.2	n/a
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %	LFS (SAK)	35.1 (15-24)	35.3	30.2	31.4	n/a
7. Early school leavers, in % (Eurostat)	e	n/a	n/a	n/a	n/a	n/a
8. Participation rate in early childhood education and care /1		14.8	15.7	n/a	n/a	n/a
9. GINI coefficient		n/a	n/a	n/a	n/a	n/a
10. Inequality of income distribution S80/S20	e	n/a	n/a	n/a	n/a	n/a
11. Social protection expenditure in % of GDP	Treasury Dept.	n/a	n/a	n/a	n/a	n/a
12. Health expenditure in % of GDP		n/a	n/a	n/a	n/a	n/a
13. At-risk-of-poverty before social transfers, % of the population	e	n/a	n/a	n/a	n/a	n/a
14. Poverty rate		n/a	n/a	n/a	n/a	n/a
15. Poverty gap		n/a	n/a	n/a	n/a	n/a

1/ The ratio between the enrolment of children at the age of 0-5 and the total number of population at this age

TABLE 10: MATRIX OF POLICY COMMITMENTS

Description of Policy	2016	2017	2018	2019
1. Improvement of public procurement through application of electronic procurement ⁴⁶				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		430,052	431,583	434,669
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		430,052	431,583	434,669
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
2. Reduce of energy consumption through energy efficiency measures ⁴⁷				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		2,870,000		
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		2,870,000		
B. 3 Possible non-budgetary financing (in €) (WB and KFW)		4,795,000	6,560,000	6,083,913
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
3. Further development of energy generation capacities ⁴⁸				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		1,195,303.33	1,195,303.33	1,195,303.33
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		1,195,303.33	1,195,303.33	1,195,303.33
B. 3 Possible non-budgetary financing (in €) (WB and KFW)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
4. Extending relevant ICT network infrastructure for socio-economic development ⁴⁹				

⁴⁶ The cost presented for implementation of the measure has been planned in the Budget of 2017, within the programme of Public Procurement Regulatory Commission. This budget does not include the cost for implementation of the Activity: Maintenance of Electronic System of E-Procurement.

⁴⁷ The cost presented for implementation of the measure is the budget planned for 2017-2019 in the budget of 2017 for all activities presented within this measure. This budget includes €2.87 mil from Kosovo Budget (+ 1 mil PAK) in the category of capital expenditures for Kosovo Agency for Energy Efficiency, Loan from the World Bank 2017-2019 (€3.65mil, €5.4 mil, €6.083mil) and the loan for the Municipality of Prishtina, Gjilan, Ferizaj and Gjakova from KFW (€1,150 mil; €1,150 mil) which are part of the budget planning with the Budget 2017. 2017 (2.87+3.65+1.15=7.66); 2018 (5.4+1.15=6.55); 2018 (6,083.913)

⁵The cost presented for the implementation of the measure is the budget planned for 2017-2019 in the Budget of 2017 for all consultancy services with regards to the new capacity building of Kosova e Re. The value of €3.65 mil has been budgeted within the budget of Administrative Services Programme, MED for consultancy services, category Goods and Services.

⁴⁹ The cost presented for implementation of the measure, for activities related to 2017, were budgeted with the Budget for 2017. This cost of €2.0 mil is included within the Department of Post Telecom and Information Technology (MED), category of capital expenditures. Whereas activities planned for the period 2018-2019, including 1) Extension of Broadband Infrastructure and 2)

A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		2,000,000		
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		2,000,000		
B. 3 Possible non-budgetary financing (in €) (WB)			9,000,000	9,000,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)			1,500,000	1,500,000
5. Investment in agricultural infrastructure and agro-processing⁵⁰				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		49,900,000.00	48,500,000.00	48,700,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		49,900,000.00	48,500,000.00	48,700,000.00
B. 3 Possible non-budgetary financing (in €)		9,200,000.00	10,120,000.00	11,132,000.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)		13,300,000	13,300,000	13,300,000
6. Regulation and consolidation of agricultural lands⁵¹				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)	500,000.00	500,000.00	500,000.00	500,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)	500,000.00	500,000.00	500,000.00	500,000.00
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
7. Support the development of industrial clusters⁵²				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		10,000	10,000	10,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		10,000	10,000	10,000
B. 3 Possible non-budgetary financing (in €)		293,000		

Development of human resources for digital economy, are planned to be funded through a loan of World Bank. This loan is expected to be negotiated during 2017, and to commence the implementation from 2018. The loan is part of the loan list in the Investment Clause of ERP 2017-2019, Macro-Fiscal part.

⁵⁰ The cost presented for implementation of the measure has been budgeted in Budget 2017 within the category Subsidies and Transfers: 1. Department of Policies from €26.0 mil (2017), 25.0 mil (2018), 25.4 (2019) and Department of Rural Development Policies €21.5 mil (each year) cover a part of the Activity 1) *Investments in Physical Infrastructure and Activity 2) Investments in agro-processing sector*. For the other part of the measure 1) *Expansion of irrigated areas* planned under Budget for 2017 are as follows: €2.2 (2017), €1.8 (2018), €1.6 (2019) in the category of capital expenditures. Regarding measure 3) *Implementation of Integrated Agricultural Information System* within budget 2017 is planned 0.2 mil. For each year from 2017 to 2019 in the category of capital investments.

⁵¹ The cost planned for presented activities has been budgeted in the Budget of 2017 within the category Subsidies and Transfers: Department of Rural Development Policies

⁵² The cost planned for presented activities has been planned in the Budget of 2017, within the expenditures budgeted for the Department of Industry (MTI) in the category of Goods and Services (€50,000 each year from 2017-2019). The other part of activities planned for 2017 will be supported by ICEP Project / European Commission.

- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
8. Development of tourism product in the tourist regions of Kosovo⁵³				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		10,000	10,000	10,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		10,000	10,000	10,000
B. 3 Possible non-budgetary financing (in €)		16,000	20,000	16,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
9. An enabling regulatory system through evidence based policy development⁵⁴				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		290,000	279,000	260,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		290,000	290,000	290,000
B. 3 Possible non-budgetary financing (in €)		100,000	100,000	100,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
10. Ensuring property rights by addressing informalities in the real-estate sector⁵⁵				
A. Duration of the reform*		X	X	
B. Net direct budgetary impact (if any) (in €)		42,000	42,500	
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		42,000	42,500	
B. 3 Possible non-budgetary financing (in €)		1,245,850	1,415,950	
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
11. Increase judicial efficiency through reduction of court case backlog⁵⁶				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		350,000	350,000	
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		350,000	350,000	

⁵³The cost planned for presented activities has been planned in the Budget for 2017 within the expenditures planned for the Department of Industry (MTI), within the category Goods and Services (€50,000 each year from 2017-2019).

⁵⁴The cost planned for presented activities has been ensured from the support provided by SIDA project. During each year, for the period 2017-2019, it will be allocated €290,000 annually through the direct budgetary aid and €100,000 for expertise.

⁵⁵The cost planned for presented activities has been mainly ensured through the support from USAID project. The part of Kosovo budget planned for this measure for the period 2017-2018 is €84,500, the planning part of the Budget for 2017 of the Ministry of Justice.

⁵⁶ The cost planned for presented activities include the amount of €350, 000 for the period 2017-2018, planned in the Budget for 2017, for purchasing computers and EUR 150,000 for audio equipment, as part of the KJC budget. CMIS software will be funded by the Norwegian project in the amount of 6,700,000 during the three-year period 2017-2019. The table does not include the cost for funding the professional court advisors.

B. 3 Possible non-budgetary financing (in €)		2,300,000	2,500,000	1,900,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
12. Improved access to finances for SMEs through the Kosovo Credit Guarantee Fund⁵⁷				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		1,000,000		
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		1,000,000		
B. 3 Possible non-budgetary financing (in €)		6,000,000	6,000,000	
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
13. Merging Customs and Tax Administration to establish a single Revenue Collection Agency⁵⁸				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)		€ 2,757,624	€ 1,250,000	€ 3,750,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		€ 2,757,624	€ 1,250,000	€ 3,750,000
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
14. Improvement of policy and strategic framework and building capacities for research and innovation⁵⁹				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)	560,000	560,000	560,000	560,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)	560,000	560,000	560,000	560,000
B. 3 Possible non-budgetary financing (in €)				
B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
15. Increasing efficiency for costs of international commercial transactions⁶⁰				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		18,000	18,000	18,000

⁵⁷ The cost planned for presented activities has been planned in the Budget for 2017, within the expenditures planned for the Agency for Private Sector Promotion and Development (MTI), in the category Subsidies and Transfers. The other part of the measure is expected to be supported by USAID with €6.0 mil for each year, 2017 and 2018.

⁵⁸ The cost planned for presented activities has been planned in the Budget for 2017, within the expenditures of the Central Administration, Ministry of Finance – for the construction of common building for TAK and Customs, category of capital expenditures. The other part of activities is funded by the regular budget of two organizations.

⁵⁹ The cost planned for activities presented in Measure #14 Improving the policy and strategic framework and capacity building for research and innovation has been planned in the Budget for 2017, within the programme Higher Education and Science.

⁶⁰ The cost planned for presented activities has been planned in the Budget for 2017 within the programme of Department of Trade (MTI), category of Goods and Services, Wages and Salaries. Also the activity for establishing the Single Point of Contact is expected to be supported by the project funded by the European Commission during 2017-2019. It is planned a fund of 8,000 from the Kosovo budget each year from 2017-2019 for the establishment of Single Point of Contact.

B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		18,000	18,000	18,000
B. 3 Possible non-budgetary financing (in €)		25,000	15,000	10,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
16. Improvement of Quality Infrastructure⁶¹				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		66.300,00	66.300,00	66.300,00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		66.300,00	66.300,00	66.300,00
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
17. Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula⁶²				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)	146,000	225,000	275,000	225,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)	146,000	225,000	275 000	225,000
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)	112,000	112,000	100,000	100,000
18. Implementing and improving the teachers' career system⁶³				
A. Duration of the reform*	*	x	x	X
B. Net direct budgetary impact (if any) (in €)	700,000	700,000	600,000	600,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)	700,000	700,000	600,000	600,000
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)	100,000	150,000	200,000	550,000
19. Improvement of employment services through functionalising the Employment Agency and active labour market measures⁶⁴				

⁶¹ The cost planned for activities presented in Measure #16 Improvement of Quality Infrastructure has been planned in the Budget for 2017 within the Department of Industry (MTI), category Goods and Services, Wages and Salaries.

⁶² The cost planned for activities presented in Measure #17 Harmonization of supply and demand by developing occupational standards and reviewing the curricula has been planned in the Budget for 2017. The amount of €225,000 for 2017 includes (€15,000-AAK, 15,000 –MLSW, 195,000 –AVETAE), in 2018 the amount of €275,000 includes (€15,000-AAK, 15,000 –MLSW, 145,000 –AVETAE) in 2019 the amount of €225,000 includes (€15,000-AAK, 15,000 –MLSW, 195,000 –AVETAE). The other part of activities is expected to be supported by donors.

⁶³ The cost planned for presented activities has been planned in the Budget for 2017 within the Pre-university Education Programme. The planned amounts of €150,000 (2017), €200,000 (2018) and €550,000 (2019) are funded by Loan ESIP (WB). The loan is part of budget planning for 2017.

⁶⁴ The cost planned for presented activities has been planned in the budget of 2017. For the implementation of activities related to the functioning of

A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		3,875,000	3,129,496	3,129,496
B. 1 Direct impact on budgetary revenue (in €)		0.0	0.0	0.0
B. 2 Direct impact on budgetary expenditure (in €)		3,875,000	3,129,496	3,129,496
B. 3 Possible non-budgetary financing (in €)		0	500,000	500,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)		0	500,000	500,000
20. Improvement of social and healthcare services⁶⁵				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		17,350,000	17,500,000	17,700,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		17,350,000	17,500,000	17,700,000
B. 3 Possible non-budgetary financing (in €)		700,000	1,200,000	1,200,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
<i>Total net impact on budget</i>				
Total impact on budgetary revenues				
Total impact on budgetary expenditures	2,906,000.0	89,093,279.3	90,375,182.3	92,822,681.3

EARK, the amounts planned are: €175,000 (2017), €130,000 (2018), €130 (2019), part of the regular budget of the Office of Employment (salaries and wages, goods and services). For the Integrated Information System of the Labour Market, as part of the Budget of 2017, in the category of Capital Expenditures (MLSW) €100,000 was budgeted for 2017. As for the implementation of the wage subsidy scheme for the category II, the 2017 Budget plans €9.0 mil for 2017-2019 (€3.0 mil each) in the category of Subsidies and Transfers – Employment Department. Within this category for 2017 is also planned €600,000 for modernization of services provided by vocational training. On the other hand, from the IPA project are expected to be supported other activities of active measures of labour market with € 500,000 in 2018 and 2019.

⁶⁵The cost planned for activities in Measure #20 - Improvement of social and healthcare services, has been planned within the Budget 2017. The amount of €17,000,000 for the implementation of the Law on Health Insurance has been budgeted within the Ministry of Finance “Contingency for insurances” category of Wages and Salaries. The other share of budget of €350,000 (2017), €500,000 (2018) and €700,000 (2019) has been planned within the budget for Subsidies and Transfers in the Department for Social Welfare (MLSW). The impact of the cost of reviewing the Law of Local Government Finance is not included in the Table of Costs as the Law is expected to be amended during 2017 and its implementation to commence during 2018. A specific grant for social services is expected to be allocated from the Overall Grant, which will not create additional effects on budgetary expenditures.

TABLE 11: SUMMARY OF STRUCTURAL REFORM MEASURES

Measure #1: Improvement of public procurement through application of electronic procurement Procurement		
Short description	The main focus of the measure is to increase efficiency and transparency of public procurement procedures, ensure the best use of public funds, reduce procedural costs and encourage economic operators to participate in public procurement procedures. Based on the decision of the Government, since 1 September 2016, has commenced the application of e-tendering module for central authorities. Also, in 2016 were developed a number of operational manuals, and several trainings were held for procurement officials in both levels of government (central and local level).	
Timetable by year	2017	1) Effective implementation of e-procurement legislation and relevant operational guidelines; 2) launching and implementation of the remaining modules (e-contracting) and expansion of the application of mandatory procurement in all budgetary organizations; 3) Enhancing administrative capacities (recruitment of six officials within PPRC) and delivering basic training to procurement officials, including training of trainers.
	2018	1) Assessment of electronic procurement systems; 2) Delivery of advanced and e-procurement trainings; 3) monitoring of procurement activities as requested, monitoring reports and contract award notices, monitoring contract management processes in 30 contracting authorities
	2019	1) Continuing compulsory implementation of e-procurement in all budgetary organizations; 2) System maintenance and monitoring of public procurement Activities.
Cost of implementation and impact on the annual budget	The cost of implementation and budgetary impact for the three upcoming years is €1,296,304, out of which €430.052 for 2017, €431.583 for 2018, and €434.669 for 2019.	
Expected impact on competitiveness	Increased transparency in public procurement process, increased contracting authorities accountability, increased professional independence of procurement officials and improved control of corruption, all these will enable a larger number of companies, including SMEs and foreign bidders, to compete for public contracts on an equal basis.	
Expected social outcomes including on employment and on social groups in particular on gender	Impact on social outcomes will be indirect. Easier access of SMEs to procurement contracts may lead to increased employment in SMEs. Increased cost-efficiency of procurement will increase the amount and quality of goods and services that are provided to citizen through public procurement contracts.	
Measure #2: Reducing energy consumption through energy efficiency measures		
Short description	The aim of the measure is to implement energy efficiency measures in order to reduce energy consumption, aiming at achieving the goals of energy saving based on the Action Plan of Kosovo for Energy Efficiency 2010-2018 which is 9% until 2018.	
Timetable by year	2017	1) Implementation of EE measures in 5 buildings financed from the budget of Kosovo; 2) Implementation of efficiency measures and renewable energy sources in public buildings of central and local level, which include 20 buildings financed through the World Bank; 3) Implementation of EE measures at the local level in 15 public buildings (schools) through the KfW project and EU.
	2018	1) Implementation of EE measures in 5 buildings financed from the budget of Kosovo; 2) Implementation of efficiency measures and renewable energy sources in public buildings of central and local level, which includes 20 buildings financed through the World Bank; 3) Implementation of EE measures at the local level in 15 public buildings (schools) through the KfW project and EU.
	2019	1) Implementation of efficiency measures and renewable energy sources in public buildings of central and local level, which include 20 buildings financed through the World Bank.

Cost of implementation and impact on the annual budget	Improvement of energy efficiency for the period 2017-2019 is expected to cost around €21 million during the period 2017-2019. This cost is included in the budget of Kosovo and includes €2.87 million from the budget of Kosovo, the borrowing from the World Bank 2017-2019 (€ 3.65 million, € 5.4 million, € 6.083 million) and borrowing for the municipality of Prishtina and Gjakova from KfW (€ 1.150 million, € 1.150 million).	
Expected impact on competitiveness	Implementation of energy efficiency measure will contribute to reducing domestic consumption. The reduction of energy consumption will help address issues related to energy security (reducing current deficits and imports) and to reducing public expenditure on electricity. The expected savings from EE measures in government institutions are estimated to be 8.35 ktoe per year according to the level of 50% savings from EE measures from the total energy consumption of 16.7 ktoe.	
Expected social outcomes including on employment and on social groups in particular on gender	By investing and promoting EE in public facilities, a wide segment of the economically disadvantaged population will benefit. The economically poorer members of the population that cannot afford private facilities, especially in education and health, rely heavily on these public services and buildings. By investing in energy saving measures, the public facilities will be able to reduce their operating costs and improve service and comfort levels, without any economic burden being transferred upon the beneficiary.	
Measure #3: Further development of energy generation capacities		
Short description	The main aim of the measure is to address future challenges in terms of sustainable electricity supply, with a particular focus on increasing generation capacities through the construction of TPP Kosova e Re, rehabilitation of outdated capacities of TPP Kosova B and investment on renewable energy sources, namely on small hydropower plants.	
Timetable by year	2017	1) Completion of all agreements regarding the development of TPP Kosova e Re; 2) Completion of the feasibility study regarding TPP Kosova B; 3) Implementation of two new hydropower plants projects with a capacity of 8.48 MW and three solar power plants projects with a total capacity of 9 MW.
	2018	1) Commencing the construction of TPP Kosova e Re; 2) Selection of financing modality for the rehabilitation of TPP Kosova B; and 3) Implementation of four new projects with generation capacity of 18 MW of electricity from small hydropower plants.
	2019	1) Continuing the construction of TPP Kosova e Re; 2) Implementation of fourteen new projects of SHP with total capacity of 61.8 MW; and 3) Implementation of two new projects of wind energy with a total capacity of 66.29 MW.
Cost of implementation and impact on the annual budget	The total cost of building the TPP KR is foreseen to be € 1,000 million, out of which €400 million are expected to be invested during the period 2017-2019. The budget expenditures in the three upcoming years will be € 3.6 million for consulting services. There is still no estimate of the cost of rehabilitation of TPP Kosova B, but is expected to be over € 300 million. The developments costs of RES project are expected to be € 250 million for the period 2017-2019 and will be implemented by private investors.	
Expected impact on competitiveness	Uninterrupted, high-quality, reliable and affordable supply of electricity is a prerequisite for sustainable business development. From the studies conducted by USAID in 2012 on the effect of unreliable electricity supply for businesses, it turned out that the annual losses of businesses as a result of unreliable supply of electricity were €260 million per year and therefore there was a loss in competitiveness.	
Expected social outcomes including on employment and on social groups in particular on gender	Although there is no special study on the social impact of the project for building TPP KR, it is expected that this project will affect employment growth during the entire 5 year period (2018-2022) of construction. Project TPP KR is expected to have an effect in the amount of €200 million per year to the GDP (or 3% of added value of GDP only by this project). Also the development of power plants projects from RES will have an effect on employment growth and will increase annual investment by €70 million. Replacing Kosovo A and rehabilitating Kosovo B will reduce emissions; for instance 95% of annual dust emissions from about 20,000 tons to 6-700 tons.	
Measure #4: Extending relevant ICT network infrastructure for socio-economic development		

Short description	This measure is aimed to enhance access and use of ICT through the extension of broadband infrastructure and strengthening its human capital and supporting digital businesses to fully participate and maximize the benefits of digital economy in a global market. Based on the local strategic framework, through this measure it is aimed to achieve coverage (penetration) with broadband infrastructure to the extent of 98% households.	
Timetable by year	2017	1) implementation of the pilot project for the extension of broadband infrastructure that will include a rural area (some villages) in Kosovo; 2) Reaching a loan agreement with WB, which includes investments for the upcoming years of ICT networks expansion; and 3) Adapting and functionalizing the digital technology park for needs of ICT businesses.
	2018	1) Roll-out of high-speed broadband infrastructure to uncovered areas with a focus on rural areas by including all schools, libraries, health institutions that are in that area.
	2019	1) Roll-out of high-speed broadband infrastructure to uncovered areas with a focus on rural areas by including all schools, libraries, health institutions that are in that area.
Cost of implementation and impact on the annual budget	For 2017 the cost included in the budget of Kosovo is €2.0 million. For the activities during 2018 and 2019, which are expected to be financed through the World Bank loan, the total cost is €9.0 million.	
Expected impact on competitiveness	Creating suitable conditions through expansion of relevant network infrastructure and provision of broadband services will enable delivery of information with lower cost, improvement of access to international markets, development of new business models by allowing people and companies to work regardless of location and with flexible schedule, and generally speeding up procedures and processes by increasing economic dynamism and improving competitiveness. A study by the World Bank concludes that a 10% penetration growth of fixed broadband is followed by GDP growth of 1.21% in developed economies and 1.38% in developing economies.	
Expected social outcomes including on employment and on social groups in particular on gender	According to some surveys broadband infrastructure is considered as the main facilitator of flexible work in more than three-quarters of businesses, citing as a reason the speed and flexibility enabled by broadband infrastructure. It is also estimated that broadband enabled a third of small companies and almost half of self-employed entrepreneurs to create a better work-life balance by spending a great deal of their own work schedule away from the office.	
Reform measure #5: Investment in agricultural infrastructure and agro-processing		
Short description	This measure aims to address identified barriers related to agricultural infrastructure, diversification of products, and irrigation system coverage. The measure is in line with the local strategic framework, respectively the National Development Strategy and the Programme for Agriculture and Rural Development 2014-2020. In particular, measure is focused on supporting the investment projects in priority sectors set out in PRDA 2014-2020 which aims increase of productivity through boosting the competitiveness and technical progress, ensuring the quality of agricultural products and increasing the farm efficiency.	
Timetable by year	2017	1) Expansion of production areas in horticulture sector (vegetable areas in greenhouses and open fields, fruit trees, vineyards, seed plot) and increasing production capacity in livestock and poultry; 2) Financial support to expansion of production capacities for over 450 farms each year (30%, the sector of vegetables and greenhouses with 26%, the meat sector with 14%, the milk sector with 13.7%, the grape sector with 13.3% and eggs sector by 3%); 3) Focus on expanding areas under irrigation by about 13.5% on annual basis.. 4) For the next three years, around 55 food processing enterprises would be based on annual basis (18.2% of milk processing, 22% of meat processing, and 38.2% of processing of fruit and vegetables and wine production by about 21.6 %.); 5) For improving/implementation of national standards and the EU on food safety/animal welfare/environment 35 companies will be supported annually. Number of modernized enterprises, with new technological equipment and introduction of new product lines and new products, will be 40 companies in each year for the next three years; and 6) The number of enterprises that will treat waste and scrap in proper management will exceed 10 companies per each year.

	2018	1) Continuing financial support to expansion of production capacities for over 450 farms each year (30%, the sector of vegetables and greenhouses with 26%, the meat sector with 14%, the milk sector with 13.7%, the grape sector with 13.3% and eggs sector by 3%); 2) Focus on expanding areas under irrigation by about 13.5% on annual basis; 3) For the next three years, around 55 food processing enterprises would be based on annual basis (18.2% of milk processing, 22% of meat processing, and 38.2% of processing of fruit and vegetables and wine production by about 21.6 %.); 4) For improving/implementation of national standards and the EU on food safety/animal welfare/environment 35 companies will be supported annually. Number of modernized enterprises, with new technological equipment and introduction of new product lines and new products, will be 40 companies in each year for the next three years; and 5) The number of enterprises that will treat waste and scrap in proper management will exceed 10 companies per each year.
	2019	1) Continuing financial support to expansion of production capacities for over 450 farms each year (30%, the sector of vegetables and greenhouses with 26%, the meat sector with 14%, the milk sector with 13.7%, the grape sector with 13.3% and eggs sector by 3%); 2) Focus on expanding areas under irrigation by about 13.5% on annual basis; 3) For the next three years, around 55 food processing enterprises would be based on annual basis (18.2% of milk processing, 22% of meat processing, and 38.2% of processing of fruit and vegetables and wine production by about 21.6 %.); 4) For improving/implementation of national standards and the EU on food safety/animal welfare/environment 35 companies will be supported annually. Number of modernized enterprises, with new technological equipment and introduction of new product lines and new products, will be 40 companies in each year for the next three years; and 5) The number of enterprises that will treat waste and scrap in proper management will exceed 10 companies per each year.
Cost of implementation and impact on the annual budget	The cost for implementation of this measure is budgeted in the Draft Budget for 2017 within Subsidies and Transfers category: 1. Department of Policies from € 26.0 million (2017), 25.0 million (2018), 25.4 (2019) and the Department of Rural Development Policies € 21.5 million (each year) covering a part of the activity 1 - Investments in physical infrastructure and activities 2. Investments in agro-processing sector. For the other part of the measure 1 - Expansion of areas under irrigation is planned under Draft Budget for 2017: € 2.2 (2017), € 1.8 (2018), € 1.6 (2019).	
Expected impact on competitiveness	As a result of this measure, - as the net added gross value in supported enterprises is expected to be 15%. Increasing labour productivity, as growth (in %) of additional revenue, gross for each position, farms supported during this period are expected 15%, while increasing employment of supported farmers is expected to reach around 2% . Furthermore, by advancing food quality standards it is intended to facilitate replacement of imported agricultural products with local products and export of agricultural products. The growth of export of supported product is expected to be 20%, while import substitution and reduction of 10% is expected.	
Expected social outcomes including on employment and on social groups in particular on gender	The measure will stimulate the population in rural areas to maintain and increase their farming and processing activities and cultivation of agricultural land, introduce specific production cultures which are prioritized and have the potential of being competitive. The measure is expected to have a direct impact on the economic situation of families dealing with agriculture through the increase of their income levels.	
Measure #6: Regulation and consolidation of agricultural lands		
Short description	Consolidation of agricultural land will be done by applying structural reforms including legal and institutional measures, regulation of agricultural land plots with regular geometric shape, and investments and creation of a field road network that would facilitate immediate access to the plots and rational use of agricultural land in general. This measure is based on NDS and ARDP	
Timetable by year	2017	1) Review of complaints of participants from the land consolidation project uncompleted by the Municipal Committee for Land Consolidation in Glogoc (with an area of 4,790 ha. of agricultural land) and the Municipal Commission for land consolidation in Vushtrri (with an area of 487 ha. of agricultural land). This includes data entry in the Registry of Immovable Property (RDIP) from the cadastre of respective municipalities 2) Implementation of a pilot project funded by FAO for voluntary consolidation, which includes 25 hectares of agricultural land in the Cadastral zone

		Celina, Municipality of Rahovec. Continuation of the voluntary consolidation project of the agricultural land in 10 Cadastral Zones in Municipality of Viti with surface of 2,790 ha of agricultural land, including informing the owners, property dispute resolution and the review of complaints of participants in project.
	2018	1) Continuation of the project of voluntary consolidation of agricultural land in 10 Cadastral Zones in Municipality of Viti with an area of 2,790 ha of agricultural land. Commencing the incomplete project in the Municipality of Mitrovica in 4 Cadastral Zones in the area of 725 ha.
	2019	1) Data entry in the Registry for Immovable Property RDIP by officials of the Office of Cadastre in the Municipality of Mitrovica; and 2) Commencing the incomplete project in the Municipality of Obiliq in 7 Cadastral Zones covering an area of 2000 ha.
Cost of implementation and impact on the annual budget	For 2017, the cost included in the budget of Kosovo is €0.5 million. The activities during 2018 and 2019 with €0.5 million each will also be financed through the budget of Kosovo under the category of Subsidies and Transfers: The Department of Rural Development Policies.	
Expected impact on competitiveness	Projects for voluntary consolidation of land will contribute to the growth of farm size, better access to property, resolution of property issues etc., which present the basis for reduction of unit costs, increase of agricultural productivity, competitiveness of agricultural products in the market and thus increasing the farmer's revenues. Resolving the property issues and property consolidation will help farmers by provision of land ownership security, better access to loans and to investment projects of MAFRD for Rural Development. It will also contribute to a fair distribution of subsidies from the state budget to the owners and users of these properties, better control of these land properties and better monitoring of subsidies.	
Expected social outcomes including on employment and on social groups in particular on gender	The implementation of this measure is expected to facilitate a land reform through development of a land market (security of property rights, higher volume of trading, and creation of standard lease contracts), preventing further plots fragmentation, and improving control of unplanned construction in areas covered by consolidation. The measure will help farmers to move from the current subsistence farming to competitive production and to create jobs in agricultural production, whereas passive land owners not active in farming will be able to achieve some revenue from selling or leasing the land.	
Measure #7: Support the development of industrial clusters		
Short description	This priority addresses the key aspects of reforms to tackle the fragmentation and consequently poor level of coordination and interaction of private sector with stakeholders of the other sectors is considered as industrial clustering. This measure is directly related to one of the main objectives of the National Development Strategy, Networking and development of clustered enterprises within the Competitive Industry Component. Also, it is harmonized with the final draft of the Private Sector Development Strategy 2017-2021.	
Timetable by year	2017	The Government will focus on the functioning of the Council/Forum for drafting policies for stimulation of competitiveness and entrepreneurship in industrial sectors, research on value chains for the industrial potential sectors - the definition of missing links and measures for their development.
	2018	Continue with support of the development of groups/clusters and researching value chains for potential industry sectors - definition of missing links and measures for their development.
	2019	Continue the support for development of groups/clusters.
Cost of implementation and impact on the annual budget	For implementation of activities under Measure # 7, from Kosovo budget were allocated € 10,000 during the period 2017-2019, whereas € 293,000.00 were allocated from the ICEP Project of European Commission. These expenditures are planned within the budgeted expenditure for the Department of Industry (MTI) in category of Goods and Services.	
Expected impact on competitiveness	SMEs gathered in clusters are proven to mark an increased and more innovative development. Consequently, regions with clusters attract more businesses related to new value chains created within clusters. Implementation of this measure will enable increase of interconnection between enterprises in value chains and larger participation of the industrial sector in GDP. Cooperation between companies will create synergies, increase of innovation and will enable growth of new industries based on the activities of companies that are part of clusters. in the economy.	

Expected social outcomes including on employment and on social groups in particular on gender	The establishment of industrial clusters based on economic interest of businesses itself will improve the use of facilities and result with better coordination by businesses and other stakeholders rather than acting lonely or not well coordinated. Furthermore, this measure will also result with the distribution of knowledge about the opportunities and risks in foreign and domestic markets, promote the culture of cooperation among local businesses, and orientate the youth into study areas which are required in today's market or tomorrow's jobs.	
Measure #8: Development of tourism products in Kosovo touristic regions		
Short description	This priority addresses the promotion of development of tourism products in order to increase the economic value of tourism. The focus is on identifying local products (local) and those with regional potential which would significantly contribute to tourism development in Kosovo, growth of tourist capacity, increase the number of visitors, especially foreigners, increase income from tourism, boost the economy (increase employment, regional development, development of SMEs). Among other things, this measure requires increased institutional coordination and improvement of legal infrastructure.	
Timetable by year	2017	1) Improvement of the legal, institutional and policy framework for the tourism sector; 2) Review of international standards on improvement of service quality in tourism and catering; 3) Product research in the touristic regions of Prishtina and Mitrovica, focusing on identification of development priority products and information of businesses on touristic products; 4) The Ministry of Trade will draft the guide on unification of touristic signalling in all the country and will continue supporting municipalities on establishment of Tourist Information Offices.
	2018	1) Conduct a study on the potential and needs of the accommodation sector in different regions and countries as a promising basis for catering investors and companies; 2) Product research in the touristic region of Anamorava – Data collection in touristic regions focusing on identification of development priority products and information of businesses on touristic products.
	2019	1) Potential evaluation and encouragement of group approach in different regions and areas (wine and viniculture, healthcare/spas and village tourism, hiking and active tourism, etc.; and 2) Analysis of the potential and needs related to facilities for conferences and meetings.
Cost of implementation and impact on the annual budget	In order to implement activities under Measure #8, € 10,000 will be allocated from the Kosovo Budget for each of the years 2017-2019. The expected donor support during 2017 is (€ 16.000), 2018 (€ 20,000) and 2019 (€ 16,000).	
Expected impact on competitiveness	Identification and development of new touristic products will result in increasing the number of touristic businesses and of employees in touristic businesses selling these products, expanding the touristic offer of Kosovo as a destination and improving the quality of touristic services delivery. As a result, Kosovo is expected to become more attractive to visitors, which will result in increased income generation and have a direct impact on increasing the GDP.	
Expected social outcomes including on employment and on social groups in particular on gender	Development of attractive and tourist targeted offers creates opportunities for new jobs, as by its nature this sector requires great engagement of the workforce (intensive labour). Considering that the potential for tourism in Kosovo is largely in rural and mountainous areas, development of the tourism sector will boost employment generation and increase of family businesses providing easy employment opportunities for women, particularly in culinary services (offering local traditional foods) and handicrafts. This will increase the wellbeing of population in rural areas.	
Measure #9: An enabling regulatory system through evidence based policy development		
Short description	As a continuation of essential reforms aimed at simplifying legislation and introducing the regulatory impact assessment system, this measure aims to improve policy and legislation development based on evidence and a genuine consultation process. In this regard, Kosovo will strengthen the current concept document system for the preparation of policy and legislation proposals, which will be replaced eventually with an impact assessment system. In addition, Kosovo will analyse the possibility to set up a programme for addressing administrative burdens set against a reduction target of 25%. This measure is in compliance with NDS, and the revised Better Regulation Strategy 2017-2021.	
Timetable by year	2017	1) Development and introduction of amended guidelines on ex-ante policy assessment; strengthening quality control by the Centre of Government related to ex-ante policy assessment; 2) Development and application of analytical tools focusing on competitiveness enhancement through the

		Standard Costing Model, the SME Test and the Regulatory Competitiveness Test; 3) Training of civil servants on application of guidelines and analytical tools to ex-ante policy assessment; and implementation of three legislative assessments.
	2018	1) Adoption of the Administrative Instruction on Administrative Burdens, including determination of relevant targets; 2) Continue further staff training on application of guidelines and analytical tools to ex-ante policy assessment, as well as finalize the database framework for impact assessment with data on further improvement of evidence-based decision making. Three legislative assessments will be conducted during this year.
	2019	1) Implementing the Government's decision on reduction of administrative burdens. In addition to further staff training on application of guidelines and analytical means in ex-ante policy assessment, seven legislative assessments will be conducted.
Cost of implementation and impact on the annual budget	In order to implement activities under Measure #9, € 290,000 are planned for 2017, €279.000 for 2018 and €260.000 for 2019. These funds will be provided by the SIDA project through direct budget assistance and expertise.	
Expected impact on competitiveness	The quality of policies and legislation will be improved and unnecessary obstacles will be removed. Introduction of the standard cost model will promote understanding of the impact of legislation on businesses and citizens. The SME Test will raise the awareness of policy-makers and decision-makers about the specific needs of businesses, particularly of micro enterprises, which dominate the economic structure of Kosovo. The regulatory competitiveness test will contribute to a more competitive business environment and improved business and regulatory profile in Kosovo compared to other countries in the region.	
Expected social outcomes including on employment and on social groups in particular on gender	Improving the business environment will contribute to economic growth by encouraging business start-ups and formalization of business activities. Moreover, the introduction of additional tools for policy analysis focused on increasing competitiveness is associated with the integration of a gender impact assessment in the policy development process. This will contribute to a policy and regulatory framework that is focused on gender policies and in accordance with the Kosovo agenda for gender equality.	
Measure #10: Ensuring property rights by addressing informalities in the real-estate sector		
Short description	This measure focuses on addressing legalisation of property rights by tackling informality in the immovable property sector. It aims to provide citizens access to efficient and affordable administrative processes for the legal recognition of rights they use de facto. Legal recognition of these rights will allow citizens to register them in the cadastre, thus enabling more effective application of these rights by courts and state bodies, as well as their alienation in the assets market. The measure is based on the NDS and National Strategy for Property Rights, adopted on January 2017.	
Timetable by year	2017	1) Work on improving the legal framework, including the preparation of the concept document on amending the Law on Inheritance and the Law on Notary; 2) Preparation of concept documents on amending the Law on Property and Other Real Rights, the Law on Contested Procedure and the Law on Non-contested procedure; 3) Stimulation of property rights registration in the cadastre by simplifying registration procedures and removing barriers in order to complete the legalisation process; 4) Conduct a complete analysis of the Cadastre Agency procedures and develop policy to ensure efficiency, simplicity, affordability, transparency and predictability of the registration process; and 5) Stimulation and avoidance of barriers to promote property rights registration.
	2018	1) Adopt legal framework on property rights; 2) Draft and adopt the integrated Law on Cadastre, which would include the Law on Cadastre, the Law on establishment of the immovable property rights register and the Law on Mortgages, and would require vertical organisation of cadastre; 3) Municipal taxes for ownership transfer will be abolished and shall apply only fees set by AI 08/2014 on Fees for Services for Registering the Immovable Property Rights from Municipal Cadastral Offices. Interventions within this priority will also include relevant information and capacity building activities
	2019	1) Awareness raising and capacity building activities; and 2) Unification of cadastral documents with Serbian archives and the decision on the set of documents that can be taken as proof/evidence on property rights in Kosovo.

Cost of implementation and impact on the annual budget	The total cost of implementing this measure is € 2,661,800, out of which € 84,500 is provided by the Kosovo Budget and € 2,577,300 from development partners (USAID and EC). The estimated allocation by year is € 1,245,850 for 2017 and € 1,415,950 for 2018.	
Expected impact on competitiveness	Establishing an effective property rights system creates legal certainty for investors and consequently increases investment opportunities. This in turn creates more opportunities for citizens to use property as collateral and thus improves access to finance. The impact of this measure also includes reducing the cost of property registration, reducing the total number of property registration procedures required by law, reducing the number of days required for property registration and improving land management (reliability of infrastructure, transparency of information, geographic coverage and resolution of disputes over land) – issues that were all assessed as problematic also by the World Bank's doing business report.	
Expected social outcomes including on employment and on social groups in particular on gender	Strengthening property rights ensures economic autonomy of the individual, which translates into economic and social empowerment of the property owner. This impact is even more prominent in ensuring women property rights, contributing to their economic independence and easier access to financing.	
Measure #11: Increase judicial efficiency through reduction of court case backlog		
Short description	The efficiency of the judiciary is commonly measured as the speed and quality with which justice is served. However, the Kosovo's judicial system is slow in the disposition of the cases (large number of received minor offence cases, large historical backlog, and low clearance case lead to accumulation of backlog), subsequently causing high transaction costs. This measure is a continuation of ERP 2016-2018 and is based on NDS and ERA.	
Timetable by year	2017	1) Recruitment of 50 professional associates to deal with backlog on civil and criminal cases to achieve reduction of case backlog for by 30% by the end of 2017; 2) Conduct assessment on increasing the number of judges and professional associates within the Fiscal Division; 3) Complete development of Case Management Information System (CMIS) software and criminal field system prototype for the general department, followed by the criminal field system for serious and juvenile crimes; 4) Initiating preparation of the hardware infrastructure of the database and computer network of courts and prosecution offices; 5) Capacity-building activities based on a training plan and commence with implementation at the Basic Court in Ferizaj, which is the CMIS pilot model.
	2018	1) Implement case backlog reduction target by 60%; 2) recruitment of judges based on needs assessment, reduction of cases in the fiscal division; 3) Implementation of the training programs for system users and application in courts and prosecution offices.
	2019	To achieve zero backlogs by 2020, further advancement of judges in the Fiscal Division of the Basic Court in Prishtina will continue under the evaluation and full automatization of the Kosovo judiciary.
Cost of implementation and impact on the annual budget	The activity of the zero backlog target costs about €700,000 for the years 2017-2018. Furthermore, in the course of 2017 and 2018 net direct impact on the budget shall be € 350,000, where € 330,000 Euro will have direct impact on budgetary income (salary) and 20,000 have an impact on budgetary expenditure (optional expenditure). The cost for the third activity is € 6,700,000. This includes software and implementation costs for the introduction of the Integrated Case Management System, which enables case assignment and follow-up from registration until execution. From the Kosovo budget during 2017 is available €355,000, where €205,000 is allocated for the purchase of computers and €150,000 for audio equipment, which has a great impact on budget expenditure.	
Expected impact on competitiveness	The impact of reforms for judicial efficiency on economic growth, competitiveness and FDIs is indirect. The time and cost spared by reducing the time of case adjudication is significant. In addition, quick access to justice and, henceforth, improved rule of law and legal security could attract new investments. To determine the monetary value of time saving, the high arbitration prices were analysed. The value of one saved day is €8.1, defined as the marginal cost	

	of judgments/arbitration divided by marginal time saving. Using this parameter, the quick disposition of a case saves €2.5 thousand and when this is multiplied by the total number of cases, the total value of saving for the society is €140 million.	
Expected social outcomes including on employment and on social groups in particular on gender	Although the measure is focused on economic legal disputes, once implemented, solutions for reduction of backlogs and introduction of CMIS can be easily extended to other areas of court adjudication. Reduced disposition time and increased court efficiency and legal security will be valuable for everyone seeking justice in the courts.	
Measure #12: Improving access to funding for SMEs through the Kosovo Credit Guarantee Fund (KCGF)		
Short description	This measure is a continuation of the measure envisaged in ERP 2016-2018 and aims to address one of the main obstacles to Kosovo businesses. Expansion of the credit guarantee and improvement of information on the credit history of businesses and individuals would enable many businesses to access finances and in low interest rates. Considering that the Kosovo Credit Guarantee Fund (KCGF) is currently in its first year of functioning, it mainly focuses on establishment of cooperation with all commercial banks in the country for increasing credit, regardless of size, sector, demography, number of employees, growth potential, etc. of banks and SMEs.	
Timetable by year	2017	1) Transfer of amount of € 1,000,000 to KCGF 2) Functionalise the fund, selection of managing and completion of structure; 2) Continue with signing the agreements with commercial banks in Kosovo for inclusion of their credit portfolios within the fund guarantee.
	2018	1) Development and dissemination of training and promotion programmes for SMEs and the public, and continue training and promotion programmes.
	2019	2) Development and dissemination of training and promotion programmes for SMEs and the public, and continue training and promotion.
Cost of implementation and impact on the annual budget	The Government of Kosovo, namely KIESA/MTI will contribute with € 1 million for 2017. This cost is planned within the Draft Budget of 2017 under expenditures envisaged for the Private Sector Promotion and Development Agency (MTI) in the category of Subsidies and Transfers. The rest of the measure is expected to be allocated as technical assistance by USAID with € 6.0 million for each year 2017 and 2018.	
Expected impact on competitiveness	More than 4,150 loans for SMEs will be supported from KCGF worth \$360 million in cumulative value. Better access to finance increases opportunities for expansion of the business, innovation and reduction of risks. This measure will have a direct impact on the country's economic growth through increased productivity, added value and profitability.	
Expected social outcomes including on employment and on social groups in particular on gender	It is anticipated that in the first six years of operation of the fund, more than 20,000 new jobs will be created by SMEs due to expansion of their activities enabled by better access to finance. In particular, this effect may be more prominent for businesses run by women and marginalized social groups which currently face even higher barriers in access to finance.	
Measure #13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency		
Short description	One of the key aspects of reforms aimed to address informal economy consists of merging the two existing revenue collection agencies, the Customs and the Tax Administration. Establishment of a single Revenue Collection Agency is based on the need to improve services to taxpayers by reducing the "tax gap" through simplified and effective revenue collection structures. This will increase the efficiency, and reduce the cost, of revenue collection and will increase the autonomy of institutional structures that deal with revenue collection. This measure is a continuation of ERP 2016-2018 and is based on NDS and PFM Reform Strategy.	
Timetable by year	2017	1) Adoption of the Law on Tax and Customs Agency; 2) Inter-institutional cooperation to achieve the gradual convergence of processes and the following integration of both institutions. 3) Complete organizational structure of the agency, paying attention to the optimization of tax collection

		processes by minimizing resources, eliminating loses of funds and saving time; 3) Undertake necessary legal amendment for establishment of a unified administration for revenue collection.
	2018	1) Implement the model of good governance, implementing joint activities, harmonizing processes and developing organizational structure.
	2019	1) Complete full operationalisation of the agency.
Cost of implementation and impact on the annual budget	In the 2017 budget, € 13,552,624 have been allocated for the construction of TAK – Customs building for the period 2017-2019, namely €4,052,624 for 2017, €4,500,000 for 2018 and €5,000,000 for 2019.	
Expected impact on competitiveness	The purpose of merging two agencies in a single revenue collection agency is to enhance the tax basis and decrease informality, which would improve competition in the market, making that fairer and stimulating formalisation of businesses. At the same time, this will enhance the conditions for free competition of businesses, as well as create better conditions for investments and economic growth.	
Expected social outcomes including on employment and on social groups in particular on gender	Increase of budgetary revenues, which would be fostered by institutional efficiency of a single Revenue Collection Agency, would create an opportunity for reallocation of revenues towards targeted social policies that would directly impact the citizens’ welfare.	
Measure #14: Improving the policy and strategic framework for research and innovation		
Short description	The purpose of this reform priority is to establish a solid strategic and legal basis and create an appropriate environment for increasing the scientific-research opportunities of the country to maintain the research as a developmental component. In addition to this, the focus will be also on funding small scientific projects, funding mobility of scientists, funding publications in magazines with IF and publications within the country, in allocating innovation vouchers and awarding the prize for scientist of the year.	
Timetable by year	2017	1) Approval of the Law on innovation and knowledge and technology transfer; 2) Review and approval of the Innovation Strategy; 3) Continue with the provision of the support by funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises. 4) 20 grants for PhD students in 500 best universities and awarding the prize for the best scientist of the year and young scientist of the year.
	2018	1) Drafting and approving the secondary legislation deriving from the new innovation law, including the establishment of the state council for innovation and inter-ministerial mechanisms in the field of innovation; 2) Continue with the provision of the support by funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises. 3) 20 grants for PhD students in 500 best universities and awarding the prize for the best scientist of the year and young scientist of the year
	2019	1) Operationalization of the state council for innovation and inter-ministerial mechanisms in the field of innovation. 2) Continue with the provision of the support by funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises. 4) 20 grants for PhD students in 500 best universities and awarding the prize for the best scientist of the year and young scientist of the year.
Cost of implementation and impact on the annual budget	For implementation of activities during 2017-2019, the planned budgetary cost is € 560,000 for each year of implementation. This cost has been planned in the Draft Budget of 2017, within the programme.	
Expected impact on competitiveness	Strengthening legislative and strategic framework for research and innovation will have positive impact in competitiveness since it will increase it establishes sound basis for cooperation between institutions and enterprises on innovation, knowledge transfer and technology. Improved quality of research	

	and access to innovation leads to a better understanding of business needs for new technological solutions and, in turn, the research and innovation concepts applied in business activities result in higher quality and more competitive products and services with higher export potential and added value.	
Expected social outcomes including on employment and on social groups in particular on gender	From a social point of view, the implementation of this measure will contribute to the creation of a more employable workforce. Social and economic effects will be long term and will be accompanied by growing income for workers and enterprises. Creating a more agile workforce will help attract foreign direct investment.	
Measure #15: Increasing cost-efficiency of international commercial transactions		
Short description	Trade facilitation, in wider sense, may be defined as any measure or set of measures that aims to increase the cost-effectiveness of international trade transactions. This measure will address and reduce these obstacles – specifically, by simplification and standardization of all formalities and procedures at borders, which are expected to reduce cross-border expenditures.	
Timetable by year	2017	1) Implementation of risk management in border agencies; 2) Effective implementation of the programme for Authorized Economic Operators; 3) Operationalization of Transit Agreement with Albania; 4) Drafting the legal and regulatory framework on advance rulings; 5) Amendment of Customs Code and its implementation; 6) Supplementing and amending the Law on Customs Measures for Protection of Intellectual Property; 7) Sustainable operation of the National Committee for Trade Facilitation (awareness-raising and information for the private sector); and Time Release Study (TRS for measuring the actual performance of Customs activities; 8) Initiate establishing National Single Window with all state agencies involved in trading process: Veterinary Agency, Police, Kosovo Agency for Equipment and Medical Products; 9) Adoption of Key Performance Indicators for monitoring the work of institutions requiring documents and check for trade through measurement of the time and cost for border compliance and documents.
	2018	1) Continue procedures for merging systems of key institutions within the National Single Window; 2) Advance paperless Customs through usage of ‘digital signature’ technology; 3) Regulation of fees for the use of custom terminals through development of procedures with the Ministry of Infrastructure on setting out fees; 4) Development of system to adhere in the National Common Transit System (NCTS) and SEED Plus.
	2019	1) Complete the establishment of the National Single Window; 2) Advance paperless Customs through usage of ‘digital signature’ technology; 3) Continue procedures for adhering in NCTS and SEED Plus.
Cost of implementation and impact on the annual budget	From Kosovo budget, €18,000 has been budgeted for each year during the period 2017 - 2019. Out of this amount, €8,000 have been planned each year for the establishment of Single Contact Point. Also, the activity for the establishment of Single Contact Point is expected to be supported by the project funded by the European Commission during 2017-2019, with €25,000 (2017), €15,000 (2018) and €10,000 (2019).	
Expected impact on competitiveness	Analysis shows that at the macro level, in several countries, the reduction of the time for trade for only one day may increase the trade activity for more than 5%. At the firm level, exporters in developing countries that have more efficient customs agencies produce better and more diversified products, as well as increasing export. As indicated by the World Economic Forum (2013), the most direct benefit from the elimination of supply chain barriers is reduction in costs for commercial companies and thus lower prices for consumers and businesses that import materials used in their manufacturing activities. Reduction of import costs would be of great importance for Kosovo, as the Kosovo production sector is mainly based on the imported inputs. OECD has estimated that trade facilitation reforms may reduce the trade costs by 15.5%. According to OECD, Trade Facilitation is related to the easier, cost-efficient and more rapid and efficient trade transactions, thus facilitating trade flows. In addition to the easier export and import of goods and services, Trade Facilitation measures also increase the attractiveness of a country for direct foreign investments.	
Expected social outcomes including on employment and on	The measure aims to increasing investments, building human and institutional capacities, as well as job opening.	

social groups in particular on gender	
Measure #16: Improvement of quality infrastructure	
Short description	The purpose of the measure is to further develop the quality infrastructure (Technical Rules and Standards), by approximating the legislation with EU acquis and its implementation as a basis for strengthening the coordinated inter-institutional system, raising awareness of businesses and other stakeholders for the role and importance of Quality Infrastructure, as well as membership to European and International Standardization Organizations.
Timetable by year	2017 1) Approval of the amendments of the Law on technical requirements for products and conformity assessment, as well as supplement with other bylaws and its implementation. 2) Approval of new Law for Construction Products and its supplement with other bylaws for certain construction products and their implementation in compliance with Regulation (EU) of the European Parliament No. 305/2011; 3) approval of the Law on Standardization (new law) and approval/transposition of new European and International standards (4000 new standards for the period 2017-2019) giving priority to harmonized standards. 4) Transposition of Regulations for construction products (Regulation 305/2011/EU) and lifts (Directive 2014/33/EU); 5) Cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields; 6) Increase of the number and performance of Conformity Assessment Bodies; 7) Raising awareness of businesses and other stakeholders for the role and importance of applying standards.
	2018 1) Approve secondary legislation, including structuring of the Kosovo Standardisation Agency, organization and functioning of Technical Committees and General Council on Standardisation; 2) Transposition of Regulations for textile names and textile fibres (1007/2011/EU) and appliances burning gaseous fuels (Regulation 2016/426/EU); 3) Cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields (lifts, construction products, electrical appliances, textile products, footwear and toy safety), 4) Increase of the number and performance of Conformity Assessment Bodies, 5) raising awareness of businesses and other stakeholders for the role and importance of applying standards.
	2019 1) Transposition of Regulations for machineries (2006/42/EC + amendments) and Personal Protective Equipment (Regulation 2016/425/EU). 2) Cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields (lifts, construction products, electrical appliances, textile products, footwear and toy safety), 3) Increase of the number and performance of Conformity Assessment Bodies, 3) raising awareness of businesses and other stakeholders for the role and importance of applying standards.
Cost of implementation and impact on the annual budget	For implementation of measure activities, Kosovo Budget has allocated € 66,300 for each year of the period 2017-2019. This amount has been planned with the Draft Budget of 2017 within the Department of Industry (MTI), category of Goods and Services, Wages and Salaries.
Expected impact on competitiveness	Improvement of Quality Infrastructure is a mechanism and the most sustainable solution for increasing competitive abilities of businesses. By implementing the technical legislation and standards, Kosovo products will become more competitive against those imported as the businesses will be able to prove that domestic products have been subject to the same security requirements and have implemented the same standards as products imported from the European market. In addition, the improvement of Quality infrastructure has a crucial impact on commercial integration as businesses which implement the Kosovo legislation that transposes that of the EU will gain the opportunity to export in the internal market of the European Union without implementing additional requirements.
Expected social outcomes including on employment and on social groups in particular on gender	Improvement of Quality Infrastructure is expected to have a wider impact on society through the promotion of private sector investment and encouraging businesses to implement standards to achieve quality and safety of products which in turn makes it possible for the Kosovar consumers to enjoy a safer product consumption.

Measure #17: Harmonization of supply and demand by developing occupational standards and reviewing the curricula		
Short description	The main objective of this measure is the harmonization of education and training with the requirements of the labour market. Reforms in the framework of the priority are presented in the wider context and are better specified in the Kosovo Education Strategic Plan 2017-2021, which was approved in December 2016. The measure is a continuation of ERP 2016 and is related to the NDS and ERA.	
Timetable by year	2017	1) 20 new occupational standards will be drafted and verified. 2) Development of VET Core curriculum based on the new curricula of Kosovo; 3) Revision of the VET curriculums and training curriculums and training of trainers and teachers based on the Core curriculum of MEST, MLSW; 4) Development of teaching materials for VET for two priority profiles by MEST and MLSW and the 5) expansion of a new curriculum for preschool and I, VI, and X grades in all schools.
	2018	1) 10 new occupational standards will be drafted and verified. 2) expanding new curriculum for preschool and II, IV and XI grades in all schools; 3) drafting of at least three new curricula for vocational education and training according to requirements of labour market; 4) training of teachers for implementation of new curricula and development of teaching materials for VET priority profiles according to the needs of the economy.
	2019	1) 10 new occupational standards will be drafted and verified. 2) In 2019 we will work on expanding the new curriculum for preschool and III, VIII and XII grades in all schools; 3) training of teachers for implementation of the new curricula and development of teaching materials for VET priority profiles according to the needs of the economy.
Cost of implementation and impact on the annual budget	In order to accomplish activities for 2017 are planned 225.000 € from Kosovo Budget and 112.000 from donors, for 2018 are planned 275, 000 € from Kosovo Budget and 100.000 from donors while for 2019 are planned 225.000€ from Kosovo Budget and 100.000 € from donors.	
Expected impact on competitiveness	The implementation of this measure will contribute to the development of a skilled and more productive labour force, create opportunities for self-employment and employment in general. By providing more adequate and better educated human resources, the measure will foster innovation and enhance the quality and efficiency of products and companies, development of the industry and increased foreign investment.	
Expected social outcomes including on employment and on social groups in particular on gender	Social outcomes will be long-term and will be reflected in increased incomes of employees and enterprises and at the same time will increase employment, reduce youth unemployment rates and contribute to the welfare of the population.	
Measure #18: Implementing and improving the teachers' career system		
Short description	The objective of this measure is based on the implementation of the teacher's professional development system and teacher's performance assessment, and is realized from licensing system for advancement of teachers in career. The measure is a continuation of ERP 2016 and is related to the NDS and ERA, also priorities are based on the Kosovo Education Strategic Plan 2017-2021.	
	2017	1) Completion of the legal framework for the professional development of teachers; 2) Training of 8000 teachers in implementation of the core curriculum for pre-primary grade, and 1, 6, 10 grades in the general and vocational education; 3) Review and approval of the strategic framework for development of teachers; 4) Modification and development of database for licensing and updating the catalogue and prioritization of accredited programs by MEST.
	2018	1) Implementation of the induction phase for initial teachers (Induction phase), before commencing his/her career; 2) development of the database for licensing under the new scheme of data integration system of EMIS – MEST (Education Management Information System); 3) teachers performance evaluation (5%) that are graded by the licensing system; 4) training of 8000 teachers in the implementation of core curriculum for grades – 2, 7, 11 in general and vocational education; and 5) creation of mechanisms for implementation of strategic framework for development of teachers.

	2019	1) We will continue with the renewal of licenses and grading for teachers within the licensing process. 2) Connection with the payroll system according to the funding formula, 3) training of 8000 teachers for implementation of the core curriculum for grades 3, 8, 12 of the general and professional education and 4) implementation of the strategic framework for the development of teachers in the school level, MEDs and MEST.
Cost of implementation and impact on the annual budget	For realization of activities for 2017 are planned 700,000 € from CBK and 150,000 from the WB program (ESIP). For activities during 2018 from the CBK budget are planned 600,000, while from the WB program (ESIP) 200,000 and for activities during 2019 from the CBK budget are planned 600,000 while from the WB program (ESIP) 550,000.	
Expected impact on competitiveness	This measure improves and increases the pupil's learning outcomes and increases the quality in the education system, which will improve the quality of the labour force and contribute to increase in investments and economic development.	
Expected social outcomes including on employment and on social groups in particular on gender	This measure in the longer run enhances employment opportunities of better educated young population and contributes to reduction of youth unemployment and increased welfare of the population.	
Measure #19: Improvement of employment services through functioning of the Employment Agency and the active labour market measures		
Short description	This measure aims the enhancement of public employment services (PES) capacities to enhance its services for jobseekers and employers. Implementation of this measure will result in a more effective planning, drafting, implementing and monitoring of active measures of the labour market, by increasing employment, better functioning of labour market and implementing the 'grant scheme' for vulnerable groups, especially for women and young people. This measure derives from the 2015-2020 Sector Strategy of the Ministry of Labour and Social Welfare (MLSW), and is also associated with MTEF 2017-2019.	
Timetable by year	2017	1) Functionalization of EARK, including the transfer of existing staff and assets from MLSW. 2) Complete drafting of the regulation for the advisory board, as well as the drafting of necessary sublegal acts. 3) Licensing of non-public employment service providers to improve the delivery of employment measures (for implementation of active measures of labour market). 4) Training of employment advisers and review of performance results. 5) Improving the integration of the Labour Market Information System (LMIS) with the Education Management Information System (EMIS). 6) Modernization of services provided by vocational training.
	2018	1) Application of an internal training system of the Agency, which includes trainings for better designing, implementing and monitoring the active labour market measures; 2) Implementation of a training program to strengthen the technical capacities for monitoring the EARK staff regarding the functioning and performance of non-public employment service providers, who can be contracted for the implementation of ALM; 3) implementation of the grant scheme (IPA) for the ALM which will target vulnerable groups, particularly women and youth.
	2019	Continuation of internal training of the Agency, with increased focus on assessing the impact of active measures of the labour market with a view to improve the effect of such measures.
Cost of implementation and impact on the annual budget	For the implementation of activities related to the functioning of EARK, the planned amounts are: €175,000 (2017), €130,000 (2018), €130 (2019), part of the regular budget of the Office of Employment (salaries and wages, goods and services). For the Integrated Information System of the Labour Market, as part of the Draft Budget of 2017, in the category of Capital Expenditures (MLSW) €100,000 was budgeted for 2017. As for the implementation of the wage subsidy scheme for the category II, the Draft Budget of 2017 plans €9.0 mil for 2017-2019 (€3.0 mil each) in the category of Subsidies and Transfers – Employment Department. Within this category for 2017 is also planned €600,000 for modernization of services provided by vocational training. On the other hand, from the IPA project are expected to be supported other activities of active measures of labour market with € 500,000 in 2018 and 2019.	
Expected impact on competitiveness	Functionalization of EARK is expected to improve the services which will increase employment of jobseekers. This measure aims to improve opportunities for sustainable employment, particularly through strengthening employment services, which improve the employment offer, increase the employment,	

	especially among the long-term unemployed. Various measures of active labour market policy target the most vulnerable individuals and groups, including youth, women, people with disabilities, minority groups, but also individuals who aim to establish their own businesses.	
Expected social outcomes including on employment and on social groups in particular on gender	This measure will enhance employment and income opportunities, particularly for vulnerable groups, with special emphasis on the long-term unemployed, youth, women, minority groups and people with disabilities. There expansion of the grant scheme for implementation of active labour market measures will also provide support for social enterprises, including support of social enterprises with a focus on women and other groups in need (costs are already included in the funding of ALMPs above). The measure will also reduce dependency on social schemes.	
Measure #20: Improving the health and social services		
Short description	The proposed measure aims to strengthen the social protection system through improved health and social services. This measure aims to define sustainable system for financing social services, and the licensing of NGOs in the provision of social and family services; further functioning of the institutional infrastructure for the establishment of the health insurance fund, including exemption of health insurance payment for the target groups in accordance with the Law on Health Insurance. This measure is based on the draft Sector Strategy of the Ministry of Labour and Social Welfare (MLSW), 2015-2020.	
Timetable by year	2017	1) Creating and drafting of the financing formula for social and family services (minimum 6% of the General Grant for social services); 2) Inclusion of the "specific grant for social services" within the system for financing the municipalities by the central government, by including it in the amendment of the Law on Local Government Finances; 3) Grants support to licensed NGOs to provide social and family services; 4) Development, support and financing of social enterprises that provide social services; 5) Development and promotion of Integrated Information System of social payments, which also includes statistics on gender basis; 6) Collection of health insurance premiums from citizens; 7) Coverage of premium cost for social categories from the Kosovo Budget.
	2018	1) Support with grants the licensed NGOs to provide social and family services; 2) Development, support and financing of social enterprises that provide social services; 3) Improving and maintenance of the Integrated Information System of Social Payments; 4) Execution of payments for health insurance services of the insured.
	2019	1) Support licensed NGOs with grants to provide social and family services; 2) Continuation of development, support and financing of social enterprises that provide social services; 3) Continuation of the development and progress of the Integrated Information System of Social Payments; 4) Coverage of premiums cost for social categories from the Kosovo Budget.
Cost of implementation and impact on the annual budget	The cost planned for activities in Measure #20 has been planned within the Draft Budget. The amount of €17,000,000 for 2017-2019 for the implementation of the Law on Health Insurance has been budgeted within the Ministry of Finance “Contingency for insurances” category of Wages and Salaries. The other share of budget of €350,000 (2017), €500,000 (2018) and €700,000 (2019) has been planned within the budget for Subsidies and Transfers in the Department for Social Welfare (MLSW).	
Expected impact on competitiveness	Better access to social and health services will have an indirect impact on competitiveness of the economy by improving possibilities of vulnerable groups to participate in the labour market and improving the health status of the labour force.	
Expected social outcomes including on employment and on social groups in particular on gender	Implementation of the measure will improve the access to social services and especially enable better access to health care and improvement of health care through additional funding from the health fund. Improved welfare and health of targeted categories should also be favourable for improving the performance and competitiveness of the labour market in general. The measure will improve social services especially for marginalized groups and people with special needs.	

TABLE 12: REPORTING ON THE IMPLEMENTATION OF THE STRUCTURAL REFORM MEASURES OF THE ERP 2016-2018

Reform measure #1: Initiation and application of electronic procurement	
Brief description of actions planned for 2016	Initiation and application of e-tendering modules and e-complaints of e-procurement; Increasing awareness on public procurement to contracting authorities, economic operators and public procurement institutions. Issuing operational guidelines for e-procurement; Training of all procurement staff for e-procurement; Increasing administrative capacities, basic and advanced training;
Were the actions planned for 2016 been implemented?	Partially
If yes/partially, include: -Description of steps taken -Timeline of implemented actions -Difficulties and delays in implementation -Whether the reform will continue in 2017 If no, explain why not	Based on the decision of the Government, since 01 September 2016, has commenced the application of e-tendering module for central authorities. While regarding the e-complaints module, the company that is responsible for establishment of e-procurement system is harmonizing this module in conformity with changes made by the new law on LPP regarding the issue of complaints. Regarding the awareness and transparency, now with the new law, Contracting authorities are obliged to prepare and submit to the PPRC for publication the announcement of price quotation, so that it becomes a more transparent procedure. Operational guidelines for e-procurement published on this website www.e-prokurimi.rks-gov.net : Guidelines for registration of Contracting Authorities, Guidelines for preparation and publication of tenders Guideline for registration of Economic Operators, Manual for EO - Preparation and submission of bids. A basic training for authorities at the central level has taken place, while those at the local level are in progress; in the framework of these trainings e-procurement module was also introduced.
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	Budget 2016 868, 340
Reform Measure # 2: Construction of the new motorway to Skopje and improvement and rehabilitation of railway route 10	
Brief description of actions planned for 2016	1. Roads, new constructions - construction of priority segments of the motorway Prishtina - Han i Elezit (R6), connecting Corridor VIII of Southeast Europe 2. Railways: improvement and/or rehabilitation: Preparation of detailed project design for the northern and southern part of the railway route 10; and general rehabilitation of the railway route 10 (border with Serbia - Leshak - Fushë Kosova - Hani i Elezit - border with Macedonia)
Have the actions planned for 2016 been implemented?	Yes
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions	The project is being implemented according to the dynamic plan of works, works are continuing in segments C1 and C2 and C3 of the motorway. Regular meetings were held with representatives of Bechtel Enka Consortium and Supervisory Company Hill International on the progress of project implementation and issues on deployment of installations in the segments C1 and C2 of the motorway. Regular meetings have been held and coordinated activities with representatives of government institutions and municipal assemblies, regarding their specific requirements during project implementation. Despite certain difficulties, the dynamics on implementation of planned works is taking place according to envisaged deadlines.

<p>- Obstacles and delays in implementation</p> <p>- Whether the reforms continue in 2017</p> <p>If not, explain why not</p>	<p>Mentioned reform will also continue in 2017, which foresees the completion of Segment C2, entrance in Babush - entrance in Ferizaj - entrance in Doganaj, November 2017 and opening of the road track in segment C3, entrance in Doganaj- Hani i Elezit, expected to be completed in December 2018 .</p> <p>All actions planned for this year are fully implemented, while the accomplishment and completion of this project is due by the end of 2016.</p> <p>INFRAKOS, namely the Project Implementation Unit (PIU) of the company has taken all the steps necessary to monitor and oversee the implementation of the project design by the company engaged for the first phase, by professionally comparing and analyzing the implementation of this project compared with the terms of reference and the contract signed with the contractor.</p> <p>The timeframe for implementation of this project is the fourth quarter, respectively the end of 2016.</p> <p>Despite certain difficulties, the dynamics on implementation of planned works is taking place according to envisaged deadlines.</p> <p>Mentioned reform will also continue in 2017, whereby the commencement of general rehabilitation of the first phase and detailed technical project design for the second phase is expected to take place.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	<p>The project is funded entirely by the Kosovo budget; the amount of budgetary funds for 2016 is 148 million. Euros, while 200 million Euros are projected to be allocated for the needs of the project implementation.</p> <p>The total cost of project design for the first phase is EUR 1.84 million and this amount has no impact on the annual state budget, since the entire amount has been given as a grant from WBIF. It is worth noting that this project is implemented according to the envisaged cost and there will be no deviation from previously estimated costs.</p>
Reform measure #3: Further building of power generation capacities	
Brief description of actions planned for 2016	<p>The signing of contract with the investor Conture Global;</p> <p>Publication of international bidding process for construction of TPP Kosova e Re;</p> <p>The signing of the contract on feasibility study for the rehabilitation of TPP Kosovo B;</p> <p>Arrangement of EC technical assistance in the framework of IPA II on decommissioning of TPP Kosovo A;</p> <p>Conducting the Environmental Impact Assessment and finalized a detailed plan.</p>
Have the actions planned for 2016 been implemented?	<p>No.</p> <p>No. (Publication of the competition process for the EPC is related to the second phase of the Project, Financial Closure).</p> <p>Partially (activity for implementation of the feasibility study for rehabilitation of TPP Kosovo B is a project supported within the IPA 2014. The project is ongoing and expected to be completed within the period Q2 2017)</p> <p>No (The selection process for technical assistance has been re-tendered by EU office)</p> <p>1.5 No (The selection process for technical assistance has been re-tendered by EU office)</p>
<p>If yes/partially, include:</p> <p>- Description of steps undertaken</p> <p>- Time frame of the implemented actions</p> <p>- Obstacles and delays in implementation</p> <p>- Whether the reforms continue in 2017</p> <p>If not, explain why not</p>	<p>1 Negotiations to close the first phase of the project "Commercial Closure" are ongoing and we expect to conclude these agreements in early 2017. Additionally, at the same time work is taking place on finalizing the "Financial Closure" expected to be completed during 2017.</p> <p>2 Publication of the bidding process for construction of TPP Kosova e Re will be done by Selected Investor. This process is expected to take place during 2017.</p> <p>3 The project is proceeding according to plan and is expected to be completed within the period Q2 2017.</p> <p>4 Arrangement of EC's technical assistance under IPA 2014 has not taken place because bidding procedures have been repeated by EU Office in Kosovo. Assistance is expected to be arranged in the first half of 2017.</p>

	5 Conducting of Environmental and Social Impact Assessment and preparation of a detailed plan for physical dismantling of objects - this activity has been planned to take place in support of technical assistance. Since there was no assistance, no activity has taken place.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	1 There are no costs 2 There are no costs 3 The cost for feasibility study on rehabilitation of TPP Kosovo B is € 1.5 million. These are EU funds under the IPA 2014 and Kosovo budget 3.1 million. 4 & 5 The cost of technical assistance and Environmental Impact Assessment study is € 1.5 million. These are EU funds under IPA 2014.
Reform Measure # 4: Reduce energy consumption through energy efficiency measures	
Brief description of actions planned for 2016	1. EE and RE investments in the buildings of the Central Government - Acceptable funding for sub-projects of EE and RE in central government buildings - 140 Buildings 2. Investment Pilot Program for EE in municipalities - program includes 1-2 rounds of recent years' competitive calls on project for municipal proposals for grants to support improvements in lighting the buildings and streets with some co-financing requirements, or maybe a budgetary mechanism to recover a portion of the funds. 3. Technical studies and supervision. This includes consultations to support the investment component, including energy audits in buildings, drafting of detailed designs and tender documents and construction supervision. 4. Training of Companies - support targeted training to design companies, construction companies and other service providers of EE/ER.
Have the actions planned for 2016 been implemented?	Partially No Yes Yes
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	Designs for the first 19 buildings have been prepared as planned. Also, two companies selected for implementation of measures have commenced the implementation of the project. However there are delays in implementation due to difficult weather conditions. Implementation is expected to start this year. Ended as planned in 2016. Ended as planned (12 companies, and 7 officials mainly energy auditors, financing was done directly to WB).
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	The financial cost of € 4.5 million investments - from the World Bank loan. For implementation of this pilot program are planned around € 6.5 million. - from IPA II, municipalities and MED Implementation in the amount of € 110 000 - financed from the World Bank loan Financing of training courses is done directly by the World Bank.
Reform Measure # 5: Agricultural infrastructure for agro-businesses	

Brief description of actions planned for 2016	Increased coverage of irrigation system; Development of wholesale agricultural market infrastructure; Increasing the number of testing units of the laboratory to verify the quality of private seed production and improvement of phyto-sanitary measures;
Have the actions planned for 2016 been implemented?	Partially Yes Partially
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	Initially, was prepared the program, and then were prepared necessary documents, guidelines for application, and were held information sessions, were provided training for preparation of applications and business plans, and the call for applications was opened. Applications were received, administrative checks conducted, applications were selected based on previously prepared and published criteria, beneficiaries were notified, and controls were carried out in field prior to the commencement of investments and after completion of investments, and payments were realized! Deadline for implementation of all activities is annual started as of mid-February and ended with closing of fiscal year 23 December! Large number of applications/ much larger absorptive capacity compared to the MAFRD bidding capacity, and the very short deadline from the beginning of investment to the execution of the budget, in this context MAFRD would be in favour of multi-year planning project and opportunities to use the budget even after the closure of fiscal year! The measure continues to apply in the years ahead.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	The cost for implementation of this measure was € 46,000,000 and no deviations are foreseen from the envisaged budget
Reform Measure # 6: Consolidation of agricultural land	
Brief description of actions planned for 2016	The measure aims to address adjustment/consolidation of agricultural land by grouping and creating large and consolidated parcels, with the aim of increasing their sizes, which will result in increase of average size of farms. This will have a direct impact on the growth of agricultural productivity and market competitiveness.
Have the actions planned for 2016 been implemented?	Yes
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	Official meeting with all senior representatives of institutions - stakeholders involved in this project Setting the area and feasibility study of cadastral documentation and situation in the field Holding an information meeting with owners and people of interest in the area where the project is foreseen to be developed Providing trainings and seminars for key representatives of Institutions - Stakeholders regarding "voluntary consolidation of agricultural land according to FAO methodology." A meeting was held with municipal committee for melioration of land in the municipality of Vitia and was visited the area where the project for voluntary land melioration is being developed! During 22.12.2015 till 01.12.2016 ended the second phase of implementation of voluntary consolidation in the municipality of Vitia, namely voluntary consolidation was completed in seven cadastral zones in an area of 2296.66 ha.

	Difficulties and delays are related to the documentation of land ownership and the issues with inter-compatibility of parties with regard to replacement and regulation of parcels! The reform shall continue during 2017
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	The cost for implementation of this measure for 2016 amounts to € 448,862.54 €
Reform measure #7: Determining the potential for grouped industrial development	
Brief description of the actions planned for 2016	Functionalization of the Council/Forum for drafting policies to stimulate competitiveness and entrepreneurship in industrial sectors Support in the development of groupings/clusters - analysis, training for staff and relevant businesses about the action in the Industrial Cluster, Research on the supply chains for potential industry sectors - definition of missing links and measures for their development
Have actions planned for 2016 been implemented?	Yes, partially
If yes/partially, include: - Description of steps undertaken, - Time frame of the implemented actions, - Obstacles and delays in implementation, - Whether the reforms continue in 2017, If not, explain why not	Within the sector of metal processing/renewable energy (Biomass, Wind, Water, Electricity grid), 4 studies of the value chain have been conducted) The first phase of the establishment process of industrial cluster in the metal sector is completed. In this context, were identified supportive governmental and non-governmental stakeholders; meetings were organized to draft the commitments and final proposal are exchanged in writing; 3 round tables are organized with businesses interested to be part of this cluster; there were conducted visits to businesses to analyze and introduce the concept of industrial cluster and the role of each stakeholder; 3 meetings were held with representatives of the academic sector - UP, Faculty of Engineering; and draft commitments were discussed and exchanged by each party The process of preparing studies and assessments of the situation in the industrial sector in Kosovo, and determining the format of the support program for the development of industrial clusters has started
Current implementation cost and the impact on annual budget (specify the deviation from the assessed cost, if any)	For implementation of activities within this measure are foreseen to be spent € 2,017,280, as part of technical assistance.
Reform measure #8: Expansion of relevant ICT networks infrastructure and socio-economic development services	
Brief description of actions planned for 2016	Implementation of a pilot project " Women in Online Work " in two municipalities (100 women); and training of 90 young people in a 12-month period on ICT, followed by practical programs within 1 year at STIKK member companies through STIKK service for student placement, which will help them put into practice newly acquired skills and display their skills to potential employers.
Have actions planned for 2016 been implemented?	Partially
If yes/partially, include: - Description of steps undertaken	National Investment Council (August 2016) decided that the first component of the KODE program shall be placed in the single project pipeline for a loan under the Investment Clause.

- Time frame of the implemented actions	Regarding the development of skills, as part of the largest program implementation (KODE program), MED has benefited during this year (2016) a detailed report by the World Bank, which identifies specific mechanisms to develop skills for digital economy among young people in Kosovo.
- Obstacles and delays in implementation	Special attention was given to enable training programs for work positions using digital economy skills. The design elements of the program include the development of curriculum methods, methods of providing training, funding methods, etc.
- Whether the reforms continue in 2017	In the context of training and development of digital skills, MED with the support of the World Bank has implemented in two pilot municipalities the "Women in Online Work - WOW" project, which aimed training and inclusion of 100 women for online work, and serve as a good exercise for a greater intervention through the KODE program.
If not, explain why not	Capacity building phase of the pilot included the training for technical and soft skills, as being the most required skills to work on international online platforms. The pilot project WOW gave positive results; wherein 56% of women achieved at least one contract/online work.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	For the accomplishing the activities conducted in 2016, the cost was covered as a donation by the World Bank (WOW project and the report by the research for digital skills).
Reform measure #9: Developing data-based policies	
Brief description of actions planned for 2016	1. The establishment of regulatory quality unit and capacity building within the administration. 2. 25 RIA trainers of line ministries trained and certified
Have actions planned for 2016 been implemented?	No Yes
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	1. With the review of the Better Regulation Strategy it was determined that the unit for better regulation should be adopted within the existing structures of the Office of the Prime Minister. 2. RIA trainers were certified as scheduled.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	
Reform measure #10: Strengthening the Property Rights System	
Brief description of actions planned for 2016	1. Drafting and adoption of the Strategy on Property Rights 2. Adoption of concept paper on public property

Have actions planned for 2016 been implemented?	Yes Yes
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	1. National Strategy for Property Rights 2017-2020 has been adopted 2. The concept paper on public property has been adopted by the Kosovo Government
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	The process of drafting and adoption of the National Strategy on Property Rights is supported by USAID's Property Rights Program, while the second activity, drafting of concept paper for public property had no budgetary implications.
Reform measure #11: Increased judicial efficiency	
Brief description of actions planned for 2016	Amendment of legal framework so that the judicial system will handle only minor offenses if sanctions are contested by the parties. Stimulating early payments of minor offenses fines by reducing the fines paid within 72 hours and raising the fines in case of delay or transferring the case to court. Reduction of judicial system's backlog cases through the establishment of a special team composed by 100 people for the purpose of reducing backlog cases, whom shall in four years of work, be able to resolve backlogs, both civil and criminal, by helping judges as judgment drafters. Maintaining a positive rate of backlog settlement through the optimization of case management system and the Case Management System through the use of Information Technology.
Have actions planned for 2016 been implemented?	Yes Partially No Partially
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	Legal Department of the Kosovo Judicial Council Secretariat, among others, has been working on drafting the Action Plan for implementation of the Law No.05/L-087 on Minor Offense which was adopted on 05 August 2016, by the Assembly of the Republic of Kosovo. The action plan will be finalized by the end of October. The finalized Action Plan will be sent to courts so that they are familiarized with it and ready for implementation of the Law No.05/L-087 on Minor Offences, which will enter into force in January 2017. KJC has failed to implement this due to budget limitations, which are being currently encountered. With the recent law on budget of 2016, KJC not only failed to increase the number of additional positions under this objective but as well failed to enlist the allowed budget positions due to budgetary constraints. KJC is in the process of implementation of CMIS project which encountered delays in implementation.

	Currently, we are expecting that at the end of 2016, CMIS will be piloted in a Kosovo Court wherein we shall ensure the preservation of a positive clearance rate of backlog cases through the optimization of the case management system.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	
Reform measure #12: Improving access to funding for SMEs through Kosovo	
Brief description of actions planned for 2016	Regulation of organizational structures, Establishment of the Board of Directors Contribution of 3,000,000 Euros in the charter capital Signing of agreements with commercial banks
Have actions planned for 2016 been implemented?	Yes Yes Partially Yes, with five commercial banks that have applied
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	According to the agreement between MTI and donors, MTI is obliged to contribute in the amount of EUR 3,000,000 to the charter capital of the Kosovo Credit Guarantee Fund – namely 1,000,000 per year during the period 2015-2017. MTI has so far transferred 2,000,000 Euro in the charter capital of the KCGF and will continue with the last 1,000,000 in 2017.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)any)	The total cost of 3,000,000 Euro out of which 2,000,000 have been transferred to the charter capital of KCGF - and 1,000,000 remain to be transferred in 2017.
Reform measure #13: The improvement of Corporate Governance of State-Owned Assets	
Brief description of actions planned for 2016	Adoption of Concept Paper of the Law on SOE
Have actions planned for 2016 been implemented?	No
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions	The concept paper of the Law on Publicly Owned Enterprises was not adopted, and as such the reforms will continue but have not been included within 2017-2019 ERP.

- Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	
Reform measure #14: Merging Customs and Tax Administration to establish a single Revenue Collection Agency	
Brief description of actions planned for 2016	The Coordination Group and its sub-groups focus on drafting the legal base and action plan; The government shall send the Law on Agency for Revenue Collection to the Assembly. After adoption of the law, the formal merging of Customs and Tax Administration commences.
Have actions planned for 2016 been implemented?	Yes partially
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	1. The subgroup on drafting the Draft Law on TACK finalized the draft which is planned to be submitted for public discussion with stakeholders. 2. The subgroup for drafting the plan prepared the Plan which included detailed descriptions of activities which must be implemented in order to put into practice the reform. Additionally, the Plan contains the timelines for activities implementation. In order to implement activities according to timelines has been developed a Project Management Program which will make the management of activities easier and more effective. 3. Coordination Group for TACK commenced the first activities of an effective governance model, by creating subgroups for organizational units that will be affected by merging TAK and KC. This governance model is planned to be enriched through international expertises with additional elements from international best practices.
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	
Reform Measure # 15: Cultivating business-academy cooperation via research grants and innovative incentives	
Brief description of actions planned for 2016	Adoption of Innovation Strategy; Establishment of the Innovation Council. Distribution of innovation vouchers. Allocation of grants for research projects. Awareness activities.
Have actions planned for 2016 been implemented?	No No Yes

	Yes
	Yes
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 <p>If not, explain why not</p>	<p>A series of improvements and updates regarding innovation strategy text have been carried out. However, the same did not obtain OPM's approval for proceeding to the Government. Consequently, it was decided that the existing draft strategy must be revised and processed for approval in 2017.</p> <p>The Innovation Council has not been established, since this will be determined by the Law on Innovation.</p> <p>The announcement of calls for Innovation Voucher, whereby there were 20 Innovation Vouchers planned. The competition was partly successful due to lack of interest by SMEs. The reform will also continue in 2017. Main difficulties in implementing the activities are related to the lack of enterprises interest and innovative orientation.</p> <p>Grants for small projects were successfully allocated. There were announced 17 new beneficiaries, and 8 previous beneficiaries had their funding continued. The activity will also continue in 2017.</p> <p>MEST has organized four awareness campaigns, organized as mini-conferences and conferences. A special session on Innovations was organized during the Week of Science, as well as three mini-forums with stakeholders. The activity will also continue in 2017.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	<p>Adoption and implementation of the Innovation Strategy activities in 2017 will require additional budget of 1.3 million, which is not foreseen in the annual budget.</p> <p>The budget for activities 3, 4 and 5 has been foreseen.</p>
Reform Measure # 16: Encouraging business to improve outcomes quality	
Brief description of actions planned for 2016	<p>Adoption of the new European and international standards (1400 new standards in 2016)</p> <p>Completion of existing laboratories and establishment of new laboratories</p> <p>Increasing the number of conformity assessment programs</p> <p>Increasing businesses awareness on infrastructure quality and supporting businesses on implementation of standards.</p>
Have actions planned for 2016 been implemented?	<p>Yes</p> <p>Yes</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 <p>If not, explain why not</p>	<p>Until November 2016, 1201 standards were adopted, while 100 new standards are in process for December.</p> <p>All activities foreseen for the purpose of increasing awareness regarding the quality infrastructure and supporting businesses on implementing these standards have been implemented with the support of FMG.</p> <p>The reform will also continue in 2017.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	<p>The cost for standards adopted in 2016 is 15-18 thousand Euros.</p> <p>Support of FMG project.</p>

Reform Measure # 17: Better connection/relationship between education and labour market	
Brief description of actions planned for 2016	<p>Training quality assurance, reviewing the curriculum and accreditation of new qualification 30000.</p> <p>Expanding the new curriculum to all other schools, whereas at the same time conducting an assessment of efficiency in pilot schools (10%), as well as a systematic correction, where necessary.</p> <p>Reviewing existing textbooks to better suit students needs, including the establishment of new textbooks according to learning outcomes. Whereas, due to VET characteristics, developed basic textbooks for the respective profiles and other educational materials will be provided.</p> <p>Implementing VET pilot system mixed with elements of double-learning (a combination of learning in schools and enterprises) starting with the priority areas and continuing with VET under the Core Curriculum. Coordination of development subsidies system in those areas, in order to achieve better integration of VET graduates to the labour market, etc.</p>
Have actions planned for 2016 been implemented?	<p>Partly</p> <p>Partly</p> <p>Partly</p> <p>Partly</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 <p>If not, explain why not</p>	<p>During the January-October period, in order to provide quality, training programs by MLSW were reviewed and 27 qualifications from National Qualifications Authority were validated.</p> <p>Difficulties: Reviewing of Vocational Education curriculum based on Core Framework.</p> <p>During 2016, 4 documents were reviewed: The New Curriculum Framework and three Core Frameworks for three levels of pre-university education; were drafted 61 subject syllabus for pre-school grades, namely I, VI, X .</p> <p>Difficulties: Based on the assessment conducted for pilot schools (10%), it was noted that teachers were unable to breakdown the core curriculum with syllabuses, therefore the process is centralized and syllabuses were drafted and implemented in 84 schools in Kosovo. The process will be expanded in all schools during the 2017-2018 school year.</p> <p>During February-September period, all existing textbooks of pre-university education were reviewed, scientific inaccuracies and errors were corrected and learning materials for 120 modules of Vocational Education profiles were drafted. During the coming year, we will continue drafting new textbooks based on syllabuses and the expected results of the new curriculum.</p> <p>Difficulties: due to lack of budget, establishment of expert groups of respective fields in reviewing of textbooks was not possible, but the reviewing was done by teachers of respective subjects and textbooks authors.</p> <p>During January-October period, roundtables, two conferences and other meetings were organised with relevant stakeholders from Vocational Education and Training and businesses on improving the implementation of double learning, namely School-Enterprise learning, which resulted with encouraging students complete vocational training in enterprises.</p> <p>Difficulties: Pupils themselves have not shown interest on enrolling in the pilot project for "Technology of manufacturing shoes and accessories" profile, despite the fact that the trip and food was provided by the enterprise "Solid", whereas on the other hand there were no other enterprises that supported the pilot of double learning development.</p> <p>The reform will also continue in 2017.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	<p>Training quality assurance, reviewing of curriculum and accreditation of new qualification - 30 .000 Euros</p> <p>Expanding the new curriculum - 50.000 Euros</p> <p>Reviewing existing textbooks - none</p> <p>Implementing VET pilot system mixed with elements of double learning (a combination of learning in schools and enterprises), 20.000 by Donors</p>

	No concrete deviation
Reform Measure 18: Further strengthening of public employment services through operationalization of the Employment Agency	
Brief description of actions planned for 2016	Functionality and capacity of strengthening the Employment Agency of the Republic of Kosovo; Licensing of non-public employment providers; Development of training system without work termination for EARK staff and the provision of modules for training of trainers for VTC; Provision of equipment for new and existing stations; as well as the recruitment of a number of trainers for the new work stations; Development of the sub legal act on regulating the procedure for placing the product and service in market;
Have actions planned for 2016 been implemented?	Partly No No No No
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 <p>If not, explain why not</p>	<p>In the view of making the Employment Agency of the Republic of Kosovo functional during 2016, the following activities were completed: Regulation No. 41/2013 on internal organization and systematization of jobs in EARK; job descriptions for all positions within EARK; EARK Employment policy 2016-2018 was drafted, which determines the political guidelines of MLSW and EARK as well as the specific objectives for the next three years; EARK work plan in 2016; EARK General Director is in the process of being recruited.</p> <p>By now, two non-public employment services providers are licensed and this process will also continue in 2017.</p> <p>Internal training system for EARK staff was developed. Development of this system by adding new modules will also continue in 2017. Likewise, organization of new training for the Employment Office staff will also continue in 2017.</p> <p>In support of ETF donor, the training for 20 trainers of Vocational Training Centres in the field of "planning and effectiveness of the training program" was conducted, whereby this training was conducted in modules with periods throughout the year. DVV also organised a training phase for 20 VTC trainers in Module 4 of the Global Curriculum Training package. The training will also continue in other modules in 2017.</p> <p>With the support given by DVV-International, were provided supplies of tools and equipment for two occupations: Hairdressing and Tailoring. DVV International also supplied the cabinet in VTC Prizren with equipment for Tailoring and functionalized this occupation with the aim of training jobseekers and those unemployed. The supply of cabinets with equipment will also continue in 2017.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	<p>Functionality and strengthening the capacity of the Employment Agency of the Republic of Kosovo - 80,000 Euros;</p> <p>Licensing of non-public employment providers - no data;</p> <p>Development of on-the- job training system for EARK staff and provision of modules for training of trainers for VTC - 30,000 Euros</p> <p>Provision of equipment for new and existing stations; as well as the recruitment of a number of trainers for the new work stations; 180,000</p> <p>Development of the sub legal act on regulating the procedure for placing the product and service in market - 2,000 Euros</p>
Reform measure 19: Providing opportunities for training and employment through the active measures of the labour market	

Brief description of actions planned for 2016	Providing opportunities for training and employment through the training without work termination; Wage subsidies, Training based on institution and enterprise, practices and programs on learning the profession/occupation Self-employment programs, etc.
Have actions planned for 2016 been implemented?	Partly Partly Partly Partly
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions - Obstacles and delays in implementation - Whether the reforms continue in 2017 If not, explain why not	<p>Vocational trainings in VTCs were attended by 6818 people, out of which 27% were women. While 951 jobseekers benefited from on-the-job training, out of which 452 were women. On-the-job training was supported by projects conducted in co-financing with Kosovo Chamber of Commerce and American Chamber of Commerce in Kosovo; as well as with the German GIZ project "Supporting Youth Employment"; Ministry of Culture, Youth and Sports, respectively Department of Youth.;</p> <p>474 jobseekers benefited wage subsidies, out of which 169 were women. Wage subsidy measure was supported by the project conducted with the national funds of MLSW and UNDP co-financed project "Active Labour Market for Employment Generation 2".</p> <p>291 jobseekers benefited work internship, out of which 159 were women. The measure of on the job practice was conducted with the national funds of MLSW, as well as by co-financing with several public companies.</p> <p>47 jobseekers benefited from self-employment (or entrepreneurship), out of which 16 were women. Self-employment (or entrepreneurship) measure was supported by the project conducted in partnership with UNDP, the project "Active Labour Market for Employment Generation 2" in the region of Mitrovica.</p>
Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)	Total national budget for active labour market measures was 1.8 million Euros.
Reform measure #20: Implementing and improving the teachers' career system	
Brief description of actions planned for 2016	Revision of the legal framework on licensing teachers and career development of teachers Training of 3500 teachers on implementing the educational reform by NCF. An action plan for evaluating teachers performance was drafted Linking the payroll system with teacher's licensing ranks
Have actions planned for 2016 been implemented?	Partly Partly Yes No
If yes/partially, include: - Description of steps undertaken - Time frame of the implemented actions	<p>During January-October period, SLCT as a body that reviews all license-related documents, teachers' career development, and harmonizes their content, has conducted the following activities: Reviewing of AI on licensing of teachers; Reviewing of the framework for school-based vocational training; Reviewing of training programs accreditation; Reviewing of teachers competence profile; These documents were drafted and are expected to be approved by the end of 2016.</p> <p>Difficulties: Harmonization with other applicable laws, which incorporate changes</p>

<p>- Obstacles and delays in implementation</p> <p>- Whether the reforms continue in 2017</p> <p>If not, explain why not</p>	<p>The training of 4500 teachers for implementation of NQF was conducted, according to curricular fields and natural sciences programs. During this phase, 75 schools at Kosovo level were supported on implementing NCF in preschool/ elementary grades, by providing basic training for teachers and basing on the results of implementation with pupils they will be certified in December.</p> <p>Difficulties: The lack of local capacities at the municipal level for the inclusion of all teachers in basic training. It is also a lack of budget.</p> <p>An action plan for evaluating teacher's performance was drafted.</p> <p>Difficulties: The lack of the number of inspectors and occupational groups on implementing the plan for evaluating teacher's performance and their preparation on using AFL criteria.</p> <p>Linking the payroll system with teacher's licensing ranks. This activity was not conducted.</p> <p>Difficulties: The lack of budget and establishment of functional mechanisms at all levels.</p>
<p>Current implementation cost and the impact on annual budget (specify the deviation from the estimated cost, if any)</p>	