

**ECONOMIC REFORM
PROGRAMME 2020-2022**

January 2020



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

ECONOMIC REFORM PROGRAMME (ERP) 2020-2022

Table of Contents

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES.....	6
1.1. IMPLEMENTATION OF POLICY RECOMMENDATIONS.....	7
2. MACROECONOMIC FRAMEWORK	12
2.1. EXTERNAL ECONOMIC ENVIRONMENT	12
2.2. RECENT ECONOMIC DEVELOPMENTS IN KOSOVO AND OUTLOOK FOR 2019.....	13
2.2.1. REAL SECTOR	13
2.2.2. BUSINESS CLIMATE	17
2.2.3. MAIN LABOUR MARKET INDICATORS, 2016-2019Q3	18
2.3. MEDIUM-TERM MACROECONOMIC SCENARIO	20
2.3.1. REAL SECTOR PROJECTIONS	20
2.3.2. MONETARY AND EXCHANGE RATE POLICY AND INFLATION	21
2.4. THE EXTERNAL SECTOR AND ITS MEDIUM-TERM SUSTAINABILITY	23
2.4.1. CURRENT ACCOUNT	23
2.4.2. FINANCIAL ACCOUNT	26
2.5. FINANCIAL SECTOR.....	27
2.6. ALTERNATIVE SCENARIOS AND RISKS	30
2.6.1. DOWNSIDE RISKS.....	30
2.6.2. UPSIDE RISKS	32
2.6.3. AGGREGATED RESULTS OF UPSIDE AND DOWNSIDE RISKS	36
3. FISCAL FRAMEWORK	37
3.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVE.....	37
3.2. BUDGET IMPLEMENTATION IN 2019 (<i>JANUARY- OCTOBER</i>).....	38
3.3. MEDIUM-TERM BUDGETARY OUTLOOK.....	40
3.3.1. BUDGET REVENUE PROJECTIONS.....	41
3.3.2. BUDGET EXPENDITURE PROJECTIONS.....	43
3.3.3. EXPENDITURE PROJECTIONS BY ECONOMIC CATEGORY	45
3.3.4. FISCAL IMPACT ASSESSMENT OF SOME KEY STRUCTURAL REFORMS	46
3.3.5. EXPENDITURE PROJECTIONS FOR POLICY-BASED BUDGET SECTORS AT CENTRAL LEVEL	47
3.4. FISCAL STRUCTURAL BALANCE.....	48
3.5. DEBT LEVELS AND DEVELOPMENTS, ANALYSIS OF BELOW-THE-LINE OPERATIONS AND STOCK-FLOW ADJUSTMENTS	51
3.5.1. CONTINGENT LIABILITIES	52
3.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME	52
3.6.1. COMPARISON WITH THE PREVIOUS PROGRAMME	52
3.7. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS	53
3.8. SUSTAINABILITY OF PUBLIC FINANCES.....	53
3.8.1. DEBT SUSTAINABILITY	53
4. STRUCTURAL REFORMS 2020-2022	57
4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH.....	57

SUMMARY OF REFORM PRIORITIES	58
4.2. ANALYSIS BY AREA AND STRUCTURAL REFORM PRIORITIES	60
4.2.1. REFORM IN ENERGY AND TRANSPORT MARKETS	60
4.2.2. AGRICULTURE, INDUSTRY AND SERVICES	64
4.2.3. BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY	71
4.2.4. RESEARCH, DEVELOPMENT AND INNOVATION AND THE DIGITAL ECONOMY	80
4.2.5. TRADE RELATED REFORMS	85
4.2.6. EDUCATION AND SKILLS	89
4.2.7. EMPLOYMENT AND LABOUR MARKETS	97
4.2.8. SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES.....	101
5. COSTS AND FUNDING OF STRUCTURAL REFORMS	104
6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT	106
ANNEX 1 TABLES	107
ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2020-2022	153
ANNEX 3: LIST OF KEY PERFORMANCE INDICATORS	172
ANNEX 4	177

List of tables and figures

Figure 1. Real annual growth of GDP, in %	12
Figure 2. Inflation	13
Figure 3 Contribution of tradable and non-tradable inflation	15
Figure 4. Business Climate Indicator and Balances of the current situation assessment' of business sectors	17
Figure 5. Gross average wages TAK, in Euro	19
Figure 6: Real GDP and its components.....	21
Figure 7 Herfindahl Hirschman Index.....	23
Figure 8 Trade Openness Index	25
Figure 9 Financial account components, % of GDP.....	26
Figure 10 Net International Investment Position	26
Figure 11. Private sector lending growth.....	28
Figure 12: Real GDP growth under various alternative scenarios	36
Figure 13 Revenue Structure 2017 - 2022	43
Figure 14: Expenditure structure	45
Figure 15 Actual and Potential GDP, 2010Q1: 2019Q2.....	49
Figure 16 DSA Baseline Scenario	55
Figure 17 Debt stock as % of GDP.....	56
Figure 18 Budgetary implication of structural reforms 2020-2022, by financing sources	105
Figure 19 Budgetary implication of structural reforms 2020-2022, by expenditure categories.....	105
Table 1 Global Economic Indicators	13
Table 2 Leading and Coincidence Indicators for Aggregate Demand Components	14
Table 3 Main labour market indicators	18
Table 4 Labour productivity and ULC, 2015: 2018	18
Table 5 Export and Import of goods and services	23
Table 6 Differences in Projections between WEO (October 2019) and EC (Autumn 2019).....	30
Table 7 General Government Operations, in millions of Euros.....	39
Table 8 Local Level Expenditure.....	44
Table 9 Central Level Expenditure.....	45
Table 10 Expenditure based on Economic Categories, 2017- 2022	46
Table 11 Costing of some of the key structural reforms.....	47
Table 12 The elasticity of tax revenues with respect to GDP	50
Table 13 Overall Fiscal Balance; Balance corrected for business cycle; cyclical component of bud. bal. and output gap.....	51
Table 14 Total Government Debt, in million euro (unless otherwise indicated)	52
Table 15 State Guarantees	52

LIST OF ABBREVIATIONS

ADR	Alternative Dispute Resolution	MAFRD	Ministry of Agriculture, Forestry and Rural Development
ALM	Active Labour Market	MCC	Millennium Challenge Corporation
ARDP	Agriculture and Rural Development Programme	MCYS	Ministry of Culture, Youth and Sport
BCI	Business Climate Indicator	MED	Ministry of Economic Development
BEEPS	Business Environment and Enterprise Performance Survey	MESP	Ministry of Environment and Spatial Planning
CBK	Central Bank of Kosovo	MEST	Ministry of Education, Science and Technology
CEFTA	Central European Free Trade Agreement	MLSW	Ministry of Labour and Social Welfare
CMIS	Case Management Information System	MoF	Ministry of Finance
CPI	Consumer Price Index	MOJ	Ministry of Justice
EARK	Employment Agency of the Republic of Kosovo	MSME	Micro, Small and Medium Enterprises
EC	European Commission	MTEF	Medium Term Expenditure Framework
EE	Energy Efficiency	MTI	Ministry of Trade and Industry
EED	Energy Efficiency Directive	NDS	National Development Strategy
EFTA	European Free Trade Association	NEET	Not in Education, Employment, or Training
EMIS	Education Management Information System	NGO	Nongovernmental Organizations
EPC	Engineering, Procurement and Construction	NPISAA	National Programme for Implementation of the SAA
ERA	European Reform Agenda	OECD	Organisation for Economic Cooperation and Development
ERP	Economic Reforms Program	OPEC	Organization of the Petroleum Exporting Countries
EU	European Union	OPM	The Office of the Prime Minister
FDI	Foreign Direct Investment	PFM	Public Finance Management
GDP	Gross Domestic Product	PISA	Programme for International Student Assessment
GoK	Government of Kosovo	PPRC	Public Procurement Regulatory Commission
HBS	Household Budget Survey	REER	Real Effective Exchange Rate
HE	Higher Education	RES	Renewable Energy Sources
HEI	Higher Education Institutions	RDI	Research, Development and Innovation
HEMIS	Higher Education Management Information System	SEED	The South East Europe harmonised qualification of professional Drivers
HHI	Herfindahl- Hirschman Index	SEETO	South East Europe Transport Observatory
IFI	International Financial Institutions	SIDA	Swedish International Development Agency
IMF	International Monetary Fund	SME	Small and Medium Businesses
IPA	The Instrument for Pre-Accession Assistance	SPO	Strategic Planning Office
KA	Kosovo Accreditation Agency	STIKK	The Kosovo Association of Information and Communication Technology
KB	Kosovo's Budget	TPD	Tourism Product Development
KCA	Kosova Cadastral Agency	TPP	Thermo Power Plant
KEDS	Kosovo Electricity Distribution and Supply	ULC	Unit Labour Costs
KESP	Kosovo Education Strategic Plan	UNDP	United Nations Development Programme
KFCG	Kosovo Fund for Credit Guarantees	USAID	United States Agency for International Development
KIESA	Kosovo Investment and Enterprise Support Agency	VET	Vocational Education Training
LFPR	Labour Force Participation Rate	WB	World Bank
LFS	Labour Force Survey	WTO	World Trade Organization
LMIS	Labour Management Information System		

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The ERP 2020- 2022 drafting process was led by Minister of Finance as a National Coordinator and was coordinated by the Ministry of Finance, the Strategic Planning Office (SPO) in the Prime Minister's Office, and policy area coordinators from line ministries. Coordinators met regularly to discuss the content of the measures, their consistency with related strategic planning documents and with policy guidance received through the Economic and Fiscal Dialogue with the European Commission.

Inter-ministerial working groups met to assure that short-term activities from the draft ERP were included in the Annual Government Work Plan for 2020 and are consistent with activities planned in the draft SAA National Implementation Plan (SAANIP) and the European Reform Agenda (ERA), as well as with the 2020 draft-budget. SPO, in cooperation with area coordinators, assured that the majority of measures are directly linked to the National Development Strategy and its implementation Roadmaps.

The Government remains committed to maintaining a stable macroeconomic environment, strengthening growth and increasing employment prospects. The overall ERP policy framework is a combination of: (1) a rules-based fiscal policy oriented towards stability of public finances and, within the available fiscal space, supporting economic growth through capital investments, increased funding for priority development areas, and tax incentives for domestic producers, and (2) a set of priority structural reforms addressing the key obstacles to economic growth, supporting the development of competitive economic sectors, and assuring that economic growth is inclusive and welfare enhancing. Fiscal policy as planned in the ERP and MTEF, supports economic growth and structural reform agenda by ensuring that the level of public investment spending remains at above 10% of GDP, and in addition to transport infrastructure, includes investments in educational and health institutions, agricultural and rural development, irrigation and waste-water treatment. In addition, the 2020 draft-budget includes substantial funding for priority areas; quality improvement of the judiciary, education and health sectors.

1.1. Implementation of Policy Recommendations

1. “[1.A.] Complete the war veteran certification and reclassification process in order to decrease the costs of the war veteran pension scheme in line with the current legislation. [1.B.] Ensure, if necessary through secondary legislation to the Law on Public Salaries that the 2020 budget complies with the existing fiscal rules, in particular with the wage bill rule. [1.C] Improve the collection of tax revenues so that the ambitious revenue projections for 2019 are fully met.”

[1.A.] A special commission for categorizing the veteran list was established. Until now, the Commission’s rules of procedure has been prepared and is expected to be signed by the government. However, in the annual budget 2019, and budget projections for 2020, Ministry of Finance has planned budget resources to pay war veterans in accordance with current legal obligations in force.

[1.B.] The working groups on sub legal acts deriving from Law on Salaries in Public Sector, are working on designing sub legal acts that are needed for the start of implementation of this law in December 2019, by focusing on compliance with the wage bill rule.

[1.C] During 2019, the Tax Administration of Kosovo (TAK) has collected Eur 504.3 million, which is Eur 47.5 million or 10.4% more, y-o-y (more than twice of GDP growth). Moreover, the stock of tax debt has decreased 5.8% (Eur 22.9 million) compared to the end of 2018. Additionally, tax debt collection this year amounted for Eur 101.8 million which reflects a 44.8% increase compared to last year’s Eur 70.3 million.

2. “[2.A.] Improve financial oversight and accountability of publicly owned enterprises [2.B.] Strengthen institutional capacities at central and local government levels for multiannual investment planning and investment project management in order to improve the execution of capital spending. “[2.C.] Prepare an options paper on the establishment of an independent body for fiscal oversight for further consultations with stakeholders, including the EU”

[2.A]. The new Law on Publicly Owned Enterprises (POEs) proceeded to the Government, which foresees the drafting of strategic policies for POEs and sets out property policies for public assets based on state ownership justification and maximizing long-term value of POEs, the role of the state in the governance of POEs and the implementation of strategic policies. The new policy proposed for Publicly-Owned Enterprises foresees legal regulation of the financial support for these enterprises which according to specifications is provided by the Government. Financial support to POEs is foreseen through the Budget Law and monitored through monitoring and control agreements.

[2.B.] In order to improve the process of planning and execution of capital projects, the Minister of Finance has signed an administrative instruction on selection criteria for capital projects and prioritization of capital projects which will become effective on the 1st of January 2020. The implementation of this instruction by budget organizations will have a direct and positive impact on a more effective and efficient budget planning and execution process of capital projects. Also, it is agreed within the MoF (Budget Department and Treasury) on implementing a multi-year commitment for capital projects, subject to the revision of the legislation in order to extend the budget appropriation beyond the fiscal year (e.g. 3 year appropriations to be considered valid for this purpose). Year 2020 will be considered a testing phase.

[2.C.] Regarding the Fiscal Council (Body), there are some alternatives already taken into consideration (by studying on the existing similar Bodies in different countries), while during 2020 an options paper can be presented to stakeholders, subject to a decision by the future legislative bodies (Assembly/Government). Some of the issues, like: the legal statute/establishment act, functions and responsibilities, accountability of the Body, composition, and how we can accommodate those in the existing constitutional/legal framework, etc. need to be further discussed.

3. “[3.A.] Continue improving the central bank’s analytical toolkit, including by establishing an inflation expectations survey. [3.B.] Further identify and address the underlying legal and institutional factors hampering access to finance for SMEs. [3.C.] Closely monitor the emergence of potential financial stability risks related to the consumer loan segment, deploying appropriate micro- and macroprudential policy tools if needed. [3.D.] Decisions concerning the central bank’s holdings of government securities on a transparent investment policy, and gradually reduce their level to avoid crowding out private sector activity on the secondary market.”

[3.A.] The Central Bank of Kosovo (CBK) for the first time, started assessing inflation expectations in the third quarter of 2019. Newly designed Inflation Expectation Survey has been integrated into the Lending Survey that CBK conducts on quarterly basis with the Commercial Banks operating in Kosovo. Estimates obtained from commercial banks are quantitatively coupled with probability distributions. Inflation expectations are estimated for different time horizons: expectations for the whole current year; for the remaining quarters of the current year; and also for the forthcoming year. Based on the survey results, inflation expectations were higher in 2019 compared to the previous year’s actual inflation, 2018. Almost all banks expect that inflation this year (in 2020) is going to be lower compared to the preceding year (2019).

[3.B.] During the past few years, effective enforcement of legislative and regulatory requirements reforms has significantly contributed to reducing barriers hampering access to credit. Particularly, there has been progress in terms of private enforcement agents and amendments to the Law on Execution Procedure. These undertakings have had a positive impact on the credit supply for the private sector. They have allowed banks to ease improve two very important aspects, such as access to finance and facilitating collateral requirements, which until recently were too high, and have contributed in reducing interest rates on loans. The banking sector has recorded steady growth since the beginning of its operation in Kosovo. As of September 2019, the credit to GDP ratio was around 41.3%, making the level of financial intermediation in Kosovo to safely converge towards the average ratio of the countries in the region. As of September 2019, the annual credit growth was 10.3% (11.4% recorded in September 2018). Credit to corporates recorded an annual growth of 9.9% (11.7% in September 2018), whereas credit issued to households recorded an annual growth of 10.8%, indicating a slowdown compared to the same period of the previous year (11.3% in September 2018). CBK through its macro prudential policy framework is monitoring closely the dynamics of credit growth.

[3.C.] The competition in the banking sector and the low interest rate environment in the past years, in an environment with high quality of loan portfolio (low levels of NPL-s), has resulted in double digit growth rate of loans in the past three years. However, new loans to households as of September 2019, marked an annual decline of 0.4% (grew by 12.7% in the same period of last year), as a result of a decline in consumption loans, while mortgage loans continued their growth trend. The current loan portfolio quality is high (an NPL ratio of 1.8% for

households), and the prospects for the main sources of finance in the economy are optimistic, however, CBK is monitoring carefully the lending activity to households, through its macro prudential policy framework.

[3.D.] CBK Investment is guided by the Law on Central Bank of The Republic of Kosovo and its internal Investment Policy, and consequently invests and monitors its exposure very closely. CBK is eligible to purchase, hold and trade securities in the secondary market, issued and guaranteed by the Republic of Kosovo. Government securities are purchased directly from primary dealers, commercial banks, available and willing to trade with securities at certain prices.

4. “[4.A.] Increase energy efficiency incentives for the private sector and households; [4.B.] Adopt a plan that includes the gradual adjustment of energy tariffs reflecting expected increases in costs and mitigation measures for vulnerable consumers [4.C.] Improve the support schemes for renewable energy projects with the introduction of competitive bidding/ auctions for renewables support.”

[4.A.] Following the internal regulations of the Fund, the Fund initially foresees the support of public sector investment, sustainability of the Fund, and the development of energy efficiency incentives for the private sector and households.

[4.B.] Regarding the de-regulation of electricity supply prices, the Energy Regulatory Office has approved the Guidance for the Liberalization of the Energy Market in Kosovo. Based on this guidance, the steps that will be taken to de-regulate electricity consumer prices are as follows:

- Consumers connected to the 110 kV voltage level are de-regulated so they are subject to market prices;
- Consumers connected to the 35 kV voltage level will be de-regulated until March 31st 2020;
- Customers connected to the 10 kV voltage level will be de-regulated until March 31st 2021;

Even though concrete steps were prescribed for regulation of the electricity consumers in the Guidance for the Liberalization of the Energy Market in Kosovo, ERO received numerous requests from consumers and Chambers of Commerce that represent their interests with regard to extension of the deadline for liberalization of electricity market, and has received a recommendation from the Parliamentary Committee of Economic Development, Trade, Industry and Regional Development to consider the opportunity for extending the deadline for liberalization of market. When analysing the situation of the electricity sector, ERO has noted some deficiencies in the process of liberalization of the electricity market as stated in the Guidance, such as: licenced electricity suppliers are not active (except of current supplier) and consumers are not able to find suppliers. ERO considered that entry into the unregulated market of this category of consumers would reflect the rise of the price of electricity due to lack of competition, thus discriminating these categories of consumers compared to other consumers with regulated tariffs.

Based on these circumstances, the Board of ERO, in its session dated 28 March 2019, reviewed the requests of interested parties and decided to amend the Guideline on Liberalization of Electricity Market, respectively Article 8, paragraph 1, sub-paragraph 1.3 of this Guideline. The amendment of this Guideline relates to extension of the deadline for switching of

consumers connected to the voltage level of 35 kV and 10 kV for a year, where the deadline for switching of consumers connected to the 35 kV voltage level, who were supposed to switch to the unregulated market on April 1st 2019. According to the amendment of the Guideline, is extended up to 31 March 2020, whereas the deadline for consumers connected to the 10 kV voltage level, who were due to switch to the unregulated market on 01 April 2020, is extended up to 31 March 2021.

[4.C.] Kosovo Agency for Energy Efficiency within the Ministry of Economic Development (MED) is working on incentives for the private sector with the support of the EBRD, according to the EE Law, Article 10: Mandatory Energy Efficiency Scheme. In 2020 MED/KEEA will come up with a document (Energy Saving and Costs of Alternative Measures) which will provide an orientation in fulfilling the obligations for the implementation of compulsory schemes in Kosovo.

5. “[5.A.] Adopt and ensure the implementation of the new Strategy and Action Plan 2019-2023 to fight the informal economy in accordance with the prescribed timetable, integrating appropriate actions to address undeclared work.

The National Strategy on Prevention of the Informal Economy, Money Laundering, Terrorism Financing and Financial Crimes for the years 2019-2023, has been adopted in the Government meeting of May 7th 2019. The drafting process of the Strategy and Action Plan has been based on findings from the EU Project on Assessment of the Existence of the Non-Formal Economy in Kosovo as well as the findings from independent risk assessments for the most sensitive sectors on informal economy, financial crimes, money laundering and terrorist financing. The National Strategy is a document drafted by the Kosovo Government under the full coordination of all institutions and international partners, who assisted the working group in drafting this document (the technical assistance from the EU). This document covers all measures through which the Government intends to prevent all forms of informal economy, prevention of money laundering, terrorist financing and financial crimes in various sectors of economic activity in Kosovo through the Action Plan. The Secretariat of Government Working Group continuously drafts the semi-annual and annual reports on the implementation of the Strategy. The first report for the new Strategy will be drafted during Q1 2020.

6. “[6.A.] Develop active measures for increasing female labor market participation and employment. [6.B.] Increase the provision of vocational education and training for professions in demand. [6.C.] Increase investments in education with particular focus on expanding early childhood education.”

[6.A.] Regarding an increase in labour market participation and women's employment, mediation is being organized between jobseekers and different employers. During 2019, 4,611 jobseekers participated in this process and about 47.6% (2,198) were women.

[6.B.] Vocational Training Centres (VTCs) within the Employment Agency of the Republic of Kosovo during 2019 have enabled the inclusion of around 6,607 persons in Vocational Training (during 2018, this number was 5,497 persons). Also, during 2019 equipment was provided for the profession "Hairdressing and Makeup" by representatives of the DVV – International donor to VTC – Podujevë. At the same time, a new VTC in Podujevë has been opened and contains four profiles: Information and Communication Technology, Tailoring, Hairdressing, and Makeup. Further, the GIZ project provided seven VTC workshops. In 2020, the opening of a tailoring profile in the VTC of Gjilan is planned. Cooperation with enterprises has begun and an Administrative Instruction "Workplace Learning" has been drafted on the conditions and

criteria that guide the establishment of dual forms of vocational education and training. This administrative instruction, in which training and experience take place in the enterprises, is expected to be implemented in 2020 for schools and profiles that are demanded from businesses.

[6.C.] During 2019, measures have been taken to increase investment in education. As for the construction of new public childcare facilities, 2 kindergartens were completed in 2019, 5 kindergartens are expected to be completed in 2020, and 9 kindergartens are expected to be completed in 2021. During 2019, 14 kindergartens were licensed for the first time and 42 kindergartens were re-licensed. During the first half of 2020, the finalisation and adoption of the core curriculum is expected to be concluded, which contains 5 areas of early childhood development: i) Language and communication development; ii) physical health and motor development; iii) cognition development and general knowledge; iv) developing a learning approach; and v) socio-emotional development. Recent data from the MEST show that the gross rate of child enrolment at pre-school and pre-primary levels for all age groups has increased during 2019 compared to 2018.

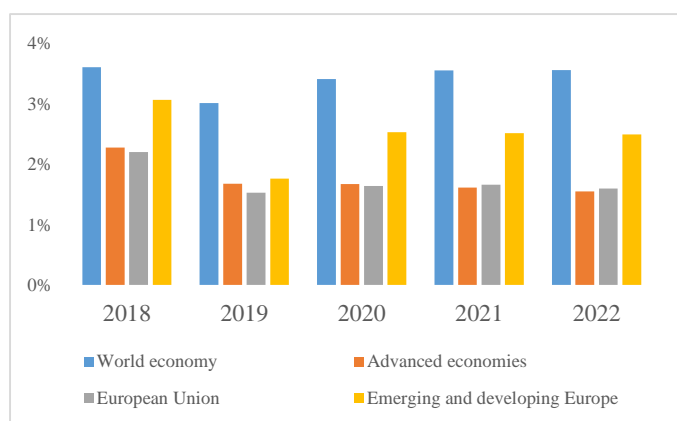
2. MACROECONOMIC FRAMEWORK

2.1. External Economic Environment

Kosovo as a small open economy is greatly influenced by external economic developments. Such developments are transmitted through different channels; trade, remittances, and foreign investment among others. The latest economic developments and the outlook for the medium term are reflected in more conservative projections for economic activity in Kosovo.

Global economic growth started slowing down at the end of 2018, and that slow down continued in 2019 as well. Based on October 2019 IMF projections, the projected global economic growth for 2019 is 3.0 %, which is 0.3 pp lower from the last IMF projections in April 2019. The global growth of 3.0% marks the slowest pace from the 2008 financial crisis.

Figure 1. Real annual growth of GDP, in %



This sluggish growth in 2019 is mainly due to continuing trade tensions and elevated uncertainties. In addition, momentum in manufacturing activity, in particular, has weakened substantially, to levels not seen since 2008. Nonetheless, growth is expected to accelerate during the medium term, growing approximately 3.5% on average. During December an agreement between USA and China was reached ('Phase One Trade Agreement'), which supports the

expectations of accelerated economic growth over the medium term.¹

The European economy similar to the global economy outlook, is expected the slowdown amid trade uncertainties and the outcome of Brexit. Real economic growth in the EU for 2019 is expected to be 1.5% (0.1 pp lower than April 2019 WEO projections). While, the average growth for the period 2020-2022 is expected to be around 1.6%. On the other hand, economic growth of the Euro Area in 2019 is projected at 1.2% (0.4 pp less than the EU growth and 0.1 pp less than April 2019 WEO projections), and the average growth for the period 2020-2022 is projected at 1.4 %. **Germany** in 2018 recorded an economic growth of 1.5% but experienced a significant slowdown at the end of 2018. Consequently, the economy in 2019 is in recovery phase from a possible recession during the last months of 2018. Growth in 2019 is expected to be around 0.5%. While in 2020 its growth level is expected to amount to 1.2%.² **Switzerland's** economy also experienced slowdown in growth during 2019, growth is expected to be 0.8% in 2019 down from 2.8% in 2018. In 2020 growth is expected to be 1.3 % moving towards stability in the medium term.

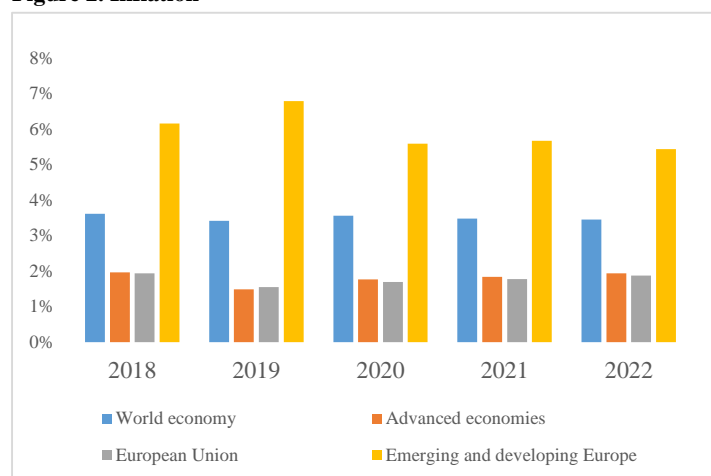
Consistent with a weaker global expansion, **core inflation** has subdued across advanced economies and is below historical averages in many emerging market and developing economies. Consumer price inflation in advanced economies is expected to average 1.5% in 2019 and 1.8% in 2020. This was revised downward from April 2019 WEO projections with 0.1pp and 0.3 pp for 2019 and 2020, respectively. Whereas, the Harmonised Index of Consumer

¹ Office of the United States Trade Representative, 'United States and China Reach Phase One Trade Agreement' <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/united-states-and-china-reach>

² World Economic Outlook, October 2019 Update.

Prices (HICP) of EU28 for 2019 based on WEO is expected to be 1.6% in 2019, and 1.7% in 2020.

Figure 2. Inflation



International prices³ managed to recover during the first quarter of 2019, after a decline in the last quarter of 2018. The main reason behind the fluctuations in prices, especially energy, metal and mineral prices, is the trade tensions between USA and China. ‘Brent crude oil’ prices, dropped to 52 dollars per barrel in December 2018 (from 83 dollars per barrel in October 2018), due to increased oil production by Organization of the Petroleum Exporting Countries (OPEC) and US

waivers on sanctions on Iran. However, production cuts by OPEC in 2019 led to oil prices starting to increase and stabilise. In addition, most non-energy prices have rebounded from March 2019; especially those of metals and minerals. The recovery of the metal prices reflects mainly the economic growth in China, which accounts for half the global metal consumption.

Table 1 Global Economic Indicators

	2019	2020	2021	2022
World GDP growth (%)	3.01	3.41	3.56	3.56
EU GDP growth (%)	1.53	1.64	1.66	1.59
Inflation in EU (%)	1.55	1.69	1.78	1.88
Oil Prices \$/ per barrel	61.78	57.94	55.30	54.60
Commodity prices (incl. fuel and non-fuel price indices) (2005 index)	118.46	117.84	117.09	117.25
Nickel prices \$/ton	14,331.98	16,927.75	16,881.00	16,896.25

2.2. Recent Economic Developments in Kosovo and Outlook for 2019

2.2.1. Real Sector

According to Kosovo Agency of Statistics’ (KAS) official data, real GDP growth during **year 2018** was 3.8% in real terms and 4.9% in nominal terms. This growth is attributed to total consumption and investment, while net exports had a negative contribution. However, even though export of goods did not perform well, the continued growth in export of services (5.5% in 2018) is encouraging.

Information Box 1. Challenges in Methodologies of National Accounts Data

³ Commodities Price Index, IMF, World Economic Outlook, October 2019

On September 18th 2019, KAS published the Annual Report of National Accounts for 2018. Whereas, on October 1st 2019 the Central Bank of Kosovo (CBK) published the Balance of Payments time series with revisions of 2018 data. The CBK's revised data consisted of significant revisions of services trade, among others. However, these changes are not reflected in KAS's publication which was published previously.

Export of Services according to CBK data for 2018 recorded an increase of 14.9% compared to 2017. Whereas, export of services according to KAS's (national accounts publication) recorded an increase of only 5.5%.

Import of Services in 2018 based on KAS data was 22.5% higher than in 2017, while according to CBK import of services was 32.8% higher than in 2017.

These discrepancies between the two institutions (compilers of statistics) create difficulties in the process of projections because there are uncertainties on what data should be used for 2018 as a starting point for the projections of the following years.

For the first three quarters of 2019, preliminary data from KAS show that the real GDP growth rate on average was 4.25% (a real growth rate of 4.2% in Q1, 4.1% in Q2, and 4.4% in Q3), driven mainly by consumption and total investment, with a contribution to real GDP of 1.9 pp each. The other positive contribution to growth came from net exports with around 0.4 pp.

In absence of the official data regarding national accounts, available indirect indicators for the economic activity in **fourth quarter of 2019**, suggest a similar growth rate of GDP. Domestic demand is expected to be the main driver of the economic growth in 2019 Q4. Consumption is expected to contribute slightly less than in Q3 to the overall GDP growth, which is supported by higher remittances inflows during October and November with 9.1%; the increase in public consumption by 9.5%; and higher import of consumer goods by 6.3%; however, new consumer loans during October and November declined by 9.6%. Total investment on the other hand, is expected to maintain a relatively solid momentum for the fourth quarter, given that imports of capital goods in the fourth quarter have increased in line with the pick-up in public investment and the increase in FDIs. Further, it should be noted that new investment loans decreased by 2.9% during October and November (*Table 2*).

Table 2 Leading and Coincidence Indicators for Aggregate Demand Components

Indicator	Proxy Variable	Indicator Type	2018 (Avg.)	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Remittance Inflows	<i>Private</i>	<i>Leading</i>	5.5%	8.3%	3.0%	8.8%	9.1%
	<i>Consumption</i>						
VAT Collection	<i>Total Consumption</i>	<i>Leading</i>	5.7%	8.9%	1.5%	3.9%	4.7%
New consumer loans	<i>Private</i>	<i>Leading</i>	10.4%	-15.7%	-4.9%	15.9%	-9.6%
	<i>Consumption</i>						
Import of consumer goods	<i>Private</i>	<i>Leading</i>	4.9%	7.5%	1.3%	5.6%	6.3%
	<i>Consumption</i>						
Government Consumption	-	<i>Coincidence</i>	8.9%	3.9%	6.6%	11.3%	9.5%
Government Investment	-	<i>Coincidence</i>	13.4%	-46.2%	-4.9%	3.9%	16.8%
Imports of Goods and Services	-	<i>Coincidence</i>	13.20 %	6.4%	1.6%	3.3%	7.6%
Exports of Goods and Services	-	<i>Coincidence</i>	11.6%	10.3%	10.7%	7.0%	-1.1%
Imports of Capital Goods	<i>Investment</i>	<i>Leading</i>	21.6%	14.5%	-13.5%	5.7%	5.0%

New investment loans	<i>Private Investment</i>	<i>Leading</i>	20.9%	-6.4%	1.9%	17.4%	-2.9%
Foreign Direct Investment	<i>Private Investment</i>	<i>Coincidence</i>	6.6%	132.5%	-34.7%	27.8%	19.7%

Note: Data on remittances, import and export of goods and services and foreign direct investment data are only available for October. Data on new consumer loans, new investment loans and imports of capital and consumer goods are available for October and November.

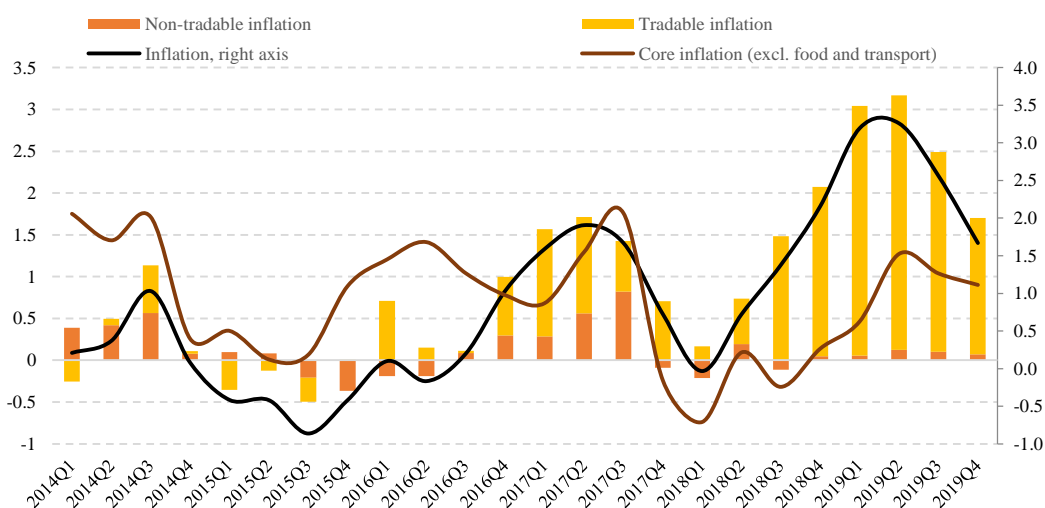
GDP by production approach shows that the economic activities which had the highest contribution to growth during the first half of 2019 were construction (0.8 pp); manufacturing (0.8 pp); wholesale and retail trade (0.7 pp) and financial activities (0.6 pp). Whereas, activities of “public administration and defence” and “electricity supply” had a negative contribution to real growth. Agriculture, forestry and fishing, after having registered a considerable decline in the previous year (2018), had a more moderated decline in the first three quarters of 2019.

Inflation rate, measured by the annual changes in the consumer price index (CPI), recorded an average annual increase of 2.7% in 2019. The level of consumer prices during 2019 is mainly attributed to the rise in prices of the category of "Food and non-alcoholic beverages", which recorded an annual increase of 5.4% on average (January-December) or a contribution of 2.13 pp. Another significant contribution to headline inflation was from "Alcoholic beverages and tobacco" with 0.15 pp. Whereas, the “Transport” category has recorded a positive contribution of 0.13 pp, but below the level recorded in 2018, being in line with the oil price developments in international markets.

Core inflation⁴, for 2019, excluding the categories "food and non-alcoholic beverages" and "transport", recorded an annual growth of 1.1%, which is lower than headline inflation (2.7%), but higher than its average value recorded in 2018 (-0.2%).

In addition, categorization of inflation in tradable and non-tradable inflation supports the fact that price developments in international markets have affected the prices in Kosovo. Tradable inflation was high during the period January-December of 2019, while non-tradable inflation which measures inflationary pressure from the domestic economy is negligible and significantly low. On average, 2.6 pp of total inflation can be attributed to the tradable inflation.

Figure 3 Contribution of tradable and non-tradable inflation to total inflation



Source: KAS & Macro calculations

⁴ Core inflation measures the change in consumer basket product prices, excluding temporary and transitory volatility, which is mainly a characteristic of the food and energy categories.

According to KAS, in line with the developments in the **Consumer Price Index**, the Import Price Index registered an annual increase by 3.2%, during January-September of 2019, while in the same period of the previous year it fluctuated around 2.2%. The categories of imported goods that recorded the highest annual growth during this period are: mineral products with 16.4%; leather and articles with 19.3%; live animals and their products with 11.1%, and vegetable products with 10.9%.

Information Box 2. Differences between actuals and projections, 2018 and 2019

2018 actuals vs. 2018 projections

Both, real and nominal GDP growth rates in 2018, based on the latest publication of the KAS, resulted to be lower than our projections presented in the previous submission of the Budget (for year 2019). According to KAS, the real GDP growth rate for year 2018 is 3.8% while it was projected to fluctuate around 4.3%. Similarly, the actual nominal GDP growth rate resulted to be 4.9%, which is lower than the projected value, at around 5.4%. The difference between actuals and projected values of GDP in 2018 are mostly due to higher expectations for private consumption and export of services and lower expectations for imports of services based mostly on the performance exhibited by these indicators up to the moment that the Budget 2019 projections were realised (October 2018). Inflation for 2018 was projected on average to fluctuate around 1%, which was very close to the actual value (1.1%).

2019 previous projections vs. 2019 updated projections

For year 2019, forecasted real GDP growth rate was revised downwards to 4.0%, which is 0.7 pp lower than the previous projection when preparing Budget for year 2019; while the nominal GDP growth rate was revised upwards to 5.7% from 5.4% estimated in the previous round of projections.

Consumption (both private and public) and private investment, in real terms, are projected to grow at a lower rate than previously projected, mostly based on the actual performance exhibited so far by these indicators and the performance of other indirect indicators or proxies. Public investment, also, is expected to grow much less than in the previous projection, due to the low execution of budget capital expenditure. Also, the 2018 published GDP data, which serves as the basis for the projections of the subsequent years as well as the actual political developments in the country are in support of a downward revision. However, net export has been updated to perform better, as a result of better exports performance (of both goods and services) and slower growth of imports of goods. The latter is in line with the sluggish dynamics of capital expenditures, which are usually characterized by high import propensity.

Inflation registered in 2019 (on average 2.7%) is much higher than the inflation forecasted in the previous round of projections (on average 1.7%). The difference is mainly due to lower expectations on the upward pressures that the tariff imposed on Serbian and Bosnia&Herzegovina goods could have on inflation. Also, the likelihood that the tariff would be removed soon was considered to be high at the time when the projections of the previous round were realised.

Main differences between actuals and projections for year 2018 and main differences between previous and actual round of projections for year 2019

Macroeconomic Indicators, annual growth rates in real terms in %, unless otherwise stated	2018 projections	2018 actual	2019 previous projection	2019 updated projection
Real GDP	4.3	3.8	4.7	4.0

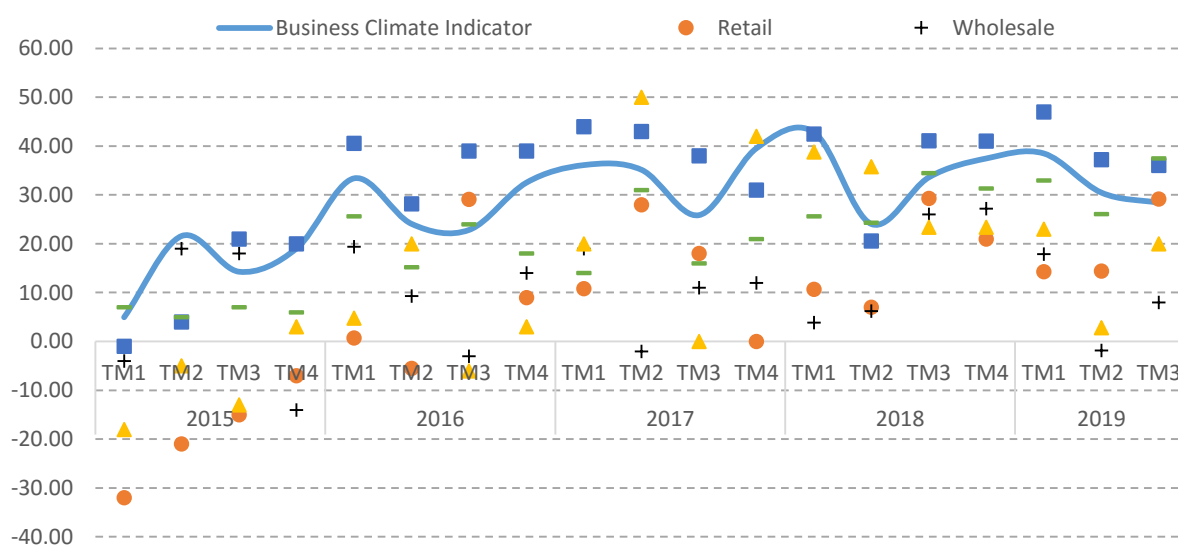
Nominal GDP	5.4	4.9	5.4	5.7
Consumer Price Index	1.0	1.1	1.3	2.7
Private Consumption	6.0	4.8	3.5	2.2
Public Consumption	4.7	8.9	6.7	1.3
Total Investment	7.1	8.1	7.7	3.1
Total Exports	11.0	3.8	6.1	10.0
Export of Goods	-8.1	-2.0	3.7	4.7
Export of Services	16.5	5.5	6.7	11.4
Total Imports	12.2	9.0	5.6	3.1
Import of Goods	10.9	6.5	6.3	2.9
Import of Services	19.4	22.5	1.9	4.3

2.2.2. Business Climate

Based on data from the Kosovo Chamber of Commerce, for the third quarter of 2019 the business climate indicator which provides us with businesses' assessments of the current situation of the economy has deteriorated compared to the same period of the previous year 2018. While, the expectations for the next six months have deteriorated compared to the same period of last year, however they have improved compared to the previous quarter. In manufacturing, the business climate has deteriorated during the third quarter. Companies were not as satisfied with their ongoing business, and their expectations for the six upcoming months have gotten more optimistic. In trade (both retail and wholesale), the business climate has seen a marked recovery following the previous quarter's decline..The business climate in services for the third quarter slightly improved. The sector viewed their current situation as somewhat less good and also expect their business to decline in the next few months. In construction, the BCI rose, thanks to a better performance of the sector. Nonetheless, the construction companies assessed that their situation will not be as satisfactory in the upcoming six months. This is generally in line with this sectors' expectations historically for the last three months of the year and the first three months of the upcoming year, considering that it is a colder season and construction activities become sluggish.

However, over the years (since 2013), the business climate indicator reflects an upward trend. At the same time, according to the World Bank (Doing Business Report 2020), Kosovo is rated as one of the top 20 reformers. According to the findings, Kosovo has improved the issuance of building permits, access to electricity, investor protection and compliance with contracts.

Figure 4. Business Climate Indicator and Balances of the current situation assessment' of business sectors



Source: 'The Kosovo Business Climate Findings from the 3rd quarter of 2019' KCC, SKAS, and Macro Unit Analysis

2.2.3. Main labour market indicators, 2016-2019Q3

According to the Labour Force Survey for the third quarter of 2019, the working age population in Kosovo was 1.2 million people (0.1%, *y-o-y*). The **labour force participation rate (LFPR)** was 41.9%, where that of males was 61.4 and females 22.2%, respectively. The **employment rate** was **31.6%**, representing an annual increase of 2.5 pp. Similar to previous years, the four main sectors that employed more than half of total employees in 2019 Q3 were trade (17.5%), construction (13.5%), production (12.5%), and education (8.9%). Male employment was higher in the sectors of construction, and manufacturing, while female employment was higher in education, and trade sectors.

The most noticeable change during this quarter (2019TM3) is noted at the unemployment rate, which reached the rate of 24.5% and reflects an improvement of 6.2 pp in annual terms. It should be noted however, that in the years when we have general or local elections, labour market data should be analysed with reference to these developments as well. For example, the year 2017 was the most prominent in terms of employment or more specifically employment in the Public Administration sector. This year was an election year and for about 3-5 months there were about 16,000 people employed in the electoral process. These employees are mainly students who have worked only during elections and thus contributed to the increase in the number of employees for that year. However, this is a temporary effect and only occurs during election periods. As a result of the elections in 2017, the number of employees in the following year (2018) decreased by 3.4%. If 2017 were to be "cleared" of this effect, then employment in 2018 would be in line with developments in other economic activity indicators during the year. Year 2019 is expected to be similar to 2017 due to the general elections held in October 2019.

Table 3 Main labour market indicators

Indicator	2016	2017	2018	Q3 2018	Q1 2019	Q2 2019	Q3 2019
Total population	1,771,604	1,793,466	1,793,467	1,793,467	1,798,506	1,798,506	1,795,666
Male	896,466	900,827	903,959	904,608	908,499	902,646	899,795
Female	875,138	892,639	889,508	888,859	890,007	893,020	895,871
Working age population	1,184,529	1,200,165	1,198,273	1,195,336	1,207,216	1,198,308	1,207,617
Male	598,639	604,443	600,092	597,010	607,921	600,061	606,104
Female	585,890	595,722	590,180	598,326	599,295	598,247	601,513
Labour force	457,831	513,678	490,103	501,731	466,731	478,652	505,936
Male	348,764	394,651	379,763	386,230	350,095	356,731	372,191
Female	109,067	119,027	110,340	115,501	116,636	121,921	133,744
Employed	331,761	357,095	345,131	347,550	341,014	357,340	382,035
Male	257,398	281,581	271,623	272,292	261,180	275,278	296,932
Female	74,363	75,514	73,508	75,258	79,834	82,062	85,103
Labour Force Participation Rate (LFPR)	38.7%	42.8%	40.9%	42.0%	38.7%	39.9%	41.9%
Employment Rate	28.0%	29.8%	28.8%	29.1%	28.2%	29.8%	31.6%
Unemployment Rate	27.5%	30.5%	29.6%	30.7%	26.9%	25.3%	24.5%

Source: KAS Labour Force Survey annual and quarterly publications

Other labour market indicators are in line with macroeconomic developments. In 2018 and in the first three quarters of 2019, labour productivity has increased. At the same time, the average wage according to administrative data has increased by 6.2% and 2.1% in 2018 and 2019, respectively.

Table 4 Labour productivity and ULC, 2015: 2018

Indicator	2016	2017	2018	2019 Q1-Q3
Hours worked per week per person (LFS)	41	42	42	40.2
Average wage (TAK)*	450.3	448.0	475.9	485.8
Average wage (KAS)**	519	528	558	
Number of hours worked in a year per person	2,145	2,184	2,184	2,094

Employment (LFS)	331,761	357,095	345,131	360,125
Nominal GDP (in million Eur)	6,043	6,327	6,659	7,012
Total hours worked in the country (in million)**	711.6	779.9	753.8	754.2
Total labour compensation(in million Eur)	1,793	1,920	1,971	2,099
Labour productivity (euro of GDP per hour)	8.5	8.1	8.8	9.3
ULC (ratio)⁵	0.3	0.3	0.3	0.3
Labour productivity, growth rate, y-o-y	-7.2%	-4.5%	8.9%	5.2%
ULC growth rate, y-o-y	10.5%	2.3%	-2.5%	1.2%

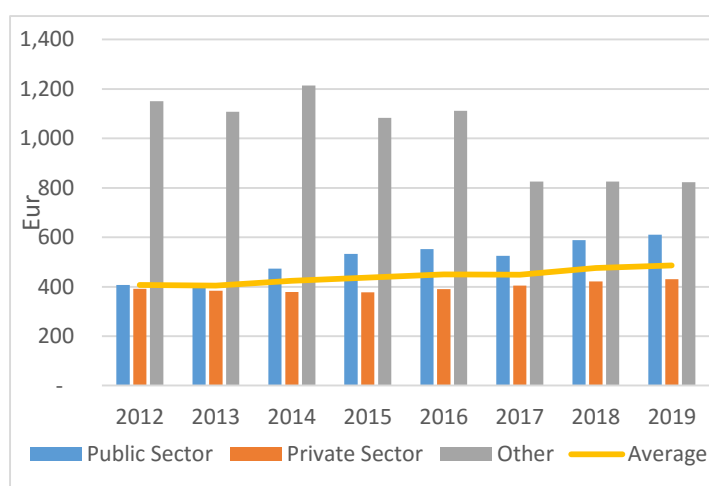
*Weighted average of wages according to TAK

** Average wage according to TAK has been used to calculate compensation of labour and ULC since there are data available for 2019. However, the dynamics remain similar in both wage series (KAS or TAK)

On the other hand, unit labour cost, which represents a direct link between productivity and labour cost used in production, increased on average by 2.9% in the period 2016-2019. An increase in labour costs represents an increase in compensation for labour contribution to production. However, a higher increase in labour costs than the increase in labour productivity may adversely affect cost competitiveness. However, in the Kosovo economy, labour productivity has increased more than the cost during this period. As a result, Kosovo's cost competitiveness in relation to labour productivity has improved.

The increase in labour productivity from a theoretical perspective is attributed to fluctuations in physical capital, new technology, and human capital. If labour productivity increases, it can usually be driven by an increase in one or more of these three factors. Some possible explanations for the increasing labour productivity in Kosovo relate to human and physical capital. Given that the highest contribution to economic growth over the last two years has come from the processing industry, trade, and financial activities, it can be said that productivity growth has come from a combination of physical and human capital. The processing industry is characterized by a higher propensity to use machinery in the production process and as such it could be argued that physical capital has contributed to productivity growth. At the same time, this opportunity is also supported by real investment growth of around 7.7% on average in the period 2015-2019TM3.

Figure 5. Gross average wages TAK, in Euro



On the other hand, human capital which represents improved education and the specialization of the workforce may have played a role in increasing productivity. This is due to the average increase in the number of employees with tertiary education (of about 2%) and of those with vocational secondary education (of about 7%) in the period 2017-2019. Whereas the employment of those without school, with primary education, and gymnasium has declined slightly over the same period. According to administrative data, the average gross monthly wage increased by 2.1% in 2019 (Q1-Q3) and 6.2% in 2018 y-o-y. According to KAS data, the increase has been similar in 2018 (about 5.7%). However, the upward dynamics of average wage by sector remain slightly faster in the public sector than in the private sector. The average monthly wage in the private sector was higher than the level recorded in the same period a year earlier, by 2.1%. Meanwhile, in the public sector, this indicator increased by 3.7%. Wage growth by economic

⁵ ULC represents the share of total labour compensation to nominal GDP

activity is estimated to be largely influenced by the positive performance of wages in the services sector. However, it should be noted that the available data on wages from both institutions KAS and TAK do not allow for an analysis which takes into account changes in skill sets, offsetting private sector performance or potential under-reporting of earnings in the private sector.

2.3. Medium-term macroeconomic scenario

2.3.1. Real sector projections

Based on the current trend of macroeconomic indicators for 2019 as the base year for projections, as well as based on external economic developments, the Ministry of Finance forecasts 4.0% real GDP growth for 2019. In 2020, real GDP is projected to grow by 4.4% while nominal GDP by 5.9%. For the next two consecutive years (both in 2021 and 2022), real economic growth is expected to be 4.5%, based on the same structure of financing sources as in 2020. Consumer Price Index in 2020 is expected to increase by 1.8% to be followed by a decreasing trend (reaching the level of 1.2% in 2022).

Consumption in 2020 in real terms is expected to increase by 4.4% and have a contribution of 4.3 pp in growth. **Private consumption** is projected to grow by 3.4% driven mainly by an environment of lower interest rates and easier access to finance. At the same time, disposable income is expected to increase as a result of an expected increase in remittances and primary income. Remittances will continue to be an important source of financing for household consumption, although in the medium term their growth is expected to show slight deceleration trends as a result of a more moderate growth outlook in European countries (especially Germany and Switzerland that account for about 60% of remittances based on their origin). **Public consumption** in 2020 is expected to increase by 10.5% y-o-y. This increase is a result of higher planned expenditure in the categories of wages and salaries and goods and services. It is worth noting that both of these categories of public expenditure had under-execution in 2019 and therefore planned spending for 2020 turns out to have a higher growth than in 2019. In (2021 and 2022), consumption is expected to increase by an average of 3.6% in real terms and to have a contribution of 3.5 pp to growth for both years. Private consumption is estimated to grow by 4.1% on average, while public consumption by 0.5%. These increases reflect the performance of financing sources of disposable income.

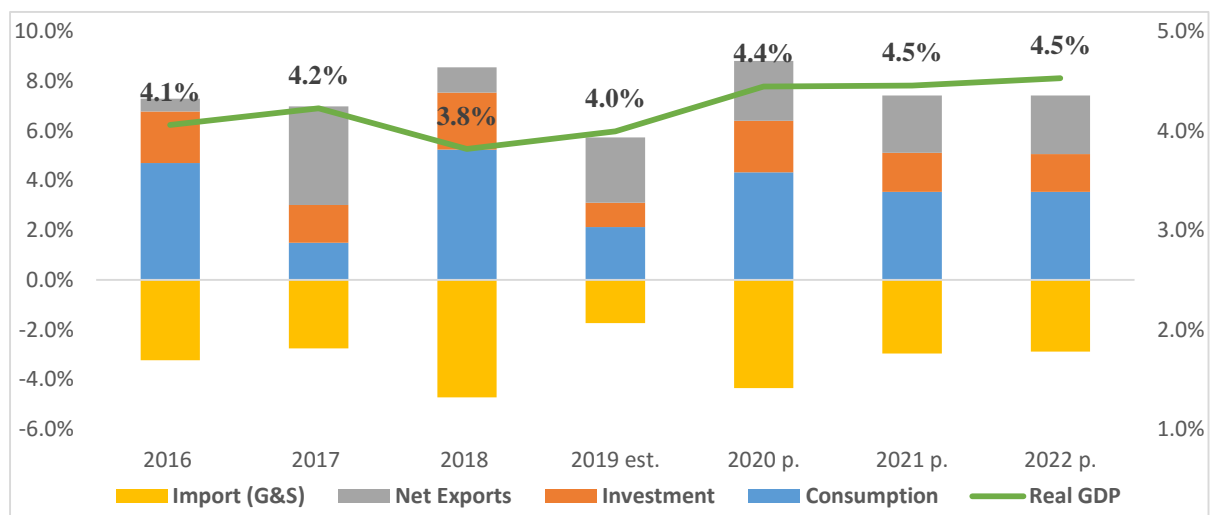
Investment in 2020 is expected to grow by 7.1% in real terms and have a contribution of 2.1 pp. in real growth. Better access to finance and lower cost of credit for the private sector are expected to provide an important stimulus to **private investment**. At the same time, increased capital of the Credit Guarantee Fund is expected to facilitate access to finance. Furthermore, in the World Bank Doing Business 2020 report⁶, Kosovo is rated as one of the top 20 reformers where, according to the findings, Kosovo has improved the issuance of building permits, access to electricity, investor protection and compliance with contracts. As a result of these developments, private investment is projected to grow by 5.5% in 2020. **Public investment**, on the other hand, is expected to grow by 11.5%. About 30% of public capital expenditure is expected to be financed through the investment clause and liquidation funds. These public investments are expected to improve public infrastructure and address structural barriers to energy, health, etc. In (2021 and 2022), investment is expected to have a real growth of 5.1%, with private investment expected to grow by 5.2% in line with expectations for access to finance. On the other hand, public investment is expected to grow by 4.9% on average over this period, reflecting the lack of liquidation funds for these two years.

⁶ World Bank Top 20 Reformers <https://www.doingbusiness.org/en/reforms/top-20-reformers-in-db2020>

Export of goods and services is expected to register a real growth of 8.7% and to contribute with 2.5 pp in real growth. **Export of goods** is expected to increase by 5.9% as a result of developments in the external economic environment, government schemes to support the manufacturing sector, and further implementation of the SAA. Given that nickel is one of the main commodities that Kosovo exports, developments in the nickel price market are expected to have a positive effect on Kosovo's export of goods. International nickel prices according to WEO are expected to increase by around 18% in 2020. This significant increase in the price of nickel is attributable to the rapid increase in the demand for electric vehicles and the need for nickel in the production of batteries for these vehicles. Another driving factor in higher exports is the government's incentive scheme for the manufacturing industry, which aims to lower production costs and increase production. Further implementation of the SAA is also expected to have a positive effect on enhancing the competitiveness of Kosovo goods in the EU market. On the other hand, **export of services** is expected to increase by about 9.4% in real terms. This increase, which follows the historical trend of export of services, will be mainly supported by the export of travel services and telecommunications services. In (2021 and 2022), export of goods and services is expected to increase by an average of 8.1% in this period driven mainly by export of services which is expected to grow by 9.4%. On the other hand, export of goods is expected to have a more moderate growth of 2.5% on average in real terms.

Import of goods and services is expected to grow by 7.8% in real terms in 2020 and have a negative contribution to real growth of 4.5 pp. **Import of goods** is projected to grow by 8.2% following the dynamics of investment and consumption. On the other hand, the **import of services** is expected to increase by 6.3%, based on the performance of donor funded services and the decrease of the import of telecommunications services. In (2021 and 2022), import of goods and services is projected to grow by 5.1% in 2021-2022. Import of goods is expected to grow by 4.8% while import of services by 6.4%. Import of goods is expected to follow the dynamics of investment and consumption, while that of services is expected to follow the historical trend.

Figure 6: Real GDP and its components



2.3.2. Monetary and exchange rate policy and inflation

In 1999, Kosovo unilaterally adopted the Deutsche Mark and later (in early 2002) the Euro currency as its official currency. Consequently, the country is restricted in the availability of traditional monetary policy instruments, to control inflation developments in its economy or to signal changes in current consumption behaviour towards future consumption. However, this

does not mean that the Central Bank of Kosovo (CBK) has no means of influencing the economy.

Firstly, sound implementation of macro-prudential policies can mitigate systemic financial risks and avoid excessive credit accumulation during expansionary periods or excessive credit contracting during recessionary periods, which would help in moderating inflation or real exchange rate fluctuations.

Secondly, the Central Bank strives to promote and maintain a sustainable and efficient financial sector in Kosovo through licensing, regulation and supervision of banks, insurance companies and micro-credit organizations.

Thirdly, the CBK can influence the growth of commercial banks' credit by determining the level of demand for reserves or through other regulations on banking operations. The latest innovation in this regard is the approval by the Board of the Central Bank of the Republic of Kosovo on April 25, 2019 of the Regulation on the Repurchase of Securities with the Central Bank of the Republic of Kosovo, which authorizes the CBK to carry out credit operations with commercial banks in the country performing the role of securities-backed lender as collateral. This regulation will provide the banks with an alternative to manage liquidity and short-term financing.⁷

Despite monetary policy constraints, inflation in Kosovo has been relatively stable. The Consumer Price Index (CPI) in 2020 is expected to increase by 1.8% and is mainly driven by the food category which accounts for about 40% of headline inflation and the transport category for about 15%. Moreover, the CPI developments in Kosovo stem mainly from tradable inflation and given the considerable presence of imported goods in the consumer basket, price developments in the external market affect domestic inflation. Consequently, price forecasts in external markets (e.g. WEO) are incorporated in Kosovo's inflation projections for both 2020 and the medium term. Also, although WEO forecasts present lower oil prices in 2020 and the medium term, given current geopolitical uncertainty about oil supply, our forecasts do not reflect a decline in transport category prices.

Likewise, the inflation forecast for 2020 includes the impact of tariff on goods from Serbia and BiH. It is assumed that the impact of the tariff is fully absorbed in 2019 and it can be noticed that in the last months of 2019 there has been a downward tendency of prices in annual terms. Therefore, seeing that 2019 serves as the base year for future years' projections, the tariff effect has already been taken into account. On the other hand, in the event of tariff reductions/removal, given the downward stickiness of price and new trading partners replacing goods from Serbia and BiH (EU imports), the impact on overall inflation is assumed to be negligible. Inflation in 2021 and 2022 is projected to average around 1.2% (1.3% in 2021 and 1.2% in 2022).

In terms of exchange rate developments, Kosovo is not much exposed to exchange rate fluctuations. This is supported by the fact that the majority of trading partners are from the Eurozone countries and a significant portion of other sources of financing are in Euro currency (e.g. bank lending or remittances). During 2019 (January-November), the Euro was valued at around 1.2% compared to the currency basket of the leading international trading partners (NEER). This appreciation is mainly due to the appreciation of the Euro against the Turkish

⁷ https://bqk-kos.org/repository/docs/korniza_ligjore/shqip/Rregullorja%20per%20Riblerje%20te%20Letrave%20me%20Vlere%20.pdf

Lira (about 10.7%), while other currencies show a depreciating tendency. Lastly, the real effective exchange rate is estimated at about 2.5%.

2.4. The external sector and its medium-term sustainability

2.4.1. Current Account

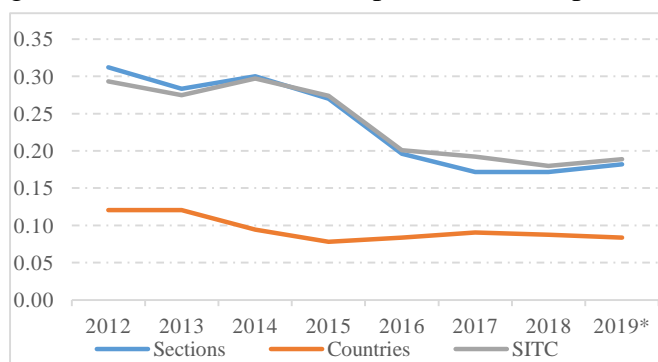
The movements in the current account of the balance of payments during January-October 2019 followed the improved performance of the services sector as well as the surge in the primary income account. During this period, the current account registered a deficit of Eur 218 million, which shows an annual improvement of around 39.2% (Eur 140.7 million).

Table 5 Export and Import of goods and services

% change unless stated otherwise	2019	2020	2021	2022
Exports (nominal in million Euro)	1,964	2,143	2,322	2,516
Exports	10.5%	9.1%	8.4%	8.4%
Goods	6.0%	6.7%	3.0%	2.5%
Services	11.7%	9.7%	9.7%	9.7%
Imports (nominal in million Euro)	3,955	4,340	4,616	4,911
Imports	5.8%	9.7%	6.3%	6.4%
Goods	5.4%	10.1%	6.0%	6.1%
Services	8.0%	8.0%	8.0%	8.0%

Goods trade balance has slightly deteriorated by around 2.5% compared to January-October 2018; nonetheless, the performance of exports has been encouraging. Export of goods during the period January-October 2019 increased by 6.0% on annual terms. Such an increase represents a significant improvement over the poor performance in 2018 (annual decline of 2.8%). The highest contribution to this increase in export of goods for this period of 2019 was the export of base metals (4.6 pp) which increased by 13.8%, y-o-y; export of plastics (1.9 pp) or an increase of 16.0%, y-o-y; and export of other manufactured goods (1.8 pp) with an increase of 53%, y-o-y. Whereas, the category of mineral products declined by 25.8% during this period and had a negative contribution of 4.3 pp to the annual change in export of goods. Export of goods for 2019 is expected to reach Eur 398 million and have a 6.0% y-o-y growth. For the medium term, export of goods is expected to increase by 4.1%.

It is encouraging to note that the country has experienced changes in the structure of export of goods. Diversification is a positive development for an economy such as Kosovo because



changes in the primary export mix help build buffers in the economy that will reduce the effect of the variability of world commodity prices. This reduces the dependency on a few sectors and potential vulnerabilities related to those. To measure export diversification, the Hirschman Herfindahl Index⁸ has been used. Kosovo has experienced export diversification in the past few years.

⁸ The **Hirschman Herfindahl Index** is calculated as the sum of squared shares of each product in total export. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one export will have a value of 1 (least diversified).

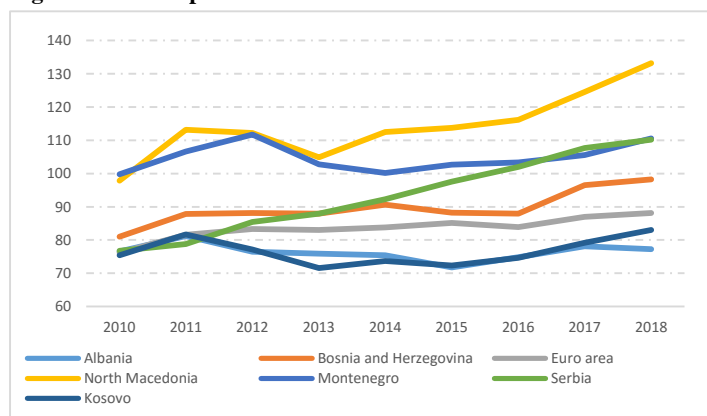
SAA and policy measures to incentivize the manufacturing sector have played a role in this process and is expected that this positive effect to continue. Kosovo's export structure is currently weighed toward the export of base metals and mineral products, which during 2019 January-October constituted of 41.8% of total exports, however this share is in the decline (in 2017 and 2018 these categories consisted of 58.6 and 48% of total exports, respectively). As can be seen in Graph 7, this concentration in export structure is steadily decreasing. Categories of goods that have increased their share in total exports are prepared food articles and plastic products. On the other hand, geographical composition of exports of goods, focusing on countries and country groups that make up more than 80% of Kosovo's total export destinations also reflects changes throughout years. The share of exports of goods to the EU has continued to increase throughout the years, with a more significant increase in 2019. At the same time, exports to CEFTA countries in 2019 as a share of total exports have dropped slightly from 47.2% in 2018 to 39.7%. It is expected that overall diversification of the export structure will benefit the local economy in the medium to long term by making exports more sustainable.

Export of services for January-October period was 8.3% higher compared to the same period of 2018, mainly due to higher travel services. Travel services contributed with 5.6 pp and increased by 7.2% y-o-y; information and communications technology (ICT) services contributed with 0.8 pp and increased by 25.0% y-o-y. Export of services for 2019 is expected to reach Eur 1,566 million and to register an annual growth of 11.7%. During the medium term, export of services is expected to increase by about 9.7%. This increase, which follows the historical trend of export of services, will be mainly supported by the export of information and communications technology (ICT) services.

Import of goods during the period January-October 2019 increased by 3.7% y-o-y. The following categories had the highest contribution in these growth; transport means (1.5 pp) which increased by 18.9%, y-o-y; mineral products (0.6 pp) which increased by 4.0% y-o-y; and live animals and livestock products (0.5 pp) which increased by 11.6 y-o-y. On the other hand, the category of "Machinery, tools, electrical equipment" decreased by 3.0% y-o-y and had a negative contribution of 0.9 pp to the annual change of import. At the same time, the structure of imports of goods from different countries and groups of countries has been relatively constant throughout the years with main partners being the EU and CEFTA member states. Nonetheless, the share of import of goods from EU countries has increased in 2019, despite that it used to have a constant share in the past; while imports from CEFTA countries in 2019 have decreased significantly as a share to total imports. These developments are partly due to the SAA effect but also due to the tariff applied on Serbian and Bosnia & Herzegovina, which shifted Kosovo imports from these two countries towards imports by other countries. Import of goods for 2019 is expected to reach Eur 3,273 million and have a 5.4% growth in annual terms. Import of goods in the medium term is projected to grow by 7.4% following the dynamics of investment and consumption.

Import of services on the other hand, was 6.3% higher than the one recorded in the same period of 2018. Imports of travel services contributed (3.6 pp) and had an increase of 7.9% y-o-y, and import of transport services (2.3 pp) or an increase of 12.9% y-o-y. Whereas, information and communications technology services decreased by 14.0% y-o-y contributing negatively with 1.1 pp. Import of services for 2019 is expected to reach Eur 682 million and register 8.0% increase in annual terms. Throughout the medium term, import of services is expected to increase by 8.0%, based on the performance of donor funded services and the decrease of the import of telecommunications services.

Figure 8 Trade Openness Index



Source: World Bank

Overall, despite being a small (land-locked) open economy with a liberal trade regime, Kosovo is characterized by lower **trade openness**⁹ relative to the neighbouring countries. because the reasons behind this claim are as follows: while the level of import continues to be high, export remains low, which represent one of the main structural challenges that the economy of Kosovo is facing.

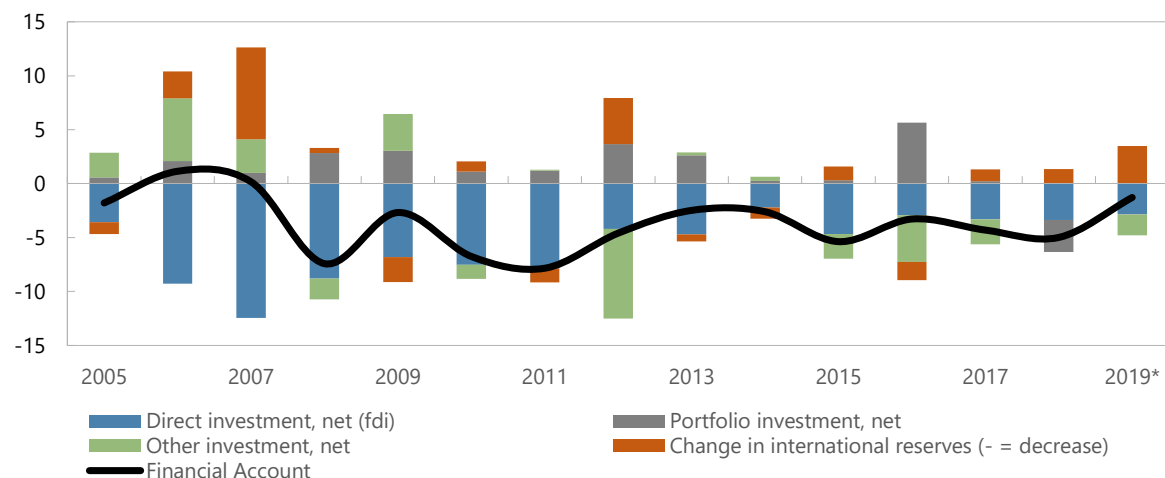
However, during the past three years Kosovo’s economy has experienced a higher level of trade openness. The recent fiscal policy changes to stimulate domestic production and the further implementation of the SAA are expected to increase exports and further remove trade barriers.

Primary income balance for the period January-October 2019 has increased significantly by about 51%, reaching a value of EUR 133.8 million compared to 88.8 million in the same period of 2018, mainly as a result of higher earnings from the category of compensation of employees, which increased by 8.4% compared to the same period in 2018. Primary Income for 2019 is expected to register a value of Eur 176.6 million or 56.1% higher than in 2018. This increase is expected to contribute to an improved current account balance for 2019. **Secondary income balance** for January-October 2019 reached Eur 1,097.9 million, which is 6.7% higher than the balance in the same period a year earlier. This increase is mainly attributed to the improvement in the balance of remittances (8.2%, y-o-y). Secondary Income for 2019 is expected to register a value of Eur 1,316 million or 4.4% higher than in 2018. For the medium term, primary income balance is expected to increase by 3.7% on average, mainly driven from the category of compensation of employees. Secondary income balance for the medium term is expected to increase by 4.8% on average, driven mainly by remittances. These two components are mostly stable sources of financing and their share to GDP (around 21.5%) is expected to maintain a similar level in the medium term.

⁹ The **Openness Index** is an economic metric calculated as the ratio of country's total **trade**, the sum of exports plus imports, to the country's gross domestic product. = (Exports + Imports)/(Gross Domestic Product). “The higher the index, the more influence trade has in that country's domestic activity.”

2.4.2. Financial Account

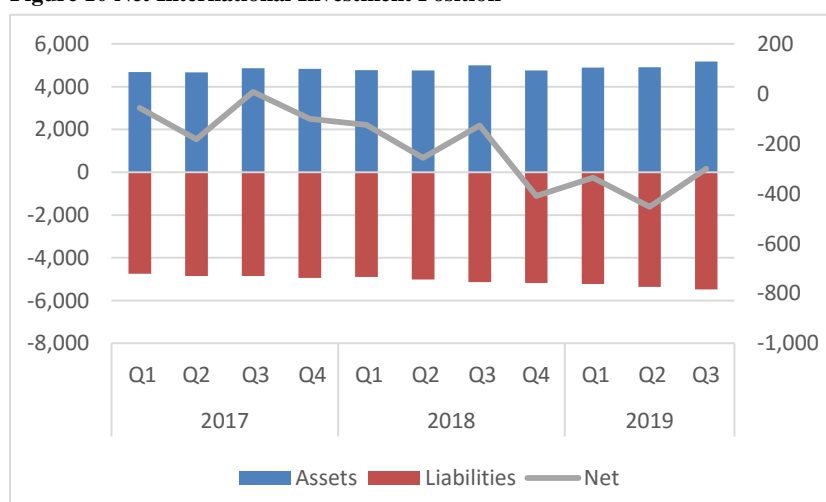
Figure 9 Financial account components, % of GDP



By October 2019, **total FDI** inflows amounted to around Eur 256.9 million registering an annual increase of 15.7%. Direct investment abroad increased by Eur 14.1 mil in this period. **Portfolio investment** in foreign assets decreased by Eur 124.1 million during January-October 2019 while portfolio investment in Kosovo remains zero. **Other investment** assets decreased by Eur 1.6 million and other investment liabilities increased by Eur 17.7 million in the same period of 2019. Foreign Direct Investment continues to constitute the largest share in financial account liabilities, around 71.1 % for the January- October period of 2019, 75.2 % in end of year 2018 and 55.4% in end of year in 2017. As such, FDI is seen as a sustainable financing source since it has better risk sharing capabilities and it is more amenable to macro stability. Nonetheless, it should be noted that around 78.4% of total FDI during the period of January-October 2019 was directed to real estate and renting activities. Financial services follow as the second largest absorber of FDI, constituting 7.5% of total FDI. Generally, capital inflows into the non-tradable sector (such as real estate and renting activities, and financial intermediation) are more prone to creating financial fragility through balance of payments' mismatches since such sectors are difficult to create export revenue. Nonetheless, FDI as the largest component of the financial account liabilities is non-debt generating and thus is less vulnerable.

The International Investment Position (IIP) reflects the stock of assets and liabilities and in

Figure 10 Net International Investment Position



the third quarter of 2019, the net balance of international investment position (IIP) reached Eur 299.6 million. The structure of assets is dominated by other investment that composes 38.5% of the assets, followed by portfolio investments, which compose around 33.3% of the assets and direct investment with 7.7%. On the other hand, foreign direct investment continues

to be the largest category within liabilities, comprising around 71.5% of total liabilities by the end of the third quarter 2019. Whereas, 28.5% of total liabilities is through other investment, partially comprised of general government debt and other sectors' liabilities.

2.5. Financial sector

The main objective of the Central Bank of the Republic of Kosovo (CBK) is fostering the soundness, solvency and efficient functioning of a stable market-based financial system, encouraging the market emergence of safe financial instruments, and supporting general economic policies in Kosovo with a view to contributing to an efficient allocation of resources in accordance with the principles of an open market economy. The CBK acts as the regulator and supervisor of the financial system. Its main monetary policy tool is minimum reserve requirements, while it also has a limited lender of last resort function (further specified in the Regulation on Emergency Liquidity Assistance, which was adopted by the CBK Board in September 2015). However, since Monetary policy is mainly focused on inflation and employment, financial stability is largely left to the macro prudential approaches; in other words, CBK complements the limited monetary policy tools with the macro prudential tools. Macro prudential framework adopted by the CBK in 2016 is based fully on European Systemic Risk Board issued (ESRB) Recommendations (2014a and 2014b) related to the Objectives and the Mandate of Authorities to conduct Macro Prudential Policy. The focus of the CBK in implementing the Macro prudential policy are concentrated under five areas as following; (a) Mitigate and prevent excessive credit growth and leverage; (b) Mitigate and prevent excessive maturity mismatch; (c) Mitigate and prevent illiquidity (d) Limit direct and indirect exposure concentrations; (e) Limit the systemic impact of misaligned incentives aimed at reducing moral hazard. Consequently, CBK assesses systemic risks (through two cyclical dimensions that refer to the distribution of risks in time and structural that refers to the distribution of risks across the financial system at any given point of time) to financial stability on a quarterly basis to protect the stability of the financial system as a whole.

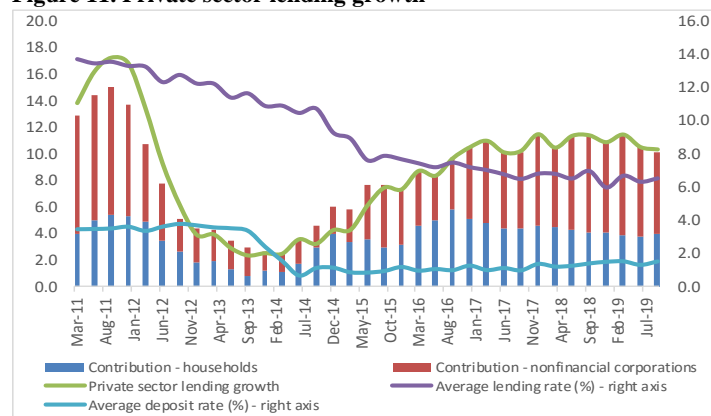
Total assets of the financial system as of September 2019, excluding Central Bank of the Republic of Kosovo (CBK), for the first time exceeded value of seven billion of euros, marking an annual growth rate of 12.5%, standing at Eur 7.01 billion (97.8% of GDP), compared to the average growth rate of last two years¹⁰ of 9.2% . Banks remain the dominant sector with 65.3% of the total financial sector assets, followed by Pension Funds and Microfinance Institutions with 27.3% and 4.3%, respectively.

Lending activity continued its double digit growth rate also during 2019, but with a slower pace compared to previous period. Total credit grew annually by 10.3% as of September 2019, compared to the average growth rate of last two years of 10.8% owing to an increase in both lending to enterprises and households (Figure 16). Increase in credit activity was influenced also by favorable interest rates, competition across banks, high level of liquidity in the banking sector and improved quality of loan portfolio. Household lending remained dynamic throughout this period (although the pace has decelerated compared with same period of 2018), with an annual growth rate of 10.8% (11.3% up to September 2018). Lending to non-financial corporations reached an annual average growth of 9.9% as of September 2019 compared with growth rate of 11.7% in same period of last year. New mortgage lending increased by 8.5% on year on year basis, as of September 2019, while new consumer loans declining by 3.3% for the reported period. New loans to enterprises grew by 12.0% annually as of September 2019, which

¹⁰ Average of September 2018/ September 2017 (applied also to other comparisons in text)

is significantly higher compared with the annual growth rate of the same period of previous year (4.5%).

Figure 11. Private sector lending growth



The banking sector is sound and stable and financial intermediation shows an increasing trend. The system exhibits robust capital and liquidity buffers with regulatory capital to risk-weighted assets standing at 16.5% in September 2019 (well above the minimum required ratio of 12%) and liquid assets to short-term liabilities at 39.3% (well above the minimum suggested of

25%). Funding risks remain moderate since banks mainly rely on domestic deposits and the system is overall liquid with a loan-to-deposit ratio amounting to 79.2% (as of September 2019). Banking sector profitability remained high, with an average return on equity ratio of 17.4% as of September 2019, and a return on average assets of 2.1%. Even though interest rates on loans have decreased as a result of competition, high level of liquidity and sound credit portfolio, banking sector profit increased further, due to expansion of credit activity, and increased income from other activities (excluded from interest rates Foreign bank participation in the system is high, accounting for 86.9% of total banking sector assets (as of September 2019). Nevertheless, the degree of market concentration has continued to decline slowly. In September 2019, the market shares of the three largest banks stood at 57.4% compared to the average concentration ratio of the last two years of 59.8%. The decline in the degree of market concentration is also expressed by the Herfindahl-Hirschman Index (HHI) for assets, which dropped to 1,498 points in September 2019, compared to 1,573 points on average in the last two years.

Credit risk in the system remains low by peer standards, with the ratio of NPLs to total loans further declining to 2.3% in September 2019 and the loan-loss provisions to NPLs standing at 161.3%. Banks frequently refer to the lack of bankable projects as an obstacle to lending to corporates, thus raising concerns about the saturation of viable sectors and borrowers. Since its establishment, the Kosovo Credit Guarantee Fund, banking sector approved loans amounting Eur 130.7 million by the end of September 2019 (63.6 million as of September 2018), of which Eur 62.7 million approved guarantees by KCGF (Eur 30.3 million as of September 2018). The KCGF if focused to provide guarantees toward services, manufacturing, agriculture and construction sector. The KCGF estimated that credit guarantees created more than 5000 jobs since its establishment.

Financial depth, measured by the level of domestic loans to GDP, remains low (41.3 % as of September 2019). Coupled with the low loan-to-deposit ratio prevailing in the system as a whole, this points to a possibility for further deepening of financial intermediation.

Financial deepening is welcomed given the low levels of intermediation but it needs to be properly balanced by careful monitoring of lending growth in segments where it is particularly high. While the overall credit quality of households appears good, the vigorous credit flow to consumer loans should be monitored going forward. While sustained credit growth is much needed to spur domestic production and economic development, access to

finance should be channeled into production and tradable sectors, rather than fueling consumer loans and real estate activity.

Deposits in September 2019 reached the value of Eur 3.74 billion (Eur 3.13 billion the average of the last two years), an annual increase of 16.4% (7.2% the average increase in the last two years). Household deposits, which represent the largest category of deposits, marked an increase of 11.4%, compared to the average increase of 5.3% for the past two years. The deposits of enterprises increased by 17.3% compared to the average increase of 10.2% in the past two years.

The banking sector liquidity position continued to be satisfactory during these three quarters of 2019. The liquid assets to total assets ratio stood at 39.3% in September 2019 (37.5% the average of the last two years). During the same period, the loan to deposit ratio decreased to 79.2%, from the average of the past two years of 81.3%. In September 2019, non-performing loans decreased to 2.3% (3.2% the average of the last two years). Non-performing loans remain well covered by loan-loss provisions with a ratio of 161.3% (148.2% the average of the last two years). The sector remains well capitalized with a capital adequacy ratio of 16.5% that is well above the minimum regulatory requirement of 12%. As of September 2019, the average interest rate on loans stood at 6.5 % (6.7% the average of the last two years). The average interest rate on loans for enterprises in September 2019 stood at 6.2% (6.3% the average of the last two years); while for households it stood at 7.0% (7.4% the average of the last two years). Interest rates on deposits during 2019 showed a tendency to increase compared with previous period. The average interest rate on deposits in September 2019 stood at 1.5% compared with the average of the last two years 1.2%, while the average interest rate for enterprises deposits increased to 1.6% in September 2019 (1.5% the average of the last two years). For household deposits, the average interest rate stood at 1.5% (1.1% the average of the last two years). The interest rate spread declined at 5.0 pp, compared to the average of the last two years of 5.6 pp.

As of September 2019 the total number of insurance companies that exerted their activity in the Kosovo's insurance market was 13. From these, 11 are non-life insurers while 2 are life insurers. If we refer to the origin of their capital, there is one company with foreign and mixed owned capital (Austria and Albania), seven others are locally owned, two with Slovenian capital and three with Albanian capital.

The total assets of the insurance market amounted Eur 196.1 million, an increase of 8.3% compared to the same period of last year. As of September 2019, from the total assets of insurance market, around 50.7% has foreign ownership. While, three largest insurers cover around 36.5% of the market. Overall, non-life insurance companies dominate the market with 91.0% of total assets, with the remaining owned by life insurance companies. The total amount of gross written premium on Kosovo insurance market for this period has reached Eur 74.0 million or 7.1% increase compared with the same period of previous year (Eur 69.1 million). This growth trend of gross written premiums was recorded in the non-life insurance sector, which compared to the previous period of 2018 has increased by 6.7%, whilst the life insurance sector had an increase of 17.6%. Gross written premiums in life insurance until 30 September 2019 amounted to Eur 2.6 million, marking an increase of approximately Eur 382,760 compared with the same period of previous year. From the total gross written premium, about 96.5% (September 2018 – 96.9%) of premiums consist of non-life insurance products, whereas 3.5% (September 2018 – 3.1%) of premiums consist of life insurance. Claims paid by September 30, 2019 reached the amount of Eur 37.9 million, marking an increase of 7.3% compared to the previous period (September 2018 – Eur 35.3 million). As of September 30, 2019 the insurance market resulted with a net loss of Eur 0.8 million, which shows that the

insurance market even though had an increase in gross written premiums, claims paid and other operating costs increased higher, resulting in losses during this period.

2.6. Alternative Scenarios and Risks

The baseline macroeconomic scenario presented on this update of the ERP - results from a careful consideration of both downside and upside risks, associated with expectations on economic developments in the medium term. The analysis of fiscal risks for ERP 2020 shows that over the medium- term fiscal risks remain almost the same as in the previous year, but with different probability of materialization for some of them. Meanwhile, there is an increased probability of materialization for upside risks compared to 2019. It is noteworthy to mention that the baseline scenario presented in the current version of ERP (2020) does not take into account the impact which could result from the successful implementation of some of the structural reform measures listed in this year's ERP. Therefore, the upside risks section attempts, as well, to quantitatively estimate the additional impact on top of the baseline scenario coming from three (out of 20) structural reform measures.¹¹

Our analysis of alternative scenarios shows that materialization of the upside risks (including the successful implementation of structural reforms) would generate a real economic growth of over 6% in the medium term (2020-2022), while the materialization of fiscal risks would trigger a slowdown of real economic growth, which during the medium-term horizon would fluctuate around the 2.4% level.

2.6.1. Downside Risks¹²

1st Risk: The external environment impact on external sources of financing (remittances, foreign direct investment, exports) over the medium term is presented as an increased risk compared to the previous year. The medium- term projections, presented in this current version of ERP, incorporate projections of the World Economic Outlook, which were lastly updated in October 2019. When comparing the Real GDP projections presented in the World Economic Outlook (WEO) and those in the European Economic Forecast (by the European Commission – EC), it can be noticed that the WEO projections are more optimistic (*Table 6*). In the EC's report, there is a lower growth rate (from the IMF) due to the global trade tensions, less favourable financing conditions and low commodity prices in the emerging markets. Whereas, the report published by the International Monetary Fund, one can notice that they attribute the slightly higher growth rate to a regaining of momentum by the external demand for Euro Area exports, and to a fading, and temporary, effect of the new emission standards (that negatively affected the German car industry). Both projections (WEO and EC) are exposed to the risk of uncertainty surrounding Brexit, which could hamper economic growth over the medium- term even further.

Table 6 Differences in Projections between WEO (October 2019) and EC (Autumn 2019)

Geographic Area		2018	2019	2020	2021	2022
Global	WEO	3.6	3.0	3.4	3.6	3.6
	EC	3.6	2.9	3.0	3.1	n/a
Euro Area	WEO	1.9	1.2	1.4	1.4	1.4
	EC	1.9	1.1	1.2	1.2	n/a

¹¹ The final draft of ERP (2020) will provide a quantitative estimation of up to five structural reforms, which have the largest impact on economic growth in medium- term.

¹² The quantification of risks has been mainly done using expert judgment combined with results from small satellite models or historical data on those indicators. While, the impact assessment on the whole economy has been done using the Macro Fiscal Model used by the MoF.

Materialization of these risks and uncertainties among various projections would have a negative impact on remittances (*slowdown from 5% in the baseline to 3%*); foreign direct investment (slowdown from 3% in the baseline to 0%); and export performance (*slowdown from 4% in the baseline to 2%*), given that the Euro Area is the main where most Kosovar emigrants are located; where the majority of foreign direct investment originates from; and where a significant part of Kosovo's exports are destined to. A decrease in these inflows is transmitted into lower private disposable income (and later into lower consumption) and into lower private investment, which are then reflected into lower GDP and consequently into lower budget revenues than those projected.

2nd Risk: The risk of non-realization of projects related to capital expenditures, especially under the Investment Clause is expected to prevail over the medium- term, as well.

In order to support cautious planning, the medium- term macroeconomic projections, which serve as the main bases in projecting tax revenues, takes into account the historical under-execution of capital expenditures financed by the regular budget and even more conservative assumptions for loan – financed projects. Thus, in the baseline scenario the investment clause is projected to be executed at a level of 50% in 2020 and at a level of 60% in both years, 2021 and 2022; while for capital expenditures financed by regular budget, it is assumed an execution level of 85% for the three years.

Nonetheless, under execution of capital projects from the assumptions of the baseline scenario, especially for projects financed by loans, is seen as a potential risk for lower growth. The execution of capital projects financed by concessionary debt, after the signing of financial agreements, remains challenging for budget organisations. This is mainly due to a rushed decision- making on loans, without making sure that all the preconditions are met and the right needed preparations, studies and market analysis are done, in order to ensure the immediate initiation of projects after loan ratification and efficient use of funds. Therefore, for the purposes of downside risks assessment, an even lower execution level of capital expenditures is assumed: a level of 40% for capital expenditures under the investment clause and a level of 75% for those financed by regular budget over the forecast horizon (2020- 2022).

3rd Risk: The probability of risk materialization resulting from the **fragile capacities for domestic power generation** is estimated to remain the same over the medium- term as in the previous year. There is still a need for closure of the Kosovo A power plant and rehabilitation of Kosovo B power plant, due to the aging of the production assets, which together account for more than 90% of domestic electricity consumption. Lower domestic energy production increases the possibility for higher energy imports. Based on the experience in year 2014, when the critical explosion in power plant “Kosova A” caused an increase in energy imports of around Eur 45.5 million. For the purposes of this exercise, an assumption is made regarding an increase in imports under the circumstances of fragile capacities of domestic energy production.

4th Risk: The contingent or out-of-budget risk that may come as a result of the poor performance of **Publicly Owned Enterprises** remains unchanged since 2018, following the unsatisfactory performance of public enterprises. An increase in subsidy spending for POEs might be necessary given their weakening performance. For the purposes of this exercise, it is assumed that under such an event, subsidies would increase by an amount equal to 0.5%, at the cost of public capital spending.

5th Risk: Tax Debt Collection: Revenue projections are based not only on revenue growth as a result of macroeconomic developments, but also on collecting tax debt. Therefore, the estimated fiscal space on which the 2020 Budget is based, is also dependent on the success of collecting tax debt. Nevertheless, the risk of non-realization of this objective is estimated to be lower than in the previous year. This due to the success achieved during 2019 in reducing the tax debt stock (around Eur 23 million) supports expectations for continuation of fulfilling these targets even during the medium term. For the purposes of downside risks assessment, it is assumed that these targets of tax debt collection are not met.

Other risks: In addition to the risks mentioned above, there are several others risks, whose effects on the baseline scenario are not included, but which might negatively impact the economic perspective in the medium- term. One is related to the threat posed by the **pressure on new social transfers initiatives** over the medium term. The increased pressure on the use of public money as redistribution, especially when such redistribution does not target poverty but is based on other criteria, presents a potential risk for a fiscal strategy targeting socio-economic development. The fiscal space for the three years (2020, 2021 and 2022) within the legal 2% deficit ceiling amounts to around 0.0% of GDP. According to these projections, it is clear that there is almost no fiscal space to accommodate new initiatives for social transfers. Another risk related to **accumulation of delayed payments**, which may arise as a result of existing public contracts and can produce financial obligations for the state budget.

2.6.2. *Upside Risks*

i) Realization of the potential of **strategic investment through the Investment Clause** continues to be challenging over the medium- term. Based on recommendations of the National Audit Office and based on the implementation plan of the recommendations approved by the Government, reporting to the Government on the level of execution of the borrowing projects has started. Before this change, reporting was directed only to the Minister of Finance and individual quarterly reports were received by the implementing Budget Organizations and Project Implementing Units as required by legislation. In this view, it is expected a higher level of commitment in the execution of these projects, and therefore for the purposes of upside risks assessment, a higher execution of the investment clause is assumed, at around 80% for three years.

ii) **Successful implementation of four (out of 20) structural reform measures¹³** is considered to have a considerable impact on the baseline scenario over the medium- term. In absence of disaggregated data in the case of Kosovo, it is not possible to realise the economic impact assessment of all reforms identified in this year's ERP, and therefore, in the current draft of ERP, four structural reforms measures were selected for a thorough economic impact assessment.

Information Box 3. Economic Impact Assessment of 3 Structural Reform Measures

ERP Measure # 11: Reducing the Informal Economy - Increase in direct tax revenues

1) *An increase in direct tax revenues is assumed as a result of increased inspection efforts.* More specifically, the scenario assumes a gradual increase in effective direct tax rates over the 2020-2022 from 7.9% to 10% on all labour incomes (PIT) and from 3.2% to 5% on capital incomes (CIT and Real Estate taxes). Nominal transfers, government real consumption level, are assumed to be equal to the baseline. In this scenario, there is no

¹³ The economic impact assessment of structural reforms is realized using a new methodology consisting in Computable General Equilibrium Model, on which a brief description can be found in Figure 1 of Annex.

distinction between increased rates and increased tax base - we are here looking at increased effective tax rates (i.e. incorporating either change). **2)** *The simulations for this scenario indicate that a revenue-based adjustment in Kosovo could lead to an increase in GDP growth.* Under this scenario, real GDP growth increases by a cumulative amount of 0.2 % between 2019 and 2022, driven by higher government savings (+1.8 %) and investment (+9%). This result is intuitive, as the increase of taxes shifts private income and consumption to government savings. Increased savings, whether used by the government itself for additional investment spending or placed in the banking system for private investment, lead to higher investment, resulting in accelerated capital accumulation and higher GDP growth. **3)** *The government's operational budget surplus improves by more than 1.8 pp of GDP over the medium-term, reflecting higher tax revenues and a reduction in government consumption¹⁴.* The increase of effective direct taxes rates leads to an increase of tax revenues (+1.9 pp of GDP). Indirect taxes revenues drop by -0.1 pp of GDP as a result of falling consumption relative to the baseline. **4)** *The impact on the external account is minimal.* Imports are shifted from consumer to higher investment demand, including capital and equipment goods. However, the overall result shows a small decline in imports. Also, exports volumes decrease slightly as a result of wage increases in export sectors. **5)** *Higher capital accumulation benefits relatively more sectors that are capital intensive, leading to lower relative prices for capital and higher wages.* As a result, the value added of mining, construction and other manufacturing sectors increases. **6)** *The underlying growth mechanism of the model is the standard Harrod-Domar growth model (no forward-looking behaviour).* The simple mechanism is that the additional fiscal consolidation increases domestic savings; however, the results are only valid for the specific closure of the model. If increased revenues lead to reduced external debt, this should be reflected in a reduction of the current account balance offsetting the increased savings from the government. In case of reduced domestic debt, this should lead to increased investment along the lines described above. **7)** *Increasing direct tax rates and increased government savings have positive distributional implication.* The increase in taxes will slow the consumption growth for all type of households. However, increasing wages tend to benefit the poorest/middle income deciles, where the increased wage impact is partly offsetting the impact of increase in tax payments leading to less fall in consumption. The reverse is true for higher income deciles. However, the households belonging to the poorest decile will also experience higher income and consumption declines, as these households have significant incomes from agriculture land rather than labour.

ERP Measure #1: Reducing Energy Consumption through Energy Efficiency Measures – Reduction in energy losses and subsidy requirements

1) *The scenario focuses on the energy sector in Kosovo.* The analysis simulates an elimination of energy subsidies from the current level of 3.5 % of GDP through effective tariff adjustment. We expect this measure to impact the real, fiscal and energy sectors in different ways. In addition to strengthened government savings, higher prices on energy and on products using energy as intermediary input could lead to efficiency gains as consumption is decreased. Reduced subsidies would not only support fiscal consolidation but also investment through higher government savings. **2)** *Elimination of energy subsidies in Kosovo will raise GDP growth in market price by 0.2%.* The elimination of government subsidies in the country leads to a cumulative increase in GDP growth in 0.2% driven by higher

¹⁴ Increased capital accumulation benefits sectors which are more capital intensive, leading to a reduction in the relative price of capital and increase in wages. Higher labor wages increase the public services supply deflator and increase nominal consumption for a given real public consumption level.

investment growth (+9 %). This takes into account the impact of lower output in the energy sector when prices increase as well as the negative immediate impact on energy-intensive sectors. As a result of higher prices of energy and of products using energy as an intermediary input, consumption growth slows by 3% in Kosovo while shifting away from high energy-intensive products. **3) Higher government savings from lowering subsidies is slightly offset by an increase in government nominal consumption.** The higher capital accumulation benefits capital intensive sectors, resulting in further demand of labour and acceleration in wages rates to clear the labour market. **4) Analysis of the impact of real value added by sector shows that mining, manufacturing and construction benefit from higher investment activity.** In these sectors, cumulative changes in value-added amount to 0.1-4.0 % of GDP. In contrast, activity declines not only in the energy sector but also in labour and energy intensive sectors. **5) The higher energy prices are hurting the lower income households more than higher income households,** as their electricity constitute higher budget shares for lower income households.

Scenario 3: ERP Measure #9: Establishment and functioning of the Commercial Court – Reduction in Capital Risk Premiums

1) The third scenario assumes that the risk premium in the Kosovo economy is reduced by 5% over the baseline scenario. The impact is simulated by assuming an increase of foreign financing (CAB) by 3.9% pp to GDP in 2021 and 2022. **2) The simulations for this scenario suggest the positive impact on real GDP growth could be very significant (Table 2).** As in the previous scenario, growth is driven primarily by higher investment growth (+11.3 %), followed by private consumption (+4.5 %) and exports (+1.6 %). Higher investment is supported by increased external and private savings. At the same time, the increase in government nominal consumption as wage pressures and higher subsidy requirements leads to lower public savings as revenues are growing slower than expenditures. **3) The cumulative medium-term effects of a reduction in risk premiums on GDP growth is 2.1% from 2019 to 2022.** Accelerated capital accumulation and lower capital rental rates benefit capital intensive sectors and lead to reductions in the relative prices for capital intensive goods. With no labour supply response, labour wages will continue to rise rapidly. **4) Higher capital accumulation benefits capital intensive sectors.** Value added in these sectors grows relatively more than other sectors which are more labour intensive – in particular, we expect to see a sharp decline in Hotels and Restaurants sector. This sector is very significant for the services' exports and has more limited scope for increasing output prices, than domestic market oriented sectors. **5) Higher capital accumulation results in higher consumption and welfare for all, but with increased inequality.** Higher capital incomes due to accumulation will benefit the existing owners of capital and higher saving rates more than those households depending more on labour incomes.

Scenario 4: ERP Measure #19: Increased employment due to targeted training of unemployed

1) In the fourth scenario explores the impact of increasing labour employment for Household deciles 1-5 by 1.5% pa. This measure is expected to add 1.0% to the employment by 2022. This measure is not expected to result in additional expenditure. However, the increased labour supply is expected to reduced wages pressures throughout the economy and result in a 0.3 pp of GDP reduction in consumption expenditure over that of the baseline by 2022 as well as higher a 0.3 pp of GDP higher government savings. **2) Real GDP is expanding by 0.4% over the baseline.** Private consumption is subdued and only increased by 0.1% over the baseline – due to slower consumption growth in higher deciles (see below). Investment and exports growth are up 0.7-1.0% over the baseline. Wages are projected to be growing by 2.6% slower than the baseline. **3) With increased**

employment, most sectors will expand, with the most labour-intensive sectors expanding most over the baseline. Accommodation and restaurants will grow by 3.8% and professional services grow by 1.1% over the baseline. The most capital-intensive sectors (Agriculture and real estate) will see a small contraction over the baseline. **4) The targeted employment effort leads to higher incomes and consumption growth for the lower deciles over the baseline.** The higher deciles consumption growths will be a little slower as prices are increasing for capital intensive goods (real estate) with higher consumptions shares for higher deciles. Consequently, the inequality will be reduced.

Table 1: impact of ERP measures #11, #1, #9, and #19: Government Accounts, (cumulative 2019-2022)

	<i>(% of GDP – Impact, Change from the Baseline)</i>			
	<i>Impact (Measure 11)</i>	<i>Impact (Measure 1)</i>	<i>Impact (Measure 9)</i>	<i>Impact (Measure 19)</i>
Revenues	1.8%	-0.9%	-0.4%	0.0%
Direct taxes and profit shares	1.9%	-0.1%	0.0%	0.0%
Indirect taxes	-0.1%	-0.6%	-0.2%	0.1%
Other	0.0%	-0.1%	-0.2%	0.0%
Expenditures	0.0%	-3.9%	-0.2%	-0.3%
Government consumption	0.1%	-0.1%	0.1%	-0.3%
Transfers and subsidies	-0.1%	-3.7%	-0.3%	0.0%
Operational balance	1.8%	3.0%	-0.1%	0.3%

Table 2: impact of ERP measures #11, #1, #9, and #19: National Accounts (cumulative 2019-2022)

	<i>Impact, Change from Baseline</i>			
	<i>Impact (Measure 11)</i>	<i>Impact (Measure 1)</i>	<i>Impact (Measure 9)</i>	<i>Impact (Measure 19)</i>
Real GDP	0.3%	0.2%	2.1%	0.4%
Consumption	-1.2%	-2.6%	2.3%	0.1%
Private Consumption	-1.4%	-3.0%	2.7%	0.1%
Government Consumption	0.0%	0.0%	0.0%	0.0%
Investment	6.0%	9.0%	17.8%	1.0%
Exports	-0.4%	-0.8%	-3.9%	0.7%
Imports	0.3%	-0.7%	7.0%	0.3%
Labour wage index	2.3%	n/a	4.4%	-2.6%
GDP Deflator	0.4%	n/a	-0.3%	-0.1%
Labour Employment	0.0%	n/a	0.0%	1.0%
Private savings (% of GDP)	-0.3%	n/a	0.3%	0.0%
Fiscal balance (% of GDP)	1.8%	n/a	-0.1%	0.3%
Current account (% of GDP)	-0.2%	n/a	-3.9%	0.0%

Table 3: impact of ERP measures #11, #1, #9, and 19: Real Household Consumption & Gini coefficient (2019-22)

	<i>Impact, Change from Baseline</i>			
	<i>Impact (Measure 11)</i>	<i>Impact (Measure 1)</i>	<i>Impact (Measure 9)</i>	<i>Impact (Measure 19)</i>
Decile 1	-1.4%	-3.0%	2.7%	0.1%

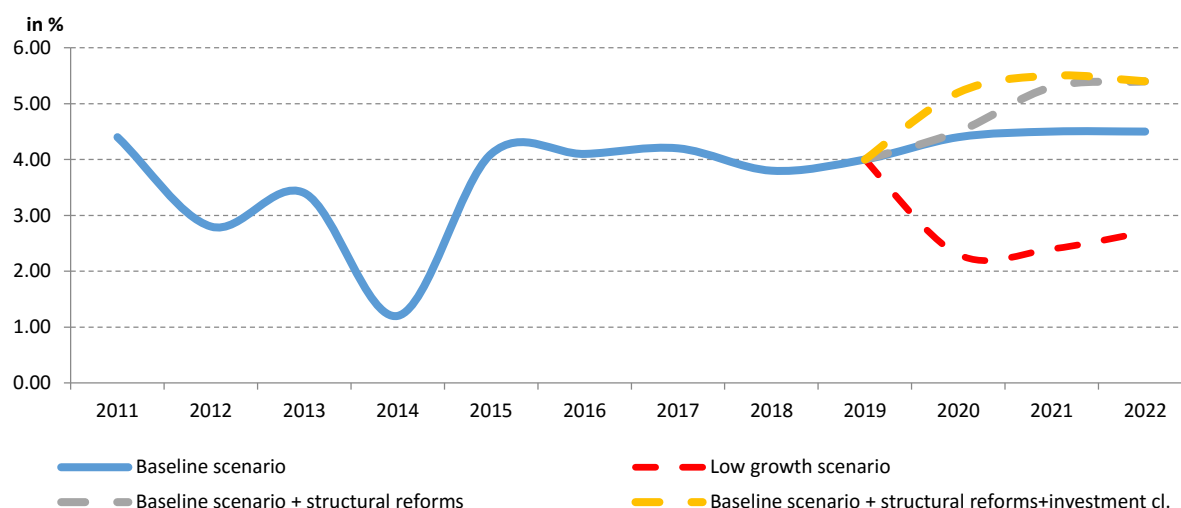
Decile 2	-0.6%	-3.4%	1.4%	0.5%
Decile 3	-0.8%	-3.0%	1.9%	0.8%
Decile 4	-1.1%	-3.5%	1.2%	0.7%
Decile 5	-1.2%	-3.3%	1.8%	0.8%
Decile 6	-1.5%	-3.7%	1.8%	0.9%
Decile 7	-1.4%	-3.2%	2.5%	-0.3%
Decile 8	-1.5%	-3.0%	2.8%	-0.4%
Decile 9	-1.4%	-3.1%	3.3%	-0.2%
Decile 10	-1.4%	-3.1%	3.2%	-0.1%
Gini	-0.3%	0.4%	1.0%	-0.5%

2.6.3. Aggregated Results of Upside and Downside Risks

When aggregating all downside risks, the Real GDP growth is estimated to fluctuate around 2.4% on average over the period 2020- 2022, which is around 2.0 pp lower than the baseline scenario. Whereas, materialization of the structural reforms related to reducing informality, establishment of the Commercial Court and energy consumption reduction would produce an additional stimulus to GDP growth in the magnitude of 0.6 pp. In such circumstances, over the medium term real GDP growth would fluctuate at around 5.1%, with its peak reaching in 2021 (5.4%). When accounting for a higher execution of capital projects under the investment clause, GDP would be even higher, around 5.4%.

The graph displays that the balance of risks is slightly skewed downwards. Compared to the 2019 ERP, the balance of risks has deteriorated, reflecting risks from the external environment and risks from the domestic environment coupled with uncertainties induced by development in the political environment.

Figure 12: Real GDP growth under various alternative scenarios



3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objective

Sustaining and further strengthening of the country's fiscal position continues to be the main objective of the Government in the period covered in this document. Fiscal stability and further strengthening of processes and mechanisms that enable this stability, have a direct impact in the successful implementation of Government's priority reforms. Consequently, these reforms affect both the direct and indirect support to an increase in the economic activity in the private sector of the country. In this context, the Government aims to have an accountable management of public finances that verifies that planning and execution of the budget will be fully in line with the fiscal framework as stipulated in the law on Public Financial Management and Accountability, the law on Local Government Finance, and legal acts from these two laws. During the planning and implementation of future state budgets, a special focus will be given to the exact implementation of fiscal rules that ensure fiscal stability and growth support, such as:

- A budget deficit limit to 2% of GDP (annual basis);
- Additional investment through the Investment Clause (medium-term and long-term period);
- Wage bill rule constraining the increase of the wage bill with the nominal GDP growth rate (latest available)
- Withholding of an adequate level of fiscal reserves (annual basis), and
- A limit of 40% debt to GDP ratio (annual basis).

Successful implementation of these rules ensures macro-fiscal stability and sustainability, and simultaneously provides fiscal space to the Government in order to address significant public infrastructure gaps through financing of public investment projects from concessional loans and SOE liquidation funds, where such financing is exempt from the deficit limit according to the law on Public Financial Management and Accountability.

In line with the implementation of the above mentioned rules, the Government of Kosovo will pay special attention to tax policies and tax administration to ensure that any change in the system is done in consultation with interested parties, especially the business community, in order to make sure that those changes favor economic activity and employment, and ensure stable financing for Government operations. In the context of tax administration, there will be further development of taxpayer service automation, lower direct communication between taxpayers and tax officials, application of a risk-based approach, and all this will impact the improvement of service quality, increasing voluntary compliance and reducing informality.

In this line, medium-term fiscal objectives of the Government are the following:

- Ensure sustainable financing of Government's public activities by ensuring that tax policies are in the function of stimulating private sector activity and generating stable revenues for the state budget;
- Mobilize revenue by expanding the tax base instead of increasing statutory tax rates.
- Simplify administrative fees and reduce the regulatory burden.
- Maintain a balanced budget structure with a dominance of capital investments to address structural barriers through improving public infrastructure.
- Provide adequate funding for priority areas such as justice, security, health and education

- Improve the effectiveness of social spending and agricultural subsidies through better targeting
- Maintain a low level of budget deficit (according to the fiscal rule definition), thus keep the public debt under control.

Based on these objectives, the 2020 budget has allocated its fiscal space resulting from higher revenue projections in: a) higher operational spending for priority sectors, and b) higher capital spending to address structural gaps. Nonetheless, one of the main fiscal challenges for achieving these objectives remains the containment of social spending schemes that are increasing year by year. With regard to budget revenues for 2020 and subsequent years, our projections are based on reasonable assumptions on all sources of financing (tax, non-tax revenues, as well as internal and external financing). The impact of Stabilization and Association Agreement (SAA) on revenue losses has mostly been absorbed and is fully accounted for in the medium-term.

As of January 1, 2018, the Government's tax incentive scheme that exempts companies certified as "domestic producers" from the obligation to pay customs duties and excises for their raw materials used in production has been implemented. This fiscal measure aims at stimulating production capacities in the country and will continue to be implemented in the coming years; while the effects on tax revenues, which are expected to be modest, are now integrated in revenue projections for the medium term.

3.2. Budget implementation in 2019 (January- October)

According to preliminary fiscal data, the 2019 budget has achieved a high overall execution rate both on the revenue and the expenditure side. The fiscal rule has been fully respected, reaching a deficit of 0.6 % of the estimated GDP, which is well below the ceiling of 2%. Furthermore, Government cash balance has been recorded at 5.1% of GDP, which is also in line with the applicable fiscal rules (minimum 4.5% if funds from the liquidation proceeds are used). Regarding revenue collection, both agencies responsible for revenue collection (TAK and Customs) have managed a good execution of the projected revenues. Besides budget revenues, there has also been a good performance in other sources of financing, with the exception of financing from external borrowing, internal financing (securities and PAK financing) was in line with budget projections. Budget expenditures, on the other hand show a tendency to be executed according to the plan for the recurrent expenditure category and at a much lower rate of execution for the capital expenditure category.

It is noted that in relation to the budget, social transfers increased as a result of the non-implementation of the war veterans' reform and the over-spending of planned expenditures for other beneficiary schemes. Despite the fact that the budget of 2019 had assumed that the re-categorization would be carried out in the war veterans' scheme, this did not happen, and as a result, spending remained higher.

Budget Revenue collection had a good performance regarding initial projections. Tax revenue collection reached a 96.0% collection rate, while non-tax revenues reached a collection rate of 102.1%. Compared to 2018, tax revenues and non-tax revenues increased by around 6.2% and 10.2%, respectively.

Collection from VAT increased by 5.8% compared to the previous year, which is in line with the projections. On the other hand, custom duties surpassed the initial projections and were 5.3% higher than those in 2018.

Despite an anticipated decrease in the import of used cars (because of the age restriction of imported cars), the authorities managed to collect higher revenues from excise in 2019 compared to 2018. While excise in total for this period (Jan-Dec) is 4.0% higher than the last year but about Eur 30 million less than projections due to the law banning gambling which was approved in March 2019.

Personal income tax, as the main contributor to direct taxes, were higher by 8.4% than the previous year. Regarding corporate income tax, taxes collected from corporates were 9.0% higher than those in 2018.

As result of the above mentioned development in each tax category, indirect taxes recorded a 94.8% collection rate while direct taxes recorded a 101.2% collection rate.

Non tax revenue, showed an annual increase of 10.2% and thus surpassing the initial projections. Revenues collected at the municipal level reached 87.2% of the projected value.

Budget expenditures were higher than in 2018, while the execution rate of different economic categories was different. For wages and salaries, the execution rate was 99.4%, goods and services 87.0%, subsidies and transfers 104.6%; capital expenditure 67.4% due to due to the inability to disburse funds from the investment clause. Capital expenditure, in comparison to 2018 are similar, as they increased by merely 0.2%. In total, this lead to and execution rate of around 88.1%, reflecting an increase of around 7.3% compared to the previous year.

Table 7 General Government Operations, in millions of Euros

Description	2018	2019 Budget	2019 Actual (Jan-Dec)
1. Total Revenue	1,757	1,949	1,885
<i>off which: extra tax debt collection</i>		27	23
<i>tax compliance gains</i>		14	
1.1 Tax Revenue	1,564	1,730	1,661
Direct Taxes	268	288	292
<i>Tax on Corporate Income</i>	87	91	95
<i>Tax on Personal Income</i>	153	163	166
<i>Tax on Immovable Property</i>	24	30	27
<i>Other</i>	4	4	5
Indirect Taxes	1,344	1,492	1,415
<i>Value Added Tax:</i>	799	905	846
<i>Customs Duty</i>	124	120	130
<i>Excise</i>	419	465	435
<i>Other indirect</i>	2	2	3
Tax Refunds	-48	-50	-46
1.2 Non-tax revenue	193	208	213
<i>Fees, charges, and other - Central Level</i>	110	103	120
<i>Fees, charges, and other - Local Level</i>	46	57	54
<i>Concessionary fees</i>	9	11	11
<i>Royalties</i>	25	33	29
<i>Interest income (KEC loan)</i>	2	4	3
1.3 Budget support and grants	0	11	11.5
2. Total Expenditure	1,956	2,378	2,0911
2.1 Recurrent Expenditure	1,404	1,561	1,536
<i>Wages and Salaries</i>	593	620	616
<i>Goods and Services</i>	253	337	293
<i>Subsidies and Transfers</i>	559	600	627
<i>Recurrent reserves</i>	0	5	0
2.2 Capital Expenditure	533	789	531

<i>Regular budget financing</i>	450	515	385
<i>Debt financing through the investment clause</i>	0	123	14.4
<i>Liquidation proceeds</i>	84	151	132
2.3 Public Debt Interest	19	28	23
3. Budget Balance (1-2)	-199	-429	-205
4. Expenditure exempted from the fiscal rule:	112	284	163
<i>Expenditure from dedicated PAK revenue/2</i>	9	2	6
<i>Expenditure financed from municipal carried-over OSR</i>	19	8	19
<i>Capital spending from the investment clause and liquidation p.</i>	84	274	139
	-87	-146	-42
5. Budget Balance, as per fiscal rule definition (5+6)	(-1.3%)	(-2.0%)	(-0.6%)
A. Financing Need:	-199	-429	-205
B. External Financing	-2	151	-4
C. Internal Financing	200	303	263
D. Change in usable bank balance:	-1	26	63
E. Stock of Usable Bank Balance	302(4.5%)	340(4.8%)	365 (5.1%)

3.3. Medium-term budgetary outlook¹⁵

Budgetary revenues for the mid-term 2020-2022 are based on macroeconomic projections, reduction of the stock of tax debt and the effects of fiscal policies. Total budgetary revenues are projected to increase approximately by 5% over the medium term.

Out of total revenue, tax revenues are projected to increase approximately with around 4.9% over the medium term, reaching an average ratio of 24.1% of GDP over the medium term. The projected increase in tax revenues is expected to be mainly supported by indirect taxes, especially from VAT, while revenues from customs duties are expected to stabilize as a result of the reduction of the effects of the free trade agreement with the EU (SAA). Non-Tax Revenues are projected to increase on average by 4.1% over 2020-2022, however, they are projected to have a fall as a percentage of GDP from 3.0% in 2020 to 2.8% at the end of the medium term.

The planning and execution of budget expenditure over the 2020- 2022 period is done in line with the fiscal rule established by the Law on Public Finance Management and Accountability, which limits the budget deficit to 2% of GDP. The government continues to prioritise macro fiscal stability and responsible management of public finances.

Planned budget expenditures reflect key government priorities, based on three principles:

- (1) adjusting the level of current expenditure - to continue the uninterrupted provision of public services and prevent the accumulation of deferred payments
- (2) providing additional funding for the Government priorities
- (3) structuring the budget funding in order to provide a stimulus to the economy through external funds (PAK and investment clause) for capital projects.
- (4) Over the medium-term total budgetary expenditure is expected to increase by an average of 3.2%. Current expenditure is expected to increase by an average of 3.4%, while capital expenditure by about 2.4%.

In terms of the fiscal rule, budget deficit is expected to be below 2% of GDP during the medium term.

¹⁵ Projections in this section are preliminary and might be subject to changes once the Budget of 2020 is approved

3.3.1. *Budget revenue projections*

For the mid-term 2020-2022, revenue projections are based on general projections of economic developments in the country, as well as their impact on respective tax bases. Furthermore, the effect of the new measures to improve the “doing business environment”, exemptions in imports duties for the production sector and technology equipment, plans for narrowing the tax gap and the informal economy, measures for increasing revenue collection efficiency in the collection agencies, with a particular focus on reducing the stock of tax debt are considered as potential for increasing the level of revenues over these projections.

As for the Tax Administration of Kosovo, it is expected to collect around Eur 542 million in 2020, including one-off revenues from tax debt collection, which represents an increase of 5.0% compared to the project budget. While compared to year-end realisation, these revenues are expected to grow by approximately 7.6% in 2020. The average growth rate in the medium term is expected to be 4.5%. Specifically, revenues collected from TAK, divided into categories are expected to be as follows:

Corporate Income Tax: is projected to increase by around 6.6% annually during the medium term, thus amounting to Eur 111 million by 2022. In 2020, it is expected that corporate income tax will increase by 10.1% compared to the 2019 budget, however compared to the realization of 2019 it is expected to increase by 6.3%.

Domestic VAT is projected to increase by 3.0% in the medium term, whereas in 2020, when compared with the budget of 2019, it will increase by 2.0% or in nominal value – Eur 263 million. Compared to the realisation of 2019, in 2020 an increase of 9.9% is expected. This increase in planning, comes as a result of an increase in total consumption, as well as the effects of the fiscal measures that have enabled the VAT payment to shift inland from the border.

Personal Income Tax: is projected to increase by 7.2% and reach the amount of Eur 175 million in 2020, or by 5.7% on average over the medium-term. This figure, compared to the realisation of 2019, indicates a projected increase of 5.6%. This increase in revenues is based on economic developments in the country and the reduction of the stock of tax debt. Another driver that could lead to a higher increase in direct taxes over the medium term includes higher profits from manufacturing companies that are exempt from customs duties for goods needed in the production process as raw materials, as well as for IT equipment. Furthermore, by simplifying the tax and customs systems, continuing to increase the quality of services to taxpayers and continuing full digitalization of taxpayer services, we expect an increase in Tax Administration efficiency and increase in voluntary compliance in tax liabilities, which consequently will reflect positively in tax revenues collected domestically.

Kosovo Customs are expected to collect around 4.8% higher revenues during the medium-term.

Border VAT: In 2020, border VAT remains the main contributor to customs revenue, accounting for over 52.8% or amounting to Eur 678 million, marking an increase of 4.7% compared to the budget for 2019, whereas with regards to the realisation of 2019 an increase of 11.7% is projected. This planned increase in revenues is based mostly on the performance of import of goods, while accounting for the effect of the SAA on these revenues, but also as a result of better customs monitoring. Over the medium term, revenues collected from border VAT are projected to increase by 5.7%, on average.

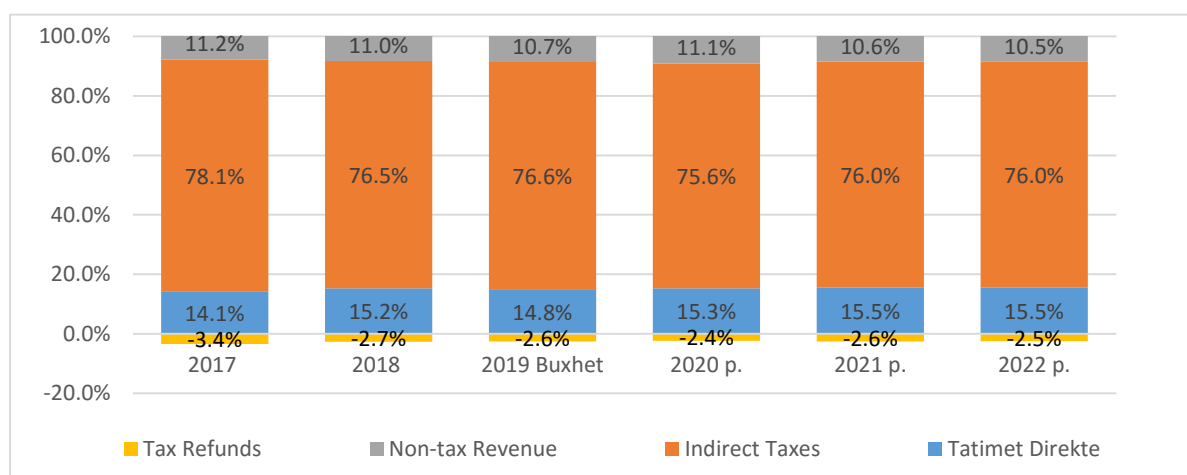
Excise: Compared to the 2019 budget, excise tax revenue is expected to increase by 0.6%, reaching Eur 468 million in 2020. This small increase in 2020 is due to the excise underperformance in 2019 because of the law banning gambling, which was approved in March 2019. If the realisation of 2020 is compared to that of 2019, an increase of 7.4% is projected. During the mid-term, revenues from excise are expected to increase by an average of 2.5%. This planning takes into account the increase in the excise rate for tobacco products according to the excise calendar. In addition, the European policies for stopping the circulation of diesel cars will affect their price and consequently lead to an increase in the imports of these cars. Moreover, the growth of imported oil has continued throughout 2019, affecting an increase in excise revenue, despite rising prices of oil in international markets.

Customs Duties: In the proposed budget for 2020, customs duties are expected to reach Eur 135 million, which reflects an increase of 12.4% compared to the 2019 budget, whereas in comparison to last year's realisation an increase of 3.5% is expected this year. This revenue increase is based on imports performance and accounts for the effect of the SAA on these revenues. Over the medium term, customs duties are expected to increase by an average of 8.2%, as a result of the projected increase in imports and the declining negative effect of the SAA.

Non-tax revenues, for the period 2020, are expected an increase by 8.8%, which is in line with their historical performance of these revenues, whereas in terms of realisation, compared to 2019 this year an increase of 6.5% is expected. Nonetheless, during the 2020, revenues at the local level are expected to decrease by 12.3% compared to the budget of 2019. This slowdown comes as a result of some reclassification of local taxes, which now are reflected on central level revenues. In the meantime, revenues at the central level are expected to increase by 22.5% (however, the realisation of this year compared to the previous year is expected to increase by 5.4), supported mainly by some additional projected revenues from RAEPC¹⁶ (Eur 10 million) and from reclassification of revenues at the local level. Revenues from concessionary fees continue to have almost the same trend during 2020, marking an increase of Eur 2 million compared to the budget of 2019. Revenues from royalties are expected to continue their constant trend as in 2019, by amounting to Eur 33 million in 2020. Over the medium term, non-tax revenues are projected to increase on average by 4.1% over 2020-2022, however, they are projected to have a fall as a percentage of GDP from 3.0% in 2020 to 2.8% at the end of the medium term. The revenue projections reflect the Government's policy stance to avoid supporting on non-tax revenues and to create incentives for reorganizing administrative fees in accordance with the principle of cost-based service and in compliance with license and permit legislation reforms.

¹⁶Regulatory Authority of Electronic and Postal Communications

Figure 13 Revenue Structure 2017 - 2022



Source: Treasury and Projections of Macro Economic unit – MF

3.3.2. Budget expenditure projections

Budget expenditure in 2020 is projected to grow by 3.7 % compared to the budget of 2019, however this year’s realisation compared to the previous year is expected to increase by 18%. For the medium term, this growth will decelerate at 3.1% for 2021 and 2.8% for 2022. The increase in expenditure in 2020 is mainly attributed to an increase in capital projects financed through International Financial Institutions and liquidation proceeds.

Current spending for 2020 is projected to increase by 5.2% in comparison with the 2019 budget, however this year’s realisation compared to the previous year is expected to increase by 7%. For 2021 and 2022, this growth is expected to be slower at 2.4% and 2.7% respectively. One of the key drivers to this increase in 2020 is goods and services category and this is due to reclassification of expenses from capital spending to this category, mostly consisting in a) maintenance of medical equipment; b) maintenance of memorial complexes; c) Kosovo Police equipment, etc. In addition, an increase in subsidies and transfers category is projected primarily as a result of social schemes and the natural increase in the number of beneficiaries of basic and contributory pensions.

Capital expenditure is planned to be about 0.6% higher compared to the budget of 2019, however this year’s realisation compared to the previous year is expected to increase by 49.3%; this is due to the fact that during the entire year (2019) there was significant under execution for this category. This growth is expected to be 4.0% and 2.6% in 2021 and 2022 respectively. This increase comprises of capital expenditure of strategic development nature financed by International Financial Institutions and from the liquidation of socially-owned enterprises. These expenditures, according to the legal provisions, are excluded from the calculation of the general deficit level according to the fiscal rule and are directed towards capital expenditure for strategic development purposes. An important part of capital investment will be the continuation of the Kijevë-Zahaq road project, the continuation of the M2 project for Mitrovica, and other investments aimed to improve physical infrastructure, digitalization and educational infrastructure.

For 2020, **the local level budget** is increased by 25.7 million compared to the 2019 budget. In total, the planned budget for the local level amounts to Eur 579.7 million, providing an important support to the provision of more qualitative municipal services. Over the medium-

term they are projected to reach amount of 587.2 and 607.8 million in 2021 and 2022 respectively, which amount represent increase on average by 3.1%.

Moreover, local economic development will continue to be supported with out-of-budget financial operations, namely by providing state guarantees for improving the economic infrastructure and assisting in the structuring of public-private partnerships.

This increase of 4.6% in municipal budget funding reflects the increase of the total grant. The total grant for year 2020 is approved at the amount of Eur 196.3 million, registering an increase by Eur 15.6 million compared to previous year (2019), as result of an increase in general revenues. Over the medium term they are expected to increase by an average of 6.7%. The specific grant of pre-university education is approved at the amount of Eur 205.6 million, which is Eur 20.6 million higher than in year 2019. Over the medium term, respectively through 2021 and 2022 they are expected to increase by a million per year. The increase in the education grant comes mainly due to new policies that foresee the employment of new assistants for children with special needs which costs around Eur 0.78 million, as well as professional practice which has a cost of about Eur 1.4 million. The specific grant for primary health in 2020 is Eur 8.3 million higher than in 2019, reaching an amount of Eur 61.7 million. Over the medium term, respectively through 2021 and 2022 they are expected to increase by 2.5 a million per year. Funding for secondary health in 2019 is at similar levels with the previous year (2.6 million per each year till the end of the projected period); while funding for the residential services register an increase of Eur 0.44 million, reaching amount of 2.0 million and staying approximately at the same level during 2021 and 2022.

The distribution of municipal expenditure growth in 2020, consists in: a) an increase of “wages and salaries” category by Eur 36.0 million, and b) an increase of goods and services by Eur 4.8 million. Meanwhile, capital expenditures are planned to decrease by Eur 17 million. Over the medium term 2020-2022, they are expected to fall on average by 3.5%.

Table 8 Local Level Expenditure

(mil Eur)	2019 Budget	2020	2021	2022
Wages and Salaries	272.1	308.1	325.0	339.0
Goods and Services	70.9	75.7	75.7	75.7
Municipal Expenses	11.2	11.5	11.5	11.5
Subsidies and Transfers	12.4	13.5	13.5	13.6
Capital Expenditure	187.9	170.8	161.4	167.9
Total	554.7	579.7	587.2	607.8

The central level budget in 2020 increased by 3.4% and includes Eur 61.4 million additional spending compared to the 2019 budget. Over the medium term they are projected to increase by on average of 3.1%. In line with Government priorities, this additional spending was allocated for increased effectiveness in priority areas.

In this growth structure, the category of 'Goods and Services' has increased by 4.2 % (2.3% increase over the medium term); the category of Subsidies and Transfers by 5.3 % (1.9% increase over the medium term); and the category of capital expenditure by 3.6 % (4.1% increase over the medium term). With regard to funding sources for capital expenditure, Eur 355 million come from the government grant, and Eur 267.3 million from capital development projects: a) Financing from concessional borrowing (Eur 29.7 million in loan projects and Eur 177.6 million in borrowings under the investment clause), and b) Liquidation funds of SOEs

(Eur 60 million). Through this growth, but also through reorientation of the expenditure portfolio, the main priorities of the government program are reflected.

Table 9 Central Level Expenditure

(mil Eur)	2019 Budget	2020 Proj. Budget	2021	2022
Wages and Salaries	347.9	345.7	366.0	390.9
Goods and Services	236.1	246.0	249.9	252.7
Local Expenditure	18.2	19.1	18.5	18.6
Subsidies and Transfers	587.6	618.7	616.9	620.6
Capital Expenditure	600.8	622.6	663.5	677.9
Reserve	4.8	4.8	4.8	4.8
Total	1,795.5	1,856.9	1,919.7	1,965.4

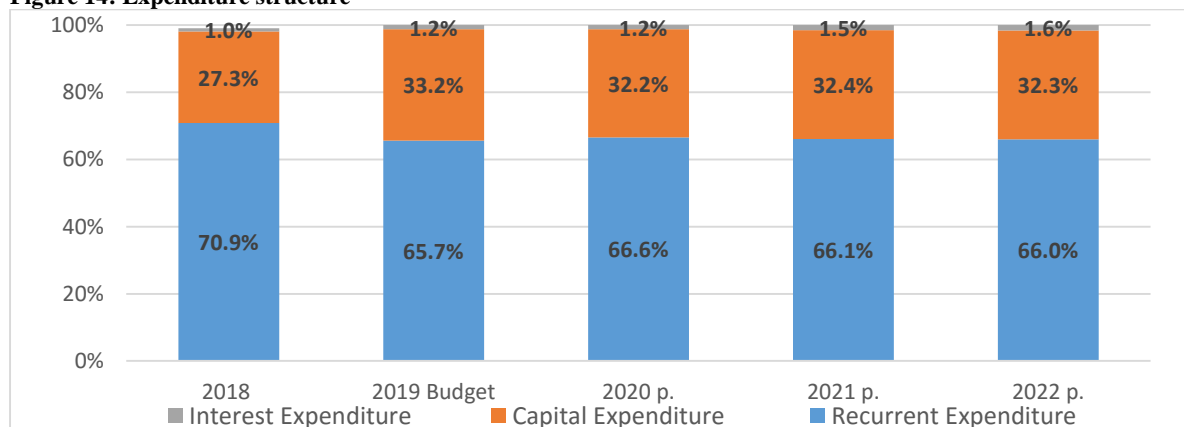
3.3.3. Expenditure projections by economic category

In general, overall government expenditures are expected to increase on average by 3.2% during the medium term.

Current expenditure as a share of GDP in 2020 is expected to be 21.8% in GDP, approximately at the same level with that of 2019. This share is expected to be similar throughout 2021 and 2022 at 21.2% and 20.7% respectively. Capital expenditure is planned to be similar in the 2019 budget proposal in relation to the overall budget expenditure as well as the expenditure for this category in the previous years. As a share of GDP, capital expenditure is expected to be 10.5% in the proposed budget of 2020.

It is worth mentioning that capital expenditure in these calculations have also included capital expenditure of strategic development nature, which are expected to be financed by International Financial Institutions, and from the liquidation of socially-owned enterprises. These expenditures, according to the legal provisions, are excluded from the calculation of the general deficit level according to the fiscal rule. However, the nature of these expenditures is undoubtedly directed towards capital expenditure for strategic development purposes.

Figure 14: Expenditure structure



Expenditure on wages and salaries: continues to hold a significant share of total expenditure. Expenditure for the category of Wages and Salaries for 2020 is expected to be Eur 654 million, an increase of about 5.5% in relation to the expenditure for wages and salaries in the budget of 2019. On the other hand, as a share of GDP this category is expected to remain approximately the same in the following years, similar with the 2019 budget at about 8.7%.

Subsidies and transfers: expenditure will continue to grow during 2020. The category of 'subsidies and transfers' is expected to reach the amount of Eur 632 million in 2020. The increase in expenditure for this category comes as a result of funding for on the Teachers Law and increasing the beneficiaries in other schemes. In relation to the budgeted value for 2019, the planned expenditure for this category is expected to be 5.4% higher, while in the coming years 2021 and 2022 we do not expect a significant increase but only slight adjustments within this category. Whereas, as a share of GDP, subsidies and transfers during 2020 is expected to reach the level of 8.4%. Expenditure in this category as a share of GDP is projected to fall in the following years (at 7.9% for 2021 and 7.6% for 2022).

Goods and Services: Expenditure for this category in 2020 is expected to increase compared to the previous year, reaching Eur 352 million, or 4.7% higher compared to the previous year's budget. This increase is mainly due to the reclassification of expenditure from the category of capital expenditures in goods and services. Expenditure for goods and services as a share of GDP in 2020 is projected to be about 4.7% and is projected to fall in the following years (to 4.5% for 2021 and 4.3% for 2022) as a result of plans for a more careful management of expenditure for this category both at the central and local level.

Capital Expenditure: In the proposed budget for 2020, expenditure for this category is planned to increase slightly by about 0.6% in relation to the 2019 budget. Capital expenditure as a share of GDP is expected to be at 10.5% in 2020 and it is projected to maintain similar levels in the following years (about 10%). An important part of capital investment will be the initiation of the Kijevë-Zahaq road project, the continuation of the M2 project for Mitrovica, and other investments to improve local infrastructure, sport infrastructure, educational infrastructure, and projects that will have a significant increase when compared to the previous year.

Reclassification of expenditures: Through the 2020 budget, in order to comply with international public accounting standards, there has been reclassification from capital expenditure to goods and service category for: a) maintenance of medical equipment; b) maintenance of memorial complexes; c) police equipment, etc.

Table 10 Expenditure based on Economic Categories, 2017- 2022

Description	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
2. TOTAL EXPENDITURE	1,759	1,956	2,378	2,467	2,544	2,616
2.1 RECURRENT EXPENDITURE	1,282	1,404	1,561	1,643	1,682	1,727
Wages and Salaries	550	593	620	654	691	730
Goods and Services	226	253	337	352	356	359
Subsidies and Transfers	506	559	600	632	630	634
2.2 CAPITAL EXPENDITURE	468	533	789	793	825	846
<i>Of which: Regular Budget</i>	468	450	515	544	574	639
Investment Clause	0	0	123	189	251	207
Liquidation Proceeds (PAK)	0	83.6	151	60	0	0
2.3 Net Lending	19	19	28	30	37	42

3.3.4. Fiscal impact assessment of some key structural reforms

Considering the fact that an economic assessment has been conducted on four structural reforms (within this ERP), the following table shows these reforms' costs. Most of the costs consist of capital expenditure with approximately 60% (all allocated for measure #1), followed by subsidies and transfers with 32% (for measures #1 and 19), and lastly wages and salaries

with 8% and goods and services with 2%. Most of the costs for these measures are planned for 2020 (over 43%), whereas for the following years the costs are lower (31% and 26% in 2021 and 2022, respectively).

Moreover, in the table below there is data regarding the financing of each measure. Approximately, 70% of these measures are financed from the budget and 30% through grants from donors. Based on this data, it can be noticed that the costs for implementing these measures are shared between the central government (which consists of the majority of the costs) and donors.

Table 11 Costing of some of the key structural reforms

Measures (in Eur)	Year			Total	Financing Sources	
	2020	2021	2022		Budget	Grants
Measure #1: Reducing Energy Consumption through Energy Efficiency Measures	55,691,000	36,303,000	30,000,960	121,994,960	66%	34%
Measure #9: Establishment and functioning of the Commercial Court	25,440	899,025	779,805	1,704,270	86%	14%
Measure # 11: Reducing the Informal Economy	299,000	263,640	7,760	570,400	98%	2%
Measure #19: Increased employment due to targeted training of unemployed	5,096,344	5,361,348	5,034,674	15,492,366	94%	0%

3.3.5. Expenditure Projections for Policy-Based Budget Sectors at Central Level

For the **Order, Law, and Public Security**¹⁷ sector, the 2020 budget foresees budget allocations in the amount of around Eur 219.5 million. This reflects 7.7% more financing compared to the 2019 budget. The additional budget is expected to enable additional support to reduce backlogs in this sector and create room for higher efficiency. Over the medium term, budget allocations for this sector, are projected to increase on average by 2.9% and reach amount of 222 million in 2022. Whereas, the budget for the **Defence**¹⁸ sector increased reaching the amount of 65.7 million, 12.0% increase compared to the previous year. Over the medium term, it is projected to reach amount of 74.2 million in 2022, or 8.1% increase on average.

The budget for the central **Health sector** consisting of Ministry of Health and University Hospital Services increased by 13.0% compared to the 2019 budget. The budget of 2020 envisages financing for health at central level for about Eur 182 million. Such increase incorporates higher allocations for essential pharmaceuticals and for capital expenditures. During the medium term, it is projected to increase on average by 3.1%.

Environmental Protection¹⁹ sector, is identified as a government priority. The government of Kosovo intends to slow the pace of deforestation in Kosovo and to start their regeneration. At the same time, reformation of the sustainable waste management system is expected in addition to improving the air quality monitoring. The budgetary organizations comprising the environment sector are: Ministry of Environment and Spatial Planning and Water Services Regulatory Authority, whose budget allocations are increased by 34.1% in 2020 compared to

¹⁷ Ministry of Internal Affairs, Ministry of Justice, Kosovo Intelligence Agency, Agency for Free Legal Aid, Ombudsperson Institution, Constitutional Court, Kosovo Prosecutorial, Kosovo Judicial Council

¹⁸ KSF

¹⁹ Ministry of Environment and Spatial Planning and Water Services Regulatory Authority

year 2019. Over the medium term, budget allocations for this sector are projected to decrease due to one capital project being transferred to the Ministry of Economic Development.

For institutions responsible for improving **Economic Affairs**²⁰, budget allocations in year 2020 are 7.6% lower than in the Budget of 2019, amounting to Eur 417.4 million. Such decrease is mainly due to lower budget allocations for the Ministry of Infrastructure as result of the completion of the highway construction. However, budget allocations are for the Ministry of Economic Development are higher by 37.3% in comparison to Budget 2019, which is mostly due to increase of capital expenditures (Construction of Water Supply System in the municipality of Ferizaj; Water Supply and Irrigation System; Project for Energy Efficiency and Renewable Energy, Digital Economy in Kosovo). During the medium term, budget for this sector is projected to increase on average by 6.3%. To promote Innovation and Development of Technology, as one of the country's top priorities, the proposed Budget for year 2020 envisages increase of budget allocation for this ministry by 16.2%.

Budget allocations for the **Education** sector consisting of the Ministry of Education, Public Universities, the Justice Academy, and the Academy of Sciences is projected to slightly decrease by 1.0% amounting to 109.7 million and a slight decrease it is projected also for the following years.

The government of the Republic of Kosovo is dedicated to improving **general public governance**²¹ in Kosovo, with the purpose to simplify legislation and establish a regulatory impact assessment system, including reduction of administrative burden for businesses. To achieve such priority, budget allocations for public services are increased by 14.2% compared to budget of year 2019. During the medium term budget for this sector it is projected to increase on average by 4.8%. For the Public Procurement Regulatory Commission which falls under this sector, the budget has increased by 7.9% compared to the 2019 budget. The budget allocation for the National Audit Office has decreased by 6.0%. Whereas, to ensure the proper functioning of state diplomatic service, there was an increase of 5.2% in the operating budget of the Ministry of Foreign Affairs. Overall this sector is expected to have an increase of 4.8% over the medium term.

Furthermore, to ensure that there is cohesion and social development, the budget foresees 1.8% increase in budget allocations for institutions the **Social Protection sector** consisting of Ministry of Labour and Social Welfare. This increase reach amount of 8.5 million in 2020. During the medium term, budget allocation are projected to increase on average by 1.3%.

3.4. Fiscal Structural Balance

Structural balance represents the fiscal balance of the government, corrected for the effects or fluctuations of the business cycle, which are not directly controlled by the government. Often it is argued that the overall fiscal balance does not provide a comprehensive view of the fiscal position because this position is also influenced to a considerable extent by the business cycles, which an economy goes through. During periods, when an economy experiences accelerating

²⁰ Ministry of Infrastructure, Ministry of Economic Development, Ministry of Trade and Industry, Privatization Agency of Kosovo, Regulatory Authority of Electronic and Postal Communications, Kosovo Competition Authority, Independent Commission on Mines and Minerals, Civil Aviation Authority, Railway Regulatory Authority, Air Navigation Services Agency, Energy Regulatory Office, Ministry of Innovation, Ministry of Regional Development

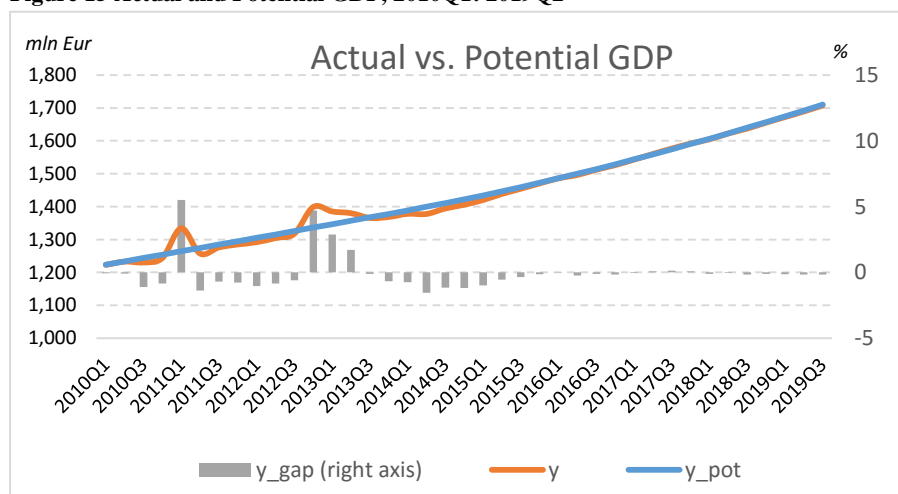
²¹ the Assembly of Kosovo, the Office of Presidency, the Office of Prime Minister, Ministry of Finance, Ministry of Public Administration, Ministry of Local Government Administration, Ministry of Regional Development, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Diaspora and Strategic Investments, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Election. Complaints and Appeals, Agency for Protection of Personal Data, National Audit Office, Central Election Commission, Independent Oversight Board Civil Service of Kosovo and Unpredictable Expenditures

economic growth, tax revenues tend to increase; while in the conditions of economic slowdown, tax revenues, especially those stemming from income and consumption, are reduced. These developments in fiscal indicators, which occur without any discretionary government intervention, help alleviate economic fluctuations and are therefore known as "automatic stabilisers". The structural fiscal balance (adjusted for business cycle) aims to measure the fiscal position "free" of these stabilisers, with the aim of better understanding the scale and intensity of discretionary fiscal policy.

In order to obtain the structural balance, it is important to isolate the cyclical component of the fiscal balance, which in turn depends on the size of the output gap and on the output elasticity of the budget. In the case when an economy is at its potential level (output gap is zero), this cycle component of fiscal balance will be zero and consequently the current fiscal balance represents at the same time the structural balance. Assessment of the structural balance presented in this section, should be interpreted with considerable caution, considering the limited availability of the GDP data. In this updated version of ERP, structural balance is estimated using quarterly data covering the period 2010Q1: 2019Q3 (in total 39 observations). Following the methodology established in last year's submission, structural balance is calculated in two steps.

The first step consists in calculating the output gap (expressed as the percentage deviation of actual GDP from its potential level) using the Hodrick Prescott filter²². Being aware of the

Figure 15 Actual and Potential GDP, 2010Q1: 2019Q2



difficulties in using this filter and the critiques regarding the methodology of estimating potential output, users and policy makers should be careful with the interpretations of structural balance. The output gap and the potential GDP, obtained by the application of the Hodrick- Prescott

filter²³, are presented on the graph 15. It is noted in the graph that on average, the economy seems to have been growing above its potential over years 2011- 2013 (around 3% higher than its potential level) and slightly in 2017 (0.3% higher than its potential level). Whereas, during the remaining years, the economy has been operating below its potential, especially in year 2014 (around 5% lower than its potential level), which coincides with the 6-month political stalemate that Kosovo went through during that year, with major negative consequences on the economy. However, these output gaps, either positive or negative, are quite small, especially

²² The smoothing parameter used when applying Hodrick Prescott filter is $\lambda= 480$, suggested by ECB (Bouthevillain et al. (ECB 2001), "Cyclically adjusted budget balance: An alternative approach")

²³ The Hodrick-Prescott filter is applied on Real GDP data, seasonally adjusted by Tramo Seats. For the purposes of calculating the fiscal structural balance, we have addressed such "end-point bias" by extending the time series of real GDP up to the last quarter of 2022, using forecasted values.

from 2016 onwards, which indicates that the economy of Kosovo has been performing very close to its potential level.

The second step entails computing the output 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 analysis²⁴. Usually, literature on structural budget balance suggests that the output elasticity of government revenues depends on the tax regime of the country, but usually it is close to 1. Whereas, the output elasticity of expenditures is often close to zero, with the exception of unemployment benefits, which have a high significant cyclical component but generally a small share of the total expenditures.

In the case of Kosovo, the output elasticity of each revenue category is presented in the table below. As results suggests, all elasticities are found to be considerably higher than one, suggesting that revenues increase more than proportionately in response to a rise in national income or output. There are a few possible explanations why tax revenues other than PIT (which is progressive) result to be highly elastic in Kosovo.

- First of all, there have been no adjustments/corrections of the tax revenue series for discretionary policy changes in estimating tax elasticities.
- In addition, for CIT (despite it not being legally progressive), it is possible that profits boost taxation in a way that diminishes the possibilities of firms to carry-forward or backwards losses.
- Lastly, distortions brought by the informal sector affect tax buoyancy and elasticity.

Table 12 The elasticity of tax revenues with respect to GDP²⁵

Revenue category	CIT	PIT	Indirect taxes	Other (direct + indirect) taxes	Property tax	Weighted average
Elasticity	1.8	2.8	1.7	-0.06	2.4	-
Average weight (% of tot. revenues)	5.4	8.6	84.0	0.5	1.5	1.0
Weighted elasticity	0.1	0.2	1.5	0.0	0.0	1.84

The output elasticity of total tax revenue is estimated as a weighted average of output elasticities of different revenue components, with weights assigned according to their share on total tax revenue. 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 independent from economic cycle fluctuations. Then, the structural component of the budget balance is calculated as the difference between structural revenues and structural expenditures, divided by potential GDP. Structural revenues are estimated from actual tax revenues, according to the ratio of potential output to actual output and the assumed output elasticity (calculated above)²⁶; whereas structural expenditures are the same as actual expenditures, given that their output elasticity is assumed zero.

As the aforementioned time series of tax revenues are not cleared of the one-off effects or the effects of improved tax administration efforts or other structural changes, which in turn, has

²⁴ 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.

²⁵ Differences in the elasticities presented here in comparison to those presented in the previous submission have come about as a result of the added observation points (until Q2 2019) and as a result of a different time series used for real GDP (with 2014 = 100 base year prices).

²⁶ $R^s = R \left(\frac{Y^p}{Y}\right)^{\varepsilon^s}$, where R^s represents structural revenue; R - actual revenue; Y - actual output; Y^p - potential output; and ε_s - output elasticity of revenue

caused the ‘inflating’ of their elasticity to GDP, the above mentioned exercised has been reiterated once more under the assumption that this elasticity is zero. The calculated fiscal structural balance, under this assumption, serves as a "benchmark" against which the current valuation can be compared.

As Table 12 shows, the effect of the economic cycle is evident over years 2011- 2013, when the output gap was positive. The effect of cycle over the years has led to a fiscal balance better than the balance that would result if the economy of Kosovo were to operate at its potential level. In the years when the economy has operated under the potential (when the production gap has been negative), the fiscal deficit has resulted to be higher than the deficit that would result in the conditions of a positive zero.

Table 13 Overall Fiscal Balance; Balance corrected for business cycle; cyclical component of bud. bal. and output gap

Year	Fiscal Balance (mln Eur)	Structural Balance (mln Eur) - estimated elasticities OLS	Structural Balance (mln Eur) - estimated elasticities around 1	Cyclical Components (mln Eur) - estimated elasticities OLS	Cyclical Components (mln Eur) - estimated elasticities around 1	Output Gap, %
2014	-147.0	-121.5	-131.1	-25.5	-15.9	-1.17
2015	-111.0	-99.0	-103.5	-12.0	-7.5	-0.51
2016	-83.0	-79.6	-80.9	-3.4	-2.1	-0.13
2017	-86.9	-88.6	-88.0	1.7	1.1	0.06
2018	-177.1	-174.1	-175.3	-3.0	-1.9	-0.10
2019 preliminary	-205.9	-200.0	-202.2	-5.9	-3.7	-0.19
2020 est.	-419.3	-415.0	-416.6	-4.3	-2.7	-0.13
2021 est.	-420.3	-422.3	-421.6	2.1	1.3	0.06
2022 est.	-376.2	-391.3	-385.6	15.0	9.4	0.42

3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

Kosovo has adopted a prudent legal framework to prevent unsustainable debt practices. The Law on Public Debt Nr. 03/L- 715, gives the Minister of Finance exclusive authorization to incur debt and negotiate conditions of international debt on behalf of Kosovo. Under the Constitution, every international agreement has to be ratified by a two-thirds majority in Parliament.

The Law on Public Debt includes several provisions that ensure fiscal stability, including a public debt ceiling of 40% of the GDP, as well as certain limitations on municipal borrowing. Contingent liabilities are accounted as public debt, as per this indicator. The Law on Public Debt mandates regular reporting to the Assembly (Article 15) through the preparation of a State Debt Program, which includes a medium term debt strategy, to be submitted to Government for approval and to the Assembly for information.

With regard to other restriction on public debt, 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% of forecasted GDP. Another amendment to the LPFMA was added in 2015 which allows the government to contract debt in excess of the 2% rule, given that the financing is provided by international financial institutions and is dedicated for capital projects.

The Ministry of Finance has issued regulations on international debt and domestic debt, which contribute to an efficient public debt management. Based on the Regulation on Issuance and

Administration of State Debt, State Guarantees and Municipal Debt, international loans are negotiated by an official team consisting of members from different departments: Debt Management Division (DMB), Legal Department, Minister's Cabinet, Department for Macroeconomic Policy and Financial Cooperation, Budget Department and relevant Budget Organizations. 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 Nr. 01-2014.

The issuance of Government Securities (domestic debt) is authorized by the Law on Public Debts and is regulated by the MoF-CBK Regulation no. 01-2014 on Government Primary and Secondary Market of Government Securities. The current practices of state debt management are in full compliance with the requirements arising from the primary and secondary legislation. Current debt management practices are in full compliance with the primary and secondary legislation.

In order to advance and align the legal infrastructure with European Union standards and international best practices, during 2018 primary and secondary legislation has undergone a review process, which is expected to be completed in the first half of 2020.

The table below shows debt levels and their debt to GDP level.

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

Description	2014	2015	2016	2017	2018	P.2019	P.2020	P.2021	P.2022
International Debt	326.4	371.2	373.4	422.2	416.4	408.9	477.4	515.68	537.88
Domestic Debt	256.5	377.8	478.6	574.3	676.62	791.9	891.6	1,021.6	1,151.6
Total Government Debt	582.9	749.0	852.0	996.5	1,093.0	1,200.8	1,369.0	1,537.3	1,689.5
State Guarantees	10.0	10.0	20.0	44.0	44.0	44.0	44.0	44.0	44.0
Debt/GDP	10.65%	13.07%	14.38%	16.62%	16.91%	17.48%	18.20%	19.36%	20.20%

3.5.1. *Contingent Liabilities*

At the end of 2018 the state guarantee portfolio was comprised from three state guarantees. In 2014 the Ministry of Finance issued the first guarantee in the amount of Eur 10 million, which guarantees DIFK for the credit line provided by the EBRD. Whereas, the second international state guarantee, was issued in 2016, to the local public enterprise Urban Traffic for the loan provided by the EBRD in the amount of Eur 10 million. Whereas during 2017 a third guarantee has been issued in the amount of Eur 24 million to guarantee the second credit line of DIFK. The table below shows state guarantee issuance from 2014:

Table 15 State Guarantees

	2016	2017	2018	P.2019	P.2020	P.2021	P.2022
State Guarantees	20	44	44	44	44	44	44
Guarantee for Credit Line of DIFK	10	10	10	10	10	10	10
Guarantee for Urban Traffic Pristina	10	10	10	10	10	10	10
Guarantee for Second Credit Line to DIFK	0	24	24	24	24	24	24
State Guarantee (% of GDP)	0.33	0.70	0.66	0.62	0.59	0.55	0.52

3.6. Sensitivity analysis and comparison with the previous programme

3.6.1. *Comparison with the previous programme*

Compared to ERP 2019, ERP 2020 projects a higher revenue collection for year 2020 by 1.1%, which is due both to higher expected tax revenues and higher non- tax revenues. Whereas, in

year 2021, slightly lower revenues are projected to be collected compared to the previous programme (by 0.8%), as result of lower tax revenues.

On the other hand, overall expenditures have been revised upwards by 1.8% and 2.3% for years 2020 and 2021, respectively. This is due to higher recurrent spending in both years compared to the previous years, while the capital expenditures for both years have been revised downwards, by around 2%.

Budget deficit is projected to remain within the 2% fiscal rule limit for years 2020 and 2021, while being slightly higher than the level projected in the previous programme. The bank balance as percentage of GDP is expected to reach 4.5% in 2020 (that is in line with current legislation that prohibits a lower than 4.5% bank balance in cases where inflows from PAK are used as a source of financing), followed by 3.1% of GDP in 2021 (bank balance rule not applicable – no PAK finances will be used). In line with the expected performance in the budget deficit, the bank balance as percentage of GDP, in the current version of ERP, is lower than the balance projected when preparing the previous year's ERP.

Lastly, some policy changes and developments that were not (fully) accounted for when preparing the budget projections in the previous year's ERP, but which were present in the forecasting process of this year's ERP relate to: *i*) the approval of the Law banning gambling in March 2019, which had a negative impact on excise collection during this year; *ii*) the imposition of the 100% tariff on Serbian and Bosnia& Herzegovina goods; and *iii*) the uncertainly associated with the early general government elections held in October 2019.

A more complete comparison with the previous program is presented in annex 1, table 10.

3.7. 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.

3.8. Sustainability of Public Finances

3.8.1. Debt Sustainability

Public debt as a share of GDP is within sustainable levels, but is on an upward trend, largely driven by IFI financed infrastructure projects. Nonetheless, the fiscal rules in place that limit public debt levels and deficit levels, provide a significant tool to preserve fiscal. The Law on Public Debt was introduced in 2010, which capped debt at 40% of GDP, with any external borrowing subject to ratification by the Parliament. The other fiscal rule was introduced in 2013; which limits the overall budget deficit to 2% of the projected GDP. In 2015, the fiscal rule was amended by introducing an investment clause, which includes financing for projects intended to fill infrastructural gaps and to meet development needs. In addition, there is also a wage rule in force from 2018 which caps the increase in the wage bill by the last available annual nominal GDP growth. So far, Kosovo, has had full compliance with these fiscal rules since 2015.

Public Debt as a share of GDP in the third quarter of 2019 reached 17.4%, of which 11.05% was domestic debt. The Republic of Kosovo has started issuing securities in January 2012. The market development has proved to be very successful in terms of investor interest and borrowing cost. Kosovo has started working towards extending the maturity of its domestic

debt in order to reduce rollover risks. Consequently, the maturity of government bonds has been extended from 1.8 years in 2017 to 2.3 years in 2018. It is also worth noting that for the first time in 2018 a 10-year bond with a nominal value of Eur 10.0 million was issued. Whereas, international debt, which accounts for 5.74% of GDP in the third quarter of 2019 is mainly composed on concessional loans from International Financial Institutions such as IBRD and IMF.

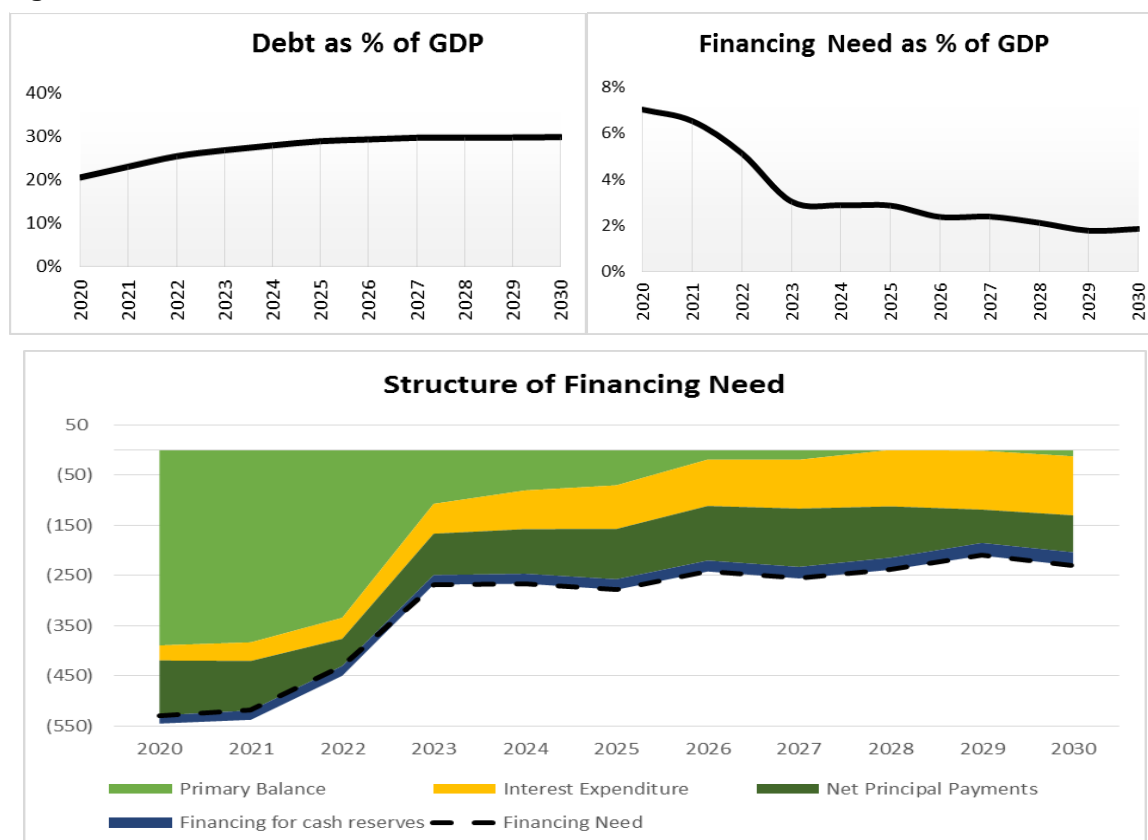
Key Assumptions of the Debt Sustainability Analysis

- The Debt Sustainability Analysis (DSA) is consistent with the macroeconomic baseline projections for the medium growth. Growth is projected to be at an average of 4.5%, slightly above the growth in 2013–19. The fiscal deficit, excluding IFI financed projects and projects financed by privatization proceeds, is projected to remain within the fiscal rule deficit ceiling throughout the period covered by the DSA.
- Public debt in the analysis does not include POE debt, but only government debt and guarantees. Possible future state guarantees such as a potential one for a power plant project are not included in the model.
- In the analysis period, it is assumed that short-term debt lowers as the government is increasing the maturity of its securities. The international debt from IFI's reflects the terms of the loan agreements for the projected period. Whereas the liquidation funds are expected to end in 2020.
- The rule of maintaining a 4.5% of GDP in bank balance is also taken into account as an obligation of the government.
- The structure of debt is split between commercial debt, concessionary debt, and government securities. The share of each type of debt is given based on several assumptions for four time periods 2020-2030, 2031-2041, 2042-2052, 2053-2063, with the share of commercial debt increasing over the years considering that basic infrastructure projects and development project needs financed by IFI will be gradually met. For the purposes of this analysis, we will focus on the period until 2030 as there are more detailed data on the amortization of project loans and the performance of securities for this period.

The baseline scenario shows that the public debt levels will be stable. The debt-to-GDP ratio shows an upward trend over the period, and is expected to reach about 30% of GDP in 2030. The share of interest expense in the overall balance sheet (deficit) structure remains low in the early years however, with increased financing needs (including above 2% deficit financing through the investment clause), increased debt levels, and higher domestic and foreign interest rates, interest expenditure will have a significant impact in the overall balance sheet. Whereas, the contribution of the primary balance (excluding interest expenses) to the overall financing need is significantly lower than the debt service costs. The need for financing remains below the 10% of GDP level, which is below the 10% GDP threshold for emerging economies within the DSA. The need for financing in 2020-2022 is 6.2% of GDP and drops to around 2.0% of GDP for 2023-2030. This is due to the lack of liquidation funds and the gradual reduction of investments through the investment clause, which are not limited by fiscal deficit rule. Nonetheless, a need for financing of 6.2% of GDP may be considered high for Kosovo based on lack of access to international financial

markets, however, it should be noted that this is largely due to the investment clause which is financed by IFIs.

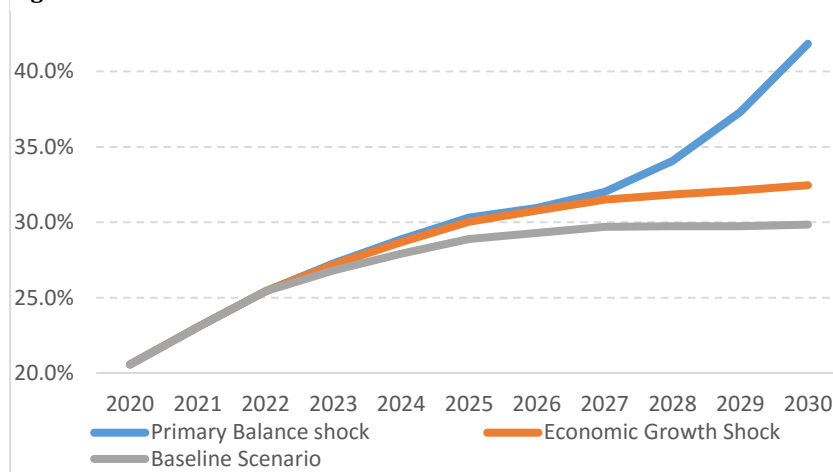
Figure 16 DSA Baseline Scenario



Alternative Scenarios

Shocks under different scenarios affect debt levels as a percentage of GDP, but the need for financing is expected to be at stable levels. This is mainly due to compliance with the fiscal rule for a deficit of 2%. A negative shock to **GDP growth** of 2 pp in the period 2023-2030 moves the debt-to-GDP ratio to 32.5% at the end of the period or 2.6 pp compared to the baseline scenario. However, the fiscal rule is assumed to be adhered to in this scenario and this serves as a buffer at the debt level. As a result, regular expenses are reduced in order to accommodate interest expenses and as a result the deficit does not exceed 2% of GDP. A shock to the **primary balance** by increasing spending by 1% of GDP over the period 2023-2030 would increase the debt-to-GDP ratio to 41% by the end of 2030 and the need for financing to 5.9% of GDP. in 2030. This scenario is built on the assumption that the fiscal rule is not adhered to during this period so the debt level does not remain stable and the debt level in 2030 is about 12 pp higher than in the baseline scenario.

Figure 17 Debt stock as % of GDP



The third scenario represents a 1 pp increase in **interest rates** on loans. However, the risks arising from the public debt interest are within the "tolerable limits" because they are regulated in the debt strategy. About 84% of the total debt is fixed rate, and the variable interest debt

portion of about 16% is relatively small. At the same time, if the fiscal rule is adhered to, the impact of a 1pp increase in interest rates on all types of borrowing on the overall debt stock as a ratio to GDP is negligible.

The overall debt stock does not change significantly as a result of rising interest rates mainly due to the fiscal rule. As interest rates rise in this scenario, interest payments also increase. In order for the increased interest expense to be accommodated within the fiscal rule, then in this scenario the primary balance expense falls. As debt in this scenario is more expensive, and has little fiscal space to accommodate the additional interest expense, therefore the overall debt stock does not undergo much change due to the fiscal deficit limitation rule.

In the end, Kosovo's public debt is expected to rise, but in the baseline scenario it will remain within stable levels. The current fiscal rules, especially the one that limits the deficit to 2% of GDP, serve as a debt stabilizer. So, in order for the debt to have longer-term sustainability, it is very important to comply with this fiscal rule in particular. Also, given that after the mid-term period, liquidation funding is not expected to be high, it is necessary to have more control over current expenditures in order to save room for capital expenditure.

4. STRUCTURAL REFORMS 2020-2022

4.1. Identification of key obstacles to competitiveness and inclusive growth

This section reports on developments with respect to the identified key growth constraints since last ERP submission. According to Kosovo Agency of Statistics' (KAS), GDP growth during 2018 was 3.8% in real terms and 4.9% in nominal terms.

EC assessment on Kosovo's Economy and World Bank Doing Business report, underline that Kosovo has improved the business environment and diversifying trade. World Bank ranks Kosovo among the Top 20 improvers in Doing Business 2020, and underlines made it easier to do business in the areas of dealing with construction permits, getting electricity, protecting minority investors and enforcing contracts. Also improved the reliability of power supply by investing heavily in grid infrastructure and implementing an automatic energy management system for outage monitoring and the restoration of service.”

However, in order to boost competitiveness and job creation there is a need to improve *contract enforcement/rule of law, informal economy and regulatory environment. Attracting more investment to reach higher growth* rates will be needed to improve the standard of living towards EU levels. In addition to this, the EC analysis of Kosovo's Economy identified the main challenges to competitiveness and inclusive growth.²⁷ The main challenges identified are:

Increasing activity and employment levels - Labour force participation continues to be low, despite the chronically high unemployment. **Kosovo's socioeconomic development is not advancing, since the labour market is not expanding.** Very low activity and employment levels and the marginal presence of women in the labour market are some of the most striking challenges, next to pervasive informal employment and poor job quality in the private sector.

Labour market performance lags considerably behind the region and the EU. 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. Remittances increase the level of the reservation wage and informality reduces the number of formal jobs. Lack of child-care facilities and institutional care for the elderly, combined with a lack of flexible work arrangements and cultural biases, discourages female labour force participation.

In addition to this, **the weak link between the education and labour market remains as important challenge**, in particular skills gap continues to remain a constraint to growth, and the overall quality of education and human capital is still an important challenge. A survey conducted at the end of 2015 confirmed earlier findings²⁸, where more than a third of firms reported having problems finding required skills when hiring technicians, professionals, clerical and service workers, and agricultural, construction and related craft workers. MCC Constraints Analysis estimated the rates of return on education in Kosovo and concluded that they are consistent with the hypothesis that low *quality of education* is a binding constraint to growth, which was also confirmed by results of the PISA 2015 study.

Tapping renewable and energy saving potentials and fully opening the energy market in infrastructure, insufficient and unreliable electricity supply is still a binding constraint,

²⁷ Commission Staff Working Document, Economic Reform Programme of Kosovo 2019-2021 Commission Assessment, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_kosovo.pdf

²⁸ Reported in A. Cojocar: Jobs Diagnostic Kosovo, WB Jobs Series Is. 5, 2017.

having in mind also barrier integration into regional electricity markets. The outdated power system essentially relies on two old inefficient and highly polluting lignite thermal power plants with total installed capacity of 1 560 MW, and covering around 92 % of electricity production. The duration and frequency of power outages have been reduced, but the reliability of the energy supply is still well below average for Europe and Central Asia. Kosovo ranks 90th in the world for ease of getting electricity (World Bank, 2020). Diversification of energy production is another challenge, in order to reach the new renewable energy targets for 2030, in line with the EU's targets and this will require substantial additional efforts from Kosovo.

Formalisation of the economy - *The widespread informal economy represents a major structural weakness.* A recent study²⁹ estimated the size of the informal (grey and black) economy in 2015 at 32% of GDP, which is considerably lower than 43% of GDP estimated for 2013 on a comparable methodology. The value of uncollected direct taxes was estimated at 107 million EUR, or 1.8% of GDP. Factors that contribute to informality seem rather to be institutional weaknesses in the updating and exchange of business information, the *burden inspections placed on formal companies and the large number of licenses and permits that businesses are faced with.*

Summary of reform priorities

The following section provides 20 priority structural reform measures covering the period 2020-2022. 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. In general, they derive from the main strategic documents, respectively National Development Strategy 2016-2021, National Program for Implementation of SAA, and relevant sector strategies of the country.

I. ENERGY AND TRANSPORT

1. Reducing Energy Consumption through Energy Efficiency Measures –aims at implementing the EE measures in public and private buildings and households, achieving energy saving targets, and increasing investment in projects through the EE fund.

2 Increasing diversity of energy sources – will tackle obstacles in the sectors of RES, gas and district heating, in order to balance the excess demand, resulting in a more sustainable energy mix and help meet emissions and renewable energy targets.

II. AGRICULTURE, INDUSTRY AND SERVICES

3. Structural changes in the agriculture sector – focusses on increasing productivity and agro-rural restructuring, through improved competitiveness, innovation and productivity.

4. Increasing competitiveness in the production industry – aims to improve industry development policy across the supply chain, assisting the processing industry, enhancing competitiveness and internationalizing SMEs.

5. Increasing Competitiveness in the Tourism and hospitality Sector - the purpose is to promote the development of competitiveness in the tourism sector.

6. Increase competitiveness in the sector of trade in services – the main goal is to improve the efficiency and competitiveness of tradable service activities and promote their importance.

²⁹Assessment of the Extent of Informal Economy in Kosovo, report by the EU-funded project Further Support to Kosovo Institutions in the Fight against Organized Crime, Corruption and Violent Extremism, 9 Nov. 2017.

III. BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY

7. Adoption of Evidence-Based Policies and Reduction of Administrative Burden – the aim is to improve the development of new evidence-driven policies and legislation as well as the simplification and harmonization of legislation regarding permits and licenses.

8. General Inspection Reform – in order to achieve two objectives: improving inter-institutional coordination of inspections and digitalization of the inspection process.

9. Establishment and functioning of the Commercial Court - the focus is to increase efficiency in the resolution of commercial disputes of foreign businesses and investors.

10. Reduce of informality in the real estate sector - contributes to the release of courts from formalization claims, and enables quick resolution of property rights formalization claims.

11: Reducing the Informal Economy - through improving the rule of law and economic governance, with the aim of increasing tax revenues and formalizing employment.

IV. RESEARCH, DEVELOPMENT AND INNOVATION AND DIGITAL ECONOMY

12 Improving the Environment for Innovation and Entrepreneurship - to stimulate the development of innovation eco-system and excellence in research, strengthen the skills of entrepreneurship, especially for SMEs and start-ups.

13. Extension of relevant ICT networks and services infrastructure for socio-economic development – by extending broadband infrastructure to uncovered areas, strengthening human capital and supporting digital businesses, as well as digitizing other businesses.

V. TRADE RELATED REFORMS

14. Trade facilitation through reducing the cost of trading transactions –is expected to reduce the time and cost of cross border transactions, in order to improve the conditions for entering into market for Kosovo exports in selected markets(targeted).

15. Further development of quality infrastructure and empowerment of the role of market surveillance authorities – aiming to enhance the safety and quality of construction products, services offered in the domestic market and external market; elimination of technical barriers to trade and effective market surveillance by market surveillance authorities.

VI. EDUCATION AND SKILLS

Measure #16: Developing early childhood education - to increase enrolment rate at early childhood education, including implementation of a comprehensive approach for children from vulnerable groups.

17: Implementation of the new curriculum framework in the VET system - aims at increasing the compatibility of VET with labour market needs through adoption of the core curriculum; revising funding formula; and piloting new curriculum by VET institutions.

Measure #18: Enhancement and quality assurance in higher education– aims to strengthen mechanisms for quality enhancement provided by HEIs, including taking steps to initiate profilisation as well as redesigning funding formula based on performance and quality.

VII. EMPLOYMENT AND LABOR MARKET

Measure #19: Improving and expanding public employment services and increasing the employability of long-term unemployed, – aims to increase the employability of vulnerable groups, in particular youth, women, people in poverty and especially those in rural areas.

VII. SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES

Measure #20: Improving social services and empowering excluded groups - the aim is to increase the level of poverty coverage by social assistance scheme; increase the number of individuals employed in social enterprises

4.2. Analysis by area and structural reform priorities

4.2.1. Reform in energy and transport markets

a. Analysis of the main obstacles: The current energy supply is still heavily based on fossil fuel, namely 95.8% of electricity is generated from coal, 4.2% from RES with 3.8% from hydro power plants, 0.4% from wind and less than 0.1% from solar. In regard to heating demand, only 3-5 % is covered by district heating, while the rest is covered mainly by biomass-firewood, electricity and oil/diesel. In 2018 the electricity consumption was 4017 GWH, out of which 659.2 GWH or 16% of the total demand was imported and 671.5 GWh was exported. Kosova e Re Power Plant (KRPP) as the single largest investment in the sector is in the final stages of implementation which aims to ensure sustainable and reliable power supply. Studies indicate that KRPP is the least levelized-cost option available and although the replacement of old Kosovo A with KRPP will result in a general increase electricity prices, these will remain affordable for the Kosovar citizens. For this reason, an electricity generation tariff threshold was set out within the Project's Power Purchase Agreement.

To become a resource efficient economy, **investments planned** on the **rehabilitation of the district heating system**, as a follow up investment on Co-generation Project which intend to improve EE measures. Kosovo also is developing the integrated National Energy and Climate Plan (NECP) which intends to address EE, RES, emission reduction, and interconnections and is expected to be submitted to the Energy Community Secretariat by 2021. It is critical to note that the ongoing dispute with Serbia has exacerbated energy sector problems in regards to liberalisation of market and completion of regional electricity market. The Transmission System Operator (TSO) does not have control over cross-border electricity flows as a result of non-implementation of the Energy Agreement between Kosovo and Serbia.

Regarding transportation, roads represent more than 90% of the transport infrastructure in length and 98% or 2105.5 km, in terms of providing services. Kosovo has a “high density of road transport”, considering projects that were finished in 2019 in the field of transport, (highway from Pristina to border with North Macedonia) and those which will be finished by 2020 (highway from Pristina to Gjilan), the state of the road transport will be significantly improved and will have an impact on economic development.

Kosovo Railways extend throughout the entire territory, with a length of 335 km of open railway line, with a length of 105 km at stations and 103 km of industrial lines. Railway Route 10 is being upgraded to provide greater safety and services. The latter belongs to the comprehensive network of SEETO and connects Kosovo with Serbia and North Macedonia as well as the Railway Line 7 (Fushë Kosovë - Pristina - Podujevë) which links Kosovo with Serbia.

Regarding air transport, Kosovo has one International Airport "Adem Jashari", which is also part of SEETO's comprehensive network. It should be emphasized that Kosovo does not have a separate law on transportation of goods. The development of air transport is based on the Agreement on use of the European Common Space.

Structural obstacles: Main structural obstacles in the energy sector are: (i) Out-dated Power Plants (construction of "Kosova e Re" has been on hold due to political situation); (ii) Low diversity of energy sources; (iii) The unauthorized use of electricity in distribution system; (iv) Technical losses in the electricity distribution system; (iv) Inefficient use of energy, particularly in the residential sector. In Transport main structural obstacles are: (i) Inadequate maintenance of existing roads; (ii) Poor condition of railway lines; (iii) Lack of railway rolling stock; (iv) Lack of a functional railway in the north between Kosovo and Serbia due to political barriers.

Reform Measure #1: Reducing Energy Consumption through Energy Efficiency Measures

1. Description of measure: The main objectives of this measure are: implementation of EE measures in public and private service sector and households, achieving energy saving targets, and increasing investment in projects through the EE fund. The measure is the continuation of the previous ERP and is based on the National EE Action Plan, NDS and Energy Strategy. The measure addresses also the third challenge of the Commission assessment that has to do with tapping renewable and energy saving potentials.

During 2019 the EE Fund has been created and the managing team selected. 25 EE measures have been implemented in public buildings. Regarding installation of thermostatic valves for 3000 households, 600 houses and 5 apartment buildings through Reliable Energy Landscape Project (RELP) in Prishtina – procurement procedure for implanting company have been finalised in October, and the implementation has already started. 28 women have received scholarships Procedures for construction of central heating in the municipality of Gjakova are finalised, and the construction will begin late this year or beginning of the next year.

a. Activities planned in 2020: 1) Implement EE measures in 50 public buildings (MED, KEEF); 2) Implement EE measures in households through RELP in 1200 homes, and 10 multi-storey buildings (MFK); 3) Installing meters for measuring heat consumption and thermostatic valves in 4500 households in Prishtina (MFK); 4) Grants allocation for EE Measures for Women's Businesses within RELP (MFK); 5) Implement capital investment plan for strengthening, and reduce technical and commercial losses (KEDS); 6) Implement EE measures in 12 public buildings in 4 municipalities (MED).

b. Activities planned in 2021: 1) Implement EE measures in 15 public buildings (MED, KEEF); 2) Implement EE measures in households within RELP in 1200 homes, and in 10 multi-storey buildings and installing meters for measuring heat consumption and thermostatic valves for about 4500 households in Prishtina (MFK); 4) Grants allocation for EE measures for Women Businesses within RELP (MFK); 5) Implement capital investment plan for strengthening, network and reduce technical and commercial losses. (KEDS).

c. Activities planned in 2022: 1) Implement capital investment plan for strengthening, network expansion and reduce technical and commercial losses (KEDS); 3) Completion of the feasibility study and cost-benefit analysis for the construction of central heating districts (MED).

2. Results Indicators:

Indicator	Baseline 2018	Intermediate target 2020	Target 2022
1. Electricity consumption in the household sector	36.1%		30%
2. Reduced technical and commercial losses in the distribution grid KEDS.	22.6%	17.60	15.10%
3. MWh saved from energy efficiency measures in households	0		70,000 – 100,000 MWh

3. Expected impact on competitiveness: There is a large potential and opportunity for EE measures by electricity consumers, estimated to reach up to 40% in households and 35% industrial and commercial consumers. Implementation of EE measures will contribute to reduction of consumption and cost of electricity that will boost private sector investment and help businesses. Finally, reduction of technical losses will help reduce the total cost of energy.

4. Estimated cost of the activities and the source of financing: The total expected implementation cost is expected to be Eur131,792,357. In 2020, Eur63,078,650.00 are expected to be allocated, Eur38,712,747 in 2021 and Eur30,000,960 in 2022. From this amount, KEDS plans to invest Eur 36,291,000 in 2020, Eur 24,603,000 in 2021 and Eur 20,960,000 in 2022. MCC plans to allocate Eur 11,900,000 in 2020 Eur 11,700,000 in 2021. Eur7,500,000 will be given by German Government (KfW loan) and EU grant in 2020 for implementing EE measures in 12 public buildings and Eur 6,657,000 from the WB for 30 buildings in 2020 and 15 in 2021, whereas Eur 3,140,000 will be provided from state budget for implementation of EE measures in 20 public schools buildings. Eur 10,000,000 will be invested in 2022, as an EU grant and loan from the EIB for the completion of the feasibility study and cost-benefit analysis for the construction of central heating.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: The implementation of EE projects creates opportunities for job creation through manufacturing and construction enterprises. Furthermore, the activity “Grant allocation for efficiency measures for women's business” has already contributed by providing scholarships to 28 women and internships to 200 women, increasing their participation in the labour market, and contributing in the reduction of poverty and women empowerment in general.

6. Expected impact on the environment: Switching from existing fuel sources for heating to gas and cogeneration will significantly reduce the emission of CO₂, positively affecting the environment.

7. Potential risks:

Risk	Probability	Planned mitigating action
Lack of timely coordination between local and central Government for implementation of the activity.	Medium	Lower the risk through the methodological principles applied in the formulation process

Insufficient professional capacities of selected implementing partners	Medium	Address the risk through comprehensive capacity building elements and support expertise.
--	--------	--

Reform Measure #2: Increasing diversity of energy sources

1. Description of measure: This measure tackles the obstacles in sectors of RES, gas and district heating and regional integration of energy markets. Therefore, by opening the energy market and applying competitive bidding/auctions legal and policy frameworks on this sector, Kosovo will promote the EC policy framework, namely promoting the investments on RES sector but also phase out of FIT as per EC recommendations. The main objectives of this measure are: development of new energy generation capacities, improvement of energy security and liberalization of the market. It is a continuation measure from last year with slight adjustments, and is based on in the Energy Strategy.

With regards to new capacities, in 2019, three (3) hydro power plants with a total capacity of 18.7 MW have been installed, whereas in terms of solar energy, one (1) generator with photovoltaic panels is operating at a total capacity of 0.4 MW, and another one with a capacity of 3 MW is planned to be installed by end of 2019. In order to address the problem of long-term security of energy supply, the Energy Strategy, envisaged a capacity of 1436 MW in 2025 out of which 450 MW are from renewable sources. This production capacity is foreseen to produce about 7703 GWh of electricity annually, and out of this 934 GWh or 12.1% comes from RES.

a. Activities planned in 2020: 1) Amending secondary legislation on support for RES projects by applying competitive bidding/auctions (ERO); 2) Reform of regulatory framework supporting electric power generation by self-consumption generators (ERO); 3) Implement four new projects from small hydro power plants with total installed capacity of 15.60 MW (ERO); 4) Implement three new wind energy projects with total installed capacity of 105 MW (ERO); 5) Implementation of two new photovoltaic panel projects with a capacity of 3.4MW (ERO); 6) 200 professional internships for women in energy sector (MFK); 7) Preparation of the technical documentation for development of a master plan for natural gas distribution and supply (MED).

b. Activities planned in 2021: 1) Draft the Gas Master Plan for distribution and supply of natural gas (MED); 2) Implement eight new projects (SHPP) with installed capacity of 30.58MW(ERO); 3) Implement one new wind energy project with installed capacity of 11MW(MED); 4) Implement three photovoltaic panel projects with a capacity of 10 MW(MED);

c. Activities planned in 2022: 1) Implement three new projects from small hydro power plants with a total installed capacity of 11.3 MW(MED); 3) Implement three new photovoltaic panel projects with a capacity of 10 MW(MED);

2. Results Indicators:

Indicator	Baseline 2018	Midterm target	Target 2022
1. Energy Generated By Hydro Power Plants	311.5 GWH		360 GWh
2. Levels of CO2 emissions	6.68 tonne	2019 – 6.68	2022- 6.0

3. New Installed Capacity From RES	120,7 MW	2020 - 244,7MW	317.58MW
------------------------------------	----------	----------------	----------

3. Expected impact on competitiveness: The implementation of this measure increases the security of electricity supply as a condition for increasing competitiveness and it will make. The commercial losses to businesses disappear and help them competing with businesses in the region.

4. Estimated cost of the activities and the source of financing: The costs will be as follows: Eur 260,620,000 for the development of new renewable energy sources. Out of which, Eur 170,030,000 will be given in 2020; Eur 65,900,000 in 2021 and Eur 24,690,000 in 2022. Largest share of this cost, will be carried out by private investors. In 2020, Eur 2,000,000 will be provided as a grant by World Bank for amending the legislation on support for renewable energy projects. Additionally, for the preparation of the natural gas distribution master plan, Eur 750,000 are allocated in both 2020 and 2021.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: The internship program of 200 young women professionals is an encouragement in developing new professionals to enter the energy sector/market. Additionally, 28 scholarships have been granted to women for studies on the Energy Sector, with a special focus in RES. Further, the development of RES projects will have effects on increase of employment and annual investments by EUR 70 million.

6. Expected impact on the environment: The lower levels of CO2 emissions are expected to have a positive effect in air quality, in addition to increased share of electricity produced by RES. Furthermore, when it comes to the hydro power-plants (HPP), according to the legislation passed on the environment protection and licencing of HPP, the possible negative effects will diminish if the regulations are applied to the full extent.

7. Potential risks:

Risk	Probability	Mitigation Measures
Decrease of investments in the RES field	Low	Development of the legislation to promote the sector and to ease the path towards future investments
The low number of projects finished as per the projects timeline	Low	Coordination with the OSSH office in order to increase the completion rate.
Higher market prices accruing from RES, due to the wide domination of THPP on the energy market	High	The energy strategy will tackle this by creating a friendlier market environment for small investors

4.2.2. Agriculture, Industry and Services

a. Analysis of the main obstacles: Agricultural sector continues to remain a high priority for the Government of Kosovo. Based on recent data, following the support provided through grants for 2010-2018, a total of 8,066 jobs were generated. For the same period (2010-2018) greenhouse areas have been increased by 105.35 ha, 58 warehouses and 922 stables have been built. Areas with fruit trees were added for 856.5 ha, while with berry trees 179.3 ha. Despite the fact that the share of agriculture in GDP declined by 7.2 % it still remains significant. Among the agro-processing products exported during 2018, important share is occupied by: Beer (Eur 9.0 mil), Refreshments (Eur 8.8 mil) and Wine (Eur 4.7 mil), while among the agricultural products mainly includes: blackberries (3.5

mil Eur), potatoes (Eur 1.6 mil), other berries (Eur 1.0 mil), and processed soft blackberries (Eur 1.0 mil).

The share of the processing industry in GDP for 2018 is relatively similar to 2017, around 11%. The share of industrial sectors in total exports for 2018 is 64.45%, with a dominance of low value added products. For non-food industrial sectors, plastic sector accounts for 12.64%, metal sector 5.84%; while other sectors have declined in 2018, compared to 2017: wood 1.47% (2018) compared to 2017 (1.55%); textile 2018 2.26% (3.5% as it was in 2017) and leather 0.74%.

The **service** sector has emerged as the largest segment of the economy and its driving force, contributing to the country's added value for employment and trade. The service sector has grown to become the largest sector of the economy, accounting for about 72.63% of GDP in 2018 and increasing its contribution by 3.12% compared to 2017. Moreover, in 2018 the service sector accounted for about 85.3% of employment in Kosovo.

Despite the great potential for job creation Tourism is still at an early stage of development. In 2018 the number of local visitors has increased by 21.32% compared to 2017. The number of local visitors that spend the night has increased by 24.96%. Outbound visitors increased by 18.82%, while outbound visitors that spends the nights in Kosovo increased by 17.53% compared to 2017. Whereas, the number of employees in 2018 was about 24 thousand, which represents about 7% of employees in economic activities.

The main structural obstacles that hinder the development of the **agricultural** sector remain virtually unchanged and are related to an average of small size farms, land fragmentation, irrigation infrastructure, storage capacities, dysfunction and inefficiency of the land market, weak or dysfunctional links between the primary producer and processor and between the producer and market, and face lack of specialization.

Structural obstacles to industry development are related to lack of knowledge and innovation, insufficient financial reporting, lack of product quality, access to information, lack of networking, followed by low capacity in terms of output and labour without which is hard to cope with relatively large demand.

Kosovo is expanding its **low-productivity services** activities and there is insufficient articulation between the internal supply of business services and material production sectors. There is an urgent need to improve the collection of statistical data on service activities, both in terms of national accounts, by generating much more sector-level data. Despite positive developments of recent years, **the available tourist products and services remain limited**. The main constraints in this sector remain lack of adequate legal framework and proper institutional coordination, with little information on tourist sites, attractions and available products and services; lack of development of potential community tourism products and 'tour' operators in rural and mountain areas.

Reform Measure #3: Structural changes in agriculture sector

1. Description of measure: Further development of agriculture sector continues to be one of the key priorities for the upcoming period. In particular, special attention will be paid to the development of Agriculture and Rural Development Programme, aiming to increase production and productivity and agro-rural restructuring, development of the agro-food sector by improving the competitive skills, and innovations. This measure will consider the development of master plan for irrigation of agricultural land, expansion and rehabilitation of irrigation network in municipalities, enabling to present e better overview of the irrigation sector. Also, emphasis will be placed on expanding the areas with fruits,

vegetables and vineyards with the target of 25% expansion of surface areas in the period 2020-2022, as well as provision of services for education and training of farmers in certain fields.

a. Activities planned for 2020: 1) Development of the Agriculture and Rural Development Programme 2021-2027; 2) Expansion and rehabilitation of irrigation network in municipalities of Kosovo; 3) Development of master plan for irrigation of agricultural lands; 4) Expansion of surface areas planted with agricultural crops; 5) Provision of services for education and training of around 4000 farmers for technical know-how, farm management, grant application process; 6) Development of the software for the Agency for Agricultural Development (MAFRD for all);

b. Activities planned for 2021: 1) Implementation of new measures and direct payments deriving from ARDP 2021-2027; 2) Approval and implementation of master plan for irrigation of agricultural lands; 3) Expansion of surface areas planted with agricultural crops; 4) Provision of services for education and training of around 4000 farmers for technical know-how, farm management, grant application process (MAFRD for all);

c. Activities planned for 2022: 1) Implementation of measures and carrying out payments deriving from ARDP 2021-2027; 2) Implementation of master plan for irrigation of agricultural lands; 3) Expansion of surface areas planted with agricultural crops; 4) Provision of services for education and training of around 4000 farmers for technical know-how, farm management, grant application process (MAFRD for all);

2. Result indicators:

Indicator	Baseline 2018	Intermediate target 2021	Target 2022
1. Share of agricultural products export (1-24) in total export (1-98)	17.4%	20%	23%
2. Share of agricultural products import (1-24) in general import (1-98)	21.3%	19.5%	17.5%
3. Growth of areas with agricultural crops	20%	22%	25%

3. Expected impact on competitiveness: The measure will contribute to the increase of production in agriculture, with a particular focus on market added value on agricultural products. Measures to support the agricultural sector are expected to have a positive impact over the medium term, which will be evident through the substitution of agricultural imports and growth of exports. In addition, improving marketing of agricultural products and supporting value chain activities for a specific group of agricultural products (such as fruits) are expected to further contribute to increasing competitiveness in both the domestic and foreign markets. In terms of trade exchange we have the increasing trend of export of agricultural products in 2018 by 63.9 mil. Eur or 4.3% compared to 2017. Currently, Agriculture accounts for 7.2% of GDP in 2018, with 8,066 jobs being generated through support provided for the period 2009-2018.

4. Estimated cost of the activities and the source of financing: These measures will be implemented in the form of public-private partnership with co-financing of 60/40% and for some measures at 65/35% or 50/50 in favour of private sector. Overall cost for implementation of this measure is estimated to be around Eur 172,000,000, of which, Eur 55,197,022 are estimated for 2020; Eur 50,977,022 for 2021 and Eur 49,977,022 for 2022. The largest part of this cost is expected to be covered by Kosovo budget - subsidies and transfers scheme. Estimated costs are Eur 49,477,022 (2020), Eur 47,101,826 (2021) and Eur 49,977,022 (2022) as grants to farmers. Other activities will be covered by WB Loan

with total amount of Eur10,000,000 for 2020-2022 on implementation of irrigation of agriculture lands and around Eur 700,000 is expected EU Funded Project to draft the Agriculture and Rural Development Programme (2020). Under capital expenditures for 2020, Eur 400,000 are planned for the development of the software for Agricultural Development Agency.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: This measure has a positive impact on stimulating population for engagement in agricultural activities and land farming and cultivation, and introduction of priority and competitive special crops. It also aims to ensure the gender equality, including favouring during application assessment and generation of jobs is one of the priorities of the Government, which aim to reduce the poverty through revenues generated from agricultural activities; during 2009-2018, 16,150 new jobs have been generated through the provided support.

6. Expected impact on the environment: No information about the expected environmental impact of this measure.

7. Potential risks

Risk	Probability	Planned mitigation action
Delays in implementation.	Medium probability	Timely signature of programmes and timely publication of calls for applications.

Reform Measure #4: Increase of competitiveness in the manufacturing industry

1. Description of measure: This reform will help establishing a more coordinated policy for industry development, all over the supply chain, assisting the processing industry, increasing competitiveness and internationalization of SMEs. The measure will support SMEs to increase and shift to activities with higher added value and produce tradable goods for export, facilitate their access to finances, provide technical support in joining the industrial clusters, support in improving the quality standards and increasing the level of Foreign Direct Investments (FDIs) and diaspora investments. This is a rolled out measure from ERP 2019-2021 and is in line with the National Development Strategy.

a. Activities planned in 2020: 1) Development of Industrial Policy Strategy (MTI); 2) Studying the value chain for textile sector (MTI); 3) Facilitation of participation in at least 10 international fairs, where will participate 70 manufacturing companies with exporting potential (KIESA/MTI); 4) Subsidizing 15 SMEs for product certification and counselling for increasing the competitiveness and export (MTI); 5) Financial support for 20 SMEs for investments in new technologies (manufacturing-processing machineries) (KIESA/MTI); 6) Continuing the construction of physical infrastructure of three economic zones, namely business parks (Suhareka, Vitia and Vushtrria) (KIESA/MTI); 7) Organization of 4 investment fairs in European countries, aimed at supporting and increasing investments and export (KIESA/MTI).

b. Activities planned in 2021: 1) Study of the value chain for one industrial sector with the greatest potential of industrial development (MTI); 2) Facilitation of participation in at least 10 international fairs, where will participate 70 manufacturing companies with exporting potential (KIESA/MTI); 3) Subsidizing 15 SMEs for product certification and counselling for increasing the competitiveness and export (KIESA/MTI); 4) Financial support for 20 SMEs for investments in new technologies (manufacturing-processing

machineries) (KIESA/MTI) 5) Organization of 4 investments fairs aimed at supporting and increasing investments and export (KIESA/MTI).

2. Result indicators:

Indicator	Base line 2018	Intermediate indicator 2020	Target 2021
Share of processing industry in total GDP (%)	11.0 8%	12%	13%
Number of companies supported for certification of products for EU market	4	40	N/A

3. Expected impact on competitiveness: Implementation of the industrial policy measures will support the creation of innovative products with added value by using modern technology advantages, and opportunities for cooperation of local companies with regional and EU partners. Investments in economic zones, new technologies and modernization of industry will increase the quality of products, competitiveness of companies, thus creating opportunities for improving the competitiveness in economy. Participation in international fairs will provide enterprises with the opportunity to be part of the global market and increase the export potentials.

4. Estimated cost of the activities and the source of financing: The budget planned for 2 years amounts to Eur 4,138,890. Estimated cost amounts to Eur 2,993,890 for 2020 and Eur 1,205,000 for 2021. Out of this budget, Eur 1,700,000 are dedicated for the construction of physical infrastructure of three economic zones. Eur 1,150,000 are planned for each year 2020 and 2021, to support SMEs on product certification and participation on the international fairs.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Positive effects on increasing employment in targeted industrial sectors are expected. As a result of the implementation of this measure, employment opportunities will be created for 200 persons on annual basis and ensuring gender equality.

6. Expected impact on the environment: Investment in economic zones is expected to have an impact on environment with the works for the construction of infrastructure, which needs to obtain necessary environment impact assessment. Also, the support provided to SMEs for investments in modern technology will have a positive impact on environment.

7. Potential risks

Risk	Probability	Planned mitigating action
1. Businesses not aware for opportunities to be supported by government institutions	Medium	Informative meetings for businesses, organization of workshops, information through electronic portals;
2. Lack of coordination and communication with all relevant stakeholders	Medium	Regular meetings of the Industrial Policy Development Forum (IPDF) and of focus groups in the local level;
3. SMEs have no experience on export	Medium	Support provided on product certification and counselling for increasing export;

Reform Measure #5: Increase of competitiveness in the tourism and hospitality sector

1. Description of measure: The main purpose is to promote development and competitiveness of the tourism sector in order to increase economic value of tourism and increase employment. Activities to be undertaken under this measure have a direct impact on the increase of tourism offer by promoting the development of products to be ready for tourism market and promoting the tourism products, and at the same time improving the legal infrastructure according to EU practices and creating the legal basis for operating tourism businesses. This measure continues from the ERP 2019 and is indirectly related to NDS, subsidies for rural tourism through Agriculture and Rural Development Programme, and National Cultural Heritage Strategy.

a. Activities planned in 2020: 1) Development of Tourism Strategy; (MTI) 2) Approval of the Draft Law on Tourism (GoK/Assembly); 3) Development of secondary legislation deriving from the Law on Tourism (Administrative Instruction on Tourist Guides, Administrative Instruction on the Register of Tourist Agencies Data, Administrative Instruction on the Programme and Procedures of Licensing Independent Experts and Classification of Accommodating Structures) (MTI); 4) Analysis of potentials for tourism development in regions and various zones in Kosovo; (MTI) 5) Digitalization of tourism destinations and inclusion in the tourism web portal (MTI); 6) Supporting businesses in developing the rural tourism and agro-tourism (MAFRD).

b. Activities planned in 2021: 1) Drafting of 2 administrative instructions deriving from the Law on Tourism (MTI); 2) Certification of tourist guides (MTI); 3) Development of tourism products in cultural heritage zones (Lipjan, Gracanica, Prizren) for activities, such as: traditional craft, horticulture, rural transport and diverse tourist products, in particular for those products in danger of disappearing (MTI/MCYS); 4) Analysis and researching of tourism markets for access to and promotion of tourism offer of Kosovo in international markets (MTI).

2. Results indicators:

Indicator	Baseline 2018	Intermediate indicator 2020	Target 2022
Number of foreign nationals who have entered in Kosovo ³⁰	4,579,002	4,807,952	5,300,767
Contribution of tourism in GDP of the country	1.3%		2.00 %

3. Expected impact on competitiveness: New law on tourism will govern the legal infrastructure in recognizing the occupation of tourist guides, collection of accommodation tax, regulation of Tourist Agencies operation and promoting the tourism at national level. Increase of the number of new tourism products will have an impact on expanding the tourism offer, which has a direct impact on the increase of tourism services consumption.

4. Estimated cost of the activities and the source of financing: Implementation of this measure for the period 2020-2021 is estimated to amount to Eur 818, 890. From this amount, Eur 578,890 will be allocated in 2020. The largest share of the 2020 Budget, are foreseen under MARD, for supporting businesses in developing the rural tourism and agro-tourism from the budget of Kosovo, whereas in 2021, around Eur 220,000 are foreseen to be covered from IPA Project that will support the tourism development through cultural heritage.

³⁰ Source of information: KAS/Border Police

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: By the end of 2022, the number of employees in the tourism sector will increase for around 5%. Share of women employed in the field of tourism is intended to be increased for 20% from 2,700 in 2018. Share of tourism in GDP is expected to increase to 2%.

6. Expected impact on the environment: Tourism development, in particular in protected areas, may result in the increased pollution, waste, loss of natural habitat and affected species that are disappearing. These environmental effects may gradually damage tourism sources on which the tourism depends. Therefore, this measure requires a greater inter-institutional (inter-ministerial and municipal) cooperation in order for tourism development to be sustainable.

7. Potential risks:

Risk	Probability	Planned facilitating action
1. Insufficient institutional human capacities	High	Department of Tourism is being functionalized; staff number of this Department is expected to increase
2. Insufficient cooperation with municipalities	Low	Intensification of meetings with municipalities with higher potential for tourism

Reform Measure #6: Increase of competitiveness in the sector of trade in services

1. Description of measure: This is a new measure in ERP, which aims to improve the effectiveness and competitiveness of tradable services activities. Also, it aims to increase overall levels of productivity and competitiveness of Kosovo economy and increase of service export. Kosovo has already assumed obligations at the regional and global level through Additional Protocol 6 (CEFTA) and SAA. The development of modern and efficient services is foreseen in NDS, Government Programme and National Programme for Implementation of SAA.

a. Activities planned in 2020: 1) Analysis of all strategies related to services sectors to identify horizontal issues and gaps to be addressed for further development of activities of trade in services (MTI); 2) Assessment of priority of competitiveness on trade in services (MTI); 3) Establishment of the National Committee for Trade in Services (MTI); 4) Finalization of negotiations for mutual recognition of professional qualifications between CEFTA member states (MTI); 5) Ratification of the CEFTA Additional Protocol, AP6, for trade in services (MTI); 6) Establishment of contact point on services within CEFTA. 7) Development of a Concept Document on e-Commerce (MTI);

b. Activities planned in 2021: 1) Development and approval of the Law on e-Commerce (MTI); 2) Identification of barriers in trade in services and development of the action plan for elimination of these barriers under AP6 (MTI); 3) Analysis of local regulations to be aligned under AP6 (MTI); 4) Development of the action plan to support the export of services (MTI);

c. Activities planned in 2022: 1) Addressing the integrated agenda and assessment of the level of restrictive measures that affect the trade in services using World Bank and OECD methodologies under AP6 (Services Trade Restrictiveness Index) (MTI); 2) Negotiations between CEFTA member states for further liberalization of trade in services (MTI); 3) Liberalization of services with commercial partners (United Kingdom, Turkey) (MTI); 4) Supporting the services export according to the activities planned in the action plan (MTI);

2. Result indicators:

Indicator	Baseline 2018	Target 2022
Increase of the contribution of trade in services in GDP	5%	7.5%
Increase of production in activities of high productivity services (increase of productivity of the labour force in professional services)	Eur 12,000	Eur 15,600
Level of increase of service export	Eur 1.4 billion	Eur 1.7 billion

3. Expected impact on competitiveness: Implementation of the plan for promotion of exports and orientation of favouring policies in the field of services, such as facilitation of access to finances especially for “start-ups” in the field of professional services will have an impact on the increase of competitiveness of the sector in general and in particular trade in professional services, opening of new jobs and increasing FDI in high productivity services.

4. Estimated cost of the activities and the source of financing: Amount of the budget planned for these activities for three years totals to Eur 85,000. For 2020, cost of measures is estimated to be Eur 37,000, out of which Eur 17,000 will be funded from the Kosovo Budget and the other part from EU Funds. For 2021, the cost is assessed to be Eur 14,000 and Eur 34,000 for 2022.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Since many service activities depend on women employment; further development of services will contribute to the increase of the level of share of women in labour force. In 2018, 85.3% of employees in Kosovo were employed in the service sector. This shows a 4% increase compared to 2017, where services employed 81.3% of labour force (source: Brief on Trade in Services 2018). This trend of increase is expected to continue even during 2020-2022.

6. Expected impact on the environment: This measure is neutral to environment.

7. Potential risks:

Risk	Probability	Planned facilitating action
1. Coordination of public, central and local institutions in intervention for regulation of services	Medium	Establishment of the National Committee for Trade in Services
2. Delays in approving the legislation	High	Increase of coordinating cooperation with relevant bodies, respecting the hierarchy.
3. Political obstacles in relation to the membership to international organizations	High	Building lobbying platforms for membership to international mechanisms and addressing of obstacles to relevant local and international stakeholders.

4.2.3. Business environment and reduction of informal economy

a. Analysis of the main obstacles: The main obstacles in this area are related to operating a business in an unfavourable environment as a result of the presence of a high level of informal economy that hinders market competition and has an adverse impact on the state budget. Despite the progress made and ongoing reforms to reduce administrative barriers and improve of the legal framework, further reforms should be considered to boost competitiveness.

High level of informal economy, among other things manifests a negative effect on revenues, unfair competition and high levels of undeclared employment. Some studies and assessments have shown that the extent of informal economy in Kosovo is over 30% of GDP with significant losses for the main direct and indirect taxes. In this regard, based on risk analysis compiled by TAK, the most problematic sectors with the presence of informal economy are the construction sector, the services sector, especially in hotels, restaurants, trade and transport. It is worth noting that the possibility of money laundering from illegal activities remains high in the construction sector as a result of massive illegal constructions. The value of tax evasion has caused damage to the Kosovo budget which is estimated to be not less than EUR 8 million in the construction sector and around EUR 11 million in the trade sector.³¹

Despite efforts to combat informal employment, addressing this chronic problem is due to the following challenges: lack of public awareness of the negative effects in the short and long term; employers' perception of low identification risk and consequences of informal employment; limited effectiveness of the Labour Inspectorate due to the limited number of inspectors and poor working conditions; and, limited inter-institutional cooperation to prevent and reduce informal employment.

On business environment, ineffective dispute resolution mechanisms encourage businesses to operate in an illegal environment. The unclear mandates and jurisdiction of the Economics and the Administrative Department of the Basic Court of Prishtina force many businesses to fragment their cases by addressing different issues of the same case in different departments. This organization significantly delays the resolution of disputes and impedes the quality and consistency of decisions made by both departments. As a result, businesses need about 3 years to settle a litigation.

Large-scale informality in the land sector, exacerbated by informal property transactions, also impedes economic growth. Informal rights that cannot be registered in the Kosovo cadastre cannot be formally traded in Kosovo land market. As a result property cannot be used as a mortgage by the right holder to obtain the loan, nor can it be taxed on effective way for municipalities to generate the revenue required for infrastructure and development.

Structural obstacles: The business environment has improved but significant obstacles and challenges still remain present: unfair competition from the informal sector; slow and inconsistent implementation of the law in economic contexts; frequent, uncoordinated and costly inspections; poor coordination between public and private institutions, especially financial institutions, in the collection and sharing of enterprise financial information; the inability to realize the value of collateral due to shortcomings in the property rights system, the large-scale informality in the real estate sector translates into a mismatch between official cadastral records and de facto possession, thereby contributing to ownership and market uncertainty, poor enforcement of intellectual property law.

Reform Measure #7: Adoption of evidence-based policies and reduction of administrative burdens

1. Description of measure: This measure is a continuation of essential reforms and it aims to simplify i the legislation, reduction of administrative burden by reforming the permits and licences system and establishing the regulatory impact assessment system. All this will contribute to evidence based policy and legislation development, as well as simplifying and harmonizing the legislation, related to permits and licences, with standards set out in the Law No. 04/L-202 on Permit and License System. In this regard,

³¹National Strategy for Combating Informal Economy, Money Laundering and Terrorist Financing 2019-2023

the current system of developing the concept document and legislation for preparing policy proposals, namely new legal acts, will be strengthened. This measure continues from ERP 2019-2021 and is in line with NDS and amended Better Regulation Strategy 2.0.

a. Activities planned in 2020: 1) Approval of the Concept Document on Administrative Burdens that will include setting the relevant targets; (OPM); 2) Implement recommended option from the Concept Document on Administrative Burden Reduction; (OPM) 3) Development of capacities for Standard Cost Model (SCM) – Delivering training on SCM (at least 6 training sessions by the end of 2020); (OPM) 4) Functionalization of the database for Impact Assessment; (OPM) 5) Amendment and supplement of the Regulation No. 09/2011 of Rules and Procedures of Government to reflect Regulatory Impact Assessment tools and other elements; (OPM) 6) Upgrade of the Central Registry of Permits and Licences, and training of 52 responsible staff in LO-OPM and institutions issuing permits and licences on the use of the upgraded system; (OPM) 7) Amendment of legal and sublegal acts for the purpose of simplification, merging and reduction of licences and permits; (OPM) 8) Review of the Action Plan of the Better Regulation Strategy 2.0 for Kosovo 2017-2021 (OPM)

b. Activities planned in 2021: 1) Training on SCM delivered by certified trainers (at least 6 training sessions by the end of 2021); (OPM) 2) Implement recommended option from the Concept Document on Administrative Burden Reduction; (OPM) 3) Update of the Better Regulation Strategy (including the extension of the validity period in compliance with the duration of the administrative burden reduction programme and all related activities) (OPM)

2. Result indicators:

Indicator	Baseline	Target 2020	Target 2021
Capacity building of responsible officers in relation to SCM	0	0	120 officials trained
Reduction of permits and licences	480 permits and licences in 2014 (baseline year)	At least 10% of licences and permits for economic operators are simplified, merged and/or abolished against the 2014 baseline by 2020	

3. Expected impact on competitiveness: Quality of policies and legislation will be improved and unnecessary obstacles will be removed, including the simplification, merging and revocation of permits and licences. Establishment of the standard cost model will promote an understanding of impacts of new legislation and policies on businesses and citizens. SMEs Test will raise awareness of policy-makers and decision-makers on the special needs of businesses and in particular micro-enterprises, which dominate in the economic structure of Kosovo. Test of regulatory competitiveness will contribute to a more competitive business environment and improved business and regulatory profile in Kosovo compared to other regional countries.

4. Estimated cost of the activities and the source of financing: Impact on the budget will be Eur 520,000 for the two coming years (2020-2021). Eur 20.000 have been planned for 2020, to upgrade of the electronic system of the Central Registry of Permits and

Licences. Cost of implementation is covered by Kosovo Budget in form of grants provided as support from development partners, as well as in the form of expert support, at the amount of Eur 500,000 for the period 2020-2021.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Introduction of additional means for policy analysis focused on increasing competitiveness is accompanied with integration of gender impact assessment in the policy development process. This will contribute to orientation of the policy and legislation framework to gender equality policies and compliance with the gender equality agenda of Kosovo.

6. Expected impact on the environment: There is no impact on the environment

7. Potential risks

Risk	Probability	Planned facilitating action
1. Lack of professional capacities to implement the administrative burden reduction programme	Low	Organization of training sessions for building professional capacities through the technical assistance
2. Delays in legislation approval	Medium	Coordination of inter-institutional working groups established for drafting the legislation

Reform Measure #8: General Inspection Reform

1. Description of measure: The measure aims to reform the inspection system in order to achieve two objectives: improvement of inter-institutional coordination with regards to the inspection of business activities and digitalization of inspection process. This measure is also foreseen in the National Development Strategy 2016-2021. This is the third year (from ERP 2018-2020) since this measure has been included in ERP. During this year, the Law on Inspections has been drafted, completed all phases of public consultation and now is ready to be submitted to the Government for approval. In the absence of the effective Government, the law is expected to be submitted for approval in 2020. The Law aims to establish the necessary legal framework for implementation of inspection reforms by rationalising the number of inspection bodies in the state administration,

a. Activities planned in 2020: 1) Approval of the Law on Inspections; (MTI) 2) Starting of the process of the rationalisation of inspection bodies; 3) Amendment of sectorial legislation in order to enforce the inspection reform (MTI, OPM); 4) Establishment of the Central Inspection Office that coordinates inspections and adaptation of the relevant organisational structure (OPM);

b. Activities planned in 2021: 1) Amendment of the sectorial legislation in order to enforce the inspection reform (OPM); 2) Capacity building by training of inspectors and other relevant officers to prepare them for full implementation of the new concept of inspections (Central Inspection Office); 3) Continuation of rationalisation of inspection bodies; 4) Development and implementation of the electronic platform “e-Inspector” and provision of specialized electronic equipment to inspection bodies (Central Inspection Office);

c. Activities planned in 2022: 1) Capacity building by training of inspectors and other relevant officers to prepare them for the complete implementation of the new inspection concept (Central Inspection Office). 2) Continuation of rationalisation of inspection bodies; 3) Development and implementation of the electronic platform “e-Inspector” and

provision of specialized electronic equipment to the inspection bodies enabling them to connect between inspectors and exchange information/reports in real time (Central Inspection Office).

2. Result indicators:

Indicator	Baseline 2018	Intermediate indicator 2021	Target 2022
1. Number of inspection bodies	36	16	n/a
2. Average number of visits to businesses	22	20	16

3. Expected impact on competitiveness: This measure is expected to improve the competitiveness by facilitating the business environment, reducing supervising burden on businesses; a more effective control also reduces informality by favouring the business and quality and regulated production.

4. Estimated cost of the activities and the source of financing:

With regards to costs, in 2020 it is foreseen the establishment of the **Central Inspection Office**, which will be composed of 10 employees at the amount of Eur209,334. The planned costs for 2021 are at Eur 2,880,405. During 2021 and 2022 it is foreseen the development and implementation of the electronic platform “e-Inspector”. The cost of this activity is projected to be Eur 2,677,746 for the 2021 and Eur 971,576 in 2022. The activity is financed by WB Loan. Around Eur 230,000 are planned in goods and services for 2021 and 2022, dedicated mainly for training of inspectors.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: The proposed measure is expected to have impact the increase of formal employment. However, it improves the administrative effectiveness with regard to inspections and reduces the barrier of control exercised over the businesses.

6. Expected environmental impact: No relevant environmental impact

7. Potential risks:

Risk	Probability	Planned facilitating action
Lack of human capacities for implementation of new capacities	Medium	Appropriate training for capacity building

Reform Measure #9: Establishment and functionalization of the Commercial Court

1. Description of measure: This measure is focused on increasing the effectiveness in commercial disputes settlement by establishing the Commercial Court, as the only address to settle all commercial disputes of businesses and foreign investors. This is a two-level Commercial Court, and includes all competencies of the Department for Economic Matters and commercial matters under the Department for Commercial Matters. This reform is a new measure that follows the Measure #10 of ERP 2019-2021 (Increase Judicial Efficiency).

a. Activities planned in 2020: 1) Development and approval of the Draft Law on Commercial Court (MoJ); 2) Assessment of the impact that the establishment of Commercial Court will have on KJC secondary legislation, and identifying regulations that require follow-up amendment; 3) Amending the Regulation on Organization and Functioning of the Assembly of Presidents of Courts and Supervising Judges (KJC); 4)

Amending the Regulation on Internal Organization of Courts (KJC); 5) Amending the Regulation on Public Information Officers in Courts (KJC).

b. Activities planned in 2021: 1) Functionalization of Commercial Court and dismantling of the Department for Commercial Matters and Fiscal Division in the Department for Administrative Matters in the Basic Court of Prishtina (KJC); 2) Increase the number of judges with 9 additional judges and 20 professional associates in the Commercial Court (KJC); 3) Training of judges, professional associates and supporting staff of the Commercial Court in specific commercial fields that this court will handle (KJC&KJA); 4) Development of the internal system of the commercial court for case flow management; 5) Training of the administrative staff in case flow management (KJC); 6) Training of the supporting staff in collecting and analysing court data for the purpose of solving the backlog of cases, duration of court proceedings and rate of returned or amended decisions of the court of first instance by the court of second instance (KJC).

c. Activities planned in 2022: 1) Training of judges, professional associates and supporting staff of the Commercial Court in the specific commercial fields to be handled by this court (KJC); 2) Launching the awareness-raising campaigns for businesses, aimed at increasing the trust on the reformed court structure (MoJ/KJC).

2. Result indicators:

Indicator	Baseline 2018	Intermediate indicator 2020	Target 2022
1. Solving the backlog of cases.	10% reduction of the backlog and 100% solving of new cases/110% efficiency.	35% reduction of (cumulative) backlog and 100% solving of new cases/125% efficiency.	60% reduction of the (cumulative) backlog and 100% solving of new cases/125% efficiency.
2. Duration of dispute settlement	2 years	1.5 years	1 year
3. Rate of returned/amended decisions of the court of first instance by the court of second instance	20%	10%	10%

3. Expected impact on competitiveness: Creating a single, effective and specialized address for commercial dispute settlement contributes to the increase of legal certainty for dynamics of business activity, and as a result, economic growth of the country. Increase of legal certainty through efficient settlement of commercial disputes by this court serves as stimulation and reduction of the risk for expanding the existing businesses and impacts the increase of direct investments from foreign companies and Diaspora.

4. Estimated cost of the activities and the source of financing: Total implementation cost of the measure is estimated to be Eur 1,704,270. Out of this amount, Eur 25,440 is the cost estimated for 2020 and is expected to be funded from other grants. For 2021, the cost is estimated to be around Eur 900,000, out of which Eur 758,000 are expected to be funded from the Kosovo Budget. The funds from the Budget of Kosovo, are dedicated to salaries and other office supply related to the employment of new judges and employees as foreseen under Law on Commercial Court. Additionally, Eur 141,025 are planned from other grants, dedicated for training programs for judges, professional associates and

supporting staff. The cost estimated for 2022 is Eur 779,805, out of which Eur 701,600 are domestic funds and Eur 78,205 other grants.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Small and Medium-Sized Enterprises (SMEs) constitute 99% of enterprises in Kosovo. In case of dispute, slow court processes may endanger the jobs and family businesses. Foreseeable and effective procedures of conclusion and implementation of contracts determine survival and growth of a SME. Increase of legal certainty results in the increase of the interest for foreign investments. New investments provide dynamism to labour market and stimulate the increase of the level of women participation in the labour market.

6. Expected impact on the environment: No relevant environmental impact.

7. Potential risks:

Risk	Probability	Planned mitigation action
Delays in adopting draft laws	Medium	Delays in the adoption of laws by the Assembly may affect the timing of follow-up activities for the establishment of the Commercial Court. Election cycles can be unpredictable, which can affect the timing of the approval and implementation of a draft law for commercial court.

Reform measure #10: Reduce informality in the real estate sector

1. Description of measure: This measure proposes to use the efficient administrative procedures of the Kosovo Property Comparison and Verification Agency (KPCVA) as a quasi-judicial body to provide formal and legal recognition, to actual informal rights holders' property, so they can be registered in the cadastre. This reform contributes to the removal of the courts from formalization claims, and provides citizens with a quick solution to their property rights formalization claims. The overall objective of this measure is to transform the cadastre into a reliable database of property and property rights holders in Kosovo. This measure derives from reforms launched in ERP 2016 -2018, and is based on the Strategy on Property Rights and National Development Strategy.

a. Activities planned in 2020: 1) Amendment of the Law on Kosovo Property Comparison and Verification Agency (KPCVA); 2) Approval of the Draft Laws on Cadastre (MESP), Construction Land (MoJ) and Public Property (MoJ); 3) Draft regulations on the duties and responsibilities of the Secretariat of KPCVA and the Standing Committee on Addressing Formalization Requirements (KPCVA); 4) Functioning of the new KPCVA mandate (OPM, KPCVA); 5) Training of KPCVA Commissioners and support staff of its Secretariat (KPCVA);

b. Activities planned in 2021: 1) Training of KPCVA Commissioners and support staff of the Secretariat of KPCVA (KPCVA); 2) Adoption of administrative instruction that regulates and facilitates access to cadastral data for Kosovo citizens (MESP)

2. Results Indicators:

Indicators	Base 2018	Middle indicators 2020	Goal 2022
1.Duration of the process for recognizing informal property transactions	n/a	18 month	14 month

2. Updating the cadastral register with accurate information of the legal holders	50%	60%	70%
---	-----	-----	-----

3. Expected impact on competitiveness: Currently, it is estimated that there are over 350,000 properties not registered in Kosovo, worth several billion. Creating an effective property rights system creates legal certainty for investors and consequently increases investment opportunities, while granting for citizens more opportunities to use the property as collateral and therefore improving access to finance. Enhancing property rights also improves WB doing business indicators, including property registration and administration, and property dispute resolution.

4. Estimated cost of the activities and the source of financing: The total cost to implement this measure is estimated to be around Eur 83,400. Of this amount Eur 55,205 will be the impact for 2020, which is expected to be funded by other grants (USAID Project). For 2021, the cost is estimated to be around Eur 28,205, expected to be funded by other grants (USAID Project).

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Strengthening property rights contributes to reducing gender inequality. Widespread informality in the property sector when property is exchanged outside the formal system excludes women from the transactions over which they possess legitimate rights. By owning property, women become economically independent, using the property as collateral to obtain loans to start a new business that creates new jobs, or to receive subsidies for the effective use of agricultural land.

6. Expected impact on the environment: No relevant environmental impact.

7. Potential risks

Risk	Probability	Planned mitigation action
Inter-institutional cooperation and coordination	Low	The KPCVA has taken the necessary steps to establish working groups and increase its coordination role in this process.

Reform measure 11: Reducing the Informal Economy

1. Description of measure: In order to address one of the key structural challenges of country's economy, the Government adopted a comprehensive strategy to combat informal economy. This measure presents selected priorities of the strategy and focused on improving the rule of law data sharing across the government and economic governance in Kosovo, with the aim of increasing tax revenues and formalizing employment. The measure is in line with the new Strategy against the Informal Economy and the Prevention of Money Laundering and Terrorist Financing.

a. Activities planned in 2020: 1) Amendment of necessary legal framework, adopting bylaws to reduce the current transaction from Eur 500 to Eur 300 per business in cash (TAK Law for procedures) and the introduction of mandatory electronic payment (Labour Law) for: i) all wages and salaries of employees in all sectors; ii) employment, unemployment and social/health insurance payments for all residents of Kosovo; 2) Upgrading the current system for automatic updating of business economic activity classification through EDI according to international nomenclature (NACE rev.2) and exchange of this information from TAK to KBRA, and KAS; 3) Expansion of inspection activities in the sector of construction, accommodation and stock control of goods in the trade sector, as a result of the implementation of Specific Compliance Plans for sectors with high step of risk; 4) Intensification of inspection activities between TAK and Labour Inspectorate (MLSW) in order to identify and register of unregistered workers; 5)

Restructuring the Labour Inspectorate and hiring 20 additional labour inspectors; 6) Intensification of coordinated actions (controls/inspections) between KC and TAK on businesses that are categorized with high risk of tax evasion identified by joint group of KC and TAK inspectors, in areas such as trade, textile, mobile shops and gold.

b. Activities planned in 2021: 1) Expansion of inspection activities in the sector of construction, accommodation and stock control of goods in the trade sector, as a result of the implementation of Specific Completion Plans for high risk sectors; 2) Ex-post evaluation of implementation of activity 3 of 2019 year and drafting necessary corrective measures for next year's plan, amendments and implementation; 3) Expand the range of Risk Assessments by the FIU (Financial Intelligence Unit) by adding the Financial Sector Assessment.

c. Activities planned in 2022: 1) Establishment and operationalization of the Confiscated Asset Recovery Unit; 2) Creation of a confiscation fund; 3) Establishment of an inter-banking payment system with the purpose of stimulating payment by card and other forms of payment.

2. Results Indicators:

Indicators	Baseline 2018	Intermediate target 2020	Target 2022
1. % of tax revenues from narrowing of tax gap ³²	percentage increase of tax base for tax type and sector with high exposure to informal economy; not less than 2% as average of all tax types (VAT, PIT, CIT)	percentage increase of tax base for tax type and sector with high exposure to informal economy; not less than 2.5% as average of all tax types (VAT, PIT, CIT)	percentage increase of tax base for tax type and sector with high exposure to informal economy; not less than 2.5% as average of all tax types (VAT, PIT, CIT)
2. The rate of informal employment ³³	14%	12%	10%

3. Expected impact on competitiveness: Reducing the informal economy will improve the business environment in general, loyal competitiveness and thus enable the growth of sectors with competitive advantages. This measure would address this issue through increased taxable transactions as a result of the implementation of a more effective control mechanism and a better risk analysis, which is expected to be a year of reflected around 50 mil additional turnover and at least 1,000 formalized jobs.

4. Estimated cost of the activities and the source of financing: The total cost to implement this measure is Eur 1,296,650. The largest share of expenditures under 2020, include Wages and Salaries at the amount of Eur 294,000 for 30 new tax inspectors (6 months) and 20 labour inspectors. Additionally, Eur 187,500 are planned for purchasing office equipment and other necessary supply. The 2021 and 2022 total planned cost, accounts for full annual impact of wages for both categories of inspectors (Labour and Tax Inspectors). In addition to this, estimates for 2022 takes into account Wages and Salaries, expenditures for Goods and Services, for new staff expected to be employed under the Confiscated Assets Recovery Unit.

³² National Strategy of the Republic of Kosovo for the Prevention and Combating of Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes 2019 - 2023

³³ Ibid

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: The main impact on employment would be to improve formal employment levels in sectors with the highest level of informality, which would also increase workers' rights and easier access to finance, and would also have impact on economic development, budget growth, which could translate into increased well-being for even the poorest levels of population. The reduction of the informal economy will also have a significant impact on the increase of budget revenues through which public services are financed, thus increasing the welfare of the citizens of the country, effecting the inadequate provision of services. As a result, the rate of informal employment by 2021 is expected to drop to 12% from 16% estimated in 2018.

6. Expected impact on the environment: No relevant environmental impact.

7. Potential risks:

Risk	Probability	Planned mitigation action
1. The stagnation of inter-institutional cooperation	High	Intensify the exchange of data between various central and local level institutions in order to combat the informal economy.
2. Lack of consistency of law enforcement institutions in inter-institutional interaction.	High	Increasing the number of memorandums of cooperation between the Institutions by enabling interconnection of systems where information would be exchanged electronically.

4.2.4. Research, Development and Innovation and the Digital Economy

Analysis of major obstacles: The Kosovo's Development and Innovation Research System (RDI) continues to remain at very low levels of development. Regarding funding, there is a lack of sufficient budget allocation - according to the Law on Research and Scientific Activities, the Government should allocate 0.7% or Eur 14 million per year for science and innovation, but due to lack of funds the budget allocated in 2019 is Eur1,600,000 although this was a slight increase compared to previous years.

Legal framework on Innovation and Technology Knowledge Transfer is in place, defining clearly the bearers of scientific research. Support mechanisms are missing and effort to design should be strengthened. Concerning Kosovo's performance in the Horizon 2020 program, measures have been taken to improve performance through training and better connectivity with researchers, improvement of national PoC, exchange of best practices and consultations with other countries.

Support scheme for innovation and entrepreneurship commenced with implementation, including also contribution of development partners. During 2019 the National Strategy for Innovation and Entrepreneurship and concept paper on the Law on Innovation and Entrepreneurship was adopted and now is continuing work on drafting the I&E Law. Regarding the development of the RDI, it has established the following 4 Regional Centres for Innovation and Entrepreneurship (Prishtina, Ferizaj, Mitrovica, and Peja) and now is working to make them fully operational.

Digital Economy – fixed telecommunications networks are widespread in urban areas but not in all rural areas. Fixed line penetration is 3.5% compared to the EU average of 24 %. Mobile phone penetration is about 108% of the population and it is estimated that internet users via 3G and 4G networks are 106% of the population compared to 126% in the EU;

fixed-line internet penetration is estimated to be 110% of households compared to 87% in the EU. Investments in telecommunications infrastructure have declined since 2015, when they were close to 52 mil. In 2018 they were around 30 mil. Eur (close to 0.5% of Kosovo's total GDP). The overall use of ICT in the industry is still limited and many firms have lack of awareness about the competitive benefits. Despite the majority of households having access to the internet both via fixed and mobile broadband connections, 38.7 per cent of the country's population still has no access to any type of electronic computer device. The distribution of ICT infrastructure is relatively unbalanced, resulting in a lack of access to broadband infrastructure.

It is estimated that the ICT sector employs around 2000 employees, or less than 1% of the total number of employees compared to 3.7% at EU level. 571 businesses have registered ICTs as their primary activity, but only about 120 of them are ICT product based businesses, while others are hardware selling and servicing businesses.

Structural obstacles: The main obstacle is the lack of research and development (R&D) support legal framework and policies, fragmented activities; insufficient soft infrastructure (e.g. RDI experts/consultants) and solid infrastructure (e.g. laboratories, equipment). Failure to participate in Horizon 2020 programs-. Another obstacles is the lack of cooperation between private sector, public sector and higher education institutions; also lack of accurate and up-to-date information on the potential of innovation and entrepreneurship for developing innovative product and service projects. Regarding the digital economy, the main obstacle is the lack of an overall ecosystem to create opportunities for most innovative ideas not only in the ICT sector, but in all related areas and with Digital Technologies embodied and applied to all parts of life.

Lack of extension of broadband internet infrastructure adversely impacts companies' global productivity and competitiveness, as well as decreases opportunities for self-employment, distance learning, digital learning, and digital marketing.

Reform Measure 12: Improving the Environment for Innovation and Entrepreneurship

1. Description of the measure: This measure aims to stimulate and implement innovative ecosystem and research excellence ideas and projects, strengthen entrepreneurship skills, in particular for SMEs and start-up businesses, and increase student mobility. This will be achieved by providing adequate funding and infrastructure for developing these projects, strengthening and developing new skills, as well as initiating new instruments for dynamic governance in research and innovation.

Innovations in production, processing and services in the field of ICT will have the advantage on for subsidizing. The Government co-financing with GIZ is implementing the "Innovation Fund" project that has the same goal of supporting innovative businesses. MIE is also working to functionalize the Regional Innovation and Entrepreneurship Centres in Prishtina, Mitrovica and the Multi-functional Innovation Centre in Shtime, and it will start working on making the Prizren Innovation and Training Park fully operational. The activities of this measure are in line with the National Development Strategy, the Strategy for Innovation and Entrepreneurship.

a. Activities planned for 2020: 1) Drafting and adopting the Law on Innovation and Entrepreneurship and secondary legislation and AIs on Establishment and Functioning of Innovation Centres (MIE); 2) Drafting and approving AI on Establishment of mechanism for implementation of I&E Fund (MIE); 3) Direct financial support for innovative ideas, projects and activities for SMEs and Start Up businesses in ICT sector and priority sectors as well as spin-off schemes (MIE); 4) Study on smart cities application and development

of smart cities guidelines (MIE); 5) Direct financial support to mobility researchers in priority research areas as well as support to doctoral students for studies in the top 500 best-ranked universities according to the Shanghai list (MEST); 6) Finalization of the concept document for mapping research, science and innovation systems (MEST); 7) Direct financial support to businesses through voucher schemes (MEST);

b. Activities planned for 2021: 1) Direct financial support for innovative ideas, projects and activities for SMEs and Start UP businesses in the CIT sector and priority sectors and spin-off schemes (MIE); 2) Establishing Regional Innovation and Entrepreneurship Centres in Peja and Gjilan (MIE); 3) Drafting the program for development of Innovation and Training Park in Prizren (MIE); 4) Drafting Pilot Projects for smart cities in cooperation with Municipal Assemblies (MIE); 5) Preparing a joint program for the development of the Technology Park in Prizren; 6) Mapping of laboratory infrastructure for research and innovation (MEST); 7) Continuing the support for scientific and innovative projects, bilateral projects for movement schemes, short-term mobility of Kosovo scientists, capacity building (MEST); 8) Developing the Register of Researchers at national level (MEST).

c. Activities planned for 2022: 1) Direct financial support for innovative ideas, projects and activities for SMEs and Start Up businesses in the ICT sector and priority sectors as well as spin-off schemes (MIE); 2) Continuing to draft Pilot Projects for smart cities in collaboration with Municipal Assemblies (MIE); 3) Direct support to researchers through scientific and innovative projects, bilateral projects on mobility schemes, short-term mobility of Kosovo scientists, capacity building (MEST); 4) Preparing a report on research potential in Kosovo by merging laboratory infrastructure mapping and research performance evaluation (MEST).

2. Results Indicators:

Indicators	Baseline 2020	Midterm target 2021	Target 2021
Employment growth in MSMEs, funded by MIE, increase by%	Starts measuring by 2020	15%	25%

3. Expected impact on competitiveness: Schemes for funding projects and innovative ideas and Regional Innovation and Entrepreneurship Centres, seek to advance new technologies, products and services to local companies, developing human resources, increasing profitability and productivity of enterprises and at the same time increasing potential for export and attracting foreign investment. Implementation of this measure has impact on the development of workforce competencies, enhances product quality and efficiency of enterprises, promotes innovation, and creates employment and self-employment opportunities.

4. Estimated cost estimation of the activities and sources of funding

The total implementation cost is estimated to be Eur 25,833,000. For 2020 the cost is Eur 7,590,000, which will be largely funded by Kosovo Budget, Eur 590,000 at the amount of Eur 7,000,000 for direct financial support for innovative SME's, and the rest by other grants. For 2021, the cost is Eur 10,098,000, of which Eur 10,050,000 is expected to be funded from the Kosovo Budget and Eur 48,000 from other grants. The estimated cost for 2022 is Eur 8,145,000 out of which Eur 8,145,000 are expected to be funded from the Kosovo Budget and Eur 60,000 from other Grants. In 2021 and 2022, in addition to subsidies for innovative enterprises, there are Eur 1,500,000 planned for Establishing Regional Innovation and Entrepreneurship Centres.

5. Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: The measure will have impact on job creations for priority areas for youth and women. In recent years grants for innovation and entrepreneurship, and direct financial support start-up schemes, have resulted in the ease of doing business, and due to this support about 80 new businesses with 2-3 employees started work, 60% of them women.

6. Expected impact on the environment: The measure is not expected to have an environmental impact.

7. Potential risks

Risk	Probability	Planned mitigation action
Method of Financing of Regional Innovation and Entrepreneurship Centres up to self-financing. non-realization of evaluation of performance in the field of research	Low	The status of innovation centres in cooperation with universities and municipal assemblies and NGOs.
Delays in operationalizing the Innovation and Training Park in Prizren.	Low	Developing a specific concept document or regulation on how to organize, manage and operate the Inter-Regional Park for Innovation and Training.

Reform Measure 13: Extension of relevant ICT networks and services infrastructure for socio-economic development

1. Description of the measure: This measure is continuing from ERP 2019-2021 and aims to expand access and use of ICTs by extending broadband infrastructure to non-covered areas, supporting extension of 5G mobile infrastructure, creating conditions for ICT research and development, strengthening of human capital and support of digital businesses, as well as digitalisation of other businesses. Kosovo Digital Economy Program (KODE) is being implemented from 2019-2023, and as part of it thirty (30) High Speed Broadband Infrastructure Extension contracts have been signed for 30 lots/areas comprising 70 non-covered villages. Following the completion of Phase I of functionalization of the Technology Park in Bernice in 2018, now Phase II is also underway in 2019. As part of priorities related to this measure, 20 primary schools will be equipped with the necessary equipment for training, testing and mentoring in ICT. Regarding human resources development for Digital Economy and support for digital businesses, activities are expected to start during 2020 through IPA funds.

This measure is in line with NDS, Kosovo Digital Agenda 2013-2020, Kosovo IT Strategy. It is essential to prioritize the process of developing the Strategy for Smart Specialisation for investment in the ICT sector in the field of manufacturing, through close cooperation with the private sector. MED has drafted the Law on Electronic

a. Activities planned in 2020: 1) Extension of Broadband Infrastructure to non-covered areas through KODE program and supporting the extension of 5G mobile infrastructure (MED); 2) Creation of Fixed Frequency Monitoring Station (MED); 3) Preparing methodology for annual monitoring of statistics in ICT industry and R&D (MED);4) Developing training for young people and linking them to online job opportunities - Youth Online and Upward Program – YOU (MED); 5) Creation of Digital Excellence Center - supplying equipment and QED functionality, 5G piloting (MED); 6) Establishment of the National Research and Education Network at ITP in cooperation with universities in

Kosovo (MED); 7) Institutional and capacity building for implementation of eIDAS regulation provisions (MED).

b. Activities planned for 2021: 1) Drafting the Strategy for Digital Agenda (MED); 2) Extension of Broadband Infrastructure to non-covered areas through KODE program and supporting the extension of 5G mobile infrastructure (MED); 3) Developing training for young people and linking them to online job opportunities - Youth Online and Upward Program – YOU (MED); 4) Digitalization of traditional businesses and increased use of ICT in the private sector (MED); 5) Continuous development of the Digital Excellence Centre - supply of equipment and operation of DEC (MED); 6) Initiating a call for proposals for R&D projects in ICT (MED); 7) Establishment of STEM Education Centre (Science, Technology, Engineering, Mathematics) in the field of ICT in DEC (MED); 8) Establishment of a ICT monitoring system (MED); 9) Preparation of the National Roadmap for Artificial Intelligence, block chains (MED); 10) Institutional and capacity building for implementation of eIDAS regulation provisions (MED).

c. Activities planned for 2022: 1) Extension of Broadband Infrastructure to non-covered areas through KODE program and supporting the extension of 5G mobile infrastructure (MED); 2) Developing training for young people and linking them to online job opportunities – Youth Online and Upward Program – YOU (MED); 3) Smart villages in remote areas; 4) Continuous development of the Digital Excellence Centre - supply of equipment and operation of DEC (MED); 5) Starting classes for children of primary schools in Prizren in STEM education (MED); 6) Initiate a call for proposals for R&D projects in ICT (MED); 7) Initiate Kosovo's participation in the EU program for the annual comparative report "Prospective Insights in CIT R&D" (PREDICT) (MED) 8) Institutional and capacity building for implementation of eIDAS regulation provisions (MED).

2. Results Indicators

Indicator	Baseline	Intermediate target	Target
Number of cadastral zones covered with fixed broadband infrastructure	2018 - 34	2021 - 150	2022 - 266
The number of ICT trainees in the digital economy	2019 - 0	2021- 2040	2022 - 3060
5G pilot in QED completed	2019 - NO	2020 - YES	2021- YES

3. Expected impact on competitiveness: The WB study concludes that the 10% increase in broadband of fixed infrastructure penetration will be followed by a 1.21% GDP growth in developed economies and 1.38% GDP in developing economies. Creating the right conditions by extending the relevant networking infrastructure and possibility of providing broadband services will enable improved access to international markets, development of new business models, allowing people and companies to work regardless of location and flexible hours, and, in general, accelerating procedures and processes, enhancing economic dynamism and improving competitiveness, improving the labour market and the business environment. Providing a skilled workforce would help boost the CIT sector, increase competitiveness and increase revenue in our country's economy.

4. Estimated cost of the activities and the source of financing: The total implementation cost is expected to be around Eur 29,000,000. The estimated cost for 2020 is Eur 10,019,069, of which Eur1,500,000 are funds from the Kosovo Budget, Eur2,650,000 IPA funds, and Eur5,869,000 from WB Loan. The estimated cost for 2021 is Eur10,320,261,

out of which Eur1,200,000 will be funded from Kosovo Budget, Eur3,800,000 from IPA funds and Eur5,320,261 WB Loan. Whereas, the estimated cost for 2022 is Eur8,640,437, of which Eur1,200,000 will be funded from the Kosovo Budget, Eur3,800,000 from IPA funds, and Eur3,640,437 from the WB Loan.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: This measure will have a positive impact on employment by expanding the opportunities for digital work, with a particular focus on youth, women and people with disabilities. As a direct result of the second component of the KODE Program, there is planned 400 new jobs in the IT software business to be created, and trainings in ICT of 2000 people, which can potentially be considered new jobs.

6. Expected impact on the environment: The measure is environmentally neutral.

7. Potential risks

Risk	Probability	Planned mitigation action
1. Eventual delays in implementing WB and IPA projects	low	In-depth review, at an early stage of the activity implementation, of the potential ICT workforce and existing businesses regarding eligibility criteria, using the most effective ICT tools for testing and evaluating potential candidates
2. Limited absorption capacities among potential ICT workforce and businesses.	low	

4.2.5. Trade Related Reforms

Analysis of major obstacles: Kosovo has taken essential steps towards the liberalisation of economy and external trade. Significant steps have been membership in CEFTA and the signing of the Stabilization and Association Agreement with the EU. However, Kosovo is the only CEFTA country that is neither a WTO member nor an observer. The Free Trade Agreement with Turkey recently was ratified, which entered into force on 1 September 2019. Negotiations with the UK on FTA have also been finalized. However, trade in goods remains dominated by imports which in 2017 and 2018 account for almost 67% of total trade. On the other hand, while services exports have had an encouraging performance and account for 78.2% and 80% of total exports in 2017 and 2018 respectively. Services activities³⁴ in 2017 accounted for 71.9 % of GDP. Given this important role of services for Kosovo's competitiveness, removing trade barriers to service sector developments is crucial. In terms of commodity exports, the lack of product diversification is particularly acute when it comes to Kosovo's exports to developed markets (EU, EFTA) with the Herfindahl-Hirschman index of 0.52 and 0.6. On the other hand, exports to CEFTA are more diversified with the HH index of 0.25. At the regional level, Kosovo participates in trade facilitation reforms through the CEFTA mechanisms.

The trade facilitation agenda of the CEFTA countries is linked to the WTO Trade Facilitation Agreement. In the 2018 OECD Competitiveness Policy Report, stressed that Kosovo's trade facilitation policies were ranked among the lowest among the 6 SEE countries. Particularly critical are the areas of technical standards and sanitary and phytosanitary measures; infrastructure and conformity assessment procedures; inspection based risk implementation and information system in the field of SPS. The results for import licenses was also the lowest in SEE, and in terms of administrative barriers to trade, Kosovo's performance is comparable to other countries.

³⁴ Service activities include: Energy and water supply, construction, wholesale and retail, transport, catering, information, financial activities etc.

In the course of its trade facilitation activities, harmonisation of legislation on movement of goods with EU acquis has continued, which is also an essential SAA requirement. In this regard given that the field of construction products is very important, as the construction sector accounts for approximately 7.8% of Kosovo GDP, MTI has taken measures to regulate this area. Protecting health, safety and the environment for all Kosovo citizens depends on adequate buildings and other construction work (roads, railways, etc.), while buildings also play a role in other policy areas, such as reducing energy consumption and sustainable utilization of resources. It is therefore essential to know the performance and suitability of the construction products to be used in these works.

Structural obstacles: In addition to reducing administrative costs, the level of quality infrastructure development (standardization, accreditation and product certification) is another obstacle to exports and import substitution. Reducing the technical barriers to trade is therefore an equally important element of trade facilitation. Kosovo has identified logistics and border barriers as one of the biggest obstacles to greater circulation of goods between regional partners, as well as deeper integration with other parts of the world. High barriers and costs of cross-border trade reduce the level of Kosovo's exports and increase the cost of imports, affecting most of producers using imported materials, as well as to consumers using imported goods.

Reform measure #14: Trade facilitation through reducing the cost of trading transactions

1. Description of measure: This measure is continuation from previous ERP and is expected to reduce the cost of cross-border transactions and time, and improve market entry conditions exports to selected (targeted) markets. This measure is also expected to provide a friendly legal environment for commercial activities in Kosovo. Kosovo has already undertaken obligations at regional and global level, through Additional Protocol 5 to CEFTAs, the SAA, FTA with Turkey and the World Customs Organization (WCO). Trade facilitation, namely addressing and reducing barriers, is based on NDS, the Government Program and NPISAA. Some activities have not been implemented due to delays in creation of new government.

a. Activities planned in 2020: 1) Drafting the Trade Policy Document (MTI); 2) Continuation of amendment / update of the Customs and Excise Code (CEC) and Administrative Instruction for implementation of the CEC (MF-Customs); 3) Adoption of the new Law on Internal Trade (MTI); 4) Adoption of the new Law on Foreign Trade (MTI); 5) Adoption by the Government of the Regulation on the establishment of the Trade Facilitation Enquiry Point (MTI-Customs);

b. Activities planned in 2021: 1) Starting the negotiation process for agreement with EFTA countries (MTI); 2) Feasibility study for the NCTS platform (New Computerized transit system) (Customs-MF); 3) Drafting secondary legislation on the Law on Internal Trade and the Law on Foreign Trade (MTI); 4) Creation of SEED+ (Customs) regional information exchange platform;

c. Activities planned in 2022: 1) Starting the negotiation process for membership in WTO (MTI); 2) Starting implementation of NCTS (Customs-MF);

2. Results Indicators:

Indicators	Baseline 2018	Intermediate target 2020	Target 2022
1. Custom Clearance Time in Hours, Unit / Hours			

Import	130 min	110 min	100 min
Export	75 min	65 min	55 min
2. Increasing the percentage of electronic customs declarations (paperless concept)	70%	80%	90%

3. Expected impact on competitiveness: Trade facilitation reforms are expected to

Reform Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products

reduce the time of import and export customs clearance by 130 minutes which means actually to be reduced to 100 minutes by 2022, and by 75 minutes for export, currently reduced to 55 minutes.

4. Estimated cost of the activities and the source of financing: The budget planned for these activities is Eur 76,000. For 2020 the cost of the measures is estimated to be: Eur 32,000 out of which Eur 30,000 are funded by the EU Project and other Donors, the rest by the Kosovo Budget. For 2021 the cost is estimated to be Eur 22,000 and by 2022 the cost is estimated to be Eur 22,000.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Therefore, the implementation of these activities aims to bring a positive impact on the increase of social welfare in Kosovo for the mid-term period, namely due to the fact that trade openness has clear and positive impacts in reducing poverty and

6. Expected impact on the environment: Increased trade, supporting economic growth, development and social welfare, can contribute to a greater capacity to manage the environment more effectively. Most importantly, open markets can improve access to new technologies that make local production processes more efficient by reducing the use of inputs such as energy, water and other environmentally harmful substances.

7. Potential risks:

Risk	Probability	Planned mitigation action
1. Delays in adopting legislation	High	Increase coordinating cooperation with relevant bodies while respecting hierarchy.
2. Political barriers in regard to regional representation and membership in international organisations	High	Building lobbying platforms for membership in international mechanisms and addressing barriers to relevant local and international actors.

1. Description of measure: This is rolled out measure from last year which aims at further approximation and implementation of EU legislation focusing on: enhancing the safety and quality of construction products, services provided in the domestic market and integration into the EU market and other markets; elimination of technical barriers to trade and effective market surveillance by market surveillance authorities. The construction sector is one of the largest contributors to Kosovo's GDP (7.8% in 2018) and its contribution has been steadily increasing over the years. Therefore, construction products

that are put on the market and used in construction work must be safe and qualitative and therefore is mandatory to apply harmonized standards for them and declare the performance. Given that in 2019 the horizontal legislative framework has been adopted and a number of vertical acts for all pillars of quality infrastructure as well that will provide support to the manufacturing sector, this objective is planned to be achieved by identifying specific product groups construction, which cover the local market and may be competitive for export. This measure relates to the NPISAA, the Government Program and indirectly to the NDS in the standardization section.

a. Activities planned for 2020: 1) Establishment of accreditation scheme for certification bodies (EN ISO/IEC 17065 on Conformity Assessment-Requirements for bodies certifying products, processes and services) including requirements for technical regulations; (MTI) 2) Expansion in the field of metrology (establishment of pre-packing laboratory); (MTI) 3) Accreditation of two testing/calibration laboratories at KMA (Volume and Flow Laboratory, and Mass Laboratory); (MTI) 4) Developing an action plan on fulfilling obligations under Articles 34-36 TFEU in the field of Non-Harmonization Area (MTI); 5) Approval and publication of a list of harmonised standards in the Official Gazette (at least 40 standards) for certain groups of construction products which are available in Kosovo market (MTI); 6) Assist at least three (3) manufacturers in the field of construction products to review the design and improve their products and working procedures in order to fulfil all the requirements to be able to obtain the conformity marking on their products in accordance with the Law (MTI); 7) Drafting the Administrative Instructions on specific product such as: cement, prefabricated mix concrete, and aggregates for concrete (QID); 8) Drafting the concept document for the Law on General Product Safety;

b. Activities planned for 2021: 1) Adoption and publication in the Official Gazette the list of 69 harmonised standards in line with the requirements of the Law on General Product Safety (MTI) 2) Drafting of secondary legislation based on the Law on Construction Products such as: doors and windows, and concrete products (MTI); 3) Approval and publication in the Official Gazette of a list of at least 50 harmonised standards for certain groups of construction products placed on the Kosovo market uniquely from import (MTI); 4) Drafting of the new Law on General Product Safety, to harmonise with the EC Directive 2001/95 on General Product Safety (MTI); 5) Accreditation of two Testing and Calibration Laboratories at KMA (Laboratory of Strength and Pressure and Laboratory of Relative Temperature and Humidity) (MTI).

2. Outcome Indicators:

Indicators	Baseline 2018	Intermediate target 2020	Target 2021
1. Export of construction products	55,379,128	60,000,000	65,000,000
2. Import of construction products	290,821,879	287,000,000	280,000,000

3. Expected impact on competitiveness: The aforementioned activities will provide a national regulatory system allowing manufacturers to continue to sell their products on the Kosovo market, applying national requirements and being able to compete more effectively with imported products. Given the negative balance of trade in construction products, together with the difficulties in applying the EU's Construction Product Regulation in a non-EU country, the main aim of the Law of Construction Product will enable manufacturers to better compete on the national market and reduce the trade deficit

for construction products, and increase their potential for exporting in line with CE mark and EU construction product regulation.

4. Estimated cost of the activities and the source of financing: The total cost for implementing the measure for the next two years (2020-2021) is Eur549,000 respectively Eur424,000 for 2020 and Eur125,000 for 2021. A significant share of the budget for 2020 from the budget of Kosovo, planned for the establishment of pre-packing laboratory and the Accreditation of two testing/calibration laboratories at KMA. During 2021, Accreditation of two Testing and Calibration Laboratories at KM, is expected to take place with WB Loan of Eur 60,000.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Further development of the regulatory system for construction products is expected to have a wider impact on society through promoting private sector investment, opening up of new jobs as well as encouraging businesses to apply standards to improve production processes and increase the quality and safety of products and services. The measure is also expected to have an even greater impact on the society by promoting private sector investment, job creation and encouraging businesses to implement standards in order to achieve safety and performance values of construction products and quality and safety of services.

6. Expected environmental impact: Negative effect on the environment is not expected.

7. Potential risks

Risk	Probability	Planned mitigation action
1. Delays in adopting legislation and lack of professional technical capacities - Low Human capacity building	Medium	Enhancing human capacities
2. Delays in the accreditation and appointment of CABs according to the Law on Construction Products.	Low	Specific trainings for CABs staff

4.2.6. Education and skills

Analysis of main obstacles: Regarding preschool education, during 2018-2019, gross enrolment rate (age 0 - <5 years) is 6.20%; pre-school and pre-primary education level (0- <6 years) is 20%; for ages 3 <6 years is 37.5%; for the pre-primary level (5 years) is 92.5%; at the level of primary education 100.3%; for lower education is 90.5%; at the level of upper secondary education is 86.8%. Student enrolment in higher vocational secondary education in 2018-2019 is 52%, while during 2017-2018 it was 52.1%. In pre-university education, in the Matura exam in June 2018, the passing rate was 73.3%, while in August 2018, the passing rate was 62.7%. The passing rate of the grade 9 was 61%.

Regarding pre-school education, municipal authorities have no records on the number of private kindergartens and pre-school private institutions and have no authority, as it is MEST that directly licenses them. There are also private kindergartens operating without a license and are formally registered as a business. In general, private kindergartens have either limited or no access to continuous professional development of their teaching staff.

Following Kosovo's participation in the PISA international test in 2015 for the first time (69th position out of 72 countries), during 2018 the final phase was held and there was no improvement to the results. The pupil-teacher ratio varies by level of education. At the

preschool/kindergarten level, there are 9.5 children per teacher; pre-primary level, over 20.5 children per teacher; primary and lower secondary education level, approximately 14.3 pupils per teacher; upper secondary education, there is one teacher for every 15.4 students. Whereas, at the level of lower primary and secondary education, the average class size is 18.8 pupils, while at upper secondary education the size is at 25. The percentage of students leaving school at upper secondary education was 1.8% (2.8% among men and 0.8% among women). At the level of public higher education (public universities), the average teacher-student ratio is 15 students per professor. Whereas, the average teacher-student ratio is over 6 students per professor

In 2018, the unemployment rate among people without education was 57.8%; 39.8% among those with primary and secondary education; 28.9% among those with a secondary education; 32.5% among those with vocational secondary education; and 19.2% among those with a tertiary education. Meanwhile, public spending on education, as a percentage of GDP, is 4.25%.³⁵ Public expenditure on pre-school education in 2017 stood at 0.1% of GDP. Whereas, the average gross monthly salary of teachers across all pre-university levels is approximately 80% of the average wage in Kosovo, and 77% of the average public sector wage only.

The mismatch of skills with labour market needs continues to be a major obstacle. The percentage of young people in the NEET category rose by 2.7 percentage points, from 27.4% in 2017 to 30.1% in 2018. The NEET rate in Q1 2019 was 29%.

From 2012 until 2018, 95% of qualified teachers have received a career license. During 2019, a total of 2,500 teachers were trained for the new curriculum. The licensing process continued in 2019. Training programs have been designed for school instructors and in-service instructors as well as trainers and up to 100 people from schools and businesses have been certified to be available to schools and students during professional practice.

In order to ensure that Kosovo Accreditation Agency is fully functional and ensure its full operational independence, amendment of the law on KAA has started based on the initial concept document. The State Council on Quality has adopted the new ESG standards and these have been applied during 2019 for evaluation for institutional and program accreditation/re-accreditation. The current Kosovo Education and Strategic Plan will expire at the end of 2021, and revision of the new strategy will be initiated.

Structural obstacles: Educational attainment in Kosovo is low. Low educational attainment is also correlated to low inclusion of children in preschool education (the main causes are: lack of physical infrastructure, inadequate funding, non-regulation and non-licensing of private institutions, inadequate professional development of educators, and lack of national instruments for determining quality of preschool education). In compulsory education the obstacles are related to student inclusion, quality of education, which is evident among marginalized groups. Skills development for most of the relevant vocational areas, according to research, is not aligned with market needs and cause adverse development effects.

Though the Agency for Vocational Education and Adult Education has been established, but there is still a relatively limited number of programs and participation is low. Limited lifelong learning opportunities are also evident from the lack of adaptation of Vocational Training Centres profiles to labour market needs. Another constraint remains the limited public budget allocated to education sector. Another obstacle is the incompatibility of the education system with labour market needs. The mechanisms and practice of quality

³⁵ According to the WB, although spending on education as a percentage of GDP has increased in recent years, it remains low compared to the average of European and Central Asian countries. According to the WB, per capita spending is even lower than in the region.

assurance still remain underdeveloped; teacher development according to the criteria and standards of the TPD strategic framework and linking degrees to the payment system is missing.

Reform Measure 16: Developing early childhood education with an inclusive approach through completing legislative and physical infrastructure and reforming curriculum

1. Description of the measure: The measure aims to increase children's enrolment at early education, including the implementation of a comprehensive approach for children from vulnerable groups. The focus is on drafting of new law on early childhood education, enhancing the quality of services through the adoption of the core curriculum for early childhood education, developing teaching packages for children with special needs, increasing attendance of children from vulnerable communities, increasing the physical capacities for greater inclusion of children through the construction of public preschools, as well as the training of educators. The measure is in harmony with National Development Strategy and the Kosovo Education Strategic Plan. The measure is formulated in response to structural obstacles in the field of education and skills. In this regard, currently a total of 16 kindergartens are in the process of being constructed (2 in 2019; 5 in 2020; and 9 in 2021). The measure is a continuation from the previous cycle, during which a working group was established and drafted the Law on Early Childhood Education.

a. Activities planned in 2020: 1) Adoption of the Law on Early Childhood Education, which also addresses Early Childhood Inclusion (MEST); 2) Finalization and approval of the new core curriculum containing 5 areas of early childhood development (MEST); 3) Drafting of 5 practical guidelines for piloting of the core curriculum (MEST); 4) Engagement of 5 master trainers for the training of kindergarten educators in the pilot phase (MEST); 5) Training of up to 100 educators in up to 10 kindergartens in the pilot phase (MEST); 6) Piloting the core curriculum for up to 10 preschool institutions starting on September 2020 (MEST); 7) Development of a package of educational materials (language and communication development; physical health and motor development; cognition development and general knowledge; development of learning approach; and socio-emotional development) for preschool institutions for children with special needs aged 0-6 years (MEST); 9) Draft regulation on facilitating the conditions for registration and attendance of Roma, Ashkali and Egyptian children in preschool institutions (MEST);

b. Activities planned in 2021: 1) Drafting all administrative instructions deriving from the new Law (MEST); 2) Drafting of the Evaluation Report for the pilot phase of the core curriculum and completing the core curriculum based on the findings of the evaluation (MEST); 3) Approval of the final Core curriculum following evaluation results from the pilot phase (MEST); 4) Training of up to 270 educators in 42 public kindergartens to implement the new Core Curriculum (MEST); 5) Implementation of the new core curriculum in at least 20 public kindergartens (MEST); 6) Training of up to 100 public kindergarten educators on the use of materials for children with special needs (MEST).

c. Activities planned in 2022: 1) Training of up to 160 educators in the private kindergartens and starting the implementation of the new core curriculum in at least 10 private kindergartens (MEST); 2) Implementation of the new core curriculum in all 43 public kindergartens in Kosovo³⁶ (MEST); 3) Training of up to 100 additional educators in public kindergartens on the use of materials for children with special needs (MEST); 4) Drafting National Plan for Early Childhood Development (MEST).

³⁶ In year 2019, number of children in public preschool institution (43) was 5,205.

2. Result indicators

Indicators	Baseline 2019	Intermediate target 2020	Target 2022
1. Number of preschools institutions that implement the core curriculum	10	20	43
2. Number of children aged 0-6 years in preschools institutions	10,878 ³⁷	11,718	12,798

3. Expected impact on competitiveness: This measure is expected to improve and increase the inclusion of children in preschool education, which is extremely low in Kosovo. Increasing child enrolment rates and the quality of preschool education creates the conditions for building a competitive workforce in Kosovo. Importantly, adequate childhood education could help improve the limited degree of labour force participation by women. The success of preschool education policies also depends on the degree of inclusion of children from vulnerable groups, which would fight discrimination, marginalization and social exclusion. The expected impact on competitiveness is anticipated in the long run, by raising *labour market participation rates*, especially for children from vulnerable groups when they have reached working age.

4. Estimated cost of the activities and the source of financing: The total cost to implement this measure is estimated to be around Eur 200,000. The cost for 2020 is Eur49,000, to be funded by the Kosovo budget. A significant share of this cost is expected to finance activities related to finalization and approval of the new core curriculum and teacher training. For 2021, the cost is estimated to be Eur 55,000 and for 2022, Eur 91,000, which will be funded from the Kosovo Budget.

5. Expected impacts on social outcomes, such as employment, poverty reduction, and gender equality: Increased inclusion of children in early education creates the opportunity for early interventions to increase the likelihood of further education and increase in the quantity and quality of human capital. Education is generally closely linked to employment prospects: people who have completed tertiary education have, generally, a lower unemployment rate. Early-educated children are more likely to escape the poverty trap by creating the foundation for skills development that ensures engagement in the economy when reaching working age.

6. Expected impact on the environment: This measure has no environmental impact.

7. Potential risks

Risk	Probability	Planned mitigating action
Failure to implement the core curriculum at national level	Low	Ensure allocation of necessary resources, hiring the relevant team to evaluate the piloting phase and to quickly draw findings and conclusions. Ensure to foster and support collaboration among teachers during implementation of core curriculum so as to maximize success.

³⁷ In 2019, in total are 10,878 children registered in preschool institutions, 5,205 children in public kindergartens and 5,673 in private kindergartens. Two new public kindergartens will be completed in 2019; 5 in 2020; and 9 in 2021.

Failure to implement infrastructure investments	High	MEST should ensure that the technical acceptance process is carried out without delay.
---	------	--

Reform Measure 17: Implementation of the new curriculum framework in the vocational education and training system

1. Description of the measure: The measure aims at increasing the compatibility of VET with labour market needs. The implementation of the measure is based on the adoption of the core curriculum in the VET area; revising the VET funding formula; and the start of piloting of the new curriculum by VET institutions. The measure is in line with National Development Strategy and the Kosovo Education Strategic Plan. The measure is formulated in response to structural obstacles in the area of education and skills related to the mismatch of the education system with labour market needs.

The measure is follow-up form previous cycle, during which 7 out of 25 professional standards were approved by the National Qualification Authority (NQA). In the prior process of defining the funding formula for VET institutions, costs related to over 20 courses were defined. The current VET financing formula is based on funding VET institutions through a lump-sum, without differentiating between variations in cost in running various VET profiles. The development of learning materials depends on the finalization and adoption of the new framework in the VET area. MEST has identified vocational schools to provide adequate equipment for priority courses, while donors have provided 14 profiles of VET public institutions. MEST has also signed over 50 agreements with schools and regarding the skills planning a new initiative (digital platform called “Future Workplace”) recently started in cooperation with Kosovo Chamber of Commerce and Open Data Kosovo, financed by Millennium Challenge Corporation. It focuses on ICT and seeks to track supply and demand data to provide policymakers and stakeholders with information on market absorption and relevance of ICT training profiles. Hence a relevant activity is planned in this regard.

a. Activities planned in 2020: 1) Approval of the Curriculum Framework for the VET system (MEST); 2) Training of 70 teachers as part of the Training of Trainers (ToT) program and development of guidelines for implementation of the core curriculum (MEST); 3) Development of teaching materials based on the new VET core curriculum for grade 10 (MEST); 4) Piloting the new core curriculum (in all VET study programmes) of the grade 10 in 18 schools (MEST); 5) Revising the funding formula for VET by defining funding criteria made through the Education Specific Grant (MEST); 6) Drafting and approving Administrative Instruction on Establishing, Functioning and Defining the Responsibilities of the Office for Cooperation of the Economy with Vocational Education and Training (OCEVET, (MEST); 7) Drafting and approving the AI for the evaluation of VET students, through the involvement of employers' representatives (MEST); 8) Piloting the digital platform for planning skills for labour market in ICT area (MEST/MTI/TAK).

b. Activities planned in 2021: 1) Revision of pilot core curriculum for grade 10 (MEST); 2) Train 1,500 teachers to implement the core curriculum for grade 10 (MEST); 3) Implementation of grade 10 core curriculum in all 70 VET Institutions (MEST); 4) Developing school materials based on the new VET core curriculum for grade 11 (MEST); 5) Piloting the new core curriculum (in all VET programmes) of grade 11 in 18 schools (MEST); 6) Establishment of OCEVET and recruitment of its head (MEST); 7) Functioning of the digital platform for labour market planning skills in ICT by expanding the ICT business data (MEST/MTI/TAK); 8) Opening of ICT Centre of Competence

(MEST); 9) Adoption and implementation of a regulation on safety at work (MEST/MLSW).

c. Activities planned in 2022: 1) Revision of piloted core curriculum of grade 11 (MEST); 2) Train 1,500 teachers for implementation of the core curriculum for Grade 11 (MEST); 3) Implementation of grade 11 core curriculum in all 70 VET institutions (MEST); 4) Developing of teaching materials based on the new VET core curriculum of grade 12 (MEST); 5) Piloting the new core curriculum (in all VET programmes) of the grade 12 in 18 schools (MEST).

2. Result Indicators

Indicators	Baseline 2019	Intermediate target 2021	Target 2022
% of VET Institutions implementing the new core curriculum	25%	50%	75%
% of VET teachers trained in the implementation of the core curriculum	25%	50%	75%
% of students in vocational education participating in workplace-based learning	5%	10%	15%

3. Expected impact on competitiveness: Implementation of the new core curriculum in the VET area is expected to increase the compatibility of skills development with the economy needs. The current mismatch is evident and a serious obstacle which impedes the competitiveness of businesses and increases structural unemployment. The expected impact on competitiveness is anticipated to occur through: lowering the unemployment rate and increasing the employment rate among students completing education in VET institutions.

4. Estimated cost of the activities and the source of financing: The total implementation cost during 2020-2022 is estimated to be Eur 6,633,096. Cost for 2020 is Eur 1,994,032, of which Eur 1,050,000 will be funded from the Kosovo budget and the remaining Eur 944,032 from other grants. For 2021, the cost is estimated to be Eur 2,635,032, of which Eur 10,050,000 is expected to be funded from the Kosovo Budget and Eur 1,585,032 from other Grants. The estimated cost for 2022 is Eur 2,004,032 to be funded by donor grants.

5. Expected impacts on social outcomes, such as employment, poverty reduction, and gender equality: Harmonization of skills with the needs of labour market, as well as the adoption of bylaws related to this matter, will have a direct impact on the increase of skilled workers based on the needs of companies. Considering the significant VET students are women, the reform of the curricula is expected to have an important impact on gender quality. Thus, employment growth is expected, especially among young people whose unemployment rate (for the age group 15-24) is above 50%.

6. Expected impact on the environment: The measure is not expected to have an environmental impact.

7. Potential risk

Risk	Probability	Planned facilitation action

Lack of agreement to approve funding formula for VET institutions	High	The quality of training and learning at VET institutions depends significantly on the redesign of funding formula. Agreement is needed between key partners, including the international partners involved, on the finalization of the funding formula and the preparation and implementation of the administrative instruction.
Delays to Core Curriculum implementation at national level	High	Prior preparation and careful piloting is vital to avoid delays in implementing national curricula at national level. An evaluation and close monitoring of the pilot phase is critical to ensure the VET curricula can be rolled out nationally.
Inadequate teacher training for the implementation of the new core curriculum	High	Strengthening the ToT program with the resources needed to ensure adequate teacher training (initially in pilot schools and then at national level).

Reform Measure #18: Enhancement and quality assurance in higher education by strengthening quality oversight mechanisms, improving the funding system and profiling higher education institutions

1. Description of the measure: The measure aims at enhancing the quality of higher education by improving legislation and capacity building of mechanisms that ensure the quality provided by higher education institutions (HEIs), initiating the profiling of HEIs according to socio-economic needs and contemporary trends, as well as improving the performance of HEIs based on redesigning the funding formula. The measure is based on the National Development Strategy (NDS) and Kosovo Education Strategic Plan (KESP). The measure is formulated in response to structural obstacles in the area of education and skills related to low educational attainment in Kosovo at the level of university education.

The measure follows the earlier cycle during which the Draft Law on Higher Education was drafted but not approved by the Assembly. A concept paper on the Law on the Kosovo Accreditation Agency (KAA) has been adopted. Following the exclusion of the KAA from ENQA, an external evaluation was carried out by the latter, which announced in September 2019 that it had not approved KAA's membership in their institution.

During 2019, the State Council of Quality approved European standards of quality assurance in higher education (ESG), which were implemented in 2019 for institutional and program (re)accreditation. The funding formula for HEIs has not been revised, meanwhile the Government has established a technical delegation to review and negotiate an agreement on reciprocal recognition of professional qualifications with the Western Balkan countries. MEST also has national mobility schemes where it applies the open call during the entire year for research and participation in international scientific conferences for public and private HEIs, and also participates in international programs ERASMUS, CEEPUS, and COST. Also, in regard to linking HE with labour market needs, in Kosovo have established Advisory Bodies (Industrial Boards) in six public universities.

a. Activities planned in 2020: 1) Adoption of the Law on Kosovo Accreditation Agency (MEST); 2) Personnel recruitment and capacity building of KAA through the recruitment of 20 new staff (KAA); 3) Drafting and approval of guidelines by the State Council of

Quality for setting of HEI monitoring criteria (KAA/SCC); 4) Review and approval of new standards for evaluation of PhD programs (KAA/SCC); 5) Establishment of “Centre of Competence for linking with industry” in 2 faculties of the University of Prishtina (MEST); 6) Support in the process of selecting at least two higher education programs that will be reviewed or developed based on labour market needs (HEI/MEST); 7) Linking VET Teachers' Master's Degree Program of the Faculty of Education with the faculties targeted for practical learning (HEI/MEST); 8) Drafting of the concept paper on higher education funding formula (MEST); 9) Revision of the Administrative Instruction on Scholarships for Students in Deficit Areas (MEST).

b. Activities planned for 2021: 1) Addressing completely the ENQA recommendations and preparing the application for ENQA readmission (MEST); 2) Approval of 2 AIs on Accreditation of Higher Education Institutions; and AI on HEIs monitoring process, deriving from the KAA Law (KAA/MEST); 3) Preparation of monitoring reports by KAA for at least half of public and private HEIs³⁸ (KAA/MEST); 4) Inclusion of 2 faculties of University of Prishtina in network of the “Centre of Competence linked with industry” (HEI/MEST); 5) Support from MEST and donors for review of at least two higher education programs in line with the labour market (HEI/MEST); 6) Drafting and approving the administrative instruction on redefining the funding formula in higher education, which defines the performance criteria by HEIs (MEST).

c. Activities planned for 2022: 1) Preparation of monitoring reports by KAA for all public and private HEIs (KAA/MEST); 2) Inclusion of the other 2 faculties of the University of Prishtina in the network of the “Centre of competence linked with industry” (HEI/MEST); 3) Support to review at least 2 additional HE programs in line with the labour market (HEI/MEST); 4) Developing framework for monitoring and evaluating performance agreements between MEST and HEIs (MEST); 5) Piloting an agreement between MEST and a HEI for performance measurement based on the indicators specified in the revised funding formula (MEST).

2. Result Indicators:

Indicator	Baseline 2019	Intermediate target 2020	Target 2022
Number of HEIs monitored by KAA	0	16	32
Number of higher education programs reviewed in line with the labour market	0	2	4
Number of performance measurement agreements between MEST and HEIs	0	0	1

3. Expected impact on competitiveness: Strengthening of capacities and ensuring the autonomy of Kosovo Accreditation Agency is expected to install the implementation of European quality assurance practices in the field of higher education. Meanwhile, support in the process of reviewing higher education programs in line with market demands is expected to address the gap between the skills in need and the graduates currently produced by the higher education system.. Expected impact on competitiveness is anticipated to occur through: lowering the unemployment rate; and reducing the negative trade balance over the years, improving the competitiveness of the private sector based on the developing of relevant skills by the education sector.

³⁸ In Kosovo, there are currently 7 public institutions and 25 private higher education institutions.

4. Estimated cost of the activities and the source of financing: Total budgeted amount for this measure is Eur 503,140. For 2020 the cost of measure is estimated to be: Eur 260,540, of which Eur 133,780 will be funded by Kosovo Budget, Eur 111,800 from the EU Project and Eur 14,960 from other Donors. For 2021 the cost is estimated to be Eur 175,800, of which Eur 112,000 will be funded by Kosovo Budget and Eur 63,800 by EU Project. While in 2022 the cost is estimated to be Eur 66,800, of which Eur 63,800 will be funded by EU funds and the rest by other donors.

5. Expected impacts on social outcomes, such as employment, poverty reduction, and gender equality: Therefore, the impact is expected to be significant, especially in terms of employment growth and employability, given that skills mismatch with the labour market has been identified as a key factor in maintaining structural unemployment. Educational attainment is a key factor in finding a job. Further, given the demographic structure in Kosovo, the reform is expected to particularly affect the education of young people, whose unemployment is at an alarming rate of over 55% for the age group 15 - 24.

6. Expected impact on the environment: The measure is neutral to environmental impact.

7. Potential risk:

Risk	Probability	Planned facilitating action
1. Non-adoption of the Law on Higher Education and the Law on KAA	Low	MEST should finalize the Law on KAA and submit it to the Assembly.
2. Failure to implement quality standards in the field of higher education	High	MEST should move forward the process of adoption of the KAA Law and ensure the staffing of the KAA in order to fully and effectively exercise its responsibilities.
3. Resistance from HEIs regarding the adaptation of higher education programs in line with the economic requirements	High	Complete appropriate analyses to identify higher education programmes that are deficient or need to be readapted. Establish institutional channels of dialogue and cooperation with HEIs on steps to gradually improve the compatibility of higher education programs with labour market requirements.

4.2.7. Employment and labour markets

Analysis of the main obstacles: Only 40.9% of working-age Kosovars were **economically active** in 2018; 78% of the **workforce** is made up of men and 22% of women. **The labour force participation rate** has decreased from 42.8% in 2017 to 40.9% in 2018 in general **The labour force participation rate** also has declined in 2018 compared to 2017 across all age groups with the biggest decrease in the age group of 30-34, from 59.8% in 2017 to 55.3% in 2018. Almost every second working-age Kosovar was also part of the workforce. According to Q1 2019 statistics, the workforce has decreased by approximately 5% compared to 2018 annual data. Approximately 60% of the working-age population in 2018 was **economically inactive**. Inactivity in the labour market is gender-specific: 42.4% of economically inactive people are men and 80.50% are women.

The inactivity rate has increased from 57.2% in 2017 to 59.1% in 2018. In Q1 2019, the inactivity rate further increased by 4.5%. Regarding the **unemployment, its rate** has dropped from 30.5% in 2017 to 29.6% in 2018. From the gender perspective, 74% of the unemployed are male and 26% are female. In Q1 2019, unemployment is estimated to

have been approximately 27%. But lowering the unemployment rate has more to do with the removal of Kosovars from the labour force than with the creation of new jobs. According to KAS, the number of those reported as employed decreased by approximately 12,000 in 2018 compared to 2017. The workforce has decreased from 490 thousand active Kosovars in 2018 to 466 thousand Kosovars seeking work in Q1 2019. The number of employees in Q1 2019 was 341 thousand, compared to 345 thousand in 2018. Whereas, **employment rate**³⁹ was 28.8% in 2018, compared to 29.8% in 2017. In Q1 2019, the employment rate further decreased to 28.2%.

Major **gender** differences persists in the labour market. 18.6% of working age women were active in the labour market in 2018 (20% in 2017), compared to 63.3% of men (65.3% in 2017). In Q1 2019, 19.5% of working-age women were economically active, compared to 57.5% of men. The workforce in Q1 2019 has increased among women, but has declined among men. Unemployment is higher for females than for males (33.4% for females; 28.5% for males in 2018; 36.6% and 28.7%, respectively in 2017). In Q1 2019, unemployment among women was 31.5% and 25.4% among men. The employment rate for women was only 12.4% in 2018, compared to 45.3% for men (12.7% and 46.6%, respectively, in 2017). In 2018, 52.9% of women were employed in the education, health and trade sectors, while 43% of men were employed in the construction, manufacturing and trade sectors. The unemployment rate among **young** people aged 15-24 has increased from 52.7% in 2017 to 55.4% in 2018. In Q1 2019, the unemployment rate in the same group was 50.6%. The percentage of young people in the **NEET** category has increased from 27.4% in 2017 to 30.1% in 2018. In Q1 2019, it was 29%. Over 30% of young people aged 15-19 were long-term unemployed (12 months+), while in Q1 2019, it was 39.8%. According to MLSW data, about 67% of *registered* unemployed are considered **long-term unemployed**. According to the World Bank (WB) (2017), about 72% of the unemployed were unemployed over 12 months.

The mismatch of skills with labour market needs remains a major obstacle. According to BEEPS (2013), approximately 25% of companies identified “workforce with inadequate skills” as a major obstacle to business expansion. According to WB (2017), 43% of companies with 100+ employees see inadequate education as a serious obstacle, compared to 19% for small companies. According to the STEP survey, 75% of companies have found it difficult to hire managers, professionals and technicians.

Kosovo has a significant problem with the **informal sector**. The WB has estimated in 2017 that 15% of salaried employees are informal. But the WB estimates that about one-third of employees are informal *if* they count unpaid family workers, self-employed in small companies, self-employed in non-tech professions, and micro-companies with fewer than 5 people. In 2018, according to KAS, 86% of employees had individual contracts, and 14% reported working without a **contract**. According to BEEPS, 66% of local companies reported competition from the informal sector as a serious obstacle, which was ranked as the first and main obstacle.

Public employment services in Kosovo have made progress. The Employment Agency has been established as responsible for implementing employment programs and policies. There has been an increase in the capacity of the Agency, including the creation of a labour market information system. The **budget** for unemployment mitigation measures remains low (about Eur 6.6 million per year). With 92 employment advisers serving 95,890 registered unemployed, the **employment advisor-to-job seeker ratio** is 1-1,042.

³⁹Number of employees in relation to the number of working age population.

Vocational Training Centres (VTCs) offer training on profiles that do not match with labour market demands and have limited cooperation with the private sector.

The rights of employees are mainly determined by the Labour Law. Legislation regulating labour relations is considered to be an obstacle to the freedom of employers to dismiss employees. But the law allows employees to be represented through unions, which can stage protests and enter into a strike without fear of reprisal by employers. **Migration** presents a serious challenge. According to a survey, Kosovo lost 15.4% of its population in the period 2007-2018. Figures show that the number of emigrants has decreased compared to previous years.⁴⁰

Major structural obstacles: The mismatch of skills with labour market needs continues to be a major obstacle. Another obstacle is **informal employment** because it reduces productivity due to the lack of protection of workers' rights; loss of budget revenue; and makes more powerful the companies operating in informal sector. Another obstacle is **public employment services**. The public budget for training and employment programs is low and only 20% of companies rely on such services to identify qualified staff. Limited job seekers' connection to the private sector raises long-term unemployment, while the fragility of institutions such as the Labour Inspectorate does not sufficiently sanction the informal sector, fostering informal employment without adequate social protection, and reducing the tax base. In Kosovo, there is **mobility at work**, but external migration and brain drain, especially of educated staff, pose serious challenges to labour market consolidation.

Reforms Measure #19: Improving and expanding public employment services and increasing the employability of long-term unemployed, young people, women and other vulnerable groups

1. Description of measure: The measure aims at increasing the employability of vulnerable groups, with a particular emphasis on long-term unemployed, youth, women, persons in poverty, including those living in rural areas. The measure primarily entails the improving of public employment services, reviewing employment policies in order to increase the effectiveness of active labour market measures; and piloting subcontracting of vocational training programs through private providers. The measure relies on several strategic documents: National Development Strategy; MLSW Sector Strategy; The Action Plan for Increasing Youth Employment. The measure is framed in response to the structural barriers associated with the fragility and limited capacities of public employment services and the mismatching of workforce skills with labour market needs. The measure continues from the previous cycle of supporting around 3,000 unemployed persons with active employment measures, while in-house training has been provided to increase the capacity of the Employment Agency staff, including the development of a counselling and career orientation module, although the employment advisor ratio to the number of unemployed remains extremely high. Partial progress has been made on re-accrediting profiles, standards and teaching packages, while VTC training profiles still remain incompatible with labour market needs.

⁴⁰The number of immigration decreased to 5,832 persons in 2017, compared to 18,862 in 2015, while the number of emigration decreased to 11,263 persons in 2017, compared to 74,434 persons in 2015. During 2017, 5,283 temporary residence permits were issued, 54.2% of which were for work. During 2017, 23,386 people received residence permits in EU countries, of which 6,635 were for "paid activities" and 547 for "education".

a. Activities planned in 2020: 1) Revision of the new Labour Law (MLSW); 2) Revision of the Employment Policy 2020-2022⁴¹ with the aim of improving the effectiveness of ALMMs particularly for women and youth (MLSW/PES); 3) Review of the Action Plan for Increasing Youth Employment, with particular emphasis on addressing challenges of women's employment (MLSW); 4) Implementation of ALMMs for at least 3,000 long-term unemployed persons, including but not limited to youth, women, and persons in poverty in rural areas (EARK/MLSW); 5) Validation of 10 vocational training programmes, development of 10 curricula and 10 teaching packages based on occupational standards (EARK/MLSW); 6) Training of 1,000 people in digital economy skills (MED); 7) Increase the number of job vacancies through the SIMP platform by incorporating public sector announcements (EARK/MLSW). 8) Development of LFS with an extended sample⁴², and incorporation of a new LFS module on “workplace accidents and workplace-related health problems” (KAS)

b. Activities planned in 2021: 1) Implementation of ALMMS for at least 3,000 unemployed⁴³ (EARK/MLSW); 2) Subcontract at least two deficit vocational training programmes for private providers (EARK/MLSW); 3) Development of one employment service beneficiary tracking study (EARK/MLSW); 4) Training of 1,000 people in digital economy skills (MED); 5) Incorporation of the new module in the LFS on the “state of the labour market of migrants”, as well as publication of statistics on regional basis (KAS); 6) Re-accreditation of 5 programmes and development of 5 curricula based on occupational standards and 5 learning packages for the needs of Vocational Training Centres (MLSW).

c. Activities planned in 2022: 1) Implementation of ALMMS for at least 3,000 unemployed (EARK/MLSW); 2) Subcontract at least two (2) deficit vocational training programmes for private providers (EARK/MLSW); 3) Full functionalization of the EMIS module for monitoring ALMMs beneficiaries (EARK/MLSW); 4) Training of 1,000 people in digital economy skills (MED); 5) Incorporation of the new module into the Labour Force Survey on “job skills” (KAS); 6) Re-accreditation of 5 programmes, development of 5 curricula based on occupational standards and 5 learning packages for the needs of Vocational Training Centres (MLSW).

2. Results Indicators:

Indicator	Baseline 2020	Intermediate Target 2021	Target 2022
1. % of young people participating in active labour market measures out of the total number of ALMMs offered per calendar year	34%	35%	36%
2. % of women benefiting from active labour market measures out of the total number of ALMMs offered per calendar year	36%	38%	40%
3. % of NEET youth in the youth population 15 - 24	30%	29%	28%

⁴¹ The review will include, among other things, the potential expansion of ALM measures for unemployed persons in **rural areas**. The review will also consider eventual changes to active labour market measures aimed at **increasing effectiveness** (based in part on the findings of the GIZ study entitled, “Are Active Labour Market Measures Effective Tools for Addressing Skills and Skills Challenges of employment in Kosovo?”).

⁴² According to KAS, the sample is expanded in 2019.

⁴³ Targeting of active measures will be informed by the revised **Employment Policy document 2020 - 2022**, with the aim of increasing the effectiveness of MATPs, including targeting of persons coming from rural areas.

3. Expected impact on competitiveness: Strengthening the capacity of public employment services is expected to have positive effects on enhancing competitiveness by improving the quality of jobseekers' skills. In the medium to long term, the measure is expected to increase competitiveness by improving the *trade balance*.

4. Estimated cost of the activities and the source of financing: The overall cost for implementation of this measure is estimated to be Eur 15,492,366. Eur 5,096,344 of this amount is estimated to be for 2020, Eur 4,500,000 of which will be funded by Kosovo's budget, meanwhile the other part of Eur 596,344 from other grants. For 2021, the cost is estimated to be Eur 5,361,348, Eur 4,500,000 of which is estimated to be funded by Kosovo's budget and Eur 861,348 from other grants. The estimated cost for 2022 is Eur 5,034,674, Eur 4,500,000 of which will be funded by Kosovo's budget and other part from Eur 534,674 will be funded by other grants. The cost related to new Law on Employment is not involved in calculation. Based on budget impact assessment the additional cost that comes from Law on Employment is not part of budget frame.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: The measure aims at improving the efficiency of public employment services based on capacity building, according to the process of institutional review and better targeting of ALMMs for the unemployed. The measure also aims at building skills in deficit profiles by starting to apply the subcontracting model of vocational training programs to private providers. As a whole, the measure is expected to reduce the high percentage of NEET among young people aged 15 - 24. The measure also aims at increasing affirmative action in targeting people from rural areas, aiming at reducing social inequalities.

6. Expected impact on the environment: The measure is neutral to environmental impact.

7. Potential Risks:

Risk	Probability	Planned mitigating action
1. Failure to Review and Adopt Labour Law.	Low	Incorporate the draft law into the legislative agenda and proceeding it in the Assembly
2. Lack of prioritization and implementation of the findings of the functional review of the EARK	Low	Real costing of functional review findings and budgeting of activities resulting from this review

4.2.8. Social inclusion, poverty reduction and equal opportunities

Analysis of main obstacles: Kosovo aims to develop a social welfare state in which citizens should be provided with a safety net that is at the core of a sustainable democracy. However, while the goal is a state capable and ready to fulfil its duties and obligations to citizens, there are still significant obstacles associated with reducing poverty, reducing inequality and providing equal opportunities through the social inclusion of vulnerable groups.

Poverty remains one of the most pressing problems in Kosovo. The results of the 2017 Household Budget Survey (HBS) show that 18% of Kosovo's population lives below the poverty threshold of less than Eur 1.82 per day, and 5.1% of the population live below the extreme poverty threshold of less than EUR 1.32 per day. According to KAS, the depth of poverty has decreased from 2012 to 2013, increasing in 2014 and again falling in 2015.

Poverty rate is higher in rural areas while extreme poverty is higher in urban areas. In 2017, the distribution of the poor by residential area was 64.8% of the poor living in rural areas, and 35.2% in urban areas. The most affected households are those who receive social assistance, pensions and contract work as their main source of income. HBS data for 2017 compared to 2016 show that there is no change in the percentage of households where the main source of income is social assistance and pensions. As regards of the source of income, social assistance is a source for 3% of the surveyed households, while for 12% of the families the source of income is pensions. Absolute poverty is similar among men (17.2%) and women (18.0%) but is higher for single women provider in family (23.7%). Poverty is closely linked to social exclusion. About 42% of poor households face shortages of public social services compared to 36% of households with a better economic level.

Public spending on social protection including pensions and social assistance scheme increased from 3.6% of GDP in 2009 to 6.1% in 2016. As part of total public spending, social protection spending increased from 12.7% in 2009 to 21.7% in 2016.

The high level of poverty increases the costs of the welfare system and engages financial and human capital for the functioning of social protection schemes. Likewise, an inefficient health system has a negative impact on economic growth prospects, as high spending creates unnecessary burdens on the state budget. Based on KAS data from the social benefit scheme have benefited 24,767 families with a total of 100,995 members, who have benefited around Eur 7,957,889.50.

The number of citizens and families in need of social protection, health care and social services remains high. The challenge remains maintaining and improving the social protection and health care system, synchronizing social support policies, improving the legal framework and increase of human capacity and the institutional capacity for the provision of adequate services and based on the need of the citizens.

Kosovo currently does not provide universal health insurance. Payment from the family budget for health services is high. It is assumed that almost 1/3 of the population do not have easy access to health care, or have limited access due to lack of low paying capacity. It is estimated that 18% of the population does not require services even in the event of illness due to economic reasons. Kosovo has a poorly funded public health system; based on COFOG expenditure classification, overall health spending reached 2.8% of GDP in 2015, which is low compared to the EU average of 7.2%.

Analysis of data on causes of death during 2006-2011 has shown that malignant diseases are the second leading cause of mortality and have shown an increasing trend. Health statistics shows that the new reported cases of malignant and benign diseases in 2018 are 2,475 cases, where 1,365 cases out of these are over 60 years old. HBS for 2017 shows that household spending on health, especially in urban areas in 2017 compared to 2016, had a significant increase of 33%.

Major structural obstacles and problems: Inadequacy of the social assistance scheme with low coverage for only one third of the families in the lower quintile as well as the low level of benefit; by-laws and regulations are often in contradiction with one another, introducing conflicting provisions; lack of inclusive social policies that lead to overlap of individual treatments by different schemes; social protection offers permanent benefits to some social categories, discouraging employment; low access to health services and inability of families to meet the costs of these services on a family budget.

Reform Measure #20: Improving social services and empowering marginalized groups

1. Description of measure: The aim of the measure is to promote social services, increase poverty coverage by the social assistance scheme, increase the number and quality of services according to social service standards, and increase the number of individuals employed in social enterprises. This measure is replicated by the previous ERP and its effective implementation requires a more firm approach. The Concept Document for the Law on Social and Family Services is approved in 2019 and the Concept Document for the amendment of the Law on Social Assistance Scheme is planned to be approved during 2020, however the financial cost of the amendments of the Laws is not projected in the MTEF 2020-22. Proposed activities will improve the legal framework for social services and social assistance, strengthen funding mechanisms and decentralize social services by establishing of a Special Social Services Grant, reform the Social Assistance Scheme, support to the non-governmental sector licensed for social services, support registered social enterprises and capacity building of social workers through the implementation of training programs.

a. Activities planned in 2020: 1) Drafting and adoption of the Law on Social and Family Services; 2) Draft and approve the Concept Document of the Law on Social Assistance Scheme; 3) Adoption of the Law on Local Government Finance and Administrative Instruction on Funding Formula for financing social and family services (MLSW); 4) Drafting and approval of regulations for registration of social enterprises (MLSW); 5) Adoption of the Administrative Instruction for the implementation of the Poverty Test for social categories (MLSW); 6) Support to the licensed non-governmental sector, with subsidies for the provision of social services (50 licensed beneficiary NGOs) (MLSW); 7) Development of vocational training programs for social workers (MLSW);

b. Activities planned in 2021: 1) Drafting of secondary legal framework (15 Administrative Instructions) for the Law on Social and Family Services (MLSW); 2) Drafting and adoption of the Law on and secondary legal framework (5 Administrative Instructions) for the Law on Social Assistance Scheme (MLSW); 3) Support to the licensed non-governmental sector, with subsidies for the provision of social services (70 licensed beneficiary NGOs) (MLSW); 4) Support of registered Social Enterprises with subsidies and grants for employment of marginalized groups (20-25 beneficiary social enterprises) (MLSW);

c. Activities planned in 2022: 1) Support the licensed non-governmental sector, with subsidies for the provision of social services (100 licensed beneficiary NGOs) (MLSW); 2) Support of registered social enterprises with subsidies and grants for employment of marginalized groups (20-25 beneficiary social enterprises) (MLSW).

2. Results Indicators:

Indicator	Baseline 2018	Intermediate target 2020	Target 2022
1. Increasing the coverage of families living in poverty by social assistance schemes.	50%	50% ⁴⁴	80%
2. Increase support and funding of social service delivery through the licensed non-governmental sector	30	50	100

⁴⁴ The medium target of the indicator is the same as the indicator baseline, because the impact starts after the adoption and commencement of the implementation of the Law on Social Assistance Scheme after 2021

3. Increase employment of marginalized groups, through the support of social enterprises	0	0	25
--	---	---	----

3. Expected impact on competitiveness: One of the conditions for increasing competitiveness and achieving economic growth is the establishment and functioning of a system that can ensure the right to adequate and accessible social protection for its citizens. Reforming social protection and social services will improve social cohesion; women and youth will be empowered through social entrepreneurship initiatives.

4. Estimation of the cost of activities and sources of funding: The total cost to implement this measure is estimated to be around Eur 25,000,000. Eur 1,660,000 is estimated to be the cost for 2020, of which Eur 1,250,000 is expected to be funded by the Kosovo Budget and 410,000 by donors. For 2021, the cost is estimated to be around Eur 2,350,000, of which Eur 1,200,000 is expected to be funded from the Kosovo Budget and Eur 1,150,000 from EU and other donor funds. Whereas the estimated cost for 2022 is Eur 21,000,000 of which Eur 20,500,000 is expected to be funded by the Kosovo Budget and the rest by donors. The cost of this measure is related to the implementation of the new Law on Financial Aid Scheme.

5. Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Access to social services for a large number of beneficiaries (especially children, people with disabilities, the elderly) as a result of improving the social assistance scheme and, on the other hand, increasing the quality of social services, as well as creating jobs as a result of the employment of social enterprises of individuals in need, will have a positive impact on the socio-economic situation of the most affected parts of the population. Improvements in the legal framework will lead to better living, working, nourishment, education and vocational training programs for people with special needs.

6. Expected impact on the environment: Social welfare is always positively related to the level of green preference of the consumer. Groups with low socio-economic level create environmental problems when consuming goods and services. Thus, reduction of poverty and improvement of quality of life of certain communities will impact the improvement of their living environment.

7. Potential risks:

Risk	Probability	Planned facilitating action
1. Delays in approving the primary and secondary legal framework	Low	Laws have been technically drafted and the consensus of the MLSW technical staff has been reached. Law has been also foreseen in the sector strategy.

5. COSTS AND FUNDING 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. The total estimated cost of the 20 priority reform measures referred to in Chapter 4 of the 2020-2022 ERP is estimated to be **Eur 667,088,629** (including direct budget expenditure, loans, IPA funds and others). These reforms are expected to be funded through Kosovo budget including KEDS and the private sector, but also external funding from financial institutions, grants and technical assistance from development partners.

The total direct budgetary impact arising from the implementation of 20 envisaged structural reforms amounts to **227,316,332.000** EUR for the period 2020-2022. The expected capital investments from the private sector and KEDS, mainly related to the implementation of structural Measure #1: Reducing Energy Consumption through Energy

Efficiency Measures and Reform Measure #2: Increasing diversity of energy sources, is expected to be 338,021,960 EUR.

A total of **53,726,319.00** EUR is expected to be support from donors during 2020-2022. The support is focused in enhancing further new reforms initiatives. A significant amount of grants from development partners such as WB, MCC and the EU will be provided to implement energy efficiency measure under Measure #1: Reducing Energy Consumption through Energy Efficiency Measures. The rest of donor support is mainly focused in supporting different legislative initiatives in a form of technical assistance. An additional **11,429,400.00 EUR** is expected as a support from IPA Funds. The largest share of this support is related to implementation of activities under Measure 13. Measure#13 Extension of relevant ICT networks and services infrastructure for socio-economic development.

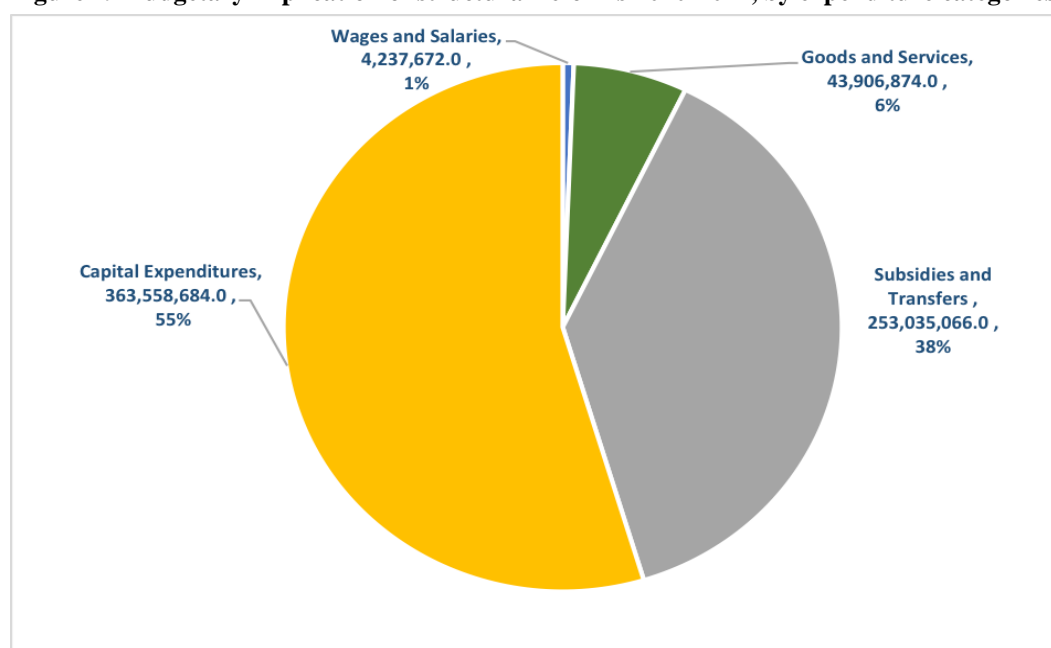
A significant number of activities related to energy efficiency measures, improvement of irrigation, inspection and extension of broadband network, are expected to be financed through Loans. The total impact of Loans for 2020-2022, that are already approved and are part of the 2020 Budget, are at 36,594,618.00 EUR

Figure 18 Budgetary implication of structural reforms 2020-2022, by financing sources

Year	Central Budget	IPA Funds	Other grants	Loans	To be determined (KEDS and private sector)	Total
2020	72,800,636	3,476,800	21,558,411	19,894,402	203,578,000	321,308,249
2021	67,742,485	4,088,800	18,981,997	12,088,203	89,753,000	192,654,485
2022	86,773,211	3,863,800	13,185,911	4,612,013	44,690,960	153,125,895
TOTAL	227,316,332	11,429,400	53,726,319	36,594,618	338,021,960	667,088,629

In terms of categories of spending, the largest share or about 55% of the total are capital expenditures, followed by subsidies at 38%. Wages and Salaries and Goods and Services, constitute about 7% of the overall expected spending for 2020-2022.

Figure 19 Budgetary implication of structural reforms 2020-2022, by expenditure categories



6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

This section presents the process of preparation and approval the Economic Reform Program 2020-2022, and consulting various stakeholders during the preparation process of this program as part of the dialogue on economic governance between EU and the Republic of Kosovo.

According to the Government Decision No.06/108, dated on 25 June 2019, the Minister of Finance has been appointed as National Coordinator for the ERP, whose work is supported by the Strategic Planning Office (Office of the Prime Minister); Department of Economic and Public Policy and International Financial Cooperation at the Ministry of Finance; and the coordinators of relevant areas within 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.

Based on instructions of the National Coordinator, on 2nd of July 2019, the SPO has invited the Ministries and other institutions for the Kick-off Meeting, in order to solicit contributions for the ERP drafting process. Therefore, on 9th of July , 2019, a high-level meeting was held on the Economic Reform Program, led by the Minister of Finance. Participants in the meeting were the ministers involved in the process, EU representatives, and embassies of EU Member States, development partners and international financial institutions, representatives from both civil society and private sector.

According to the working calendar presented at the kick-off event, the Strategic Planning Office with the support of the European Commission Project “Support for the Strategic Planning Office” has carried out the following activities:

- On 23-24 July 2019 was organized the workshop for the preparation of the Economic Reform Program 2020-2022.
- Preparing the first proposals of structural reform priorities based on the criteria of the European Commission Guidelines and related instructions.
- Two-day workshop on the proposed measures regarding the quality of presentation of objectives, activities, indicators, indicative cost and impact of the measure;
- On 25th of October 2019, the first draft of ERP was sent to the EC.
- On 7th of November 2019, the meeting with the Delegation of the European Commission to evaluate the first draft of the Economic Reform Program 2020-2022 took place. Thematic meetings on specific challenges identified by the European Commission Assessment for ERP 2019-2021 were also carried out within this mission.
- On November 20-21, a two-day workshop was held on the costing of structural reforms: ERP for the period 2020-2022 organized by the Center of Excellence in Finance.
- On 11 and 12 December, in the continuation of the consultation process of the draft of Economic Reform Program 2020-2022, meetings were held with civil society and foreign organizations in the country, after which the draft was submitted for public consultation on the government platform from 29.11.2019 to 20.12.2019 <http://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40832> A summary of the results of the consultations will be presented in Annex of the Program.

ANNEX 1 TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	2018	2018	2019	2020	2021	2022
		Level (mn EUR)	8			1	2
1. Real GDP at market prices	B1*g	6,658.620	3.8	4.0	4.4	4.5	4.5
2. Current GDP at market prices	B1*g	6,726.110	4.9	5.8	5.9	5.5	5.4
Components of real GDP							
3. Private consumption expenditure	P3	5,650.610	4.8	2.3	3.4	4.1	4.1
4. Government consumption expenditure	P3	939.560	8.9	1.3	10.5	0.3	0.6
5. Gross fixed capital formation	P51	1,834.320	6.1	3.0	7.3	5.3	5.1
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	132.530	45.4	10.3	3.2	4.0	3.6
7. Exports of goods and services	P6	1,774.600	3.8	10.0	8.7	8.1	8.1
8. Imports of goods and services	P7	3,673.000	9.0	3.1	7.8	5.1	5.0
Contribution to real GDP growth							
9. Final domestic demand		8,424.5	6.9	3.0	6.4	5.1	5.0
10. Change in inventories and net acquisition of valuables	P52+P53	132.5	0.6	0.1	0.0	0.1	0.0
11. External balance of goods/services	B11	-1,898.4	-3.7	0.9	-2.0	-0.7	-0.5

Table 1b: Price developments

Percentage changes, annual averages		2018	2019	2020	2021	2022
1. GDP deflator	%, yoy	1.0	1.7	1.4	1.0	0.9
2. Private consumption deflator	%, yoy	2.0	2.6	1.8	1.3	1.2
3. HICP	%, yoy	1.1	2.7	1.8	1.3	1.2
4. National CPI change	%, yoy	1.1	2.7	1.8	1.3	1.2
5. Public consumption deflator	%, yoy	0.4	1.2	3.3	2.5	3.2
6. Investment deflator	%, yoy	2.9	2.5	1.3	0.8	0.8
7. Export price deflator (goods & services)	%, yoy	0.2	0.5	0.4	0.2	0.3
8. Import price deflator (goods & services)	%, yoy	1.8	2.6	1.8	1.1	1.4

Table 1c: Labour markets developments

	ESA Code	2018	2018	2019	2020	2021	2022
	Level						
1. Population (thousands)		1,793.5	1,793	1,797	1,804	1,809	1,814
2. Population (growth rate in %)		1,793.5	0.0	0.2	0.3	0.3	0.3
3. Working-age population (persons)[1]		1,200.2	1,198.3	1,207.6	:	:	:

4. Participation rate		40.9	41.9	:	:	:
		42.8				
5. Employment, persons [2]		345.1	353.7	360.7	367.9	375.2
		357.1				
6. Employment, hours worked[3]		753,766	754,206.2	:	:	:
		779,895.5				
7. Employment (growth rate in %)		-3.4	2.5	2.0	2.0	2.0
		7.6				
8. Public sector employment (persons)		85.68	88.07	:	:	:
		87,531.1				
9. Public sector employment (growth in %)		-5.2	2.8	:	:	:
		9.3				
10. Unemployment rate [4]		29.6	30.1	:	:	:
		30.5				
11. Labour productivity, persons[5]		7.4	1.5	2.4	2.4	2.5
		17,717				
12. Labour productivity, hours worked[6]		7.4			:	:
		779.9				
13. Compensation of employees	D1	2.1		15.9	5.8	6.7
		2,263				

Table 1d: Sectoral balances

Percentages of GDP	ESA code	2018	2019	2020	2021	2022
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-5.6	-7.7	-5.8	-7.6	-7.0
<i>of which:</i>						
- Balance of goods and services		-25.5	-28.0	-26.6	-27.7	-27.3
- Balance of primary incomes and transfers		20.1	20.4	21.0	20.2	20.5
- Capital account		-0.2	-0.2	-0.2	-0.1	-0.1
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-2.6	-4.8	-0.2	-2.3	-2.5
3. Net lending/borrowing of general government		-3.0	-2.9	-5.6	-5.3	-4.5
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	2018	2019	2020	2021	2022
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	6,726.1	7,113.7	7,536.1	7,952.6	8,385.5
Investment ratio (% of GDP)		28.1	28.0	28.7	28.9	29.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-10.6	5.1	4.7	5.0	4.9
2. Industry (excluding construction)		2.4	5.1	3.6	5.0	4.8
3. Construction		9.3	0.2	4.9	4.3	6.5
4. Services		6.7	4.3	4.0	3.8	3.5

Table 1f: External sector developments

Million Euro unless otherwise indicated		2018	2019	2020	2021	2022
1. Current account balance (% of GDP)	% of GDP	-9.0	-7.7	-9.0	-8.7	-8.4
2. Export of goods	mn EUR	376.7	398.2	425.0	437.6	448.7
3. Import of goods	mn EUR	3,115	3,273	3,604	3,820	4,052
4. Trade balance	mn EUR	-2,738	-2,875	-3,179	-3,383	-3,603
5. Export of services	mn EUR	1,562	1,744	1,913	2,099	2,302
6. Import of services	mn EUR	706	762	823	889	960
7. Service balance	mn EUR	856	982	1,090	1,210	1,342
8. Net interest payments from abroad	mn EUR	18.7	28.0	30.0	37.0	42.0
9. Other net factor income from abroad	mn EUR	:	:	:	:	:
10. Current transfers	mn EUR	1,260	1,316	1,380	1,446	1,516
11. <i>Of which</i> from EU	mn EUR	:	:	:	:	:
12. Current account balance	mn EUR	-603.2	-549.2	-678.7	-690.0	-703.2
13. Foreign direct investment	mn EUR	-225.8	-245.8	-250.5	-284.3	-266.9
14. Foreign reserves	mn EUR	86.8	:	:	:	:
15. Foreign debt	mn EUR	2,035.7	2,150.6	:	:	:
16. <i>Of which</i> : public	mn EUR	498.4	498.8	:	:	:
17. <i>O/w</i> : foreign currency denominated	mn EUR	:	:	:	:	:
18. <i>O/w</i> : repayments due	mn EUR	:	:	:	:	:
19. Exchange rate vis-à-vis EUR (end - year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
20. <i>Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	0.0	0.0	0.0	0.0	0.0
21. Net foreign saving (lines 21-25; percentages of GDP)	% of GDP	19.1	20.3	19.7	20.2	20.6
22. Domestic private saving	% of GDP	13.9	15.4	14.3	14.6	14.5
23. Domestic private investment	% of GDP	20.1	20.4	20.7	20.9	21.0
24. Domestic public saving	% of GDP	5.2	4.9	5.4	5.6	6.2
25. Domestic public investment	% of GDP	7.9	7.6	8.1	8.0	8.0

Table 1g: Sustainability indicators

	Dimension	2015	2016	2017	2018	2019	2018
1. Current Account Balance	% of GDP	-6.0	-7.4	-6.8	-4.6	-6.4	-4.8
2. Net International Investment Position	% of GDP	3.1	-0.6	-1.1	-1.3	-5.1	-5.4
3. Export market shares	%, yoy	3.1	-5.2	11.8	12.5	6.6	:
4. Real Effective Exchange Rate [1]	%, yoy	0.2	-1.8	-0.1	0.3	-0.3	2.3
5. Nominal Unit Labour Costs	%, yoy	-0.7	-6.9	-5.2	2.3	-2.5	1.2
6. Private sector credit flow	% of GDP	:	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:	:
8. General Government Debt	% of GDP	:	:	:	:	:	:

Table 2a: General government budgetary prospects

	ESA code	2018	2018	2019	2020	2021	2022
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-199.2	-3.0	-2.9	-5.6	-5.3	-4.5
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1,756.6	26.1	26.5	27.2	26.7	26.7
7. Total expenditure[1]	TE	1,955.8	29.1	29.4	32.7	32.0	31.2
8. Net borrowing/lending	EDP.B9	-199.2	-3.0	-2.9	-5.6	-5.3	-4.5
9. Interest expenditure	EDP.D41	18.7	0.3	0.3	0.4	0.5	0.5
10. Primary balance[2]		-180.5	-2.7	-2.6	-5.2	-4.8	-4.0
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,563.8	23.2	24.0	24.0	23.7	23.8
12a. Taxes on production and imports	D2	1,296.2	19.3	19.9	19.9	19.6	19.6
12b. Current taxes on income and wealth	D5	267.5	4.0	4.1	4.1	4.1	4.2
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	:	:	:	:	:	:
15. Other (15 = 16-(12+13+14)) [4]		192.9	2.9	2.5	3.1	3.0	2.9
16 = 6. Total revenue	TR	1,756.6	26.1	26.5	27.2	26.7	26.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,563.8	23.2	24.0	24.0	23.7	23.8
Selected components of expenditures							
17. Collective consumption	P32	845.1	12.6	12.8	13.4	13.2	13.0
18. Total social transfers	D62 + D63	558.8	8.3	8.8	8.4	7.9	7.6
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	558.8	8.3	8.8	8.4	7.9	7.6

19 = 9. Interest expenditure	EDP.D41 + FISIM	18.7	0.3	0.3	0.4	0.5	0.5
20. Subsidies	D3	:	:	:	:	:	:
21. Gross fixed capital formation	P51	533.2	7.9	7.5	10.5	10.4	10.1
22. Other (22 = 23-(17+18+19+20+21) [6])		:	:	:	0.1	0.1	0.1
23. Total expenditures	TE [1]	1,955.8	29.1	29.4	32.7	32.0	31.2
p.m. compensation of public sector employees	D1	592.6	8.8	8.7	8.7	8.7	8.7

Table 2b: General government budgetary prospects

		2018	2019	2020	2021	2022
ESA code						
Net lending (B9) by sub-sectors						
1. General government	S13	-199	-205	-419	-420	-376
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	1,757	1,885	2,047	2,124	2,239
7. Total expenditure[1]	TE	1,956	2,091	2,467	2,544	2,616
8. Net borrowing/lending	EDP.B9	-199	-205	-419	-420	-376
9. Interest expenditure	EDP.D41 incl. FISIM	19	23	30	37	42
10. Primary balance[2]		-180	-182	-389	-383	-334
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,564	1,707	1,810	1,888	1,995
12a. Taxes on production and imports	D2	1,296	1,415	1,498	1,559	1,647
12b. Current taxes on income and wealth	D5	268	292	313	329	348
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14)) [4]		193	179	237	235	245

16 = 6. Total revenue	TR	1,757	1,885	2,047	2,124	2,239
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,564	1,707	1,810	1,888	1,995
Selected components of expenditures						
17. Collective consumption	P32	845	909	1006	1047	1089
18. Total social transfers	D62 + D63	559	627	632	630	634
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	559	627	632	630	634
19 = 9. Interest expenditure	EDP.D41 + FISIM	19	23	30	37	42
20. Subsidies	D3	:	:	:	:	:
21. Gross fixed capital formation	P51	533	531	793	825	846
22. Other (22 = 23-(17+18+19+20+21) [6])		:	0	5	5	5
23. Total expenditures	TE [1]	1956	2091	2467	2544	2616
p.m. compensation of public sector employees	D1	593	616	654	691	730

Table 3: General government expenditure by function

Percentage of GDP	COFOG Code	2018	2019	2020	2021	2022
1. General public services	1	3.6	4.2	:	:	:
2. Defence	2	0.7	0.5	:	:	:
3. Public order and safety	3	2.6	1.9	:	:	:
4. Economic affairs	4	6.7	4.3	:	:	:
5. Environmental protection	5	0.2	0.2	:	:	:
6. Housing and community amenities	6	0.6	0.5	:	:	:
7. Health	7	3.0	2.8	:	:	:
8. Recreation, culture and religion	8	0.8	0.8	:	:	:
9. Education	9	4.5	4.3	:	:	:
10. Social protection	10	6.5	6.9	:	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	29.1	29.4	32.7	32.0	31.2

Table 4: General government debt developments

Percentage of GDP	ESA code	2018	2019	2020	2021	2022
1. Gross debt [1]		16.3	16.9	18.2	19.3	20.1
2. Change in gross debt ratio		16.3	0.6	1.3	1.2	0.8
Contributions to change in gross debt						
3. Primary balance [2]		2.7	2.6	5.2	4.8	4.0
4. Interest expenditure [3]		0.3	0.3	0.4	0.5	0.5
5. Stock-flow adjustment		13.3	-2.3	-4.3	-4.1	-3.7
<i>of which:</i>						

- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		1.9	2.1	2.5	2.7	2.7
Other relevant variables						
6. Liquid financial assets [8]		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA Code	2018	2019	2020	2021	2022
1. Real GDP growth (%)	B1g	3.8	4.0	4.4	4.5	4.5
2. Net lending of general government	EDP.B.9	-3.0	-2.9	-5.6	-5.3	-4.5
3. Interest expenditure	EDP.D.41	0.3	0.3	0.4	0.5	0.5
4. One-off and other temporary measures [1]		:	:	:	:	:
5. Potential GDP growth (%. yoy)		4.1	4.2	4.3	4.3	4.2
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-0.1	-0.2	-0.1	0.1	0.4
7. Cyclical budgetary component		-2.7	-2.9	-5.9	-5.7	-5.1
8. Cyclically-adjusted balance (2-7)		-0.3	0.1	0.3	0.4	0.6
9. Cyclically-adjusted primary balance (8-3)		0.0	0.4	0.7	0.9	1.1
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	2018	2019	2020	2021	2022
1. GDP growth (% points)					
Previous	4.3	4.7	4.2	4.8	:
Current	3.8	4.0	4.4	4.5	4.5
Difference	-0.5	-0.7	0.2	-0.3	:
2. General government net lending (% of GDP)					
Previous	-2.4	-5.4	-4.9	-4.0	:
Current	-3.0	-2.9	-5.6	-5.3	-4.5
Difference	-0.6	2.6	-0.6	-1.3	:
3. General government gross debt (% of GDP)					
Previous	16.2	19.6	21.5	22.5	:
Current	16.3	16.9	18.2	19.3	20.1
Difference	0.1	-2.7	-3.3	-3.2	:

Table 7a: General government guarantees

% of GDP	2019	2020

Public guarantees	0.7	0.7
Of which: linked to the financial sector	0.6	0.5
Other contingent liabilities		

Table 8: Basic assumptions on the external economic environment [1]

	Dimension	2018	2019	2020	2021	2022
Short-term interest rate	Annual average	-0.3	-0.4	-0.3	-0.3	-0.3
Long-term interest rate	Annual average	-0.1	0.4	0.3	0.4	0.6
USD/EUR exchange rate	Annual average	1.18	1.12	1.1	1.1	1.1
Nominal effective exchange rate	Annual average	5.2	-0.6	0.5	0	:
Exchange rate vis-à-vis the EUR	Annual average	1	1	1	1	1
Global GDP growth, excluding EU	Annual average	3.8	3.2	3.3	3.4	:
EU GDP growth	Annual average	2.2	1.526	1.64	1.661	1.597
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	4.1	0.4	2.1	2.5	:
Oil prices (Brent, USD/barrel)	Annual average	71.071	64.39 4	60.4 9	57.96 8	57.28 8

Table 9. Selected employment and social indicators

	Data source	2013	2014	2015	2016	2017	2018
1. Labour market participation rate (%) total (20-64 years old)	LFS (SAK)	40.5	41.6	37.6	38.7	42.8	40.9
- male	LFS (SAK)	60.2	61.8	56.7	58.3	65.3	63.3
- female	LFS (SAK)	21.1	21.4	18.1	18.6	20.0	18.4
2. Employment rate (%) total	LFS (SAK)	28.4	26.9	25.2	28.0	29.8	28.8
- male	LFS (SAK)	44.0	41.3	38.7	43.0	46.6	45.3
- female	LFS (SAK)	12.9	12.5	11.5	12.7	12.7	12.3
3. Unemployment rate (%) total	LFS (SAK)	30.0	35.3	32.9	27.5	30.5	29.6
- male	LFS (SAK)	26.9	33.1	31.8	26.2	28.7	28.5
- female	LFS (SAK)	38.8	41.6	36.6	31.8	36.6	33.4
4. Long-term unemployment rate (%) total		n/a	n/a	n/a	n/a	n/a	n/a
- male		n/a	n/a	n/a	n/a	n/a	n/a
- female		n/a	n/a	n/a	n/a	n/a	n/a
5. Youth unemployment (15-24 yrs) rate (%) total	LFS (SAK)	55.9	61.0	57.7	52.4	52.7	55.4
- male	LFS (SAK)	50.4	56.2	54.2	47.2	48.4	51.5
- female	LFS (SAK)	68.4	71.7	67.2	65.4	63.5	64.7

6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %	LFS (SAK)	35.3	30.2	31.4	30.1	27.4	30.1
7. Early school leavers, in % (Eurostat)		n/a	n/a	n/a	n/a	n/a	n/a
8. PISA rating					69		
9. PIAAC rating							
10. Participation rate in early childhood education and care /1		n/a	n/a	n/a	n/a	n/a	n/a
11. GINI coefficient		n/a	n/a	n/a	n/a	n/a	n/a
12. Inequality of income distribution S80/S20		n/a	n/a	n/a	n/a	n/a	n/a
13. Social protection expenditure in % of GDP	Treasury Dept.	4.2	5.0	5.1	6.4	6.3	6.6
14. Health expenditure in % of GDP		2.7	2.1	2.8	2.8	2.8	3
15. At-risk-of-poverty before social transfers, % of the population		n/a	n/a	n/a	n/a	n/a	n/a
16. Poverty rate		n/a	n/a	n/a	n/a	n/a	n/a
17. Poverty gap		n/a	n/a	n/a	n/a	n/a	n/a
Other indicators used in the EU Social Scoreboard							
18. Real adjusted GDHI- per capita in PPS(Index 2008=100)							
19. Impact of social transfers (other than pensions) on poverty reduction							
20. Self-reported unmet need for medical care							
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)							

Table 10a and 10b: Costing and financing of structural reform measures

Table 10a: Costing of structural reform measure: Measure #1: Reducing Energy Consumption through Energy Efficiency Measures								
Year	Wages	Goods and Services		Subsidies and Transfers		Capital Expenditures	Total	
2020		4,247,650		19,400,000		39,431,000	63,078,650	
2021		2,409,747		11,700,000		24,603,000	38,712,747	
2022		10,000,000				20,000,960	30,000,960	
Table 10b: Financing of structural reform measure: Measure #1: Reducing Energy Consumption through Energy								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	3,140,000.00	0.00		0.00	16,147,650.00	7,500,000.00	36,291,000.00	63,078,650
2021	0.00	0.00		0.00	14,109,747.00	0.00	24,603,000.00	38,712,747
2022	0.00	0.00		0.00	10,000,000.00	0.00	20,000,960.00	30,000,960
Table 10a: Costing of structural reform measure: Measure #2: Increasing diversity of energy sources								
Year	Wages	Goods and Services	Subsidies and Transfers		Capital Expenditures		Total	
2020	750,000		2,000,000		167,280,000		170,030,000	
2021	750,000				65,150,000		65,900,000	
2022					24,690,000		24,690,000	
Table 10b: Financing of structural reform measure: Measure #2: Increasing diversity of energy sources								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants (WB, WBIF)	Project loans	To be determined (Private Sector)	Total
2020					2,750,000.00	0.00	167,280,000.00	170,030,000
2021					750,000.00	0.00	65,150,000.00	65,900,000
2022						0.00	24,690,000.00	24,690,000
Table 10a: Costing of structural reform measure: Measure #3: Structural changes in the agriculture sector								
Year	Wages	Goods and Services		Subsidies and Transfers		Capital Expenditures	Total	
2020		2,220,000		49,477,022		3,500,000	55,197,022	

2021			500,000		49,477,022		1,000,000	50,977,022
2022			500,000		49,477,022			49,977,022
Table 10b: Financing of structural reform measure: Measure #3: Structural changes in the agriculture sector								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans (WB)	To be determined	Total
2020	49,477,022.00	0.00	0.00	700,000.00	0.00	6,370,333.00	0.00	55,197,022.00
2021	47,101,826.00	0.00	0.00	0.00	0.00	3,875,196.00	0.00	50,977,022.00
2022	49,977,022.00	0.00	0.00	0.00	0.00	0.00	0.00	49,977,022.00
Table 10a: Costing of structural reform measure: Measure #4: Increasing competitiveness in the production industry								
Year	Wages	Goods and Services	Subsidies and Transfers			Capital Expenditures	Total	
2020	0.00	83,890.00	1,150,000.00			1700000.00	2,933,890	
2021	0.00	55,000.00	1,150,000.00			0.00	1,205,000	
Table 10b: Financing of structural reform measure: Measure #4: Increasing competitiveness in the production industry								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	2,740,000	0	0	0	43,890	150,000	0	2,933,890
2021	1,040,000	0	0	0	15,000	150,000	0	1,205,000
Table 10a: Costing of structural reform measure: Measure #5: Increasing Competitiveness in the Tourism and hospitality Sector								
Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total			
2020		78,890	500,000		578,890			
2021		20,000	220,000		240,000			
Table 10b: Financing of structural reform measure: Measure #5: Increasing Competitiveness in the Tourism and hospitality Sector								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	520,000.00				58,890.00			578,890
2021	20,000.00			220,000.00				240,000
Table 10a: Costing of structural reform measure: Measure #6: Increase of competitiveness in the sector of trade in services								

Year	Wages	Goods and Services		Subsidies and Transfers	Capital Expenditures	Total		
2020			27000		10000	37,000		
2021			14000			14,000		
2022			34000			34,000		
Table 10b: Financing of structural reform measure: Measure #6: Increase of competitiveness in the sector of trade in services								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	17,000			15,000		5,000		37,000.00
2021	9,000					5,000		14,000.00
2022	34,000							34,000.00
Table 10a: Costing of structural reform measure: Measure #7: Adoption of Data-Based Policies and Reduction of Administrative Burden								
Year	Wages	Goods and Services		Subsidies and Transfers	Capital Expenditures	Total		
2020			306,000			306,000		
2021			214,000			214,000		
Table 10b: Financing of structural reform measure: Measure #7: Adoption of Data-Based Policies and Reduction of Administrative Burden								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	20,000.00				286,000.00			306,000
2021					214,000.00			214,000
Table 10a: Costing of structural reform measure: Measure #8: General Inspection Reform								
Year	Wages	Goods and Services		Subsidies and Transfers	Capital Expenditures	Total		
2020		77334.00	132000.00			209,334		
2021		80659.00	122000.00		2677746.00	2,880,405		
2022		83079.00	112000.00		971576.00	1,166,655		
Table 10b: Financing of structural reform measure: Measure #8: General Inspection Reform								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	209,334.00							209,334
2021	202,659.00					2,677,746.00		2,880,405

2022	195,079.00					971,576.00		1,166,655
Table 10a: Costing of structural reform measure: Measure #9: Establishment and functioning of the Commercial Court								
Year	Wages		Goods and Services		Subsidies and Transfers	Capital Expenditures	Total	
2020			25,440				25,440	
2021	557,100		341,925				899,025	
2022	557,100		222,705				779,805	
Table 10b: Financing of structural reform measure: Measure #9: Establishment and functioning of the Commercial Court								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020					25,440.00			25,440
2021	758,000.00				141,025.00			899,025
2022	701,600.00				78,205.00			779,805
Table 10a: Costing of structural reform measure: Measure #10: Reduction of informality in the real estate sector								
Year	Wages		Goods and Services		Subsidies and Transfers	Capital Expenditures	Total	
2020			55,205				55,205	
2021			28,205				28,205	
Table 10b: Financing of structural reform measure: Measure #10: Reduction of informality in the real estate sector								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020					55,205			55,205
2021					28,205			28,205
Table 10a: Costing of structural reform measure: Measure # 11: Reducing the Informal Economy								
Year	Wages		Goods and Services		Subsidies and Transfers	Capital Expenditures	Total	
2020	294,000		87,500				381,500	
2021	420,000		21,640				441,640	
2022	462,000		11,510				473,510	
Table 10b: Financing of structural reform measure: Measure # 11: Reducing the Informal Economy								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	381,500.00							381,500

2021	430,000.00				11,640.00			441,640
2022	473,510.00							473,510

Table 10a: Costing of structural reform measure: Measure #12: Improving the Environment for Innovation

Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2020		90,000	7,500,000		7,590,000
2021		48,000	8,500,000	1,550,000	10,098,000
2022		145,000	6,500,000	1,500,000	8,145,000

Table 10b: Financing of structural reform measure: Measure #12: Improving the Environment for Innovation

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	7,566,000.00				24,000.00			7,590,000
2021	10,050,000.00				48,000.00			10,098,000
2022	8,085,000.00				60,000.00			8,145,000

Table 10a: Costing of structural reform measure: Measure #13: Extension of relevant ICT networks and services infrastructure for socio-economic development

Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2020		3,063,343	2,700,000	4,255,726	10,019,069
2021		4,461,348	2,700,000	3,158,913	10,320,261
2022		4,130,674	2,700,000	1,809,763	8,640,437

Table 10b: Financing of structural reform measure: Measure #13: Extension of relevant ICT networks and services infrastructure for socio-economic development

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	1,500,000.00			2,650,000.00		5,869,069.00		10,019,069
2021	1,200,000.00			3,800,000.00		5,320,261.00		10,320,261
2022	1,200,000.00			3,800,000.00		3,640,437.00		8,640,437

Table 10a: Costing of structural reform measure: Measure #14: Trade facilitation through reducing the cost of trading transactions

Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2020		32,000			32,000
2021		22,000			22,000
2022		22,000			22,000

Table 10b: Financing of structural reform measure: Measure #14: Trade facilitation through reducing the cost of trading transactions

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants (EU Project)	Project loans	To be determined	Total
------	----------------	--------------	---------------------------------------	-----------	---------------------------	---------------	------------------	-------

2020	2,000				23,000		7,000	32,000
2021	7,000			5,000	10,000			22,000
2022	12,000				10,000			22,000
Table 10a: Costing of structural reform measure : Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products								
Year	Wages	Goods and Services	Subsidies and Transfers		Capital Expenditures		Total	
2020	30,000	180,000	34,000		180,000		424,000	
2021		65,000			60,000		125,000	
Table 10b: Financing of structural reform measure: Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	225,000				199,000			424,000
2021	7,000				58,000	60,000		125,000
Table 10a: Costing of structural reform measure: Measure #16: Developing early childhood education with an inclusive approach through completing legislative and physical infrastructure and reforming curriculum								
Year	Wages		Goods and Services		Subsidies and Transfers	Capital Expenditures	Total	
2020			49,000				49,000	
2021	18,000		37,000				55,000	
2022	33,000		58,000				91,000	
Table 10b: Financing of structural reform measure: Measure #16: Developing early childhood education with an inclusive approach through completing legislative and physical infrastructure and reforming curriculum								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	49,000.00	0.00	0.00	0.00	0.00	0.00	0.00	49,000
2021	55,000.00	0.00	0.00	0.00	0.00	0.00	0.00	55,000
2022	91,000.00	0.00	0.00	0.00	0.00	0.00	0.00	91,000
Table 10a: Costing of structural reform measure: Measure #17: Implementation of the new curriculum framework in the vocational education and training system								
Year	Wages		Goods and Services		Subsidies and Transfers		Capital Expenditures	Total
2020			1,994,032					1,994,032
2021			2,635,032					2,635,032
2022			2,004,032					2,004,032

Table 10b: Financing of structural reform measure: Measure #17: Implementation of the new curriculum framework in the vocational education and training system								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants (ALLED, GIZ, MCC, Lux Development)	Project loans	To be determined	Total
2020	1,050,000.00				944,032.00			1,994,032.00
2021	1,050,000.00				1,585,032.00			2,635,032.00
2022					2,004,032.00			2,004,032.00
Table 10a: Costing of structural reform measure: Measure #18: Enhancement and quality assurance in higher education by strengthening quality oversight mechanisms, improving the funding system and profiling higher education institutions								
Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total			
2020	125,400	135,140			260,540			
2021		175,800			175,800			
2022		66,800			66,800			
Table 10b: Financing of structural reform measure: Measure #18: Enhancement and quality assurance in higher education by strengthening quality oversight mechanisms, improving the funding system and profiling higher education institutions								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	133,780.00			111,800.00	14,960.00			260,540.00
2021	112,000.00			63,800.00				175,800.00
2022				63,800.00	3,000.00			66,800.00
Table 10a: Costing of structural reform measure: Measure #19: Improving and expanding public employment services and increasing the employability of long-term unemployed, young people, women and other vulnerable groups								
Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total			
2020		596,344	4,500,000		5,096,344			
2021		861,348	4,500,000		5,361,348			
2022		534,674	4,500,000		5,034,674			
Table 10b: Financing of structural reform measure: Measure #19: Improving and expanding public employment services and increasing the employability of long-term unemployed, young people, women and other vulnerable groups								
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	To be determined	Total
2020	4,520,000				576,344			5,096,344.00
2021	4,500,000				861,348			5,361,348.00

2022	4,504,000				530,674			5,034,674.00
Table 10a: Costing of structural reform measure: Measure #20: Improving social services								
Year	Wages	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total			
2020		480,000	1,150,000	30,000	1,660,000			
2021		150,000	2,200,000		2,350,000			
2022			21,000,000		21,000,000			
Table 10b: Financing of structural reform measure: Measure #20: Improving social services								
Year	Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants	Project loans	Total
2020	1,250,000.00				410,000.00			1,660,000
2021	1,200,000.00				1,150,000.00			2,350,000
2022	20,500,000.00				500,000.00			21,000,000

Table 11: Reporting on the implementation of the structural measures of the ERP 2019-2021

Reform Measure #1: Reduction of energy consumption through energy efficiency measures;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Implementation of EE measures in about 50 public buildings and commence implementation in 30 other public buildings (MED);	4
	2) Implementation of EE measures in households in 600 houses, and in 5 multi-storey buildings and installing meters for measuring heat consumption and thermostatic valves for about 3000 households in Prishtina (MFK)	2
	3) Grants allocation for Efficiency Measures for Women's Businesses (MFK);	2
	4) Construction of district heating in Gjakova with biomass energy sources (MED);	3
	5) Functionalising the EE Fund;	4
	6) Implementation of investment plan for strengthening, network expansion and medium voltage projects to reduce technical and commercial losses (KESCO).	5
Description of implementation and explanation if partial or no implementation	<p>1. Under the Kosovo Energy Efficiency and Renewable Energy Project (KEEREP) implemented by KEEA and supported by the WB, with the key objective of reducing energy consumption and fossil fuel use in public buildings through EE and renewable energy (RE) investments, by the end of 2018, 32 buildings have been renovated, while 25 other buildings are being renovated to be finalized by the end of 2019. By the end of the project, about 100 buildings are expected to be renovated. Under energy measures, KEEREP includes: building envelope (windows, doors, and wall/roof insulation), heating systems (boilers, insulation pipes, radiators, valves/controls, meters), fuel replacement (lignite/petroleum biomass or central heating when there is solar heating, heat pumps), cooling and ventilation, pumps / fans, lighting and improved operations and maintenance practices.</p> <p>On 31 October 2018, a service contract was implemented with the primary aim to develop an implementation plan for the new requirement to establish Home Owners Associations (HOAs) and to promote their establishment through a pilot program. Nine HOAs in three municipalities (Prishtina, Mitrovica and Lipjan) have been established, which almost doubled the number of HOAs registered in Kosovo, through extensive outreach activities including distribution of brochures and posters, posting of information on websites of the municipality and social media and the organizations in town halls which were covered in newspapers and television, prepared energy audit reports, design and technical specifications.</p>	
	2. A contract has been signed with the Consultant for Implementation of EE measures.	

	<p>3. A contract has been signed with the Consultant for Implementation of EE measures.</p> <p>4. The necessary documents were provided including the MESP Construction Permit and the final authorization by ERO. The foundation stone has been laid on 10.12.2019 and now construction work is continuing. The construction of the New District Heating is done by URBAS company from Austria, while the supervision of the works is carried out by EGIS company from France.</p> <p>5. Currently the main staff has been recruited and the EE Fund offices will be ready by the end of this month. € 1 million has been transferred to the KEEF bank account through MED / KAEE and the financing agreement by the World Bank and the European Union Office is currently in the process of being finalized. Regulations have been prepared and approved and the operation manual has been drafted and approval is pending.</p> <p>6. Distribution System Operator (DSO) has revised its investment plan during 2019, focusing more on low voltage investments, with the aim of achieving better results in terms of reducing technical and commercial losses. Preliminary data indicate that € 20 million have been invested over 2019, through which DSO has managed to reduce technical and commercial losses by 2%, which is higher than planned in the Energy Strategy (1.5% reduction). At the same time, 2019 marks the beginning of the operation of production by consumers (prosumers), 7 of whom are connected to the distribution system and have started their operations. In December 2019, these 'prosumers' also received the first invoices according to the principles defined by ERO (with all necessary corrections).</p>	
Reform Measure #2: Further development of energy generation capacities;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Commencement of construction of TPP Kosova e Re (MED);	4
	2) Implementation of fourteen new projects of small HPPs with total installed capacity of 61.8 MW (MED);	4
	3) Implementation of two new wind energy projects with a total installed capacity of 32.4 MW (MED);	5
	4) Implementation of two solar Energy projects with total capacity of 3MW and 0.4MW total.	5
Description of implementation and	1. The preferred bidder for EPC and LTM contracts (engineering, procurement, construction and long-term maintenance) has been selected). Negotiations are currently under way to improve the terms of the contract and reach a final agreement. The financial closure of the project and the commencement of construction of the power plant under commercial agreements are expected to occur within the first 6 months of 2020.	

explanation if partial or no implementation	2. During 2019, three new hydropower projects with a total installed capacity of 18.69 MW were put into operation, while 57.5 MW are under construction	
	3. The wind power project with an installed capacity of 32.4 operationalized at the end of 2018	
	4. The photovoltaic power project with an installed capacity of 0.4 MW and 3 MW was operationalized on 18.09.2019.	
Reform Measure #3: Structural changes in agro-processing sector;		
	Stage of reform implementation (1-5)	
Activities planned for 2019	1) Development of Agriculture Rural Development Programme 2021 – 2027;	2
	2) Development of master plan for irrigation of agricultural land at country level	2
	3) Improvement of irrigation infrastructure, 1200 ha of agricultural areas under irrigation;	4
	4) Provision of services for the education and training of 4000 farmers;	5
	5) Implementation of the program for direct payments for raising the areas in the grain sector, horticulture sector and homeland, supporting 29,200 farmers, 60,000 ha of land, 16,500 heads and 11,000 hives;	4
	6) Implementation of the program for investments in physical assets of agricultural economies and investments in physical assets in the processing and marketing of agricultural products by supporting 557 projects;	4
	7) Investment on the construction of the storage with large capacities for storage, selection and packing of fruits and vegetables in the region of Mitrovica;	4
	8) Investment on establishing the factory for processing organic waste in the region of Gjilan, and investment on establishing a factory for boiler production in the region of Peja.	4
Description of implementation and explanation if partial or no implementation	1. The final draft of the 2014-20 ARDP mid-term evaluation report has been prepared, while preparations for sectorial analysis are underway in cooperation with the EU office, to further proceed with the development of the Agriculture and Rural Development Program 2021-2027.	
	2. Following the selection of the beneficiary company, work is on-going with all stakeholders in collecting various data to assist in the drafting of the Master Plan, the first version of the Initial report of Master Plan has been received, also two committees established are continuing their work with regular meetings based on the duties of committees, so far two meetings of both committees were held, both of the steering committee and the national committee.	

	<p>3. Regarding the improvement of irrigation infrastructure of agricultural areas under irrigation, four projects were completed in 2019, which were on-going from 2018:</p> <ol style="list-style-type: none"> 1. Project of expansion of irrigation system in the village of Frashër-Mitrovica where the network has been expanded for over 200 ha. 2. Expansion of irrigation system in the villages of Pantina and Samadraxha, with over 300 ha rehabilitated for irrigation. 3. Expansion of irrigation system in the villages of Piranë, Landovicë, Tupec and Krajkë-Prizren, with over 330 ha, as well as the 4th project in the same municipality as a continuation of expansion of the irrigation system in the villages of Piranë, Landovicë, Tupec and Krajkë-Prizren. <p>Regarding the Radoniq & Dukagjini Rehabilitation Project, a commission for the evaluation of economic operators for the implementation of works has been established.</p>
	<p>4. So far, a total of 4,701 farmers have been trained in the fields of livestock and veterinary, plant protection, vegetable cultivation and land cultivation, fruit growing and viticulture, beekeeping, agro-processing, irrigation, farm management, environment protection and agro-economy.</p>
	<p>5. The Call for Applications for Direct Payments for 2019 has been published from 30.05.2019 to 30.06.2019. The application process was organized in all municipalities of the Republic of Kosovo. Necessary trainings were delivered for the municipal agriculture office staff regarding the application process. After this phase, an administrative review of direct payment applications was carried out, field inspections commenced and payment lists were authorized for 13,697 farmers, in the total amount of € 11,891,328.14.</p>
	<p>6. During this period, work has been done in the process of administrative control and evaluation of RDP for measure 101- Investments in physical assets in agricultural households, measure 103-Investments in physical assets in processing and marketing of agricultural products, for measure 302-Farm diversification and businesses development, out of the total number of applicants for these measures of 1,543, 1,232 applications or 79.84% of all applications received for all measures for RDP 2019 were treated with administrative controls and evaluation. Regarding the contracted beneficiaries for measure 101, in total there are 101 beneficiaries, for measure 103 there are 6 contracted beneficiaries, for measure 302 there are 141 contracted beneficiaries, for LAG measure there are 11 contracted beneficiaries and for irrigation measure 2 contracted beneficiaries. A total of 461 projects were contracted.</p>
	<p>7. Beneficiary companies were selected, two companies with 50/50 co-financing worth € 1 mil. From public support and € 1 mil. From the beneficiaries.</p>

	8. Beneficiary companies were selected, two companies with 50/50 co-financing worth € 1 mil. From public support and € 1 mil. From the beneficiaries.	
Reform Measure #4: Consolidation and inventory of agricultural land;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Development of Concept Document on Inventory of Agricultural Land;	2
	2) Development of Concept Document on Regulation of Agricultural Land;	3
	3) Voluntary consolidation of 25 ha of agricultural land in the Municipality of Rahovec;	3
	4) Further regulation and protection from the unplanned change of destination of agricultural land by supporting municipalities in the preparation of municipal zoning maps in Peja, Drenas, Podujeva, Gjilan and Lipjan;	3
	5) Development of national integrated system GIS – database	4
Description of implementation and explanation if partial or no implementation	1. Concerning the Concept Document on Agricultural Land Inventory, the Working Group on drafting of the CD for the National Program for Agricultural Land Inventory of the Republic of Kosovo, in consultation with the GCS, has decided that this Concept Document should be a ministerial document, while the project implementation is at a stage of execution.	
	2. Draft Concept Document on Agricultural Land has been drafted, currently is under translation for further proceeding - Public Discussion, pursuant to Article 7 of the Rules of Procedure of the Government.	
	3. The FAO-funded “Voluntary Land Consolidation Methodology Support” Project is continuing discussions with participating farmers on project design implemented by FAO experts, obtaining “consents” and their requests for: purchase and sale of parcels, reallocation of parcels, merging of their parcels, access of parcels on the road, manner, methodology and standards to be used in agricultural land assessments, etc., based on Project Terms of Reference (ToR), in 25 ha in Celina, Municipality of Rahovec. Difficulty arises in the possibility and manner of contacting the owners of some cadastral parcels who are abroad.	
	4. The project is supporting the MAFRD, MESP and the 10 Kosovo municipalities in terms of Spatial Planning. The project is supporting the municipalities of Peja, Drenas, Podujevo, Gjilan and Lipjan in drafting the Municipal Zoning Maps and providing technical assistance to the Municipal Development Plans including the Rural Spatial Plan in order to protect agricultural land from unplanned urban construction, based on provisions of the Law No. 04/L-174 on Spatial Planning. Whereas municipalities (Suhareka, Malisheva, Fushe Kosova, Klina) are being supported on compilation of	

	<p>spatial database. During 2019, 82 requests for change of destination were submitted to MAFRD, 50 consents were granted, 7 rejections were made and 25 cases are under review by MAFRD commission.</p> <p>5. During this period, work has continued on updating data in the MAFRD Geo-database, creating a set of spatial information for determining altitude and terrains at the levels of cadastral zones and rural settlements, to redefine Less Favoured Area (LFA), so that the support by MAFRD to farmers with grants and subsidies will be based on this information.</p> <p>Some spatial information was also created by the agriculture sector for the National Spatial Data Infrastructure (NSDI) at the Kosovo Cadastral Agency Geoportal which is obliged to collect this data at the country level. There have also been established some mapping models for irrigation networks in Kosovo as requested by MAFRD officials, but more recently spatial information provided with GIS for the project started in the Division of Plant Protection and Irrigation, Kosovo Irrigation Master Plan”(KIMP).</p>	
Reform Measure #5: Increase of competitiveness in the manufacturing industry;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Analysis of data on development of Industrial Sectors;	5
	2) Study of the value chain for one of the sectors with the greatest potential of industrial development;	5
	3) Organisation of at least 10 international fairs and ensure participation of 70 manufacturing companies with export potential	5
	4) 15 SMEs will be subsidised in product certification and counselling for increasing competitiveness and export;	4
	5) Construction of the physical infrastructure of three economic zones, namely business parks (Suhareka, Viti and Vushtrri);	5
	6) Organisation of 4 investment forums aimed at supporting and increasing investment and exports;	5
Description of implementation and explanation if partial or no	<p>1. Sector and sub-sector data of processing industry NACE rev 2, Sector C, for 2018 have been processed, while the analytical report was drafted and published in three languages on the webpage: https://mti.rks.gov.net/desk/inc/media/3E3CB9E3-5FB5-4EF5-BC26-DAD8E11B31A4.pdf. This report reflects the current state of the non-food industrial sectors, with a focus on the processing industries such as: wood, paper, metals, non-metals, textile and leather footwear, clothing, plastics and rubber sector, as well as the chemical industry. The report includes data on the development of industrial sectors; Turnover in businesses, number of employees and enterprises, GDP,</p>	

implementation	<p>FDI value, exports to industrial sectors in CEFTA, EU and region countries. This analytical report will serve to draft concrete policies to improve the competitiveness of the private sector. It could also be used by potential donors, investors and the private sector.</p>
	<p>2. Plastics Sector Value Chain study - Business survey has been completed and survey data processed, as well as other data obtained from relevant studies and institutions.</p> <p>Meetings were held with representatives of the plastics sector;</p> <p>Plastics Sector Value Chain study has been finalized, translated into three languages and published on the MTI webpage: https://mti.rks-gov.net/desk/inc/media/C4A08C2E-589F-47CB-8EC9-C0FF65E71CC3.pdf;</p> <p>Also, after the finalization, a roundtable with all stakeholders of the Value Chain for the plastics sector was organized at MTI to present the study findings and recommendations for interventions.</p> <p>The main concerns of the plastics sector that have been identified are: 1. Poor access to export markets, 2. Poor market links across sectors, 3. Low value-added products, 4. Quality of recycled raw materials, 5. Poor organization of the sector and 6. Inability to meet international requirements.</p> <p>Recommended interventions related to the above findings:</p> <ul style="list-style-type: none"> • Supportive measures aimed at allowing Kosovar producers to join international supplier networks, • Systematic export promotion programs that support the organization of international buyer / seller missions, with the aim of facilitating the companies with export source market services in export matching services. • Organizing joint promotion at international fairs. Involving at least one fair specifically for plastics sector in annual fairs supported by KIESA. • Organizing B2B platforms (cross-trade fairs) or cross-sector networks between plastics manufacturers and technology providers to develop higher value added solutions for end buyers; • Creating a support voucher scheme for manufacturers to use technical (international) expertise, • Promoting exchange platforms or networks to identify opportunities to diversify into new product ranges, • Developing and implementing an industrial investment program for manufacturers to update machinery parks, including the plastics sector, • Matching waste collectors, recyclers, producers and end users selected to overcome gaps and barriers to a more systematic recycling approach, • Preparing a plastics sector strategy through a process of inclusion with dedicated action plans, based on the findings of this study, • Empowering sector associations by coordinating supportive measures such as B2B platforms (4), international fairs

	<p>(3) and exchange platforms (6),</p> <ul style="list-style-type: none"> • Initiating a dialogue with public or private education and training providers (vocational education providers) to develop a plastic engineering education program, including in-school training combined with solid expertise • Assisting the exporting SMEs to certify products with quality standards (specific to plastics sector) 	
	<p>3. 14 export promotion fairs have been organized, attended by 72 Kosovo companies promoting 338 products. Negotiations on possible products export agreements commenced in these fairs. Based on this fact, the analysis on Kosovo's External Trade of Goods show a higher trade deficit by 9.2% in November 2019, compared to the same period in 2018, namely in the amount of € 262, 2 million, compared to the deficit of € 240,1 million in 2018. Exports cover imports (11.9%).</p>	
	<p>4. 81 companies have applied for certification and counselling and are currently in the evaluation phase. Beneficiaries will be announced after the completion of the evaluation. On 6 January was published the list of beneficiaries of Matching Grant Scheme and the preliminary list of beneficiaries was announced, in which case 32 companies were selected by the evaluation committee under the WB, CERP project. The purpose of the project concerned is related to standardization, product certification and counselling.</p>	
	<p>5. Investments in Economic Zones (Suhareka, Viti, Vushtrri and Lipjan) – investments in regulating the physical infrastructure are on-going. The purpose of investing in these zones is to create spaces which are ready for the development and expansion of businesses in the manufacturing industry, thereby creating new jobs and exports.</p>	
	<p>6. So far 5 investment activities have been organized in these countries: Dubai, Vienna, Athens, New York and Bern and are planned to be held in Germany, Belgium and Italy, as well. As a result of the organization of the forums in question, over 150 contacts were generated with companies that have shown interest in investing in Kosovo. Currently 10 companies are being supported that have started investing in Kosovo. Whereas, in terms of foreign investments during 2019, the amount of foreign investments in Kosovo amounts to € 256.9 million (January - October 2019).</p>	
Reform Measure #6: Enhancing competitiveness in the tourism and hospitality Sector;		
	Stage of reform implementation (1-5)	
Activities planned for 2019	1) Drafting of the Strategy on Tourism (MTI);	2
	2) Drafting of the Law on Tourism (MTI);	4
	3) Drafting of sub-legal acts deriving from the Law on Tourism (Administrative Instruction on Classification and Categorization of Hotel Facilities, Administrative Instruction on Licencing of Traveling Agencies and Administrative Instruction on Touristic Guides) (MTI);	0

	4) Investment on the development of rural tourism and farm tourism 25-30 farms in traditional project of the rural and farm tourism (MAFRD);	4
	5) Development and operationalization of the web portal for tourism of the Republic of Kosovo (MTI);	4
Description of implementation and explanation if partial or no implementation	1. Working Group for the development of strategy has been established. A meeting of the Working Group for development of the strategy has been held. Department of Tourism is working on identifying strategic documents related to the tourism at the level of line ministries and municipalities.	
	2. Draft Law on Tourism has passed all phases and procedures, such as: public discussion, assessment by MEI, BIA and MoF. Final draft has been submitted to the Government for approval and further proceeding. There have been political obstacles on whether a National Tourism Agency should be established or not. The adoption of this Law depends on the work of the Assembly.	
	3. Administrative instructions could not be drafted without the adoption of the Law on Tourism.	
	4. The implementation of support measures for rural tourism commenced in 2015 and it is being implemented continuously. Results of beneficiaries for Measure 302 – Farm Diversification and Business Development – Submeasure “Rural Tourism” have not been published yet. Support for rural tourism will continue even in 2020.	
	5. Development of web portal for tourism in Kosovo – Terms of Reference has been finalized and a company for developing this web portal has been selected. Development of web portal has commenced and the web portal is expected to be completed in the early 2020.	
Reform Measure #7: Adoption of evidence-based policies and addressing administrative burdens;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Approval of Concept Document on Administrative Burden (OPM);	4
	2) Initiation of the administrative burden reduction programme as per the defined target with the concept document and initiation of the process for simplification, merging and repealing of licences and permits (OPM);	1
	3) Continuing the staff training on application of guidelines and analytical tools for ex-ante policy assessment (12 training will be organized in total) (OPM);	4
	4) Capacity Development for Standard Cost Model - Provision of training for SCM by certified trainers (total of 6 training activities by the end of 2019) (OPM);	4

Description of implementation and explanation if partial or no implementation	<p>1. Essential progress has been marked in developing the Concept Document on Reduction of Administrative Burden. Public and inter-ministerial consultation processes have been completed. Moreover, GCS – along with SIDA project – has initiated a consultation round for existing barriers and manner of addressing them, in particular with several municipalities of Kosovo.</p> <p>Based on the contract for sectorial financial support, the concept document was foreseen to be approved on December 2019. GCS has required the extension of deadline because of political situation and lack of government, since the programme for reducing of administrative burden is a huge and important reform.</p> <p>Firstly, after it has been decided that the approval deadline may expire in the first quarter of 2020, the European Commission has finally issued an official statement that all indicators and timeframes set out in the SBS contract must be fully met. The plan is to propose the adoption of the CC as soon as possible.</p>
	<p>2. The analysis of the Concept Document is mainly focused on the management structures required to implement a reduction program. CD is expected to result in a comprehensive program to review all laws and bylaws, assess how they are implemented and improve the implementation in order for the citizens and companies to benefit from the enhanced efficiency and thus spent less time and sources in administrative procedures. However, this program will be initiated following the adoption of the Concept Document. CD on Reduction of Administrative Burden should be adopted firstly and then the program for simplification, merging and repealing of licences and permits (including the adoption of the Law on Administrative Burden) should be initiated.</p>
	<p>3. For development and application of guidelines and analytical tools for ex-ante policy assessment, eleven (11) training programs have been organized in 2019: six 3-day training programs for members of the Working Group for developing concept documents and five two-day training programs on the development of CDs in general. The first group of training programs was implemented mainly by the project team, whereas GCS initiated as well as organized and delivered 2-day training programs. Also, seven two-day training sessions on media organization have been organized by the Public Communication Office within OPM and SIDA Project/OPM in the first half of this year.</p> <p>GCS has assumed the responsibility to lead the provision of training sessions on the development of Concept Documents and will continue to do so even in 2020. For instance, training sessions on policy communication, media communication and Standard Cost Model will be delivered by certified trainers. GCS has provided training sessions on development of Concept Documents in the first half of 2019 and provided training sessions for Tool 15 along with the expert engaged by the project.</p>
	<p>4. First cycle of training sessions and certifications for ToT is in the final phase. GCS and project team will closely work to further build capacities of the Standard Cost Model by organizing a second ToT on SCM in order to enable the new staff to participate in this process.</p>

	Training of Trainers for application of the Standard Cost Model has been completed in 2019. A certain number of trainers certified through this process for ToT work in GCS, MEI, MoF and three of them are experts involved in the project. The project will organize an additional ToT on MSC in 2020.	
Reform Measure #8: Securing property rights by addressing informality in the immovable property sector;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Drafting secondary legislation and other administrative measures arising from the Law on Non-Contested Procedure, Law on Notary and Law on Inheritance - addressing discrepancies between legal acts; dual jurisdiction of courts and notaries to process claims of unquestioned inheritance; providing affordable notarial and reasonable taxes; and the establishment of protective measures for the protection of women's property rights (MoJ);	5
	2) Establishment and the full functionalization of the Division for the Supervision of Free Professions (MoJ);	3
	3) Drafting secondary legislation arising from Law on Kosovo Property Comparison and Verification Agency (KPCVA, OPM);	4
	4) Transformation of the Official Gazette into a unified electronic platform for notification of parties to legal property proceedings, including inheritance procedures and procedures of the KPCVA;	5
	5) Integration of Municipal Cadastral Offices into Kosovo Cadastral Agency and simplification of registration procedures based on the integrated law on cadastre, including the Law on Cadastre and the Law on Establishment of a Property Register (MESP);	2
	6) Drafting of secondary legislation for implementation of the Law on Treatment of Illegal Constructions, with the purpose of completing the legalization process. (MESP);	5
	7) Abolition of municipal taxes on the transfer of ownership and application of the fees foreseen by AI 08/2014 for Immovable Property Registration Services fees by the Municipal Cadastral Offices (MESP).	4
Description of implementation and	MoJ has drafted and adopted all bylaws deriving from the Law on Notary. These acts have addressed the discrepancies between bylaws and other concrete procedural issues: <ul style="list-style-type: none"> • Administrative Instruction No. xx/2019 on the Form and Manner of Drawing Up and Recording Notary Documents, 	

explanation if partial or no implementation	<ul style="list-style-type: none"> • Administrative Instruction No. xx/2019 on the Organization and Manner of Work of Notaries and Notary Seals, • Administrative Instruction No. x/2019 on the Terms of Notary Office, Facilities and Equipment, • Administrative Instruction MoJ – No. xx/2019 on the Content, Forms, Means of Handling and Storage of Notary Document, Books and Registers, • Administrative Instruction on Disciplinary Procedure for Notary.
	2. During this period, MoJ has recruited and selected the Head of the Division for Supervising the Legality of Free Legal Professions. Now four other officers will be selected for this Division.
	3. KPCVA and OPM have developed the draft bylaw, which has been subject to the prior consultations phase and currently is at the public consultations phase, as provided for in the provisions of Articles 7 and 32 of RPG. This act is based on Article 18 of the Law on Kosovo Property Comparison and Verification Agency and concerns “Remedies for the execution of a decision may include, but are not limited to eviction, placing the property under administration, a lease agreement, seizure and demolition of unlawful structures, auction and requests for registration in the registry for the rights of immovable property.”
	4. This activity has been fully implemented. Notaries are publishing the notice of inheritance in the Official Gazette. Electronic platform has been developed and notaries have been trained on the use of the platform.
	5. The Draft Law on Cadastre addresses the issue of integration of Municipal Cadastral Offices (MCOs) into the Kosovo Cadastral Agency and simplification of registration procedures based on the integrated cadastre law. The Draft Law has been foreseen in the Legislative Plan for 2020.
	6. Five administrative instruction for implementation of the Law on Treatment of Illegal Constructions have been adopted, as follows: <ol style="list-style-type: none"> 1. <u>Administrative Instruction MESP - No. 03/2019 concerning the Content and Requirements for the Legalization Database</u> 2. <u>Administrative Instruction MESP – No. 04/19 on Procedures and Demands for the Demolition of Illegal Constructions</u> 3. <u>Administrative Instruction MESP – No. 05/2019 on Appeals Procedures against Decisions on Treatment of Constructions without Permit</u> 4. <u>Administrative Instruction MESP – No. 06/2019 on Basic Health and Safety Requirements, Procedures and Documentation for Treatment of Illegal Constructions for Category I and II</u> 5. <u>Administrative Instruction MESP – No. 07/2019 on Basic Health and Safety Requirements, Procedures and Documentation for Treatment of Illegal Constructions for Category III</u>

	<p>7. Kosovo Cadastral Agency (KCA) has continuously reported that during the monitoring in the Municipal Cadastral Offices (MCOs) it has been observed that, in addition to the fees according to AI No. 08/2014 for Immovable Property Registration Services fees, several municipalities apply additional fees, designated as immovable property fee.</p> <p>KCA is not competent for internal municipal acts. Only the Ministry of Local Government Administration can repeal legal acts where the abovementioned fees have been set.</p>	
Reform Measure #9: Increase the efficiency of the judiciary in resolving cases;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Engagement of 14 professional associates by USAID;	5
	2) Continuing the recruitment of professional associates in basic courts (KJC);	4
	3) Functionalization of CMIS in Prishtina region including the Court of Appeal and the Supreme Court (KJC);	4
	4) Recruiting of 12 trainers in CMIS project for Pristina region (KJC);	5
Description of implementation and explanation if partial or no implementation	1. The Basic Court of Prishtina has 5 professional associates engaged by USAID JSSP. Starting from February 2020, the number of professional associates engaged by USAID will be reduced to 2, in order to assist in the establishment of Prior Review Office within the Court and KJC. Prior Review Office for civil cases is funded and managed only by JSSP Project Officers.	
	2. In September 2019, the KJCS announced 24 vacant positions for professional associates. As a result of legal amendments, as explained by the Ministry of Public Administration, the vacancy has been SUSPENDED. On 13.01.2020, KJCS issued a decision on REPEALING the suspension and established recruitment commissions. Recruitments will take place within a short time.	
	3. CMIS for criminal, civil and minor offences has been implemented in the Basic Court of Prishtina and its four branches: Podujeva, Lipjan, Glllogovc and Graqanica. CMIS is in process of being implemented in the Court of Appeals and Supreme Court.	
	4. Trainers have been recruited and commenced work on 1 January 2019.	
Reform Measure #10: General Inspection Reform;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Approving the new Law on Inspections (MTI);	4
	2) Amending horizontal legislation, including the secondary legislation where necessary to implement new law on inspections (MTI/OPM);	0

	3) Establishing the Central Inspections Office to coordinate inspections and adjusting the existing organizational structure (MTI/OPM);	0
Description of implementation and explanation if partial or no implementation	1. Draft Law on Inspections has been drafted and passed the consultations with relevant stakeholders Draft Law on Inspections has been finalized and all prior procedures have been undertaken. Law is in the Cabinet and is expected to be submitted to the government for adoption upon the establishment of the new government.	
	2. Amendment of the horizontal legislation commences following the approval of the new Law on Inspections The implementation of this activity is subject to the law adoption.	
	3. Central Inspection Office will be established following the adoption by the Law on Inspections The implementation of this activity is subject to the law adoption.	
Reform Measure #11: Reduction of Informal Economy;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Economic and Regulatory Impact assessment of the most efficient and effective threshold for lowering actual 500 € /transaction for inter-business cash business transaction.	3
	2) Economic and Regulatory Impact Assessment of introduction of obligatory electronic payment for i) all wages and salaries of employees in all sectors of activity; ii) employment, unemployment and social/health security payment to all Kosovo's residents.	3
	3) Amending necessary legal framework, approving and issuing secondary legislation for implementation of selected options under activities 1 and 2;	3
	4) Improvement of business statistics through automatic link and update procedures in respective management information systems in order to reflect the real economic activity;	3
	5) Economic and Regulatory Impact Assessment of providing access to Tax Administration in all financial transactions (banking sector) and real estate transactions.	2
Description of implementation and explanation if partial or no implementation	1. An assessment with regards to the reduction of the threshold for transactions between businesses has been conducted and the reduction of this threshold from € 500 to € 300 has been proposed, while the same has been included in the new Law on Tax Administration and Procedures.	
	2. An assessment was made with regards to the need to introduce the obligatory electronic payment for all wages and salaries of the employees and the same has been included in the Draft Law on Labour within MLSW.	
	3. Both the abovementioned proposals have been included in the relevant draft laws and are to be adopted.	
	4. It has been decided to include in the annual tax declarations that the taxpayers submit to TAK the data update in order to reflect the actual economic activity, and then the same data would be used by KBRA.	

	5. This issue is being addressed within a project that will enable the access of TAK to all bank transactions.	
Reform Measure #12: Improving entrepreneurship and innovation environment		Stage of reform implementation (1-5)
Activities planned for 2019	1) Drafting and adoption of the Law on Innovation and Entrepreneurship, including also sublegal acts: AI on the establishment and functionalization of Innovation Centres; AI on establishing the mechanism for implementation of the I&E Fund (MIE)	1
	2) Adoption of the Strategy for Supporting Innovation and Entrepreneurship (MIE);	5
	3) Continuation of direct financial support for innovative ideas, projects and activities to SMEs, start-ups and NGOs (MIE);	3
	4) Functionalization of the already established centres and establishment and Regional I&E Centres in Gjakova, Peja, Mitrovica and Gjilan;	3
	5) Commence with establishment of mechanism for implementing the I&E Fund (MIE);	2
	6) Grants for scientific projects and short-term mobility of scientists, grants for Innovation Vouchers and PhD studies (MEST);	3
	7) Drafting and approval of other sub-legal acts deriving from the Law on Innovation and Transfer of Knowledge (MEST);	2
	8) Developing the Mapping of Infrastructure for Research, Innovation and Development (MEST);	2
Description of implementation and explanation if partial or no implementation	1. The Innovation and Entrepreneurship Draft Concept Document has been approved by the Government on 22/08/2018. The internal working group has been established by MIE, and it is working on drafting the Law on Innovation and Entrepreneurship. Planned AIs have not been drafted due to the absence of the Law. Stage of reform implementation (1-5)2	
	2. The National Strategy for Innovation and Entrepreneurship (2019-2023) has been approved by the Government on 19/03/2019.	
	3. MIE has continued with direct financial support for innovative ideas, projects and activities for NGOs, Start-Up businesses. A total of 74 Start-Ups have been supported in 2019.	
	4. MIE has established and functionalized Regional Innovation and Entrepreneurship Centres in Mitrovica, Ferizaj and in the University of Prishtina, whereas the I&E centres in Gjilan, Gjakova and in Peja have been planned to be established and functionalized in the coming years.	

	5. The funding program for I&E has completed the implementation of a direct support scheme for Start-Up businesses.	
	6. MEST has drafted the regulation which sets out the criteria, method of obtaining, etc. Voucher schemes and is now awaiting signature by the minister. The budget for 2019 has increased in terms of Grants for Scientific Projects as well as the Voucher schemes and PhD scholarships for students studying in 500 best-ranked universities of the world. In 2019, 20 candidates have obtained PhD scholarships to study in 500 best-ranked universities of the world. This year, 3 scientific projects have benefited and 19 applicants have been supported by publishing their publications with journal impact factor.	
	7. We have started drafting the sub-legal acts such as: AI on organization of activity of the Council for Scientific Innovation; Regulation on Innovation Voucher.	
	8. The Concept Document on building capacities in the field of research has been prepared according to international standards. Only the Working Group on drafting the Roadmap of Infrastructure for Research, Innovation, and Development has been established.	
Reform Measure #13: Expansion of relevant ICT network infrastructure and services for socio-economic development		Stage of reform implementation (1-5)
Activities planned for 2019	1) Expansion of broadband infrastructure in uncovered areas through the KODE program – Phase I;	5
	2) Development of human resources on digital economy and support to digital businesses – delivery of trainings for at least 400 youngsters;	2
	3) Functionalization of the technological park for the needs of ICT businesses.	2
	4) Implementation of the project for the establishment of Creative Centres for Kosovo's High Schools.	2
Description of implementation and explanation if partial or no implementation	1. The activity “Extension of broadband infrastructure to uncovered areas, as part of the KODE project” has been carried out and exceeded the planning. During 2019, a total of 30 sub-projects on Extension of high-speed broadband infrastructure for 30 areas including about 85 villages have been implemented. Part of these sub-projects is also the 100Mbps/100Mbps broadband internet connection of public institutions (schools, ambulances, etc.) for a period of 5 years. About €1,400,000 have been spent in order to implement these thirty (30) contracts.	
	2. This activity is in the initial stage of implementation. To carry out this activity, the project "Enhancing the Competitiveness of Kosovo's Digital Economy" funded by IPA (€ 3 million) is underway, which will commence its	

	<p>implementation from the beginning of 2020 for a 3-year period. The Implementation Unit of KODE Project is preparing the process of starting training for 2000 unemployed youth during the period of 2020-2023.</p> <p>3. The activity “Functionalization of the technological park for the needs of ICT businesses” has been developed in two stages. Implementation of these two stages/contracts has not been fully achieved due to obstacles as a result of the division of works into three parts/stages, and for the third part, STIKK has not been able to find funding yet. In order to complete the whole project, it is necessary to find a way of financing the complementary works. The financial value for the implementation of the first two phases is around € 600,000.</p> <p>4. The activity for implementation of the project for the establishment of Creative Centres for Kosovo's High Schools, namely "Building Capacity of Creative Centres in 60 High Schools" has just started to be implemented. The contract for the project implementation has been signed at the end of December 2019 and will be implemented within a period of 10 months.</p>	
Reform Measure 14: Trade facilitation by increasing the cost-effectiveness of international trade transactions;;		
Stage of reform implementation (1-5)		
Activities planned for 2019		
	<p>1) Amending/supplementing, harmonizing the Custom and Excise Code (CEC) and AI of CEC, other laws applicable for Customs, activities and strategies; (MoF/Customs);</p>	3
	<p>2) Licencing of Authorised Economic Operators (AEO) (Customs);</p>	5
	<p>3) Drafting and finalizing the feasibility of National Single Window (MTI-Customs-ISA);</p>	2
	<p>4) Development and approval of the new Law on Internal Trade (MTI);</p>	3
	<p>5) Negotiating agreement with EFTA States (MTI);</p>	2
	<p>6) Adhere in PEM Convention (MTI-MFA);</p>	3
	<p>7) Establishing the platform to adhere in WTO (MTI);</p>	2
	<p>8) Rationalization of the list of fees and charges and Licences related to import and export (MTI);</p>	5
	<p>9) Conduct of the Time Release Study (Customs).</p>	3
Description of implementation and explanation if	<p>1. WG has been re-established on 01.07.2019. The Ministry of Finance has issued Decision No. 73/2019 on developing the draft Customs and Excise Code. The Draft is expected to be finalized this year.</p> <p>2. The Administrative Instruction 38/2017, certificate form, self-assessment questionnaire, guidelines for completing the form, application form and logo have been approved, and workshops with potential entities as well as regional</p>	

<p>partial or no implementation</p>	<p>meetings have been held supported by international organizations such as IFC and GIZ. The program for authorized economic operators has been fully operational and two companies which have obtained the status of authorized economic operator for customs simplifications have been certified. On this occasion, on 17 October 2019, the certificates have been distributed ceremoniously. It is worth mentioning that an application for obtaining the status of the authorized economic operator of type S (i.e. security) is also under consideration. Since the operator's instruction is based on the current customs code, in order to be fully in line with the latest EU legislation, we have requested from the customs legal office to amend/supplement the operator's instruction 38/2017.</p> <p>3. With the support of IFC - WB and USAID, the feasibility study of the National Single Window has been finalized in 2019. The MoF will decide on the next steps. According to the information we have, AIS- the Agency for Information Society has also started a procurement procedure to create the E-Kosovo Services Portal which is expected to cost around EUR 3.3 million. Within this portal is also included the Single Window for Customs, FVA, and KMAA as the first stage, while for other years it is expected to be done for other ministries as well. According to the tender evaluation information we have, we know that EO PBC has been selected as the winner, but the contract has not been signed yet.</p> <p>4. The draft of the new Law on Internal Trade has been developed by the Working Group led by MTI. After consideration by the Cabinet of the Minister, the draft will be sent for public consultation.</p> <p>5. The Impact Assessment document has been finalized with EFTA countries. As for the start of negotiations, it is not possible for them to start until the 100% tariff is abolished (official response from EFTA).</p> <p>6. At the last meeting in Brussels held in November 2019, the proposal of Kosovo regarding the preamble of the Convention has been accepted. The Convention is planned to be approved by the Convention's member states in the first half of 2020.</p> <p>7. MTI has prepared the document which will be submitted together with the application to the WTO Secretariat. The document addresses the economic and trade policies of Kosovo. Whereas, the political aspect of the process is being coordinated with MFA and international partners.</p> <p>8. With the support of IFC, MTI has rationalized the list of tariffs and payments related to licenses for importing and exporting goods. The list has been published on the website of MTI in October 2019.</p> <p>9. According to the IFC and WB announcement, the TRS - Time Release Study, supported by IFC - WB, is expected to be conducted in March - April 2020</p>
<p>Reform Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products;</p>	<p>Stage of reform implementation (1-5)</p>

Activities planned for 2019	1) Drafting of the Administrative Instruction for the System of Performance Assessment and Verification of Constancy of Performance (AVCP) of construction products;	5
	2) Establishing of the Contact Point for construction products;	5
	3) Recruitment of 4 officials for metrological supervision;	2
	4) Designation and accreditation of certification bodies and testing labs for the area of construction products (DIC & KAD);	2
	5) capacity building for supervision of construction products (3 training modules);	3
	6) Promotion of quality infrastructure with all stakeholders (organization by all QI pillars of at least four business events, conformity assessment bodies and national chambers of commerce);	4
	7) Provision of technical assistance for at least three (3) manufacturers of construction products. Support the manufacturers to meet the requirements to affix the CE marking in their products	4
	8) Drafting and implementing the Sectorial Market Surveillance Programme based on the legislation in force by prioritizing the construction products	4
	9) Study of national legislation covering certain product groups for the fulfilment of obligations under Articles 34-36 of TFEU;	5
	10) Signing of the Multilateral (MLA), respectively Bilateral (BLA) Agreement with the European cooperation for Accreditation (EA) for testing labs, which means the mutual recognition of test reports issued by these labs;	2
Description of implementation and explanation if partial or no implementation	1. The AI (MTI) No. 03/2019 has been approved by the Minister of MTI. All stakeholders, such as Economic Operators, Conformity Assessment Bodies and Market Inspectorate have also been notified.	
	2. By decision of the Minister of MTI, dated 22.07.2019, with Prot. No. 1078, the Contact Point for Construction Products was established (the Division for Quality Infrastructure), and the official account was opened: e-mail: cpcp@rks-gov.ne . A link has also been created on the MTI website: https://mti.rks-gov.net/page.aspx?id=1,341 , where you can contact and obtain information about trading in construction products and 13 testing laboratories in the field of construction products are accredited and in 2019 and 2 laboratories in the field of construction products have been re-accredited.	

	<p>3. The process of recruiting the metrological surveillance officers is about to commence according to the work plan of KMA (pending initiation of procedures).</p> <p>4. For supporting the implementation of the Law on Construction Products, KAD has established the accreditation scheme of bodies certifying construction products: after the training for the assessment staff, a Policy for the development of the new accreditation scheme DAK-PO-09 as well as the document: the basis of the needs for establishing an accreditation scheme for accreditation of bodies certifying construction products have been prepared. During 2019, KAD has not received a request for accreditation from any of the Certified CABs for construction products, while the number of CABs accredited as testing laboratories for construction products in 2019 has reached fifteen (15) accredited testing laboratories. Referring to Law No. 06/L-033 on Construction Products and AI (MTI) No. 03/2019 on the system of assessment and verification of the constancy of performance (AVCP) of construction products, we have not received so far any request for designation of conformity assessment bodies.</p> <p>5. Eleven people have been trained in visits to Austria (OIB) and Montenegro. These study visits were related to the field of construction products and regulatory requirements for construction, the trainings were held in the areas of:</p> <ul style="list-style-type: none"> - Introduction of European and Austrian legislation on construction products and construction works - Market surveillance - the legal basis, drafting of the annual plan and practical examples of market surveillance <p>Drafting and Implementation of the National Action Plan for the Non-Harmonized Area of Legislation and experiences were also exchanged for by-laws on construction products.)</p> <p>6. In order to promote the importance of accreditation as part of the IC, KAD has organized on 11.06.2019 the World Accreditation Day (attended by more than 80 stakeholders). Also, KAD attended two (2) conferences/workshops organized by Kosovo Forensic Agency and Kosovo Metrology Agency, where a presentation on the accreditation importance and process has been made.</p> <p>In cooperation with and with the support of the FMG - Free Movement of Goods Project, on 27.11.2019, a coordination meeting has been organized on the topic “KMA Policies and Metrology Cooperation Framework”. Representatives of businesses, chambers of commerce and state institutions related to the field of metrology attended this roundtable.</p> <p>Also, in view of the Promotion of Quality Infrastructure, on 17.05.2019, the World Metrology Day was marked, presenting current developments in KMA, achievements, plans, and challenges. In this event, there were also discussions with stakeholders, testing/calibration laboratories operating in the Republic of Kosovo, where KMA was informed about their requests and the requests of production companies in the industry.</p>
--	--

	<p>7. In cooperation with the FMG project expert, the final document of the Programme “<i>assistance to manufacturers of construction products</i>” and the guideline for applicants for this programme have been prepared. In the first quarter (Q1) of 2020, there will be a "public call" for applicants (<i>manufacturers of construction products</i>) for this program.</p> <p>8. A sectorial market surveillance plan for 2019 has been drafted, which specifically includes construction products. So far, some economic operators trading in construction products have been inspected.</p> <p>The market surveillance coordination body, established by Government Decision No. 06/85, dated 01/22/2019, held a meeting. The meeting of Coordination Body was held on 28.02.2019, discussing the implementation of the sectorial market surveillance plan and the Draft Administrative Instruction on products subject to inspection surveillance, which is expected to be approved by the Government.</p> <p>During May 2019, RapexKosova, the electronic website for the publication of unsafe products (tkmt.rks-gov.net), has been launched.</p> <p>9. On 16 May 2019, four (4) meetings have been held under the leadership of the Inter-Ministerial Working Group established by Prime Minister Decision No. 03/57 dated 17.07.2018, where, in addition to the activities under the TFEU study (36-36), the notification procedure has been explained and the new Regulation on notifications, the procedure of publishing harmonized standards in the Official Gazette of the Republic of Kosovo in accordance with the requirements of the relevant technical regulations has been introduced. Three other meetings have been held in the OPM (9 September 2019), MESP (6 September 2019) and MAFRD (26 September 2019).</p> <p>Inputs were received from line ministries and relevant agencies regarding the technical legislation of the former Yugoslavia in force until 22 March 1989 on certain groups of products, and the abolished one, while the legislation still in force since the time of former Yugoslavia has been scanned and the document of this study has been finalized.</p>
	<p>10. Concerning the signing of the Multilateral Agreement (MLA) with EA, KAD has worked intensively to address the findings of the latest assessment process from EA, which took place in November/2014. KAD has managed to close the non-conformities identified by the EA team (review of Management System documents, internal audits, review process every year... etc.). Moreover, KAD has managed to increase the number of staff, increase their competence, and establish the Accreditation Council and the Professional Council. It is worth mentioning that since the last EA epic assessment process, a long period of time has passed (more than 5 years), and, in the audit processes performed over the years, non-conformities have changed over the years. Nevertheless, KAD considers that after the adoption of the Regulation on Internal Organization and Functioning of KAD, it will start applying the assessment process by the EA team.</p> <p>- In order to complete the legal and operational infrastructure of accreditation, a Management System has been developed during 2019 according to the requirements of ISO/IEC 17011:2017 standard. This system consists of one</p>

	<p>hundred twenty-one (121) documents (policies, procedures, instructions, and forms) drafted in Albanian and translated into English.</p> <p>-In accordance with EA requirements and accreditation standards, the “Instructions on the Operations and Tasks of Technical Committees” have been drafted and approved, and the Technical Committee for Testing Laboratories and the Technical Committee for Inspection Bodies are expected to be established early next year.</p> <p>- During 2019, the number of KAD staff has increased to eight (8) and the entire organizational structure has also been completed by filling four (4) vacancies with competent and professional staff in accordance with the requirements of ISO/IEC 17011:2017 standard.</p> <p>- The Regulation on Internal Organization of KAD has been drafted and, based on administrative procedures; it has been forwarded to the Ministry of Public Administration for legal review and verification of legality and compliance with development policies of public administration.</p>	
Reform Measure #16: Increase of quality of vocational education and training based on labour market requirements		Stage of reform implementation (1-5)
Activities planned for 2019	1) Development of 25 occupational standards and their verification;	4
	2) Training of 40 instructors/trainers and teachers based on the new curriculum;	5
	3) Developing and piloting of the specific funding formula for VET based on cost per profile;	2
	4) Development of teaching materials based on the new curriculum;	3
	5) Supply of 10 vocational schools with adequate equipment for priority profiles after the situation analysis;	3
	6) Continuation of the school-business agreements for professional practice.	4
Description of implementation and explanation if partial or no implementation	1. Of the 25 standards that are in the process of being drafted, 10 have been approved by the National Qualifications Authority, and 30 have been developed during 2019. These are: 1) Teachers for practical learning and skills; 2) other teaching professionals not classified elsewhere; 3) Interior designers and decorators; 4) carpenters and joiners; 5) Workers for the collection and cultivation of wild fruits; 6) Workers for the collection, cultivation, and processing of aromatic medicinal plants; 7) Woodworking, joinery, and similar occupations; 8) Deputy Director of the Armed Forces; 9) electrical engineering technician; 10) Real estate appraiser.	
	2. This activity has been completed. Over 60 company instructors and school instructors have been trained and certified.	
	3. So far the data has been collected and the cost for 24 profiles has been defined. The formula has not yet been defined.	

	4. Teaching materials are compiled after curriculum development is completed. So far, guidelines for compiling teaching materials have been developed and teachers have been trained.	
	5. 50 agreements have been signed with schools and businesses to implement workplace learning. In cooperation with Lux Development and ALLED 2, contracts have also been signed with municipalities and schools for equipment, where 30 schools will receive workshops.	
	6. Schools and profiles that will be equipped with adequate equipment have been identified.	
Reform Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education		Stage of reform implementation (1-5)
Activities planned for 2019	1) The Law on Early Childhood Education (MEST);	4
	2) Completion of 4 new facilities of preschool institutions;	4
	3) Development and implementation of subject programmes by subjects and grades	4
	4) Professional development of 6000 teachers based on MEST priority programmes and teacher performance evaluation	3
Description of implementation and explanation if partial or no implementation	1. The Law on Early Childhood Education, which addresses the early childhood inclusion (MEST) has been drafted and now we are waiting for a new cabinet to review and proceed it further to the Government and Assembly of Kosovo.	
	2. According to the plan, 4 preschool institutions, which are being constructed with the support of IPA 2014-2016 for MEST, are expected to be completed by the end of 2019. Preschool institutions are being constructed in: Prishtina (2 institutions), Kaçanik (1 institution) and Municipality of Shtime (1 institution).	
	3. Subject programmes for 3 rd , 8 th , and 12 th grades have been reviewed, and final drafts for all curricula/programmes for each subject of 3 rd , 8 th and 12 th grades have been prepared, which have begun to be applied in all schools of Kosovo in the new school year 2019/2020. In 2019, the officers of the Division for Curriculum and Textbooks together with the coordinators of curricula fields, have guided and coordinated the working groups of external experts (university professor and school teacher) regarding the compilation of the draft subject programmes for 4 th and 9 th grades, which will be applied in the school year 2019/2020 in all pilot schools. Within the phase of the draft subject programmes revision, the Division for Curriculum and Textbooks has designed and distributed questionnaires throughout pilot schools where such programmes are being applied, in order to obtain feedback.	

	<p>4. In order to apply the new curriculum for the pre-primary level, and for the 1st, 6th and 10th grades, 2664 teachers have been trained in three stages by 178 trainers to implement the CF in teaching process. As regards the preparatory grade and 5th grade, 1200 teachers have been trained by an EU program to build capacities in the pre-primary and primary level, which will continue also in the first quarter of 2020; 395 teachers have been trained under the Educational Management program and 150 teachers are to be trained in 2020; 1150 teachers have been equipped with a career license; 17 programmes for training teachers have been approved and three programmes have been reapproved; the external performance assessment has been carried out in 31 schools and the preliminary reports are now under the preparation stage; the performance assessment of over 450 teachers has been carried out based on the TPA process; regular reports of teachers' performance assessment have been prepared based on the TPA process. Education inspectors control the implementation of the new curriculum in all schools and by all teachers that are subject to the performance assessment process.</p>	
Reform Measure #18: Reform in Pre-University Education;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Completion and implementation of legal infrastructure of higher education (adoption of the Law on higher education and completion of secondary education);	4
	2) Drafting and adoption of the Law on Kosovo Accreditation Agency;	4
	3) Application of new international standards (re-assessment by ENQA and EQAR);	3
	4) Drafting of the AI on the HEI funding formula;	0
	5) Increasing participation in international programs for higher education and research;	4
	6) Signing of the Regional Agreement on Regulated Professions;	1
	7) Creating a Database for Professional Qualifications based on the EU Database for Professional Qualifications.	2
Description of implementation and explanation if partial or no implementation	1. The draft law has been approved by the Government in November 2018 and by the relevant Committees in the Assembly. It is now expected to be reviewed in the Assembly's plenary session.	
	2. Following the approval of the Concept Document on 26 March 2019, a working group on compiling the draft law on KAA has been established (24/04/2019). The working group has held regular meetings and is finalizing the first draft.	
	3. The new ESG standards are approved by the State Council of Quality, and they were applied during 2019 for assessing the accreditation/re-accreditation of institutions and programmes. In March, KAA has been subject to an	

	<p>external assessment by ENQA. Following the decision of the European Network of Quality Assurance Agencies for High Education (ENQA) to change the KAA’s status to “member under review”, the KAA made the necessary preparations in line with recommendations of ENQA’s preliminary evaluation and it has been subjected to the reassessment process. The ENQA's team of experts concluded that the overall level of the fulfilment of European Standards and Guidelines (ESGs) is not sufficient for the renewal of KAA membership in ENQA. On this occasion, the Board of ENQA notifies that KAA has the right to reapply for membership two years after this decision was made. During these two years, the KAA will also be subject to an evaluation by ENQA experts who intend to assist and advise the KAA before the formal application for reassessment. Following the development and approval of standards for the assessment of NQF's 6th and 7th levels based on the European Standards and Guidelines ESG 2015, the KAA is in the process of developing guidelines and standards for the assessment of NQF’s 8th level programmes (PhD).</p>
	<p>4. No progress</p>
	<p>5. High education institutions of Kosovo have benefited from 10 Erasmus+ funded projects on capacity building, 3 of which are coordinated by HEIs in Kosovo. In the framework of the academic mobility program - CEEPUS, a total of 130 mobilities were exchanged during 2019. The agreement with the Government of Hungary has been successfully implemented, within which 50 full scholarships have been awarded to students from Kosovo to study at Hungarian universities. Within the “Fulbright” educational exchange program (MEST – US Embassy Agreement), the component for Master studies scholarships (Fulbright Foreign Student Program) has been successfully implemented, while the components Fulbright Faculty Development Program, Fulbright Scholar Program (non-degree) and Fulbright specialist have been completed.</p> <p>As part of COST (European Cooperation in Science and Technology), progress has been made within the Near Neighbouring Country. The national contact point for COST has been appointed and we have provided an interactive session on how to join COST Actions. So far there are 18 COST Actions with at least one participant from Kosovo (compared to last year where only one researcher participated in COST Action). Within the agreement with the French Embassy, two students were supported with scholarships (co-funding) for Master studies. An agreement has been signed and implemented between the MEST and the University of Camerno, Italy to offer 14 scholarships to Kosovo students. A protocol of cooperation has been signed between MEST and the University of Sheffield (City College) whereby 62 students are supported in the three study levels. Moreover, the Government of Japan has recently awarded a scholarship for doctoral studies.</p>
	<p>6. So far, Kosovo has participated in 7 meetings organized for this purpose. Due to the different positions of the two countries and the failure to achieve a consensus between the parties, this agreement has not been signed yet.</p>

	7. The database for professional qualifications based on the EU's professional qualifications database has failed to be set up due to not signing the regional agreement. The RCC has taken the initial steps to enter the data of the countries of the region.	
Reform Measure #19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship;		Stage of reform implementation (1-5)
Activities planned for 2019	1) Further capacity building of the MLSW and EARK to design, implement, monitor and evaluate active labour market measures:	5
	2) Validation of profiles, development of 15 standards, 15 curricula and 15 learning packages;	4
	3) Implementing active labour market measures focusing on young people and women (increase of mediations in the ALMM for 10% and the development and implementation of the self-employment and entrepreneurship program);	3
	4) On-going modernization of service and vocational training programs;	3
	5) Supporting voluntary work initiatives, contributing to youth employment;	3
	6) In- service training for newly graduated from higher education (KIESA);	3
Description of implementation and explanation if partial or no implementation	1. The training of EARK staff has been done both in the use of EIMS and in providing services for jobseekers and employers. The last training of 14 employment counsellors was held through the Swiscontact project “Coaching for employment and entrepreneurship.” Workshops on professional skills development for monitoring the grant schemes have also been delivered, and the grant beneficiaries were directly monitored in the field. The counselling and career orientation training module has been developed and is a part of the SBT (internal training system). New groups for training have been established with new employees of Employment Agency.	
	2. In 2019, the process of re-accrediting 7 Vocational Training Centres has been completed and the following profiles have been revalidated: Administrative Assistant, Welding, Electric Installations, whereas the following three new profiles have been validated: Baker, Make-up artist and Milk Processing; Learning packages have been developed for the occupation of Tailoring and Auto electricity based on the curriculum developed last year, where around 200 copies (Books) for training in VTCs were printed; Upon the support granted by the GIZ project, the Curriculum Framework and the syllabus for the profile of Metalworking have been finalized and are currently available in the learning package; As requested by KCA experts and ICT trainers, an additional part of the curriculum and the training materials related to the ICT's security system	

	<p>have been developed; The curricula have been developed based on occupational standards within the cross-border project with Albania; Forest Fruit Collection and Processing and Medical Plant Collection and Processing, which are in use at Vocational Training Centres;</p> <p>3. During this period, a total of 4,611 jobseekers were mediated, of which: 827 were mediated in Public Services, 420 in On-the-Job Training, 445 in Wage Subsidies, 2,705 in Internship, and 214 in Self-Employment. 4,611 jobseekers were mediated in ALMM, of which 2,198 (47.6%) were females, while the rest 2,143 (52.3%) were males. On the other hand, around 6607 persons were included in vocational training, of which around 2271 are females, and 4336 are males. Around 1,292 (28%) young people (15-24) were included in active labour market measures, where 699 (54%) are females and 593 (54%) are males. In addition, around 2522 young people were included in vocational training.</p> <p>4. As regards the modernization of VT services, the representatives of DVV International have provided equipment for the occupation of hairdressing to the VTC in Podujeva. Moreover, four profiles such as ICT, Tailoring, Hairdressing, and Make-up were opened at the VTC in Podujeva. In the self-employment profile, 7 workshops of VTCs were supplied with 15 computers, a TV and laptop for each, thus, 105 were distributed in total. Through the support of DVV International, 25 trainers of Vocational Training Centres have completed the training in 4 modules with the topic “Curriculum GlobALE” and were awarded certificates at the end of the training. Training sessions, organized by MEST and GIZ, were delivered to Quality Coordinators and VTCs' Trainers in the following module topics: Module 1 - Quality Assurance in VET within the European and National context; Module 2 - Legal Framework governing VET and National Quality Assurance; Module 3 - Self-evaluation - Improvement plan and school development plan. Module 4 - Self-evaluation report - Basic Criteria, Quality Criteria, Indicators and Evidence. Welding trainers have completed the welding-related training in Dortmund, Germany and at BAU Academy, regarding the use of a machine that would help a lot in testing candidates. The aforementioned trainers were also certified at the end of the training;</p> <p>5. MCYS has a platform and a database of young volunteers (http://kosovovolunteers.org). According to the data of this platform, 10474 volunteers were registered therein, out of which 5,658 are active volunteers. In 2019, 2,100 young people performed volunteer work. However, it should be noted that this voluntary work is not legally recognized. Therefore, the fulfilment of the indicator represents the factual situation only.</p> <p>6. Regarding the “In-service training for newly graduated from higher education (KIESA)”, a public call for companies has been announced and their applications have been received and the list of qualified and unemployed young people is being prepared in order to place them with relevant companies for internship.</p>
Reform Measure #20: Improvement of social and health services;	Stage of reform implementation (1-5)

Activities planned for 2019	1) Strengthening administrative capacities of the Health Insurance Fund (through the employment of around 48 officials);	1
	2) Scheme for compensation of medications bought outside of hospital;	1
	3) Carrying out cardio-surgical health services covering 70% of patient needs;	5
	4) Expansion of health services in all municipalities through home visits, particularly to mothers and children;	3
	5) Carrying out 50,000 home visits in 2019 (cost within the framework of government grant for primary health care);	4
	6) Starting the implementation of the Poverty Test of Social Categories, regarding exemption from payment of Health Insurance premiums;	1
	7) Design and approval of the new formula for the government health grant. The institution responsible for the implementation of these activities is the Health Insurance Fund, the Ministry of Health and the Ministry of Labour and Social Welfare.	1
Description of implementation and explanation if partial or no implementation	1. The Law on Budget 2019 provides for the strengthening of capacities in the Health Insurance Fund, a process that has stalled due to the failure to draft the internal Regulation, an activity that would open paths for new employments.	
	2. Within the scheme for compensation of medications bought outside of hospital, a number of preliminary activities have been developed, which paved the way for drafting/implementing the scheme.	
	3. Upon the investments made in both infrastructure and human resources, the cardio-surgical health services are provided 24/7 at UCCK, and the clinic's capacity covers 100% of patients' needs with particular emphasis on emergencies.	
	4. During this year, home visits, particularly to mothers and children, have been offered to 22 municipalities, while the inclusion of all municipalities in this regard is intended to be achieved in the upcoming years.	
	5. 20,000 home visits were planned to be carried out in 2019. During this year, 16 949 home visits were conducted, mainly providing health care to mothers and children.	
	6. Regarding the drafting of the sub-legal act and the preparation of the Poverty Test, the Draft Administrative Instruction and the Manual have been finalized and forwarded to the Ministry of Health, which is responsible for launching them for public consultation.	

	<p>7. The working group has finalized the MLSW's proposals for the Special Social Services Grant, which have been submitted to the Ministry of Finance to be included in the Law on Local Government Finance. Moreover, within this, the Working Group is preparing the social services' costs and needs. MLSW has prepared the proposal for the Commission of Grants, which has been forwarded to the Ministry of Finance. Meetings and consultations were also held with other local-level stakeholders and service providers on the need to increase the budget of social services. MLSW/SFPD has also prepared its proposal for funding programmes and sub-programmes that are managed by the central level.</p>
--	--

ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2020-2022

Kosovo has established contractual relations with the European Union through the Stabilization and Association Agreement, and on this basis Kosovo has been invited to engage in structured dialogue on economic governance as a part of ongoing institutional cooperation between Kosovo and the EU.

Economic Reform Program (ERP) 2020-2022 is a document drafted on a regular annual basis through which, by linking the medium-term macro-fiscal framework and economic policies with priority of the Government, the process of implementing reforms becomes clearer. ERP contains medium-term macroeconomic projections (including GDP growth, inflation, trade balance and capital turnover), budget plans for the next three years and an agenda for structural reforms that includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation.

For better coordination of the ERP process and following the European Commission Guidelines, the Government of Kosovo has appointed the Minister of Finance as National Coordinator for ERP. The National Coordinator at the technical level was supported by: Department for Macroeconomic Policy and International Financial Cooperation at the Ministry of Finance for the part of the macro-fiscal framework, and the Strategic Planning Office of the Prime Minister for the agenda of structural reforms.

The structure and content of the ERP are pre-determined by the European Commission Guidance Note on ERP. The program consists of three main chapters and includes: the macroeconomic framework, the fiscal framework and structural reform priorities for the next three years.

For the structural reform agenda, area coordinators have been appointed as set out in the EC guidelines, as follows: Energy and Transport; Agriculture, Industry and Services; Business Environment and Reduction of Informal Economy; Innovation, Research and Development (RDI) and Digital Economy; Trade-related Reforms; Education and Skills; Employment and Labour; and Social Inclusion, Reduction of Poverty and Equal Opportunities.

During the 2019 the Economic Reform Program planning phase, individual meetings were held with all the area coordinators in the relevant ministries, while high level political meetings took place during the document development as well as workshops with representatives of ministries.

The Economic Reform Program 2019-2021 has also been subject to inter-ministerial consultations, in accordance with Article 7 of the Government's Rules of Procedure, as well as public consultations through an electronic platform for consultations with civil society organizations. The finalization of the document was carried out based on the contributions received by the institutions, civil society and the public.

The progress of the consultation process

Consultations on drafting the ERP 2020-2022 took place since the very beginning of drafting process. On 9th of July, SPO launched the ERP 2020-2022 process with participation of government institution, civil society organizations and business sector. In July/August 2019, the SPO held individual meetings with the relevant field coordinators from line ministries, while during the drafting of the document several meetings took place for the preparation of the measures of ERP 2020-2022 and their monitoring and reporting of measures from ERP 2019-2021. While on 7th of November a high level meeting of the Government and the European Commission was held.

The Economic Reform Program was published for consultation with the public on the electronic public consultation platform on 29th of November 2019 and was open for comments until 20th of December 2019, according to the Regulation on Minimum Standards for Public Consultation.

Following the closing of the consultation process, all contributions received were analysed and on the basis of them the necessary amendments to the document have been completed so that the final version is submitted to the government for approval and must be submitted to the European Commission no later January 31, 2020.

Methods of Consultation	Methods of Consultation	Number of participants / contributors
1. Publishing on the Web / Electronic Platform	15 working days	3 Contributors
2. High level meeting between GoK and EC and OECD	07/11/2019	66 participants
3. Joint meetings with ERP Coordinators and Line Ministries: <ul style="list-style-type: none"> • Energy and Transport • Agriculture, Industry and Services • Business Environment and reduction of informal economy; • Innovation, Research and Development (RDI) and Digital Economy; • Employment and Labour Market • Social Inclusion, Poverty Reduction and Equal Opportunities; • Trade-related Reforms; • Education and Skills; 		9 participants 4 participants 8 participants 3 participants 4 participants 5 participants 7 participants 8 participants

Summary of contributions received during the consultation process:

Contributions to the ERP 2020-2022 are mainly provided during the workshops held with line ministries. There was also contribution through the online public consultation platform.

Other Issues:

All received contributions have been reviewed by the Strategic Planning Office at the Office of the Prime Minister. Detailed report on received comments, contributors and status of contributions are presented in Annex no. 1 of this report.

Next steps:

The Economic Reform Program 2020-2022 has been finalized and proceeded for approval to the Government of Kosovo.

Detailed table with information for contributors, justifications for accepted and rejected comments

Economic Reform Programme 2020-2022				
	Comments	Commented by:	Status of Comments (Accepted, partially accepted, and is not accepted)	Comments (Comment on partially accepting and not accepting comments is mandatory)
II. MACROECONOMIC FRAMEWORK	<p>The discussion on the factors underpinning the ERP's GDP growth forecast for 2020-22 could be made clearer by grouping them into external and domestic factors: Domestic Factors. The ERP could discuss the impact on growth of the expected policy stance: What is the overall policy stance from fiscal and monetary-financial policies at each forecast period? Table 12 could be used for calculating past and forecast fiscal policy stance by using the expected fiscal outcome for 2019 instead of the 2019 budget figures (as the ERP does now). Is it possible that the political impasse since mid-2019 may affect budget execution and the fiscal policy stance? Moreover, the ERP mentions that social transfers will support consumption, though it is unclear what policy changes would underpin the increase in such transfers, as the stated policy objective is to contain their increase. Analogously, domestic credit forecasts (in real terms) could be used to gauge the impulse coming from the financial sector. In this regard, the forecast seems to assume that the ongoing trends in domestic financial markets (easier access to credit in an environment of low interest rates) will continue despite possible market saturation, and of measures taken by the CBK to curb credit growth in the context of its macro-prudential framework.</p> <p>External Factors. We agree that growth prospects in Europe (including in remittance originating) have weakened. However, the narrative underpinning the ERP's GDP</p>	IMF	Partially accepted	<p>Some of these changes have been reflected. We have not grouped the factors of growth into domestic and external. However, we did include the fiscal outcome for 2019.</p> <p>We have edited our description of consumption drivers.</p>

	<p>forecasts refers to buoyant remittances supporting private consumption growth. It would be useful if the ERP discussed how the downside revisions to global growth (by the WEO and the EU) are factored in Kosovo's growth forecasts.</p>			<p>External factors are taken into account when projecting remittances and other indicators. More thorough description is not possible due to limitations on document length, however we have mentioned that there will be a slowdown in remittances growth due to developments in European countries such as Germany and Switzerland.</p>
	<p>The ERP seems silent about the expected impact of GDP growth on labor markets. There appears to be no quantification on how GDP growth rates of about 4 percent annually are expected to affect employment and labor participation rates. This is essential, as such links may have an impact on emigration, tax collection, credit demand, among other. The ERP itself suggests that increases in private sector employment are a factor behind expected increases in domestic demand, but it is unclear on what grounds, given the lackluster performance of labor market indicators according to official statistics.</p>	IMF		<p>The new draft of the ERP attempts to capture these elements and address these issues. However, our Macro-Fiscal Model does not have a fully developed section on labour market. In the next year's ERP we plan to further utilize the CGE model which has more linkages to the labour market.</p>
	<p>More discussion on private investment forecasts (and on total investment more generally) would also be welcome. We welcome the costing of reforms shown in Tables 10a and 10b, and thus, a possibility would be to link expected investment trends with ongoing and future implementation of reforms. With that in mind, the ERP could aggregate expected flows for infrastructure contained in structural reforms, maybe expanding Figure 16. Together with this, the ERP could also show a table with the status of implementation of measures described in previous ERPs, including any disbursements made. On external investment, the ERP could discuss how FDI in real estate has affected, and is expected to affect, construction activity.</p>	IMF	Not Accepted	<p>Will be addressed in next year's ERP.</p>

	<p>Inflation Forecast</p> <p>Inflation projections would benefit from additional granularity. The discussion could follow the model used to describe recent inflation developments, i.e., a more granular description on how external and domestic factors are expected to affect core, headline, tradable and non-tradable inflation. An analysis of the estimated impact of the increase in import tariffs applied to Serbia and Bosnia and Herzegovina (including how the impact is expected to peter out in the forecasting period), is essential. An analysis on recent developments and expectations on the cost of the consumption basket used as the poverty threshold would be important to complement the discussion on social policies.</p>	IMF	Accepted	The updated version of the draft includes a more detailed and granulated description of future inflation developments.
	<p>We welcome the discussion on risks (an essential input in policy making), but the ERP could clarify how the balance of risks has shifted since last year. The October 2019 WEO suggests that the balance of risks on global, and European, growth have shifted to the downside both in the short and in the medium term. Do the authorities agree? A similar discussion on the balance of risks for domestic factors would be welcome, with a conclusion on how the overall balance of risks for Kosovo has shifted, both for the short and medium terms. It seems to us that a more uncertain external economic environment, and some domestic political uncertainty (given the political stalemate since mid-2019) point to a balance of risks that has shifted to the downside, both on the short and the medium terms.</p>	IMF	Accepted	The current draft of the ERP (the one that was in public consultation) did include a conclusion that risks have shifted downwards and are noticed in the graph as well. However, we will make sure this is more explicitly expressed in the final draft.
	<p>Most importantly, the ERP would benefit from a discussion on how the shifting balance of risks will affect policy making. How fiscal and monetary-financial policies will react in case downside risks (both on the domestic and</p>	IMF	Not Accepted	Attempts to address this will be made in the next year's ERP.

	external fronts) materialize? This could be discussed in either Section II, or in Section III in that respecting fiscal policy.			
	We appreciate the effort at quantifying the positive impact of a subset of structural reform measures. The assumed positive impact on fiscal revenues and on growth is not only significant, but it is assumed to occur very fast. We would welcome some discussion (maybe in an appendix) on the models or tools used to obtain such a quantification, including a measure of uncertainty around what (we assume) are average/median projections	IMF	Accepted	Since, this section of the ERP has been added in this ERP only and is a new section, more time has been needed to further develop the assumptions. With that in mind, the new ERP version has included more details on the long term impact and has revised its current medium term assumptions. At the same time the draft does include a description of the CGE model used to conduct the analysis (in the annex).
	Analogously, the ERP could discuss more thoroughly the assumptions behind the quantification of downside risks. The description could clarify whether the quantification was made based on models, judgment, or both, as this would allow more helpful policy discussions with domestic and international stakeholders.	IMF	Accepted	There is a footnote that offers a brief description in the new draft. Nevertheless, in next year's ERP there will be a more thorough elaboration on each risk individually.
	We note a certain disconnect between labor market developments and other indicators of economic activity. While credit growth was buoyant, fiscal revenues continued to grow, and construction activity appeared to overheat (among other indicators of activity), employment decreased in 2018 (vis-à-vis 2017), and unemployment rates remained large. To better understand these trends, the ERP could discuss labor developments at the urban and rural levels, and by region. This may point to regional imbalances arising or deepening, requiring policy action. A more granular discussion of the labor market will clarify labor dynamics and may point to areas where labor data may need improvement.	IMF	Accepted	The updated version of the ERP tries to analyze further the labor market. Nonetheless, it should be taken into account that year 2017 was an outlier when it comes to employment and more specifically employment in the Public Administration sector since 2017 was an election year and for around 3-5 months there were about 16,000 people employed for the election process. These people were mostly students who worked only during elections and thus boosted the number of employed people for that year. However, this is a temporary effect and occurs only during election periods. Therefore, there is not a significant disconnect between labor market developments and other indicators of economic activity. Even though credit growth was buoyant, fiscal revenues continued to grow, and construction activity increased in 2018, employment decreased (vis-à-vis 2017), mainly due to the base effect of 2017. As per labor

				developments at the urban and rural levels, there is currently no data provided on this regard by the Agency of Statistics, nonetheless, we could include a subsection that tackles this issue using administrative data from TAK.
	<p>Data Quality</p> <p>The ERP could describe ongoing efforts to improve the quality, timeliness, and frequency of economic data. For instance, Information Box 1 could include a description of KAS' agenda over the period 2020-22 to improve the coverage of national account statistics, including technical work to measure the under-reported and informal economy. This may result in substantial revisions in GDP figures.</p>	IMF	Not Accepted	KAS is continuously working towards improving their data quality. They are making efforts to further standardize their statistics and their data collection methods. There is no specific strategy regarding this, however different donors are supporting the process of advancement of the agency.
	<p>Monetary and Financial Policies</p> <p>The ERP rightly points out that Kosovo lacks the traditional instruments to steer inflation, but this does not mean that the CBK lacks any and all capacity to affect it. The CBK's ability to use a short-term interest rate ("key rate") to signal changes in the cost of current vis-à-vis future consumption is limited as Kosovo does not have its own domestic currency; and, because short-term Euro rates are determined outside of Kosovo (with differences between domestic and external rates representing perceived country risk). However, by mitigating systemic financial risks, the sound implementation of macroprudential policies can have a positive effect in tackling inflation volatility. By avoiding excessive credit buildups during economic expansions and equally excessive credit contractions during recessions, macro-prudential policies can make fluctuations in inflation and real exchange rates more moderate as well.</p>	IMF	Accepted	A more detailed analysis on the tools used by CBK has been included.
	Against this backdrop, the ERP could list concrete actions taken (and expected to be		Not Accepted	CBK will address these in the next year's ERP.

	<p>taken, beyond monitoring) to ensure that credit growth is sustainable. As the ERP mentions, the vigorous credit flow to consumer loans is a source of concern, since credit growth strongly outpaced growth in both GDP and wages. Has credit growth been higher for a certain subgroup of financial institutions? Is risk distributed homogeneously across the financial system? If not, what measures has the CBK implemented or plan to undertake to mitigate any existing pockets of risk? We would also appreciate a discussion on the CBK's plans to utilize its credit registry data to monitor the ratio of the cost of servicing credit to household income. Our preliminary calculations suggest that credit growth has been higher than can be sustained in the medium-term.</p>			
<p><i>III. FISCAL FRAMEWORK</i></p>	<p>The ERP emphasizes the authorities' commitment to the implementation of Kosovo's fiscal rules, a policy that we strongly endorse. In doing so, the ERP lists four such rules (fiscal balance, investment clause, government bank balances and debt limit), but omits the wage bill rule. We wonder about the reason for this omission and expect the ERP to clarify, or hopefully rectify. We think that the wage bill rule is an essential component of fiscal policy and we would expect future state budgets to respect the wage bill ceilings as provided by the law, and the ERP to discuss the modalities in which this will be achieved. Given the challenges created by the new public wages law, we wonder what explains the reduction in wages and salaries in 2020 at the central level (Euro 345.7 million compared to 347.9 in 6 2019). The ERP is also somewhat vague regarding the level of usable bank balances, by referring to an "adequate" level of fiscal reserves instead of committing to a numerical level as in the law. Our</p>	<p>IMF</p>	<p>Accepted</p>	<p>There is a revised version of this section in the new ERP.</p> <p>As stated in one of the joint conclusions: 1B The working groups on sub legal acts deriving from Law on Salaries in Public Sector, are working on designing sub legal acts that are needed for the start of implementation of this law in December 2019, by keeping the focus on compliance with the wage rule.</p> <p>Wages and Salaries are not expected to change much in the central level due to the wage bill law. Therefore, the biggest increase of wages and salaries (Eur 36 million) in the local level is mainly due to the implementation of the wage bill law since the categories of employment that fall under the local level are expected to experience the highest wage increases (e.g. teachers, doctors).</p> <p>In the final draft of the ERP, the bank balance is displayed in numerical levels based on 2019 preliminary treasury data. Based on the updated data,</p>

	understanding is that the relatively high level of usable bank balances may be partially explained by large unused PAK funds, as well as by bills pending payment. The ERP could usefully clarify on this.			the bank balance is around 5.1% (table 7)
	The description of fiscal policy would benefit from a different presentation of outcomes, expected outcomes and budgeted fiscal figures. The revenue and expenditure tables should show outcomes or expected outcomes together with budgeted figures. Fiscal forecasts for 2020 should be based on the expected outcome for 2019 incorporating actual data through October-November.	IMF	Accepted	The new version is based on actual data for 2019
	Expected revenue increases can be broken down between those linked to policy changes and those resulting from buoyancy. For example, VAT collected at customs is presented to increase by 4.7 percent in 2020 compared with the budget in 2019. How much of this increase is the result of an increase in the tax base (imports), and how much is driven by a change of policies?		Not Accepted	It should be noted that the macro-fiscal framework is limited when it comes to page numbers and information that can be included. We do have such information and we usually disclose that in the budget or MTEF. However, in the next year's ERP we will change the structure of the fiscal framework and we will take into account such descriptions.
	VAT projections seem to assume that payments will shift from the border to inland. Since changes to the VAT law have not yet been adopted, the baseline should ideally exclude this assumption, which could be presented as an alternative scenario. Given the importance of VAT revenue in total revenue, the ERP could describe any risks and costs associated with shifting VAT payments from customs to inland.	IMF	Not Accepted	These assumptions are not as a result of the new VAT law since that has not been adopted. However, the assumption comes from the government decisions in force that enable manufacturing companies to shift VAT inland.
	The ERP can further clarify the effect on revenues from Kosovo's participation in free trade agreements. Custom duties revenues are assumed to stabilize as the effect of the SAA starts dwindling. It will be important to discuss whether the impact of the free trade agreement with Turkey (approved earlier in 2019) has been factored in and what its expected costs are.	IMF	Partly accepted	The FTA with Turkey has not been incorporated in the current projections for 2020. This is because there were uncertainties regarding how the agreement would be implemented (what rates would be used and whether they would be harmonized with SAA rates). Currently, there is more information and we have preliminary results which will be incorporated in the new MTEF in April.

	<p>The ERP could discuss the implications for the fiscal policy stance of alternative GDP elasticities of fiscal revenues. The current elasticity estimates include the effect of one-off revenues, tax administration efforts, and structural changes, among other, which inflate the value of such elasticities. A computationally simple alternative would be to assume a revenue elasticity of one. This would provide a benchmark against which current estimates could be compared. Also, as discussed above, the discussion of structural fiscal balances could be expanded by describing the fiscal impulse arising from the calculations.</p>	IMF	Accepted	<p>The final version includes both estimates: the structural balance calculated based on obtained elasticities and the structural balance based on elasticities of 1. However, no significant difference is observed.</p>
<p>Priority Area II: Agriculture, Industry and Services</p>	<p>The ERP could also discuss whether the cadaster system and access to finance are structural impediments to the agriculture sector. IMF staff recommended establishing a fully functioning cadaster system that covers all of Kosovo and providing banks access to the recently established agriculture registry.</p>	IMF	Not Accepted	<p>Regarding the cadastral system, the MAFRD possesses only the Vineyard Cadastre and LPIS - parcel registration system. At the time of application of certain measures, women are obliged to bring proof of possession of land or proof of renting the land. Regarding cadastre, the amendment of cadastral law is intended to resolve cadastre system that covers all of Kosovo, the law is expected to be approved in the assembly this year - which is part of the property rights measure were indirectly contributes to access to finance. Also, Kosovo has set up a credit guarantee fund and is taking other measures aimed at facilitating access to finance.</p>
<p>Priority Area II: Agriculture, Industry and Services</p>	<p>We endorse measures to support SMEs, but any subsidies to specific firms need to be allocated on a competitive basis and transparently. Although planned subsidies for SMEs are much less onerous than for the agricultural sector, the general principle of competition and transparency in allocation applies for subsidies to manufacturing.</p>	IMF	Not Accepted	<p>The subsidies for SMEs are already allocated on competitive bases, based on the Administrative instruction (MTI) no. 01/2018 on the distribution of financial means from economic categories of subventions and transfers which defines the criteria for the distribution of subventions and transfers, the manner of application and the procedures of the distribution of means from the budget of the Ministry of Trade and Industry from the economic category of subventions and transfers.</p>

Priority Area II: Agriculture, Industry and Services	Note that KPIs for agriculture, manufacturing and services all include targets for (directly or indirectly) increasing their share in GDP. A sector's share (in either GDP or exports) could change due to factors completely unrelated to the sector's performance. This is yet another reason to consider more granular, well-defined and sector-related KPIs.	IMF	Not Accepted	Agriculture KPI's include targets in increasing the share of agriculture export and imports in total exp-imp and not in GDP
Priority field III. Business environment and reduction of informal economy	Address informality in the agro-sector.	German Embassy	Partly Accepted	The issue of informality in agro-sector is addressed to a certain degree by activities 3 and 4 of 2020 and 2021. More specifically, the control of stocks and intensification of cooperation between TAK and labour inspectors in high risk sectors cover the fight of informality in agro-sector as well.
Measure # 11 Reducing the Informal Economy	Include yellow part: The purpose of the measure is to combat the informal economy by improving the rule of law, data sharing across government and economic governance in Kosovo, with the aim of increasing tax revenues and formalizing employment.	German Embassy	Accepted	
Measure # 11 Reducing the Informal Economy	There is no time data series on the size of the informal sector, and thus, some of the KPIs aimed at reducing informality could be clarified. Thus, a key activity in the context of policies to reduce informality is to plan for actions (including integrating those already ongoing) to better measure the under-reported activities by formal sector entities, and outright informal activities. This should also result in positive spillovers in the understanding and targeting measurement problems in labour market data. Regarding KPIs, the definition for the "rate of informal employment" can be defined with respect to existing and publicly available data.	IMF	Not Accepted	The KPI is already defined based on labour force survey definition.

Measure # 11 Reducing the Informal Economy	To reduce real estate informality, IMF staff has recommended to establish a cadastre system covering the whole country. Staff also recommended to undertake reforms to strengthen Kosovo Cadastre Agency's institutional framework, upgrade its technical infrastructure, complete the privatization of public houses, and provide proper titles to homeowners. While data is unavailable, anecdotal evidence suggests that a significant amount of unsecured consumer loans are used to purchase property given the inability to obtain a mortgage. The ERP could discuss this issue.	IMF	Not Accepted	To large extent measure 10 addresses the issue of real-estate informality. The reform envisages the KPCVA's mandate to serve as a review body to establish and provide legal recognition of uncontested informal rights. This reform contributes to the removal of the courts from formalization claims, and provides citizens with a quick solution to their property rights formalization claims. Cadastre is legitimate when the cadastral data are in line with the actual situation and serve the dynamics of the market economy. The overall objective of this measure is to transform the cadastre into a reliable database of property and property rights holders in Kosovo.
Measure #9: Establishment and functionalisation of Commercial Court	The ERP could describe how the transition from the Department of Commercial Matters to the new Commercial Court will be handled.	IMF	Not Accepted	The proposed measure activity present the steps of this transition, more specifically activity 4 for 2020 addresses the issue of transition of DCM to the new CC. The revision of the Regulation for internal organisation of the courts will regulate the functioning of the new Commercial Court.
Measure #8: General Inspection Reform	On general inspection reform, planned activities could consider working with other relevant public entities. IMF staff has recommended empowering the inspectorate to obtain, review, and share with other public entities (especially TAK and MoI) all documents pertaining to labour contracts, remunerations and their payment, tax and contribution liabilities and payments, and impose penalties. Another recommendation is to mandate the inspectorate to invite and, if necessary, request the participation of the tax authority, the police, customs and border controls in the inspection process. Regarding KPIs the number of visits should not be the emphasis, but rather how cost-effective and efficient these visits are in achieving their stated objectives.	IMF	Partly Accepted	The issue of cooperation between TAK and other public entities regarding to documents pertaining to labour contracts, remunerations and their payment, tax and contribution liabilities and payments and impose penalties, is already addressed under measure 11. Reducing of informal economy, activities 3-6 for 2020. Moreover, the draft law on inspection, art. 12, par. 1.2 and 1.3 address the issue of cooperation of TAK and other public entities during the inspection process. As for KPI, the number of visits will be removed as indicator. As for KPI, for now an indicator that emphasis how cost-effective and efficient these visits are in achieving their stated objectives it cannot be added. Nevertheless, an indicator that show better business environment through decrease of number of visits at firms each year, is added.
Priority Area IV. Research, Development and Innovation (RDI) and	1. Develop a national industrial policy strategy	German Embassy	Not accepted	<ol style="list-style-type: none"> 1. This is addressed under Measure 4, activity 2: Development of Industrial Development Strategy 2. This is addressed under Measure 13, activity

<p>Digital Economy - Measure #13: Extension of relevant ICT networks and services infrastructure for socio-economic development</p>	<ol style="list-style-type: none"> 2. Support digitalization of the private sector and SMEs 3. Support the establishment of accelerators and other Venture Capital for further growth possibilities of start-ups, which will create spill over effect to the ICT sector 4. Include yellow parts: This measure aims to expand access to and use of ICT by extending broadband infrastructure to uncovered areas, support the “One report – many users” approach with interest groups involved, strengthening human capital and supporting digital businesses, as well as digitizing other businesses. 5. Strengthening Public sector capacities in order to provide IT service to government agencies and developing citizen friendly e-services. 			<ol style="list-style-type: none"> 4 (2021): ‘Digitalization of traditional businesses and increased use of ICT in the private sector’ 3. Idea is relevant, but due to lack of funds inclusion of this activity is not realistic for this cycle of ERP. 4. We think that yellow part is sufficiently addressed in the Measure 13, activity 8, for 2021. 5. Idea is relevant, but due to lack of prior coordination with other stakeholders, especially Agency for Information Society, this activity cannot be included at this stage.
<p>Priority Area IV. Research, Development and Innovation (RDI) and Digital Economy</p>	<p>To strengthen ICT networks and service infrastructure, the ERP could discuss how to advance the regulation and technical readiness for digital payment and electronic signature. The use of electronic payments and cards are not prevalent and mobile payments are virtually nonexistent. Mobile payment and digital wallet services are not available in Kosovo, and the use of electronic signature is still not allowed.</p>	<p>IMF</p>	<p>Accepted</p>	<p>This is comment is incorporated in the measure 13 as a new activity: ‘Institutional and capacity building for implementation of eIDAS regulation provisions’</p>

<p>Prioriry Area VI. Education and Skills</p>	<p>1. As a possible way to measure selected interventions (including in higher education) a KPI could be introduced to monitor student and teacher performance. Previous IMF staff recommendations have suggested introducing teachers' performance assessment in combination with training and qualification to improve educational outcomes.</p> <p>2. We support the authorities' efforts at improving vocational education and training system (VET). The generally accepted narrative links large unemployment with skills mismatch, and VET strengthening can be an effective way to address this challenge. We would encourage, however, stronger efforts at measuring skills mismatches, in particular for the 15-24-year cohort. This could be done by adding a specific module in the labor survey, by introducing a specific firm survey, or both. Having clear evidence of skills mismatches, is essential to understand their causes and design effective interventions.</p>	<p>IMF</p>	<p>Not Accepted</p>	<p>1. This comment cannot be accepted for this cycle since we do not have measure on pre-university education. Since we have only pre-school education measure, the indictor for this cannot give the complete picture for student and teacher performance. As was suggested during the process for this cycle of ERP, the measure on Pre-university Education will be re-introduced again next year and then we can introduce this KPI, too.</p> <p>2. The comment is addressed by measure 17, activity 8.</p>
<p>Prioriry Area VI. Education and Skills, Measure #17: Creation of a basis for quality education and vocational training in line with the labor market</p>	<p>1. For the development of a systematic, structured and documented involvement of corresponding sector industries, ensuring the alignment of curricula with labour market requirements is necessary. For the alignment of curricula of public VET schools to the occupational standards as accredited by NQA, special agreements which take into consideration the limited capacities of VET schools and allowing for their stepwise transition should be defined. For the implementation of the curricula the necessary framework conditions for VET schools need to be put in place, e.g. the adoption of suitable administrative instructions, adequate financial funding of</p>	<p>German Embassy</p>	<p>Not accepted</p>	<p>1. The comment is addressed by measure 17, activity 6 and 7 for three years (2020-2021-2022)</p>

	<p>VET schools and ensuring assurance coverage of students at workplaces.</p> <p>2. The establishment of the incentive mechanisms to enhance the cooperation between private companies and VET providers should be addressed.</p>			<p>2. The comment is addressed by measure measure 17, activity 7.</p>
Priority Area IV. Research, Development and Innovation (RDI) and Digital Economy	The section about RDI should include points on low-carbon development and circular economy	UNDP	Not accepted	If the comment is a suggestion to include this as an activity in this ERP cycle, then it cannot be introduced in this ERP because it requires initially analysis and information to be coordinated among key stakeholders.
Priority Area VI. Education and Skills	Education and skills section should also mention the need to develop more flexible ways (ICT-based, distance learning, targeted short-term trainings, etc.) of bridging the skills gap – to meet the needs of the labour market. Private sector should be engaged in these efforts.	UNDP	Not accepted	This is addressed by measure 13, activities 4 and 5 in 2020, activity 3 in 2021 and activity 2 in 2022
VII. Employment and Labour Market	<p>We support the authorities' intention to implement active labor market policies. These policies in general aim at tackling unemployment hysteresis.</p> <p>However, it is not clear to us whether there is enough available data to support that hysteresis is a problem in Kosovo. In this regard, planned actions could also include a module to better measure unemployment spells at different age cohorts. This can be easily done through introducing appropriate questions in the regular Labor Force Surveys.</p>	IMF	Not accepted	<p>Incorporation of the new module in LFS related to "Occupational Accidents and Workplace Health Problems" - will be developed by KAS within LFS in Q4 2020. While in the unemployment forecasting module for different age groups, KAS has not yet incorporated any of the regular VET modules implemented in EU countries. Following the Census 2021, KAS has planned to include regular modules in VET and will also review the options for including module on unemployment forecasts for different age groups.</p> <p>KAS will also review the possibilities for inclusion a module on gender-based discrimination in the LFS after the 2021 Census.</p>
VII. Employment and Labour Market	As a general principle, we are of the view that institutionally strengthening the operations and capacity of the Kosovo Agency of Statistics is essential to improve data quality, including labor data. A specific measure should describe how any ongoing or planned work to improve KAS's operations is expected to result in better quality, more timely data, including labor market data. We believe that strengthening KAS capacity should	IMF	Not accepted.	<p><u>For this cycle, there is no foreseen specific measure that will improve the KAS operations, and consequently lead to result in better quality, more timely data, including labor market data, beside the planned improvements and incorporation of new modules to the Labor Force Survey.</u></p>

	occur pari-passu with any planned sample improvements and/or incorporation of new modules to the Labor Force Survey.			
VIII. Social Inclusion, Poverty Reduction and Equal Opportunities	A reading of the planned measures in this area suggest that some interventions occur through NGOs. In case our understanding is correct, we would welcome a brief description on the process to choose such NGOs and on any ongoing or planned measures to monitor their performance in achieving the state's objectives.	IMF	Not Accepted.	MLSW is responsible for licensing non-governmental providers for the provision of social and family services, so in the absence or inability of the public sector to provide social services, MLSW provides support and contracts the non-governmental sector (NGO) for the provision of certain services such as victim protection of domestic violence, trafficking, day-to-day and domestic services for elderly and disabled children and adults. In order to achieve the results and implement the objectives of the support provided to NGOs from public funds, there are mechanisms for monitoring and inspecting the implementation of projects and standards for social services.
VIII. Social Inclusion, Poverty Reduction and Equal Opportunities	More generally, this section could summarize the impact on social inclusion and poverty reduction of ERP actions across the reform spectrum. The ERP already discusses and assess the impact on poverty and inclusiveness of each individual measure. Accordingly, this section could summarize (e.g., in a table) the expected overall impact on social inclusion, poverty reduction and inclusiveness of structural actions across the whole reform spectrum.	IMF	Accepted	In this year's ERP there is still no quantitative measure of the impact on poverty and inclusiveness of each measure. Nonetheless, the authorities have included some qualitative measures on such impacts and those are included in each measure description. Therefore, <u>there will be a table included in the ERP 2020-22 which will summarize the descriptions of the impact of each measure.</u> Nonetheless, the authorities are in the process of building a social accounting matrix which will enable a more thorough and detailed measurement of each reform's impact on social inclusion and poverty reduction. This will be potentially added in the future ERP. However, in this year's ERP we will include a more detailed analysis of the social impact of five main measures which are believed to have the most significant effect. This impact is based on the social accounting matrix constructed for Kosovo's economy. These five measures are the ones that we have provided an economic impact as well. To see this detailed description please refer to information box number 3: Economic Impact Assessment of Economic Reforms.

VII. Employment and Labour Market	Improvement of the efficiency and effectiveness of different active labour market programmes. <u>Following the evaluation of different schemes, MLSW/EARK should adapt certain services to the needs of specific target groups and make them more suitable to long-term unemployed and vulnerable groups.</u> The recommendations (short-, medium- and long-term) must be incorporated and carried out by local employment offices.	German Embassy	Accepted	Improving the efficiency and effectiveness of various active labor market programs suggests that EARK should expand the range of employment services especially for vulnerable groups. In this regard, the EARK has drafted the work plan for 2020, and measures have been taken to expand services by opening a package of services offered to jobseekers and to increase the inclusion of vulnerable groups (vulnerable groups: long-term unemployment, women, youth, minorities, etc.) in Active Labor Market Measures.
VII. Employment and Labour Market	The <u>GIZ YES project also supports various measures targeted towards vulnerable groups and addresses particularly women, ethnic minorities and people with disabilities to support their labour market integration.</u> A higher priority from the government needs to be given to the employment and activation of women, as their labour force participation is dramatically low.	German Embassy	Accepted	Through the GIZ YES project about 1,375 jobseekers or 29.8% of all intermediaries (4611 in total) were mediated. Of these 1,375 jobs, youth participate with 43.8%, while women participate with 57.8%. By ethnicity, all minorities make up 10.9%. Also, within the planned activities within the Measure 19. Activity 4. Implementation of active employment measures for at least 3,000 long-term unemployed persons, including but not limited to youth, women, and persons in poverty in rural areas (EARK / MLSW) are foreseen activities that will be implemented with the support from this Project.
VIII. Social Inclusion, Poverty Reduction and Equal Opportunities	Based on the adoption of the Law on Social Enterprises more efforts should be put in order to connect the social welfare structures with employment offices at the municipal level and the employment opportunities within social enterprises;	German Embassy	Accepted.	MLSW will be informed on the recommendations that during the drafting of the secondary legislation for the implementation of the Law on Social Enterprises, to put more efforts to connect the social welfare structures with employment offices at the municipal level and the employment opportunities within social enterprises;
VIII. Social Inclusion, Poverty Reduction and Equal Opportunities	Support to the establishment of new and the sustainability of existing social enterprises.	German Embassy	Accepted.	Support to the establishment of new and the sustainability of existing social enterprises will be sustained through the foreseen activities of the drafting of the secondary legislation under the Measure 20. Improving social services and empowering excluded marginalized groups.
VIII. Social Inclusion, Poverty Reduction and Equal Opportunities	Within the revision of the Law on Family and Social Services the competence of the municipal level structures for the provision of social services should be increased, specifically with	German Embassy	Accepted.	Within the revision of the Law on Family and Social Services the competence of the municipal level structures for the provision of social services would be increased including social welfare/assistance schemes.

	regards to social welfare/assistance schemes.			Also by adoption of the Law on Local Government Finance and Administrative Instruction on Funding Formula for financing social and family services.
Priority Area V. Trade related Reforms <i>Analysis of major obstacles 5</i>	It would be worth double checking a few figures. “However, trade in goods in Kosovo remains dominated by imports accounting for almost 90% of total trade, while services exports account for 68.9% of total exports. Services activities in 2017 accounted for 71.9 percent of GDP.” Please double check the number in the above sentences. According to our data, services exports account for 78% of total exports in 2017 and 80% in 2018. In addition, please state that “imports accounting for almost 90% of total trade” exclusively applies to goods trade. Furthermore, consider defining what “services activities” entail. “71.9 percent of GDP” appears to be very high. According to our data, services exports and imports stood at 21.2 and 8.3 percent of GDP, respectively, in 2017.	IMF	Accepted	
Priority Area V. Trade related Reforms; <i>Analysis of major obstacles 5</i>	Consider indicating which product classification and at how many digit level are used to compute HH index.	IMF	Not accepted	Calculations are based on SITC product classification 4 digit
Priority Area V. Trade related Reforms; <i>Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products</i>	Reform measure #15 related to improving the quality of construction materials produced domestically should be reclassified into those aimed at improving agriculture, industry and services. It is also unclear whether the identified KPIs for this reform would necessarily show improvements in the quality of construction products.	IMF	Not accepted	The first part of the comment it is not clear, the measure aims at further approximation and implementation of EU legislation focusing on: enhancing the safety and quality of construction products, services provided in the domestic market and integration into the EU market and other markets. The priorities for Agriculture and services are addresses under Priority Area 2. The KPI maybe do not necessarily show improvements in the quality of construction products however if we look at the activities they show that there would be improvement, and with the improvement of the quality of construction products there will be increase of exports.

Priority Area V. Trade related Reforms; Policy Area Analysis	We wonder whether the imposition of tariffs to Serbia and Bosnia and Herzegovina will affect the planned activities to increase competitiveness in trade in services. In this regard, several activities planned during 2020-22 are related to CEFTA negotiations and collaboration. Given that the 100 percent tariff imposition on Serbian and Bosnian imports has de facto stalled CEFTA negotiations and collaboration, the report could flag this issue as a potential risk.	IMF	Not Accepted	In December 2019 in Tirana CEFTA Joint Committee approved the Additional Protocol 6 (trade on services).
Priority Area V. Trade related Reforms; Policy Area Analysis	When describing structural obstacles, the ERP could mention that Kosovo is the only CEFTA country that is neither a WTO member nor an observer. Hence, it could be at a disadvantage when it comes to discriminatory trade practices.	IMF	Accepted	
Priority Area V. Trade related Reforms	Given the long lag between the signing of the FTA with Turkey and its entry into force, it appears that the list of goods subject to duty free treatment is outdated. It would be worth mentioning that a new list of goods is being prepared. And perhaps it would be appropriate to include this as one of the activities planned for 2020.	IMF	Not accepted	No list is being prepared nor will it be prepared regarding the FTA with Turkey. The list of products in the agreement is the list that has been discussed during the negotiations and now part of the ratified agreement.

ANNEX 3: LIST OF KEY PERFORMANCE INDICATORS

Reform measure #1: Reduction of energy consumption through energy efficiency measures			
Indicator	Baseline 2018	Intermediate target 2020	Target 2022
1. Electricity consumption in the household sector	36.1%		30%
2. Reduced technical and commercial losses in the distribution grid KEDS.	22.6%	17.60	15.10%
3. MWh saved from energy efficiency measures in households	0		70,000 – 100,000 MWh
Reform measure #2: Increasing diversity of energy sources			
Indicator	Baseline 2018	Midterm target	Target 2022
1. Energy Generated By Hydro Power Plants	311.5 GWH		360 GWh
2. Levels of CO2 emissions	6.68 tonne	2019 – 6.68	2022- 6.0
3. New Installed Capacity From RES	120,7 MW	2020 - 244,7MW	317.58MW
Reform measure #3: Structural changes in agriculture sector			
Indicator	Baseline 2018	Intermediate target 2021	Target 2022
1. Share of agricultural products export (1-24) in total export (1-98)	17.4%	20%	23%
2. Share of agricultural products import (1-24) in general import (1-98)	21.3%	19.5%	17.5%
3. Growth of areas with agricultural crops	20%	22%	25%
Reform Measure #4: Increase of competitiveness in the manufacturing industry			
Indicator	Baseline 2018	Intermediate indicator 2020	Target 2021
1. Share of processing industry in total GDP (%)	11.08%	12%	13%
2. Number of companies supported for certification of products for EU market	4	40	N/A
Reform Measure #5: Increase of competitiveness in the tourism and hospitality sector			
Indicator	Baseline 2018	Intermediate indicator 2020	Target 2022
1. Number of foreign nationals who have entered in Kosovo ⁴⁵	4.579.002	4.807.952	5.300.767
2. Contribution of tourism in GDP of the country	1.3%		2.00 %
Reform Measure #6: Increase of competitiveness in the sector of trade in services			
Indicator	Baseline 2018		Target 2022
1. Increase of the contribution of trade in services in GDP	5%		7.5%

⁴⁵ Source of information: KAS/Border Police

2. Increase of production in activities of high productivity services (increase of productivity of the labour force in professional services)	12,000 €		€ 15,600
3. Level of increase of service export	€ 1.4 billion		€ 1.7 billion
Reform Measure #7: Adoption of evidence-based policies and reduction of administrative burdens			
Indicator	Baseline 2019	Target 2020	Target 2021
1. Capacity building of responsible officers of the relevant ministries in relation to SCM	0 of responsible officers trained in relation to SCM	0 of responsible officers trained in relation to SCM	120 of responsible officers of relevant ministries trained in relation to SCM.
2. Reduction of permits and licences	480 permits and licences in 2014 (baseline year)	At least 10% of licences and permits for economic operators are simplified, merged and/or abolished against the 2014 baseline	
Reform Measure #8: General Inspection Reform			
Indicator	Baseline 2018	Intermediate indicator 2021	Target 2022
1.Number of inspection bodies	36	16	n/a
2. Number of visits	22	20	16
Reform Measure #9: Establishment and functionalization of the Commercial Court			
Indicator	Baseline 2018	Intermediate indicator 2020	Target 2022
1.Solving the backlog of cases	10% reduction of the backlog and 100% solving of new cases/110% efficiency	35% reduction of (cumulative) backlog and 100% solving of new cases/125% efficiency	60% reduction of the (cumulative) backlog and 100% solving of new cases/125% efficiency
2.Duration of dispute settlement	2 years	1.5 years	1 year
3. Rate of returned/amended decisions of the court of first instance by the court of second instance	20%	10%	10%

Reform measure #10: Reduce informality in the real estate sector			
Indicators	Base 2018	Middle indicators 2020	Goal 2022
1. Duration of the process for recognizing informal property transactions	n/a	18 months	14 months
2. Updating the cadastral register with accurate information of the legal holders	50%	60%	70%
Reform measure 11: Reducing the Informal Economy			
Indicators	Baseline 2018	Intermediate target 2020	Target 2022
1. Percentage (%) of tax revenues from narrowing of tax gap ⁴⁶	percentage increase of tax base for tax type and sector with high exposure to informal economy ; not less than 2% as average of all tax types (VAT, PIT, CIT)	percentage increase of tax base for tax type and sector with high exposure to informal economy; not less than 2.5% as average of all tax types (VAT, PIT, CIT)	percentage increase of tax base for tax type and sector with high exposure to informal economy; not less than 2.5% as average of all tax types (VAT, PIT, CIT)
2. The rate of informal employment ⁴⁷	14%	12%	10%
Reform Measure 12: Improving the Environment for Innovation and Entrepreneurship			
Indicators	Baseline 2020	Midterm target 2021	Target 2021
1. Employment growth in MSMEs, funded by MIE, increase by%	Starts measuring by 2020	15%	25%
Reform Measure 13: Extension of relevant ICT networks and services infrastructure for socio-economic development			
Indicator	Baseline	Intermediate target	Target

⁴⁶ National Strategy of the Republic of Kosovo for the Prevention and Combating of Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes 2019 - 2023

⁴⁷ Ibid

1.Number of cadastral zones covered with fixed broadband infrastructure	2018 - 34	2021 - 150	2022 - 266
2. The number of ICT trainees in the digital economy	2019 - 0	2021- 2040	2022 - 3060
3. 5G pilot in QED completed	2019 - NO	2020 - YES	2021- YES
Reform measure #14: Trade facilitation through reducing the cost of trading transactions			
Indicators	Baseline 2018	Intermediate target 2020	Target 2022
1. Custom Clearance Time in Hours, Unit / Hours			
Import	130 min	110 min	100 min
Export	75 min	65 min	55 min
2. Increasing the percentage of electronic customs declarations (paperless concept)	70%	80%	90%
Reform Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products			
Indicators	Baseline 2018	Intermediate target 2020	Target 2021
1. Export of construction products	55,379,128.00	60,000,000.00	65,000,000.00
2. Import of construction products	290,821,879.00	287,000,000.00	280,000,000.00
Reform Measure 16: Developing early childhood education with an inclusive approach through completing legislative and physical infrastructure and reforming curriculum			
Indicators	Baseline 2019	Intermediate target 2020	Target 2022
1. Number of preschools institutions that implement the core curriculum	10	20	43
2. Number of children aged 0-6 years in preschools institutions	10,878 ⁴⁸	11,718	12798
Reform Measure 17: Implementation of the new curriculum framework in the vocational education and training system			
Indicators	Baseline 2019	Intermediate target 2021	Target 2022
1. Percentage (%) of VET Institutions implementing the new core curriculum	25%	50%	75%
2. Percentage (%) of VETI teachers trained in the implementation of the core curriculum	25%	50%	75%
3. Percentage (%) of students in vocational education participating in workplace-based learning	5%	10%	15%
Reform Measure #18: Enhancement and quality assurance in higher education by strengthening quality oversight mechanisms, improving the funding system and profiling higher education institutions			
Indicator	Baseline 2019	Intermediate target 2020	Target 2022

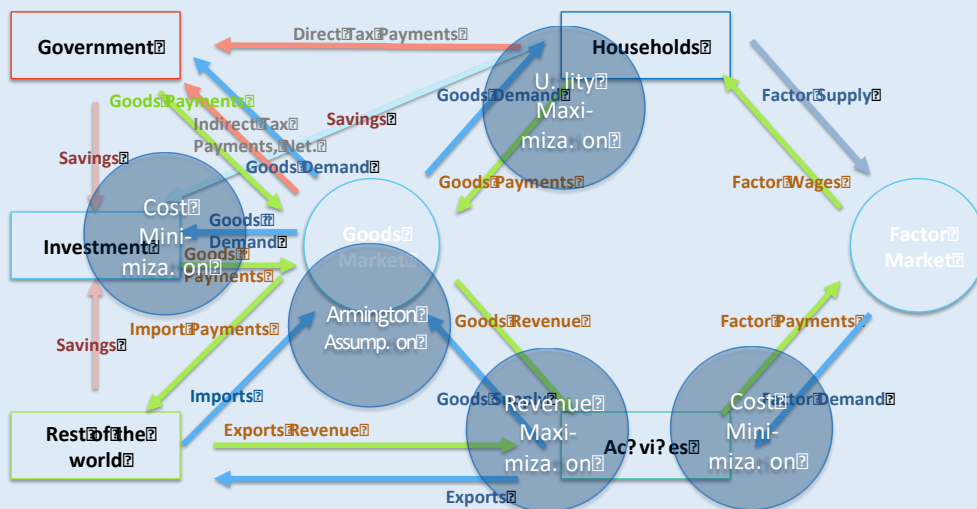
⁴⁸ In 2019, in total are 10,878 children registered in preschool institutions, 5,205 children in public kindergartens and 5,673 in private kindergartens. Two new public kindergartens will be completed in 2019; 5 in 2020; and 9 in 2021.

1.Number of HEIs monitored by KAA	0	16	32
2. Number of higher education programs reviewed in line with the labour market	0	2	4
3. Number of performance measurement agreements between MEST and HEIs	0	0	1
Reforms Measure #19: Improving and expanding public employment services and increasing the employability of long-term unemployed, young people, women and other vulnerable groups			
Indicator	Baseline 2020	Intermediate Target 2021	Target 2022
1. Percentage (%) of young people participating in active labour market measures out of the total number of ALMMs offered per calendar year	34%	35%	36%
2. Percentage (%) of women benefiting from active labour market measures out of the total number of ALMMs offered per calendar year	36%	38%	40%
3. Percentage (%) of NEET youth in the youth population 15 - 24	30%	29%	28%
Reform Measure #20: Improving social services and empowering marginalized groups			
Indicator	Baseline 2018	Intermediate target 2020	Target 2022
1. Increasing the coverage of families living in poverty by social assistance schemes.	50%	50% ⁴⁹	80%
2. Increase support and funding of social service delivery through the licensed non-governmental sector	30	50	100
3. Increase employment of marginalized groups, through the support of social enterprises	0	0	25

⁴⁹ The medium target of the indicator is the same as the indicator baseline, because the impact starts after the adoption and commencement of the implementation of the Law on Social Assistance Scheme after 2021

Box 1: A Computable General Equilibrium Model of Kosovo

An economy-wide recursive dynamic Computable General Equilibrium (CGE) representation of the Kosovo Economy has been developed. The model has disaggregated sector and commodity representation. This model is designed to analyse economy-wide implications of specific policy measures in the fiscal and other reform focus areas both in isolation as well as any relevant combined effects. By applying the CGE approach, the analysis attempts to overcome over-simplification and/or erroneous conclusions that are found by looking at only partial equilibrium results, aggregated or simple first round effects of the economic policy measures.



The economy-wide label implies that the model has a specific level of aggregation in all sectors of the Kosovo economy. The CGE specification implies that the model is a numerically specification of the demand and production relationships, the interrelationship between them, and is solved simultaneously for prices in all markets. The model includes 20 productive sectors each producing a unique commodity that is traded domestically and in competition with imported goods and/or exported internationally. The numeraire in the model is the GDP deflator.

The Kosovo government’s revenue systems have been given specific consideration. The government collects direct taxes on factor incomes as well as shares of capital rents form SOE. The government also collects indirect taxes on domestic intermediate and final consumption expenditures and imports. Finally, the government receives fees and fines from households. The Government’s subsidies have been calculated and are either based on ad valorem subsidy rates or fixed prices. The Government’s consumption expenditure, investment, and transfers to households are given exogenously.

The relationship with rest of the world is given by imports and exports of each commodity as well as any net-incomes and exogenous transfers to the government and/or household. The nominal effective exchange rate is fixed, with the real exchange rate moving to equilibrate the external current account balance. The model assumes fully flexible factor prices and thus full employment of the active labour force. This could be altered to simulate shorter-run behaviour through limiting factor price flexibilities with adjustments made instead to factor employment. A detailed elaboration of CGE model can be obtained from the Ministry of Finance, Macroeconomic Department.

Box 2. The Investment Clause

In 2012, as part of the Program with the International Monetary Fund (IMF), the Parliament approved the amendments in LPFMA, including the adoption of the so-called fiscal rule. Among other things, this means a yearly restriction of maximum state borrowing of 2% of Gross Domestic Product (GDP), despite the Government's capacity to obtain more financing for the capital projects of public importance.

In the meantime, the Government of Kosovo identified the need for additional space for financing major capital projects and in 2015 it started negotiations for a third IMF programme, which among other things, would allow the relaxation of the fiscal rule. In other words, for major capital projects with strategic importance, the government would be able to enter into debt above the 2% fiscal rule for a period of 10 years, with the main condition to not exceed 30% of total debt of the country. This would give the opportunity for the Government of Kosovo to have additional fiscal space, approximately 1.8% above the 2% fiscal rule. In fact, this was known as "amendment of the investment clause" and it represented the adoption of the necessary legislative changes by the Assembly of Kosovo, in January 2016.

The Government of Kosovo remains committed to include capital projects implemented through "investment clause" in the budget process on a balanced manner, following that financing of these projects be based on debt sustainability analysis [long-term].

As another condition of the investment clause was for the Ministry of Finance to produce twice per year a narrative report for the implementation of the projects under this provision. The last report on this instrument consisted of 7 projects, and the upcoming report which will be produced in January 2020 will include projects below which are also part of the budget tables for 2020. The reduction in the number of projects included in the investment clause is a result of the Government's decision to only include projects which are mature enough to start implementation in 2020.

Projects that are included in the Investment Clause are briefly described below:

- **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 are to fund this project. The financial agreements with the EBRD and the EIB have been signed and ratified. The first and second grant agreements from EU contribution have been signed and ratified. Civil works for Phase 1 of the project have commenced in the beginning of 2019, whereas for Phase 2 civil works are expected to commence in 2020. Tender and procurement procedures for Phase 3 are expected to start by the end of 2019 or beginning of 2020, while works are expected to take place from 2021 through 2024.
- **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. The agreement between the Republic of Kosovo and the World Bank was ratified during 2017 and the first disbursement was made in January 2018.
- **Rehabilitation of regional roads** - the implementing institution for this project is the Ministry of Infrastructure. The Financing Agreement was signed and ratified, and the project is worth Eur 29 million with EBRD financing. Civil works have commenced in May 2019.

- **Construction of N9 Highway 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 193 million. The EBRD loan was signed in 2017 and the loan with European Investment Bank was signed in the second quarter of 2018. In January 2019, an agreement of Eur 1 million was signed between the Republic of Kosovo and EIB under the “Economic Resilience Initiative” for project implementation support. Civil works are expected to commence in 2019.
- **Competitiveness and Export Readiness** - the implementing institution for this project is the Ministry of Trade and Industry (MTI) and the Ministry of Labour and Social Welfare (MLSW). The project of Eur 14.3 million is financed by the World Bank and the first disbursement was made in July 2019.
- **Additional financing for the Agricultural and Rural Development Project** - the agreement for this project was signed between the Republic of Kosovo and the International Development Association- World Bank during 2017 and the agreement was ratified by the Parliament. The estimated cost of the project is Eur 20.8 million and the first disbursement was made in March 2019.
- **Treatment of wastewater in Prishtina (Construction of the plant for treatment of wastewater in Prishtina region)** - the Ministry of Environment and Spatial Planning is the implementing institution for this project. Financing of this project will be done by the framework agreement between the Government of the Republic of Kosovo and the Government of France, which was ratified during 2017. Based on the agreement the project is valued to be Eur 86 million. Implementation is expected to start during the second quarter of 2020.
- **Construction of Ring Road Prishtina** – the implementing institution for this project is the Municipality of Prishtina. The project is in the process of evaluation from the Banks, EBRD and EIB. Civil works are expected to commence in 2020.
- **Kosovo Digital Economy (KODE)** – the Ministry of Economic Development is the implementing institution for this project. The estimated cost of the project is USD 25 million to be potentially financed by the World Bank. The first disbursement was made in November 2019.
- **Construction of Wastewater treatments for the Municipality of Mitrovica** – the Regional Water Company of Mitrovica is the implementing institution for this project. The project is in the process of evaluation from EBRD (as a lead IFI) and EIB, who will co-finance the project, in addition to a grant from WBIF. After the financing agreements are signed and ratified, works are expected to commence in 2020.
- **Gjilan Wastewater Development Project** – the Regional Water Company of Gjilan is the implementing institution for this project, which has an estimated total cost of Eur 23 million, to be co-financed with EBRD and EIB. The financing agreement of Eur 10 million with EBRD was signed in May 2019 and is awaiting ratification, whereas the agreement of Eur 11 million with EIB will be signed by the end of 2019 or beginning of 2019. The project is expected to be implemented between 2019 and 2024.
- **Construction of Wastewater treatment in Podujeva** – the municipality of Podujeva is the implementing institution for this project, which has an estimated total cost of Eur 5.35 million. The financing agreement is signed with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. The agreement has been ratified and has become effective in June 2019. The first disbursement for the project was made in 2019.
- **Construction of a water supply system for the Municipality of Ferizaj** - the municipality of Ferizaj is the implementing institution for this project, which has an estimated total cost of Eur 5.13 million. The financing agreement was signed in

November 2018 with Raiffeisen Bank International, which acts on behalf of Austrian Ministry of Finance. The agreement has been ratified and has become effective in June 2019. The first disbursement for the project was made in 2019.

- **Construction of a water supply system for the Municipality of Istog** – the municipality of Istog is the implementing institution for this project, with an estimated total cost of 5.094 million. The financing agreement was signed in November 2019 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. The agreement has been ratified and has become effective as of June 2019. The first disbursement for the project was made in 2019.
- **Construction of Waste water treatment in Shtime** – the municipality of Shtime is the implementing institution for this project, which has an estimated total cost of 2.385 million. The financing agreement was signed in November 2019 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. The agreement has been ratified and has become effective in June 2019. The first disbursement for the project was made in 2019.
- **Construction of a water supply system for the Municipality of Graçanica** – the municipality of Graçanica is the implementing institution for this project, which has an estimated total cost of Eur 5.12 million. The financing agreement was signed in November 2018 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. The agreement has been ratified and has become effective in June 2019. The first disbursement for the project was made in 2019.
- **Real Estate Cadaster and Geospatial Infrastructure Project (REGIP)** - the implementing institution for this project is Kosovo Cadaster Agency. The assessment of total project cost is USD 16.5 million. The financing agreement (FA) between the Government of Kosovo and the International Development Association (IDA WB) was signed in February 2019. Project implementation is expected to commence in 2020.
- **The Public Transportation Project, Municipality of Prishtina** – Prishtina’s Public Enterprise ‘Trafiku Urban’ is the implementing institution for this project, which has an estimated total cost of Eur 10 million. The project is financed by EBRD and its implementation started in 2016.
- **Traffic and Transportation Safety Project** -The control System will perform the complex traffic enforcement tasks with Fixed Enforcement Stations, Mobile Enforcement Station, Mobile Enforcement Equipment, Mobile Enforcement Units and Portable Enforcement Units. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Project is under design by Ministry of Infrastructure as implementing agency.
- **Replacement of Asbestos – Cement Pipes in Gjakova Municipality** - Replacement of the water supply pipe lines of asbestos - cement material, which were installed 55 years ago, in the town of Gjakova. Through this investment, the need to support the supply of drinking/tap water for the next 30 years will be fulfilled. The implementation agency is the Municipality of Gjakova. The project has been approved by National Investment Committee (NIC) and will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
- **Waste Water Treatment Plant in Ferizaj Municipality** – This project includes the design, construction and maintenance of collecting systems (Wastewater Treatment

Plant) in Ferizaj Municipality. This project will be implemented by Municipality of Ferizaj. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.

- **Sewage System in Deçan Municipality** - Zone 1: Sewage system for Strelc villages. Zone 2: Sewage system for Dubovik villages and part of Isnig village. Zone 3: Sewage of villages Lëbushë, Isnig and Prapaqan. This project will be implemented by the Municipality of Deçan. The project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
- **Catchment for Drinking Water in Verboc village/Drenas Municipality** - The construction of the catchment for drinking/tap water in Verboc village, will supply drinking/tap water in Drenas Municipality. This project will be implemented by Municipality of Drenas. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.

As proposed in the 2020 Budget Law that is yet to be approved by the Parliament, the following projects are planned to be reflected via the Investment Clause:

- **Establishment of e-Testing Centers and further enhancement of e-Education services for pre-university education in Kosovo** – This project is led by the Ministry of Education, Science, and Technology and it is financed with a loan through the Austrian Soft Loan Program, with a value of Eur 4.99 million.
- **University Medical Center project** – This project aims at constructing hot corridors in University Clinical Center of Kosovo and investing in equipment and furniture. The project will be financed with a loan by the Saudi Fund for Development, with a value of Eur 18.01 million and it will be led by the Ministry of Health.
- **Prishtinë-Mitrovicë Highway Project (phase 2)** - The project aim is to link the capital city Prishtina with Vushtrri and Mitrovicë cities through construction and rehabilitation the second main road (M2) and convert it from one lane road in each side to high speed road with two lanes in each side. The project will be financed with a loan by the Saudi Fund for Development, with a value of Eur 12.78 million and it will be led by the Ministry of Infrastructure and Transport.
- **Development of Drenas Industrial Zone** - The zone will be developed as a high quality business hub on an area of 37 ha, opposite to the now fully occupied Drenas Industrial Park. The project will be financed with a loan by the European Bank for Reconstruction and Development, with a value of Eur 12.8 million and it will be led by the Ministry of Trade and Industry.
- **Construction of the Highway, section E from Besi to Merdare (SEETO Route 7)** – the implementing institution for this project is the Ministry of Infrastructure. The project has an estimated total cost of Eur 240 million and it will be potentially financed by EBRD, EIB, and the Government of Kosovo. The project has been identified as a priority project by the National Investment Committee and is part of the Single Project Pipeline under the transport sector.

Table 1 Comparison with previous program

Document	Description	2017 actual	2018 Budget	2019 Budget	2020 proj.	2021 proj.	2022 proj.
ERP 2019	Total revenues	1,684	1,817	1,949	2,026	2,141	n/a
	<i>Tax- Revenues</i>	1,496	1,607	1,731	1,800	1,909	n/a
	<i>Non-tax Revenues</i>	188.5	202.5	208.2	215	221	n/a
	Total expenditures	1,766	2,104	2,378	2,422	2,488	n/a
	<i>Recurrent spending</i>	1,282	1,386	1,561	1,582	1,617	n/a
	<i>Capital expenditure</i>	468	694	789	811	843	n/a
	Overall budget balance	-82	-287	-429	-396	-347	n/a
	<i>Budget balance (as per fiscal rule)</i>	-55	-122	-145	-108.6	-151.8	n/a
	GDP	6,414	6,761	7,123	7,529	7,961	n/a
	Overall deficit, as % of GDP	-0.9%	-1.8%	-2.0%	-1.4%	-1.9%	n/a
	Bank balance, as % of GDP	4.6%	4.7%	4.8%	4.7%	3.5%	n/a
Capital Expenditure, as % of GDP	26.5%	33.0%	33.2%	33.5%	33.9%	n/a	
Recurrent expenditure, as % of GDP	20.0%	20.5%	21.9%	21.0%	20.3%	n/a	
Document	Description	2017 actual	2018 actual	2019 Budget	2020 proj.	2021 proj.	2022 proj.
ERP 2020	Total revenues	1,684	1,757	1,949	2,047	2,124	2,239
	<i>Tax Revenues</i>	1,496	1,564	1,731	1,810	1,888	1,995
	<i>Non-tax Revenues</i>	188	193	208	226	225	234
	Total expenditures	1,759	1,956	2,378	2,467	2,544	2,616
	<i>Recurrent spending</i>	1,282	1,404	1,561	1,643	1,682	1,727
	<i>Capital expenditures</i>	468	533	789	793	825	846
	Overall budget balance	-75	-199.2	-429	-419	-420	-376
	<i>Budget balance (as per fiscal rule)</i>	-48	-87.4	-145	-154	-157	-163
	GDP	6,414	6,726	7,123	7,521	7,939	8,363
	Overall deficit as % e GDP	-0.7%	-1.3%	-2.0%	-2.0%	-2.0%	-2.0%
	Bank balance as % of GDP	4.6%	4.5%	4.8%	4.5%	3.1%	2.2%
Capital Expenditure, as % of GDP	26.6%	27.3%	33.2%	32.2%	32.4%	n/a	
Recurrent expenditure, as % of GDP	20.0%	20.9%	21.9%	21.8%	21.2%	20.7%	
Difference between ERP 2020 and ERP 2019	Total revenues	0.0%	-3.3%	0.0%	1.1%	-0.8%	n/a
	<i>Tax Revenues</i>	0.0%	-2.7%	0.0%	0.6%	-1.1%	n/a
	<i>Non-tax Revenues</i>	0.0%	-4.8%	0.0%	5.3%	1.8%	n/a
	Total expenditures	-0.4%	-7.0%	0.0%	1.8%	2.3%	n/a
	<i>Recurrent spending</i>	0.0%	1.3%	0.0%	3.9%	4.0%	n/a
	<i>Capital expenditures</i>	0.0%	-23.2%	0.0%	-2.2%	-2.1%	n/a
	Overall budget balance	8.5%	30.6%	0.0%	-5.9%	-21.2%	n/a
	<i>Budget balance (as per fiscal rule)</i>	12.7%	28.4%	0.0%	-41.4%	-3.7%	n/a
	GDP	0.0%	-0.5%	0.0%	-0.1%	-0.3%	n/a
	Overall deficit as % e GDP	0.1%	0.5%	0.0%	-0.6%	-0.1%	n/a
	Bank balance as % of GDP	0.0%	-0.2%	0.0%	-0.1%	-0.4%	n/a
Capital Expenditures, as % of GDP							
Recurrent expenditure, as % of GDP	0.0%	0.4%	0.0%	0.8%	0.9%	n/a	