



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

KOSOVO ECONOMIC REFORM PROGRAMME (ERP)

2018-2020

TABLE OF CONTENTS

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES	5
2. MACROECONOMIC FRAMEWORK	12
2.1. EXTERNAL DEVELOPMENTS AND PROJECTIONS.....	12
2.2. RECENT ECONOMIC DEVELOPMENTS	13
2.2.1. Business Climate.....	14
2.2.2. Employment, productivity, and wages	15
2.3. MEDIUM-TERM MACROECONOMIC SCENARIO	18
2.3.1. Real sector.....	18
2.3.2. Monetary and exchange rate policy and inflation	21
2.3.3. The external sector and its medium-term sustainability.....	22
2.3.4. Financial sector	27
2.4. ALTERNATIVE SCENARIOS AND RISKS.....	31
3. FISCAL FRAMEWORK	36
3.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVE	36
3.2. BUDGET IMPLEMENTATION IN 2017	37
3.3. MEDIUM-TERM BUDGETARY OUTLOOK	40
3.3.1. Budget revenue projections	40
3.3.2. Expenditure projections for policy-based budget sectors.....	45
3.3.3. Expenditure projections by economic category	46
3.4. STRUCTURAL BALANCE (CYCLICAL COMPONENT OF THE DEFICIT, ONE-OFF AND TEMPORARY MEASURES, FISCAL STANCE)	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 previous programme.....	52
3.7. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORKS	52
3.8. SUSTAINABILITY OF PUBLIC FINANCES	53
3.8.1. Debt Sustainability in Kosovo.....	53
4. STRUCTURAL REFORM PRIORITIES FOR THE PERIOD 2018-2020... 57	
4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH.....	57
4.2. SUMMARY OF REFORM PRIORITIES.....	59
4.3. ANALYSIS BY AREA AND THE STRUCTURAL REFORM PRIORITIES	61
4.3.1. Public financial management	61
4.3.2. Energy and transport market reform.....	63
4.3.3. Sectoral developments.....	68
4.3.4. Business environment and reduction of informal economy	74
4.3.5. Research and development, innovation (RDI) and digital economy	80
4.3.6. Trade related reforms	85
4.3.7. Education and skills	88
4.3.8. Employment and labour markets	93
4.3.9. Social inclusion, reduction of poverty and equal opportunities	97
5. BUDGETARY IMPLICATION OF STRUCTURAL REFORMS..... 100	
6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT 101	
ANNEX 1: TABLES	102
ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2018-2020.....	142

LIST OF ABBREVIATIONS

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

LIST OF GRAPHS AND TABLES

Graph 1. Real annual growth of GDP, in %	12
Graph 2. Inflation.....	13
Graph 3. The structure of GDP in 2016 and 2017, nominal values, in million euro.....	14
Graph 4. Price Fluctuation in Kosovo, in %	14
Graph 5. Business Climate Indicator (BCI), in points	15
Graph 6. Balances of the current situation assessment’ of business sectors (featuring the Business Climate Indicator and real GDP growth)	15
Graph 7. Gross average wages, in Euro	18
Graph 8. Contribution to real GDP growth.....	19
Graph 9. Sectorial contributions to GDP growth in percentage points	21
Graph 10. Forecast of monthly CPI (featuring the applied seasonally adjusted component)	21
Graph 11. Export diversification (Herfindahl Hirschman Index)	22
Graph 12. Trade Openness Index, comparison to the region and Euro area.....	26
Graph 13. Structure of FDI by sectors in 2017	26
Graph 14. International Investment Position (IIP), end-of-period, in millions of euro.....	27
Graph 15. Development trend of the financial system and the financial sectors’ assets.....	27
Graph 16. Structure of loans and annual growth rate.....	28
Graph 17. The structure of deposits and annual growth rate	29
Graph 18. Changes to the baseline scenario, in %	32
Graph 19. Alternative Scenarios, real GDP growth, in %	34
Graph 21. Customs Administration collection trend 2006-2020	42
Graph 20. Tax Administration collection trend 2006-2020	41
Graph 22. Actual and potential GDP, annual and quarterly data.....	49
Graph 23. Cyclically adjusted budget balance and the output gap, annual and quarterly results	51
Graph 24. Composition of overall deficit and financing need	54
Graph 25. Indicators of public debt under baseline and investment clause scenarios	54
Graph 26. Scenario analysis: Decreasing the permanent GDP growth by 1 p.p.	55
Graph 27. Scenario analysis: Reducing permanently the bank balance to 3.0% of GDP	56
Graph 28. Scenario analysis: Temporary increase in the overall deficit in 2020.....	56
Table 1. Main labour market indicators	16
Table 2. Labour productivity and ULC based on administrative data	17
Table 3. Labour productivity and ULC based on survey data	17
Table 4. Forecast for exports of goods in medium term period	22
Table 5. Geographical composition of exports, in ‘000 euro.....	23
Table 6. Forecast for Imports of goods in medium term period	23
Table 7. The share of imported goods to total	24
Table 8. Geographical composition of imports, in ‘000 euro	24
Table 9. Forecast for export-import of services in medium-.....	24
Table 10. The share of exported/imported services to total	25
Table 11. Forecast of total Imports and exports, current	25
Table 12. Financial Soundness Indicators.....	29
Table 13. Non-performing loans by economic sector	30
Table 14. Alternative macro-fiscal scenarios.....	35
Table 15. General Government Operations (provisional for 2017), in millions of Euros.....	39
Table 16: Medium-term tax revenue projections 2018-2020, in millions of Euros	40
Table 17: Medium-term tax revenue projections 2018-2020, in millions of Euros	43
Table 18. Budget expenditures by economic categories 2014-2020, in millions of Euro.....	46
Table 19. Expenditures in economic categories 2016-2020, as a percentage of GDP	48
Table 20. The elasticity of tax revenues with respect to GDP	49
Table 21. The output Gap (OG), Cyclically adjusted budget balance, primary balance and the cyclical component of the balance	50
Table 22. Total Government Debt, in million euro (unless otherwise indicated)	52

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The ERP 2018-2020 drafting process was led by Minister of Finance as a National Coordinator, and 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 in December to assure that short-term activities from the draft ERP were included in the Annual Government Work Plan for 2018 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 2018 adopted 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.

In the interest of shared ownership, the draft document was made available in mid-December to various institutional and NGO representatives through public consultations and presentations, and it was published online through the website of the Prime Minister's office. Consulted stakeholders included representatives of the business sector, chambers of commerce, civil society organizations, development partners, and other stakeholders relevant to the agenda. The Government adopted the Economic Reform Programme in the last week of January 2018.

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.

Several important obstacles constrain higher growth of SMEs and private investment. Weak contract enforcement is addressed by measure #10 (judicial efficiency). Competition from informal economy is tackled by measures #9 and #11 (property rights on immovable property; inspections reform) and by more efficient implementation of the Strategy for Against Informal Economy. Regulatory environment will be improved and more business-friendly oriented through measures #1 (e-procurement), #8 (evidence based policy making), #14 (trade facilitation) and #15 (quality infrastructure). More secure immovable property titles will also further facilitate access to finance for small entrepreneurs.

Infrastructural obstacles related to electricity supply will be addressed by increased generation capacities (measure #3) and improved energy efficiency (measure #2). Transport links and waste-water treatment facilities will be improved by capital investment projects financed by the budget and external financial sources.

Obstacles related to the labour market and employment will be address by measure #19 (active labour market policies) and reforms in vocational, pre-university and higher education (measures #16, #17 and #18). Together with improvements in social and health services (measure #20) these reforms will assure that the economic growth in Kosovo remains inclusive.

Competitiveness of specific economic sectors will be improved by measures #6 (support to industrial SMEs), #7 (tourism development), and #4 and #5 (agricultural investments and land consolidation). Innovative capacity of the economy as a whole will be supported by measures #12 (entrepreneurship and innovation environment) and #13 (broadband infrastructure).

Fiscal policy as planned in the ERP and MTEF support economic growth and structural reform agenda by ensuring that the level of public capital 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 2018 budget includes substantial funding for increases judiciary, education, health, and agriculture and innovation reforms. Tax policy changes provide incentives for domestic producers, avoiding the need for tax rate increases through broadening the tax base.

Box 1. Response to the targeted policy guidance adopted by the Economic and Financial Dialogue in May 2017

1. “Enhance the institutional capacities and ensure appropriate staffing at the Ministry of Finance in order to improve macro-fiscal planning, forecasting and fiscal impact assessments. Prepare an options paper on the establishment of an independent body for fiscal oversight for further consultations with stakeholders, including the EU.”

During 2017, the Ministry of Finance has taken concrete action to 1) enhance capacities of the existing staff, so that they are capable of using the MoF model for macro-fiscal planning and forecasting as well as assess the fiscal impact of government's new policy and legislative initiatives, and 2) ensure additional staff are hired to bring the overall number of staff involved in such activities to an appropriate level. On the first point, with donor support, (USAID and Luxemburg government), we have trained the existing staff of the MoF on key economic and statistical concepts, followed with training on the use of the Model for macro-fiscal planning and forecasting. As a result of this training, now the MoF staffs are fairly able to independently manipulate with the model and make macro-fiscal projections. However, additional training is needed on specific aspects of the use of the model and this is planned for 2018. With regard to additional hiring, the MoF has made all the necessary preparations and during the first part of 2018, the plan is to hire additional 2 staff whose primary responsibility will be to support the existing staff on economic and fiscal projections.

On the fiscal impact assessment, the MoF capacities to implement the recently improved methodology (on budget impact assessment) have improved and now, as a result, the GoK is able to take decisions on new policies and initiatives on a more accurate and comprehensive assessment of budget impact of such initiatives.

2. “Strengthen institutional capacities at central and local government levels for public procurement, multiannual investment planning, and investment project preparation and management in order to improve the execution of capital spending. Take steps towards introducing targeting and means-testing to all war veteran programmes in order to further contain current expenditure.”

On the first point related to public procurement, as of January 2017, the use of the e-procurement platform has become mandatory for all budget organizations at the central and local level as well as public enterprises. Economic operators are obliged to register in the procurement system and to submit bids electronically or in physical form. Whereas, starting from January 2018, all contracting

authorities will prepare and publish all notices in the electronic platform, including all procurement procedures and all values (small, medium and large).

To ensure that the implementation of these public procurement reforms is successful, concrete steps have been taken to strengthen institutional capacities, both in terms of strategic approach and in strengthening organizational structures and enhancing human capacities responsible for the implementation of these reforms.

The Public Procurement Regulatory Commission (PPRC) has developed the National Public Procurement Strategy (2017-2021), which entered into force in February 2017, by attaching the Action Plan which addresses existing challenges with concrete actions and implementation timeframe. Furthermore, the PPRC has issued the Regulation on "Establishing Public Procurement Coordination Structures" which aims to establish structures responsible for the implementation of the public procurement strategy and set out working procedures for these structures. With this regulation, the Public Procurement Consultative Council and the Working Group on Monitoring and Reporting of the National Public Procurement Strategy have been formed, with a wide composition of representation.

PPRC in cooperation with the Kosovo Public Administration Institute during 2017 held basic level training for Procurement Officers from all central and local public institutions and public enterprises that do not possess public procurement certificates, and training on electronic procurement and e-tendering. Moreover, the PPRC has recruited 3 monitoring officers and 3 IT officials in 2017. Consequently, it can now be concluded that the institutional capacities for implementing public procurement reforms have improved significantly in both levels of government and in public enterprises.

On the second point, related to long-term investment planning and the process of capital project preparation and management, to improve budget execution, the Ministry of Finance is working on drafting an Administrative Instruction on defining and setting criteria for the selection of capital projects. This Administrative Instruction aims at defining principles, criteria, procedures and rules pertaining to the evaluation, prioritization and selection of capital projects. The provisions of this Administrative Instruction will apply to all budget organizations during the preparation, review and evaluation of capital projects. It is expected that the implementation of this guideline will strengthen the system of planning and implementation of such projects, thus planning improving the management of multi-year investments, all in order to improve the execution of capital investment.

3. "Further address the underlying legal and institutional factors hampering access to finance for corporates to improve banks' incentives to lend to enhance financial intermediation in the economy. Continue improving the central bank's analytical toolkit (including through the establishment of a reliable measure of private sector inflation expectations in order to better gauge underlying price dynamics), and develop a liquidation and bank resolution framework to strengthen the overall resilience of the banking sector."

To further improve access to finance and increase financial intermediation in the economy, a number of actions and reforms have taken place:

1) The amendments to the Law on Enforcement Procedure which relate to bank account garnishment and the accelerated procedure for the sale of collateral through auctions, amongst other things, are expected to positively contribute to access to finance, including by reducing the collateral requirements from banks and thus further lowering the interest rates.

2) The establishment and operationalization of the Kosovo Credit Guarantee Fund (KCGF), which provides guarantees up to 50% for loans to medium and small enterprises, has eased the access to finance for those businesses. Currently most of the banks operating in the country have registered with KCGF and are using it for guaranteeing their portfolio. As of December 31st, 2017, the total portfolio guaranteed through KCGF amounted to around 30 million EUR.

3) As a result of those concrete actions, the overall lending to private sector is increasing in a steady and sustainable manner, while interest rates are declining, and the effects of the above actions are expected to further contribute to increased lending in the coming years.

On the Central Bank's analytical toolkit, the Central Bank of Kosovo (CBK) is continuing its efforts to further improve its analytical capacities. Following the successful development of the Banking Credit Survey, which is now compiled on regular basis, CBK is currently examining the practices applied by other countries to begin with the development of the Private Sector Survey on Inflation. Currently, CBK is considering beginning this survey with financial institutions that are considered to have more expertise in forecasting price developments. Further, CBK, in cooperation with the IMF's technical assistance mission, has adopted the Macro Prudential Policy and has established the Macro Prudential Policy Advisory Committee, which meets on a regular basis and is fully operational. In addition, CBK has finalized the risk-based supervision framework and now has all the banks operating in Kosovo examined under this supervisory methodology.

The CBK is already developing a liquidation and bank resolution framework for the banking sector in order to achieve compliance with the EU directive and regulations on bank resolution to strengthen the overall resilience of the banking sector. The resolution framework is being drafted with technical assistance from the EBRD and is expected to be finished by the end of 2018.

4. *“Establish a financing mechanism to support energy efficiency measures and adopt energy efficiency incentives to the private sector and households. Complete the deregulation of energy generation prices, gradually deregulate electricity supply prices and gradually adjust energy tariffs to reflect actual costs.”*

Kosovo is redrafting the Law on Energy Efficiency. This draft law transposes Directive 2012/27/EC. By the end of December 2017, the law has been distributed for preliminary consultation. At the next stage, it will be submitted for public discussion and then sent to the Government for approval, a process that is planned to be completed in the Q1 2018. It is expected that through the consultation process the modalities for a financing mechanism for EE measures will be agreed and incorporated in the law.

Conventional generation prices have been deregulated since 1st of April 2017, and KEK has reached bilateral agreements with Universal Service Supplier for the year 2017, while the agreement with network operators (TSO and DSO) has reached agreements base on KEK's availability with unregulated prices. KEK is also participating in the regional energy market by exporting a part of its generation.

In terms of Renewable Energy Sources (RES), the RES Fund has been established which is managed by KOSTT, namely the Market Operator, based on the Support Scheme for RES. Additionally, KOSTT has taken necessary actions to fulfil obligations emerging from the Guideline on Liberalization of Electricity Market, thereby creating separate accounts for all parties in the market (KEK, KESCO, KEDS, Universal Services, deregulated consumers connected to transmission level 220kV, deregulated consumers connected at the transmission level 110 kV, RES generator, RES

Fund, and Balance accounts). As of 1st of June 2017, the generators of RES commenced the nomination of their generation to the Market Operator in D-1.

Price deregulation for final customers shall be carried out gradually, by using the most suitable approach to the current situation. Below is a description of the achievements and the objectives for the coming period:

1. Industrial customers connected to transmission level 220kV are already the subject of unregulated prices;
 2. Industrial customers connected to transmission level 110kV are already supplied under unregulated prices with some facilities for the transitional period until 31st of March 2017. ERO is monitoring the process closely in order to have a clear view for the difficulties and obstacles faced by the customers;
 3. Commercial customers of voltage levels 35kV, 10kV shall be subject to criteria and prices of the electricity supply market by 31st of March 2018 at the latest;
 4. Commercial customers of voltage level 0.4kV shall be subject to criteria and prices of the electricity supply market following the compilation of the list by ERO which shall identify customers who do not fulfil the criteria stipulated by law for electricity supply by Universal Service.
 5. ERO, in cooperation with the Tax Administration of Kosovo, has started to identify the customers that do not fulfil the conditions to be supplied under the Universal Service Supplier in order to inform them about the legal obligation and to prepare them for the liberalized market condition and environment.
5. *“Complete the risk assessments focusing on the sectors and branches most vulnerable to informalities and identify and apply appropriate corrective measures”*

The Working Group on Risk Assessment on gaming/gambling sector and NGOs is established and the process of assessing the level of informal economy initiated. Regarding the sectorial assessments the Financial Intelligence Unit (FIU) in co-operation with the newly launched EU Project, an Action Plan and Methodology for the Specific Risk Assessment of Money Laundering and Terrorist Financing in Kosovo is drafted. Thus, on March 8, 2017 working group on sectorial risk assessment concluded that the responsible institutions have the capacity to carry out two (2) risk assessments over a calendar year. The EU-funded project will support the Working Group on National Risk Assessment in carrying out sector-specific risk assessments, in coordination with UNDP. Sub-legal acts have been adopted for the purpose of implementing the Law on Money Laundering Prevention and Terrorist Financing. Sector Risk Assessments have been undertaken in the most vulnerable sectors of PP / FT, including gambling and casinos as well as NGOs. Recently, with Decision of Minister of Finance, the Secretariat of the Permanent Government Group for Prevention of Informal Economy has been established.

Based on a decision of the Minister of Finance, the Secretariat for the permanent Working Group on the prevention of informal economy was established.

6. *“Adopt an action plan for tackling youth unemployment, based on a sound assessment of the challenges. Finalise the operationalization of the Employment Agency. Target reforms in vocational education and training and higher education on business sectors with labour demand and job creation potential. Increase enrolment in pre-school education.”*

Ministry of Labour and Social Welfare finalized the draft of Action Plan on Youth Employment and the same was adopted by the Government on 04 January 2018. Following the completion of the recruitment process and recommendation by the Selection Committee, the Government has appointed the General Director of the Kosovo Employment Agency.

The Staff from employment offices and vocational training centres now work under Regulation no. 13/2015 on Internal Organization and Systemisation of Job Positions in the Employment Agency. Also, the Minister of Labour and Social Welfare has established a working group to complete the procedures on the Memorandum on transfer of staff and movable and immovable property from the MLSW to the Employment Agency regarding the main offices. The process is almost completed. The Agency has also launched its website <http://aprk.rks-gov.net/> which contains information on the work of the Agency as well as information on vacancies and requests from employers and jobseekers. The procedure for the selection and constitution of the Advisory Board has begun as provided for in the Law on Employment Agency.

Regarding the reforms and support for the enhancement of quality in pre-university education, respectively in the Vocational Education and Training, 20 professional standards have been drafted based on labour market demands and with participation of private (business) sector representatives, and based on this a review of 20 programs for the respective profiles has been conducted. The Core Framework for VET has been finalized by a Working Group (WG) that will precede the review of the curricula. 420 trainers according for 8 areas of the new National Curriculum were trained. 4 professional schools were provided with workshops and tools necessary for conducting practical work. We have increased the number of agreements concluded between schools and businesses. Based on the Strategic Education Plan (KSEP) 2017-2021, the Government is working on the following areas:

1. Review of the profiles provided in VET schools and adjustment to market needs and development of professional standards;
2. Needs analysis conducted at the local level to meet the conditions for providing profiles from the revised list;
3. Collection of best practice models of existing teaching materials prepared by teachers of different profiles;
4. Development of the Core Curriculum for VET, as reported above;
5. Development of a Regulation on the Protection of Students' Health during Internship;
6. Review of curricula of VET institutions that provide adult education.

A study on the current situation in VET schools is currently being developed, to be completed in October 2018 with all the details from the VET schools; VET profiles are being harmonized with the Occupation Classification in Kosovo - ISCO 08 to have direct linkage with the professions offered in Kosovo. The University of Applied Sciences in Ferizaj has started its work with the following study programs: Interior Architecture and Furniture Design, Industrial Engineering with Informatics, Industrial Management and Hotel and Tourism Management.

31 pre-primary classrooms in 5 municipalities were equipped in this period with the inventory and accompanying material, according to the cooperation agreement. During this period, 66 educators were trained through an intensive 5-day training module and expanded the knowledge, skills and attitudes necessary to implement the pre-school curricula in their classrooms. A concept document on the Law on Preschool Education - Early Childhood Education has been drafted. The Administrative Instruction 6/2008 has been amended - the inclusion of children in public preschool institutions.

The goals of the KSEP Strategy regarding the inclusion of children in the pre-primary class of age 5-6 were exceeded: from 70% which was the initial target to 81.3% at present. This was made possible through the construction of new schools - 41 pre-primary classes of new schools. From the IPA-II Program, a grant of €5 million was awarded and also followed by government co-financing of 1 million Euros for the construction of 9 public preschool kindergartens. With the construction of these nine kindergartens, the inclusion of 1,224 additional children will be ensured.

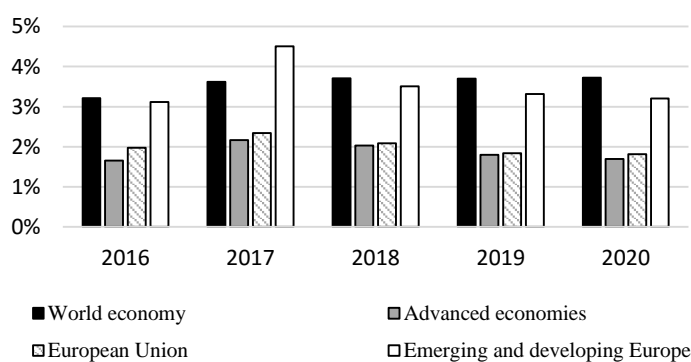
2. MACROECONOMIC FRAMEWORK

2.1. External Developments and Projections

According to the IMF World Economic Outlook (WEO) update of October 2017, global GDP growth is expected to increase from 3.2% in 2016 to 3.6% and 3.7% in 2017 and 2018 respectively. This growth momentum is expected to be maintained at an average of 3.8% through 2019-2022. Compared to IMF estimates of April 2017, the consolidated real GDP growth forecast for EU economies has been significantly revised upward from 0.3% in 2017 and 0.3% in 2018, to 2.3% and 2.1% respectively. Emerging European economies, including most of the CEFTA member states and Turkey, are expected to experience an average GDP growth of 4.5% in 2017 (from 3% as projected in April), and 3.5% in 2018.

The main reasons behind the positive expectations about global growth include: i) the strong local demand in developed economies that have been growing below their potential (with the exception of the United Kingdom), ii) more favourable financing conditions, and iii) lower than expected fuel prices increases, despite OPEC warnings for further cuts in production volumes. Strengthened economic stability and growth in both developed and developing countries has also affected the upward review of the world trade volume expectations, from a 2.4% in 2016 to a 4.1% average growth in 2017 and 2018.

Graph 1. Real annual growth of GDP, in %



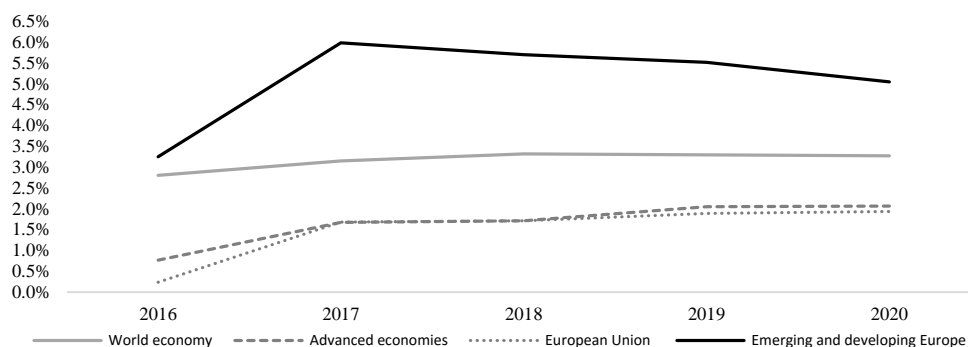
Source: IMF WEO database, October 2017

The IMF expects the interbank interest rate in the United States to rise from 1% - 1.25% to 2% by 2018, followed by a gradual increase to 3% by 2020. But at the same time, the European Central Bank medium term deposit facility rate of commercial banks is expected to remain negative - at the levels that have prevailed since 11 June 2014. This means that the monetary policy in Eurozone will continue to remain accommodative.

The positive impact of favourable global developments on Kosovo's economy is expected to continue through higher demand for exports of goods and services, higher remittances, and through continued reduction of credit cost. The opposite direction of monetary policy positions in the US and the Eurozone may depreciate the euro, and in turn increase the competitiveness of our exports to countries using other currencies, particularly those countries that peg their currencies to the US dollar.

According to the IMF, international prices of basic commodities are estimated to grow by 12.7% in 2017, mainly as a result of expected price increases in food commodities, metals and crude oil. However, in 2018, both IMF and World Bank (pink sheet) project the prices of those commodities to remain fairly stable over the medium-term.

Graph 2. Inflation



Source: IMF WEO Database, October 2017

According to the IMF, the average consumer price inflation in the European Union countries is projected to be 1.7% through 2017 and 2018. Within the Eurozone, consumption inflation is projected at 1.5% in 2017 and 1.4%

in 2018, while in the medium-term they are forecasted to reach the European Central Bank's target of 2%.

2.2. Recent economic developments in Kosovo

According to Kosovo Agency of Statistics (KAS) official data, GDP grew by 2.7% for Q1, 4.4% for Q2 and 4.4% for Q3 of 2017. This represents a weighted increase of 3.8% compared to the same period of the previous year. According to KAS, despite a moderate inflation of 1.6% in consumer prices (until November) and a 3.9% increase of import prices over the January-September 2017 period, a fall in investment and export prices drove the GDP deflator down by 0.15%.

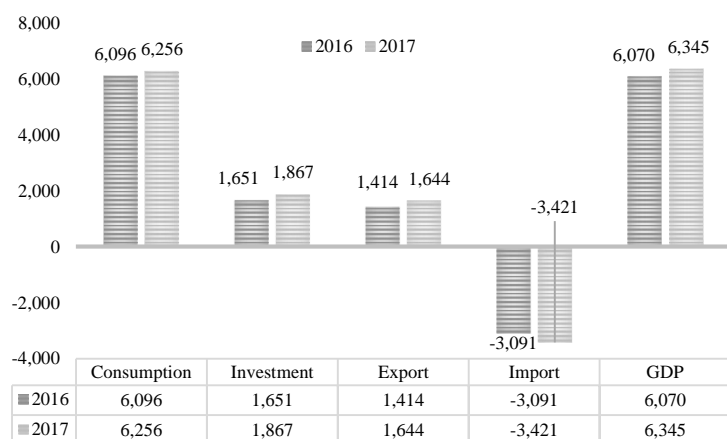
Real GDP growth was driven primarily by an increase in exports (21.6% real growth compared to Q1-Q3 2016), with the largest contribution coming from the export of services, and an increase in investment (13.2% real growth compared to Q1-Q3 2016). Growth is estimated to continue in the final quarter of 2017. Exports of goods until November 2017, compared to the same period of the previous year, are 22.2% higher. Compared to the same period, growth of consumer imports is higher by 9.2%. The export of services increased by 17.3%, remittances grew by 10%, and net foreign direct investments increased by 15.3% until October. The volume of private consumption, according to KAS, is not in line with the increase of remittances.¹

Consumption is expected to grow at an average real rate of 1% in 2017. Private consumption growth is estimated to remain positive, but relatively flat (0.6%) compared to 2016. This assumes that Q4 growth will offset negative trends in the first three quarters, primarily because of the seasonality of Q4 sales.

Unlike the trend in the first nine months, due to the higher consumption weight in the fourth quarter of the year as well as the rise of average consumer prices from 1.4% to 1.6% until November 2017, the year is expected to end with a slight increase of the GDP deflator. As a result, the Ministry of Finance estimates the real rate of economic growth will reach 4.3% in 2017 (4.5% in nominal terms). Compared to the previous ERP, this represents a downward revision of the real growth projection by 0.1% (but this is not the case for the nominal estimate).

¹ This is considered as a statistical discrepancy resulting from the limited information used for the compilation of quarterly statistics, as compared to annual statistics

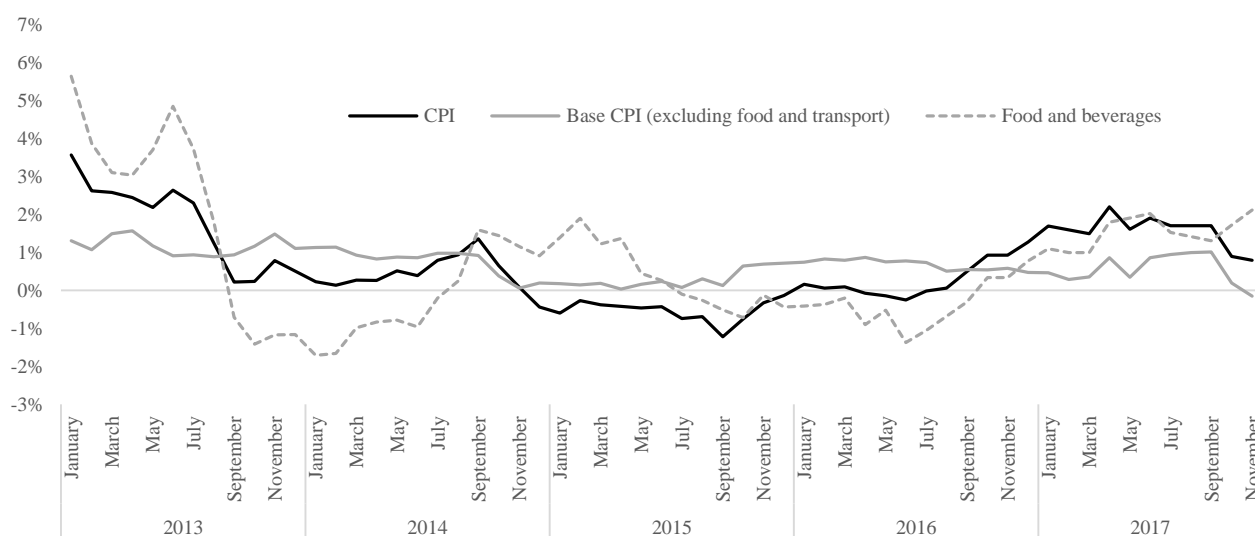
Graph 3. The structure of GDP in 2016 and 2017, nominal values, in million euros



Source: SAK and Macro Unit forecasts, November 2017

Consumption prices are estimated to grow by 1.7% in 2017. This increase mainly reflects the increase of international commodity prices, which affects import prices for non-alcoholic beverages and food. In addition, the monthly variation of the Consumer Price Index (CPI) reflects the increase of regulated electricity tariffs that was modified in April 2017, increasing average summer tariffs and lowering winter tariffs.

Graph 4. Price Fluctuation in Kosovo, in %



Source: SAK

2.2.1. Business Climate

The Kosovo Chamber of Commerce conducts a nation-wide survey with businesses from five sectors of the economy, which provides an assessment of businesses *for the current situation* of the economy as well as their *expectations* for the near future. The resulting Business Climate Indicator is presented below. The businesses climate indicator shows an increase in business confidence. While there are significant quarterly variations, the indicator is higher than each quarter of the previous year.

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

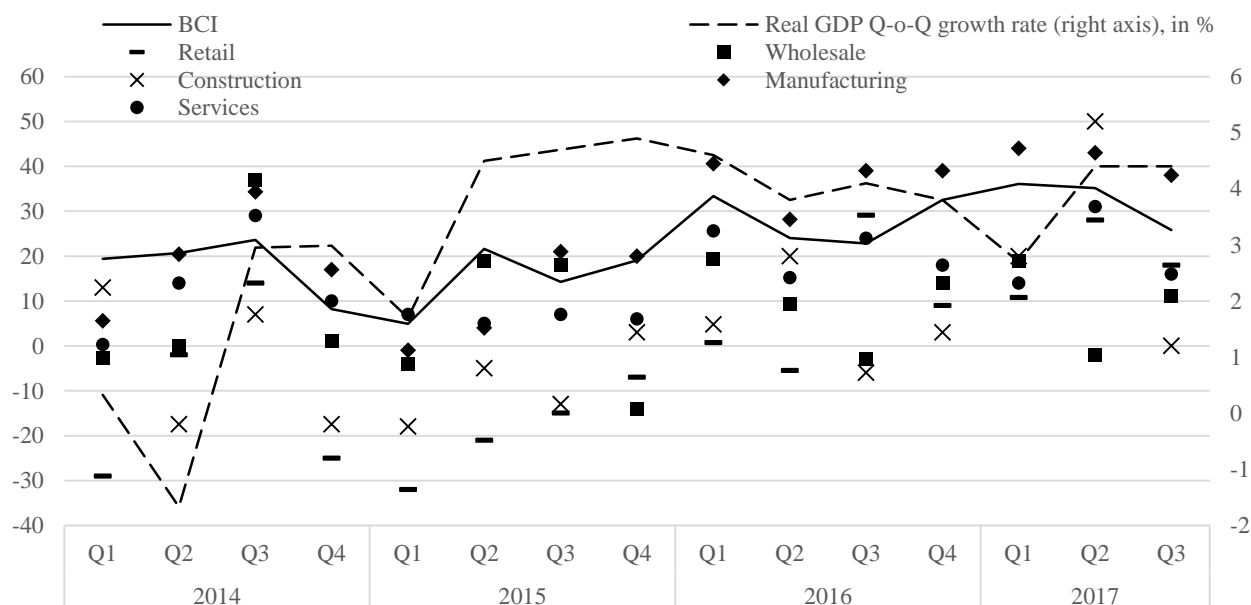


Source: 'The Kosovo Business Climate Findings from the 3rd quarter of 2017' Kosovo Chamber of Commerce

'Balance' represents the difference between the percentage of businesses that had a positive assessment and those that had a negative assessment of the current business climate. Graph 6 shows the interplay between sectorial 'balances' and (real) GDP quarterly growth, as well as the general BCI. The BCI plunged in the first quarter

of 2015 (as a reflection of the political turmoil; the migration wave of the last months of 2014/beginning of 2015) which makes it even more difficult to infer a trend characteristic or a seasonality in the context of a short series.

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



Source: 'The Kosovo Business Climate Findings from the 3rd quarter of 2017' KCC, SAK, and Macro Unit Analysis

Nevertheless, one can see that the data presented above is very much in line with actual developments of the past years. Recent improvements in the BCI may also reflect a better business environment. According to the World Bank (Doing Business Report 2018), Kosovo showed notable improvements improving its ranking from 60th in the world in Doing Businesses 2017 to 40th in Doing Business 2018.

2.2.2. Employment, productivity, and wages

The labour market has experienced significant improvement over the last years. However, it is still characterized with high inactivity rate, as well as low employment to population ratio. According to the Labour Force Survey, in **2016** the working age population in Kosovo stood at 1,184,529 people, maintaining the equal gender distribution exhibited in the past. However, the active labour force (the population between the ages of 15 and 64) stands at 457,831 people, of which only 109,067 are female.

Consequently, the **labour force participation rate (LFPR)**² for women is much lower than that of men (18.6% and 58.3% respectively), with the total LFPR standing at 38.7% for 2016.

Table 1. Main labour market indicators

Indicator	2013	2014	2015	2016
Total population	1,811,372	1,811,521	1,757,843	1,771,604
Male	910,524	911,131	888,231	896,466
Female	900,848	900,390	869,612	875,138
Working age population	1,191,630	1,202,489	1,176,147	1,184,529
Male	593,111	600,481	594,262	598,639
Female	598,519	602,008	581,885	585,890
Labour force	483,193	500,251	442,716	457,831
Male	357,186	371,276	337,119	348,764
Female	126,007	128,975	105,597	109,067
Employed	338,364	323,508	296,940	331,761
Male	261,244	248,224	229,957	257,398
Female	77,120	75,284	66,983	74,363
Labour Force Participation Rate (LFPR)	40.5%	41.6%	37.6%	38.7%
Employment Rate	28.4%	26.9%	25.2%	28.0%
Unemployment Rate	30.0%	35.3%	32.9%	27.5%

Source: SAK Labour Force Survey 2016 (published June 2017)

Total population in 2016 increased by 0.8% compared to 2015, which translated to a 0.7% increase of the working age population compared to the previous year. During 2016 there were 331,761 employed people in Kosovo (a 28% employment rate), representing an increase of 2.8 p.p compared to 2015. Similar to previous years, in 2016 the four main sectors which employed more than half of the total number of employees are manufacturing (13.2%), retail trade and wholesale (14.8%), education (10.6%), and construction (11.5%). Data shows significant gender variation; where the main sectors of employment for men are production, retail trade and wholesale, and construction, whereas for women education, activities health and social work, as well as retail trade and wholesale.

Initial signals from the first three quarters of 2017 are quite positive, with the unemployment rate being 30.5% in the first quarter, 30.6% in Q2 and 30.2% in Q3, providing evidence of a reassuring but precarious downward trend in unemployment. The employment rate was 28.9% in the first quarter and grew to 29.9% during Q2, with Q3 coming in at 30.4%, indicating a general upward trend throughout the year.

For the first time in 2017 KAS published survey data on the level of average wages for the public sector, the private sector and the public enterprises in Kosovo, for the period 2012-2016. Table 2 and 3 shows the labour productivity and Unit Labour Costs. Although there may be differences when comparing main indicators between the two sources (TAK and KAS), these are largely a result of differences in recording; for example, the Tax Administration average wage calculation cannot take into account self-employment income or income from informal sector, so one may expect significant under-estimation. Nevertheless, current data show that increases in ULC come primarily from public sector and public enterprises wages, while private sector ULC shows competitiveness is maintained. Caution should be exercised in the interpretation of the results, for the reasons explained above.

² Measured as the percentage of the working age population (people aged 15-64) that engages actively in the labour market (employed or unemployed).

Table 2. Labour productivity and ULC based on administrative data

Indicator	2013	2014	2015	2016
Hours worked per week per person (LFS)	42	41	41	41
Average wage (TAK)	419	440	471	503
Number of hours worked in a year per person	2,171	2,119	2,132	2,145
Employment (LFS)	338,364	323,508	296,940	331,761
Nominal GDP (in million euros)	5,326.6	5,567.5	5,807.1	6,070.1
Total hours worked in the country (in million)	734.6	685.5	633.1	711.6
Labour productivity (euro of GDP per hour)	7.3	8.1	9.2	8.5
Total labour compensation(in million euros)	1,701.2	1,708.3	1,679.0	2,002.5
ULC (ratio)	0.32	0.31	0.29	0.33
Labour productivity	-5.8%	12.0%	12.9%	-7.0%
ULC	9.8%	-3.9%	-5.8%	14.1%

Sources: TAK, Macro Unit analysis

Table 3. Labour productivity and ULC based on survey data

Indicator	2013	2014	2015	2016
Hours worked per week per person (LFS)	42	41	41	41
Average wage (TAK)	444	482	510	519
Number of hours worked in a year per person	2,171	2,119	2,132	2,145
Employment (LFS)	338,364	323,508	296,940	331,761
Nominal GDP (in million euros)	5,326.6	5,567.5	5,807.1	6,070.1
Total hours worked in the country (in million)	734.6	685.5	633.1	711.6
Labour productivity (euro of GDP per hour)	7.3	8.1	9.2	8.5
Total labour compensation (in million euros)	1,802.8	1,871.2	1817.3	2,066.2
ULC (ratio)	0.34	0.34	0.31	0.34
Labour productivity	-5.8%	12.0%	12.9%	-7.0%
ULC	9.3%	-0.7%	-6.9%	8.8%

Sources: SAK data, Macro Unit analysis

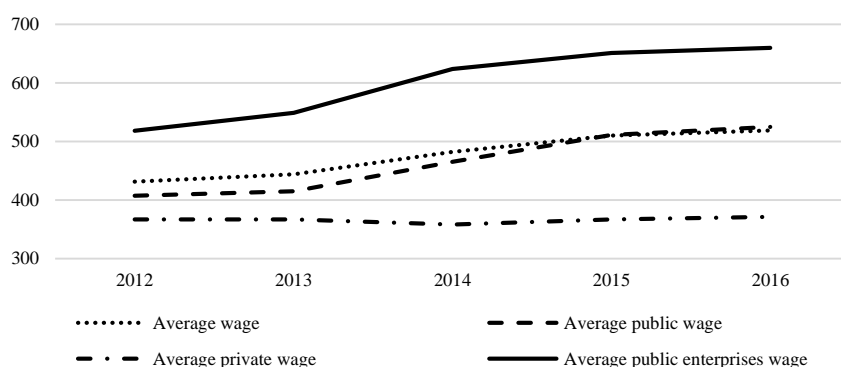
Comparing the LFS data of 2016 with 2015, the ‘total productive hours’ on a national level have increased after a fall in 2015, mainly because of the higher level of employment. Given the level of GDP for 2016, this has translated into a decrease in labour productivity³ compared to the previous year. On the other hand, concerning cost competitiveness, the ratio of (Unit Labour Costs) ULC⁴ in 2016 has increased compared to the previous year. After the fall in employment numbers in 2015, during 2016 employment number increased again. It is interesting to note that the level of ‘total labour compensation’ of the country in 2016 grew, despite the increase in the total hours worked.

Kosovo can expect to see a gradual continuation of employment growth. Rise in demand, as well as better business environment, should have a positive impact on operations of the companies and increase employment opportunities.

³ Measured here as nominal output produced per hour of work, on national level. Productivity and ULC are calculated according to OECD methodology. Minor changes in data may result from the change of the data source in this ERP submission.

⁴ Measured here as total labour compensation per nominal output, on national level

Graph 7. Gross average wages, in Euro



Source: KAS (Level of wage in Kosovo 2012-2016)

Graph 7 shows different average wage levels between the public, private and public enterprises in Kosovo. The difference between the average private wage and the average public wage was small until 2013. Public wages increased in 2014 and 2015. For the latter, wages increased marginally as a result of

experience indexing for public service officials. Nevertheless, it should be noted that the comparison between public and private wages does not provide a fully consistent comparison, considering variations in skills cohorts, performance compensation in the private sector, as well as potential under-declaration of income in the private sector. Also, it should be noted that both sources exclude the calculation of private income from dividends, capital gains, or rent.

2.3. Medium-term macroeconomic scenario

2.3.1. Real sector projections

The medium-term macroeconomic scenario for 2018-2020 provides a more optimistic outlook than the 2017 ERP projections, broadly in line with an upward revision of growth expectations for the region, the EU, and the world economy in general.⁵ While the real growth estimate for 2017 is revised downward by 0.1 percentage points, mostly due to a higher than initially expected inflation, projections for the medium-term predict an acceleration of at least a percentage point over the last ERP scenario.

Real GDP growth in 2018 is projected at 4.6%. Compared to the previous ERP projection of 3.3%, this upward revision reflects a more positive outlook on export and investment growth, while robust consumption growth is still projected to provide the lead growth contribution, in line with previous ERP assumptions. A more optimistic outlook on exports and investments, however, is associated with higher imports, thus the negative contribution of imports is projected to be more pronounced than previous assumptions.

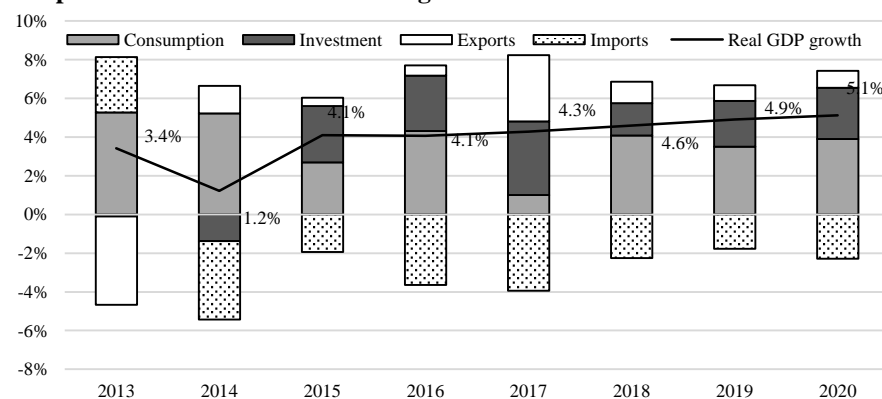
While consumption, driven by strong primary and secondary income inflows, is projected to be the key growth driver over the medium-term, the role of investment as a growth accelerator is expected to continuously increase by 2020. For 2018-2020, average real growth is projected at 4.9%, with growth projected to surpass 5% in 2020. A low contribution to growth from consumption in 2017 is considered as an outlier of the existing growth model. This is because it is partially considered as one-off effect caused by an upswing in prices after a long period of subdued price movements, and partially because it is potential statistical anomaly following the revision of exports of travel statistics. The lower of consumption contribution is not substantiated by data on consumption tax revenue, which through 2017 increased by 9%.

⁵ IMF World Economic Outlook (October 2017) and European Commission Autumn Forecast (November 2017)

The upward revision of the medium-term growth projection is motivated by three key developments: a) evidence of a very strong momentum of key macro variables in 2017, despite the postponement of a significant planned surge in public investment (of above 3% of GDP) financed through lending and asset sales, b) a more favourable external environment which affects private disposable income through increases of net factor payments, as well as through increased demand for exports of goods and services, and c) credit growth, driven by lower interest rates and improved access to finance, which is expected to remain the key domestic driver of **private consumption** in the medium-term scenario

At the same time, private disposable income is projected to increase amidst stronger remittance growth, increased social transfers, as well as increased employment in the private sector. Increases in infrastructure maintenance and healthcare spending, and higher public employment in the judiciary and healthcare sectors, will also drive up **public consumption** volume throughout the medium term. While increases in public sector wages have a diminished impact on consumption due to inflationary effects, they will provide a marginal boost to private consumption through money multiplier effects. On the other hand, **quasi-public donor consumption** is projected to continue its slow downward trend, providing a negative contribution to consumption. **Total consumption** is projected to increase by 4.1% in real terms in 2018, continuing with an average real growth of 3.8% over 2019 and 2020, and providing an average real contribution of 3.8% to growth over the medium term.

Graph 8. Contribution to real GDP growth



Source: SAK, and Macro Unit forecasts

In 2017, gross national savings are estimated to have increased by 1% of GDP, while the private savings rate on disposable income is estimated to have increased from 13.3% to 14.1%. Business confidence, notwithstanding quarterly variation, has also been increasing throughout 2017

and is expected drive investment in the medium-term. At the same time, the 2018 budget includes an ambitious investment plan, which is 48% higher than public capital expenditure in 2017. Against a higher savings propensity and greater business confidence, investment is projected to provide an average contribution of over 2% to medium-term growth.

Private investment is projected to increase by 1.7% in real terms during 2018 (4.3% in nominal terms), accelerating to an average of 4.6% in 2019 and 2020. Lower cost of credit and improved lending facilities, including through greater opportunities for IFI lending to the private sector, will provide an important impetus to investment. In addition, the increase of the Kosovo Credit Guarantee Fund capital is expected to further improve access to finance and enable investment credit expansion. Lastly, a new government scheme to incentivize production through exemptions of customs and excise duties on production input is also projected to drive medium-term investment growth by lowering the cost of production and enabling greater profit reinvestment and business expansion.

Public investment, on the other hand, is projected to increase by an average of 17% in real terms. This is very conservative projection considering a 48% budgeted increase in capital expenditure, over a diversified portfolio of investment projects in transport infrastructure, education and healthcare facilities, as well as irrigation and wastewater facilities. Moreover, over 25% of public investment is projected through financing from concessional long-term lending and asset liquidation proceeds, which are currently invested in international securities markets. As a result, the investment of over 200 million Euros financed through lending and through existing public funds invested outside the resident economy (instead of taxes which lower disposable income) is associated with much higher fiscal multipliers, and will hence provide a significant boost to medium-term growth.

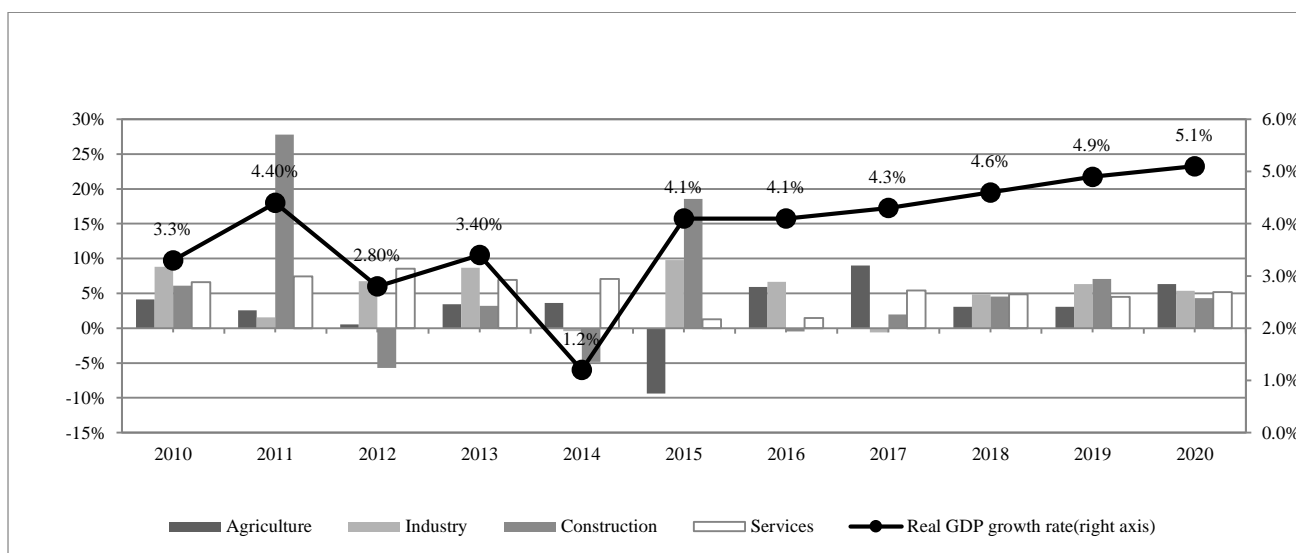
The negative contribution to growth of **net exports** is expected to fall from 1.1% in 2018, to 0.9% in 2020. **Exports of goods** are projected to increase over the medium-term by an average of 5.4% in real terms. Following an upswing of exports by 16.9% in 2017, and based on IMF projections of increased world trade volume and production, demand for Kosovo's goods exports is projected to continue its accelerated trend. At the same time, a rebound in the international prices of nickel, aluminium, and zinc, is also expected to increase the production of metal exports. The diversification of goods exports experienced in 2017 is also expected to accelerate over the medium-term following the launch of the government's scheme to incentivize production, as well as in line with government reforms to streamline administrative procedures and facilitate trade by reducing administrative costs and by improving quality infrastructure and market surveillance.

On the other hand, **exports of services** – which accounted for 18% of GDP in 2017 - are projected to increase by an average real growth rate of 3.5% over the medium. A more optimistic EU growth outlook is associated with greater demand for Kosovo service exports, mainly through higher vacation spending of Kosovo's diaspora members, but also through higher demand for telecommunication service exports.

Amidst investment, consumption and export growth, **imports of goods and services** are projected to increase by 4.2% in 2018, and then slowing down to an average growth of 3.8% over 2019 and 2020. With a **goods import** propensity on absorption and exports of about 34% in 2017, this economic parameter is conservatively assumed to remain constant throughout projection period. However, throughout the medium-term, imports of services are projected to fall in line with their historical trend, reflecting both lower donor-financed services as well as substitution of telecommunication services. As a result, the net negative contribution of imports of goods and services over the medium-term is expected to remain constant at an average of 2.1% in volume terms.

On the **production side**, the service-based sectors are projected to remain the largest contributor to economic growth, with industry and manufacturing expecting to pick-up pace over the medium-term. Similar to its historical trends, services are projected to continue their growth with an increasing trend, marking a 7.1% average real growth over the projection period. Considering the demand of exports of travel services, as well as the level of primary and secondary income flowing to the country, and the measures to improve the offer of Kosovo's touristic products, service growth is an immediate result of the current growth model. However, following government measures to spur manufacturing and incentivize agriculture and agro-business development, value added from both sectors is projected to increase by an average of more than 5% over the medium-term.

Graph 9. Sectorial contributions to GDP growth in percentage points

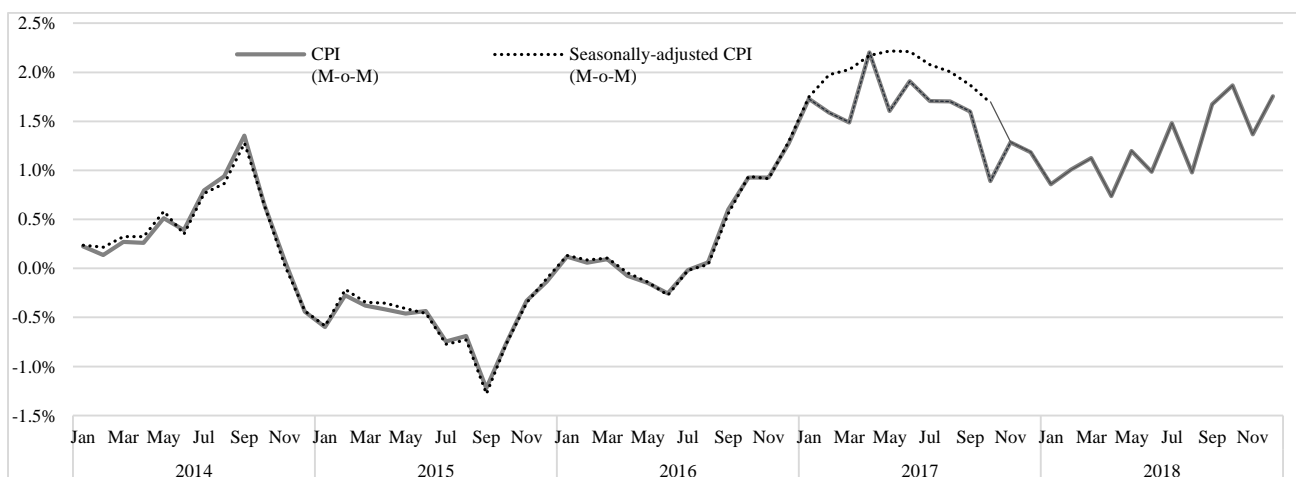


Source: SAK and DEPP/Macroeconomics Unit calculations

2.3.2. Monetary and exchange rate policy and inflation

In 1999, Kosovo unilaterally adopted the Deutsche Mark and later the Euro as its official currency. As a consequence, the country is limited in terms of the availability of traditional monetary policy instruments, which implies that Kosovo lacks the traditional means required to control inflation developments in its economy. In absence of such instruments, and due to the high reliance of Kosovo’s economy on imports, inflation developments are mainly driven by fluctuations in international commodity prices. Nevertheless, this correlation is rather stronger in times of upward inflationary than deflationary ones. Therefore, in line with IMF’s World Economic Outlook forecast for world food and oil prices, the overall inflation in Kosovo is expected to stabilize at an annual average of 1.7% over 2017. Additionally, stable price levels have contributed to a relatively stable real effective exchange rate (REER)⁶. Up to November 2017, REER appreciated marginally by an average of 0.4%.

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



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

⁶ REER is provided by the CBK (available until November 2017)

2.3.3. The external sector and its medium-term sustainability

Table 4. Forecast for exports of goods in medium term period

	2018	2019	2020
Nominal GDP	6,737	7,132	7,623
<i>Growth %</i>	6.2%	5.9%	6.9%
Exports [nominal]	1,738	1,811	1,897
<i>Growth %</i>	5.7%	4.2%	4.7%
Goods	378	397	421
<i>Growth %</i>	5.1%	5.1%	6.0%
<i>% of Nominal GDP</i>	5.6%	5.6%	5.5%

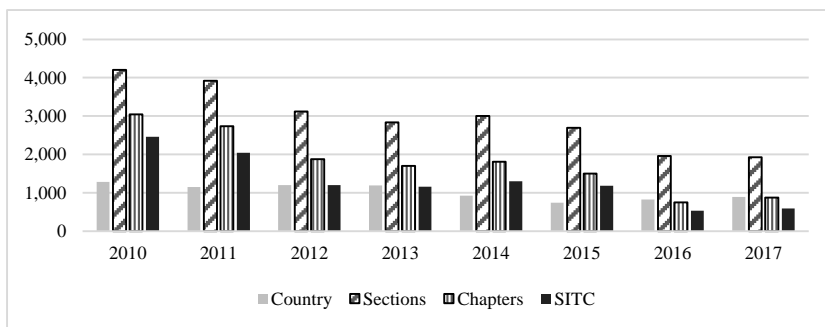
During 2016, the level of the **current account deficit** stood at 8.3% of GDP, and is estimated at 9% for 2017. This indicator is expected to remain at this level throughout the forecasted period (averaging at 10.2%). The trade balance for 2017 is estimated to amount around -28.4% of GDP; and

averaging at a similar level throughout the 2018-2020 forecast period.

Over the medium term, total exports in real terms are expected to grow at an average rate of 4.9% for 2018 – 2020. In addition to increases in saving and business confidence, this growth is expected to be driven primarily by the improvements in the doing business environment in Kosovo, driven by structural and fiscal measures taken by the GoK. Goods export increase will be primarily driven by economic stimulation measures through the improvement of the tax framework and measures intended to stimulate internal production.

To evaluate export diversification, the Herfindahl-Hirschman index is used, which measures the dispersion of trade value across exported products or destinations (lower values of the index indicate higher dispersion). Graph 11 below presents exports along four different dimensions, and generally speaking, it shows a relatively good trend of export diversification.

Graph 11. Export diversification (Herfindahl Hirschman Index)-SAK



It is evident that diversification of exports is potentially one of the best ways to secure export sustainability, thus contributing to an improvement in the trade balance of the country. The implied chain of events (increased domestic production leading to

import substitution which opens the path for diversification and increase of exports) is proving to work as intended, although at a slightly slower pace than initially expected. This is due to the fact that it takes time for economic agents to adopt and fully utilize changes to the legal (in this case, tax) framework and adapt to the fast pace of changing international trade agreements, especially as far as Kosovo’s Stabilization and Association Agreement (SAA) with the EU is concerned.

Kosovo’s export structure currently is substantially weighed toward the export of base metals and articles from base metals as well as mineral products, which as of November 2017 constitute 55.33% of total exports. However, as can be seen in Graph 11 above, the export structure is steadily decreasing in concentration as producers start to ramp up their production quality and capacity.

A notable sector with a steady increase is the agricultural sector, specifically the export of vegetable products, with 28.8% increase during the period of January-November 2017, compared with same

period of 2016. This sector's growth is primarily being driven by the export incentives provided by the trade agreement with EU countries, as well as by, measures to stimulate the agricultural sector.

Another substantial category of exports is food and beverages, which as of November 2017 constituted 9.55% of total exports, with annual growth rate of around 20%. This category is notable organic growth success story, as producers that previously focused on import substitution for the domestic market increased their skills and capacities and improved their productivity. Most of those products are exported to the European Union, with the second largest share directed toward CEFTA members. We expect this sector to continue to grow in the foreseeable future as demand for such products in our trading partner's markets are expected to grow.

We expect that overall diversification of the export structure and development of higher value added exports will substantially benefit the local economy in the medium to long term. Primarily, we expect high export concentration related risks to decrease substantially in the medium term, which adds confidence to our projections of higher economic growth.

Table 5 below presents the geographical composition of exports, focusing on countries and country groups which make up more than 80% of Kosovo's total export destinations. The share of export of goods to EU seems to have dropped in 2016, but data for 2017 suggest an increase and this is expected to continue in coming years. On the other hand, exports to CEFTA countries have increased which mainly comes from an increase in exports to Albania and Montenegro.

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

	2014	2015	2016	2017/1
EU	98,086	106,422	70,061	87,357.7
<i>Italy</i>	49,660	19,681	5,727	5,976
CEFTA	127,146	127,389	144,264	171,101
Switzerland	10,038	11,831	16,762	19,811
Turkey	10,365	8,845	7,631	6,087
Japan	507	1,675	84	160
China	42,152	4,275	11,694	5,560
India	27,425	43,888	9,425	45,400
Total exports	324,543	326,240	309,688	348,529
EU share to total	30.2%	32.6%	22.6%	25.1%

Source: Calculations based on SAK, External Trade Statistics; 1/ Data available until November 2017

Table 6. Forecast for Imports of goods in medium term period

	2018	2019	2020	
Nominal GDP	6,737	7,132	7,623	In general, Kosovo has a negative trade balance. Goods imports are expected to increase in the medium term mainly due to an increase in consumption. This aggregate demand increase will be partially filled by import replacement as domestic producers catch up to internal demand, however, incremental demand on top of local production increase is expected to be filled by imports.
<i>Growth %</i>	6.2%	5.9%	6.9%	
Imports [nominal]	3,621	3,823	4,055	
<i>Growth %</i>	5.9%	5.6%	6.1%	
Goods	3,102	3,294	3,517	
<i>Growth %</i>	5.8%	6.2%	6.8%	
<i>% of Nominal GDP</i>	46.0%	46.2%	46.1%	

Based on the data from SAK, the share of different imported good categories to total imports (high level of diversification of import products) remains the roughly the same over the past years. For example, in 2017, the share of imported mineral products in Kosovo accounted for 14.4%. This has

increased again after a fall in the previous year, while the share of imported food products to total imports is similar to previous years, and the same can be said for other products as well.

Table 7. The share of imported goods to total

Description	2014	2015	2016	2017/1
Mineral products	18.4%	15.3%	11.7%	14.4%
Prepared foodstuffs, beverages and tobacco	13.5%	13.4%	13.4%	13.0%
Machinery, appliances and electric materials	11.3%	11.8%	12.8%	11.6%
Base metals and articles of base metal	9.0%	9.9%	9.9%	10.2%
Other	47.8%	49.6%	52.2%	50.8%

Source: Calculations based on SAK, External Trade Statistics, 1/ Data available until November 2017

The next table presents imports from different countries and group of countries. From this table, we can see that the share of import of goods from EU countries has more or less remained the same over the past years. The same can be said about imports from CEFTA countries, whose share in 2017 was around 28%.

Table 8. Geographical composition of imports, in '000 euro

	2014	2015	2016	2017/1
EU	1,085,954	1,125,660	1,202,165	1,174,509
<i>Germany</i>	272,973	292,083	342,960	335,201
CEFTA	720,382	777,376	753,308	776,411
Switzerland	30,185	24,226	21,810	21,977
Turkey	238,268	252,164	288,503	267,574
USA	62,700	39,261	55,547	32,721
China	204,789	232,395	258,485	247,009
Total imports	2,538,337	2,652,572	2,789,708	2,749,891
EU share to total	42.8%	42.4%	43.1%	42.7%

Source: Calculations based on SAK, External Trade Statistics; 1/ Data available until November 2017

Table 9 . Forecast for export-import of services in medium-term period

	2018	2019	2020	
Nominal GDP	6,737	7,132	7,623	The balance of services during the period January-October 2017 has increased by 24.4%, compared to the same period in 2016. Travel services dominate the service exports, comprising 84% of the total exported services. Compared with 2016, in 2017, this category has increased by 20%, whereas import of travel services has increased only by 3.4%. The
Export of Services [Nominal]	1,360	1,414	1,475	balance of export to imports of services is expected to remain relatively constant in the medium term.
Import of Services [Nominal]	519	529	538	We expect the service export, mainly comprised of export of travel services, to grow as aggregate consumption increases and as disposable income to travel will grow. This is also contrasted by relatively moderate growth in tourism and other import of services (mainly travel related) which are expected to be primarily driven by Kosovo diaspora. Overall, as seen in the below table, there is a relatively high concentration of both imports and exports of service.
Balance	840	885	937	
Balance as % of Nominal GDP	12.5%	12.4%	12.3%	

The balance of export to imports of services is expected to remain relatively constant in the medium term. We expect the service export, mainly comprised of export of travel services, to grow as aggregate consumption increases and as disposable income to travel will grow. This is also contrasted by relatively moderate growth in tourism and other import of services (mainly travel related) which are expected to be primarily driven by Kosovo diaspora. Overall, as seen in the below table, there is a relatively high concentration of both imports and exports of service.

Table 10. The share of exported/imported services to total

Description	2014	2015	2016	2017/1
Travel services as a share of balance of services	109.3%	115.2%	107.0%	106.1%
<i>Travel services as a share of total exports</i>	71.7%	75.6%	79.3%	83.7%
<i>Travel services as a share of total imports</i>	34.8%	39.1%	44.7%	45.3%
Other business services as a share of balance of services	1.8%	9.6%	6.5 %	2.1%
<i>Other business services as a share of total exports</i>	8.1%	6.4%	5.7%	4.7%
<i>Other business services as a share of total imports</i>	14.3%	3.5%	4.7%	9.2%
Telecommunications, computer and information services as a share of balance of services	4.2%	-0.2%	0.4%	-0.7%
<i>Tel. comp. and inf. services as a share of total exports</i>	8.4%	5.8%	4.4%	3.9%
<i>Tel. comp. and inf. services as a share of total imports</i>	12.4%	11.3%	9.3%	9.3%
Other services as a share of balance of services	-15.3%	-24.6%	-13.9%	-7.5%
<i>Other services as a share of total exports</i>	11.9%	12.2%	10.6%	7.7%
<i>Other services as a share of total imports</i>	38.6%	46.2%	41.3%	36.2%

Source: Calculations based on CBK, 1/ Data available until October 2017

Total exports until October 2017 grew by 21.6% (goods 25.8% and services 17.3%). According to forecasted projections, in 2017, the overall exports are expected to experience real growth of approximately 14.7%, with the expected real growth of commodity exports reaching up to 16.8% and services up to 14.1%. On the other hand, acceleration of the investment activity is expected to lead to somewhat higher growth in the overall imports by 7.8% in real terms (goods 9.5 services -1.4%). This would ultimately result in an increase in the overall foreign trade deficit at the end of 2017 by about 2%.

Table 11. Forecast of total Imports and exports, current

account balance, in medium term period

<i>in EUR, millions</i>	2018	2019	2020
Nominal GDP	6,737	7,132	7,623
<i>Growth %</i>	6.2%	5.9%	6.9%
Imports [nominal]	3,622	3,825	4,056
Goods	3,103	3,296	3,517
Services	519	529	538
Exports [nominal]	1,738	1,811	1,897
Goods	378	397	421
Services	1,360	1,414	1,475
Current Account Balance	(642)	(724)	(824)

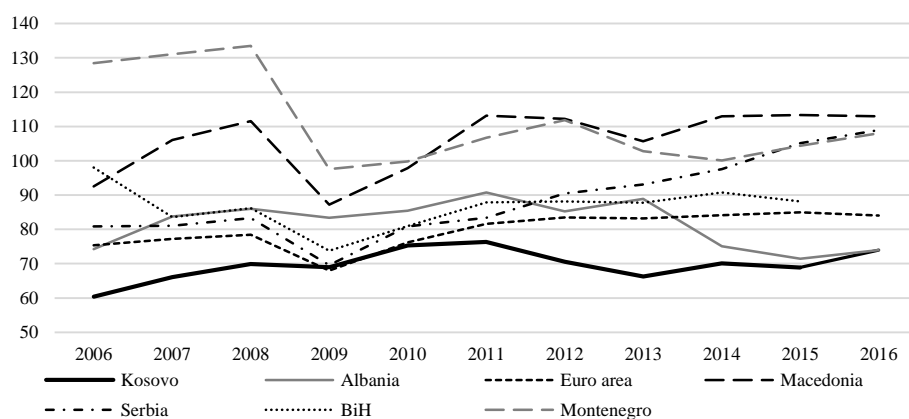
due to expected increases in travel and the diversification of the service export economy toward export of IT and support centre services.

With regard to trade, even though Kosovo is a small (land-locked) open economy with a liberal trade regime, it is characterized by low **trade openness**⁷. While the level of imports continues to be high, the export base remains low, and is one of the main structural challenges the economy is facing. This directly impacts the trade openness index, however, the recent tax policy changes to stimulate domestic production are expected to increase exports and substitute imports, thus reducing the overall negative trade balance.

⁷ The trade-to-GDP ratio is calculated as the simple average (i.e. the mean) of total trade (i.e. the sum of exports and imports of goods and services) relative to GDP, and is interpreted as “the higher the index, the more influence trade has in that country’s domestic activity”

Graph 12 below illustrates the low index of trade openness, particularly in comparison to neighbouring countries. As compared to 2015, the index for Kosovo for the year 2016 has increased. Albania, Serbia and Montenegro also have registered improvements,

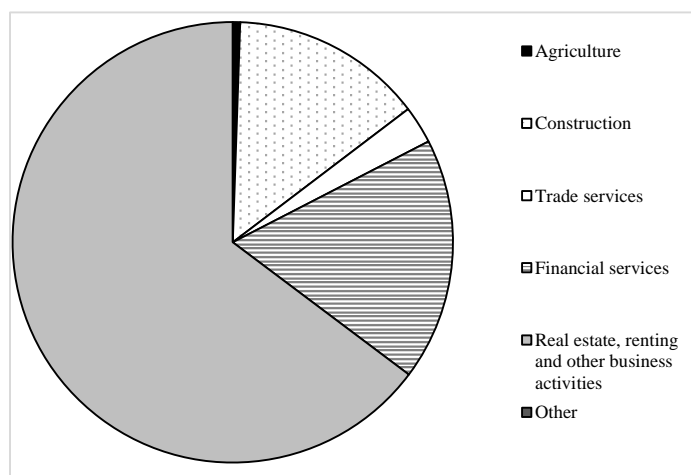
Graph 12. Trade Openness Index, comparison to the region and Euro area



The income account has maintained positive balances. Compensation of employees⁸ continues to be the largest contributor to the **primary income account** balance. Until October 2017, the income from compensation of employees grew by 12.9% compared to the same period of 2016,

and is expected to grow at an average rate of around 3% for the forecasted period 2018-2020.

Graph 13. Structure of FDI by sectors in 2017



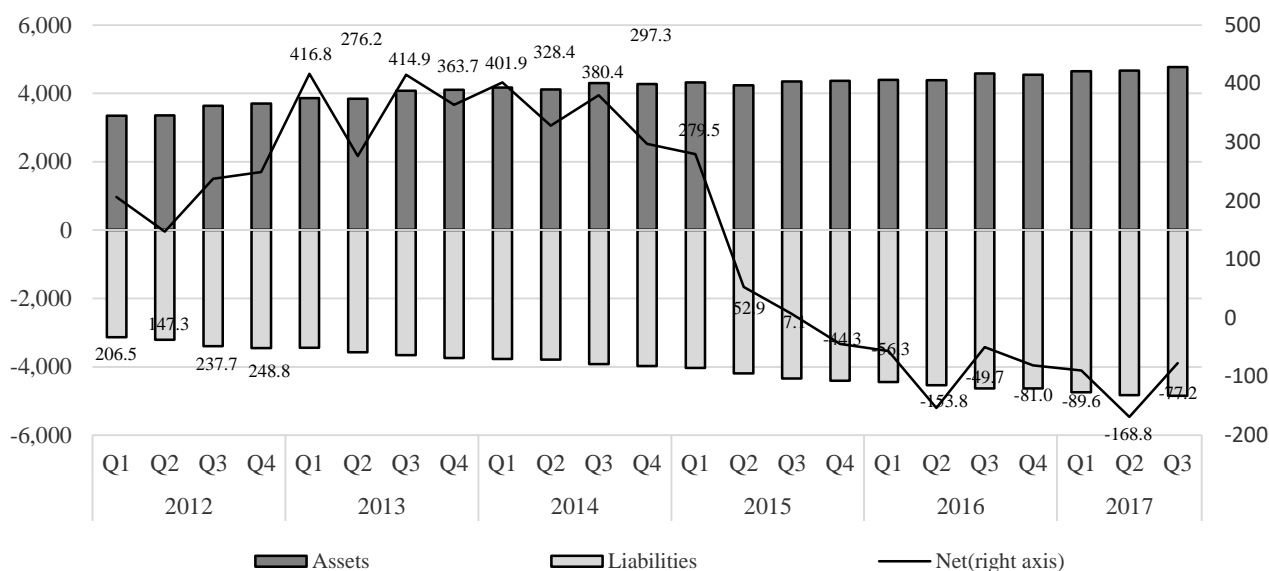
Remittances continue to represent more than half of the secondary income account balance. Until October 2017 remittances amounted to 623.7 million euros, an increase of 10% compared to the same period of 2016. For the medium-term, remittances are expected to grow at an average rate of 3.5%, while maintaining an average of 11.2% share to GDP. This suggests that, remittances remain an important contributor to the current account balance of Kosovo's economy.

By October 2017, total FDI inflows amounted to around 239.3 million euros. Compared with same period of last year, FDI increased by 15.3%. Around 65.2% of total FDI *during the period of January-October 2017* has gone to real estate and renting activities. Financial services follow as the second largest absorber of FDI, constituting 18% of total FDI. The next sector is construction which represents 14.2% of total FDI for this period of 2017.

In the third quarter of 2017, the net balance of **international investment position (IIP)** reached -77.2 million euros, which is a 55% decline compared to the third quarter in the previous year. The structure of assets is dominated by other investments in the form of debt, which composed around 40.6% of the assets, followed by portfolio investments which compose 36.7% of the assets. On the other hand, foreign direct investments continue to be the largest category within liabilities, comprising around 71.7% of total liabilities by end of Q3 2017.

⁸ Revenues from the income of Kosovo employees abroad

Graph 14. International Investment Position (IIP), end-of-period, in millions of euro



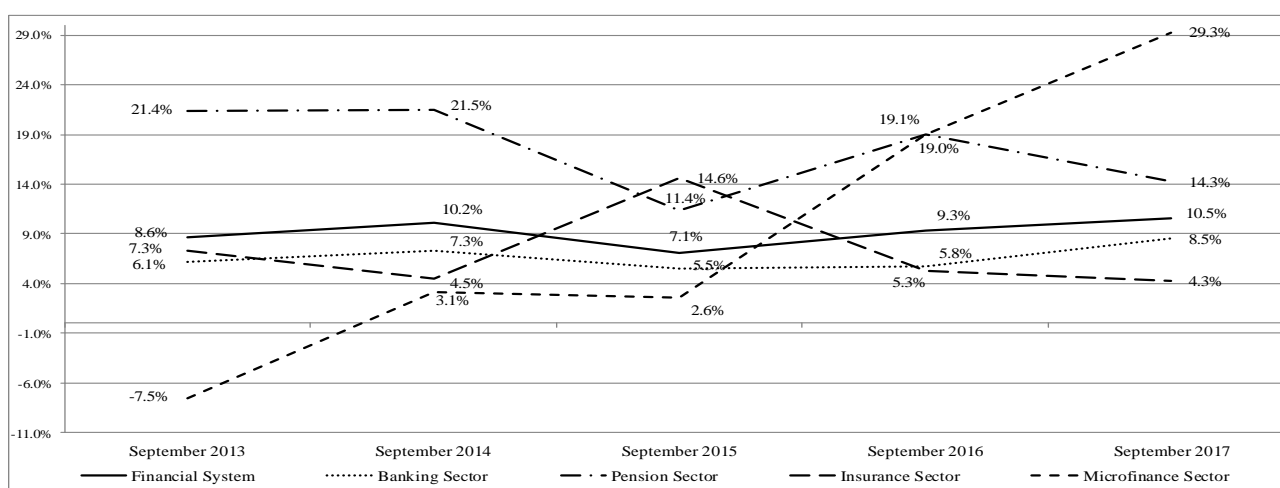
Source: Central Bank of the Republic of Kosovo (2017)

2.3.4. Financial sector

Kosovo’s financial system continued to expand during 2017. Total assets⁹ of the financial system marked an annual growth of 10.5%, amounting at 5.77 billion euro (around 90% of GDP) as of September 2017 (Graph 15). Banks represent 66.1% of the total assets of the financial system, followed by Pension Funds (27.5%), Microfinance Institutions and Non-banking Financial Institutions (3.2%), and Insurance Companies (3.0%).

Banking sector assets remain dominated by foreign-owned banks, which represent 88.3% of total banking sector assets. The degree of market concentration, measured by the market share of the three largest banks (assets), decreased in September 2017 to 61.3%, compared to 63.2% in September 2016. In addition, also the degree of market concentration measured by Herfindahl - Hirschman Index (HHI) dropped to 1,625 points in September 2017, compared to 1,702 points in September 2016.

Graph 15. Development trend of the financial system and the financial sectors’ assets

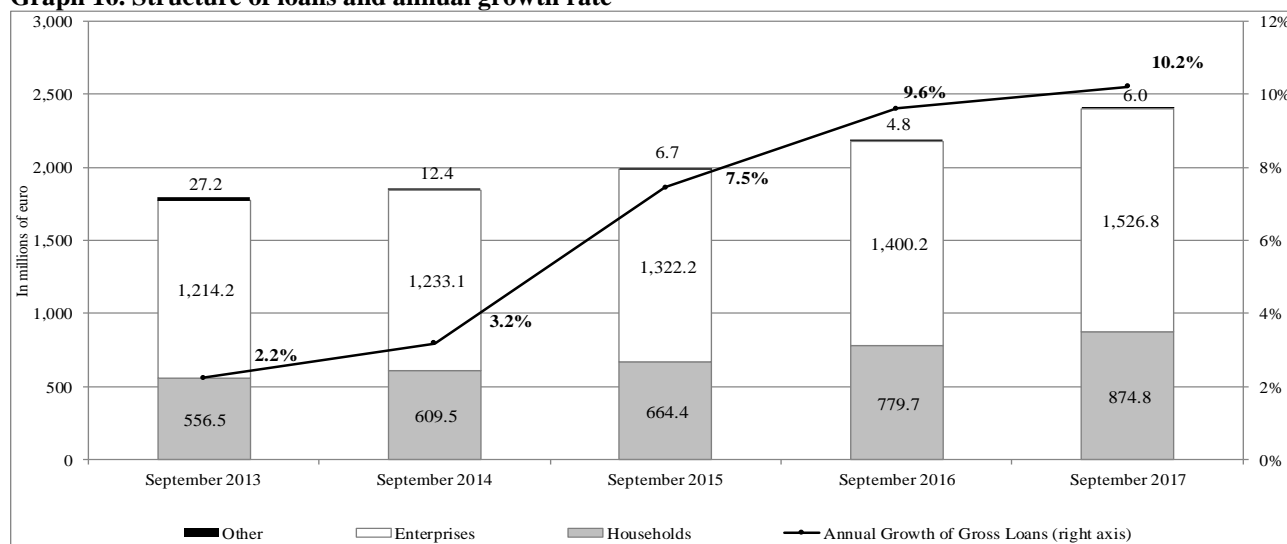


Source: Central Bank of the Republic of Kosovo (2017)

⁹ Excluding the assets of the Central Bank of the Republic of Kosovo

Banking sector loans continued to grow at an accelerated rate. As of September 2017, total outstanding loans reached the value of 2.4 billion euro, marking an annual growth of 10.2% (9.6% in September 2016), and the highest growth rate in the last six years. Loans to enterprises grew annually by 9.0% and continued to dominate the loan portfolio with a share of 63.4% (64.1% in September 2016), whereas household loans marked an annual growth of 12.2% and represented 36.3% of total loans (35.7% in September 2016) (Graph 16).

Graph 16. Structure of loans and annual growth rate



Source: Central Bank of the Republic of Kosovo (2017)

Regarding the demand for loans in the reporting period (March – August, 2017), banks reported an increased demand for loans from enterprises as well as households. In the following six months (September 2017 - February 2018), credit standards are expected to ease for both enterprises and households. BLS results indicate that banks expect an increase in the demand for loans during the same period.

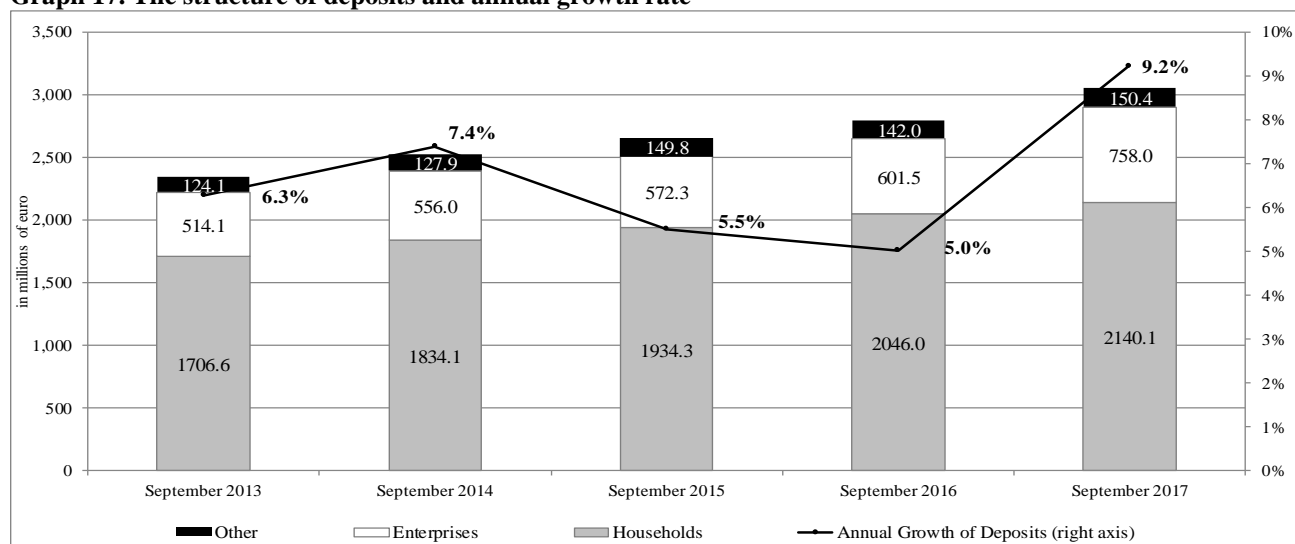
Bank lending survey that takes place twice a year provides a short-horizon of future developments in domestic credit. In the survey conducted in September 2017, banks declared that for the period September 2017 to February 2018, credit activity is expected to be positively affected by both credit supply and demand. Credit supply is expected to have positive effect through easing credit standards, more specifically for SMEs and consumption loans for household. Whereas credit supply to large enterprises and household loans for home purchase are expected to remain unchanged. Facilitated credit standards is expected to be affected through an increase of market competition, favourable access to financing by banks and parent banks, decline in banks' capital constraints and the favourable position of banking sector liquidity.

According to the survey, the expected increase in demand for loans by enterprises will be positively influenced by increased demand for financing fixed investments, financing inventories and working capital. Meanwhile, the expected increase in demand for household loans will be attributable mainly to the increase in non-housing related consumption expenditure and customer confidence.

The banking activity in Kosovo continues to be financed mainly by domestically collected deposits, which have shown to be a sustainable source of financing. As of September 2017, deposits reached the value of 3.0 billion euro, marking an annual increase of 9.2%. This stopped the declining trend of

growth characterizing the sector in the last two years (Graph 17). The structure of deposits is dominated by households' deposits which represent 70.2% of total deposits.

Graph 17. The structure of deposits and annual growth rate



Source: Central Bank of the Republic of Kosovo (2017)

Financial intermediation in Kosovo has been characterized by declining interest rates on loans, whereas interest rates on deposits remained almost unchanged. The interest rate on loans decreased to 6.5% in September 2017 from 7.5% in September 2016, while the interest rate on deposits stood at 0.95% from 0.96% in September 2016. Therefore, this led to a decline in the interest rate spread between loans and deposits to 5.6 percentage points, compared to 6.5 percentage points in September 2016.

The banking sector remained profitable, recording a net profit of 69.1 million euros as of September 2017 which is 7.9 million higher compared to the same period of 2016. The increase of profit during this period reflects an increase in revenues for the first time in four years (non-interest income), and the slight decrease of expenditures (mainly non-interest expenditures). Revenues from interest income have shown a declining trend, which is related to a decrease in lending interest rates. While, income from fees and commissions, and other operating income have increased during this period, the decrease of provisions for loan losses contributed the most on the reduction of expenditures.

Table 12. Financial Soundness Indicators

Banking sector	Core set	September 2014	September 2015	September 2016	September 2017
Capital Adequacy (%)	Regulatory capital to risk-weighted assets	18.1%	18.4%	18.3%	17.8%
	Regulatory Tier I Capital to Risk-Weighted Assets	14.8%	16.0%	16.1%	15.9%
Assets quality (%)	Nonperforming loans to total gross loans	8.5%	6.8%	5.1%	3.6%
Profitability (%)	Return on assets (ROA)*	2.3%	3.2%	2.7%	2.9%
	Return on equity (ROE)*	22.3%	27.6%	22.4%	23.3%
	Interest margin to gross income	75.8%	76.2%	68.1%	64.8%
	Noninterest expenses to gross income	64.9%	52.7%	46.7%	43.0%
Liquidity (%)	Liquid assets (broad) to short-term liabilities	46.0%	43.6%	40.9%	38.7%

*ROA and ROE are annualized. Net income before tax is considered. Guide: Financial Soundness Indicators, Compilation Guide, IMF (2006)

Source: Central Bank of the Republic of Kosovo (2017)

The risk to the banking sector in Kosovo continues to remain low. The liquidity position of the banking sector remains at a satisfactory level. The liquid assets to short-term liabilities stood at 38.7% which is well above the minimum regulatory requirement ratio of 25%. As of September 2017, the loan to deposit ratio increased to 79.0% compared to 78.3% in September 2016 (Table 12). Furthermore, the CBK liquidity stress-test results, as of June 2017, indicate that the banking sector in Kosovo is resilient to adverse simulated liquidity shocks.

Credit risk exposure of the banking sector continued to decline. In September 2017, the non-performing loans to total loans declined to 3.6%, from 5.1% in September 2016. This improvement in NPL ratio is mainly a result of a decrease of non-performing loans value by 20.7%. In addition, non-performing loans remained well-covered by loan-loss provisions, a ratio that stood at 139.9% (122.1% in September 2016). Furthermore, the banking sector remains well capitalized, with a capital adequacy ratio of 17.8% (Table 12), which is well above the minimum regulatory requirement of 12.0%. Credit risk stress testing results as of June 2017 suggests that the sector is capable to withstand severe shocks to its credit portfolio, along with simulated interest rate and exchange rate shocks.

As of September 2017, the quality of loan portfolio improved in most sectors (Table 13). Manufacturing sector marked the highest decrease in non-performing loans ratio, from 7.5% to 5.4% in September 2017. The trade sector, that dominates the structures of total loans, marked a slight decrease of non-performing loans, standing at 5.1% of total loans in September 2017 (5.7 % in September 2016). Non-performing loans to total loans for agricultural sector recorded an increase to 8.9% from 6.5%.

Table 13. Non-performing loans by economic sector

NPL by economic sector	September 2014	September 2015	September 2016	September 2017
Agriculture, forestry and fishing	8.7%	6.6%	6.5%	8.9%
Manufacturing	13.5%	11.4%	7.5%	5.4%
Electricity, gas, water supply etc.	15.6%	20.4%	8.5%	10.7%
Accommodation, food services, transport etc.	9.7%	7.5%	6.7%	6.1%
Trade	11.7%	9.5%	5.7%	5.1%
Financial services	0.1%	2.0%	1.7%	0.5%
Real Estate	12.6%	7.7%	5.8%	4.8%
Households	2.9%	2.7%	2.5%	1.5%

Source: Central Bank of the Republic of Kosovo (2017)

Taking into account the current trends and the projections for the next year, we do not foresee any potential shock to the banking system. Year 2017 has shown an accelerated increase of economic activity, with real GDP growth of 4.3 percent whereas forecast for next years suggest even higher growth rate. A more significant impact to the banking sector might be caused by a potential decline of remittances which represent an important source of finance. Nevertheless, remittances have been stable over the past years and no serious shock is expected to happen in the coming years.

Risk factors: the creation of new jobs and the level of trade deficit remain the main challenges of Kosovo's economy with an impact on financial stability through the repayment capacity of households and businesses, increased deleveraging pressures, risk perceptions and behaviour of market participants.

2.4. Alternative Scenarios and Risks

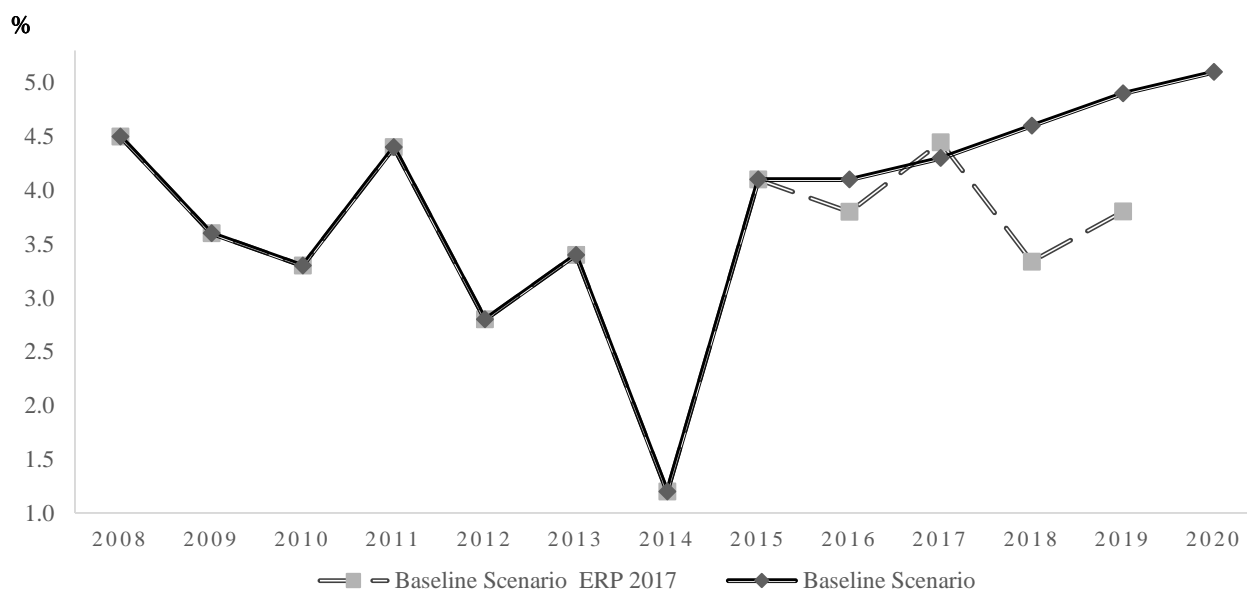
The baseline macroeconomic scenario that underpins the medium term budget projections - and the outlook presented on this update of the ERP - results from a careful consideration of both downside and upside risk factors, associated with economic developments expected in the medium term. The analysis of fiscal risks for ERP 2018 shows that risks are tilted to the upside – as the probability of the construction of new power plant and implementation of further doing business reforms is much higher than in the previous ERPs. The latter also reduces the probability of a shock to energy supply significantly. At the same time, with a more favourable external environment, there is much lower probability of the realization of a shock to remittance flows over the medium term.

Initially, it should be noted that for the 2018 ERP, the baseline scenario incorporates elements that reflect the partial materialization of a number of upside and downside risks identified in the 2017 ERP. The baseline scenario also reflects the latest available national accounts data, which are different compared with ERP 2017. The following are the main changes incorporated in the baseline scenario, compared with ERP 2017:

- Higher actual growth for the year 2016 by 0.3 percentage points, compared to the estimated growth in the ERP 2017. The latest actual national accounts data show a growth rate at 4.1%. On the other side, the estimated growth for 2017 is now slightly lower at 4.3% compared to the projected growth of 4.4% with ERP 2017.
- Export and remittance growth – reduced exports and remittance growth was identified as one of the downside risks to the 2017 ERP baseline scenario. However, actual data show increased growth for both, exports and remittances. Estimated growth of exports for 2017 is now 16% for total exports, 16.1% growth in exports of goods and 16.9% growth in exports of services. Similarly, estimated remittance growth for 2017 is revised upwards, to 8%.
- Growth of investment in 2017 is now projected lower than it was in ERP 2017, down to 13.1% from 14.9%, mainly due to lower public investment
- There were three upside risks in ERP 2017 that were not incorporated in the baseline projections: investment in Kosova e Re TPP, progress with doing business reforms, and effects of the fiscal package

The cumulative effect of the revision to the baseline assumptions, and the revised medium-term growth outlook is presented in the graph below.

Graph 18. Changes to the baseline scenario, in %



2.4.1. Medium term risks 2018 – 2020

Upside risks

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

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

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

Development of New Energy Production Capacities: the Government has announced the winning private bidder for the construction and operation of new thermo power plant Kosova e Re. With a significant amount of total investment planned over the next 5 years, the construction of new generation capacities, which is expected to start in 2018, will significantly increase the total planned investments as per the baseline scenario, leading to a much higher growth rate of the economy. In addition to new generation capacities, investment on the update of the transmission system is also expected to impact growth beyond and above the baseline scenario.

Increased Private Sector Investment as a Result of new Institutional and Fiscal Reforms: Kosovo’s ranking in the World Bank Doing Business Report improved significantly, as measured with the World Bank Doing Business Report 2018, being ranked 40th in the world (20 places up compared with Doing Business 2017). The Government of Kosovo has adopted an ambitious reform agenda to remove obstacles to private sector development, including trade facilitation measures and quality infrastructure, streamlined inspection procedures, improved contract enforcement and strengthening property rights in the real estate sector, a more effective construction permitting system, and an efficient legal environment for resolving insolvency. At the same time, the implementation of the

second fiscal reform package will begin from 2018, which will provide producers with tax incentives that lower the cost of production and boost their competitiveness. The positive impact of these reforms is considered to represent a key upside risk factor which has the potential to boost private sector investments and competitiveness, what would shift upward the baseline projected medium term growth.

Downside risks

As presented in the last update of the ERP, Kosovo's structural constraints expose its economy to both external and domestic shocks. *The main volatility factors that could potentially affect Kosovo's economy are:*

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

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

Execution of capital spending – A surge in public capital spending to address structural bottlenecks is a pillar of the Government's strategy to support a growth-friendly economic environment. In the past few years, notwithstanding improvements, capital under execution exceeded 5% of the total budgeted amounts. As a result, under-execution of capital projects is accounted for as a possible downside risk to baseline growth projections. However, we expect this risk to be mitigated by new legislative changes. Specifically, an upcoming Administrative Instruction by the Budget Department at the Ministry of Finance which streamlines planning, execution and budgeting for capital spending is expected to have a positive impact in execution. As a result, we expect the risk of under-execution of capital spending to be limited in the medium term.

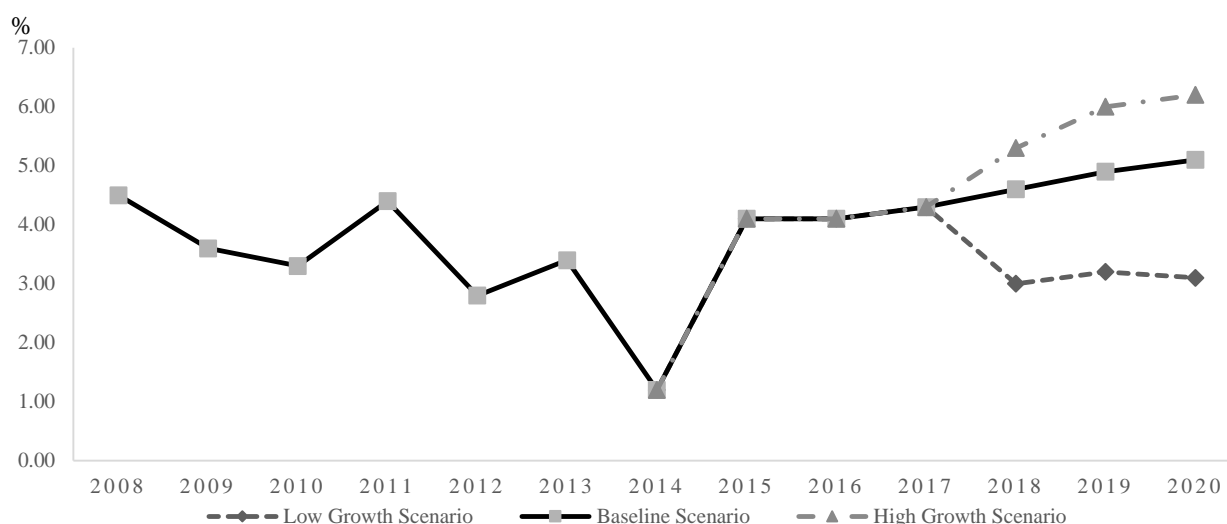
Dependence on Remittances: Kosovo still receives a sizable inflow of migrants' remittances, which mostly support household consumption. A macroeconomic shock on the two main economies that employ the Kosovo's diaspora - Germany and Switzerland - can be transferred to Kosovo's economy through a reduction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

Base metal price impact on exports – Kosovo exports composition is mainly in exports of base metal (although gradually decreasing) and highly related to the value of total exports. Over the past years extraction, processing, and export of base metals has been highly related to the world metal prices (nickel prices). Therefore, a drop of metal prices is considered a downside risk for the value of exports and the economic activity.

Results

Based on the qualitative examination of the upside risks and the downside risks to the baseline scenario, two alternative scenarios are presented below.

Graph 19. Alternative Scenarios, real GDP growth, in %



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

- The construction of the new electricity power plant will increase private investment by 1 percentage points of the baseline projected GDP in 2019, and 1.5 percentage points in 2020
- The implementation of the institutional and second package of fiscal reforms will boost private investment and exports by additional 0.7 and 2 percentage points respectively of the baseline projected for 2018 and by 1.5 and 3 percentage points respectively in 2019 and 2020.

All other parameters are maintained as in the baseline scenario.

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

- An increase in subsidy spending for POEs related to their weakening performance and in response to a shock in electricity production. For the purposes of this exercise, it is assumed that under such an event, subsidies would increase by 0.5% percentage points of the baseline projected GDP in the period of 2018-2020 at the cost of public capital spending

- A less than expected level of execution of capital projects – where for the purposes for of this exercise it is assumed that only 70%-75% of budgeted capital expenditure (including “investment clause” and financed) are implemented over the medium-term
- Electricity imports are higher as a result of lower domestic energy production
- Lower goods export growth rate, from the baseline average of 5.4% to 2%, as a result of lower base metal prices and base metal exports.

The assumptions on price movements in the baseline scenario and the high growth scenario are the same, with a an increase in consumption prices in the low growth scenario due to a higher imported electricity relative to the price of domestic production. The main channels through which the shocks are applied to the baseline scenario are private and public investment, and to metal export prices. Second round effects on consumption and investment are modelled through their effect on private disposable income. None of the alternative scenarios results in a negative GDP growth and its main components. There are marked differences in the rate of positive growth between the different alternatives.

The realization of low growth assumptions would reduce average medium term growth from 4.9% to 3.1%. On the other hand, projected medium term average growth under the high growth scenario is 5.8%.

Table 14. Alternative macro-fiscal scenarios

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

Description	2018			2019			2020		
	(L)	(B)	(H)	(L)	(B)	(H)	(L)	(B)	(H)
Real growth rates (%)									
GDP	3.0	4.6	5.3	3.2	4.9	6.0	3.1	5.1	6.2
Consumption	4.7	5.8	6.3	3.3	4.8	5.7	3.7	5.5	6.5
Investment	3.0	7.3	7.8	8.1	10.3	12.6	8.5	11.6	12.9
Exports	5.3	5.7	5.8	3.3	4.2	8.4	3.5	4.7	8.2
Imports	4.2	5.9	6.8	4.3	5.6	6.9	4.2	6.0	6.6
Price changes (%)									
CPI (annual monthly average)	1.0	1.3	1.3	0.8	1.1	1.2	0.7	1.1	1.1
GDP deflator	1.6	1.5	1.4	0.9	0.9	1.1	1.8	1.7	1.4
Import prices	1.5	1.5	1.3	1.0	2.1	0.3	1.8	1.5	1.3
Memorandum items: (in million Euros)									
Nominal GDP	6,636	6,737	6,780	6,846	7,132	7,226	7,209	7,624	7,836
Tax Revenues	1,596	1,658	1,666	1,696	1,765	1,795	1,793	1,884	1,925
Recurrent Expenditure	1,429	1,383	1,383	1,467	1,419	1,419	1,507	1,457	1,457
Capital Expenditure	522	694	694	526	751	751	579	827	827

2.4.2. Sensitivity to Baseline Assessment

In the context of fiscal stability, the low growth and high growth scenario imply changes to the baseline assessment of the fiscal space. Under the low growth scenario, revenues would underperform by an average of 6.2% relative to the current budget projections. Under high growth scenario, revenues

would outperform by 1.5% to 2% relative to baseline projections for 2018 – 2020, as the high-growth scenario foresees a jump in investment which has a lower tax contribution.

3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objective

The Government of Kosovo continues to pursue a conservative macroeconomic policy strategy, targeting low budget deficit levels that preserve adequate cash buffers and avoid excessive public debt accumulation. The goal of this strategy is to maintain a stable macro-fiscal environment that is conducive to private sector led economic growth.

The guiding operational principle behind this strategy is the maintenance and further development of a rules-based fiscal framework: deficit neutral mid-year budget revisions, a 2% of GDP budget deficit cap, a 4.5% of GDP cash buffer requirement, a constant public wage bill to GDP ratio requirement, and a 40% debt to GDP limit. These rule embed macro-fiscal stability safeguards into the budget development and execution process. In addition to rules that confine expenditure and debt growth in line with the country's fundamental economic dynamics, the Government will maintain policy flexibility to address significant infrastructure gaps. The exemption from the deficit limit of capital projects financed through long-term concessional donor lending or from liquidation proceeds of Socially Owned Enterprise assets provides sufficient room to address these gaps within a prudent and fiscally sound envelope.

- Against this strategic stance, the medium term fiscal objectives of the Government are the following:
- Maintain a high share of capital investment in total spending to address structural bottlenecks and enhance competitiveness through improvement in public infrastructure
- Rationalize operational expenditure and create room for increased financing and effectiveness of Judiciary, Health, and Education institutions
- Earmark concessional foreign debt-financing to strategic capital investment projects
- Improve effectiveness of social spending and agricultural subsidies through better targeting and means-testing within the current spending envelope
- Mobilize revenue by broadening the tax base instead of increasing statutory tax rates
- Incentivize exports and import substitution through targeted indirect tax exemptions for domestic producers
- Streamline administrative fees and reduce the regulatory burden

Based on the above-listed fiscal policy objectives, the 2018 budget has distributed the marginal fiscal space resulting from projected revenue increases in: a) higher operational spending for improving public service delivery in priority sectors, and b) increased capital spending to address competitiveness gaps. Nevertheless, one of the key fiscal challenges for the achievement of these objectives, as noted under the analysis of alternative scenarios for this program, remains the difficulty of containing social spending pressures and implementing social protection schemes more effectively.

The major bulk of revenue losses from the implementation of the Stabilization and Association Agreement (SAA) has already been absorbed, and is fully accounted for in the medium-term. The only increase in statutory rates, after the differentiation and increase of the headline Value Added Tax rate in 2015, is planned for tobacco excises. This increase is in line with a transparent multi-year schedule. On January 1, 2018, the Government also introduced a new 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. The latter is not expected to challenge the Government’s medium-term fiscal envelope as the production sector in Kosovo is still only nascent and trade is the key value-added sector. A summary of the fiscal impact of this measure is provided in the discussion of the medium-term fiscal outlook below.

3.2. Budget implementation in 2017

Preliminary fiscal data show that the implementation of the 2017 budget was closely in line with the revised budget estimates, and that the Government fully adhered to applicable fiscal rules. The budget deficit, as per the legal deficit rule, is at 0.7% of projected GDP, significantly below the 2% of GDP legal cap. Government cash balances at the end of the year stood at 5.3% of GDP, sufficiently above the 4.5% minimum considered as an adequate level for Government fiscal buffers. Revenue collection reached 98% of budget estimates, with tax revenues collected at 99% of the projections, or over 5% higher than total tax collected in 2016. Actual expenditure was implemented at 97% of the budget, with the capital budget execution rate at the end of the year standing at 93%.

The 2017 budget was approved on December 23, 2016. One of the novelties of this budget was the incorporation SOE asset liquidation funds as a financing source for capital projects. However, 30% of the cost of the largest ongoing capital project for 2017 - the highway between Kosovo and Macedonia – was budgeted under SOE liquidation financing. The budget also dedicated 100 million Euros for capital projects financed through concessional donor lending; with over 70% of these projects expected to be defined through a mid-year revision process following the development and ratification of specific lending agreements. However, the inclusion of SOE related financing required the follow-up amendment to the legislation governing SOE privatization, while the inclusion of project loans required a fully functional executive and legislative government to develop and ratify these projects.

At the same time, the 2017 budget also allocated funds for the payment of war veteran benefits under the assumption that the total cost of this scheme would be contained at 38 Million Euros. However, as of December 30, 2016, a legal reform mandating the re-categorization of war veteran beneficiaries to meet a 0.7% of GDP budget envelope required the continuation of payments as per the original scheme until this re-categorization is finalized. Under the auspices of an IMF Stand-by Program, the 2017 budget allocations law included specific clauses prohibiting any additional transfers to this program to incentivize reform, but the number of eligible beneficiaries outgrew all initial estimates, and the budgeted amounts were not sufficient to cover more than 60% of the required financing for this scheme in 2017.

Against this backdrop, the organization of early elections in May 2017 created significant challenges for the implementation of the budget, and lead to the accumulation of in-year financial liabilities from capital and operational budgets. The absence of legislative amendments to the privatization legislation, the delay of the war veteran beneficiaries’ re-categorization, and delays in the identification and preparation of specific project loans necessitated a late revision of the budget.

After the formation of a new government in September 2017, the Kosovo Parliament approved a budget revision which entered into force on November 11, 2017. The key features of this revision were the rationalization of smaller capital projects to: a) cover necessary financing for the highway to Macedonia and b) adjust the operational budget to cover outstanding liabilities for the war veterans' benefit scheme.

Budget Revenue estimates were not adjusted as part of the mid-year budget revision. Overall, tax revenue was collected as per initial estimates following a robust economic performance in 2017. Revenue from indirect taxes surpassed original estimates by 2%, and was 7.2% higher than in 2016. Value Added Tax (VAT) collection was 9% higher than in 2016, reflecting a strong consumption and imports growth, while custom duties increased from 2016 despite initial expectations that the SAA would stall revenues from this stream. Marked increases were recorded in vehicle and fuel imports, with a significant revenue contribution. On the other hand, revenue from indirect taxes was collected at 95% of the budget estimates, with the marginal shortfall coming from lower corporate tax collection. The latter is associated higher investment intensity from private sector corporations and a lagging financial performance of public enterprises.

Non-tax revenues were 6% higher than in 2016, but fell short of the budget estimates, particularly for the municipal level. Some of the key reasons for the non-tax revenue shortfall include: lower municipal revenue from fees because of delays in service delivery following local elections, delays in the realization of fees from the legalization of unpermitted construction, as well as the non-declaration of a planned dividend from the public telecommunications company.

Budget expenditure implementation was also influenced by the underperformance of municipal revenues, notwithstanding a high implementation rate of the overall budget. Municipal expenditures tied to municipal revenues and dedicated financing sources, such as the Northern Development Fund, were implemented at lower than expected levels. This contributed to the under-implementation, albeit marginal, of the budget for goods and services and for capital expenditure. Nevertheless, overall budget expenditure was 4.8% higher than in 2016, with the level of capital expenditure at 5.2 % higher than in the previous year. The organization of central and local elections also increased expenditure for goods and services. Due to delays in the necessary preparations for launching the health insurance fund, most of the budget allocated to pay out insurance premiums from wages and salaries was redirected for purchasing pharmaceuticals.

To **finance the deficit** and maintain a comfortable level of fiscal buffers, the government increased the stock of domestic debt by 95 million Euros. The Government also drew 101 million Euros from the IMF Stand-by Arrangement program to maintain a comfortable level of cash balances.

Below is a table of key parameters on the 2017 budget implementation performance.

Table 15. General Government Operations (provisional for 2017), in millions of Euros

Description	(A)	(B)	(C)	(D)	Comparison to budget (D/C)
	Actual outcome 2016	Original Budget 2017	Revised Budget 2017	Actual outcome 2017	
1. Budget revenue:	1,596	1,713	1,713	1,680	98%
Tax revenue, net	1,421	1,512	1,512	1,495	99%
off which: tax refunds	-38	-44	-44	-58	132%
Non-tax revenue	175	201	201	186	92%
off which: concessionary fees	8	9	9	9	100%
off which: royalties	31	33	33	31	94%
2. Budget expenditure:	1,658	1,989	1,799	1,739	95%
Wages and Salaries	544	572	566	550	99%
Goods and Services	203	225	245	225	89%
Subsidies and transfers	475	473	495	506	99%
Capital expenditure	444	726	501	468	90%
off which: donor lending	-	105	2	-	-
off which: SOE liquidation funds/2	-	87	0	-	-
Recurrent reserves	-	5	3	-	-
Net lending	-7	-11	-11	-9	83%
3. Primary budget balance	-61	-276	-86	-59	50%
Interest payments	19	23	23	19	81%
4. Overall budget balance	-80	-300	-109	-78	55%
5. Spending exempted from fiscal rule limits:	26	203	13	35	254%
Carried forward Own Source Revenue	17	-	-	26	
Dedicated PAK and ANSA financing/3	9	11	11	9	80%
“Investment clause” donor lending and PAK	0	192	2	-	-
6. Budget balance, fiscal rule def. (6=4+5)	-54	-97	-96	-43	34%
6.1 Budget balance, as % of GDP	-0.90%	-1.50%	-1.50%	-0.7%	34%
7. Net cash balance as % of GDP/4	3.50%	5.20%	4.50%	4.7%	208%
8. Gross cash balance as % of GDP	4.50%	6.00%	5.30%	5.7%	
Memorandum items:					
a. Gross government cash balance	272	-	-	357.7	-
b. Net government cash balance	212	329	280	292.7	-
c. Nominal GDP as per the original budget		6,380		-	-
d. Nominal GDP as per revised budget	5,986	-	6,257	-	-

Source: Treasury, Budget 2017 and Macro Unit calculations

/1 Includes changes as per Government decisions, distribution of budget reserves, and appropriation of municipal carry forward funds, including the northern dev. Fund; /2 Socially Owned Enterprises; /3 Privatization Agency of Kosovo (PAK) and Air Navigation Services of Kosovo (ANSA); /4 Excludes dedicated funds for municipalities, deposits, etc.

3.3. Medium-term budgetary outlook

In line with a favourable macroeconomic outlook and a more balanced assessment of economic risks for this program, the medium term fiscal envelope is projected to expand in line with nominal economic growth projections. Tax revenues are expected to average around 24% of GDP, starting at 24.2% in 2018 and then increasing marginally by 0.2 percentage points in the consecutive years. This reflects a conservative estimate of compliance gains compared to historical trends. On the other hand, non-tax revenues are expected to increase from 2017, but remain constant in value and lower in terms of GDP (from 3% to 2.7%) over the medium-term, reflecting government policy intentions to streamline fees and reduce the regulatory burden for the private sector.

Budget operational expenses are planned to remain approximately constant as a share of GDP at around 21%, with a declining tendency by 2020. While spending for wages and salaries, as well as for goods and services, is projected to remain constant at 9% and 4% of GDP, respectively, transfers are projected to marginally fall in line with Government reform intentions to improve targeting of social protection schemes. On the other hand, spending for growth friendly capital investment is expected to increase from 7.5% to around 10% of GDP in 2018, and then marginally increase to 11% of GDP by 2020.

The budget deficit level, as per the fiscal rule definition, is projected to fall from 1.8% of GDP in 2018 to about 1% in 2020. High-return capital projects financed from donor lending and SOE liquidation proceeds, which are excluded from the calculation of the legal deficit limit, are projected to average at 2.4% of GDP over the medium term. To meet the resulting financing requirement for this budgetary framework, the Government will maintain a constant level of the domestic debt as a share of GDP (at 10%), while gradually increasing the total stock of debt through international concessional lending (including state guarantees) from 17% to 19% of GDP in 2018, and then to 21% by 2020.

Table 16: Medium-term tax revenue projections 2018-2020, in millions of Euros

Description	2014	2015	2016	2017 Rev. Budget	2017 Prelim.	2018 Budget	2019 Proj.	2020 Proj.
TOTAL REVENUE	1,345	1,470	1,608	1,725	1,689	1,829	1,939	2,069
Tax revenue, net	1,162	1,269	1,421	1,512	1,495	1,607	1,719	1,847
Non-tax revenue	171	188	175	201	185	202	203	204
Other	12	13	12	12	9	19	17	17
TOTAL EXPENDITURE	1,480	1,564	1,672	1,811	1,748	2,092	2,183	2,297
Operational expenditure	1,058	1,149	1,221	1,309	1,281	1,386	1,420	1,458
Capital expenditure	411	404	444	501	468	694	751	827
Other	11	11	8	0	0	12	12	12
PRIMARY BALANCE	-135	-94	-64	-86	-59	-264	-245	-228
OVERALL BUDGET BALANCE	-148	-111	-83	-109	-78	-287	-268	-249
BUDGET BALANCE- FISCAL RULE	-128	-78	-54	-96	-43	-122	-109	-70
NET GOV. CASH BALANCE	102	201	212	280	335	300	319	338

Source: Treasury, Budget 2018, and estimates of the Macroeconomic Unit, MoF

3.3.1. Budget revenue projections

The medium-term budget revenue projections are consistent with the projected growth of relevant macro-level tax bases under a constant effective tax rate assumption, and also include conservative assumptions on compliance gains from improved tax administration. For the latter, the Government

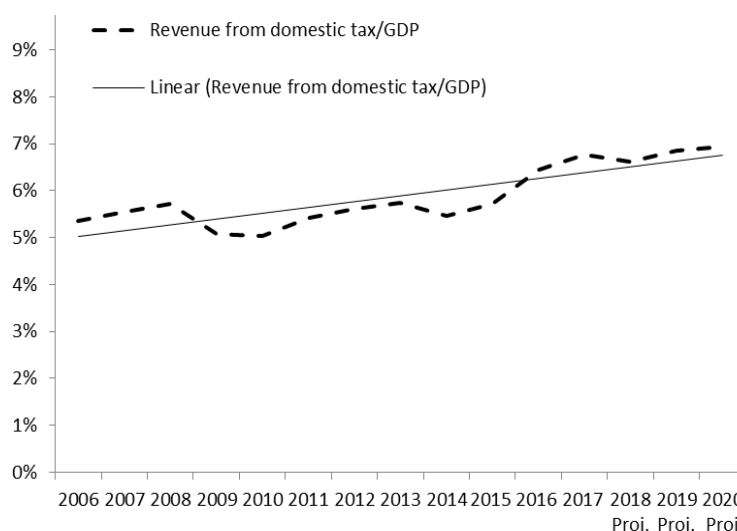
has conducted a joint assessment with technical assistance from the IMF, and has identified measures to improve both voluntary compliance and risk-based audit effectiveness. The projections also account for the negative revenue impact of the SAA implementation, as well as from the initiation of new Government scheme to incentivize exports and import substitution through customs and excise exemptions on imports of production inputs.

Overall, **total budget revenues** are expected to increase by 6%, from 1,689 million Euros (including direct budget and third-party grants) in 2017, to 1,829 million Euros in 2018. Revenues are projected to reach 2,067 million in 2020. The share of direct taxes to total tax collection is projected to increase from 15.3% in 2017, to 16.7% in 2020. VAT and excise taxes are expected to be the key growth drivers, maintaining a share of over 77% in total tax collected.

Direct tax revenue is projected to increase by an annual average of 10%. The nominal growth of domestic income, estimated a 6.3% over the medium term, is a key growth driver. However, direct taxes, collected domestically, have followed a continuously increasing trend as a % of GDP, reflecting compliance gains over time. Additional drivers expected to increase direct taxes in the medium term include the introduction of the tax on land as part of the property tax legislation, higher profit

declaration as result of the government exemption of customs and excise taxes on production inputs, marginal increases in public wages, improved administration of transfer pricing, and targeted administration improvements to incentivize declaration of income from rents. The EU funded “Further Support to Kosovo Institutions in Fight Against Crime, Corruption and Violent Extremism” project estimates that, notwithstanding improvements, there is still a significant gap in direct tax collection. Foregone tax collection from the informal “grey” income exceeds 100 million Euros, and compliance measures will target the reduction of this gap by 50% over the medium term.

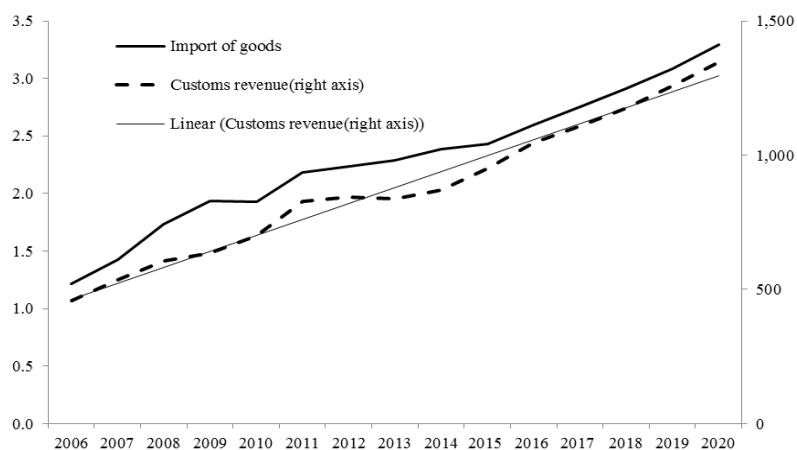
Graph 20. Tax Administration collection trend 2006-2020



Source: Treasury and estimates of the Macroeconomic Unit, MoF

Indirect tax revenue is projected to increase by an annual average of 6% over the medium-term. The key contribution to indirect tax revenue growth is projected to come from **VAT**, with an average

Graph 21. Customs Administration collection trend 2006-2020



Source: Treasury and estimates of the Macroeconomic Unit, MoF

growth of 8% over the projection period. The latter is expected to be driven by an average nominal growth of imports of about 6%, a projected average increase of 5.6% in private consumption, and an average growth of over 4% in government purchases of goods and services. Exports of travel services, which represent typically non-refundable migrants' consumption during their stay in Kosovo, will also

contribute to VAT revenue

growth. In addition, compliance gains in VAT administration are expected to accelerate revenue growth from this tax by 2 percentage points per annum over the medium term. Measures include improved valuation of imports, enhanced risk-based audit selection, and improved monitoring of the VAT threshold administration. **Excise tax revenues** are also projected to increase by an average of 6%, primarily following the real growth rate of GDP, estimated to increase from 4.6% in 2018 to above 5% in 2020. The increase in tobacco excises, which is projected to yield marginal revenues from 6 to 8 million Euros per annum, is another growth driver. On the other hand, intensified public and private investment is projected to increase demand for fuel, hence triggering increases in the imports share of excisable goods and accelerating revenue from excises beyond the aggregate dynamics of GDP volume. Exemption of excisable production inputs is estimated a marginal negative impact. A significant portion of excises paid on these inputs was already refunded through an earlier scheme, and is already accounted for in the tax collection trend.

VAT and excise revenue growth is expected to offset a projected downward trend from the collections of **customs duties**. The marginal revenue loss from further SAA tariff reductions for 2018 is estimated at 9 million Euros, while the introduction of input exemptions is expected to lead to a revenue loss of about 2 million to 4 million Euros per annum, assuming an over 30% increase in exemption requests over the medium term. Against an average nominal import growth of 6%, customs duty revenues are expected to fall by an average of 5% over the medium term.

Table17: Medium-term tax revenue projections 2018-2020, in millions of Euros

Description	2014	2015	2016	2017	2018 Proj.	2019 Proj.	2020 Proj.
TAX REVENUE	1,162	1,269	1,421	1,495	1,607	1,719	1,847
Direct taxes	188	198	232	238	267	290	318
Taxes on corporate income	55	68	81	75	84	91	99
Taxes on personal income	109	109	124	137	146	159	175
Property tax	20	20	25	22	33	36	40
Other direct taxes	4	2	2	3	4	4	4
Indirect taxes	1,007	1,107	1,227	1,315	1,378	1,472	1,577
Value Added Tax	560	611	694	756	819	881	949
Customs duties	126	131	130	126	111	111	106
Excise tax	315	361	403	432	446	478	520
Other indirect taxes	5	3	0	1	2	2	2
One-off collection of SOE debt	0	0	0	0	4	5	4
One-off repayment from POE debt	0	0	0	0	4	3	4
Tax refunds	-34	-36	-38	-58	-46	-51	-57

Source: Treasury and estimates of the Macroeconomic Unit, MoF

Indirect tax revenue is projected to fall as a share of GDP from 3% to 2.7%. The projection reflects the Government's policy stance to avoid reliance on non-tax revenues, and create incentives for streamlining administrative fees in line with the cost-recovery principle and the applicable legislation on permits and licenses. However, this projection is prone to significant upside risks. A more dynamic implementation of the planned legalization process of unpermitted construction, further auctions of spectrum bands, improved vehicle registration compliance, and increased demand for sand and gravel extraction licenses following intensified public infrastructure investment, can all contribute to higher than projected non-tax revenue collection.

Budget expenditure projections

Total budget expenditure in 2018 is projected to increase by 15% compared to the 2017 revised budget allocations, and 19% compared to the provisional fiscal outcome for 2017. Expenditure growth is projected to continue at a slower average rate of 4.8% 2019 and 2020. Almost 60% of the expenditure hike in 2018 is attributed to the inclusion of capital projects financed through donor lending and SOE asset liquidation proceeds.

In 2018, the budget for operational spending is projected to increase by 8% compared to the previous year's outcome, or 5.6% above the previous year's budget. The same is expected to continue to grow at a much slower rate in 2019 and 2020, by an average of 2.6%. Among other drivers, the increase of operational spending in the 2018 budget reflects a much-needed base adjustment of employment in priority sectors, an increase of 20% in social welfare benefits, the increase of public wages by 4%, the introduction of two new social schemes for fragile society groups, the introduction of an innovation grants scheme to promote entrepreneurship and youth employment, and increased financing for the purchase of pharmaceuticals provided at public healthcare institutions. The increases also reflect a significant increase of the municipal operational budget, which was based on a calculation of municipal grants assuming much higher revenue growth in 2017.¹⁰

¹⁰ The calculation of the general municipal grant is based on revenue projections published under the Medium-Term Expenditure Framework. The 2018-2020 MTEF overestimated tax revenue by more than 100 million Euros, hence resulting with an overestimation of the general grant municipal grant which was not corrected as a result of municipal elections.

Capital expenditure is budgeted to increase by 48% in 2018 compared to the 2017 outcome (38% compared to the revised budget), with a 9% average growth projected for 2019 and 2020. However, in 2018, capital expenditure financed through budget revenues and ongoing project-loans which are not excluded from the calculation of the legal fiscal deficit limit are expected to increase only by 16%, if full capital project execution is assumed. The Government has also approved the amendments to the SOE privatization legislation, with the Assembly expected to approve these amendments in the first half of 2018. This will enable the utilization of 86 million Euros to finance additional capital spending. Also, a number of major public infrastructure projects are expected to commence implementation in 2018 with EBRD and other donor financing, including the rehabilitation of the railway network, the construction of major in-country highway (the Kiev-Zahaq road), and the rehabilitation and improvement of the Kosovo's key irrigation canal.

In 2018 **municipal budget** financing increased by 51 million Euros as compared to 2017. An 11.6% growth in municipal budget funding reflects the increase of the general grant (by 24.4 million, to 173.6 million), the education grant (by 7 million, to 170.3 million), and the healthcare grant (by 4 million, to 48.5 million Euros).

The municipal budget has also increased by 3 million from the planned increase of own source revenues, and by 3.3 million Euros from financing through donor project loans for health and education. The increase in local public servants' wages was also financed in addition to the standard inter-governmental transfers, through a 9.2 million Euro transfer from the central level.

The distribution of expenditure growth consists of: a) salary increases for this level by 15 million b) expenditures on goods and services by 18.7 million and c) increased capital expenditure by 17.7 million. On the other hand, this increase does not include capital transfers from the central to the municipal level, which further increases the level of expenditures dedicated to the municipal level. In total, expenditures for municipal budget funding amounts to 491.2 million Euros, providing significant support for better provision of municipal services as well as promoting local economic development. Over 2019 and 2020, municipal financing is projected to increase in line with tax revenue growth projections.

The central level budget envelope in 2018 will include 272 million Euros of additional spending space as compared to the 2017 budget revision. The financing profile of this additional space is as follows:

- 42 million Euros is financed through increased budget revenue,
- 93 million Euros is financed from concessional lending (with 31 million from ongoing project-loans and 62.1 million from donor lending under the "investment clause"), and
- 86 million Euros are financed through SOE asset liquidation proceeds.

In line with the Government's fiscal objectives, and providing full financing to this program's structural measures, the additional spending space was allocated for increased effectiveness in priority areas. A short description of the distribution of the budget by policy-based budget sectors is provided below.

3.3.2. Expenditure projections for policy-based budget sectors

For the **judiciary, defence, and public security institutions**, the 2018 budget foresees budget appropriations in the amount of 246 million Euros. Judicial sector institutions (the Ministry of Justice, the Kosovo Judicial Council, the Kosovo Prosecutorial Council, and the Academy of Justice) received 13% higher financing compared to the 2017 budget revision. The additional budget enables additional engagement of judges, prosecutors, and professional associates in this sector in line with the reform measure to improve efficiency and reduce backlogs. Compared to current employment, the 2018 budget created room for hiring 690 additional professionals in the Judicial and Prosecutorial Councils. **Public safety and security institutions** (Ministry of Interior Affairs, KSF, and KIA) have also benefited from a 13% increase of their budget, creating a room for higher operational efficiency within this sector.

The budget for central level **health sector institutions** (Ministry of Health and University Hospital Services) increased by 21% compared to the revised 2017 budget. In addition to this growth, the municipal primary health grant also increased by 9%. At the same time, additional contingencies have been appropriated to initiate the implementation of the health insurance sector. For the first time in 2018, total financing for health sector 200 million Euros, and is expected to continue an increasing trend over the medium-term. Planned spending for essential pharmaceuticals is 36% than the previous year. Furthermore, the additional budget has created rooms for the employment of 200 specialist doctors and 100 nurses. Capital expenditures for this sector have also increased by 126%, from 10 to 24.6 million Euros. These funding increases will support implementation of the reform measure to improve the quality of health services.

Budget appropriations for the **education sector** (Ministry of Education, Public Universities, and the Academy of Sciences) increased by 22% at the central level. Given a 4% increase in the municipal grant for education, total public expenditure for education is planned at 260.2 million Euros. Additional planned expenditures for this sector, in addition to supporting new initiatives for quality-enhancement in education, include coverage of significant deficiencies in the operating budget of educational institutions.

For institutions responsible for improving **infrastructure and economic competitiveness**, 2018 budget appropriations increased by 32.8% compared to 2017 budget review, amounting to 374 million Euros. This budget sector includes public infrastructure spending. On the other hand, financial support for agriculture increased by 9%, reaching a total financing portfolio of 60 million Euros. This sector also continues to be strongly supported by donor funding. Overall, to support of economic development programs, the 2018 budget envisages direct expenditure in the amount of over 434 million Euros. However, it should be noted that the expenditures in justice, education, health, environment and good governance have a direct impact on the achievement of the economic development objective.

To support **better governance**, 2018 budget appropriations have increased for General Governance, International Cooperation and Public Financial Management budget sectors. Total funding for these three sectors has increased by 10%, to € 149 million. The Anti-Corruption Agency budget is 10% higher than the revised 2017 budget, while the Public Procurement Regulatory Commission and the Public Procurement Review Body budgets increased by 9% and 10%, respectively. At the same time, the budget has also increased to enable more efficient exercise of the overall audit function. Also, to

support adequate functioning of the state diplomatic service, the Ministry of Foreign Affairs was also increased.

Finally, to ensure that economic growth is comprehensive and strengthens **cohesion and social development**, the budget has increased significantly for institutions under the Employment and Social Affairs sector¹¹ and for Sports and Cultural programs. For these two sectors, total planned budget funding increased by 5%, from € 428 million to € 450.2 million. This additional budget supports a 20% increase social welfare benefits, the commencement of compensation of citizen injured in employment, temporary inheritance of pensions, financial support for paraplegic citizens and their caregivers, as well as financial support for victims of sexual violence. For war veterans, adequate support is provided under the applicable legal provisions, assuming reforms will be implemented by the end of 2018. At the same time, the budget for cultural programs has increased by 36%, and among other initiatives, it foresees the commencement of the construction of the Kosovo National Stadium.

3.3.3. Expenditure projections by economic category

Over the medium-term, and in line with Government fiscal objectives, expenditure projections by economic category reflect increases in all categories, with spending for capital projects marking the highest growth rate and maintaining a high share to total spending.

Table 18. Budget expenditures by economic categories 2014-2020, in millions of Euro

Description	2014	2015	2016	2017 Rev. Budget	2017 Prelim.	2018 Budget	2019 Proj.	2020 Proj.
TOTAL EXPENDITURE	1,480	1,564	1,672	1,811	1,748	2,092	2,183	2,297
OPERATIONAL EXPENDITURE	1,058	1,149	1,221	1,309	1,281	1,386	1,420	1,458
Wages and Salaries	489	525	544	566	550	590	608	626
Goods and services	208	205	203	245	224	265	275	290
Subsidies and transfers	361	418	475	495	506	526	532	537
Recurrent reserves	0	0	0	3	0	4.8	5	5
CAPITAL EXPENDITURE	411	404	444	501	468	694	751	827
with financing from:								
Regular budget sources	411	404	444	498	468	546	603	658
Capital budget reserves				1		0	2	2
"Investment clause" lending				2		62	86	107
SOE liquidation proceeds				0		86	60	60
NET LENDING FOR POEs	0	-2	-7	-11	-9	0	0	0
DESIGNATED DONOR GRANTS	11	13	15	12	9	12	12	12

Source: Treasury, 2018 budget, and estimates of the Macroeconomic Unit, MoF

Expenditure for wages and salaries is projected to increase over the medium term in line with the public wage fiscal rule, with an average of 3.4% per annum, conditional upon the actual estimates of nominal economic growth by the Statistical Agency of Kosovo. The legal public wage bill rule was implemented for the first time in 2018. The 2015 annual estimate of nominal GDP growth was the latest available during the approval of the budget, thus capping wage growth to 4.3%. The government increased wages by 4% and utilized the remaining space to adjust employment. Also, considering this is the first year of the implementation of the wage rule, the 2017 revised budget was used as the basis for the calculation of the wage increase. Underspensing in 2017 is expected to fall in 2018, as open employment positions were redirected towards much needed priority sectors.

¹¹ Ministry of Labour and Social Protection and Ministry for Communities and Return.

Goods and Services: Expenditures for this category in 2018 are expected to increase by 8% in 2018, and at a much slower average rate of 4.6% after 2018. Increases are primarily driven by higher financing required for the maintenance of the existing stock of public infrastructure. The increase also comes because of higher healthcare sector requirements for pharmaceuticals and medical supplies.

Subsidies and transfers: Expenditures for subsidies and transfers will continue to increase during 2018, but growth will strongly decelerate over the medium term. Growth in this economic category reflects the budget impact of new social protections schemes, as well as adequate budgeting of existing schemes, including the indexation of pensions.

Capital Expenditure: While transport infrastructure will continue to have the highest share of capital investment, the 2018 budget has increased the sectoral diversification of these projects. Capital budgets have significantly increased for improving education and healthcare facilities. At the same time, over the medium term, investment in irrigation will also gain a higher share. The budget also foresees significant support for waste-water treatment.

Box 2. The Investment Clause

As part of past International Monetary Fund (IMF) program, the Kosovo Assembly approved the amendments LPFMA fiscal rules, which among others allow the exemption of capital spending financed through donor concessional lending from the deficit limit – the so-called “investment clause”.

Through the Investment Clause, as of January 2018, 7 capital projects have been incorporated in the budget, which are briefly described below:

1. **Rehabilitation of Railway Route 10** – the implementing institution for this the project is the Public Enterprise 'Infrakos', Pristina. The total project cost is expected to be EUR 195.4 million. The EBRD, the European Investment Bank and the European Union are to fund this project. The financial agreements with the EBRD and the EIB have been signed and ratified. The grant agreement from EU contribution is expected to be signed with EBRD in first quarter of 2018. Civil works are expected to commence this year.
2. **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 was ratified during 2017 and as far as implementation is concerned, the project is expected to commence in 2018.
3. **Rehabilitation of regional roads** - the implementing institution for this project is the Ministry of Infrastructure. The Financing Agreement was signed and the project is worth EUR 29 million with EBRD financing. Civil works are expected to commence in 2018.
4. **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 is going to be signed in first quarter of 2018. Civil works are expected to commence in 2018.
5. **Employment and Competitiveness** - 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 is financed by the World Bank and the project implementation is expected to be done during 2018.
6. **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 is ratified by the Parliament. The estimated cost of the project is EUR 20.800 million and the project implementation is expected to commence during 2018.

7. **Treatment of waste water in Prishtina (Construction of the plant for treatment of wastewater in Pristina region)** - the Ministry of Environment and Spatial Planning is the implementing institution for this project. 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.

Table 19. Expenditures in economic categories 2016-2020, as a percentage of GDP

Description	2016	2017 (review)	2018	2019	2020
as % of GDP					
Total expenditure	27.6%	29%	31.3%	31.0%	30.6%
Operational expenditure	20.2%	20.9%	20.8%	20.2%	19.4%
Wages and salaries	9.0%	9.0%	8.9%	8.6%	8.3%
Goods and services	3.4%	3.9%	4.0%	3.9%	3.9%
Subsidies and transfers	7.8%	7.9%	7.9%	7.6%	7.1%
Capital expenditure	7.3%	8.0%	10.3%	10.7%	11.0%
Budget deficit (according to fiscal rule)	-0.9%	-1.5%	-1.8%	-1.5%	-1.0%

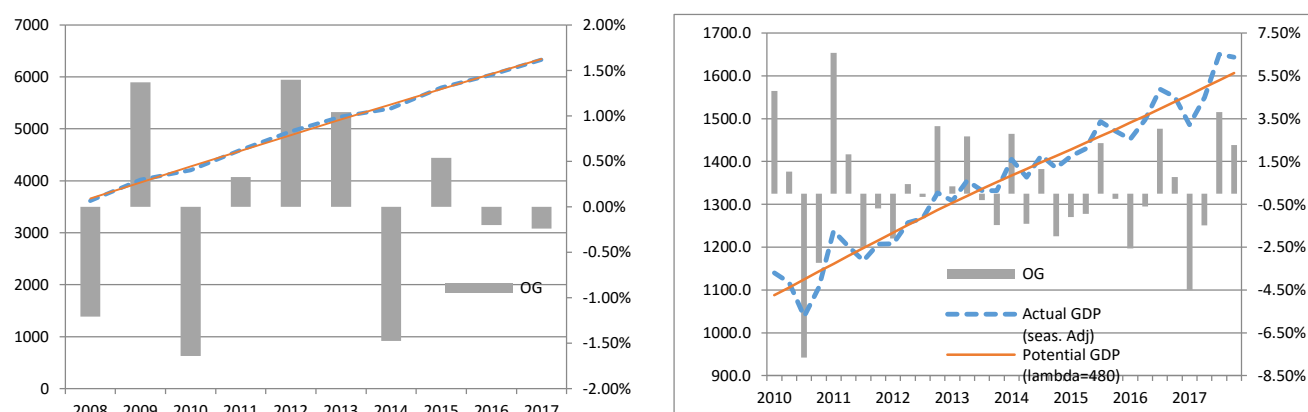
Source: MF, Treasury Department, Macroeconomic Division

3.4. Structural balance (cyclical component of the deficit, one-off and temporary measures, fiscal stance)

Considering the limited availability of GDP data, both of annual and quarterly frequency, the structural balance calculated in this section should be interpreted with a great degree of caution. This year's consideration of the Structural Balance includes 5 more quarters, namely from Q4 2016 to Q4 2017. Following the methodology established in last year's submission, the structural balance is calculated in two steps. First, potential GDP is generated using the Hodrick-Prescott filter applying the same smoothing parameters (as suggested by ECB¹² at $\lambda=480$ for quarterly data and $\lambda=30$ for annual data). Actual GDP, potential GDP and the resulting GDP gap (OG) are presented in the graphs below, for quarterly and annual GDP data.

¹² Bouthevillain et al. (ECB 2001), "Cyclically adjusted budget balance: An alternative approach"

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



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

The second step entails computing the elasticities of the fiscal variables employing the methodology applied by the OECD and European Commission. The elasticity for each individual budget tax revenue is estimated relative to GDP using simple OLS analysis¹³. The elasticity of each revenue category is presented in the table below. On the expenditure side, however, the elasticity is kept at zero considering that there are no unemployment benefits provided by the Government and other budget expenditures are largely incompressible, thus independent from economic cycle fluctuations- an important consideration to be reiterated in this section as it is a constant in the analysis.

Table 20. The elasticity of tax revenues with respect to GDP¹⁴

Revenue category	CIT	PIT	Indirect taxes	Other taxes	Property tax	Weighted average
Elasticity	0.98	1.75	1.9	0.5	1.2	-
Weighted elasticity	0.04	0.12	1.3	0.001	0.01	1.52

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

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

‘Gap’ denoting the output gap, the letters *r* and *g* are ratios of revenue and expenditures to potential GDP, and ϵ is the elasticity of fiscal variables to GDP, applied to annual data in the interest of comparability. The output gap and the computed cyclically-adjusted budget balance are presented in

¹³ 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.

¹⁴ Slight differences in the elasticities presented here in comparison to the previous submission have come about as a result of the added observation points (until Q4 2017)

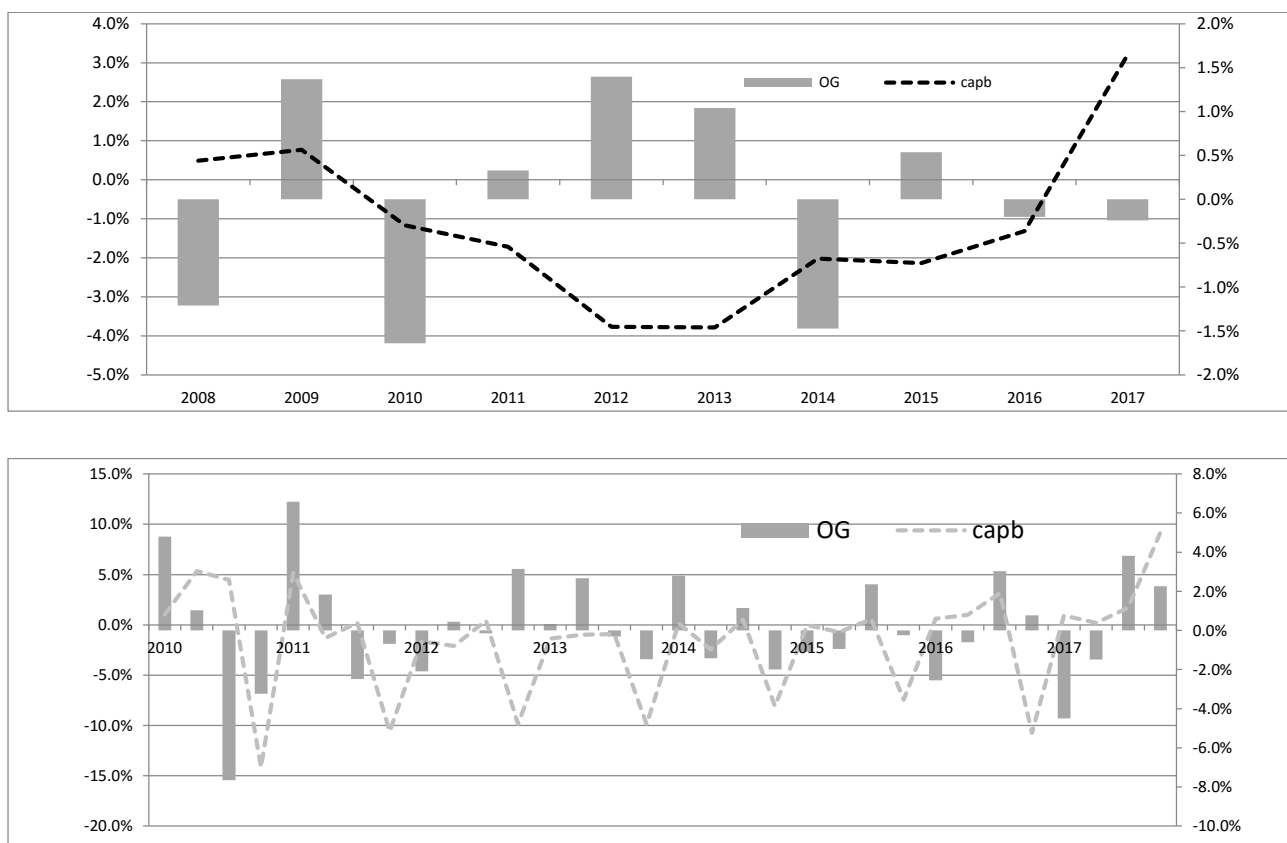
the graphs below. The graph on quarterly data shows that fiscal policy was predominantly countercyclical during periods of negative output gap and managed well to offset the effects of the economic slowdown. Some larger temporary increases in the cyclically-adjusted deficits were not justified by business cycle developments, nevertheless, the deficit remained below 3% of GDP (on average, as it is also conditioned by law for the most part of the period presented) and has been financed by accumulated bank balances from past surpluses.

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

Table 21. The output Gap (OG), Cyclically adjusted budget balance, primary balance and the cyclical component of the balance

Period	OG	capb	Primary balance	Cyclical component
In % of GDP				
2011Q1	6.6%	5.1%	7.9%	2.7%
2011Q2	1.8%	-1.3%	-0.5%	0.8%
2011Q3	-2.5%	0.2%	-0.9%	-1.1%
2011Q4	-0.7%	-10.6%	-10.5%	0.1%
2012Q1	-2.1%	-1.6%	-3.0%	-1.3%
2012Q2	0.4%	-2.1%	-1.9%	0.2%
2012Q3	-0.2%	0.4%	0.3%	-0.1%
2012Q4	3.2%	-9.9%	-7.6%	2.2%
2013Q1	0.3%	-1.4%	-1.5%	-0.2%
2013Q2	2.7%	-1.0%	0.0%	1.0%
2013Q3	-0.3%	-0.9%	-1.0%	0.0%
2013Q4	-1.5%	-9.9%	-10.3%	-0.4%
2014Q1	2.8%	0.2%	1.1%	1.0%
2014Q2	-1.4%	-2.4%	-3.0%	-0.5%
2014Q3	1.2%	0.5%	0.9%	0.3%
2014Q4	-2.0%	-8.1%	-8.8%	-0.8%
2015Q1	-1.1%	0.0%	-0.4%	-0.4%
2015Q2	-0.9%	-0.7%	-1.1%	-0.4%
2015Q3	2.4%	0.6%	1.3%	0.8%
2015Q4	-0.2%	-7.4%	-7.3%	0.2%
2016Q1	-2.6%	0.6%	-0.3%	-0.9%
2016Q2	-0.6%	1.0%	0.7%	-0.3%
2016Q3	3.0%	3.1%	3.9%	0.8%
2016Q4	0.8%	-10.7%	-9.9%	0.9%
2017Q1	-4.5%	0.9%	-0.8%	-1.7%
2017Q2	-1.5%	0.2%	-0.4%	-0.6%
2017Q3	3.8%	1.7%	3.0%	1.2%
2017Q4	2.3%	9.2%	9.4%	0.2%

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



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

Kosovo has adopted prudent Constitutional and legal frameworks to prevent unsustainable debt practices. The Law on Public Debt gives the Minister of Finance the sole authorization to incur debt and negotiate conditions of international debt on behalf of Kosovo. Under the Constitution, these agreements need to be ratified by a two-thirds majority in Parliament. The Regulation for Issuance and Management of State Debts, State Guarantees and Municipal Debts requires for individual loans to be negotiated by a formal team that consists of members from different departments: such as Debt Management Unit (DMU), Legal Department, Minister’s Cabinet, Macro and Budget Department, and the respective Budget Organization.

The Public Debt Law allows the central and municipal authorities to contract debt and issue guarantees; the law was endorsed by the IMF and includes several provisions that ensure fiscal stability, including a ceiling on public debt (40 percent of GDP) as well as tight limitations on municipal borrowing. The Public Debt Law mandates regular reporting to the Assembly (Article 15) through the preparation of a State Debt Program, which includes the annual and medium term debt strategy to be submitted to Government for approval and to the Assembly for information. The debt management is in full compliance with these requirements. The Debt/GDP ratio is still at satisfactory levels.

An amendment was added to the Law on Public Finance Management and Accountability (LPFMA) which limits the annual budget deficit to no more than 2 percent of forecasted GDP. Another amendment to the LPFMA was added in 2015 which allows the government to contract debt in excess

of the 2 percent rule, given that the financing is provided by international financial institutions and is dedicated for capital projects.

The issuance of domestic government securities is authorized by the Law on Public Debt, and it is regulated by the regulation on Primary and Secondary Market for Government Securities. The DMU has amended the regulation in order to reflect the needs for trading in the secondary market. A new regulation on issuing government debt and guarantees has been approved in 2013 and it sets the procedures for negotiating and contracting external debt as well as issuing domestic debt. The debt management is in full compliance with these requirements. During 2018, the MoF plans to revise the Law on Public Debt as well as the secondary legislation which is currently in power for both domestic and external debt. In the Table below are presented the debt figures per type of debt along with the Debt/GDP ratio. In accordance with the Debt Law, in calculation of the Debt/GDP ratio state guarantees are included.

Table 22. Total Government Debt, in millions of euro (unless otherwise indicated)

Description	2012	2013	2014	2015	2016	Est. 2017
International Debt	336.6	323.8	326.4	371.2	373.4	421.4
Domestic Debt	73.3	152.5	256.5	377.8	478.6	579.3
Total Government Debt	409.9	476.3	582.9	749.0	852.0	1,000.7
State Guarantees	0.0	0.0	10.0	10.0	20.0	44.0
Debt/GDP (includes state guarantees)	8.44%	9.10%	10.63%	12.98%	14.44%	15.69%

3.5.1. *Contingent liabilities*

Up until 2017 the total amount of state guarantees was 20 million. During the second trimester of 2017, a new state guarantee was issued in the amount of 24 million, bringing the total amount of guarantees to 44 million.

3.6. Sensitivity analysis and comparison with the previous programme

In the context of fiscal stability, the low growth and high growth scenario provide limited changes to the baseline assessment of the fiscal space. Under the low growth scenario, revenues would underperform by an average of 2.7% relative to current budget projections. Under high growth scenario, revenues would over perform by 0.5% relative to baseline projections for 2018. Also, for the period 2019-2020, under the low growth scenario revenues would underperform in average of 4.6%, relative to the projections, under high growth scenario, revenues would over perform by 1.9%, relative to forecasted budget projections.

3.6.1. *Comparison with previous programme*

For a full comparison with the previous programme please consult Table 10 in Annexe I.

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, namely:

Wage rule: In January 2018, the Government of Kosovo approved a proposal to increase salaries in accordance with the Law on Public Financial Management and Accountability, which was amended in 2015, this law includes the wage rule linking the public wages with a GDP nominal growth rate. Details regarding this rule are presented in last year's submission, or the law itself.

3.8. Sustainability of Public Finances

3.8.1. Debt Sustainability in Kosovo

Kosovo's economy continued to experience positive economic growth driven by increased consumption and investments, as well as exports of goods and services. Since the first domestic debt issuance in 2012, Kosovo continues to have the lowest debt level compared to the countries in the region. However, the debt level is gradually growing as a result of government objectives to upgrade public infrastructure. Although there is a growing stock of debt, to ensure control over debt evolution, the government has adopted a fiscal rule that limits the overall deficit at 2% of GDP, with the intention to stabilize debt levels below the threshold allowed by the law (i.e. 40% of GDP). Given the low level of debt to GDP and the need to further upgrade the country's infrastructure, during 2015 an investment clause was introduced to allow the Government to finance additional growth boosting projects mainly through IFIs (valid only until the stock of debt reaches 30% of GDP). Due to the fact that Kosovo has immense needs for public capital projects, this exercise (DSA) is conducted by examining two main scenarios, the baseline and the investment clause scenario followed by further sensitivity analysis of debt subject to changes in the underlying macroeconomic indicators.

The DSA is conducted using the tool developed by the macro unit within the Ministry of Finance, and several assumptions have been made on the baseline macroeconomic indicators as well as the debt indicators. The debt levels are examined using the risk indicators compiled by the World Bank-IMF for countries at the medium policy performer category¹⁵, as follows:

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

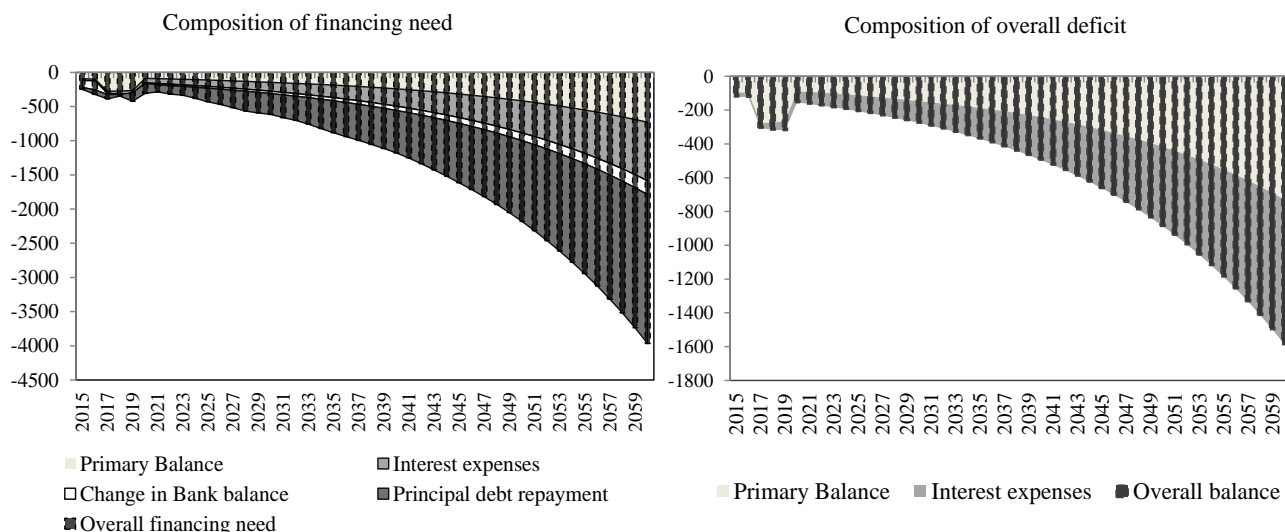
Assumptions on main macroeconomic indicators and debt are as follows:

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

Graph 24 illustrates changes in the composition of deficit and financing need over the forecast horizon under the baseline scenario. The share of interest expenditures relative to the share of primary deficit remains low in the early years. However, as the financing demand grows and the debt increases, interest expenditures will continue to capture an important fraction of the overall deficit. Also, the contribution of the deficit to the overall net financing need appears low relative to the contribution of debt servicing in total. Interest expense as well as debt stock are main factors in setting overall deficit.

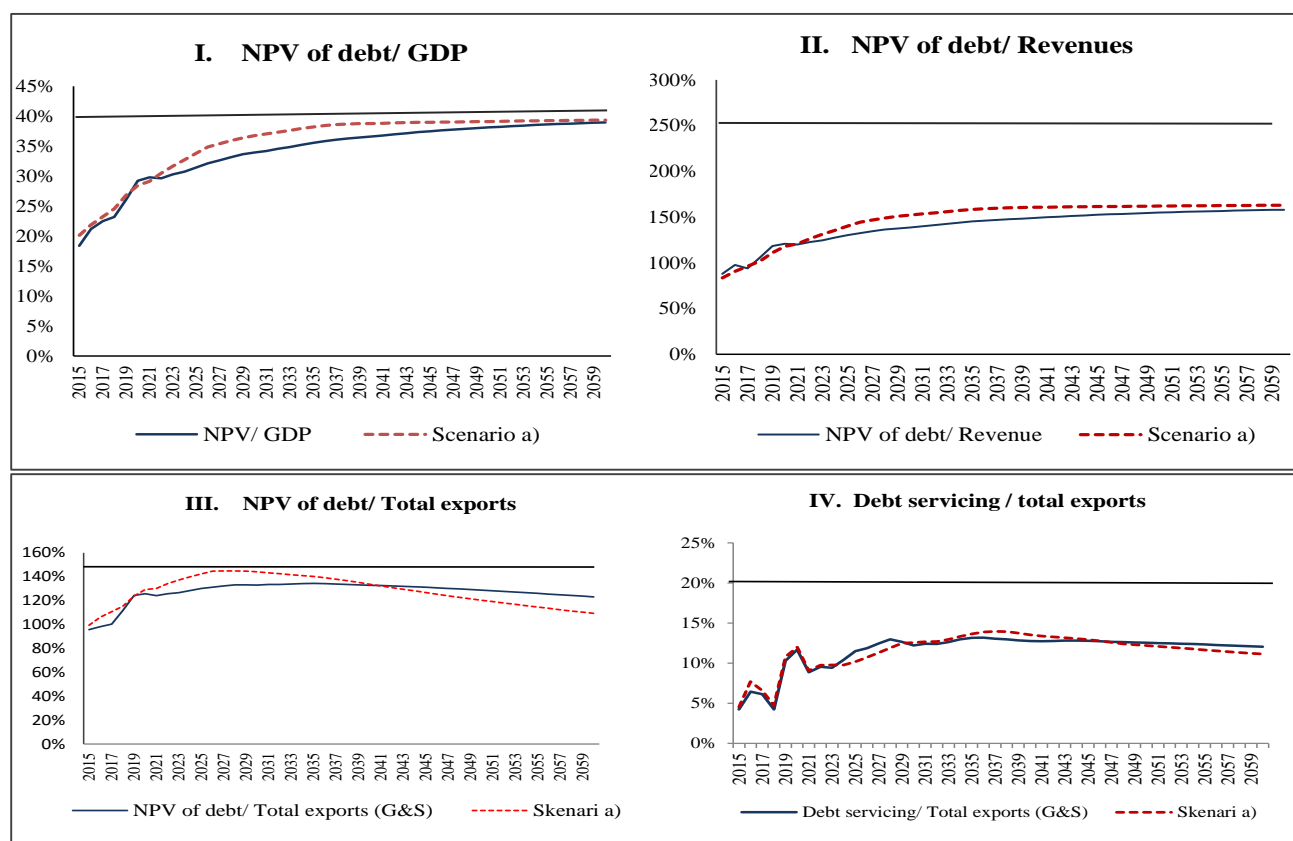
¹⁵ World Bank's Country Policy and Institutional Assessment (CPIA)

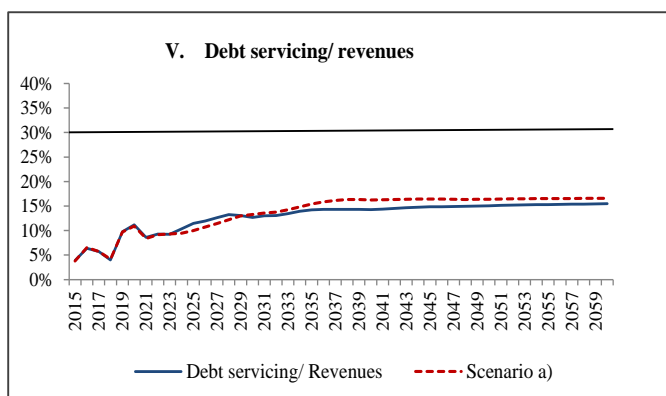
Graph 24. Composition of overall deficit and financing need



The baseline scenario suggests that the country would not experience debt distress at least throughout the forecasted horizon. The two main indicators, liquidity and solvency, stand below the threshold (see graph 25), that indicates that the country is not expected to experience debt service distress. Under the baseline scenario, the debt to GDP ratio as well as debt to total exports stays under the thresholds of 40% throughout forecasted period. Moreover, the trend of debt to total export is expected to improve after a period of 10 years, amongst others, possibly reflecting results of improvements in doing business reforms.

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



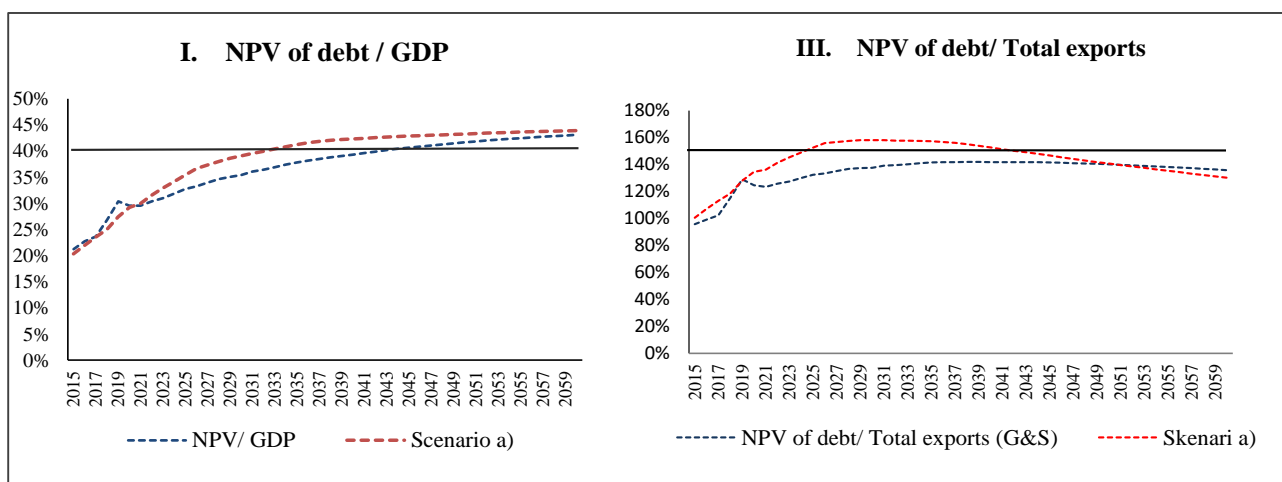


Source: Macroeconomics unit calculations

As depicted on the graphs above, introduction of the investment clause shifts the debt level towards the threshold. Moreover, it is worth mentioning that GDP growth reflects growth potentials from additional investment. In order to have a clearer picture of debt level shifts, additional stress test exercises were introduced and are shown in the graph 26 depicted below. The exercise includes changes to the present value (PV) of debt and its impact on total exports.

Lowering nominal GDP growth by 1 p.p. compared to the baseline: This scenario is built on the assumption of a permanent 1 p.p. change in the nominal GDP growth. As specified above, the fall in GDP by only one p.p. increases the debt levels above the specified boundaries, suggesting that the threshold is reached by 2030 under the investment clause scenario, and 10 years later under the baseline scenario, showing that later on the trend of two scenarios converge.

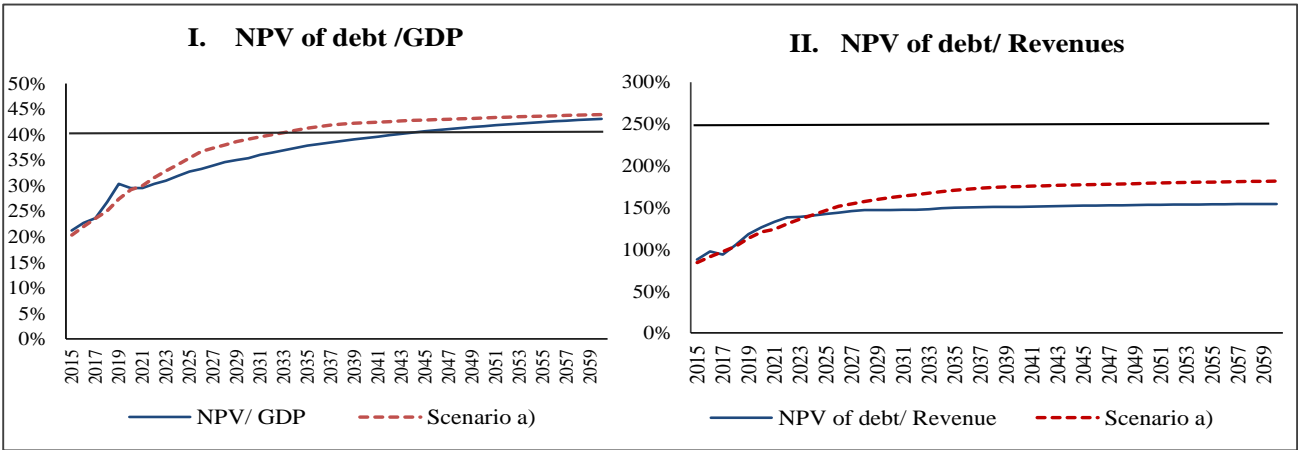
Graph 26. Scenario analysis: Decreasing the permanent GDP growth by 1 p.p.



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

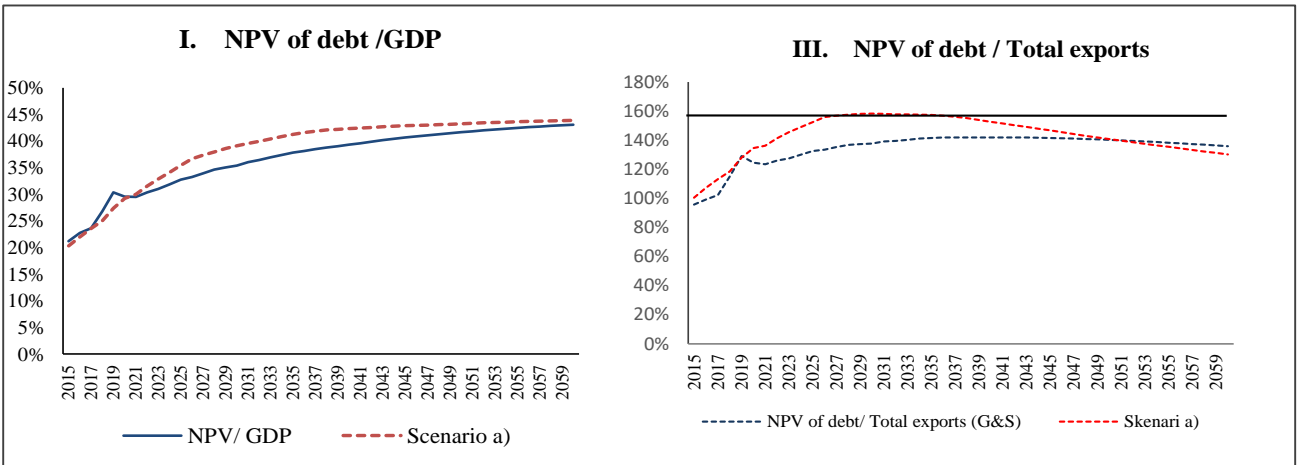
Considering that a significant amount of financing need stems from the necessity to retain adequate levels of bank balances, the analysis was conducted to see the movements in debt levels if the bank balance is reduced to 3% of GDP while retaining the nominal GDP growth at 5%. The graphs below, suggest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

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



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

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

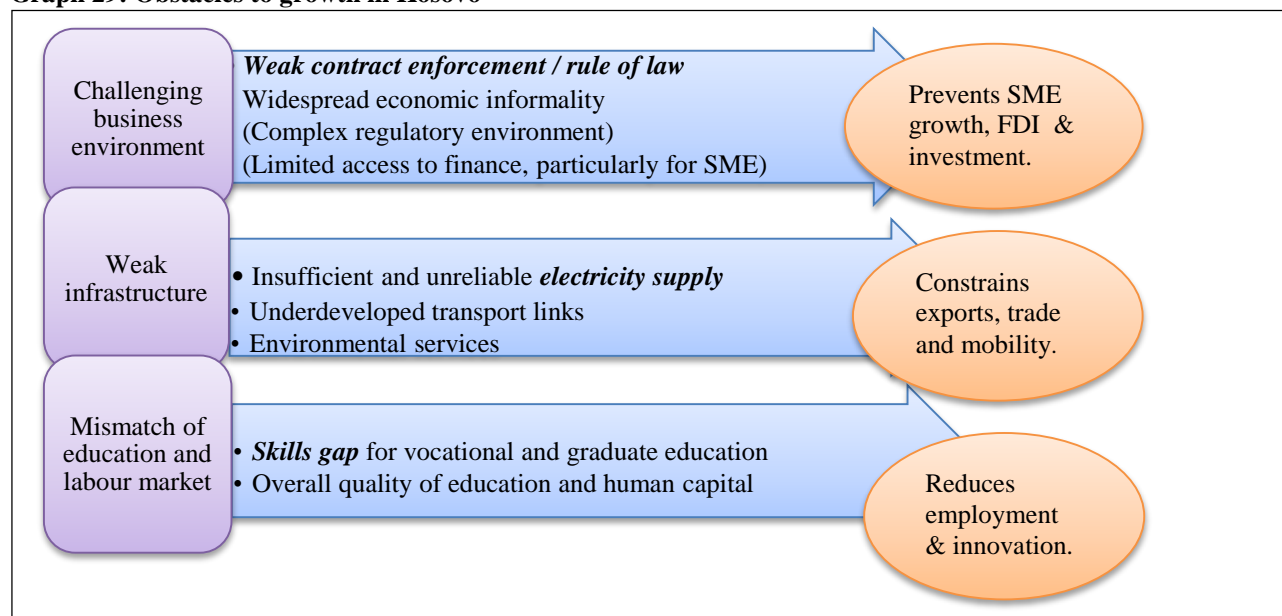


4. STRUCTURAL REFORM PRIORITIES FOR THE PERIOD 2018-2020

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. It updates the analysis with new data and studies, including a new Constraints Analysis published in 2017.¹⁶ Compared to the last ERP, access to finance is no longer considered a binding constraint and the regulatory environment has improved. This means that other constraints have now become relatively more important to address.

Graph 29: Obstacles to growth in Kosovo *



* *Constraints in bold* are considered to be *binding*, while others are important and may become binding in future. *Constraints in parentheses* are considered to have weakened.

Access to finance is no longer a binding constraint. Since 2014, when the first constraints analysis for ERP was made, nominal interest rates for commercial loans declined from over 10% to 6% in September 2017, and the annual growth of loans to non-financial corporations picked up from 3% to 9.3% in the same period. Concentration of the banking sector, measured by the share of assets of the 3 largest banks, declined from 67% in 2014 to 61.4% in October 2017. These favourable developments, supported by now fully operational Kosovo Credit Guarantee Fund, and Kosovo's recent membership in COSME programme, allow the conclusion that access to finance is no longer a binding constraint, but it remains important and will be further addressed by measures to secure property rights over real-estate (which could be used as collateral) and to improve court efficiency in economic disputes (which will reduce the risk premium on interest rates due to weak contract enforcement).

Business environment strongly improved, but challenges remain. The 2018 Doing Business Report named Kosovo as one of the 10 economies with most notable improvement worldwide. Since 2014, Kosovo's overall rank has improved from 86 to 40. Most progress was achieved in areas of starting a business, getting credit and trading across borders. Significant improvements were achieved in enforcing contracts and resolving insolvency, but a large gap towards best performers still exists. Little

¹⁶ Kosovo Constraint Analysis, Millennium Challenge Kosovo Office (in the Office of the Prime Minister), 2017.

progress was made with construction permits, property registration, getting electricity, paying taxes and investor protection.

Informal economy is estimated to have shrunk, but remains large and an important obstacle. A recent study¹⁷ 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.¹⁸ The value of uncollected taxes was estimated at 107 mio EUR or 1.8% of GDP. The sectors most affected by informality were found to be construction, trade, real estate, professional and accommodation services, and agriculture.

Weak contract enforcement and rule of law remain a binding constraint. The number of uncompleted cases at all courts was reduced by 9.4% during 2016, but with large deviations by types of cases and individual courts. For economic disputes at basic courts, the number of unsolved cases was reduced from 1159 at the end of 2015 to 1143 at the end of the third quarter of 2017 (-1.4%). Average length of procedure for economic disputes was reduced from 1188 to 658 days in the same period. Marginal improvements have also been recorded by international indicators; for example, in the World Bank Governance Indicators, which are normalized to the range from -2.5 to +2.5, Kosovo's scores for both rule of law and control of corruption have improved from -0.5 to -0.4. Similarly the corruption perception indicator of Transparency International has improved from 33 to 36 points. Despite these incremental improvements and indications that negative perceptions may be exaggerated (see MCC Constraints Analysis), weak contract enforcement and the rule of law in general remain a binding constraint.

In infrastructure, insufficient and unreliable electricity supply is still a binding constraint. The new power transmission line to Albania built in 2016 improved security of supply and connected the country with regional electricity markets, but will only become operational after Kosovo is admitted to ENTSO-E. Accordingly indicators of reliability of supply show no improvement yet.¹⁹ In a recent survey by Kosovo's Chamber of Commerce,²⁰ almost 90% of companies stated that improvements to the KEDS network did not help their competitiveness, and two thirds found the cost of electricity and the tariff system to be a major problem for their business.

Investments in ***road and railway network***, important for facilitating trade flows and labour mobility, continued during 2017. Compared to electricity supply, underdeveloped transport links are considered a less binding constraint.

Environmental services have been recognized as an emerging constraint. Kosovo faces high levels of environmental contamination from a variety of sources, including electricity production, mining and industry, leaded gas vehicles, and unregulated or illegal solid waste removal. All rivers in Kosovo are classified as excessively polluted and there are very few municipal wastewater treatment plants. According to the MCC Constraints Analysis, some firms reported having to do their own wastewater treatment, but environmental contamination did not seem to affect farmers and firms did not complain about health issues preventing people from work. Environmental issues certainly affect health and quality of life of people, while their negative impact on competitiveness may become more pronounced

¹⁷ Assessment 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.

¹⁸ Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, report by the EU-funded project Strengthening Kosovo's Capacity to Combat Money Laundering and Corruption, 2014.

¹⁹ According to the 2018 Doing Business Report, system average interruption duration index (SAIDI) is 62.1 and system average interruption frequency index (SAIFI) is 34.7, which is similar to values in the 2016 report.

²⁰ Energy Sector in Kosovo – "Millions Euro Barrier - Electricity", Kosovo's Chamber of Commerce, 2017.

in future. Nevertheless, the measures included in this ERP also address some of the environmental issues (increased energy efficiency, new electricity generation capacities using RES or a cleaner coal-plant technology, and waste-water treatment investment prioritized under the investment clause).

Skills gap between education/training and labour market needs remains a binding constraint for growth and employment. A survey conducted at the end of 2015 confirmed earlier findings of the 2013 BEEPS Report.²¹ 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. Other competences found lacking were language, computer and so called soft skills. 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 2015 PISA study. This shows that the problem of the skills gap is related to the levels of educational attainment, to specific competencies and skills, and to the general quality of education.

There are **other important obstacles to employment**. 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. Prevalent use of informal channels by firms when seeking workers reduces the scope for job placement by employment services. Remittances increase the level of the reservation wage and widespread 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, discourage female labour force participation.

4.2. Summary of reform priorities

The following section provides 20 priority structural reform measures identified for the Economic Reform Programme covering the period 2018-2020. Selected measures represent existing and new strategic priorities that Kosovo has identified as most important in order to address key obstacles to growth and competitiveness as outlined in the section 4.1. The measures presented here have been elaborated within a comprehensive policy dialogue across central and local government structures, private sector and civil society. In general, they derive from the Government Programme 2017-2021, the National Development Strategy 2016-2021, National Program for Implementation of SAA, European Reform Agenda and relevant sector strategies of the country. Many measures include continuous activities that need to be implemented every year. This means that once the necessary reforms are accomplished and these activities become part of the regular policy implementation, the reforms measures will be removed from ERP, as is the case this year with the reform to establish the Kosovo's Credit Guarantee Fund.

I. Public Financial Management

Measure #1: Improvement of public procurement through application of electronic procurement - Addresses development and promotes obligatory use of electronic public procurement by central and local authorities, through an adequate system of information and communication technology, in order to increase efficiency and transparency.

II. Energy and transport market reform

Measure #2: Reducing energy consumption through energy efficiency measures - Aims to contribute to achieve the energy saving target of 9%, through the implementation of EE measures

²¹ Reported in A. Cojocar: Jobs Diagnostic Kosovo, WB Jobs Series Is. 5, 2017.

and renewable energy sources in public and residential sector, and by providing legal framework for increased EE in the private sector. The measure is related to Policy Guidance #5.²²

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

III. Sectorial Developments – (Agriculture, Industry and Services)

Measure #4: Investments in the agricultural infrastructure and agro-processing - Addresses the challenges related to agricultural infrastructure, diversification of products, coverage of the irrigation system, with a focus on supporting investment projects in priority sectors.

Measure #5: Expanding farms through consolidation and regulation of agricultural land - - By implementation of land regulation and projects for voluntary consolidation of agricultural land, the aim is to increase the average farm size, facilitate access to cadastral parcels, and rational use of agricultural land in general.

Measure #6: Developing private sector competitiveness through support to industrial SMEs - this measure aims to improve the competitiveness of SMEs by placing an emphasis on mechanisms that: improve co-operation between SMEs, increase networking with other regional and EU companies, improve public and private sector dialogue, and identify and support potentials for improving the value chains.

Measure #7: Development of tourism products in Kosovo touristic regions - aims to increase the tourism offer through the identification of tourism products, promotion of product development in order to enter the market, cooperation between relevant actors, implementation of tourism standards and improvement of legal infrastructure according to European practices.

IV. Business environment and reduction of informal economy

Measure #8: Adoption of evidence-based policies and reducing administrative burdens - the purpose of the measure is to introduce ex-ante policy assessment, simplify the legislation and the regulatory system, including reduction of administrative burden for businesses.

Measure #9: Securing property rights by addressing informality in the immovable property sector – the main objective is to strengthen the system of property rights on immovable property in order to ensure citizens' access to efficient and financially affordable administrative processes related to establishing and transferring property titles. By increasing security of property rights and enabling use of property as collateral, this measure contributes to implementing Policy Guidance #3 by addressing the underlying causes for insufficient and costly access to finance.

Measure #10: Increase judicial efficiency through reduction of court case backlog - This measure aims to improve the judiciary's efficiency in dealing with economic disputes by reducing the case backlog and improving the case management system.

Measure #11: General Inspection Reform - This measure aims at overall reform of the inspection system in order to improve the efficiency and coordination of the state inspection system and reduce the unnecessary inspection burden for businesses.

V. Innovation, Research and Development (RDI) and Digital Economy

Measure #12: Improving entrepreneurship and innovation environment - aims to establish a policy framework, legal basis and capacities for research and innovation, increasing the level of cooperation between research community and industry as well as increase participation in European and regional projects and programs, and promotion of innovation through training programs and consultancy, creation of funds to support development sectors and SME support.

Measure #13: Expansion of relevant ICT network infrastructure for socio-economic development - This reform aims at improving the ICT access and use through the expansion of broadband infrastructure in uncovered areas, strengthening human capital, and supporting digital businesses and digitalization of other businesses.

²² Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, 23 May 2017.

VI. Trade-related reforms

Measure #14: Trade Facilitation - Increasing the cost-effectiveness of international trade transactions - Aims to increase cost effectiveness of international trade transactions by simplifying and standardizing all border formalities and procedures, with a view of harmonizing practices in accordance with multilateral agreements.

Measure #15: Further development of quality infrastructure and strengthening market surveillance with a focus on construction products – Increasing safety and quality of construction products and services provided in the domestic market as well as integration into the EU and other markets; the elimination of technical barriers to trade, effective market surveillance by market surveillance authorities.

VII. Education and skills

Measure #16: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula - This measure aims to harmonize vocational education programs with labour market demands by developing new occupational standards and reviewing curricula based on the dialogue with business sector. The measure addresses policy guidance #6.

Measure #17: Reform in Pre-University Education - The objective of this measure is the development and implementation of competency-based curricula, teachers' professional development system and performance assessment through the licensing system for teachers. This measure addresses policy guidance #6.

Measure #18: Increasing the Quality and Competitiveness in Higher Education – the objective of this measure is to promote quality and competitiveness of HEIs by developing mechanisms for quality assurance, ranking, quality-based funding, linking higher education programs to labour market demands and improving career orientation services. This measure addresses policy guidance #6.

VIII. Employment and Labour markets

Measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship – the measure aims to achieve the full functionalization of the Employment Agency, to provide quality services for transition from vocational training to employment, and to expand active labour market measures focused on the youth, women and entrepreneurship promotion. This measure addresses policy guidance #6.

XI. Social inclusion, reduction of poverty and equal opportunities

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

4.3. Analysis by area and the structural reform priorities

4.3.1. *Public financial management*

a. Analysis of main obstacles

Current situation: The latest (2015) PEFA Report noted significant improvement in Kosovo's Public Financial Management which continues in line with the on-going PFM Reform Strategy. Regarding public procurement, it is considered that the legal framework is largely aligned with the EU acquis and the Public Procurement Directive. The institutional framework is established with a clear division of responsibilities even though the financial and human capacity of institutions limits their ability to exercise all functions and duties.

Public procurement share in GDP was 13.5% in 2015 and 13.7% in 2016. Based on the Audit Report (2016), during this year 10,015 contracts had been awarded with a total value of 425 million or about

one quarter of the budget. Out of these contracts, 84.6% were awarded through open procedures, a 7% increase from 2015. Contracts with one source or negotiated procedure with prior publication of a notice may apply only in cases determined by law.

Reforms for implementation of e-procurement and promotion of centralized procurement have already started, but further efforts are needed in these areas. The application of e-procurement system is a positive development; however this process has faced some difficulties, such as lack of awareness and capacity building for government institutions and economic operators, including some unexpected breakdowns which often hindered the flow of procedures.

Regarding internal control, the overall framework is established and key elements for a solid internal control framework are set, including legislation, guidelines, certification and quality assurance. Overall, implementation of rules and procedures for internal control in budget organizations are not following the overall framework. Moreover, core aspects of internal control, such as risk management and regular reporting procedures, are still not put into practice.

With regard to external control, the law on the National Audit Office regulates the independence and organization of National Audit Office in accordance with international standards. Appropriate audit manuals and internal quality assurance and security arrangements are consistent with ISSAI. However, no quality control has been carried out to assess effectiveness of external audit function, although an easy ADR assessment was conducted by the Swedish National Audit Office in the first half of 2017. The Parliament uses the annual report of NAO for oversight of the executive; however the level of implementation of the recommendations remains low and no adequate instrument exists that ensures that recommendation of the NAO are followed up.

Structural obstacles: From the point of view of economic competitiveness, the main structural barriers to public finance management remain largely in the field of public procurement. These obstacles are related to: increasing efficiency, integrity, accountability, control over the implementation of public procurement policies and legislation, developing professional staff, particularly in the implementation of e-procurement, increasing transparency and public confidence in public procurement procedures, and full implementation of electronic tendering process. Lack of transparency and application of advanced public procurement procedures increases the misuses and causes exclusion of small businesses from competition for public contracts. The resulting loss in infrastructure and services, either in quality or range, typically has the heaviest detrimental impact on the most disadvantaged in society, which largely depend on public services. Abuse in public procurement may diminish public confidence in the competitive process and undermine the benefits of a competitive marketplace.

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

1. Description of measure:

In continuity of reforms from ERP 2016, the main focus of the measure is on full implementation of obligatory e-procurement and encouraging economic operators to participate in tenders. In parallel, each year at least 3 centralized procurement procedures will be carried out at the government level and 7 at municipal level. PPRC will implement 100% monitoring of contract notices and of procurement activities (based on request) and monitor the contract management processes in 30 contracting authorities each year. The measure is in line with the NDS, and PFM Reform Strategy.

During 2017, in addition to development and enforcement of e-procurement system for all budget organizations, secondary legislation for its implementation has been drafted and approved, including user guidelines and manuals. The PPRC has increased its internal capacities and has continued to train procurement officers.

a. Activities planned in 2018: 1) Full implementation of electronic procurement in all budget organizations; 2) Capacity building of public procurement officers and economic operators on public procurement and application of e-procurement; 3) Development (advancement) and maintenance of the electronic procurement system.

b. Activities planned in 2019 and 2020: 1) Obligatory e-procurement used by all budget organizations; 2) Maintenance of the electronic procurement system; 3) Provide on-going training on public procurement.

2. Expected impact on competitiveness / rationale of the measure

Efficient and transparent e-procurement will increase confidence in fairness of procedures and simplify participation of small businesses. Increased competition for public contracts will lead to more efficient use of public funds by increased the competitiveness which is one of the basic principles of the Public Procurement Law.

3. Estimated cost of the activities and the budgetary impact.

The total estimated cost for implementation of this measure (2018- 2020) is expected to be around €900,000. The funding sources are as follows: € 269,253 for 2018, € 269,253 for 2019 and 269,253 for 2020. Funds are budgeted under 2018 Budget of Kosovo, PPRC budget.

4. Expected impact on employment and gender

Impact on social outcomes will be indirect. Easier access of SMEs to procurement contracts may result in increased employment by SMEs. Increasing cost efficiency of procurement will increase quantity and quality of goods and services, provided to citizens through public procurement contracts.

5. Potential risks

The main risk is related to the need to establish a reliable system of information technology that will enable the performance of procurement procedures.

4.3.2. Energy and transport market reform

a. Analysis of main obstacles

Current situation: Despite the significant improvement of all performance indicators in energy sector including thermal energy, we are still far from ensuring sustainable energy supply for businesses, services and households. Significant improvement in both quantity and quality heat supply for citizens of Prishtina is achieved. However, the fact that supply sources are insufficient, old generation capacities present, and the lack of investments in major projects of new generation capacity and rehabilitation of existing ones, make the situation unstable. Adding to this fact also that almost all the countries of the region are net importers of electric energy, the need to take immediate measures for creation of stability of supply and diversification of resources becomes urgency.

Regarding the first phase of Power Plant Project “Kosova e Re”, agreements on technical issues have been reached as well as finalization of commercial agreement - (signing of eight trade agreements). At the same time, work is under preparation to finalize the second phase of financial closure and contracting (Engineer, Procurement and Construction). Also, according to the project, the Government of Kosovo, in cooperation and funding from USAID, is working to finalize relevant studies for Engineer, Procurement and Construction.

Despite the introduction of numerous legal and regulatory measures for full market liberalization, their effects continue to be very limited because the Transmission Operator System does not control cross-border electricity flows as a result of non-implementation of the Agreement on Energy between Kosovo and Serbia, which doesn't allow for Kosovo to benefit from regional market integration.

Energy Efficiency has been identified as a very high potential for energy savings, mainly in housing sector, the planned energy efficiency measures have not been achieved by the planned period 2013-2015 plan, but given the projects that are taking place in the field of energy efficiency and those that will be developed by 2018, we believe that the overall energy saving plan foreseen by 2018 of 92 ktoe will be achieved. The Government in April 2017 adopted the Energy Strategy, to be adopted by the Assembly, which foresees concrete measures for achieving sustainability of electricity supply, thermal energy and natural gas for the next ten year period.

In Transport, Kosovo's geographic position underscores the importance of developing an efficient road network, integrating it fully with that of neighbouring countries and the region. Roads represent more than 90% of the transport infrastructure by length, and 98% of service delivery (WB, PFR, 2014). Kosovo has a "high density of road transport", but when measured as "average length of road for thousands of people", the density of Kosovo roads is average (WB, PFR, 2014).

In railway sector, SEETO has defined the main railway corridors for south-eastern Europe, where part of these corridors is Kosovo with the railway line 10 (Leshak-Hani i Elezit) which belongs to the SEETO comprehensive network and connects Kosovo with Serbia and Macedonia. Kosovo's railways extend across the entire territory of Kosovo, with a length of 335 km of open railway line, with a length of 105 km to stations and 103 km of industrial strips, however to enable better transport services the railway lines should be modernized. Kosovo has a law on railway which is in accordance with EU legislation and which enables the opening of the rail market for provision of services for transport of passenger and goods.

In air transport sector, Kosovo does not have a law on transport of goods, but this transport is carried out along with passengers transport. The development of air transport is done on the basis of an agreement on the use of the common European space. Legislation regulating the field of air transport is harmonized with that of the EU; therefore this legislation enables competitiveness and market liberalization without barriers.

Structural obstacles: Although there has been improvement in the current situation since last year, instability of electricity supply still comes as a result of: (i) Insufficient and outdated energy generation capacities; (ii) Outdated distribution network; (iii) low diversity of energy sources which aggravates the burden on electricity to meet the needs for space heating and other needs; (iv) inefficient use of electricity and lack of incentives for efficient electricity use by businesses and households; (v) non-functioning of open energy market and tariff subsidies that are the detriment to the business sector.

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

Impact of structural obstacles: Unstable energy supply negatively affects competitiveness, increases cost and adversely affects businesses. Reliability of electricity supply is a significant factor in the decision-making process, whether for establishing new businesses or investing in expansion of existing ones. The price of electricity is another important factor affecting competitiveness. Currently, the prices of electricity in the industry sector of Kosovo are higher compared to most countries in the region. Limited opportunities for investment in energy sector affect the overall economic and social development of the country. Another obstacle is the continuation of Serbia's obstruction in energy sector. In the area of transport, inadequate international links add to the time and cost of transport and travel, thereby reducing trade turnover and labour mobility with negative impact on employment. Inadequate international rail links reduce the level of passenger and goods and have a negative impact on the development of competition in railway transport, which overloads the road network.

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

1. Description of measure:

This is a continuation of ERP 2017-2019, and its purpose is implementation of energy efficiency measures in the public and household sectors contributing to reduce energy consumption, aiming to achieve energy saving targets of 92ktoe or 9% of final consumption energy. Energy efficiency measure is also linked to Kosovo's broad strategic framework, including EE National Action Plan, NDS and the Energy Sector Strategy. Regarding implementation of activities during 2017, the following has been undertaken: a) EE in Public Service Buildings - installation of central heating systems in 4 schools, b) A sample of Municipal Action Plans for EE for 6 Municipalities has been drafted; c) A template for drafting EE Municipal Plans for 18 municipalities has been drafted; d) The project design company for education sector is selected in 5 municipalities, which will implement EE measures in 30 buildings. e) The project on implementing EE measures in 5 central level buildings has been completed. Until 2016, EE savings targets of 4.01% have been achieved.

a. Activities planned in 2018: 1) Approval of the Law on Energy Efficiency; 2) Evaluation and decision-making on modalities of the financing mechanism to support investments in Energy Efficiency within the EE Law; 3) Implementation of energy efficiency measures in 60 public buildings (these measures include: external thermal insulation of the building, replacement of exterior doors and windows, roof regulation and thermal insulation, efficient bulb inserts, installation of the central heating system, etc.), 13 buildings will be financed by KB, 32 buildings will be financed by WB and 15 buildings will be financed by German Government; 4) Feasibility study for the construction of district heating systems for Drenas, Kastriot, Prizren, Peja, Ferizaj, Gjilan, Mitrovica and Zvecan, funded by the Donor; 5) Expansion of the Co-generation Network for the Municipality of Prishtina; 6) Construction of central heating plant in Gjakova with biomass energy source; 7) Installation of Power Management Software in 6 municipalities for all facilities managed by the Municipality (Pristina, Podujeva, Mitrovica, Gjakova, Drenas, Prizren).

b. Activities planned in 2019: 1) Energy Implementation of energy efficiency measures in 61 public buildings (these measures include: external thermal insulation of the building, replacement of exterior

doors and windows, roof regulation and thermal insulation, efficient bulb inserts, installation of the central heating system, etc.), 21 buildings will be financed by KB, 25 buildings will be financed by WB and 15 buildings will be financed by German Government; 2) Development of the technical design for the implementation of the district heating systems for Drenas, Kastriot, Prizren, Peja, Ferizaj, Gjilan, Mitrovica and Zvecan

c. Activities planned in 2020: 1) Energy Implementation of energy efficiency measures in 52 public buildings (these measures include: external thermal insulation of the building, replacement of exterior doors and windows, roof regulation and thermal insulation, efficient bulb inserts, installation of the central heating system, etc.), 27 buildings will be financed by KB and 25 buildings will be financed by WB; 2) Implementation of district heating systems for Drenas, Kastriot, Prizren, Peja, Ferizaj, Gjilan, Mitrovica and Zvecan;

2. Expected impact on competitiveness / rationale of the measure

Implementation of EE measure will contribute to reducing domestic consumption. Reducing energy consumption will serve to reduce energy costs and as a result will help businesses and boost private sector investment. EE can help address energy security, reducing public spending on energy and environmental impacts from energy use.

3. Estimated cost of the activities and the budgetary impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €35,740,000. Out of the total amount, €2,750,000 are planned under Kosovar Agency for Energy Efficiency (MED), annually allocated: €750,000 for 2018, €1,000,000 for 2019 and 1,000,000 for 2020. External financing in the 2018 budget include: €6,560,000 for 2018, (including loans for municipalities of Prishtina, Gjakova, Gjilan, Ferizaj) €6,081,000 for 2019 and €6,000,000 € for 2020. Support from other donor projects is expected to be as follows €5,433,333 for 2018, €5,083,333 for 2019 and € 3 833 334 for 2020.

4. Expected impact on employment and gender

Implementation of EE measures results with reduction of overall energy cost, improvement of quality of life, better environmental conditions and increase of opportunities for more efficient energy management, social welfare and electricity for economic development. The implementation of EE projects creates opportunities for job creation through manufacturing and construction enterprises. Based on the 2018 WB Project Indicators it is expected that after the implementation of EE measures in 32 buildings, savings will be € 1.24m through the reduction of energy bills, whereas in energy will be 1215.6 MWh or 1.22 ktoe, resulting with 7494 beneficiaries as users of buildings, where at least 33% of them are females.

5. Potential risks

Delays in establishing financial mechanism to support EE projects affects promotion of investors, development and implementation of EE projects, resulting with failure to achieve planned savings targets. Delaying the transposition of the new European Union EED directive into EE law and other energy laws may also affect investments.

Reform measure #3: Further development of energy generation capacities

1. Description of measure:

In order to ensure stable supply of electricity, as a very important factor for economic development, construction of new generation capacities of electricity remains a priority for national economic reforms. This measure is in line with strategic priorities outlined in NDS and the Energy Strategy. Regarding the implementation of activities in 2017, following actions have been undertaken: technical and commercial agreement has been concluded (signing of eight trade agreements). Finalization of the second phase of financial closure and contracting and finalization of respective studies for Engineering, Procurement and Construction is in process. Within these phases some activities have started and will continue in 2018; at the same time, activities related to renewable energy sources have been implemented, with operation of two new hydropower plants with an installed capacity of 4.38 MW and 4 MW.

a. Activities planned in 2018: 1) Development of TPP Kosova e Re project: a) Closing of Phase II - Financial Closure - where the contractor for EPC (Engineering, Procurement and Construction) will be selected, including activities with international financial organizations to provide financial support; b) Initiation of the Construction Contract; c) Drafting of studies according to project requirements; 2) Implementation of three projects of solar power plants with a total capacity of 9 MW; 3) Implementation of five small hydropower projects with a total installed capacity of 22.1 MW, private investment;

b. Activities planned in 2019: 1) Development of TPP Kosova e Re project; 2) Implementation of fourteen new small hydropower plants projects with total installed capacity of 61.8 MW, private investment; 3) Implementation of two new wind energy projects with a total installed capacity of 32.4 MW, private investment;

c. Activities planned in 2020: 1) Continuation of the construction of "Kosova e Re" Power Plant; 2) Implementation of fourteen new projects from small hydro power plants with total installed capacity of 37.86 MW, private investment; 3) Implementation of three new wind energy projects with total installed capacity of 105 MW, private investments;

2. Expected impact on competitiveness / rationale of the measure

Uninterrupted, quality, reliable, and cost-effective electricity supply is one of the key conditions for sustainable business development and increased business competitiveness. Implementation of this measure increases the security of supply as a condition for increasing the competitiveness.

3. Estimated cost of the activities and the budgetary impact

The total estimated cost for implementation of this measure is expected to be around €6,000,000. Out of this, €4,500,000 are budgeted under MED approved 2018 Budget for Consultancy Services, €1,500,000 are allocated each year from 2018 to 2020. At the same time, support from donor projects is expected to be €1,500,000, with €500,000 expected to be each year. For development of new generation capacity, TPP Kosova e Re, the total cost for the three-year period is foreseen to be 1.3 billion euros, expected to be implemented by private investors. Development of RES projects are foreseen to have a total cost for the three-year period of 359m euros, expected to be implemented by private investors, respectively € 37,730,000 (2018), € 125,700,000 € (2019); € 196,220,000 (2020).

4. Expected impact on employment and gender

TPP Kosova e Re project will affect social issues and employment over the 5 year construction period (2018-2022). This project is expected to contribute with 200 mil euros per year in GDP growth (or 3% GDP value added only by this project). Also, the development of RES projects will have effects on increasing employment and annual investments by €70 million.

5. Potential risks

Investments for the further development of electricity generation capacities are foreseen to be made by private investors. A potential economic crisis may pose a risk of investment in these projects and consequently for private investors to reduce planned investments.

4.3.3. Sectoral developments

a. Analysis of main obstacles

Current situation: Agricultural sector's share in GDP has been declining but remains important with 10.5% of GDP in 2016. It was estimated by the 2014 agricultural census that the total agricultural labour force amounts to 86,620 people in full-time equivalents, out of which around 50% are family members of land holders. Share of agricultural products in the total value of exports in 2016 was 15%. Total value of agriculture production is estimated to have been €736.8 million, with plant production having a share of 56%, livestock production 41% and services 3%.

Budget allocated to support the agricultural sector has been increasing, not only from public funds through direct payments and investment grants, but also from donors. In 2016 direct payments amounted to 26.1 million €, 22% higher than the previous year, with 61% allocated to support for agricultural crops and 29% for livestock. The share of total arable land used by farmers during this year was 45%. Farm size remains small; according to the census, 94.2% of agricultural businesses had less than 5 ha of arable land whereas only 1.6% had more than 10 ha. Nevertheless the share of agricultural activities registered in the business registry increased from around 7.5% in 2012-14 to 10.4% in 2016.

The competitiveness of the private industrial sector remains low compared to other countries. A key indicator that shows this fact is the negative trade balance in goods, which in 2016 was 2,229 billion euro. Kosovo's industry is composed of micro and small businesses and mainly oriented toward activities with relatively low added value. In addition, even in the case of industrial sectors with a relatively developed scale and potential, they are not integrated in value and supply chains at country and in particular at regional and international level. Main reasons are lack of product quality, access to information, adequate networking, followed by low capacities regarding the amount of production and capable labour force to cope with relatively high demands. Cooperation between enterprises is still in the initial stages. As a result of all these factors, the share of manufacturing in GDP remains low at 10-11%, although employment in the sector increased by 9.8% from 2014 to 2016.

On the other hand, trade balance in services is positive and amounted to 614 million euros, an increase of 34% compared to the previous year. The main sectors contributing towards a positive trade balance in 2016 were: travel (tourism) with export value of €877 mil, followed by business and professional services (€63 mil), information and communication services (€48.5 mil) and transport (€35 mil). It is estimated that the increase in tourism business activity over the last two years was about 25%, while the growth expectations for the following years are even higher than 40%. This is also reflected in

employment in the "accommodation and food service" sector which has increased by 13.4% from 2014 to 2016.

Structural obstacles: The structural barriers that hinder the development of the agricultural sector are: farm size, land fragmentation, irrigation infrastructure, storage capacity, malfunctioning and inefficiency of the land market, weak or dysfunctional links between primary producers and processors and between producers and the market, and lack of specialization. Regarding food safety and quality standards, the level of implementation of both domestic and EU standards remains low. Small farm size and outdated technology and machinery directly affect the cost of production and the level of productivity in agriculture, which, together with the failure to implement safety and quality standards, puts farmers at disadvantage when competing on the export and domestic markets. Weak links between primary producers and processing industry, as well as the lack of formal agreements increase the farmer's uncertainty over where he will sell his output. The informal market creates unfair competition and affects the quality of the products being sold.

Obstacles for development of the industry sector are related to the low inflows of FDI and to challenges associated with the emergence of industrial clusters. In particular, these comprise poor cooperation between companies and poor coordination through industry associations, weak collaboration with educational and research institutions, lack of skilled workforce and lack of innovation. Also, lack of product certification hinders exports. As a result of these obstacles and the structure of enterprises, industrial production is dominated by low value production, lack of innovation, and non-competitiveness in foreign and domestic markets.

Despite positive developments in recent years, tourism products and services available are still limited. The main obstacle is lack of adequate legal framework and institutional coordination, with very little information about tourist sites as well as products and services being available. There is a lack of development of tourist products by communities and tour operators in rural and mountainous areas. As a result, the current level of development of the tourism sector is far from its potential with income and employment opportunities remaining untapped.

Measure #4: Investment in agricultural infrastructure and agro-processing

1. Description of measure:

This measure aims at increasing capacities in primary production. The Government of Kosovo through this measure aims to increase by 36.6% the number of farmers supported in the relevant sectors: fruits and greenhouses by 65%, meat production by 44%, milk production by 33.3% and grape and egg production sectors with only moderate increase. Within infrastructure investments the focus will be on expansion of areas under irrigation by 5% per year. For investments in agro-food processing, which entail investments in storages and warehouses and increasing the number of testing laboratories for verification of quality of products, the aim is to increase the number of agro-processing enterprises: milk processing by 18.2%, meat processing by 50%, fruit and vegetable processing by 16.6% and wine production by 21.6%. Regarding the improvement of national and EU standards for food safety/livestock welfare/environment also more than 30 enterprises will be supported annually to reach these standards. The number of modernised enterprises, with new technological equipment and introduction of new production lines and new products will be around 40 enterprises per year. Furthermore, the number of agro-processing enterprises that will manage remains and waste in

adequate manner will be more than 10 enterprises per year. Number of enterprises investing in production of renewable energy will increase as well. This baseline scenario for investment and analysis of results and progress for the measure is based on the ex-ante assessment of the Agriculture and Rural Development Programme 2014-2020, carried out with the EU support in 2013.

a. Activities planned in 2018, 2019 and 2020:

1) Investment in physical infrastructure – increase production areas in the horticulture sector: greenhouses, long living trees, small trees, vineyards, seed plots; 2) Investment in physical infrastructure – increase production capacities in farming and poultry, new stables for production of milk, meat, laying hens and broilers; 3) Investment in agro-processing enterprises, respectively increasing processing capacities and introduction of new production lines, investments in hygiene and quality standards, marketing for these sectors: milk, meat, fruits and vegetables, wine and strong alcoholic drinks; 4) Investment in irrigation system: expanding new canals of primary, secondary and tertiary irrigation system; 5) Investment in modernisation of systems and electronic registry (FADN, IACS, sLIPS, REF, animal registry, trade statistics registry).

2. Expected impact on competitiveness/rationale of the measure

As a result of this measure, gross value added in supported enterprises is expected to increase by 15%. Labour productivity, as gross income per worker, is expected to increase by 15% in the supported farms, while employment growth of supported farms is expected to be 1.6%, or 1,400 new jobs. Furthermore, through advancement of food quality standards, the increased substitution of agricultural products / imported products with domestic products is expected, resulting with export growth by 10% while replacing and reducing imports by 3%.

3. Estimated cost of activities and the budget impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €160,000,000. The cost for implementation of this measures is budgeted and includes the following: € 47,500,000 for 2018, €47,600,000 for 2019, € 48,700,000 (2020). Activities related to the consolidation of the institutional capacities of the Managing Authority and the Payments Agency for rural development grants, activities related to Radoniq System and the preparation of the irrigation are expected to be financed by the WB loan, with around € 5,800,000 each year.

4. Expected impact on employment and gender issues

Implementation of this measure will have impact on population in rural areas through stimulating them to maintain and enhance farm activities and processing and cultivation of agricultural land, introduction the production of specific crops that may have priority and competitive ability. The measure is expected to have a direct impact on the economic situation of households that deal with agriculture through increasing their income level.

5. Potential risks

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

Measure #5: Expanding farms through consolidation and regulation of agricultural land

1. Description of measure:

The uncompleted land consolidation project of agricultural land has now been finalised in 21 cadastral zones in the Municipality of Drenas with the area of 4,790.00 ha and in 5 cadastral zones in the Municipality of Vushtrri with the area of 487.21 ha. Having in mind the importance of this measure the Government aims to continue its efforts for expanding agricultural farms through inventarisation of agricultural land which will facilitate future voluntary land consolidation projects and establishment of an efficient land market. Consolidation will be facilitated through legal and institutional measures, including creation of agricultural lands in plots with regular geometric form. This measure is based on NDS, ARDP and Property Rights Strategy.

a. Activities planned in 2018: 1) Integration of processed data into the spatial data base; 2) Files from completed projects in the Municipality of Drenas and Vushtrri inserted into the Registry of Immoveable Property Rights; 3) Individual discussions with farmers participating in the project; 4) Addressing suggestions and requests of farmers regarding the possibility and willingness for transaction, exchange, relocation of their parcels based on the foreseen project for Regulation and consolidation of land in the area of 25 ha in Celine, Municipality of Rahovec.

b. Activities planned in 2019: 1) Development of GRID and terrain maps, integration into GIS mobile; 2) Data gathering in the field and analysing samples; 3) Field studies for assessment of agricultural land compatibility and for gathering samples of agricultural land, meadows and pastures (18644.5 ha) in the Municipality of Rahovec; 4) Carry out probations, gathering land samples, labelling through usage of mobile application and analyses of samples in the Laboratory of Kosovo Agricultural Institute for the purpose of assessment of the fertility of agricultural land.

c. Activities planned in 2020: 1) Data gathered through land probes and description of profiles will be inserted in the data base; 2) Process the group of key data for assessment of land suitability and determine the class of suitability and limitations for each point; 3) Classification of lands in the Municipality of Rahovec, by combining the data of land description, its typology in the field and physical-chemical data analysed in laboratory; 4) Assessment of land fertility indicators and of critical levels of hard metals in the soil and factors that affect their content.

2. Expected impact on competitiveness/rationale of the measure

Volunteer consolidation projects will impact on increasing farm size, better property access, property issue resolution, etc., which are basis for reducing unit costs, increasing agricultural productivity, competitiveness of agricultural products in the market, and as a result an increase of farmers' income. It will also contribute to the development of land market (property rights security, higher volume of trading, establishment of standard lease contracts) and to a fairer allocation and better monitoring of subsidies from state budget to owners and users of these properties.

3. Estimated cost of activities and the budget impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €1,500,000. The cost for implementation of this measures is budgeted under the Ministry of Agriculture and Rural Development and includes the following: € 500,000 for 2018, € 500,000 for 2019, and 500,000 for 2020. During this period, it is expected that also donors will be involved in implementation of these activities €60,000.00 (2018)

4. Expected impact on employment and gender issues

Implementation of this measure is expected to affect the easing of land reform through the development of the land market. The measure will help farmers to move from existential farms to competitive products and job creation in agricultural production, while passive landowners who are not active on farms will be able to create income from land sales or leasing.

5. Potential risks

Lack of cooperation and expression of will by citizens for voluntary land consolidation. The critical assumption on which voluntary land consolidation rests is the ability to offer free technical assistance and transaction costs as a strong incentive to which farmers can respond²³.

Measure #6: Boosting private sector competitiveness through support to industrial SMEs

1. Description of measure

As continuation of ERP 2017-2019, this measure aims to improve the competitiveness of industrial SMEs through improving cooperation between SMEs, increase networking with other regional and EU companies, improve dialogue between public and private sector, identify potentials for improvement of value chains as well as ease access to finance. In parallel to support for cooperation and clustering, services offered to SMEs will be improved by strengthening of KIESA. Studies have identified the following sectors as the most interesting for investment: ICT, food processing, mining and metal processing, energy, textile and leather processing, wood processing, tourism. In addition, specific sectors have been identified as more ready for development of industrial clusters.²⁴ This measure is interlinked with key strategic documents such as NDS, ERA, NPISAA, and the Government Program 2017-2021. During 2017, the Forum for Drafting Industrial Policies has been operationalized with the purpose of stimulating competitiveness in industrial sectors and exchanging information on the challenges in these sectors in order to recommend efficient measures and policies to address them. Also during 2017 a study on value chains for four potential industrial sectors was conducted.

a. Activities planned in 2018: 1) Drafting and approving the Strategy for Private Sector Development 2018-2022, including industrial policy; 2) Analytical work to support industrial policy: development of potential and value chains in industrial sectors; capacities of industrial sectors associations; schemes for improving access to finance; annual report on industrial developments; 3) Implementation of recommendations from the FDIP and improvement of the dialogue between central and local government and other stakeholders; 4) Promoting and supporting enterprises in the existing 4 industrial parks, 2 business parks, 1 agro-industrial zone and 1 technology park; 5) Implementation of support programmes for SMEs and entrepreneurs (certification and consultation vouchers, business internships, trade-fair for women in business, business plan competition, export promotion activities); 6) Creating and promoting a database of SMEs as potential suppliers and subcontractors; 7) Supporting and increasing the cooperation with diaspora business networks in order to increase investments and exports.

b. Activities planned in 2019 and 2020: 1) Undertaking studies on the potentials of industrial sectors development and value chains and annual report on industrial development; 2) Implementation of

²³http://www.fao.org/fileadmin/user_upload/Europe/documents/Events_2007/Land2007/Kosovo.pdf

²⁴Studies for eight industrial sectors, Report on Competitiveness “Natural Born Clusters” and Study on prospects for Kosovo industry upgrading through cluster initiatives ” (<https://mti.rks-gov.net/desk/inc/media/30DB588C-CD11-4EFA-9044-F74480A3A5EF.pdf>). <https://mti.rks-gov.net/page.aspx?id=2.79>

recommendations from the FDIP and improvement of the dialogue between central and local government and other stakeholders; 3) Promoting and supporting enterprises in the existing 4 industrial parks, 2 business parks, 1 agro-industrial zone and 1 technology park; 4) Implementation of support programmes for SMEs and entrepreneurs (certification and consultation vouchers, business internships, trade-fair for women in business, business plan competition, export promotion activities); 5) Supporting and increasing the cooperation with diaspora business networks in order to increase investments and exports.

2. Expected impact on competitiveness/rationale of the measure

The measure identifies underdeveloped links within the value chains in the relatively higher added value sectors. It will contribute to the internationalization and integration of value chains and local clusters, thus addressing some of the barriers and creating new opportunities for industrial development and increased exports.

3. Estimated cost of activities and the budget impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €13,000,000. The cost for implementation of this measures is budgeted under the Ministry of Trade, Department of Industry with €50,000 planned each year 2018-2020, and KIESA including the following funds € 5,294,526 for 2018, € 3,771,585 for 2019 and €4,083,046 for 2020.

4. Expected impact on employment and gender issues

As a result of the implementation of this measure, it is expected that over the next three years opportunities for employment of about 450 workers will be created.

5. Potential risks

Some of the main risks to the implementation of the measure are: lack of financial capital by businesses to capitalize the potential for development and integration within value chains; the lack of readiness of all relevant stakeholders to act in the same direction and at the same time towards the capitalization of new opportunities for cluster development within the value chain.

Reform Measure #7: Development of tourism products in Kosovo touristic regions

1. Description of measure

The purpose of this measure is to encourage the development of tourism products in order to increase the economic value of tourism by increasing touristic offer through identification of tourism products, encouraging development of products for market entry, cooperation among relevant stakeholders, application of touristic standards and improvement of legal framework in line with European standards. The measure is a continuation from ERP 2017-2019 and linked with the draft Private Sector Development Strategy.

a. Activities planned in 2018: 1) Adoption of Concept Document and drafting of Law on Tourism; 2) Identifying international standards for improving quality of tourism and accommodation services; 3) Research on tourism products in the Touristic Region of Anamorava, which includes identification of products with priority development and informing businesses on touristic products; 4) Encouraging relevant institutions and organizations for the establishment of tourist signalisation according to regulations in force; 5) Supporting businesses in development of rural tourism and agro-tourism.

b. Activities planned in 2019: 1) Drafting and adoption of administrative instructions based on Law on Tourism; 2) Adoption of international quality standards in tourism and accommodation services; 3) Supporting the establishment and development of clusters in tourism; 4) Supporting businesses in development of rural tourism and agro-tourism.

c. Activities planned in 2020: 1) Continuation of drafting of other sub-legal acts arising from the new Tourism Law; 2) Organizing workshops with the private sector for encouraging the creation of clusters, in cooperation with local authorities and universities; 3) Supporting the establishment and development of clusters in tourism; 4) Supporting businesses in development of rural tourism and agro-tourism.

2. Expected impact on competitiveness / justification of the measure

Identification and development of new touristic products will result in increasing the number of touristic businesses and employment in the sector, expanding the touristic offer of Kosovo as a destination and improving the quality of touristic service. As a result, Kosovo is expected to become more attractive to visitors, which will generate more income and increase export of services with a direct impact on GDP.

3. Estimated cost of activities and budget impact

The budget impact for implementation of activities for 2018-2020 is €82,000, where €10,000 for each year is from the Kosovo Budget. At the same time, support from donor projects is expected to be €20,000 for 2018, €16,000 for 2019 and €16,000 for 2020.

4. Expected impact on employment and gender issues

The development of tourism will create employment opportunities in rural and mountainous areas, increase opportunities for family businesses, making easier for women to find jobs, especially in the field of culinary services and handicrafts. By the end of 2020, the number of employed people in the tourism sector is expected to increase by 30% and the share of female employees by 2020 is projected to reach 20%.

5. Potential risks

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

4.3.4. Business environment and reduction of informal economy

a. Analysis of main obstacles

Current situation: According to the World Bank Doing Business Report, Kosovo is among the top 10 economies worldwide with the most notable improvement in doing business reforms. This year, Kosovo ranks 40th out of 190 countries in ease of doing business, compared to 60th place last year. Kosovo ranks 10th on Starting a Business, 12th on Getting Credit, 48th on Trading across Borders, 122nd on Dealing with Construction Permits, 89th on Protecting Minority Investors, 106th on Getting Electricity, 49th on Enforcing Contracts, 45th on Paying Taxes, 34th on Registering Property, and 49th on Resolving Insolvency.

Kosovo's improved performance this year was supported by the implementation of three business regulatory reforms in the areas of: Starting a Business, Getting Credit, and Resolving Insolvency. More specifically, Doing Business finds that over the 12-month period up to June 2017, Kosovo implemented several improvements: starting a business was made easier by simplifying the process of registering employees; access to credit was strengthened by adopting a new law that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganization procedures; resolving insolvency was made easier by introducing a legal framework for corporate insolvency, making liquidation and reorganization procedures available to debtors and creditors.

In addition to the progress on the above mentioned indicators, Kosovo has not made any progress on some other important indicators, including contract enforcement, bankruptcy procedures, and access to electricity, obtaining building permits and protecting small investors. Private sector crediting is improving gradually in the majority of SEE countries, whereas Kosovo has established Kosovo Fund for Credit Guarantees granting a loan guarantee portfolio for financial institutions to cover up to 50% of risk, which has alleviated the burden on MSMEs by providing more funding for their growth. By reducing credit risk to MSMEs, KFCG's partner financial institutions will be encouraged to provide more loans for MSMEs, to expand the products and services offered to SMEs, as well as to improve the terms and conditions of those loans.

The informality and lack of financial transparency regarding individual and business incomes, as well as the low quality of financial reporting (especially with regard to the SME segment) has resulted in a high level of collateralized credit, instead of cash flow analysis by banks. The Law on Accounting, Financial Reporting and Auditing, which will align financial information with international standards and thus facilitate lending to and investment in Kosovo companies, is a priority action of ERA to be implemented in 2018.

Informal economy remains a major problem in Kosovo. The level of informal economy, estimated at 32% of GDP, remains high even among countries with the same level of development. It creates unfair competition for formal businesses, with a majority of companies stating that informal competition is a very serious or major business barrier.

Structural obstacles: The business environment has improved but important obstacles and challenges remain: unfair competition from the informal sector; slow and inconsistent law enforcement in economic disputes; frequent, uncoordinated and costly inspections; poor coordination between public and private institutions, particularly financial institutions, in collecting and sharing financial information of enterprises; the inability to realize the collateral value due to shortcomings in the property rights system (as regards the availability and reliability of documents); property rights types, including state, public and municipal property as well as the rights of foreign citizens to own property in Kosovo are not clearly defined by law; implementation of intellectual property rights legislation. These remaining obstacles reduce the competitiveness of Kosovar enterprises and their opportunities for investment, growth and job creation. Weak property rights and financial reporting negatively affect the opportunities and capacity of SMEs to obtain funding as well as foreign investments and business partnerships. . Unfair competition from the informal economy reduces the opportunities for formal employment with higher job security and the creation and expansion of small companies and individual

businesses. Slow and inconsistent contract enforcement imposes high costs and insecurity on businesses and undermines confidence in state institutions and legal security of citizens.

Reform Measure #8: Adoption of evidence-based policies and reducing administrative burdens

1. Description of measure

In light of substantial reforms to simplify legislation and establish an impact assessment system, this measure aims to improve the evidence-based policy development and legislation drafting, and a proper consultation process. In this regard, the current system of Concept Documents will be strengthened for preparation of policy and legislative proposals that will eventually be replaced by an impact assessment system. The Concept Document Manual and Guidelines were already updated during 2017 and include tools such as the Standard Cost Model, Regulatory Competitiveness Check, SME test, etc. In addition, the possibility of setting up a program to reduce administrative burdens against a 25% target will be analysed and a programme approved and initiated. This measure also includes simplification of licenses and permits, and it is in accordance with the NDS, ERA and Strategy for Better Regulation 2017-2021.

a. Activities planned in 2018: 1) Development of a Concept Document for reduction of administrative burden, including setting out relevant targets; 2) Establishment of a Better Regulation Unit; 3) Training of civil servants on applying guidelines and analytical tools for ex-ante policy evaluation and consultation process; 4) Training of Trainers on developing policy documents according to the new guidelines, including new tools such as Standard Cost Model and Regulatory Competitiveness Check; 5) Carry out three ex-post legislative evaluations; 6) Finalizing the database framework for impact assessment with data for further improvement of evidence-based policy.

b. Activities planned for 2019 1) Approval of a programme and targets for reduction of administrative burden; 2) Initiation of the Administrative Burden Reduction Program aimed at simplifying, merging or abolishing at least 10% of existing licenses and permits; 3) Further staff training on application of guidelines and analytical tools for ex-ante policy assessment; 4) Carrying out seven ex-post legislative evaluations;

c. Activities for year 2020 1) Implementation of the administrative burden reduction programme in line with targets; 2) Further staff training on application of guidelines and analytical tools for ex-ante policy evaluation; 3) Reaching the target of simplifying, merging or abolishing at least 10% of licenses and permits

2. The expected impact on competitiveness / rationale of the measure

The quality of policies and legislation will remove unnecessary obstacles. Introduction of Standard Cost Model will foster understanding of the impact of legislation on businesses and citizens and improve financial planning of policies. SME Test will draw attention of policy and decision makers about business specific needs and in particular micro-enterprises that are dominant in Kosovo's economic structure. Regulatory Competitiveness Check will contribute to a more competitive business environment and improve business regulation compared to other countries in the region. Reduction of administrative burden including licenses and permits will reduce costs for businesses and increase their competitiveness.

3. Estimated cost of activities and budget impact

For the implementation of activities, € 290,000 are planned for each year through 2018-2020. These funds are provided by donors, through direct budget support and expertise.

4. The expected impact on employment and gender issues

Improving the business environment will contribute to economic growth by encouraging new businesses, formalization of business activities and employment. Introduction of tools to analyse policies focused on increasing competitiveness is accompanied by integration of gender impact assessment into the policy development process, and is in line with Kosovo's gender equality agenda.

5. Potential risks

The main risk is related to capacities to implement new tools for policy development, this includes resources for development of an impact assessment database.

Measure #9: Securing property rights by addressing informality in the immovable property sector

1. Description of measure

Following reforms introduced in ERP 2016-2018, this measure is a continuation of actions for securing property rights titles. The first set of actions focuses on improving the legal framework, because current legislation retains legal concepts from the former Yugoslavia that prevent development of a vibrant market in support of economic growth. The second set of actions focuses on addressing informality in the immovable property sector, because property in an extra-legal context is a dead capital that cannot be transacted in the property market. The resulting discrepancy between Kosovo's cadastral records and informal ownership of immovable property contributes to tenure insecurity. This strategic intervention aims to update Kosovo's cadastral record titles by addressing two major sources of informality: (1) delayed inheritance cases and (2) verbal contracts. To date, the majority of actions to address the two major sources of informality are being implemented on time; specific measures, however, require sustained attention from senior decision makers. Legislation foreseen in 2017 is in the Parliamentary procedure, such as amendment of both Law on Inheritance, and Uncontested Procedure, and a new Law on Notaries. The measure is based on the NDS and the Property Rights Strategy.

a. Activities planned in 2018: 1) Adopt the amendments to the Law on Ownership and Other Real Rights; 2) Drafting a new Law on Public Property; 3) Finalise and approve concept document on a new Law on the Transformation of the Rights of Use on Immovable Socially Owned Property; 2) Finalize and approve the draft Law on Urban Construction Land. 3) Adopt the "Inheritance Package"—Law on Inheritance, Law on Uncontested Procedure, Law on Notaries; 4) Draft and approve a Concept Document for amending the Law on Contested Procedure; 5) Draft and approve a Concept Document for the most effective legal procedure for the recognition and registration of sales made through verbal contracts. 6) Finalize and approve the amendments of the Law on Cadastre, stimulating the registration of property rights in the cadastre by simplifying registration procedures and removing barriers; 7) Repeal all municipal tariffs on the transfer of ownership that are in violation of AI 08/2014 on Fees for Immovable Property Registration Services; 8) Organize awareness campaigns on the importance of formalizing and registering property rights in the cadastral register.

b. Activities planned in 2019: 1) Adopt new Law on the Transformation of the Rights of Use on Immovable Socially Owned Property and new Law on Urban Construction Land; 2) Implement the

“Inheritance Package,” draft necessary sublegal acts and build the Property Rights Information Portal for effective notification of parties that satisfied due process, as stipulated by the law; 3) Finalize and adopt amendments to the Law on Contested Procedure 4) Amend the body of laws to give way to the most effective legal procedure for the recognition and registration of sales made through verbal contracts; 5) Implement simplified procedures following adoption of the Law on Cadastre. .

c. Activities planned in 2020; 1) Implement adopted legislation on ownership and other real rights, public property, transformation of the rights of use on immovable socially owned property and urban construction land and update the cadastre accordingly. 2) Monitor implementation of the “Inheritance Package,” focusing on the notary practice in the implementation process; 3) Adoption and implementation of the legal amendments for the streamlined procedure for recognition and registration of sales made through verbal contracts; 4) Continue implementing simplified procedures following adoption of the Law on Cadastre across all Kosovo municipalities.

2. Expected impact on competitiveness / rationale of the measure

This measure impacts both the intensity and fairness of competition. Clear legal provisions encourage foreign and local investment. Updated and easily accessible cadastral records support the development of efficient land markets, making legal and economic information available to foreign investors. Securing property rights, registered in the cadastre, unlock access to finance for citizens who were not able to utilize their capital in an extra-legal context. Instituting an effective legal procedure to address large scale informality would also contribute to the reduction of court backlog cases.

3. Estimated cost of activities and budget impact

The total cost for implementation of this measure is about € 930,000, with 84,500 Euros covered by the Kosovo Budget, €42,000 for 2018 and €42,500 for 2019. The rest of the activities will be supported from development partners as follows: €209, 575 for 2018, €444,150 for 2019 and €193,115 for 2020.

4. The expected impact on employment and gender issues

Insecurity of property rights hampers economic growth, affects human rights and weakens the situation of marginalized communities. Broad informality in the property sector makes it even more difficult for women enjoy equal property rights and undermines their economic independence. Instituting efficient and low cost administrative procedures for legal recognition of informal rights, combined with awareness campaigns, will encourage citizens to secure their property rights titles.

5. Potential risks

Effectively implementing the measure requires sustained and continuous attention of senior policymakers. Kosovo’s short electoral cycles can slow the implementation process.

Reform measure #10: Increase judicial efficiency through reduction of court case backlog

1. Description of measure

This measure aims to improve the judiciary’s efficiency in dealing with economic disputes by reducing the case backlog and improving the case management system – CMIS. The focus in improving the efficiency of judiciary will be on decreasing the backlog through incentives and faster court settlements, temporary hiring of additional staff for case resolution, capacity building of the Administrative Department, respectively Fiscal Division of the Basic Court in Prishtina, which deals also with areas of taxes and customs. This measure is in continuity from ERP 2017-2019, and is based on NDS and ERA. During 2017, significant progress has been achieved in implementation of CMIS.

Data centre has been prepared and is operational, including also development and piloting of CMIS in the pilot court. The assessment on capacities of Fiscal division has been finalised during 2017, pending adoption and implementation.

a. Activities planned in 2018: 1) Recruitment of 42 professional associates to deal with the backlog of cases in civil and criminal area, with the aim of achieving the target of 30% reduction of backlog by the end of 2018; 2) Finalise and adopt the assessment for the increase of the number of judges and professional associates in Fiscal Division; 3) Completing the first stage of CMIS development; 4) Arranging and conducting training for functionalising CMIS in the courts; 5) Expand the functioning of CMIS in five respective regions according to the plan.

b. Activities planned in 2019: 1) Achievement of case backlog reduction target of 20-39%²⁵; 2) Recruitment of judges based on the needs assessment for reduction of cases in the fiscal division²⁶; 3) Ensuring that CMIS is fully applicable; 4) Continue with training and support for the CMIS users.

c. Activities planned in 2020: 1) Continue with increasing the number of judges in the Fiscal Division of the Basic Court of Prishtina in line with the assessment, in order to achieve the 0% target for backlog by 2021; 2) Expand the CMIS project in all courts, including training of users.

2. Expected impact on competitiveness/rationale of the measure

Reduction of case adjudication length and cost is significant. According to analysis the value of one day saved is €8.1, defined as the marginal cost of judgments/arbitration divided by marginal time saving. Using this parameter, the quick disposition of a case saves €2.5 thousand and when this is multiplied by the total number of cases, the total value of savings is €140 million.

3. Estimated cost of the activities and the budgetary impact

The cost for implementation of activities to achieve the zero backlog targets is expected to have budgetary impact in the amount of €700,000 for the next two years (2018 and 2019). The direct budget impact for 2018 and 2019 will be € 350,000. These funds are planned in the 2018 budget. The cost for the third activity (CMIS) is € 6,700,000, as follows €2,300,000 (2018), € 2,500,000 (2019) and €1,900,000 (2020).

4. Expected impact on employment and gender

Reduced disposition time and increased court efficiency and legal security will be valuable for everyone seeking justice in the courts.

5. Potential risks

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

Measure #11: General Inspection Reform

1. Description of measure

The purpose of this measure is to undertake a general reform of the inspection system in order to improve the efficiency of state inspections by coordination of procedures, information exchange and using risk-based approach. This will reduce the burden on businesses from too frequent, uncoordinated

²⁵ Monitoring of selected cases will be conducted in each quarter and it will be reported whether number of old cases is increasing or decreasing. Having in mind that old cases are considered as any case that has been preceded in the court and which is older than 24 months, this makes the process continuous and obliges the KJC to inform courts on the increase/decrease of old cases, in order to undertake measures.

²⁶ For this the length of resolution procedures will be measured in various periods according to CEPEJ formula, and recruitment of judges will be carried out based on the needs

and unnecessary inspections. A general reform of inspections requires amendments to the legislative framework, modifying the framework of functional organization, and capacity building. This measure is in line with the NDS and ERA.

a. Activities planned in 2018: 1) Adoption of a harmonized law on inspections which will lay the foundations for a risk-based approach to inspections; 2) Evaluation of existing inspections, followed by eliminating unnecessary or merging of inspection activities.

b. Activities planned in 2019: 1) Establish a coordination mechanism between inspection bodies for better alignment of procedures and a more effective oversight system, including the establishment of an information exchange system between inspectorates; 2) Amendment of horizontal legislation by allowing and regulating the inspection reform; 3) Approval of the organizational structure that implements the new organizational concept of inspections.

c. Activities planned in 2020: 1) Capacity building, which involves training of inspectors and other relevant officials, for the full implementation of the new concept.

1. Expected impact on competitiveness/rationale of the measure

Implementation of this measure is expected to improve competitiveness by reducing the oversight burden and uncertainty for businesses. A more effective inspection system will contribute to reduction of informality by favouring compliant businesses and focusing on high-risk activities and operators.

2. Estimated cost of the activities and the budgetary impact

The total cost for implementation of this measure is expected to be €3,800,000 during the period 2018-2020, respectively €844,400 (2018); €1,447,600 (2019) and €1,447,600 (2020). The cost for implementation of this measure will be financed through WB loan. Based on the loan agreement from this amount €7,925,000, are part of budget projections for 2018-2020.

3. Expected impact on employment and gender

The measure does not have a direct impact on employment, but improves administrative effectiveness of inspections and thereby reduces the barriers to business activity.

4. Potential risks

Delayed legislative changes may slow down the process and lack of resources or the political support is a potential implementation risk for the measure.

4.3.5. Research and development, innovation (RDI) and digital economy

a. Analysis of main obstacles

Current situation: Kosovo's RDI system is one of the least developed in the region. It was ranked second-last by the 2016 OECD Competitiveness Outlook and scored poorly on all four policy dimensions: RDI policy governance; research base; private sector RDI activities; and business-academia cooperation. To strengthen RDI policies and development, the Government of Kosovo established a new Ministry for Innovation and Entrepreneurship in 2017 and prioritized reforms in innovation, research and higher education. With full functionality of the ministry, the budget will be increased also for the support of businesses with ICT products and services as their key activity. Also, the Government has approved the Law on Innovation and Knowledge Transfer and proceeded to the Parliament. Technology According to Law on Scientific Research Activity, the GoK should allocate 0.7% of its budget (14 million euro) annually for scientific research, but due to the lack of budget for this category only 510,000€ were allocated to the Department of Innovation and Science (MEST). For

RDI in total, Kosovo currently spends only 0,1% of GDP (4.7 million euro per year from the state budget and other sources), There is no statistical data on private (business) spending on RDI. Based on MEST data, employment in R&D is 833 employed in one million inhabitants; 32 patents were adopted by patents' office of MTI in 2016, and no patent adopted by the European patents office. The only scientific infrastructure of the country are laboratories of scientific research institutions. Universities do not have appropriate infrastructure for creation of incubators, start-ups, etc. Also the lack of awareness on the importance of innovation for the economic development and growth of Kosovo is present. SMEs that are aimed at developing innovative products or activities have not expressed any interest in absorbing assistance through 'vouchers' and other institutional support. Although Kosovo has signed agreement with the EU to participate in EU programmes, with four scientific research institutions involved as partners in Horizon 2020 projects, due to Kosovo's position within this framework programme these institutions cannot have the leading role. Projects developed so far by these institutions are focused on research papers and they are oriented mainly on teaching and basic research, whereas commercialisation of scientific research activity has not shown any development.

Digital economy – Landline telecommunications networks are widespread in urban areas. As a result of new technologies, penetration of landline telephony declined to 3%,. Penetration of mobile telephony has reached 109.1% of population and it is estimated that internet users through 3G and 4G networks is 63% of population; penetration of internet through landline network is used by 83% of families. The Law on Electronic Communications has removed licensing regime and established the general authorisation regime for involvement in electronic communication activities. According to Regulatory Authority of Electronic and Postal Communications, investments in telecommunication infrastructure during 2015 was €52 mil or 0.9% of GDP, whereas during 2016 it was around €30 mil or 0.5% of GDP. Overall application of ICT by the industry is limited and companies have not captured appropriately its competitive benefits, in particular MSMEs. Regarding broadband networks, the focus should be on uncovered areas to improve Kosovo's position compared to countries of the region (in 2016, the rate of penetration at country level was 13% of population, mainly concentrated in cities).

MED in cooperation with the World Bank has developed the programme for Kosovo's Digital Economy – KODE. KODE components are based on projects that will develop broadband network in uncovered areas, human capital and digital businesses to include Kosovo in digital economy of the future. It is planned that by mid-2018 the implementation of this program would start. With the support of USAID and Swiss Eye of Helvetas Swiss Intercooperation, implementation of the project "Women in online work" has continued in 2017 in four municipalities, where 260 women were trained on necessary skills for jobs in international online platforms, technical skills (as coding) and soft skills. Employment in the ICT sector has increased by 19% from 2014 to 2016 according to KAS data. Out 571 registered businesses with ICT as primary activity, only around 120 of them are considered businesses with service product in the area of ICT, whereas other businesses are selling or hardware servicing. At the level of ICT sector companies there is a need for capacity building with focus on application of standards for online services that are related with software and other applications.

Structural obstacles: The main obstacles include the lack of legal and policy framework to support RDI, fragmented activities, insufficient soft infrastructure (e.g. experts/consultants on RDI) and hard infrastructure (e.g. laboratories, equipment). Lack of public and private investments in RDI and

innovation results in reduction of opportunities for SMEs and economy, to create new competitive products and services. It was estimated that overall employment in the economy is around 15% lower compared to a situation where SMEs would be innovative enterprises.²⁷ Non-participation in programmes of Horizon 2020 prevents enterprises from cooperation in the field of smart growth, aimed for the innovative industries, thus causing them to lose the opportunity to be involved in the modern industrial developments regarding new goods and services. Also lack of cooperation between private sector, public sector and institutions of higher education hinders effective knowledge transfer by resulting also in losing the opportunity for economic development.

Shortage of the extension of broadband internet infrastructure has a negative impact on productivity and competitiveness of companies, and decreases possibilities for self-employment, distance work, digital learning, and digital trade. Distribution of ICT infrastructure in Kosovo is relatively unbalanced, resulting with lack of access to broadband infrastructure. Research reports indicates that there are difficulties in ensuring new capacities with ICT skills. Lack of broadband infrastructure has a negative impact on the environment for development of innovation, new business models, new products and services and improved productivity and economic dynamics, also by decreasing market competition of products in many sectors, especially in services. In addition it negatively impacts the level of education of the population, quality and access to health and administrative services, and employment opportunities for women and youth.

Reform measure #12: Improve Entrepreneurship and Innovation environment

Description of measure

This measure aims at creating a better strategic and legal framework in the area of research, development and innovation through adoption of the Law on Innovation and Transfer of Knowledge and Technology, providing the legal framework for cooperation of academic community and industry, while the National Science Programme will set the direction of science development towards European standards; also the Strategy on Innovation will be drafted and adopted during 2018. During 2019 we will continue with the functionalization of the National Council of Innovation and Entrepreneurship and inter-ministerial coordination mechanisms in the field of innovation. Further efforts will be taken to increase the level of participation of scientific institution in European and regional programmes and projects, in particular Horizon 2020. In addition to establishing institutional mechanisms, initiatives will be taken to promote innovation capacity building in the public and private sector through training programs and consultancy, creation of funds to support development sectors (with focus on women and young people) and SME support. The focus will be on financing annually an average of 10 small projects aimed at supporting scientific research institutions; 20 innovation vouchers for SMEs; 50 short-term mobility grants for scientists; 20 grants for doctoral studies in 500 best universities and awarding the title “Scholar of the Year” and “Young Scholar of the Year”. This measure is linked with NDS, ERA, and NPISAA.

a. Activities planned in 2018: 1) Drafting secondary legislation deriving from Law on Innovation and Knowledge Transfer and Technology; 2) Drafting Law on Innovation and Entrepreneurship and the Innovation Strategy (MIE); 3) Drafting secondary legal infrastructure based on the Law on Innovation and Entrepreneurship (MIE); 4) Development of business incubators and at least of 3 new

²⁷ Seker, M. (2013) – Background paper for the technical assistance on Western Balkans Innovation Strategy

Innovation Centres; 5) Developing entrepreneurship and innovative ideas through training programs/consulting; 6) Functionalization of National Entrepreneurship and Innovation Council; 7) Direct financial support to SMEs, start-up businesses, private initiatives for the purpose of developing innovative ideas for service, products or process.

b. Activities planned in 2019: 1) 1) Completing secondary legal framework for innovation and entrepreneurship; 2) Drafting secondary legislation based on Law on Innovation and Transfer of Knowledge (MEST); 3) Continuing with development of business incubators; 4) Developing entrepreneurship and innovative ideas through training programs/consulting; 5) Supply with laboratory equipment for the development of innovative concepts for universities and vocational high schools; 6) Continuing direct financial support to SMEs, start-up businesses, private initiatives for the purpose of developing innovative ideas for service, products or process; 7) Implementation of reform according the National Qualifications Framework “Triple Helix” (strengthening cooperation: University-Government-Labour Market);

c. Activities planned in 2020: 1) Establishment of the network for R&D with Diaspora; 2) Continuing with direct financial support to SMEs, start-up businesses, private initiatives for the purpose of developing innovative ideas for service, products or process; 3) Entrepreneurship development through training programs / consultancy; 4) Completing secondary legal infrastructure for Innovation and Entrepreneurship

1. Expected impact on competitiveness/rationale of the measure

Implementation of this measure will contribute to increase and development of innovative activity in Kosovo through significant improvement of the legal infrastructure and stronger support programmes under the leadership of the new Ministry. Development of the RDI framework and activity will increase export competitiveness and value added of innovative private enterprises.

2. Estimated cost of the activities and the budgetary impact

The cost for implementation of this measure is expected to be €45,000,000 during the period 2018-2020. Of this value, approximately €28,000,000 will be spent from the Kosovo Budget, € 9,250,000 (2018), € 9,250,000 (2019), €9,250,000 (2020). Funds are planned under Ministry of Innovation and Entrepreneurship. In addition, a support of € 6,000,000 per year is expected from various donors.

3. Expected impact on employment and gender

According to comparative international studies, a more innovative economy could create up to 15% new jobs. Creation of business incubators and innovation centres will have a positive impact on youth employment by providing opportunities for young people to develop their ideas into concrete results and trying to put their products on the market.

4. Potential risks

Potential risks include lack of cooperation between key institutions and with private sector, and the shortage of competitive skills, and lack of access to international scientific innovation competition. Another risk is further delays in adoption of the Innovation Strategy.

Reform measure #13: Expansion of relevant ICT infrastructure networks for socio-economic development

1. Description of measure

The measure continues from ERP 2017-2019 and aims to enhance access and use of ICT through the extension of broadband infrastructure throughout uncovered areas, strengthening human capital and supporting digital businesses and digitalizing of other businesses. MED in cooperation with the World Bank is developing KODE Program to be implemented from 2018. In 2017 the ToR for pilot projects for expansion of broadband infrastructure in four lots have been prepared, to be implemented during 2018. This measure is in line with NDS, Kosovo Digital Agenda 2013-2020 and the Kosovo IT Strategy.

a. Activities planned in 2018: 1) Implementation of pilot project for expansion of broadband Infrastructure that will include four or more lots (rural areas); 2) Concluding agreement with the WB on the loan for investment during the following years for implementation of KODE Program; 3) Adopting and operationalising technological park for ICT business's needs.

b. Activities planned in 2019: 1) Expansion of broadband infrastructure in uncovered areas; 2) Development of human capacities for digital economy and support for digital businesses.

c. Activities planned in 2020: 1) Expansion of broadband infrastructure in uncovered areas; 2) Development of human capacities for digital economy and support for digital businesses; 3) Digitalisation of traditional businesses and increased usage of ICT in private sector.

2. Expected impact on competitiveness/rational of the measure

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

3. Estimated cost of the activities and the budgetary impact

The total cost for implementation of this measure is expected to be around €23,400,000 for 2018-2020. Out of this total amount, €4,170,271 comes from Kosovo budget as follows: €1,674,184 for 2018, €856,087 for 2019 and €1,640, 000 for 2020. A number of activities will be supported through IPA 2017 funds, with €750, 0000 allocated each year during 2018-2020. Activities related to implementation of the Expansion of broadband infrastructure in uncovered areas, will be financed through a WB Loan expected to be disbursed from 2019. The Loan currently is under a list of investment clause projects with respective tentative amounts: €7,000,000 in 2019 and €10,000,000 in 2020.

4. Expected impact on employment and gender

This measure will have positive effect on employment by expanding opportunities of digital work, with special focus on young people, women and people with special needs. According to some surveys²⁸ broadband infrastructure is considered as the main facilitator of flexible work, with more

²⁸ <http://businessclub.bt.com/stateofthenation.pdf>

than three-quarters of businesses surveyed citing as a reason the speed and flexibility enabled by broadband infrastructure. As the direct result of second component of KODE Program, it is expected that 400 new jobs will be created in the IT software businesses. Additionally trainings in ICT are planned for 1440 persons, which could be considered as new job opportunities (employed or self-employed).

5. Potential risks

As potential risk for implementation of planned activities could be considered delays in approval of the WB loan, as well as potential delays in implementation of IPA projects. Another potential risk is limited absorption capacities within the potential labour force in ICT and ICT businesses. As mitigation it has been planned a detailed assessment, in the early phase of implementation of the activity, of potential labour force in ICT and existing businesses in ICT regarding the criteria for inclusion in the activity, through application of the most efficient ICT tools for testing and assessment of potential candidates.

4.3.6. Trade related reforms

a. Analysis of main obstacles

Current situation: After the war, Kosovo has undertaken substantial steps in liberalisation of its economy and foreign trade. Important steps were membership in CEFTA since 2007 and the Stabilisation and Association Agreement with the EU which entered into force in 2016. Still Kosovo's trade in goods remains dominated by imports which constitute almost 90% of total trade, whereas in services exports amount to two thirds of total trade. Given this important role of services for Kosovo's competitiveness, removal of trade barriers for developments of services sector is decisive. Regarding goods exports, the lack of product diversification is particularly acute when it comes to Kosovo exports to developed markets (EU, EFTA) with Herfindahl-Hirschman Index of 0.52 and 0.6. On the other hand, exports to CEFTA are more diversified with HH Index of 0.25.

At regional level, Kosovo is part of trade facilitation reforms through CEFTA mechanisms. Trade facilitation agenda of CEFTA countries is related to the WTO Trade Facilitation Agreement. According to the self-assessment report that Kosovo has made based on the WTO Agreement, there is a need to undertake immediate measures for a number of issues, including: information exchange, after customs clearance control, risk management, pre-arrival procedures, electronic payments, notification procedures, consultation procedures, fees and charges on imports and exports, authorised operators and other areas.

In the OECD's 2016 Competitiveness Policy Outlook, Kosovo's trade facilitation policies were ranked lowest among the 6 SEE countries. Particularly critical are areas of technical standards and sanitary and phytosanitary measures with scores 1.4 and 1.6 (out of 5). The score for import licences was also the lowest in SEE whereas regarding administrative barriers to trade Kosovo's performance is comparable to other countries. In Doing Business indicator Trading Across Borders Kosovo is ranked 48th; reduction in both time to export (from 110 to 66 hours) and cost to export (from 330 to 232 USD per standard shipment) was recorded in 2017.

Structural obstacles: In addition to the reduction in administrative costs, underdevelopment of quality infrastructure (standardization, accreditation and certification of product quality) is another obstacle to exports and import substitution. The reduction of technical barriers to trade is therefore an equally important element of trade facilitation. Similarly, Kosovo has identified logistical and border barriers

as one of the greatest obstacles for a greater circulation of goods between regional partners, as well as for deeper integration with the other parts of the world. Barriers to and high costs of cross-border trading reduce the level of Kosovo's exports and increase the cost of imports, which affects both the majority of Kosovo's producers who use imported materials, as well as final consumers of imported goods. Even more importantly, reduction of procedural, quality, logistical and border obstacles to export would contribute to increasing the currently very low level of goods exports.

Measure #14: Trade Facilitation - increasing the cost-effectiveness of international trade transactions

1. Description of measure

This measure is continuation of ERP 2017-2019 and aims to address and reduce barriers to trade, especially through simplification and standardization of all formalities and procedures at borders, which are expected to reduce cross-border expenditures and time. Activities foreseen for 2017 were implemented and outstanding activities have also begun to be implemented and are expected to be completed in the coming years.

a. Activities planned in 2018: 1) Develop a platform for identification of requirements for merging the systems of key institutions within the National Single Window (which includes requirements and needs for designing of systems by institutions); 2) Regulation of fees for the use of custom terminals through drafting Administrative Instruction for Management of Customs Terminals; 3) Draft Legislation for Digital Signature; 4) Preparation of the platform, procedures and request to adhere in the NCTS; 5) Implementation of the Enterprise Content Management.

b. Activities planned in 2019: 1) Design and develop systems of main institutions within the National Single Window, through the platform established by the Information Society Agency; 2) Advance paperless Customs through usage of 'digital signature' technology and platform; 3) Adhere in the Common Transit Convention; 4) Development of procedures and systems for implementation of SEED+.

c. Activities planned in 2020: 1) Complete the establishment of the National Single Window; 2) Finalise exchange of information from institutions included in SEED+.

2. Expected impact on competitiveness/rationale of the measure

Analysis shows that at the macro level, in several countries, the reduction of the time for trade for only one day may increase the trade activity for more than 5%. At the firm level, exporters in developing countries that have more efficient customs agencies produce better and more diversified products, as well as increase exports. Reduction of import costs would be of great importance for Kosovo, as the Kosovo production sector is mainly based on the imported inputs. OECD has estimated that trade facilitation reforms may reduce the trade costs by 15.5%, thus facilitating increased trade flows.

3. Estimated cost of the activities and the budgetary impact

The costs for implementing this measure will be covered by the Kosovo budget and development partners WB, IFC, and IPA (which are expected to be confirmed during 2018). From the Kosovo budget, € 10,000 have been allocated for each year for the period 2018-2020

4. Expected impact on employment and gender

Increased trade activity will contribute to higher revenues of exporting companies and lower costs of production companies dependent on imported inputs, which will facilitate job creation in these companies.

5. Potential risks

Risks related to the implementation of the measure include the lack of cooperation between agencies, delays on implementing legislation, as well as the lack of professional staff.

Measure #15: Further improvement of quality infrastructure and strengthening market surveillance, with focus on construction products

1. Description of measure

The main objective for further improvement of quality infrastructure and market surveillance is approximation of legislation and its implementation with the purpose of: enhancing safety and quality of products and services provided by domestic market as well as their integration into EU market and beyond; elimination of technical barriers to trade; effective market surveillance. In particular the aim is to improve trade balance for construction products which for the period 2014-2016 entails imports in the amount of €300 million and exports of €20 million per year,²⁹ by ensuring support for the sector of construction products. This will be achieved through identification of specific groups of construction products, which are provided in the domestic market and could be competitive for the export. Adoption of legislation (law on standardisation; law on construction products; law on technical requirements for products and conformity assessment) planned for 2017 was delayed due to the delays in constituting central institutions, but is now in the final stage of approval procedures.

a. Activities planned in 2018: 1) Approval of the legal package on quality infrastructure: Law on Standardization, Law on Construction Products, Metrology Law and the Law on Technical Requirements for Products and Conformity Assessment; 2) Approval of sub-legal acts for implementation of laws under activity 1; 3) Adopt new standards by prioritising harmonized standards for construction products; 4) Signing a multilateral agreement with the European Accreditation Corporation for testing laboratories; 5) Establishment of quality management system for metrology laboratories; 6) Promotion of quality infrastructure by providing specific technical assistance to manufacturers of construction products.

b. Activities planned for 2019: 1) Implementation of the Law on Construction Products, sub-legal acts related to the system for assessing and verifying the performance of the construction products (AVCP); 2) Establish a Contact Point for Construction Products which will provide stakeholders with information on the applicable regulatory provisions; 3) Increased number of accredited conformity assessment bodies (certification and inspection bodies) for the field of construction products; 4) Improve market surveillance to control non-conformities of construction products placed on the market; 5) Promotion of quality infrastructure by providing specific technical assistance to manufacturers of construction products; 6) Identify, abolish and adopt standards in the field of construction products, giving priority to harmonized standards (hENs) and other supporting standards that are required for testing / calibration and are of the same relevance as harmonized standards; 7) Membership of KSA and KTA in relevant European and international organizations; 8) Develop and

²⁹ According to the data of Statistical Agency

implement sectoral programs for market surveillance and strengthen the role of the Market Supervisory Coordination Body in relation to the implementation of technical legislation for certain product areas.

c. Activities planned for 2020: 1) Implementation of the Sectorial Market Supervision Program, with regard to implementation of technical legislation for construction products; 2) Promotion of quality infrastructure by providing specific technical assistance to manufacturers of construction products; 3) Expanding accreditation schemes according to new requirements including those of technical regulations; 4) Expanding metrology fields (establishment of laboratories according to market requirements); 5) Identify, abolish and adopt standards in the field of construction products by giving priority to harmonized standards (hENs) and other supporting standards that are required for testing / calibration that are of equal importance to harmonized standards.

2. Expected impact on competitiveness/rationale of the measure

Sustainable regulatory system will enable domestic producers, through improvement of the safety and quality of construction products, to be competitive with products marked with CE and to supply to the market certified products with the same level of quality as those from the EU member states. The quality infrastructure system will provide for increase of competitive capabilities of businesses by enabling their access to international markets and thus reducing the trade disbalance for construction and other products.

3. Estimated cost of the activities and the budgetary impact

For implementation of activities of this measure, from Kosovo Budget have been allocated: 136,866(2018), €156.866 (2019) and €136.866 (2020). Whereas from donors the fund for each year includes: €150,000 (2018), €200,000 (2019) and €200,000 (2020).

4. Expected impact on employment and gender

Further improvement of quality infrastructure is expected also to have wider impact on society through the promotion of private sector investment, opening of new job opportunities as well as encouraging business to implement standards in order to achieve quality and safety of products and services.

5. Potential risks

Potential risks for implementation of this measure could be related to membership in European and international organisations as well as lack staff.

4.3.7. Education and skills

a. Analysis of main obstacles

Current Situation: During recent years significant progress is evidenced in the development of skills, in improving quality and access to education. In 2016-2017 pre-school education enrolment (3-5 years) was 33.9%, pre-primary (5 years) - 87.6%, primary -96.2%, lower secondary education - 93.3%, upper secondary education - 88.1%. Competency-based curriculum (subject curricula) begun to be implemented in all schools at the beginning of the new school year of 2017/2018 for preparatory grade (0) and grade: 1, 6 and 10, as well as subject curricula for grades 2, 7, 11 have been developed and at the beginning of the 2017/18 school year the implementation in 72 pilot schools have started. MEST has begun the process of building new kindergartens that contributes for increase of inclusion and facilitate labour market participation of women. Teams for prevention and response to drop-out and non-enrolment in compulsory education have been established at school and municipal level, and according drop-out warning system (Special Module in EMIS) is functional. In the state Matura exam

for June term passed 83.5% out of 23660 pupils, while for August term it was 50% out of 3750 students who entered into the test, and the achievement of the 9th grade was 58%. Following the participation of Kosovo in PISA in 2015 for the first time (69th place out of 72 countries), in 2017 the pilot phase has been held and preparations for the final stage of PISA 2018 are underway. So far, 95% of qualified teachers have been licensed with a career license. Positive developments have been made in the area of teachers' advancement and requalification programs, but it is necessary also to carry out the teacher's performance assessment. About 50% of high school students choose one of vocational education profiles, where this enrolment is comparable to the level of countries in the region.

The labour market linkage with VET is suffering due to lack of capacity and inter-institutional cooperation to ensure the common approach on drafting government policies. There is no genuine cooperation of relevant actors in HE, VET, lifelong learning, including here also the labour market policies, enterprise and social inclusion.

25 profiles for level III and IV of the NQF and two V-level profiles have been completed, which are fully based on labour market demands. For these profiles, standards, as well as programs, have been developed, as well as purchased equipment and designed learning materials. Novelty in this school year is the beginning of the implementation of Level V for two profiles under the NQF. Currently VET Core Curriculum is being drafted and sectors based on ISCED-F are rearranged in line with all official documents within framework of European Reforms. During the 2017-2018 school year, this Core Curriculum will be introduced in all VET schools and in 2018-2019 all schools will be completed with new programs and adapted based on the standards of the profession and the labour market. Recently, enrolment in HE has increased, and current figures rank Kosovo among regional countries with most students per 100,000 inhabitants. The teacher/student ratio has deteriorated significantly and this is a quantitative indicator of quality in HE in Kosovo. Number of study programs has increased significantly in HE institutions in Kosovo. Existing study programs at HEIs should be reviewed to reflect labour market demands. The challenge remains the lack of interdisciplinary study programs. Current educational offer is not fully in line with labour market and skills for strategic sectors of the government. .

Structural obstacles: Low enrolment of children in preschool education as a result of lack of infrastructure and proper funding, regulating and licensing of private institutions, lack of professional development of educators and development of national instruments for determining the quality of preschool education, are challenges that are affecting the entire education system. In compulsory education the obstacles are related to the enrolment of students and quality, and this is evident to marginalized groups, Roma, Ashkali and Egyptian communities and students with disabilities. Skills development for most relevant vocational fields, according to the researches, does not correspond with demands and cause adverse effects on the country's economic development. The obstacles that can be encountered during the implementation of the reforms continue to be teachers training in pedagogical field, training of instructors, cooperation with businesses for vocational internship, provision of schools with IT infrastructure. Quality assurance tools and practices are still underdeveloped; lack of development of teachers according to the criteria and standards of TPD strategic framework and linkage of promotion with the payment system.

Impact of structural obstacles: In general, the lack of aligning education with labour market has an effect on reduction of investments and hinders economic development, and results with increased

unemployment and poverty. Consequently, in the long run, these obstacles affect the skills of the workforce.

Reform measure #16: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula

1. Description of measure

The main objective of this measure is harmonization of education and training with labour market demands. In order to address the source of the problem regarding existing skills gap in labour force and linking labour market demand with VET, a detailed analysis of the profiles offered in VET schools has been conducted. Therefore, the drafting of occupational standards as a link between labour market and vocational education is a priority of MEST in order to continue with review of VET curricula and the provision of conditions to implement these curricula to provide the students with relevant and required skills needed in labour market. During 2018-2019, in addition to curriculum review, the aim is also to provide for priority profiles with workshops and teaching materials. This measure is linked with NDS, KESP, NPISAA, MTEF and ERA, and other relevant documents related to improving the quality of teaching and learning, and are a continuation of ERP 2016.

a. Activities planned in 2018: 1) Developing 25 occupational standards to be verified by the NQA; 2) Review of 20 VET curricula and training of 40 trainers and teachers based on core curriculum; 3) Reviewing specific funding formula for VET based on cost per sector and profile.

b. Activities planned in 2019: 1) Developing 25 occupational standards and verifying them; 2) Training of 40 trainers and teachers based on new curriculum; 3) Developing and piloting specific funding formula for VET based on cost of profile; 4) Development of teaching materials based on the new curriculum; 5) Provision of 10 schools with adequate equipment for priority profiles after situation analysis;

c. Activities planned in 2020: 1) Drafting and reviewing new occupational standards and their verification based on labour market demand; 2) Training of 40 trainers and teachers based on core curriculum; 3) Implementation of specific funding formula for VET based on cost of profile and sector; 4) Development of teaching materials based on the new curriculum according to labour market demands; 5) Provision of 10 schools with adequate equipment for priority profiles after the situation analysis.

2. Expected impact on competitiveness / rationale of the measure

The implementation of this measure will contribute to the development of a skilled and more productive labour force, create opportunities for self-employment and employment in general, foster innovation and enhance the quality and efficiency of products and companies, and at the same time also the development of the industry.

3. Estimated cost of the activities and the budgetary impact

The total cost for implementation of this measure is expected to be around €1,750,000 for 2018-2020. Out of this total €75,000 will be financed by Kosovo's Budget, under National Qualification Authority as follows: €30,000 in 2018, €30,000 in 2019 and €15,000 in 2020. Moreover, majority of activities under this measure including purchase of equipment, review of financing formula, development of teaching materials based on new curricula, development of standards will be supported through

different donor projects with following committed funding : €176,400 in 2018, €800,000 in 2019 and €700,000 in 2020.

4. Expected impact on employment and gender

This measure in long-term period will increase the quality of education system, employment opportunities, improves labour force quality, and contributes to investment growth and economic development.

5. Potential risks

Main risks are related to large number of profiles, 140 for review and procurement procedures and engagement of experts for the implementation of foreseen activities, and accidental insurance (for vocational internship in VET).

Reform measure #17: Reform in Pre-University Education

1. Description of measure

The objective of this measure is development and implementation of competency-based curricula and implementing teachers' professional development (TPD) system and teachers' performance assessment (TPA) implemented through teachers' licensing system in all schools of Kosovo. In this regard programs for grades 0, 1, 2, 3 6, 7, 8, 10 11 and 12 (MEST, MED, schools) are planned to be implemented and develop curricula for grades 3, 4, 5, 8, 9 12 and teaching programs for grades 4, 9; monitoring the implementation of new curriculum by school level, MEDs and the central level; piloting Core Curriculum for early childhood education (age 0-5) in 7 pre-school institutions; and construction of 9 pre-school institution facilities for 3 years; introducing the introductory phase for the teachers before start of career; training of 9000 teachers for implementation of core curriculum in general and vocational education for three years. Also, working on supporting pupils and students of RAE communities with scholarships) is ongoing; drafting instruments for schools and pedagogical assessment teams in municipalities for students with disabilities based on ICF (International classification of functioning children & youth); strengthening mechanisms for preventing and responding to drop-out and non-enrolment of students in pre-university education. ;. This measure is linked NDS, KESP, NPISAA, EU Strategic Framework 2020, and with other relevant documents related to increase of teaching and learning quality.

a. Activities planned in 2018: 1) Development of database for licensing under the new scheme of EMIS data integration system; 2) Teachers performance assessment (5%) that are promoted by licensing system; 3) Student assessment for level 5, 9 and 12 and publication of results; 4) Student assessment for level 5, achievement test and Matura test, as well as publication of results.

b. Activities planned in 2019: 1) Continuing the renewal of licenses and promotion for teachers within licensing process; 2) Connection to the payroll system according to the funding formula; 3) Teacher's performance assessment (5%) according to promotion by licensing system; 4) Development of a database for licensing under the new data integration scheme; 5) Student assessment for level 5; achievement test and Matura test, as well as publication of results.

c. Activities planned in 2020: 1) Teachers performance assessment (15%) according to promotion by licensing system; 2) Updating the training catalogue according to criteria set out in TPD Strategic Framework; ; 3) Supervising and evaluating the implementation of the teacher licensing process; 4) Student assessment for level 5; achievement test and Matura test, as well as publication of results.

2. Expected impact on competitiveness / rationale of the measure

This measure results with improvement of quality of teaching and learning, preparing students for life, increase of investment and economic development by relying on implementation of the competency-based curriculum. It also improves inclusion in pre-university education, which also has effects on quality of education and minimization of inequalities in society, combating discrimination, avoiding marginalization and exclusion, and providing welfare for all.

3. Estimated cost of the activities and the budgetary impact

The total cost for implementation of this measure is expected to be around €6,300,000 for 2018-2020. Out of this total, €200,000 for 2018 will be financed by WB, for development of database for licensing under the new scheme of data integration system. The rest of activities will be financed by Kosovo budget as follows: €1,284,216 for 2018, €2,011,216 for 2019 and 2,897,990 for 2020. Funds are budgeted under MEST budget for activities related to student assessment, achievement test and Matura test, as well as publication of results; while funds related to TPA that are promoted by the licensing system are budgeted under each municipal education budget grant.

4. Expected impact on employment and gender

This measure increases opportunities for advancement of teachers without gender disparity, employment opportunities, improving and quality of workforce and contributes to investment growth and economic development. It also helps preventing poverty, protecting children from exploitation, and integrating people with disabilities into society, minimizing inequalities in society, combating discrimination, avoiding marginalization and exclusion, as well as providing welfare for all members of society.

5. Potential risks

Main risks are related to non-viability until the end of e reform cycle, lack of mobilization of curriculum implementation mechanisms such as MEST, MED, Schools, Parents, and limited capacity for implementation at municipal level, coordination at central and local level.

Reform measure #18: Increasing the Quality and Competitiveness in Higher Education

1. Description of measure

This measure aims to boost the competitiveness among HEIs. The potential ranking system will be a clear decision-making tool, and will improve transparency in HEIs and make reporting more meaningful for universities. A well-designed ranking system improves employability of young people. Ranking can be used as an objective tool for policy development and implementation, including quality-based funding. Also, QA mechanisms in HE will be developed/advanced, HEMIS following its piloting in 2017, will be fully functional and data from this system will be used for policy making for HE and higher education study programs will be in line with labour market demands. Also the career orientation services will be functional. This measure is linked with NDS, KESP, ERA, NPISAA and MTEF.

a. Activities planned in 2018: 1) Review and completion of HE legal infrastructure; 2) Functionalization of Higher Education Information Management System (HEMIS); 3) Initiating the process of development of ranking system for HEIs (establishing a ranking system management unit); 4) Increase of participation in international programs for higher education and scientific research.

b. Activities planned in 2019: 1) Implementation of legal infrastructure on higher education; 2) Functionalization of Higher Education Information Management System; 3) Continuing with development of HE Quality Mechanisms in Higher Education; 4) Developing funding formula for HE public institutions; 5) Increase of participation in international programs for higher education and scientific research.

c. Activities planned in 2020: 1) Continuing complete functionalization of Higher Education Information Management System; 2) Continuing with Development of Quality Mechanisms in Higher Education; 3) Increase of participation in international programs for higher education and scientific research.

2. Expected impact on competitiveness / rationale of the measure

The implementation of this measure will contribute to increase the quality, competitiveness and transparency in the HEI; improves the public access to objective information for employability in the country; internationalization of higher education; and can be used as a decision-making tool for institutional policies, including quality-based funding. Also, all these actions contribute to the approximation of higher education in the European Higher Education Area.

3. Estimated cost of the activities and the budgetary impact

The total cost for implementation of this measure (2018-2020) is expected to be around €2, 2300,000. Activities related to establishment of the ranking system management unit and its operational activities will be financed by donor funds as follows: €41,800 for 2018, €27,550 for 2019 and €152,840 for 2020. The rest of activities related to increase of participation in international programs for higher education and scientific research will be funded by Kosovo's budget as follows: €670,478 (2018), €670,478 (2019), €670,478 (2020). Funds are budgeted under MEST budget, Higher Education and Science Program.

4. Expected impact on employment and gender

The main focus is on establishing the analysis system for labour market at the national, regional and local level for the creation of mechanisms for a sectorial skills forecast based on employer and employee surveys, in order to meet the current demand for HE providers, for those who graduate and for labour market participants. Information collected for labour market should include mechanisms to assess the access, participation and representation of women and men in labour market, as well as possible measures that can be taken to mitigate any mismatch.

5. Potential risks

Potential risks include the non-employability of graduates due to the structural economic problems of the public and private sector in Kosovo.

4.3.8. Employment and labour markets

a. Analysis of main obstacles

Current Situation: The Labour Force Survey (LFS) data for 2016 show that despite low participation rate in the labour market in 2016, the unemployment rate in Kosovo was 27.5%; for women it was 31.8% compared to 26.2% for men. During 2016, 28.0% of total working age population were employed. The employment rate was higher for men than for women: 43.0% of working-age men were employed compared to 12.7% of women. Compared to 2015, there is an increase in employment rate of 2.8 percentage points (4.3 p.p. for men and 1.2 for women). Despite this improvement which

continued into first three quarters of 2017, unemployment remains the main economic and social challenge in the country, and the situation in labour market is particularly difficult for women and young people. Labour market indicators for Kosovar women are much lower than those in the region and the EU, with women participation in the labour market three times lower and much higher unemployment rates.³⁰ The inactivity rate (percentage of population that does not participate in labour force) was 61.3% with the highest rate among women (81.4%), and 42.7% for men. The share of employed in unstable jobs, self-employed with no employees as well as those who work free of charge in a family business, is 22.9. The main sectors of employment are manufacturing, trade, education and construction. Several studies explored the reasons for gender differences in employment and labour market participation. In LFS, when asked about reasons for inactivity, over half of women refer to looking after children or incapacitated adults and to other personal or family responsibilities. This reflects gender norms and stereotypes about the role of women in the family,³¹ but also, perhaps more importantly, the lack of institutional facilities for child care and care for the elderly, and of flexible work arrangement.³² An econometric analysis found additional factors contributing to inactivity of women to be: education level, young age, having children younger than 3 years, and receiving remittances.³³ Another important institutional factor discouraging female employment is the design of maternity leave benefits which must to a large extent will be paid by the employer.

Unemployment among young people (age 15-24) in 2016 has declined to 52.4% from 57.7% in 2015 and 61% in 2014. The proportion of youth who belong to NEET category (Not in Education, Employment, or Training) has remained stable over the past few years (30.1% in 2016, 31.4% in 2015 and 30.2% in 2014) The poor level of employment of young people comes as a result of many factors: (i) the quality of education at all levels and mismatch of educational programs with market demands, (ii) lack of internships at school and enterprise, which is particularly important for vocational education; (iii) limited information on labour market demands, (iv) lack of career counselling and orientation; and (v) lack of working experience and contacts (networking) with potential employers. In order to tackle this problem at the beginning of 2018 the Action Plan on Youth Employment has been adopted.³⁴ The unemployment rate for people with tertiary education was 18% in 2016 compared to 32.6% for those with primary education, 32.5% for high school VET graduates and 24.3% for those with general secondary education. People with vocational secondary education are more likely to be employed in the private sector than in the public sector, and the opposite is true for those who have completed tertiary education. The differences in employment by education levels indicate an existence of a skills mismatch which was confirmed in a 2015 survey among Kosovar business companies.³⁵ A majority of firms reported lack of the required skills and work experience as the two main problems when hiring. The lack of skills was in particular emphasized by firms that are innovative, invest in R&D, are foreign owned or have international business contacts. Skills found lacking by companies spread over a wide range of professions (technicians, professionals, managers, clerical and service workers, agricultural, construction and craft workers) and areas (languages, computers, soft skills).

³⁰ Democracy for Development Institute Cost of Patriarchate, 2015.

³¹ World Bank, Gender Gaps in Education, Health and Economic Opportunities, World Bank Poverty Reduction and Economic Management Unit Report No. 75930-KV, 2015.

³² A. Cojocar: Jobs Diagnostic Kosovo, WB Jobs Series Is. 5, 2017.

³³ Making the Labour Market Work for Women and Youth, Kosovo Human Development Report 2016, UNDP. The analysis of inactivity was based on data from the 2012 UNDP's Kosovo Remittance Study.

³⁴ Challenges presented in relation to the education system also are reflected in the Kosovo Education Strategic Plan 2017-2021 and the Strategy for Education and Orientation in Career 2015-2019 by MEST.

³⁵ A. Cojocar: Jobs Diagnostic Kosovo, WB Jobs Series Is. 5, 2017.

Around 60% of hiring was done using informal channels and connections, which underlies the need for better cooperation between employment services, education institutions and private sector employers.

Structural obstacles: The unfavourable situation in the labour market is a result of many related obstacles. On the demand side, low economic development, lack of growing firms and widespread informality result in low job creation in private sector. On the supply side, non-adequate development of vocational training system, including the integration of learning with work and discrepancy between curricula content and market needs, result in mismatch between the supply of skills and the labour market needs. There is a considerably high level of remittances, which according to some studies (e.g. UNDP survey on remittances) discourage participation in labour market. Institutional factors, for example the lack of child care facilities, increase the inactivity rates of women. Regarding employment services, the main challenges consist of lack of staff and capacities in public employment offices, resulting in a high number of job seekers per employment adviser (on average 1106 jobseekers per adviser). Weak capacities of employment services prevent effective matching between job-seekers and employers, as well as providing trainings and other employment facilities. Widespread informality in the employment sector results in a lack of worker protection in general. Mismatch between skills and labour market has a significant negative impact on competitiveness and economic growth, in particular due to the fact that it produces inadequate manpower that directly affects the quality and quantity of investment in economy. Also, if there is a huge mismatch then it results in structural unemployment. High level of structural unemployment (of youth) results in a burden on public finances, high dependency of youth on support schemes and families, and reduces the potential for long-term economic growth.

Reform measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship

1. Description of measure

This measure is continuation of reforms undertaken during last years on improving the capacities of public employment services (PES). It aims to improve services for jobseekers, unemployed and employers. The main priority of this measure is full functionalization of the Employment Agency of the Republic of Kosovo (EARK), as well as the provision of quality services for mediation in employment and vocational training and expansion of active labour market measures (ALM) such as public works, wage subsidies, self-employment, entrepreneurship promotion, internships and on-job training. This measure is in line with NDS, MTEF and NPISAA and is part of the implementation of the Action Plan for Youth Employment.

a. Activities planned in 2018: 1) Conducting a study to identify sectors (local level) with potential for youth employment; 2) Full functionalization of the EARK through improvement of infrastructure and capacity building; 3) Further capacity building of EARK on design, implementation, monitoring and evaluation of ALM measures; 4) Implementing ALM for focus groups (increase of mediations in the ALM by 11%) and development and implementation of the self-employment and entrepreneurship program; 5) Modernization of vocational training programs and services, including: re-validation of current profiles, development of 5 new standards, 5 curricula and 5 learning packages; and accreditation of 7 Vocational Training Centres for the recognition of prior learning, capacity building

and expanding quality services in vocational training; 6) Development of a module for providing employment migration services as well as the career guidance module within Labour Market Information System (LMIS); 7) Support for voluntary work initiatives, contributing to youth employment; 8) Apprenticeship for newly graduated from higher education (KIESA),

b. Activities planned in 2019: 1) Further capacity building of KEA on design, implement, monitor and evaluate ALM measures; 2) Validation of profiles, development of 15 new standards, 15 curricula and 15 learning packages; 3) Implementing ALM measures for focus groups (increase of mediations in the ALM for 13%) and development and implementation of the self-employment and entrepreneurship program; 4) Continue with modernization of vocational training programs and services; 5) Support for voluntary work initiatives, contributing to youth employment; 6) Apprenticeship for newly graduated from higher education (KIESA).

c. Activities planned in 2020: 1) Validation of profiles, development of 10 new standards, 10 curricula and 10 learning packages; 2) Extension and implementation of ALM measures for focus groups; 3) Further capacity building and expanding quality services in vocational training, focusing on marginalized groups; 4) Support for voluntary work initiatives, contributing to youth employment; 5) Apprenticeship for newly graduated from higher education.

2. Estimated cost of the activities and the budgetary impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €20,000,000. For implementation of activities related to functionalization and capacity building of EARK, implementation of ALMs including validation of new profiles, from the Kosovo budget are budgeted the following funds: €4,038,000 (2018), €3,588,000 (2019), €2,441,600 (2020). A significant amount of these funds is part of the allocated budget for EARK, €6,330,766 (2018), €6,716,489 (2019), €6,686,564 (2020). Further, under the youth employment program in the MCYS are budgeted € 10,000 for 2018 and 2019, and €20,000 for 2020. While for the apprenticeship project for newly HE graduated students, € 31,200 are budgeted for each year 2018-2020, under KIESA approved 2018 budget. At the same time, support from various donors to support the activities involved in this measure is expected to be € 146,000 (2018), €3442,000 (2019) and €2,936,000 (2020).

3. Expected impact on competitiveness / rationale of the measure

Capacity building of PES is expected to improve services that will increase employment of jobseekers. This measure also aims to increase access to labour market and opportunities for sustainable employment through an expanded range of various ALMs focusing on young people, women, people with disabilities, minority groups, as well as individuals who are intended to create their own businesses. Higher inclusion of women in the labour market will be supported by specific ALMs targeted to women and additionally by supporting female entrepreneurs (KIESA) and by increasing the availability of public and licensed private childcare facilities (MEST).

4. Expected impact on employment and gender

The measure also focuses on expanding employment opportunities for vulnerable groups, and it also aims to reduce dependence on social schemes. Beneficiaries of social schemes will be involved in active employment measures, and benefit from these schemes by re-entering in the labour market.

5. Potential risks

Mains risks include insufficient staff at central and local level of PES; lack of economic development of the country for absorption of labour force; failure to reduce the gap in skills development.

4.3.9. Social inclusion, reduction of poverty and equal opportunities

a. Analysis of main obstacles

Current Situation: According to the Household Budget Survey (HBS) of 2015, it is estimated that 17.6% of Kosovo's population live below the poverty line (21.1% in 2014 and 17.6% in 2013), with less than 1.82 Euro per day, and 5.2% of the population live below the extreme poverty line of less than 1.30 Euro per day.³⁶ Regarding income distribution, the Gini coefficient in 2015 was relatively small 23.2 (24.1 in 2014 and 23.2 in 2013). The households most affected by poverty are those whose main source of income is social assistance (70.7%) and contract work (33.8%). Absolute poverty is similar between men (17.2%) and women (18.0%) but it is higher for households with a female head of household (23.7%). A higher percentage of children (age 0-18) living below the poverty line (20.7%) reflects the fact that households with 5 or more members are most affected by poverty. Based on the Multiple Indicators Cluster Survey (MICS 2013-2014), it appears that in Kosovo 11% of children aged 5-17 years are engaged in work (and 17% of children belonging to Roma, Ashkali and Egyptian communities).³⁷ The involvement of women in the economy and other spheres of life is low. In leading positions, there are 19.9% women at the central level and 19.7% at the local level. 14.4% of employees in the whole public administration are women, while 12% are members of minorities. Labour market participation rate of women is 21.4%. Life expectancy at birth is 71.3 years which is 4.3 years lower than the regional average (WDI data for 2015). MICS estimated the infant mortality rate in the first year of life at 12 in 1000 live births, which is much higher than the EU average of 3.7 (in 2014). The epidemiological patterns suggest that health care services at the primary level are critical to improve these health outcomes.

Kosovo currently does not provide universal health insurance. Out of pocket spending for health services is high and the premiums paid to private insurances amounted to 81 mio EUR in 2016. It is estimated that almost a third of the population does not have easy access to health care services or have only limited access due to lack of funds and that 18% of the population due to economic reasons does not seek medical services in case of illness. Out-of-pocket payments for health care add about 2 percentage points to the poverty headcount ratio.³⁸ For specific services with special emphasis on cardiology and cardiac surgery, citizens are directed to neighbouring countries to receive these services. Kosovo has an under-financed public health system; based on COFOG classification of expenditures, general government spending for health amounted to 2.8% of GDP in 2015 which is low compared to the EU average of 7.2 %. Despite the fact that in 2017 the efforts have been made to start the collection of health insurance premiums, in order to complete the legal framework and further functionalization of the Health Insurance Fund, the process of collecting premiums was postponed with Government Decision no. 07/148 of 30.06.2017.

³⁶World Bank/KAS (April 2017) "Poverty in consumption in the Republic of Kosovo for the period 2012-2015";

See: <http://ask.rks-gov.net/media/3186/stat-e-varferise-2012-2015.pdf>

³⁷<http://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-nees/treguesit-kryesore-te-anketes-se-grupimeve-te-treguesve-te-shumefishte-e-njohur-si-mics>

³⁸ World Bank Systematic Country Diagnostics, January 2017.

Structural obstacles: The number of citizens and families in need of social protection, healthcare and other services of this nature continue to be high. As a challenge remains the maintenance and upgrading social protection and health care system, insufficient synchronization of social support policies, obstacles on addressing social exclusion and inclusion issues due to lack of a specific grant for financing social services. The social protection system, in combination with other policies at the level of both Ministry and Government, should better improve long-term targeting of vulnerable women and girls and people with disabilities, including also Roma, Ashkali and Egyptian communities.

Impact of structural obstacles: Based on the identified obstacles, the income inequalities undermine the long-term performance of economy. This is related to two aspects: high-level inequalities impede economic growth and also affect the outcome of education, which can therefore generally affect the human capital of the country. The high level of poverty increases the costs of welfare system, while inefficient health system has negative impact on the growth prospects indirectly through high expenditures that does not necessarily translate into expected results.

Reform measure #20: Improvement of social and health services

1. Description of measure

The proposed measure aims to strengthen the social protection system through improved health and social services. A sustainable system for financing social services will be established through a specific municipal grant which will also improve the targeting and the overall level of social spending. Provision of services will be based on minimum standards of social and family services and on the approximation of social policy legislation with EU Acquis. In addition to this reform the budget for 2018 supports a 20% increase social welfare benefits, the introduction of two new social schemes for fragile society groups, the commencement of compensation of citizen injured in employment, temporary inheritance of pensions, financial support for paraplegic citizens and their caregivers, as well as financial support for victims of sexual violence. Institutional infrastructure for creation of the health insurance fund will be finalized, including exemption of health insurance payment for the targeted groups in accordance with the Law on Health Insurance, and the premiums will start to be collected first for public sector employees and paid for vulnerable groups from the budget. In parallel, targeted programmes to improve the quality and availability of health services will be implemented: providing consultancy services of specialists to all major Family Medicine; providing home healthcare services and health services to preschool and school institutions. In addition the 2018 budget plans increases of funding for central level health sector institutions, the municipal primary health grant and essential pharmaceuticals, as well as employment of 200 specialist doctors and 100 nurses, and increased capital expenditures. This measure is carried forward from ERP 2017, as its activities have encountered difficulties in implementation.

a. Activities planned in 2018: 1) Extension of Health Insurance Fund System Platform; 2) Strengthening administrative capacities of the Health Insurance Fund through employment of 24 officials; 3) Application of providing home health services and adoption of a basic package of health services; 4) Strengthening capacities for provision of cardiology and cardio-surgery services; 5) Drafting the legal and operational framework to start with implementation of Poverty Test of social categories, for exemption from payment of premiums for health insurance;; 6) Drafting concept paper for regulation of social services; 7) Designing the funding formula (specific grant) and criteria for budget allocation by municipalities related to social services; 8) Drafting the secondary and operational

legal framework for development of social entrepreneurship; Involvement of beneficiaries in training and employment programs.

b. Activities planned in 2019: 1) Functionalization of e Health Insurance Fund System; 2)

Continuing with provision of cardiology and cardio-surgery services; 3) Provision of health services in preschool and school institutions; 4) Start of collecting premiums from public sector employees; 5) Execution of payments for health insurance services for insured individuals (continues annually); 6) Starting the implementation of Poverty Test of social categories, for exemption from payment of premiums for health insurance; 7) Drafting and harmonizing legislation on social and family services with European standards; 8) Capacity building of municipalities to implement the new formula for social services grants; .

c. Activities planned in 2020: 1) Providing Consultative Services in Primary Health Care; 2)

Execution of payments for health insurance services for insured individuals (continues annually); 3) Provision of health services in preschool and school institutions; 4) Implementation of Poverty Test of social categories, for exemption from payment of premiums for health insurance; 5) Functionalization of the grant scheme for financing projects from the non-governmental sector and social enterprises; 6) Implementation of the self-employment program and vocational training for social categories; 7) Construction of residential and day care centres for the provision of social and family services;

2. Estimated cost of the activities and the budgetary impact

The total estimated cost for implementation of this measure (2018-2020) is expected to be around €150,000,000. The planned cost is as follows: €6,023,671 (2018), €71,213,405 (2019), €72,050,000 (2020). The implementation costs planned for 2019 and 2020, includes €60,000,000 for implementation of Law on Health Insurance (premium collection) as well as the cost of €10,000,000 for Poverty Test for Social Categories (exemption from paying health insurance premiums). These planned costs are not part of the approved budget for 2018 and as such depend on the implementation of the Law on Health Insurance.

3. Expected impact on competitiveness / rationale of the measure

Inequality in income, education, health and employment are important factors for economic growth and development. Based on identified obstacles, the income inequalities undermine performance of economy in long-term period. High level of poverty increases the costs of welfare system, while inefficient health system has negative impact on the growth prospects indirectly through high expenditures that does not necessarily translate into expected results.

4. Expected impact on employment and gender

In general, the measure is expected to have a positive impact on social welfare as well as improve labour market performance and competitiveness. It also impacts the improvement of social services especially for marginalized groups, and people with disabilities, minorities and gender equality. Whereas in health sector this will have impact on inclusion approach by covering services from the list of healthcare services for all categories, social and gender, at an affordable cost.

5. Potential risks

Potential delays may occur in the approval of the amendment of the Law on Local Government Finances; potential delays on amendment of necessary legislation; inability to hire the staff for the

health insurance fund due to IMF freeze related to public sector employment. All these risks might affect the collection of premiums under the Law No. 04/L-249 on Health Insurance.

5. BUDGETARY IMPLICATION OF STRUCTURAL REFORMS

The reforms identified in the previous section entail existing and new policies of the Government in order to address key obstacles to growth, competitiveness and job creation. The total estimated cost of the 20 priority reform measures referred to in Chapter 4 of the 2018-2020 ERP will be EUR 483.4 million (including direct budget expenditure, loans, IPA funds and others). These reforms are mainly funded through Kosovo budget, but also external funding from financial institutions, grants and technical assistance from development partners. As far as budgetary expenditure is concerned, the implementation of structural reforms is associated with increase in the expenditures part.

The total direct budgetary impact arising from the implementation of 20 envisaged structural reforms amounts to €369.4 mil for the period 2018-2020. The total possible non-budgetary funding (including borrowings) is expected to be at €114.7 mil for the period 2018-2018. Out of this amount, €2.25 mil is IPA committed funds.

The total impact on budgetary expenditure for the period 2018-2020, including loans that are recorded as a part of the 2018 approved Budget, is expected to be 424.1million. These are mainly existing policies which have received respective funding from Kosovo budget and commitments from the development partners. Of all the priority areas, the most significant increase of budgetary expenditures is related to expected payment of health insurance benefits starting from 2019 and investments in agriculture infrastructure and agro-processing.

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

	2018	2019	2020
Overall Cost			
A. Duration of the reforms *			
B.Net direct budgetary impact (if any) (in €)	79,664,994.66	143,161,190.00	146,612,433.66
B. 1 Direct impact on budgetary revenue (in €)			
B. 2 Direct impact on budgetary expenditure (in €)	79,664,994.66	143,161,190.00	146,612,433.66
B. 3 Possible non-budgetary financing (in €)	32,269,841	41,329,966	41,105,556
B.3.1 Of which committed IPA funding including WBIF funding (in €)	750,000	750,000	750,000
Total net budgetary impact			
Total impact on budgetary revenue			
Total impact on budgetary expenditure	92,267,727.66	162,988,123.00	168,916,700.66

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process for the preparation and approval of the Economic Reform Programme 2018-2020 as well as the consultation of national stakeholders during the preparation process is presented in this section. To coordinate the process, on June 30, 2017 the Government of the Republic of Kosovo has adopted the Decision No. 01/148 to initiate the drafting of Economic Reform Programme 2018-2020 as part of the dialogue between the EU and the Republic of Kosovo within the economic governance area.

According to this decision, the Minister of Finance was appointed as the National Coordinator of ERP 2018-2020, whose work was supported by the Strategic Planning Office (SPO) within the Office of Prime Minister; the Department of Economic and Public Policies and International Financial Cooperation (DEPPIFC) in the Ministry of Finance; and coordinators of respective fields in the line Ministries: Ministry of Finance, Ministry of Economic Development, Ministry of Trade and Industry, Ministry of Agriculture, Forestry and Rural Development, Ministry of Education, Science and Technology, Ministry of Labour and Social Welfare, Ministry of Public Administration, Ministry of Environment and Spatial Planning, Ministry of Justice, Ministry of Infrastructure, and Ministry of European Integration and other supporting bodies and agencies.

Based on the instructions of the National Coordinator, on July 12, 2017 SPO invited ministries and other institutions to a kick-off meeting, in order to request contributions to the ERP drafting process. On October 04, 2017 a high-level meeting was organised on Economic Reform Program 2018-2020 led by Kosovo Prime Minister and Director General for Enlargement, and the first draft was introduced to EC on November 06, 2017. In November 9&10, 2017 a workshop with the European Commission was held, in order to review the first draft of measures. Subsequently, based on OECD comments/feedbacks the coordinators of respective fields worked on consolidation and operationalization of measures. Afterwards individual meetings with coordinators were held, where all EC comments/feedbacks were addressed.

In order the program to reach the widest possible consensus, since the initiation of the drafting process were involved targeted civil society and private sector organisations by consulting them during the preparation of the program and ensuring their inputs are taken into account. In addition, despite active participation in the process of certain civil society organisations and private sector associations, the document has been published for public consultation in the government platform from 15 December 2017 until 11 January 2018 (<http://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40293>). For the purpose of reviewing the published draft, on 15 January 2018, with the leadership of the Minister of Finance, the programme has been presented for the organisation of civil society and private sector and chambers of commerce, as well as representatives of line ministries. A report on results of public consultations is presented under Annex II of the Programme.

ANNEX 1: TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	2015	2015	2016	2017	2018	2019	2020
		Level (mn EUR)	Rate of change					
1. Real GDP at market prices	B1*g	5,391.935	4.1	4.1	4.3	4.6	4.9	5.1
2. Current GDP at market prices	B1*g	5,567.500	4.3	4.5	4.5	6.2	5.9	6.9
Components of real GDP								
3. Private consumption expenditure	P3	4,759.027	4.1	5.6	0.6	4.2	4.1	4.6
4. Government consumption expenditure	P3	861.000	-5.2	-2.7	3.3	3.6	0.6	0.6
5. Gross fixed capital formation	P51	1,278.700	11.7	11.5	12.8	7.1	7.5	8.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	119.200	7.6	0.2	28.8	-8.5	14.0	12.8
7. Exports of goods and services	P6	1,242.329	1.9	2.4	14.7	4.3	3.1	3.4
8. Imports of goods and services	P7	2,868.321	3.8	7.2	7.8	4.2	3.3	4.3
Contribution to real GDP growth								
9. Final domestic demand		6,898.7	5.4	7.2	4.2	6.0	5.6	6.3
10. Change in inventories and net acquisition of valuables	P52+P53	119.2	0.2	0.0	0.6	-0.2	0.3	0.2
11. External balance of goods/services	B11	-1,626.0	-1.5	-3.1	-0.5	-1.1	-1.0	-1.4

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	2015	2016	2017	2018	2019	2020
1. GDP deflator		0.2	0.5	0.2	1.5	0.9	1.7
2. Private consumption deflator		-1.2	-0.6	1.7	1.3	1.1	1.3
3. HICP		-0.4	0.3	1.7	1.3	1.1	1.2
4. National CPI change		-0.4	0.3	1.7	1.3	1.1	1.2
5. Public consumption deflator		4.3	2.1	1.0	3.2	1.9	2.3
6. Investment deflator		0.3	-5.2	-1.7	2.6	3.2	4.0
7. Export price deflator (goods & services)		-0.2	8.4	1.3	1.4	1.1	1.2
8. Import price deflator (goods & services)		-1.1	-1.5	2.7	1.6	2.2	1.7

Table 1c: Labour markets developments

	ESA Code	2015	2015	2016	2017	2018	2019	2020
		Level	Level/Rate of change					
1. Population (thousands)			1,757.8	1,771.6	1,792	1,801	1,810	1,820
2. Population (growth rate in %)			-3.0	0.8	1.2	0.5	0.5	0.5
3. Working-age population (persons)[1]			1,176.1	1,184.5	:	:	:	:
4. Participation rate			37.6	38.7	:	:	:	:
5. Employment, persons [2]			296.9	331.8	:	:	:	:
6. Employment, hours worked[3]			633,076	711,627	:	:	:	:
7. Employment (growth rate in %)			-8.2	11.7	:	:	:	:
8. Public sector employment (persons)			79.4	80.1	:	:	:	:
9. Public sector employment (growth in %)			-4.2	0.9	:	:	:	:
10. Unemployment rate [4]			32.9	27.5	:	:	:	:
11. Labour productivity, persons[5]	D1	19517.6	13.4	-6.9	:	:	:	:
12. Labour productivity, hours worked[6]			13.9	-7.0		:	:	:
13. Compensation of employees	D1	1828.7	-2.9	13.8		:	:	:

[1] Age group of 15-64 years; [2] Occupied population, domestic concept national accounts definition; [3] National accounts definition; [4] Harmonised definition, Eurostat; levels; [5] Real GDP per person employed; [6] Real GDP per hour worked

Table 1d: Sectoral balances

Percentages of GDP	ESA code	2015	2016	2017	2018	2019	2020
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.5	-8.1	-8.8	-7.7	-7.2	-6.8
<i>of which:</i>							
- Balance of goods and services		-28.7	-28.5	-28.4	-27.4	-26.8	-26.1
- Balance of primary incomes and transfers		21.8	19.9	19.4	19.6	19.5	19.2
- Capital account		0.4	0.4	0.2	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	B.9/EDP B.9	-4.9	-7.1	-7.5	-3.8	-3.8	-3.8
3. Net lending/borrowing of general government		-1.6	-1.1	-1.4	-3.9	-3.4	-3.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	2015	2016	2017	2018	2019	2020
GDP and investment							
GDP level at current market prices (in domestic currency)	B1g	5807.1	6070.2	6344.9	6737.2	7132.4	7623.5

Investment ratio (% of GDP)	25.0	25.2	26.8	27.7	29.0	30.6
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture	-4.1	3.1	10.8	4.9	6.3	9.5
2. Industry (excluding construction)	5.9	1.8	-0.4	4.1	5.5	5.8
3. Construction	15.8	4.5	4.1	6.7	10.4	9.6
4. Services	1.4	2.4	6.3	5.9	6.8	8.5

Table 1f: External sector developments

Million Euro unless otherwise indicated		2015	2016	2017	2018	2019	2020
1. Current account balance (% of GDP)	% of GDP	-8.6	-8.3	-9.0	-9.5	-10.1	-10.8
2. Export of goods	mn EUR	322.5	307.9	360.0	378.2	397.4	421.3
3. Import of goods	mn EUR	2,431.8	2,598.8	2,931.2	3,103	3,295.7	3,517.4
4. Trade balance	mn EUR	-2,109.3	-2,290.8	-2,571.2	-2,725	-2,898.2	-3,096.0
5. Export of services	mn EUR	951.5	1,105.9	1,283.5	1,360	1,413.9	1,475.4
6. Import of services	mn EUR	494.4	491.8	490.0	519.1	529.2	538.4
7. Service balance	mn EUR	457.1	614.1	793.5	840.5	884.7	937.0
8. Net interest payments from abroad	mn EUR	17.3	19.2	23.2	23.0	23.2	23.6
9. Other net factor income from abroad	mn EUR	75.3	58.1	61.6	70.5	89.5	104.3
10. Current transfers	mn EUR	1,062.4	1,096.8	1,121.1	1,148	1,177.2	1,207.3
11. <i>Of which</i> from EU	mn EUR	:	:	:	:	:	:
12. Current account balance	mn EUR	-497.2	-502.6	-571.7	-642.4	-723.7	-823.8
13. Capital and financial account	mn EUR	275.7	119.9	347.5	407.2	461.1	525.8
14. Foreign direct investment	mn EUR	271.8	175.6	240.0	257.2	281.1	315.8
15. Foreign reserves	mn EUR	-111.8	76.7	111.1	150.7	177.9	100.0
16. Foreign debt	mn EUR	1,931.8	2,015.1	2,105.1	2,195	2,285.1	2,375.1
17. <i>Of which</i> : public	mn EUR	371.2	373.8	393.5	414.3	436.2	459.3
18. <i>O/w</i> : foreign currency denominated	mn EUR	:	:	:	:	:	:
19. <i>O/w</i> : repayments due	mn EUR	:	:	:	:	:	:
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.0	1.0	1.0	1.0	1.0	1.0
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	0.0	0.0	0.0	0.0	0.0	0.0
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0	1.0
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	%, year-on-year	0.0	0.0	0.0	0.0	0.0	0.0
22. Net foreign saving	% of GDP	:	:	:	:	:	:
23. Domestic private saving	% of GDP	1.7	2.2	1.2	1.0	0.4	0.4
24. Domestic private investment	% of GDP	20.6	19.9	21.2	20.8	20.8	21.4
25. Domestic public saving	% of GDP	5.2	4.9	4.5	4.9	5.2	5.1
26. Domestic public investment	% of GDP	7.0	7.3	7.7	9.3	9.5	9.6

Table 1g: Sustainability indicators

	Dimension	2012	2013	2014	2015	2016	2017
1. Current Account Balance	% of GDP	-5.8	-3.4	-6.9	-8.6	-8.3	-9.0
2. Net International Investment Position	% of GDP	2.7	4.8	3.5	-0.8	-1.3	-2.0
3. Export market shares	%, yoy	:	:	:	:	:	:
4. Real Effective Exchange Rate [1]	%, yoy	-0.3	0.4	0.2	-1.9	-0.1	0.4
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:	:
6. Private sector credit flow	% of GDP	1.1	0.7	1.2	2.0	3.0	3.1
7. Private sector debt	% of GDP	22.1	23.0	24.1	25.7	25.9	26.6
8. General Government Debt	% of GDP	6.6	6.0	5.9	6.4	6.2	6.8

Table 2a: General government budgetary prospects

	ESA Code	2015 Level (mn NCU)	2015	2016	2017	2018	2019	2020
			% of GDP					
Net lending (B9) by sub-sectors								
1. General government	S13	-94.1	-1.6	-1.1	-1.4	-3.9	-3.4	-3.0
2. Central government	S1311	:	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:	:
General government (S13)								
6. Total revenue	TR	1,469.7	25.3	26.5	27.2	27.1	27.2	27.1
7. Total expenditure[1]	TE	1,563.8	26.9	27.6	28.5	31.1	30.6	30.1
8. Net borrowing/lending	EDP.B9	-94.1	-1.6	-1.1	-1.4	-3.9	-3.4	-3.0
9. Interest expenditure	EDP.D41 incl. FISIM	-19.2	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3
10. Primary balance[2]		-113.3	-2.0	-1.4	-1.7	-4.3	-3.8	-3.3
11. One-off and other temporary measures [3]		:	:	:	:	:	:	:
Components of revenues								
12. Total taxes (12 = 12a+12b+12c)		1,304.4	22.5	24.0	24.3	24.4	24.7	24.9
12a. Taxes on production and imports	D2	1,106.6	19.1	20.2	20.4	20.5	20.6	20.7
12b. Current taxes on income and wealth	D5	197.8	3.4	3.8	4.0	4.0	4.1	4.2
12c. Capital taxes	D91	0.0	:	:	:	:	:	:
13. Social contributions	D61	0.0	:	:	:	:	:	:

14. Property income	D4	15.0	0.3	:	0.1	:	:	:
15. Other (15 = 16-(12+13+14)) [4]		150.3	2.6	2.5	2.8	2.7	2.5	2.3
16 = 6. Total revenue	TR	1,469.7	25.3	26.5	27.2	27.1	27.2	27.1
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,304.4	22.5	24.0	24.3	24.4	24.7	24.9
Selected components of expenditures								
16. Collective consumption	P32	730.5	12.6	12.3	12.8	12.7	12.4	12.0
17. Total social transfers	D62 + D63	418.1	7.2	7.8	7.8	7.8	7.5	7.0
17a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	418.1	7.2	7.8	7.8	7.8	7.5	7.0
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	-19.2	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3
19. Subsidies	D3	:	:	:	:	:	:	:
20. Gross fixed capital formation	P51	403.9	7.0	7.3	7.9	10.3	10.5	10.8
21. Other (21 = 22-(16+17+18+19+20) [6])		30.6	0.5	0.5	0.4	0.6	0.6	0.5
22. Total expenditures	TE [1]	1,563.8	26.9	27.6	28.5	31.1	30.6	30.1
p.m. compensation of employees	D1	525.0	9.0	9.0	8.9	8.8	8.5	8.2

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2b: General government budgetary prospects

	ESA Code	2015	2016	2017	2018	2019	2020
		mn NCU					
Net lending (B9) by sub-sectors							
1. General government	S13	-94.1	-64.0	-85.7	-263.6	-244.6	-228.0
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1469.7	1,608.5	1,724.8	1,828.9	1,938.7	2,069.0
7. Total expenditure[1]	TE	1,563.8	1,672.5	1,810.5	2,092.5	2,183.4	2,296.9
8. Net borrowing/lending	EDP.B9	-94.1	-64.0	-85.7	-263.6	-244.6	-228.0
9. Interest expenditure	EDP.D4 1 incl. FISIM	-19.2	-23.2	-23.0	-23.6	-23.4	-21.3
10. Primary balance[2]		-113.3	-87.2	-108.7	-287.2	-268.0	-249.3

11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1304.4	1459.5	1542.8	1645.4	1761.5	1895.7
12a. Taxes on production and imports	D2	1106.6	1227.4	1291.7	1378.4	1471.6	1577.4
12b. Current taxes on income and wealth	D5	197.8	232.1	251.1	267.0	289.9	318.4
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	15.0	0.0	5.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) [4]		150.3	148.9	177.0	183.5	177.2	173.2
16 = 6. Total revenue	TR	1469.7	1608.5	1724.8	1828.9	1938.7	2069.0
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,304.4	1,459.5	1,542.8	1,645.4	1,761.5	1,895.7
Selected components of expenditures							
16. Collective consumption	P32	730.5	746.5	810.6	855.3	883.2	916.2
17. Total social transfers	D62 + D63	418.1	474.7	495.5	526.0	532.0	537.0
17a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	418.1	474.7	495.5	526.0	532.0	537.0
18 = 9. Interest expenditure (incl. FISIM)	EDP.D4 1 + FISIM	-19.2	-23.2	-23.0	-23.6	-23.4	-21.3
19. Subsidies	D3	:	:	:	:	:	:
20. Gross fixed capital formation	P51	403.9	443.6	500.8	694.4	751.2	826.7
21. Other (21 = 22-(16+17+18+19+20)) [6]		30.6	30.9	26.6	40.4	40.4	38.3
22. Total expenditures	TE [1]	1563.8	1672.5	1810.5	2092.5	2183.4	2296.9
p.m. compensation of employees	D1	525.0	543.7	566.0	590.1	607.8	626.0

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3: General government expenditure by function

% of GDP	COFOG Code	2015	2016	2017	2018	2019	2020
1. General public services	1	6.4	3.0	:	:	:	:
2. Defence	2	0.6	1.7	:	:	:	:
3. Public order and safety	3	1.5	2.6	:	:	:	:
4. Economic affairs	4	5.6	6.4	:	:	:	:
5. Environmental protection	5	0.2	0.3	:	:	:	:
6. Housing and community amenities	6	0.5	0.7	:	:	:	:
7. Health	7	2.8	2.8	:	:	:	:
8. Recreation, culture and religion	8	0.6	0.6	:	:	:	:
9. Education	9	4.5	4.6	:	:	:	:
10. Social protection	10	5.1	6.4	:	:	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	26.9	27.6	28.5	31.1	30.6	30.1

Table 4: General government debt developments

% of GDP	ESA Code	2015	2016	2017	2018	2019	2020
1. Gross debt [1]		12.9	14.0	15.8	17.6	19.2	20.0
2. Change in gross debt ratio		2.4	1.2	1.7	1.9	1.5	0.8
Contributions to change in gross debt							
3. Primary balance [2]		1.95	1.4	1.7	4.3	3.8	3.3

4. Interest expenditure [3]	EDP D.41	-0.33	-0.4	-0.4	-0.4	-0.3	-0.3
5. Stock-flow adjustment		0.8	0.1	0.4	-2.1	-1.9	-2.2
<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]		-3.3	-3.1	-2.7	-2.4	-2.0	-1.6
Other relevant variables							
6. Liquid financial assets [8]		:	3.5	4.4	4.4	4.5	4.4
7. Net financial debt (7 = 1 - 6)		:	10.6	11.4	13.2	14.7	15.6

[1] As defined in Regulation 3605/93 (not an ESA concept).; [2] Cf. item 10 in Table 2.; [3] Cf. item 9 in Table 2.; [4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.; [5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.; [6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.; [7] Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.; [8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA Code	2015	2016	2017	2018	2019	2020
1. Real GDP growth (% , yoy)	B1g	4.1	4.1	4.3	4.6	4.9	5.1
2. Net lending of general government	EDP.B.9	-1.6	-1.1	-1.4	-3.9	-3.4	-3.0
3. Interest expenditure	EDP.D.41	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3
4. One-off and other temporary measures [1]		:	:	:	:	:	:
5. Potential GDP growth (% , yoy)		:	:	:	:	:	:
Contributions:							
- labour		:	:	:	:	:	:
- capital		:	:	:	:	:	:
- total factor productivity		:	:	:	:	:	:
6. Output gap		:	:	:	:	:	:
7. Cyclical budgetary component		:	:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:	:
9. Cyclically-adjusted primary balance (8+3)		:	:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:	:

[1] A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous programme

	2015	2016	2017	2018	2019	2020
1. GDP growth (% , yoy)						
Previous programme	4.0	3.8	4.4	3.3	3.8	0.0
Latest update	4.1	4.1	4.3	4.6	4.9	0.0
Difference (percentage points)	0.1	0.3	-0.1	1.3	1.1	0.0
2. General government net lending (% of GDP)						
Previous programme	-1.6	-1.1	-4.3	-4.0	-3.8	0.0
Latest update	-1.6	-1.1	-1.4	-3.9	-3.4	0.0
Difference	0.0	0.0	2.9	0.1	0.4	0.0
3. General government gross debt (% of GDP)						
Previous programme	13.0	14.2	17.9	20.4	22.0	0.0
Latest update	12.9	14.0	15.8	17.6	19.2	0.0
Difference	-0.1	-0.2	-2.1	-2.8	-2.8	0.0

Table 7: Long-term sustainability of public finances
(data are not available)

Table 7a: General government guarantees

% of GDP	2016	2017
Public guarantees	0.4	0.8
Of which: linked to the financial sector	0.4	0.8

Table 8: Basic assumptions on the external economic environment

		2015	2016	2017	2018	2019	2020
Short-term interest rate	Annual average	-0.6	-0.3	-0.3	0.2	1.1	1.1
Long-term interest rate	Annual average	1.3	0.4	-0.1	0.2	0.5	0.5
USD/EUR exchange rate	Annual average	1.11	1.11	:	:	:	:
Nominal effective exchange rate	Annual average	101.3	102	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	1	1	1	1	:	:
Global GDP growth, excluding EU	Annual average	3.4	3.2	3.6	3.7	3.8	3.8
EU GDP growth	Annual average	2	1.8	2.1	1.9	1.5	1.5
Growth of relevant foreign markets	Annual average	:	:	:	:	:	:
World import volumes, excluding EU	Annual average	-0.9	2	4.4	4.9	:	:
Oil prices (Brent, USD/barrel)	Annual average	50.8	42.8	50.3	50.2	:	:

Table 9. Selected employment and social indicators

	Data source	2012	2013	2014	2015	2016
1. Labour market participation rate (%) total	LFS (SAK)	36.9 (15-64)	40.5	41.6	37.6	38.7
- male	LFS (SAK)	55.4	60.2	61.8	56.7	58.3
- female	LFS (SAK)	17.8	21.1	21.4	18.1	18.6
2. Employment rate (%) total	LFS (SAK)	25.5 (15-64)	28.4	26.9	25.2	28.0
- male	LFS (SAK)	39.9	44.0	41.3	38.7	43.0
- female	LFS (SAK)	10.7	12.9	12.5	11.5	12.7
3. Unemployment rate (%) total	LFS (SAK)	30.9	30.0	35.3	32.9	27.5
- male	LFS (SAK)	28.1	26.9	33.1	31.8	26.2
- female	LFS (SAK)	40.0	38.8	41.6	36.6	31.8
4. Long-term unemployment rate (%) total		n/a	n/a	n/a	n/a	n/a
- male	e	n/a	n/a	n/a	n/a	n/a
- female	e	n/a	n/a	n/a	n/a	n/a
5. Youth unemployment (15-24 yrs) rate (%) total	LFS (SAK)	55.3	55.9	61.0	57.7	52.4
- male	LFS (SAK)	52.0	50.4	56.2	54.2	47.2
- female	LFS (SAK)	63.8	68.4	71.7	67.2	65.4
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %	LFS (SAK)	35.1 (15-24)	35.3	30.2	31.4	30.1
7. Early school leavers, in % (Eurostat)	e	n/a	n/a	n/a	n/a	n/a
8. Participation rate in early childhood education and care /1		14.8	15.7	n/a	n/a	n/a
9. GINI coefficient		n/a	n/a	n/a	n/a	n/a
10. Inequality of income distribution S80/S20	e	n/a	n/a	n/a	n/a	n/a
11. Social protection expenditure in % of GDP	Treasury Dept.	n/a	n/a	n/a	n/a	n/a
12. Health expenditure in % of GDP		n/a	n/a	n/a	n/a	n/a
13. At-risk-of-poverty before social transfers, % of the population	e	n/a	n/a	n/a	n/a	n/a
14. Poverty rate		n/a	n/a	n/a	n/a	n/a
15. Poverty gap		n/a	n/a	n/a	n/a	n/a

Table 10

Document	Description	2015	2016	2017 proj.	2018 proj.	2019 proj.	2020 proj.
ERP 2017	TOTAL REVENUES	1,470	1,634	1,725	1,793	1,892	
	TOTAL EXPENDITURES	1,564	1,732	2,001	2,064	2,160	
	CURRENT SPENDING	1,149	1,221	1,275	1,310	1,348	
	CAPITAL EXPENDITURES	404	500	722	753	810	
	PRIMARY BALANCE	-94	-98	-276	-272	-268	
	<i>Overall balance (as per fiscal rule)</i>	-78	-95	-97	-96	-83	
	OVERALL BALANCE	-111	-122	-300	-302	-298	
	GDP	5,772	6,031	6,410	6,716	7,058	
	Overall deficit as % e GDP	-1.40%	-1.60%	-1.50%	-1.40%	-1.20%	
	Bank balance as % of GDP	3.60%	5.50%	5.50%	5.40%	4.80%	
Current expenditure as % of GDP	20.60%	20.30%	19.90%	19.50%	19.10%		
ERP 2018	1. TOTAL REVENUES	1,470	1,608	1,725	1,829	1,938	2,069
	2. TOTAL EXPENDITURES	1,564	1,672	1,811	2,092	2,183	2,297
	2.1 CURRENT SPENDING	1,149	1,221	1,309	1,386	1,420	1,458
	2.2 CAPITAL EXPENDITURES	404	444	501	694	751	827
	3. PRIMARY BALANCE	-94	-64	-86	-264	-245	-228
	<i>4. Overall balance (as per fiscal rule)</i>	-78	-54	-96	-122	-109	-70
	5. OVERALL BALANCE	-111	-83	-109	-287	-268	-249
	GDP	5,807	6,070	6,345	6,737	7,132	7,624
	Overall deficit as % e GDP	-1.30%	-0.90%	-1.50%	-1.80%	-1.50%	-1.00%
	Bank balance as % of GDP	3.50%	3.50%	4.50%	4.50%	4.50%	4.40%
Current expenditure as % of GDP	20.60%	20.20%	20.90%	20.80%	20.20%	19.40%	
Difference	1. TOTAL REVENUES	0.0%	1.6%	0.0%	-2.0%	-2.4%	
	2. TOTAL EXPENDITURES	0.0%	3.6%	10.5%	-1.3%	-1.1%	
	2.1 CURRENT SPENDING	0.0%	0.0%	-2.6%	-5.5%	-5.1%	
	2.2 CAPITAL EXPENDITURES	0.0%	12.6%	44.1%	8.5%	7.9%	
	3. PRIMARY BALANCE	0.0%	53.1%	220.9%	7.5%	9.4%	
	<i>4. Overall balance (as per fiscal rule)</i>	0.0%	75.9%	1.0%	-21.3%	-23.9%	
	5. OVERALL BALANCE	0.0%	47.0%	175.2%	5.2%	11.2%	
	GDP	-0.6%	-0.6%	1.0%	-0.3%	-1.0%	
	Overall deficit as % e GDP	0.1%	0.7%	0.0%	-0.4%	-0.3%	
	Bank balance as % of GDP	-0.1%	-2.0%	-1.0%	-0.9%	-0.3%	
Current expenditure as % of GDP	0.0%	-0.1%	1.0%	1.3%	1.1%		

Table 11: Matrix of policy commitments

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
Reform measure #1: Improvement of public procurement through application of electronic procurement³⁹				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		269,253	269,253	269,253
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		269,253	269,253	269,253
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #2: Reducing energy consumption through energy efficiency measures⁴⁰				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		750,000	1,000,000	1,000,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		750,000	1,000,000	1,000,000
B. 3 Possible non-budgetary financing (in €)		11,993,333	11,164,333	9,833,334
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #3: Further development of energy generation⁴¹				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		1,500,000	1,500,000	1,500,000

³⁹The cost for implementation of Measure #1 for the period 2018-2020 is around 800,000€, respectively includes €269,253 for each year. These funds are budget within the budget for goods and services of the PPRC.

⁴⁰The cost for implementation of measure #2 for the period 2018-2020, is expected to be around €35,740,000. This cost will be covered from three financing sources: a) Kosovo budget, b) Loans; and c) Grants and donors. In other terms, this budget includes €2,750,000, budgeted in the category of capital investments for the Kosovo Energy Efficiency Agency: €750,000 (2018), €1,000,000 (2019), €1,000,000 (2020); b) Loan from WB for 2018-2020 in the amount of €17,493,913(€5,410,000 (2018), €6,081,000(2019) €6,000,000 (2020) and loan for the Municipality of Prishtina, €287,500 (2018), Gjakovës €287,500 (2018), Ferizaj €287,500 (2018) and Gjilan €287,500 (2018). Whereas support from donors for this measure is expected to be as follows: €5,433,333 (2018), €5 083 333 (2019), €3 833 334 (2020).

⁴¹The cost for development of the project TPP Kosova e Re (Closure of first phase – financial closure, signing of commercial agreement between the Government and private investor Contour Global; Initiation of procedure for contracting the company for construction of Thermo-Power Plant; Developing studies based on project requirements) during the period 2018-2020 is expected to be €6,000,000. The amount of €4,500,000 has been budgeted from the Budget of Kosovo for consultancy services, category of goods and services, allocated €1,500,000 for the next three years. At the same time the support from donor projects is expected to be €1,500,000 for three years, with €500,000 each year. For development of new generation capacity, TPP Kosova e Re, the total cost for the three-year period is foreseen to be 1.3 billion euros, expected to be implemented by private investors. Development of RES projects are foreseen to have a total cost for the three-year period of 359m euros, expected to be implemented by private investors, respectively € 37,730,000 (2018), € 125,700,000 € (2019); € 196.220.000 (2020).

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		1,500,000	1,500,000	1,500,000
B. 3 Possible non-budgetary financing (in €)		500,000	500,000	500,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #4: Investments in the agricultural infrastructure and agro-⁴²				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		47,500,000	47,600,000	48,700,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		47,500,000	47,600,000	48,700,000
B. 3 Possible non-budgetary financing (in €)		5,708,333	5,808,333	5,366,667
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #5: Expanding farms through consolidation and regulation of agricultural land ⁴³				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		500,000	500,000	500,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		500,000	500,000	500,000
B. 3 Possible non-budgetary financing (in €)		60,000		
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				

⁴²The cost for implementation of measure #4 is planned to be €47,500,000.00 in 2018, €47,600,000.00 in 2019 and €48,700,000.00 in 2020. The cost for implementation of activities of this measure such as: 1. Investment in physical infrastructure and 2. Investment in the agro-processing sector, has been budgeted in the 2018 budget within the category of subsidies and transfers, covering the Department for Policies €25.4 mil (2018), €27.3 mil (2019), €26.0 (2020) and within the Department for Rural Development Policies €21.3 mil (2018), €21.4(2019); €23.3 (2020). As per the activity on investment in irrigation system, the budget covers €1.2mil (2018), €1.1mil (2018), and €2.3mil (2020) from the category of capital investments. Whereas for the Integrated Information System for each year are planned around €200,000. Some activities are expected to be supported from the WB loan, with around €5,800,000 for each year that will be dedicated for consolidation of institutional capacities of the Managing Authority and Payment Agency for rural development grants, Radoniqi system and development of irrigation master plan.

⁴³The cost for implementation of measure #5 is budgeted in 2018 budget, in the amount of €1,500,000mm for the period 2018-2020, with allocation of € 500,000 for each year. In addition, donor support is also available for implementation of this measure with € 60,000, and other support through IPA 2018 Programming.

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
Reform measure #6: Developing private sector competitiveness through support to industrial SMEs ⁴⁴				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		5,294,526	3,771,585	4,083,046
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		5,294,526	3,771,585	4,083,046
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #7: Development of tourism products in Kosovo touristic regions ⁴⁵				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		10,000	10,000	10,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		10,000	10,000	10,000
B. 3 Possible non-budgetary financing (in €)		120,000	116,000	116,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #8: Adoption of evidence-based policies and reducing administrative burdens⁴⁶				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		290,000	290,000	290,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		290,000	290,000	290,000
B. 3 Possible non-budgetary financing (in €)				

⁴⁴The cost for implementation of measure #6 is budgeted in the 2018 Budget and includes around €13,000,000 for the period 2018-2020. For implementation of activities 1 and 2 the budget allocated for the Department of Industry, of the Ministry of Trade, in the category of goods and services is €50,000 annually. Whereas for implementation of activities 3,4 and 5 budget has been planned within KIESA in the amount of €5,294,526 (2018), €3,771,585 (2019) and €4,083,046 (2020).

⁴⁵The cost for implementation of measure #7 is estimated to be €82.000, where €10,000 each year are planned from the Kosovo Budget, whereas €52.000 from donors. During 2018 for implementation of activities, from Kosovo Budget are planned €10.000, whereas from donors €20.000. During 2019 for implementation of activities, from Kosovo Budget are planned €10.000, whereas from donors €16.000. During 2020 for implementation of activities, from Kosovo Budget are planned €10.000, whereas from donors €16.000. The budget for supporting businesses on development of rural tourism from MAFRD funds are foreseen €100,000 annually.

⁴⁶For the implementation of activities of measure #8, €290,000 is planned for each year through 2018-2020. These funds are provided by donors, through direct budget support and expertise.

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #9: Securing property rights by addressing informality in the immovable property sector⁴⁷				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		42,000	42,500	
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		42,000	42,500	
B. 3 Possible non-budgetary financing (in €)		209,575	444,150	193,115
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #10: Increase judicial efficiency through reduction of court case backlog⁴⁸				
A. Duration of the reform*		X	x	x
B. Net direct budgetary impact (if any) (in €)		350,000	350,000	
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		350,000	350,000	
B. 3 Possible non-budgetary financing (in €)		2,300,000	2,500,000	1,900,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #11: General Inspection Reform⁴⁹				
A. Duration of the reform*	x	X	x	x
B. Net direct budgetary impact (if any) (in €)				
B. 1 Direct impact on budgetary revenue (in €)				

⁴⁷The total cost for implementation of this measure is about € 930,000, with 84,500 Euros covered by the Kosovo Budget, €42,000 for 2018 and €42,500 for 2019. The rest of the activities will be supported from development partners (USAID and EC) as follows: €209, 575 for 2018, €444,150 for 2019 and €193,115 for 2020.

⁴⁸The cost for implementation of measure #10, aiming a zero reduction target of backlogged cases is expected to have budgetary implications in the amount of € 700,000 for 2018 and 2019. This is related with the salaries of 50 legal associates, with monthly salary of €550 to support resolution of 90 thousand civil and penal cases within two years. Furthermore, during 2018 and 2019, net direct impact to the budget will be €350,000 for each year, which have been allocated in the 2018 budget. The cost for increasing capacities of the Fiscal Division could be carried out only with finalisation of the needs assessment, which is expected within the first quarter of 2018. The cost for the implementation of case management system is € 6,700,000 for three years, as follows €2,300,000 (2018), € 2,500,000 (2019) and €1,900,000 (2020), which is covered from donor support.

⁴⁹The cost for implementation of measure #11 is estimated to be around €3,800,000 throughout 2018-2020, respectively €844,400 (2018); €1,447,600 (2019) and €1,447,600 (2020). This will be covered from the WB loan which is in the amount of €14,300,000 for the period 2017-2022. Out of this amount based on the loan agreement around €7,925,000 is part of budgetary projections for the period 2018-2020.

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
B. 2 Direct impact on budgetary expenditure (in €)				
B. 3 Possible non-budgetary financing (in €)		844,400	1,447,600	1,447,600
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #12: Improving entrepreneurship and innovation environment ⁵⁰				
A. Duration of the reform*		X	x	x
B. Net direct budgetary impact (if any) (in €)		9,250,000	9,250,000	9,250,000
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		9,250,000	9,250,000	9,250,000
B. 3 Possible non-budgetary financing (in €)		6,000,000	6,000,000	6,000,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #13: Expansion of relevant ICT network infrastructure for socio-economic development ⁵¹				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		1,674,184.00	856,087.00	1,640,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		1,674,184.00	856,087.00	1,640,000.00
B. 3 Possible non-budgetary financing (in €)		750,000.00	7,750,000.00	10,750,000.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)		750,000.00	750,000.00	750,000.00
Reform measure #14: Trade Facilitation - Increasing the cost-effectiveness of international trade transactions ⁵²				
A. Duration of the reform*		x	x	x

⁵⁰For implementation of the measure #12 during the period 2018-2020 are planned around €45,000,000. From this amount around €28,000,000 will be expended from Kosovo Budget, allocated annually €9,250,000(2018), €9,250,000 (2019), €9,250,000 (2020). These funds are planned within the Ministry of Innovation and Entrepreneurship. Furthermore, donors are expected to support implementation of the measure with around €6,000,000 annually.

⁵¹For implementation of some activities of measure #13, during the period 2018-2020 from Kosovo Budget, within the Department for Post and Telecommunication of the Ministry of Economic Development, category of capital investments are planned to be expended €4,170,271, respectively 1,674,184 for 2018, €856,087 for 2019 and €1,640,000 for 2020. For expansion of broadband infrastructure the cost will be €27 mil, with annual allocation €7,000,000 in 2019 and €10,000,000 in 2020 and €10,000,000 in 2021. Costs are expected to be covered through a World Bank loan. This loan currently is under a list of investment clause project, expected to be disbursed in 2019. The cost for development of human resources and support of digital businesses will be supported through IPA 2017, in the amount of €3,000,000 with linear allocation for three years 2018-2020.

⁵²For implementation of measure #14, funding sources will be from Kosovo Budget and development partners (WB, IFC and IPA), the latter expected to be confirmed during 2018. From Kosovo budget €10,000 are allocated each year for the period 2018-2020.

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
B. Net direct budgetary impact (if any) (in €)		10,000.00	10,000.00	10,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		10,000.00	10,000.00	10,000.00
B. 3 Possible non-budgetary financing (in €)				
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #15: Further development of quality infrastructure and strengthening market surveillance with a focus on construction products⁵³				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		136,867	156,866	136,866
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		136,867	156,866	136,866
B. 3 Possible non-budgetary financing (in €)		150,000	200,000	200,000
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #16: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula⁵⁴				
A. Duration of the reform*		x	x	X
B. Net direct budgetary impact (if any) (in €)		30,000.00	30,000.00	15,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		30,000.00	30,000.00	15,000.00
B. 3 Possible non-budgetary financing (in €)		176,400.00	800,000.00	700,000.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				

⁵³For implementation of measure #15: from Kosovo budget are budgeted the following: € 136,866.66 (2018), €156,866.00 (2019) and €136,866.66 (2020). These funds are planned in the 2018 Budget, within the Department of Industry, Standardisation, Accreditation and Metrology Agencies. Whereas, from donors the support includes €150,000 (2018); €200,000 (2019); and €200,000 (2020).

⁵⁴Total cost for implementation of measure #16 is estimated to be around €1,750,000 for the period 2018-2020. Out of this amount, €75,000 will be financed from Kosovo Budget, budgeted within the National Qualifications Authority: €30,000 in 2018, €30,000 in 2019 and €15,000 in 2020. Moreover, a considerable number of activities, including purchase of equipment, development of teaching materials, review of financing formula, development of standards will be supported from different donor projects (GIZ, Lux Development) €176,400 in 2018, €800,000 in 2019 and €700,000 in 2020.

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
Reform measure #17: Reform in Pre-University Education⁵⁵				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		1,284,216.00	2,011,216.00	2,897,990.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		1,284,216.00	2,011,216.00	2,897,990.00
B. 3 Possible non-budgetary financing (in €)		200,000.00		
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #18: Increasing the Quality and Competitiveness in Higher Education⁵⁶				
A. Duration of the reform*		x	x	x
B. Net direct budgetary impact (if any) (in €)		670,478.00	670,478.00	670,478.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		670,478.00	670,478.00	670,478.00
B. 3 Possible non-budgetary financing (in €)		41,800.00	27,550.00	152,840.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship⁵⁷				
A. Duration of the reform*		x	x	x

⁵⁵Total cost for implementation of measure #17 is around €6,300,000 for the period 2018-2020. From this amount, €200,000 for 2018 will be financed from World Bank for development of the database. The other part of activities will be financed from Kosovo Budget, with budget amounts as follows: €1,284,216 in 2018, €2,011,216 in 2019 and €2,897,990 in 2020. These funds are budgeted within MEST budget for activities related to evaluation of students, attainment test, mature test and publication of results in the amount of €397,925 each year; teacher training programme €605,291 in 2019, and €988,065 in 2020; whereas funds related to promotion of teachers through licensing system are budgeted within the municipality grant for education with these amounts: €887,000 in 2018, €1,000,000 in 2019 and €1,512,000 in 2020.

⁵⁶For implementation of measure #18 the following funds are planned: development of mechanisms for education quality (establishing the unit for management of ranking system) will be supported through donors in these amounts - €41,800 (2018); €27,550.00 (2019); €152,840.00 (2020); €200,000 for SMIAL from Kosovo Budget for 2018, 2019 and 2020. The scholarship budget for the period 2018-2020 has been allocated as follows: a) mobility programme CEEPUS from Kosovo Budget are allocated €20,000 each year; b) for the Fulbright Programme from Kosovo Budget are allocated €300,000 each year; c) for the Scholarship Programme Sheffield from Kosovo Budget are allocated €298,478 each year; d) Erasmus programme from Kosovo Budget are allocated €50,000 each year. Funds are budgeted under MEST budget, Higher Education and Science program.

⁵⁷The estimated cost for activities of measure #19 is planned within the 2018 Budget. For implementation of activities related to the functioning and capacity building of EARK, implementation of ALM, including also validation of new profiles, from Kosovo Budget are planned €4,079,800 (2018), €3,629,800 (2019), and €3,589,800 (2020). A major part of these funds are part of the budget allocated for the Employment Agency of the Republic of Kosovo €6,330,766 (2018), €6,716,489 (2019), €6,686,564(2020). Furthermore, for the youth employment programme in the budget of Ministry of Culture are budgeted €10,000 for 2018 and 2019 and €20,000 2020. Whereas, in the budget of KIESA, for the internship programme are budgeted €31,200 for each year. At the same time support from different donors for implementation of activities of this measure is expected to be as follows €3,146,000 (2018), €3,442,000 (2019) and €2,936,000 (2020).

Description of policy	Year 2017	Year 2018	Year 2019	Year 2020
B. Net direct budgetary impact (if any) (in €)		4,079,800.00	3,629,800.00	3,589,800.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		4,079,800.00	3,629,800.00	3,589,800.00
B. 3 Possible non-budgetary financing (in €)		3,146,000.00	3,442,000.00	2,936,000.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Reform measure #20: Improvement of social and health services ⁵⁸				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)		6,023,671.00	71,213,405.00	72,050,000.00
B. 1 Direct impact on budgetary revenue (in €)				
B. 2 Direct impact on budgetary expenditure (in €)		6,023,671.00	71,213,405.00	72,050,000.00
B. 3 Possible non-budgetary financing (in €)		60,000.00	1,120,000.00	1,000,000.00
- B. 3.1 Of which committed IPA funding including WBIF funding (in €)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		92,267,727.66	162,988,123.0	168,916,700.66

⁵⁸For implementation of measure #20 the planned cost is as follows: 6,023,671 (2018), € 70,213,405 (2019), €72,050,000 (2020). Within these planes are included these activities: provision of health services in pre-university education in the amount of €1,000,000 for 2018, 2019 and 2020; application of health services at home €10,000 for 2018; strengthening capacities for provision of cardiology and cardio-surgery services €2,120,000; drafting legal framework for implementation of poverty test of social categories, for exemption from the payment of health premiums €1,000,000 for 2018, €10,000,000 in 2019 and 1€0,00,000 in 2020; Preparation of the study and analysis for reviewing the Social Assistance Scheme - €30,000 from donors; Support to NGOs and social enterprises for provision of social services and functionalization of grant scheme for financing of project from NGO sector and social enterprises €2,000,000 for 2019 and 2020; capacity building of municipalities regarding implementation of the new formula for social services grants €45,000 donor support for 2019; implementation of self-employment and vocational training programme for social categories €500,000 from Kosovo Budget and €500,000 from donors; construction of residential and daily centres for provision of social and family services €500,000 from Kosovo Budget. Within this cost planned for 2019 and 2020, is included also the cost of €60,000,000 for implementation of the law on health insurance (collection of premiums) as well the cost of €10,000,000 for implementation of poverty test of social categories, for exemption from the payment of health insurance premiums. These costs are not in the 2018 budget and as such are conditioned on commencing implementation of the law on health insurance.

Table 12: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 and the ERP 2017-2019

Reform Measure #1: Electronic Public Procurement	
Brief description of actions planned for 2017	<p>1) Implementation of e-procurement legislation and relevant operational guidelines;</p> <p>2) Launching and implementation of remaining modules (e-contracting) expansion of the application of mandatory procurement in all budgetary organizations;</p> <p>3) Enhancing administrative capacities (recruitment of six officials within PPRC) and delivering basic training to procurement officials, including training of trainers;</p>
Were the actions planned for 2017 been implemented?	<p>1) Yes</p> <p>2) Partially</p> <p>3) Yes</p>
<p>If yes/partially, include:</p> <p>- Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2018</p> <p>If not, explain why not?</p>	<p>1) PPRC has issued guidelines and manuals for all users, which will be available in the PPRC’s website and the Electronic Procurement Platform (Rules and Operational Guidelines for Public Procurement, Registration of Contracting Authority, Preparation and publication of tenders, Economic Operator Registration, Manual for EO – Preparation and submission of bid).</p> <p>2) Based on the Government Decision No.12/79 dated 15.03.2016, electronic procurement is mandatory as of 1 January 2017. Until 31.12.2017, in the e-procurement system were registered 176 contracting authorities (CA from the central level, local level and public enterprises). The number of Economic Operators (businesses) registered in the system has reached 3,500 active EO, while the number of all users registered in the system (as part of the Contracting Authorities, Economic Operators and natural persons) has reached 10,000 active users.</p> <p>Over 4,743 procurement procedures were developed and over 10,849 tender notices were published.</p> <p>From 01.01.2017 until 31.12.2017, 3668 procurement procedures were developed and 10473 notices were published, including Contract Notice, Contract Award Notice, Contract Signing Notice, Cancellation Notice, Notice of Procedures Correction, etc.</p> <p>The total number of bids received from 01.01.2017 until 31.12.2017 in 3668 procurements was 14398, out of which, 1740 were submitted electronically (or 12% of bids), while 12658 were submitted in hard copy (or 88% of bids). The decision for mandatory e-procurement is being implemented both at central and local levels.</p> <p>Aiming to facilitate the steps that are to be followed in electronic procedures, the PPRC shall assist and support contracting authorities and economic operators, which are part of the platform, via a help desk (contacts shall be provided in PPRC’s website and the electronic platform http://e-prokurimi.rks-gov.net). The E-contracting module is related to the development of electronic signature, which is not available.</p> <p>3) PPRC has recruited 3 monitoring officers, who commenced working on 1 May 2017 on 1st of May 2017, as per 3 IT officials, one has started working from 1 Aug 2017, and 2 others from 15 Nov 2017.</p> <p>The project PLANET supported by the European Commission that has been assisting and supporting the PPRC, provided intensive training to 36 staff members of three main procurement institutions in Kosovo (PPRC, PRB, and CPA), in a duration of 15 days, whereby at the end of the training they were subjected to testing and successfully achieved a satisfactory passing rate to be awarded with basic professional procurement certificates.</p>

	<p>Additionally training division of the PPRC, in cooperation with KIPA, has held basic level training for procurement officers from all public central and local institutions as well as public enterprises, since such procurement officers do not possess public procurement certificates, 265 participants were trained.</p> <p>Electronic Procurement - E Tendering - Procurement Officers at central and local level as well as at public enterprises - a total of 206 participants attended the 2-day training for each participant.</p> <p>Economic Operators, Civil Society Organizations – two-day training for each participant. A total of 112 participants attended the training.</p> <p>Internal auditors of local and central public institutions, external auditors, investigators, chief administrative officers, members of the Commission for Evaluating the Tenders as well as investigators and procurement officers who did not attend this training, two days for each participant, A total of 427 participants were trained.</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	

Reform Measure #2: Reducing energy consumption through energy efficiency measures

Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Implementation of energy efficiency measures in 5 facilities financed from the budget of Kosovo; 2) Implementation of efficiency measures and renewable energy sources in public buildings of central and local level, which include 20 buildings financed through the World Bank; 3) Implementation of energy efficiency measures at the local level in 15 public buildings (schools) through the KfW project and EU;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Yes 2) Partially 3) Partially
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<ol style="list-style-type: none"> 1) The energy efficiency measures has been implemented in 5 buildings by implementing installation on building envelope, renovation of heating and lighting system. The implemented measures are expected to reduce energy bills for these building significantly. The contract duration was from November 2016- November 2017. The Gov. has renewed 5 public buildings from the building stock, improving working conditions and thermal comfort for the building users. Difficulties during the project implementation where weather conditions during last winter season. Extended heating season. Building occupancy during entire renovation process. Import of materials from western countries. 2) This action is partially implemented. Implementation of energy efficiency measures in 20 facilities financed through World Bank is divided in two contracts: First contract: Renovation of 14 public buildings and Second contract: Renovation of 20 Public Buildings. In the first contract “Renovation of 14 public buildings“, 10 buildings has been implemented in 2017 while 2 buildings will be implemented in March 2018 (2 building out of 14 has been dropped due to administrative problems-Recto rate building is under cultural heritage of MCYS and building MEST-administration- due to property problems). The time line for implementation of the contract was 12 months and originally foreseen to be implemented by November 2017, but the contract was extended until March 2018 due to below mentioned problems.

	<p>Difficulties during the project implementation where weather conditions during last winter season. Extended heating season. Building occupancy during entire renovation process. Import of materials from western countries. Most of the building where hospital buildings. Need for changes on the design for one building due to structural soundness' of the building.</p> <p>The second contract "Renovation of 20 Public Buildings" has started on September 2017 and will be implemented in 2018. The Reform will be continued in 2018 with new upcoming renovation contracts for 25 additional buildings.</p> <p>3) The action is partially implemented. Implementation of EE measures at public buildings at the local level (Prishtina, Gjilan, Ferizaj and Gjakova) funded by KfW, WBIF and the EC is in the final stage of selecting the company to carry out energy audits as well as design preparation at facilities public at the local level.</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	<p>1) Budget for the contract renovation of 5 public buildings for fiscal year January 1, 2017 up to December 31, 2017 was € 1,870,000.00 whereas amount of EUR 1,830,957.23 was spent. The deviation from budgeted and disbursed amount is €39,042.77.</p> <p>2) The total budget for the fiscal year January 1, 2017 up to December 31, 2017 was € 3,192,266 (€ 2,645,000 for capital investments and €547,266 for goods and services).</p> <p>In regard to contract renovation works, two contracts were in force in 2017, Renovation of 14 public buildings and Renovation of 20 public buildings. The budget for such contracts was in amount of € 2,645,000 whereas amount of € 2,380,470.66 was disbursed. The deviation cost was in amount of € 264,529.34.</p> <p>With regard to goods and services category, amount of € 368,836.74 was disbursed affecting the deviation in amount of € 178,429.26 between budgeted and disbursed amount.</p> <p>Furthermore, for the fiscal year 2018 amount of € 5,410,000.00 is budgeted for capital investments category with regard to competition of the contract renovation works for "Renovation of 14 public buildings" and "Renovation of 20 public buildings", and potential contract for "Renovation of 25 public buildings" (expected to be signed in April 2018).</p> <p>The budgeted amount for goods and services category for the fiscal year 2018 is in amount of € 782,239.</p> <p>3) Budget foreseen for 2017 is € 7.5 mil. (2017-2019)</p>

Reform measure #3: Further development of energy generation capacities	
Brief description of actions planned for 2017	<p>1) Completion of all agreements regarding the development of TPP Kosova e Re;</p> <p>2) Completion of the feasibility study regarding TPP Kosova B;</p> <p>3) Implementation of two new hydropower plants projects with a capacity of 8.48 MW;</p> <p>4) Three solar power plants projects with a total capacity of 9 MW;</p>
Were the actions planned for 2017 been implemented?	<p>1) Yes</p> <p>2) Yes</p> <p>3) Partially</p> <p>4) Partially</p>
If yes/partially, include: - Description of steps taken - Timeline of implemented actions	<p>1) This action is implemented. Agreements on technical issues regarding the first phase of the project TPP "Kosova e Re" have been reached, and this phase is being completed. Commercial Close agreements were signed on 20th December 2017. Now we are working to finalize the Financial Close (Phase 2). Also we are working to finalize 8 Studies about the Project. Those will be done during 2018.</p>

<p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2018</p> <p>If not, explain why not?</p>	<p>2) This action has been completed. The feasibility study has been financed by the European Union Office in Kosovo and led by the Project's steering committee (composed by representatives of MED, MESP, European Commission Office, Municipality of Obiliq and KEK) and was completed on 21 May 2017. There were no difficulties during the implementation and the study was conducted based on the project's ToR prepared by the EC Office. The study is considered completed.</p> <p>3) This action is partially implemented. The HPP project with a capacity of 2.1 MW has been completed and is operational since April 2017, while other capacities are under construction.</p> <p>4) This action is partially implemented. The Solar Power Plants were expected to be completed by 2017. Problems of different nature happen during the construction Solar Power Plants, which has result in projects delays. The reform will continue in ERP 2018-2020.</p>
<p>Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)</p>	<p>3) Current implementation cost is EUR 2.5 million, while the rest of the budget will be specified after the projects are fully implemented.</p>

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

<p>Brief description of actions planned for 2017</p>	<p>1) Implementation of the pilot project for the extension of broadband infrastructure that will include a rural area (some villages) in Kosovo;</p> <p>2) Reaching a loan agreement with WB, which includes investments for the upcoming years of ICT networks expansion;</p> <p>3) Adapting and functionalizing the digital technology park for needs of ICT businesses;</p>
<p>Were the actions planned for 2017 been implemented?</p>	<p>1) Partially - Postponed 2018</p> <p>2) Partially</p> <p>3) Partially - Postponed for 2018</p>
<p>If yes/partially, include:</p> <p>- Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2018</p> <p>If not, explain why not?</p>	<p>1) This action is partially implemented. ToRs and all technical specifications are prepared by the Ministry of Economic Development. The Pilot Project for extension of broadband infrastructure in uncovered areas started with the tendering procedures and at the stage of bid evaluation phase it was terminated due to lack of financial means. In the budget law for 2017 this project had the note: "Revenues from Kosovo Privatization Agency - KPA". On 18.09.2017 new Minister of Finance informed us that all projects that are part of the Budget Law 2017 with financial resources from the KPA cannot be executed due to the failure to pass of the KPA Law. This project will continue on 2018, for this purpose in the project law for budget for 2018 allocated 1.6 M €.</p> <p>2) The action is partially implemented. The Ministry of Finance in close cooperation with Ministry of Economic Development send a request to the World Bank to initiate its procedures for supporting Kosovo Government in developing and implementing Kosovo Digital Economy Programme. This request is in line with the Country Partnership Framework (CPF) for Republic of Kosovo for the period 2017-2021. This CPF has been designed with close cooperation with Government of Kosovo and sets country priorities for cooperation with the World Bank.</p> <p>3) The action is partially implemented. Kosovo Association of Information and Communication Technology - STIKK has signed on 13th of November 2017 an agreement with MTI on adapting the facility of the Construction Institute in Bernica into the Business Incubator / Digital Technology Park. Now STIKK has to prepare the technical specifications for the facility in question, which should be adapted to the needs of the business incubator and of the technology park. Delays in adapting the facility are caused because in the budget law for</p>

	2017 this project had the note: "Revenues from Kosovo Privatization Agency - KPA". On 18.09.2017 new Minister of Finance informed us that all projects that are part of the Budget Law 2017 with financial resources from the KPA cannot be executed due to the failure to pass of the KPA Law. This action will continue in 2018.
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	<ol style="list-style-type: none"> 1) The costs of the pilot projects for extending the broadband infrastructure to the uncovered areas are € 1 mil for 4 tendered lots. 2) No actual cost 3) Up to 600,000 €

Reform measure #5: Investments in agricultural infrastructure and agro-processing	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Expansion of production areas in horticulture sector (vegetable areas in greenhouses and open fields, fruit trees, vineyards, seed plot) and increasing production capacity in livestock and poultry; 2) Financial support to expansion of production capacities for over 450 farms each year (30%, the sector of vegetables and greenhouses with 26%, the meat sector with 14%, the milk sector with 13.7%, the grape sector with 13.3% and eggs sector by 3%); 3) Focus on expanding areas under irrigation by about 13.5% on annual basis; 4) For the next three years, around 55 agro-processing enterprises (milk processing 18.2%, meat processing 22%, fruit and vegetable processing 38.2% and wine production by about 21.6%) will be supported; 5) For the next three years, around 55 food processing enterprises would be based on annual basis (18.2% of milk processing, 22% of meat processing, and 38.2% of processing of fruit and vegetables and wine production by about 21.6 %); 6) The number of enterprises that will treat waste and scrap in proper management will exceed 10 companies per each year;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Partially, 2) Partially, 3) Partially, 4) Partially, 5) Partially 6) Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	<p>Agriculture sector Measures provided for in ERP are being implemented according to the foreseen plan and dynamics.</p> <p>The baseline indicators for above and below figures and aimed results for this measure are taken from the Ex-ante Evaluation Report of our existing ARDP 2014-2020!</p> <p>The number of applicants for financial support from national program and ERP measures for the agriculture sector was 1,696. The number of contracted projects (measures: 101,103,302 and irrigation) was 470 projects contracted and implemented. As a result of the financial support of MAFRD, there were 125.17 ha of new areas with fruit trees. As a result of the financial support of MAFRD, there were 150.79 ha of new areas with berries. As a result of the financial support of MAFRD there were 20.57 hectares of new areas with greenhouses. As a result of financial support provided by MAFRD were 44.50 ha of new areas of vineyard. New farms build as a result of financial support from MAFRD: 25 farms in calves sector, 8 farms in the broiler sector, 4 in the eggs sectors, 29 new farms in dairy cows, and 10 new farms in the sheep sector. As a result of financial support by MAFRD areas of land under irrigation/irrigation measures (ha) increased for 940 ha from 23,122 ha of last year. Organized irrigation by companies 16, 873.41 hectares and unorganized irrigation by rivers and wells, 6,248.59.40 ha. The percentage of modernized farms from the total of approved projects resulting from the financial support of MAFRD was 20.59 %.</p> <p>As a result of MAFRD's financial support, there is an increase of primary production in almost all sectors that the Ministry is supporting!</p>

	<p>Grain sector: in this sector we have a growth of grain production in general for 27% compared to the previous year. The most significant increase is in corn 42%, then wheat for 20%, barley 20%, turnip 23%, oats 59% etc.</p> <p>Vegetable sector: in this sector we also have a growth of productivity and production in general for 36% compared to the previous year. In particular, the most prominent increase in vegetable production is in cabbage 55%, salads 57%, garlic 51%, onions 44%, wheat, 24% pea, tomatoes with 12%, potatoes for 39%, beans with 14%, melon and watermelon with over 50% etc.</p> <p>Fruit Sector: Even in this sector, there is a significant increase in productivity and production in general with over 12% compared to the previous year. The most important increase we have on walnuts with 46%, apple with 50%, then pears with 24%, hazelnuts with 20%, apricot with 13%, quince with 12% etc. In particular, raspberries had an increase of over 200%, from 1,700 / t in 2015 to 6,250 / t in 2016.</p> <p>Export of agricultural products in 2016: Export of agricultural products for Chapters 01-24 in 2016 was 45 million Euros. Compared to 2015, there was an increase of 8.5%. The most prominent growth is observed in the products of chapter 20 which include vegetables, fruits and cooked nuts (processed or preserved) with an export growth of 60%. Also increase in exports compared to the previous year we have had on fresh vegetables 49%, namely customs code number 07. Growth for 41% was also in chapter 02 where meat of animal origin and poultry were included. As well as growth for 38%, there was a category of products that include other live trees and plants, tubers, roots and the like, cut flowers and ornamental trees Chapter 06. Another 31% increase was made in products from chapter 08, which includes Fresh Fruits and Walnuts!</p> <p>If the number of applicant is compared to the number of those awarded or selected to be awarded, it is noticed that the budgetary measure foreseen is still low compared to needs in this sector!</p> <p>Due to the financial support by MAFRD, the improvement of standards in order to comply with EU standards on food safety/animal health has increased to 100%, and the waste management to 73.9%.</p>
<p>Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)</p>	

Reform measure #6: Expansion of farms through consolidation and regulation of agricultural land	
<p>Brief description of actions planned for 2017</p>	<ol style="list-style-type: none"> 1) Review of complaints of participants from the land consolidation project uncompleted by the Municipal Committee for Land Consolidation in Drenas (with a surface of 4,790 hectares of agricultural land) and the Municipal Committee for Land Consolidation in Vushtrri (with an area of 487 ha. of agricultural land); 2) Data entry in the Registry of Immovable Property (RDIP) from the cadastre of respective municipalities; 3) Implementation of pilot project for voluntary consolidation of agricultural land based on FAO methodology and funded by FAO, which includes 25 ha of agricultural land in the Cadastral Zone Celina, Municipality of Rahovec; As well as we started a deep study for sampling of agricultural land, meadows and pastures (18644.5 ha) for the municipality of Rahovec; 4) Continuation of the voluntary consolidation project of the agricultural land in 10 Cadastral Zones in Municipality of Viti with surface of 2,790 ha of agricultural land, including informing the owners, property dispute resolution and the review of complaints of participants in project;

Were the actions planned for 2017 been implemented?	1) Partially 2) Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	1) The project is still at the stage of reviewing the complaints of participants in the Land Consolidation by the Municipal Committee for Land Consolidation and in the competent Courts. Upon completion of these legal procedures, the cases are then ready to enter into the Immovable Property Rights Register - IPRR. 2) Data entry in the Immovable Property Registry (RDIP) from the cadastres of the respective municipalities, upon completion of the legal procedures (by the Municipal Committee for Land Consolidation and in the competent Courts). This procedure is expected to be completed by the end of this year and then to enter the data into the Immovable Property Registry (RDIP) from the cadastres of the respective municipalities.
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	The foreseen annual cost for this activity is EUR 500,000.00

Reform measure #7: Support the development of industrial clusters	
Brief description of actions planned for 2017	1) The Government will focus on the functioning of the Council/Forum for drafting policies for stimulation of competitiveness and entrepreneurship in industrial sectors; 2) Research on value chains for the industrial potential sectors - the definition of missing links and measures for their development;
Were the actions planned for 2017 been implemented?	1) Yes 2) Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	1) Since the second quarter of 2017, the Forum has been functionalized; Eight workshops (3 at the central level and 5 at the regional level: Gjakova, Ferizaj, Prizren, Mitrovica, Prishtina) were organized with governmental and non-governmental representatives; A list of recommendations from the relevant workshops has been prepared and addressed to the Forum (central level) 2) During the third quarter, has been conducted the study on the value chain of the Construction Products sector, in co-operation with the GIZ –KMI. Since the fourth quarter of 2017, the study on the value chain for four sectors has been conducted in order to continue further the value chain with the selected sector (Wood sector), in co-operation with the EC Project, ICEP. The survey with enterprises in the value chain of the wood sector has been conducted. Study report will be finalised in the first quarter of 2018. The delays for completing the study were caused, because the activity started later than it was planned. During the third quarter of 2017, a guide on cluster development has been developed, published and printed in two languages: Albanian and Serbian. Lack of coherent statistics has caused delays in the determining the sampling process for conducting surveys The reform will continue in 2018. In particular, the study on the value chain of the Wood sector will continue to be conducted together with external experts in 2018.

Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	<ol style="list-style-type: none"> 1) Completed 2) In progress
--	--

Reform measure #8: Development of tourism products in Kosovo touristic regions	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Improvement of the legal, institutional and policy framework for the tourism sector; 2) Review of international standards on improvement of service quality in tourism and catering; 3) Product research in the touristic regions of Prishtina and Mitrovica, focusing on identification of development priority products and information of businesses on touristic products; 4) Drafting of the guide on unification of touristic signalling in the country, and will continue supporting municipalities on establishment of Tourist Information Offices;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Partially 2) Partially 3) Yes 4) Yes
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<ol style="list-style-type: none"> 1) Improvement of the legal, institutional and policy framework for the tourism sector. <ul style="list-style-type: none"> - Regarding this activity, with the support of PPSE project (Swisscontact –D4D), 5 workshops have been held with touristic businesses, local institutions (relevant tourism directorates in the municipality), tourism NGOs and other organisations. The report for identifying challenges related to tourism legislation has been conducted. MTI has established the working group for the concept document for the tourism legislation. - With the support of TAIEX mission, the draft of the concept paper for the improvement of tourism legislation has been drafted. An international expert has been engaged and together with the working group was drafted the concept document. - The concept document is planned to be approved in first quarter of 2018. The concept document is the base for the improvement of the tourism legislation. 2) Review of international standards on improvement of service quality in tourism and catering <ul style="list-style-type: none"> - Tourism and hospitality standards are being considered, while their inclusion in tourism and hospitality services will be included in the new law on tourism. - The difficulties were that many standards are depended from drafting of the new law, because the current law doesn't cover the majority of the tourism or hospitality services according to the international standards. - This activity will continue in 2018. 3) Product research in the touristic regions of Prishtina and Mitrovica, focusing on identification of development priority products and information of businesses on touristic products.

	<p>- The activity for the identification of the tourism product in region of Prishtina has been completed in June 2017. Within this activity, meetings were held with 8 relevant municipalities of the Prishtina region, respectively with the Departments of Economic Development and Department of Culture, with the representatives of tourism Associations and NGOs. During the activity, questionnaires were distributed, which were filled out by the municipal departments. The findings are summarized in a summary report and this report is distributed to the relevant municipalities in the Prishtina Touristic Region.</p> <p>On the other hand, with the support of Swisscontact we are working on the identification and development of touristic products in the Municipality of Prishtina. Swisscontact has conducted a survey with international tourists visiting Pristina for the purpose of researching the demand. The local authorities of Pristina municipality are also involved in this process. Some of the new products have started to appear in the market (e.g. Kayaking in the Badovc Lake, bicycle tours to the Germia park).</p> <p>Identification of Touristic products at Mitrovica region was finalized by the end of 2017. We have continued with the same work methodology as in the Pristina. For the collection of data and cooperation in the northern municipalities of the Mitrovica region we have cooperated with the ARDA North office, which have assisted to meet f the North municipalities. The findings are summarized in a summary report and this report will be distributed to the relevant municipalities in the Mitrovica Touristic Region.</p> <p>- A difficulty was also the negligence of some municipalities to cooperate, respectively delays in completing the forms on time.</p> <p>4) Drafting the guide on unification of touristic signalisation in the country, and will continue supporting municipalities on establishment of Tourist Information Offices.</p> <p>- The team consisted from the representatives of the Ministry for Infrastructure, Ministry of Culture, Youth and Sports and Ministry of Trade and Industry, with the support of the CHWB, has drafted the guideline for the touristic signalisation in the fourth quarter of 2017.</p> <p>- Regarding the municipality support for the opening of Tourism Information Offices, the Division of Tourism has conducted a survey. Meetings were held with the representatives from the Tourism Offices and with the respective municipal departments from municipalities of: Peja, Gjakova, Rahovec, Prizren, Junik, Shterpce, Novoherde, Gjilan, Mitrovica and Prishtina. The report on this research was completed in June 2017. Findings and recommendations were presented at the joint meeting with the relevant municipalities. The translated report in Serbian and English was sent to the municipalities and persons involved in this activity. The same report is published on the MTIs website.</p>
<p>Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)</p>	<p>1) 1,200.00 2) No Cost 3) 2,180.00 4) 1,500.00</p>

Reform measure #9: Adoption of evidence-based policies	
<p>Brief description of actions planned for 2017</p>	<p>1) Development and introduction of amended guidelines on ex-ante policy assessment; strengthening quality control by the Centre of Government related to ex-ante policy assessment;</p> <p>2) Development and application of analytical tools focusing on competitiveness enhancement through the 116 Standard Costing Model, the SME Test and the Regulatory Competitiveness Test;</p> <p>3) Training of civil servants on application of guidelines and analytical tools to ex-ante policy assessment;</p>

	4) Implementation of three legislative assessments;
Were the actions planned for 2017 been implemented?	1) Partially, 2) Fully, 3) Partially 4) Fully
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	1) Following the consultation with administration, the amended guidelines for ex-ante assessment were approved by the Government. The amended Guidelines include all aspects of Impact Assessment, and the Manual includes specific analytical tools such as Standard Cost Model, SME Test and the Regulatory Competitiveness Test. The introduced guidelines will apply to new Concept Documents that are part of the CD for 2018. 2) Next to the tool on Standard Cost Model contained in the Concept Documents Manual, a specific manual on the application of Standard Cost Model has been developed. The Manual contains instructions on how to apply the tool in Ex-Ante Assessment of policy proposals involving introduction or amendment of information obligations. 3) Trainings were focused on policy communication, public consultation, ex-post evaluation, policy costing and budgeting. The training activities will intensify in 2018 to cover the amended guidelines. 4) In 2017, the following laws were evaluated by Line Ministries: <ul style="list-style-type: none"> • Law on Execution Procedure; Ministry of Justice • Law on Civil Status, Ministry of Internal Affairs • Law on Foreign Trade, Ministry of Trade and Industry
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	

Reform measure #10: Ensuring property rights by addressing informality in the immovable property sector	
Brief description of actions planned for 2017	1) Work on improving the legal framework, including the preparation of the concept document on amending the Law on Inheritance and the Law on Notary; 2) Preparation of concept documents on amending the Law on Property and Other Real Rights, the Law on Contested Procedure and the Law on Non-contested procedure; 3) Stimulation of property rights registration in the cadastre by simplifying registration procedures and removing barriers in order to complete the legalisation process; 4) Conduct a complete analysis of the Cadastre Agency procedures and develop policy to ensure efficiency, simplicity, affordability, transparency and predictability of the registration process; 5) Stimulation and avoidance of barriers to promote property rights registration;
Were the actions planned for 2017 been implemented?	1) Yes 2) Yes 3) Yes 4) Partially

<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<p>5) Partially</p> <p>1) The “Inheritance Package,” comprised of the he Law on Inheritance, Law on Notary, and Law on Non-Contested Procedure is approved by the Assembly of the Republic of Kosovo. Following the approval of the Concept Document from the Government, the MOJ proceeded with amending the three laws, addresses inconsistencies between legal acts, the dual jurisdiction of courts and notaries to process uncontested inheritance claims is removed by making it exclusive jurisdiction of notaries, it ensures that notary fees are fair, reasonable and affordable, and it institutes safeguards for protection of women's property rights.</p> <p>The Ministry of Justice has exceeded the initial targets set for Measure 10, Activity 1. Amending laws in parallel, to ensure complete harmonization, also constitutes a new practice for developing legislation in Kosovo. Guided by the National Strategy on Property Rights, the drafting of the Concept Document and the subsequent amendment of the three laws was supported by USAID Kosovo.</p> <p>2) The Government has approved the Concept Document for amending the Law on Property and Other Real Rights. The Concept Document proposes to accurately regulate and define all types of property in Kosovo, including Public Property, State Property and Municipal Property; address the legal status of construction land in urban areas and the right to permanent use of immovable property, to create a clearly defined right over the building and land on which it was built; clarify the legal status of the 99-year lease on socially owned properties; and clarify the rights of foreign citizens to own property in Kosovo.</p> <p>The Ministry of Justice initiated the process of drafting the Concept Document to amend the Law on Contested Procedure. The Concept Document focuses on the legal time-limits once parties receive a court order, instructions or decisions in the official language chosen by the party; standardized bilingual forms to be used in courts; public awareness campaign on language rights and the role and mandate of the Office of the Language Commissioner.</p> <p>Regarding the Concept Document and amendments to the Law on Non-Contest Procedures, please, see Activity (1)</p> <p>3) The Ministry of Environment and Spatial Planning (MESP) is currently amending the Law on Cadaster and Law on Immovable Property Rights Registry with the purpose to ensure a better management link between Municipal Cadastral Office into the Kosovo Cadastral Agency, as well as streamline registration procedures. Amending the two laws will improve the overall practice of registering property titles in Kosovo’s cadastre. That is, the new project Law on cadastre of immovable property is in the process of public discussion. This draft Law ensures secure registration of property rights with efficiency, simple transparent registration procedures. In addition the Administrative Instruction MESP No.11/2017 on fees for products and services from Kosovo Cadastral Agency has been issued. Regarding more effective legalization of constructions built without a permit, MESP finalized a draft-Law on Treatment of Constructions without Permit—pending government approval—to extend legalization deadlines, streamline application procedures, and lower costs for citizens.</p> <p>4) And 5), respectively, are related to Activity 3, amending the Law on Cadastre, Law on Construction, and Law for Treatment of Constructions without Permit in line with the National Strategy on Property Rights. In the meantime, the Kosovo Cadastral Agency should initiate at the earliest convenience conducting a complete analysis of KCA procedures and develop policies to ensure accurate registration requirements which will help increase the efficiency, simplicity, affordability, transparency, constituency and predictability of the registration process.</p> <p>General Concluding Remarks (1-5): legal acts above were drafted in line with timelines set in the National Strategy on Property Rights, as well as according to timelines set in line ministries’ annual work plans. All above measures were finalized during the second quarter of 2017. The Government of Kosovo has approved the National Strategy on Property Rights in January 2017 with an Action Plan of reform measures to expire in 2020.</p>
--	--

Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	The Government of Kosovo approved the National Strategy on Property Rights in January 2017. The National Strategy's key objective is to resolve widespread informality by developing more efficient administrative processes to provide informal rights holders with formal, legal recognition of their rights so they may then be registered in Kosovo's cadastre. The National Strategy sets Kosovo's policy actions to undertake towards resolving large scale informality are on track. All legal acts have been drafted in-house by the respective Ministries, with technical support provided by the USAID Property Rights Program.
--	--

Reform measure #11: Increase the efficiency of the judiciary in resolving cases	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Recruitment of 50 professional associates to deal with backlog on civil and criminal cases to achieve reduction of case backlog for by 30% by the end of 2017; 2) Conduct assessment on increasing the number of judges and professional associates within the Fiscal Division; 3) Complete development of Case Management Information System (CMIS) software and criminal field system prototype for the general department, followed by the criminal field system for serious and juvenile crimes; 4) Preparation of the hardware infrastructure of the database and computer network of courts and prosecution offices; 5) Capacity-building activities based on a training plan and commence with implementation at the Basic Court in Ferizaj, which is the CMIS pilot model;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Partially 2) Partially 3) Partially 4) Partially 5) Yes
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<ol style="list-style-type: none"> 1) Implementation underway. Currently in all courts there are 66 professional associates in both fields, criminal and civil matters. Six are nominated for the position of judge. Therefore, there will be remaining only 60 professional associates. The vacant positions for professional associates in question will be filled during the second quarter. 2) The Needs Assessment has been drafted. It is being finalised internally before publication. The study on the weighted caseloads has been completed. Based on the estimated weights, 2 judges should be added to the Division of Economic Affairs of the Basic Court in Prishtina, and 2 other judges should be added to the Administrative Division, to address the current rate of new cases. It was not possible to analyze the distribution of cases of the Fiscal Division of the Administrative Department, due to the statistical reporting constraints. Additional judges may be needed to address the reduction of backlogged cases. It was required to calculate the number of judges necessary for the elimination of such cases for a three year period. 3) The plan is under development. CMIS prototype for the criminal field - the general department - has been developed and tested. The component of serious and juvenile crimes is at the final stage of development. The system, after the development is in the testing phase before is proceeded for implementation. The testing phase will last until end of January 2018. CMIS Project in February has a plan to start with the training and implementation of the system for criminal cases in five regions (Ferizaj, Gjilan, Peja, Gjakova and Prizren). deadline

	<p>for the development of this component was June as per work plan, but due to the complexity of the application its finalization has been delayed.</p> <p>4) Partly completed. The database is under finalization, according to the plan and on time. In the last quarter of the year. New data center is built and is in operation from November 2017 For the upgrade of the hardware WAN/LAN Network infrastructure of courts and prosecution offices, the contract for the upgrade is signed, the implementation is expected to last until March 2018 Building and implementation, starting with the implementation in the Basic Court of Ferizaj, which is the model for CMIS testing. System users are trained to use it and the system itself is tested by them during April 2017, whereby it has been put into use.</p> <p>5) Capacity building and implementation, starting with the implementation in the Basic Court of Ferizaj, which is the model for CMIS testing. System users are trained to use it and the system itself is tested by them during April 2017, whereby it has been put into use.</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	

Reform measure #12: Improved access to finances for SMEs through the Kosovo Credit Guarantee Fund	
Brief description of actions planned for 2017	<p>1) They include the transfer of the amount of EUR 1,000,000 to KCGF. In order to functionalize the fund, the selection of the managing director and the completion of the operational structure will be carried out;</p> <p>2) Continue with signing the agreements with commercial banks in Kosovo for inclusion of their credit portfolios within the fund guarantee;</p>
Were the actions planned for 2017 been implemented?	<p>1) Yes</p> <p>2) Yes</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<p>1) During Q1 2017, the third and final amount of MTI/KIESA contribution was transferred to the KCGF equity in the form of a grant of € 1.000.000, 00, and at the same time the Managing Director was selected and all the necessary positions for the full functioning of KCGF were recruited.</p> <p>2) Until 30.06.2017, agreements have been signed for guaranteeing loans with these commercial banks in Kosovo: Banka Ekonomike; Banka Kombëtare Tregtare; Banka për Biznes; NLB Prishtina; Procredit Bank; Raiffeisen Bank; TEB Bank</p> <p>The reform is considered as completed after the KCGF is fully functional and has signed a loan guarantee agreement with the vast majority of commercial banks in Kosovo.</p> <p>Until Nov. 2017, 677 businesses were supported. Find out more about the Kosovo Trust Fund Credit Statements link: http://www.fondikgk.org/repository/docs/LOAN_STATISTICS_ALB_-Nentor_2017.docx_7159.pdf</p> <p>While in generally it is planned to continue with the same activities as regards the KFGK</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	MTI/KIESA has contributed EUR 3,000,000.00 to the KCGF equity, in the form of a grant from €1,000,000.00 in each year from 2015 to 2017.

Reform measure #13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Adoption of the Law e on Tax and Customs Agency of Kosovo; 2) Inter-institutional cooperation to achieve the gradual convergence of processes and the following integration of both institutions; 3) Complete organizational structure of the agency, paying attention to the optimization of tax collection 119 processes by minimizing resources, eliminating loses of funds and saving time; 4) Undertake necessary legal amendment for establishment of a unified administration for revenue collection;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Partially 2) Partially 3) Partially 4) Partially
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<ol style="list-style-type: none"> 1) The Draft Law on Kosovo Tax and Customs Agency (KTCA) has been prepared and processed to the Government for approval. Prior to finalizing this Draft law numerous comments were received, as well two roundtables held with stakeholders. The finalization of this draft law at this stage is discussed and fully harmonized with the legal office of the EU Office in Pristina. Coordinating Group (CG) has developed the Draft Plan for the establishment of the Agency, which contains the objectives, benefits and concrete activities towards its operationalization. 2) For the purpose of better management of the activities, eight (8) subgroups are established, which have prepared reports and action plans up to the functioning of the Agency, which action plans are already being incorporated as part of the module MS project, aiming at easier management of the project as a entirety of specific activities. In the scope of communication, a total of five "Internal Announcements" have been prepared and distributed in the form of press releases, to all staff of the both agencies together with all reports and other relevant documents prepared either by international or local experts. In this context, they held two separate meetings with all the managerial staff of the two agencies with the purpose of informing and discussing the so far trends of this process as well the following steps and actions. Coordinating Group (CG) has been supported on the process of merging the Tax Administration of Kosovo (TAK) and Kosovo Customs (KC), by various technical expertise in different areas or even with financial support on organizing various workshops and roundtables. The main donors were: IMF, GIZ, EC (TAIEX) as well the British Embassy (through Her Majesty's Revenue and Customs - HMRC). 3) Intensive work has been done on drafting proposals for the Organizational Structure of Kosovo Tax and Customs Agency (KTCA). Ultimately, the finalization and adoption of the Organizational Structure is a legal competence and responsibility of the Director General of Agency. 4) In accordance with the Government Programme of the Republic of Kosovo (2015-2018) and the Action Plan 2015-2018, which foresees merging of TAK and KC in a joint agency, the Ministry of Finance took the decision No.07/2015 on 09.03.2015 for the establishment of Working Group for drafting the initial plan for the establishment of the Agency. The Government with the decision No.07/39 dated 22.07.2015 has approved the initial plan for the establishment of the Agency. In support of Government Decision, the Minister of Finance issued Decision No.34, dated on 10.11.2015, whereby established the Coordination Group for the process of merging the Tax Administration of Kosovo (TAK) and Kosovo Customs (KC).

Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	
--	--

Reform Measure #14: Improvement of policy and strategic framework and building capacities for research and innovation	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) The Law on Innovation and Transfer of Knowledge and Technology will be approved, including the revision and approval of the draft strategy; 2) Continue with the provision of the support by funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises; 3) 50 short-term mobilities for scientists; 4) 20 grants for PhD students in 500 best universities and awarding the scientist of the year reward and young scientist of the year;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Partially 2) Partially 3) Partially 4) Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	<ol style="list-style-type: none"> 1) The Law on Innovation has been completed and submitted to the Cabinet of the Minister for further proceeding, while the National Strategy for Innovation has not yet been approved. <u>The Law on Scientific Innovation and Transfer of Knowledge has been passed by the Government</u> 2) This year, as every other year, MEST has announced public competition for the support of scientific research institutions with small grants. This year only 10 5 small scientific projects have been supported, and for this year it is expected that in September to open a competition for the third phase on this category, and in September a voucher scheme vacancy is expected to be opened, which aims to help small and medium enterprises with professional expertise. 3) Within this period, 62 short term mobilities for our scientists have been supported by participating in various international conferences to present their scientific work. This competition remains open throughout the year. 4) Grants for PhD scholarships have been planned to be announced on a public competition in October, while the 'Scientist of the Year' and 'Young Scientist of the Year' competitions, which will continue this year, are planned for November.
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	<p>€ 100.000 are planned for small scientific projects within the budget of 2017, and the other share of € 50.000 are planned for joint regional projects, while up to EUR 40 thousand from this category have been spent until now.</p> <p>4 PHD scholarships are awarded for those who have met the criteria, while the award for Scientist of the Year has been cancelled. There have been supported 3 publications and 9 papers published in international journals with impact factors.</p> <p>For 2017, €50.000 is planned in the category of mobility, and nearly € 20.000 has been spent so far.</p>

Reform measure #15: Increasing cost-efficiency of international commercial transactions	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Implementing risk management in other border agencies; 2) Effective implementation of the program for Authorized Economic Operators; 3) Operationalization of the Transit Agreement with Albania; 4) Drafting the Legal and Regulatory Framework on advance rulings; 5) Supplement-amendment of the Customs Code and its implementation; Supplement-amendment to the Law on Customs Measures for Protection of Intellectual Property; 6) Sustainable operation of the National Committee for Trade Facilitation, awareness-raising and information for the private sector; 7) Time Release Study;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Yes, 2) Yes, 3) Yes, 4) Yes 5) Partially, 6) Yes, 7) Yes
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	<ol style="list-style-type: none"> 1) Implementing risk management in other border agencies; The Memorandum of Understanding (<i>exchange of data</i>) between other agencies (<i>FVA, KMA</i>) and Customs was signed on 28.06.2016. Technical preparations have begun and are under way. It is worth noting that the Joint Intelligence Risk and Threat Analysis Unit operate within the National Centre for Border Management, where all three Border Authorities are involved in Integrated Border Management such as: (Kosovo Customs, Border Police and FVA). This cooperation between the authorities is foreseen by the Law no. 04/L-072 on State Border Control and Surveillance. 2) Effective implementation of the program for Authorized Economic Operators, The legal framework for AEO is almost complete. The Administrative Instruction for Authorized Economic Operators was signed and ratified on 27.02.2017. The WG in cooperation with Italian officials within the Twinning Project have prepared and compiled other accompanying documents such as self-assessment questionnaire, form/application request, etc. A Manual/Guide (clarifying document) was also prepared in relation to the facilitation of implementation of AEO application and authorization procedures. According to 2017 Organization structure of Kosovo Customs, sector for authorizations for customs procedures has the power to issue authorizations. With the close support given by IFC Kosovo Customs already have in place pilot program for a period of six month started from February 2018 in the respect of award AEO certificated by any potential applicants. At present, there were no applications and no authorized entities. <ol style="list-style-type: none"> 2.1) Establishment of the national AEO programme: a) Administrative Instruction No. 38/2017 date 27.02.2017 for Authorized Economic Operators was signed on 27.02.2017 and it is in line with relevant EU legislations b) The AEO national Guidelines No. 01/560/2017 is in place from 15.11.2017, this manual ensure systematic application of the AEO programme and guarantee transparency and equal treatment of economic operators 2.2) Implementation of AEO Programme: c) Kosovo Customs has in place AEO organisational structure according to OS of 2017, there is a number of staff dedicated to AEO, d) Regarding AI and Guidelines/Manual for AEO there is authorization procedure, including self-assessment questionnaire. 3) Operationalization of the Transit Agreement with Albania. The increasing volume of trade with Albania and the utilization of the Port of Durres by the businesses from Republic of Kosovo, raised the need to improve the transit procedures at the border with Albania. In this respect, Kosovo Customs commenced with Albanian customs a joint project which now is fully functional, and it is allowing businesses to open a transit document in Albania or Kosova and to close the transit at the other end (i.e. in Kosovo or Albania) thus avoiding the unnecessary border checks. Before the establishment of joint transit corridor the transit procedure was taking extensive time,

while currently the time needed for completing border procedures has been reduced significantly and it is taking approx. 10-15 minutes per consignment. It should be mentioned that at the very first stage, the administration of this corridor was administered manually, with all transit documents inputted twice in the Kosovo and the Albanian customs managements system. In order to streamline the transit corridor administration, in early 2017 the systems were directly integrated through an IT platform which has contributed to further savings in time which previously was spent on double verification of transit documents.

Impact of the reform: The specific impact of this reform is the automatization of the bilateral confirmation procedure of T-1 documents (transit documents) enabling further trade facilitation through the common on transit corridor between Kosovo and Albania. Kosovo Customs, through direct interviews with customs agents and the representatives of commercial chambers, estimates that this measure has produced 4 hours of time savings in exporting, with at least 2 hours of savings in export border compliance and 2 hours of savings in export documentary compliance.

The joint transit agreement with Albania is fully established. The commencement of the joint transit with T1 started on 15.03.2015, while the common transit with T2 - 19.12.2016. The reform will continue in 2018.

4) Legal and Regulatory framework on advance ruling is in place and is foreseen in the Customs and Excise Code and Administrative Instruction 11/2009 implementing the Customs Code.

5) Supplement-amendment of the Customs Code and its implementation; Supplement-amendment to the Law on Customs Measures for Protection of Intellectual Property

The Draft-Law on the amending and supplementing the Customs and Excise Code of Kosovo No.03/L-109 (amended and supplemented by Law No. 04/L-099) has been finalized and forwarded to the Ministry of Finance. October/2015. The Draft-Law remains for the Legislative Strategy for 2017. Administrative Instruction No. 11/2009 on the Implementation of the Kosovo Customs and Excise Code, approved (supplement-amendment). It is subject to the entry into force of the draft-Law on supplementing-amending the Customs and Excise Code of Kosovo.

The Working Group has drafted the Draft Law on Customs Measures for Protection of Intellectual Property, which has been harmonized entirely with EU Regulation no. 608/2013. The final draft was forwarded to the Finance Minister in October 2016, and in March 2017 the draft-law was made available for public consultation, published at online consultation platform. The two stages of consultations are over; we are now in the process of reviewing the comments received after consultation. After the entry into force of the Law in question, an AI on implementation of the same Law shall be drafted.

6) The 4th meeting of NTFC was organized, a) The meeting was held on 21 December 2017, b) National Committee of Trade Facilitation in 2018 will be focused on the fulfilment of obligations and actions to be performed at national level deriving from AP 5 that are to be either implemented or prepared before AP 5 enters into force. Also, the reference will be the Multiannual Action Plan within Regional Economic Area.

7) Time Release Study; One of the focal points in international trade are a country's borders and the efficiency of the performance of Customs and other border agencies in clearing goods entering and exiting the country. In this context, *Time Release Study* (TRS) is a unique tool and method for measuring the performance of Customs and other border agencies related to trade facilitation at the border. TRS measures relevant aspects of the effectiveness of operational procedures that are carried out by Customs and other regulatory actors, and it also helps to address the concerns of trading community regarding delays in the clearance process and recommends ways to respond to them.

	<p>Time Release Study was carried out in Kosovo at selected border crossing points and inland terminals in the fall of 2016. The World Bank Group (WBG) supported this effort, which was led by the Kosovo Customs Administration. The TRS was carried out in accordance with World Customs Organization (WCO) and World Bank Group methodology. It documented procedures and measured processing time of commercial road traffic passing through selected border crossing points (BCPs) and inland terminals. WCO TRS software was used for data collection and analysis. In order to facilitate data collection a standardized questionnaire was used. The questionnaires were given to the driver of the truck when the conveyance arrived at the BCP and attached to the document package (SAD or T1) and remained with it until goods were released. The data collection followed the customs declarations and enumerators were used to ensure that the questionnaires were being completed – either by retrieving it at each step and filling in the appropriate part or by simply ensuring that the completion was done by the relevant border agency officials and customs brokers/freight forwarders. Selected enumerators were used to input the collected data into the WCO TRS software. A TRS pilot was carried out on September 26 and 27, 2016, while the actual TRS data collection was carried out from October 10 – 15, 2016, at the BCP Kosovo/Albania (Vermica); BCP Kosovo/Macedonia (Hani i Elezit); BCP Kosovo/Serbia (Merdare); Inland Terminal Hani i Elezit; Inland Terminal Prizren; Inland Terminal Pristina; Inland Terminal Ferizaj.</p> <p>Time Release study (TRS for measuring the actual performance of Customs activities).</p> <ul style="list-style-type: none"> - In a study that was conducted at the end of 2016 by IFC/World Bank (the International Financial Corporation which is part of the World Bank) and Kosovo Customs has measured the timing of clearance of goods from the moment of entry to completion of the procedures both in export and import, while the results of this study are impressive since the conclusion was that customs - Procedures facilitate the trade. Conclusions were that Kosovo Customs has adequate procedures and has not created transport bottlenecks but rather has facilitated trade with the procedures applied by Customs. While the average time of completion of customs procedures according to the study was: There is no impact on the annual budget and there are no deviations from the estimated costs. - 2 hours and 5 minutes for all shipments, 30 minutes for companies channelled into blue, green and yellow channels, average
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	

Reform measure #16: Improvement of quality infrastructure	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Approval of the amendments of the Law on technical requirements for products and conformity assessment, as well as supplement with other bylaws and its implementation; 2) Approval of new Law for Construction Products and its supplement with other bylaws for certain construction products and their implementation in compliance with Regulation (EU) of the European Parliament No. 305/2011; 3) Approval of the Law on Standardization (new law) and approval/transposition of new European and International standards (2500 new

	<p>standards for the period 2017-2019) giving priority to harmonized standards;</p> <p>4) Transposition of Regulations for construction products (Regulation 305/2011/EU) and lifts (Directive 2014/33/EU);</p> <p>5) Cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields (lifts, construction products, electrical equipment, textile products, footwear and toy safety), increase in number and performance of conformity assessment bodies as well as raising awareness for businesses and other stakeholders on the role and importance of the implementation of standards;</p>
Were the actions planned for 2017 been implemented?	<p>1) Partially, 2) Partially, 3) Partially</p> <p>4) Partially, 5) Partially</p>
<p>If yes/partially, include:</p> <ul style="list-style-type: none"> - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 <p>If not, explain why not?</p>	<p>1) Law No. 04/L-039 on Technical Requirements for Products and Conformity Assessment is in the amendment process with the aim of transposing Decision No 768/2008/EC of the European Parliament and of the Council of 9 July 2008 on a common framework for the marketing of products and Regulation No 765/2008/EC of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93. The concept document has been approved by Government in 2016. The working group on preparation of the draft law is established. The process is being supported by TAIEX. The new draft law has been finalized including the Public Hearing, Financial Impact Assessment and tables of concordance. The draft law is sent to the Ministry of European Integration for the final opinion on the concordance with the EU Acquis. The upcoming days the draft law is expected to be sent to the Government for approval.</p> <p>Based on the approved Law, the sublegal acts will be drafted and approved during 2018.</p> <p>The new draft law on Technical Requirements for Products and Conformity Assessment was approved on 15th of December 2017 by Government. Currently it is in the process of the hearings within the Parliamentary Commission.</p> <p>2) An assessment carried out by FMG project concluded that Law No. 04/L-181 on Construction Products and other sublegal acts do not reflect EU principles and practice under Regulation 305/2011/EU. The Quality Infrastructure Division in cooperation with the abovementioned expert prepared the concept document on construction products area. The same was approved by the Government of Kosovo. The new law is based on EU principles and applicable legislation in Kosovo. The draft law is finalized and ready to be sent to the government. The relevant stakeholders (economic operators and accredited CABs) were consulted in drafting the Law on Construction Products.</p> <p>The delays of this law occurred until the new Government was established. After the approval of new Law on Construction Product, sublegal acts will be drafted during the 2018.</p> <p>The new draft law on Construction Products was approved on 15th of December 2017 by Government. Currently it is in the process of the hearings within the Parliamentary Commission.</p> <p>3) The law on Standardization is drafted and planned to be adopted by the end of 2017. The law is harmonized with Regulation (EU) No.1025/2012 of the European Parliament and of the Council on European Standardization. The original plan was to adopt it in 2016, but it was decided by MTI to review the law once more in regard to certification.</p> <p>The draft law on Standardization is in the process of the hearings within the Parliamentary Commission. The delays of this law occurred until the new Government was established.</p>

	<p>4) Based on the recommendations from the FMG project expert's and their assistance, two draft regulations have been prepared: Technical Regulation on Lifts and Safety Components (transposing Directive 2014/33/EU) and Technical Regulation on Safety of Lifts in Use (National provisions and some EN standards requirements).</p> <p>The technical Regulation No. 03/2017 on Lifts and Safety Components (transposing Directive 2014/33/EU) has been approved by the Minister and the implementation of this Regulation has commenced, all the parties of interest are included in the implementation. So far 30 ID numbers for new lifts that are inspected by the authorised conformity assessment bodies have been delivered, these numbers are registered within Ministry's database.</p> <p>From 15 – 19 of November 2017, with the support of TAIEX, a study visit to Slovenia (Notifying Body - Ljubljana) was carried out for the conformity assessment bodies authorized by MTI for the field of new lifts and those in use, the purpose of this visit was the exchange of the experience for the procedures of inspection of lifts based on EU legislation;</p> <p>Technical Regulation on Safety of Lifts in Use (National provisions and some EN standards requirements) is in the process of approval by the Minister.</p> <p>5) In May, in the meeting with the businesses invited by the Kosovo Chamber of Commerce, the Chief of the Kosovo Standardization Agency has presented the topic "Standardization in Function of Certification". On 18.07.2017, the Quality Infrastructure Division organized a meeting with businesses discussing the implementation of the legislation in the field of elevators.</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	

Reform measure #17: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula	
Brief description of actions planned for 2017	<p>1) 20 new occupational standards will be drafted and verified;</p> <p>2) Development of VET Core curriculum based on the new curricula of Kosovo;</p> <p>3) Revision of the VET curriculums and training curriculums and training of trainers and teachers based on the Core curriculum of MEST, MLSW;</p> <p>4) Development of teaching materials for VET for two priority profiles by MEST and MLSW and expansion of a new curriculum for preschool and I, VI, and X grades in all schools;</p>
Were the actions planned for 2017 been implemented?	<p>1) Yes, 2) Partially</p> <p>3) No, 4) YES</p>
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation	<p>1) In the framework of reforming and supporting the enhancement of quality in pre-university education, respectively in the VET, 20 occupational standards have been drafted and approved; a working group for the drafting of VET Core Curriculum has been established and drafted the final draft of the Core Curriculum for Vocational and Education Training which will precede the review of the curricula. However, based on the 20 occupational standards, the reviewing of the 20 curricula for the respective profiles has been made. We developed regulation for work safety for VET students; we established the office for cooperation with businesses on the CoC that will be as a model for other schools. We analysed existing legislation for PPP. We signed the MoU with Wood Production Association and MEST regarding</p>

<p>- Whether the reform will continue in 2018 If not, explain why not?</p>	<p>professional practise of VET students. 6 schools are equipped with 2 laboratories/ workshops on mechatronics and food technology. With ETF we piloted tracer study that will be expanded on other schools during 2018.</p> <p>2) MEST launched the Electronic Platform Busulla – as part of Carrier Orientation and Information System. During 2017 we managed to develop and level five qualifications for assistant for children/students with special needs and carrier consultant. All the reforms will continue during 2018.</p> <p>3) Revision of the VET curriculums and training curriculums and training of trainers and teachers based on the Core curriculum of MEST, MLSW was not carried out.</p> <p>4) During 2017, the implementation of the New Kosovo Curriculum for grades I, VI and X is about to start, in all Kosovo schools. Preparations have been made, such as: teacher training for the implementation of the new curriculum, compilation of subject programs and review of teaching materials.</p> <p>Activities were carried out: January- June 2017. Difficulties arose due to the complexity of work and shortage of time available. To be continued according to the time limits set in the reform measure and Pre-university Education Strategic Plan 2017- 2021.</p>
<p>Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)</p>	<p>All the expenses are carried out according to the planning in the respective measure</p>

Reform measure #18: Implementing and improving the teachers' carrier system	
<p>Brief description of actions planned for 2017</p>	<p>1) Completion of the legal framework for the professional development of teachers; 2) Training of 8000 teachers in implementation of the core curriculum for pre-primary grades and grades 1, 6, 10 in the general and vocational education; 3) Review and approval of the strategic framework for the development of teachers; 4) Modification and development of database for licensing and updating the catalogue and prioritization of programs accredited by MEST;</p>
<p>Were the actions planned for 2017 been implemented?</p>	<p>1) YES, 2) YES 3) YES, 4) Partially</p>
<p>If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?</p>	<p>1) The AI for National Council for Teacher Licensing and AI for Teacher Licensing, Strategic Framework for Teachers' Professional Development, have been approved. 2) The training of 420 trainers was performed based on the 8 fields of the Kosovo New Curriculum and the training of 9100 teachers of the pre-primary and primary level, grades 1, 6 and 10, was carried out. 3) The TPD strategic framework was reviewed and adopted. 4) The modification of the database with concrete activities is planned, for licensing teachers according to the activities of the World Bank "Education Quality Improvement" project. Catalogue review I completed.</p>

	The written activities were carried out during January–June. The difficulties arose due to the work conditions and the coordination with collaborators and officials of local and central levels. The reform shall continue in 2018.
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	All the expenses are covered by the Ministry of Education, and amounted to EUR230 000 for the period January - June 2017

Reform measure #19: Improvement of employment services through functioning of the Employment Agency and the active labour market measures	
Brief description of actions planned for 2017	<ol style="list-style-type: none"> 1) Formal establishment of EARK is expected to be carried out, including the transfer of existing staff and assets from MLSW; 2) Complete drafting of the regulation for the advisory board, as well as the drafting of necessary sublegal acts; 3) Licensing of non-public employment service providers to improve the delivery of employment measures (for implementation of active measures of labour market); 4) Training of employment advisers and review of performance results; 5) Improving the integration of the Labour Market Information System (LMIS) with the Education Management Information System (EMIS); 6) Modernization of vocational training service provision;
Were the actions planned for 2017 been implemented?	<ol style="list-style-type: none"> 1) Yes, 2) No, 3) Yes 4) Yes, 5) Partially, 6) Yes
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018 If not, explain why not?	<ol style="list-style-type: none"> 1) The General Director has been appointed. The staff is transferred, including movable and immovable property. 2) The Advisory Board has been nominated, 3) Licensing of non-public service providers is an administrative action that takes place throughout the year. So far six non-public employment service providers have been licensed. The list of licensed providers with all required data is published on the MLSW web site. 4) The performance management process is monitored. 5) The labour market information system is in the process of integration as the SMIA system is advancing. The deadline for integration with the pre-university and university education system (SMIA and SMIAL) has been postponed. 6) Modernization of Vocational Training Services - With the support of the DVV-International Project, the supply of equipment for the Vocational Training in VTC-Prizren has been done, as well as the recruitment of the trainer who will develop this profession supported by the donor. <p>VTC trainers and in support of experts engaged by Project Alled have developed curricula and teaching packages for three professions; Plumbing and pneumatic, aluminium and plastic window processing, and preserving of fruits and vegetables;</p>
Current implementation cost and impact on the annual budget (specify the	<ol style="list-style-type: none"> 1) Planned cost € 25 000. 3) Administrative cost - licensing of non-public service providers. 4) The implementation of this action is covered by donor support amounting to \$ 5,000.

deviation from estimated costs, if any)	6) All expenses, including equipping tailor, hairdressing-workshops with equipment, as well as training materials and trainers' salaries for this year have been cover by DVV-international. Training on soft skills in VTC incurs only administrative costs, while the cost for the remaining part of the engagement in training in the company is covered by the GIZ project.
---	--

Reform measure #20: Improving the health and social services	
---	--

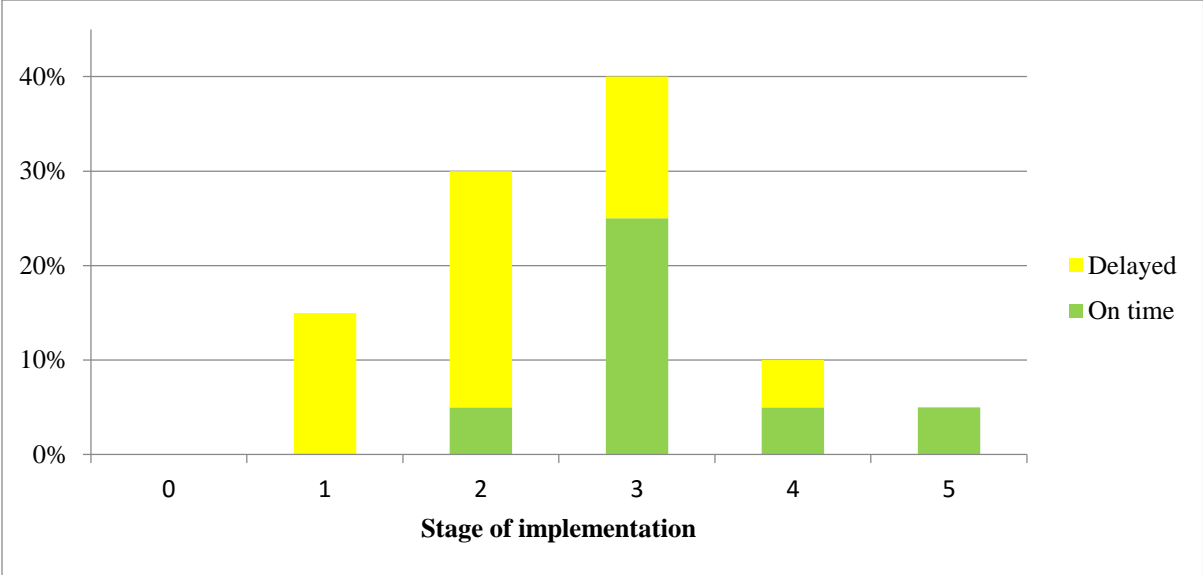
Brief description of actions planned for 2017	<p>1) Creating and drafting of the financing formula for social and family services (minimum 6% of the General Grant for social services);</p> <p>2) Inclusion of the "specific grant for social services" within the system for financing the municipalities by the central government, by including it in the amendment of the Law on Local Government Finances;</p> <p>3) Grants support to licensed NGOs to provide social and family services;</p> <p>4) Development, support and financing of social enterprises that provide social services;</p> <p>5) Development and promotion of Integrated Information System of social payments, which also includes statistics on gender basis;</p> <p>6) Collection of health insurance premiums from citizens;</p> <p>7) Coverage of premium cost for social categories from the Kosovo Budget;</p>
Were the actions planned for 2017 been implemented?	1) No, 2) No, 3) Yes, 4) Partially, 5) Partially, 6) No 7) Partially
<p>If yes/partially, include:</p> <p>- Description of steps taken</p> <p>- Timeline of implemented actions</p> <p>- Difficulties and delays in implementation</p> <p>- Whether the reform will continue in 2018</p> <p>If not, explain why not?</p>	<p>Most of the actions planned under this measure have not yet been implemented and remain a priority to be implemented in the second half of this year or in 2018. Of the total of seven (7) planned actions, action 3, 4 and 5 are under implementation.</p> <ul style="list-style-type: none"> - In January 2017, MLSW announced a call for subsidies for financing the support of social service projects for NGOs licensed by MLSW. - MLSW has drafted the Draft Law on Social Enterprises, which was approved by the Government of Kosovo in December 2017 and was adopted in December 2017 at the first reading by the Kosovo Assembly. - MLSW has developed the Terms of Reference for development of modules and advancement of the Integrated Information System and has announced a tender for the development and advancement of 6 software modules that are part of the social assistance sector and war categories schemes. <p>Actions 1, 2, 6 and 7 are actions that require legal amendments or are decisions that require the preparation or initiation of legal amendments and thus have financial implications. Therefore, they remain one of the priorities whose implementation can and may start from the beginning of 2018.</p> <p>MoH, for action no. 6) Start of collection of premiums has been postponed by Government Decision No. 07/148 of 30/06/2017. As for action no. 7) Criteria for Poverty Level are being determined in cooperation with WB for the purpose of Adoption of AI on determination of criteria for exemption from premium payment, health insurance payment, co-payments and other payments for Kosovo citizens according to official test of poverty.</p>
Current implementation cost and impact on the annual budget (specify the deviation from estimated costs, if any)	The cost of implementing Actions 3, 4 and 5 has been part of the 2017 budget, for which actions an amount of budget funds of EUR 500,000 (about EUR 400,000 for Action No. 3 and about €100,000.00 for action no.5) have been allocated or committed, while contribution to the implementation of Action no. 4 has been covered by donor support who have covered the cost for support with experts and for organization of workshops.

ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2018-2020

Table 11a: OVERVIEW OF IMPLEMENTATION OF ERP 2017-2019 in 2017

STAGE OF IMPLEMENTATION	0=not yet started. 1=In preparatory stage. 2=Initial implantation.	3=Some results achieved 4=Advanced implemen. 5=Completed.	TIMELINESS	
				On time
MEASURE			First year in ERP	Status at end 2017
#1: Improvement of public procurement through application of electronic procurement			2016	4
#2: Reducing energy consumption through energy efficiency measures			2016	3
#3: Further development of energy generation capacities			2016	2
#4: Extending relevant ICT network infrastructure for socio-economic development			2016	1
#5: Investments in the agricultural infrastructure and agro-processing			2016	3
#6: Regulation and consolidation of agricultural land			2016	2
#7: Support to development of industrial clusters			2016	1
#8: Development of tourism products in Kosovo touristic regions			2017	3
#9: An enabling regulatory system through evidence-based policy development			2016	3
#10: Ensuring property rights by addressing informalities in the real-estate sector			2016	3
#11: Increase judicial efficiency through reduction of court case backlog			2016	3
#12: Improving access to funding for SMEs through Kosovo Credit Guarantee Fund			2016	5
#13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency			2016	2
#14: Improving the policy and strategic framework for research and innovation			2016	2
#15: Increasing cost-efficiency of international commercial transactions			2017	4
#16: Improvement of Quality Infrastructure.			2016	2
#17: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula			2016	3
#18: Implementing and improving the teachers' career system			2016	2
#19: Improvement of employment services through functionalising the Employment Agency and active labour market measures.			2016	3
#20: Improvement of social and health services			2017	1
Average implementation score				2,6
Measures being implemented without significant delays			8	40%

IMPLEMENTATION PROFILE OF ERP 2017-2020 (at end 2017)



ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2018-2020

Introduction

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) 2018-2020 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 Co-ordinator 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: Public Financial Management, Energy and Transport Market Reform; Sectorial Developments (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 markets; and Social Inclusion, Reduction of Poverty and Equal Opportunities.

During the 2018-2020 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, civil society, business representatives and other relevant stakeholders.

The Economic Reform Program 2018-2020 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 and workshops 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.

IMPLEMENTATION OF ACTIVITIES PLANNED FOR 2017		
IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
Reform Measure #1: Electronic Public Procurement		
1. Implementation of e-procurement legislation and relevant operational guidelines;		
2. Launching and implementation of remaining modules (e-contracting) expansion of the application of mandatory procurement in all budgetary organizations		
3. Enhancing administrative capacities (recruitment of six officials within PPRC) and delivering basic training to procurement officials, including training of trainers.		
Reform Measure #2: Reducing energy consumption through energy efficiency measures		
1. Implementation of energy efficiency measures in 5 facilities financed from the budget of Kosovo;		
2. Implementation of efficiency measures and renewable energy sources in public buildings of central and local level, which include 20 buildings financed through the World Bank;		
3. Implementation of energy efficiency measures at the local level in 15 public buildings (schools) through the KfW project and EU.		
Reform measure #3: Further development of energy generation capacities		
1. Completion of all agreements regarding the development of TPP Kosova e Re;		
2. Completion of the feasibility study regarding TPP Kosova B;		
3. Implementation of two new hydropower plants projects with a capacity of 8.48 MW		
4. Three solar power plants projects with a total capacity of 9 MW		
Reform measure #4: Extending relevant ICT network infrastructure for socio-economic development		
1. Implementation of the pilot project for the extension of broadband infrastructure that will include a rural area (some villages) in Kosovo;		
2. Reaching a loan agreement with WB, which includes investments for the upcoming years of ICT networks expansion;		
3. Adapting and functionalizing the digital technology park for needs of ICT businesses.		
Reform measure #5: Investments in agricultural infrastructure and agro-processing		
1. Expansion of production areas in horticulture sector (vegetable areas in greenhouses and open fields, fruit trees, vineyards, seed plot) and increasing production capacity in livestock and poultry.		
2. Financial support to expansion of production capacities for over 450 farms each year (30%, the sector of vegetables and greenhouses with 26%, the meat sector with 14%, the milk sector with 13.7%, the grape sector with 13.3% and eggs sector by 3%).		
3. Focus on expanding areas under irrigation by about 13.5% on annual basis.		
4. For the next three years, around 55 agro-processing enterprises (milk processing 18.2%, meat processing 22%, fruit and vegetable processing 38.2% and wine production by about 21.6%) will be supported.		
5. For the next three years, around 55 food processing enterprises would be based on annual basis (18.2% of milk processing, 22% of meat processing, and 38.2% of processing of fruit and vegetables and wine production by about 21.6%).		
6. The number of enterprises that will treat waste and scrap in proper management will exceed 10 companies per each year.		
Reform measure #6: Expansion of farms through consolidation and regulation of agricultural land		
1. Review of complaints of participants from the land consolidation project uncompleted by the Municipal Committee for Land Consolidation in Drenas (with a surface of 4,790 hectares of agricultural land) and the Municipal Committee for Land Consolidation in Vushtrri (with an area of 487 ha. of agricultural land);		
2. Data entry in the Registry of Immovable Property (RDIP) from the cadastre of respective municipalities.		
3. Implementation of pilot project for voluntary consolidation of agricultural land based on FAO methodology and funded by FAO, which includes 25 ha of agricultural land in the Cadastral Zone Celina, Municipality of Rahovec;		

4. Continuation of the voluntary consolidation project of the agricultural land in 10 Cadastral Zones in Municipality of Viti with surface of 2,790 ha of agricultural land, including informing the owners, property dispute resolution and the review of complaints of participants in project	
Reform measure #7: Support the development of industrial clusters	
1. The Government will focus on the functioning of the Council/Forum for drafting policies for stimulation of competitiveness and entrepreneurship in industrial sectors	
2. Research on value chains for the industrial potential sectors - the definition of missing links and measures for their development	
Reform measure #8: Development of tourism products in Kosovo touristic regions (NEW MEASURE IN ERP 2017-2019)	
1. Improvement of the legal, institutional and policy framework for the tourism sector.	
2. Review of international standards on improvement of service quality in tourism and catering	
3. Product research in the touristic regions of Prishtina and Mitrovica, focusing on identification of development priority products and information of businesses on touristic products.	
4. Drafting of the guide on unification of touristic signalling in the country, and will continue supporting municipalities on establishment of Tourist Information Offices.	
Reform measure #9: Adoption of evidence-based policies	
1. Development and introduction of amended guidelines on ex-ante policy assessment; strengthening quality control by the Centre of Government related to ex-ante policy assessment	
2. Development and application of analytical tools focusing on competitiveness enhancement through the 116 Standard Costing Model, the SME Test and the Regulatory Competitiveness Test.	
3. Training of civil servants on application of guidelines and analytical tools to ex-ante policy assessment	
4. Implementation of three legislative assessments	
Reform measure #10: Ensuring property rights by addressing informalities in the real-estate sector	
1. Work on improving the legal framework, including the preparation of the concept document on amending the Law on Inheritance and the Law on Notary	
2. Preparation of concept documents on amending the Law on Property and Other Real Rights, the Law on Contested Procedure and the Law on Non-contested procedure.	
3. Stimulation of property rights registration in the cadastre by simplifying registration procedures and removing barriers in order to complete the legalisation process	
4. Conduct a complete analysis of the Cadastre Agency procedures and develop policy to ensure efficiency, simplicity, affordability, transparency and predictability of the registration process.	
5. Stimulation and avoidance of barriers to promote property rights registration	
Reform measure #11: Increase the efficiency of the judiciary in resolving cases	
1. Recruitment of 50 professional associates to deal with backlog on civil and criminal cases to achieve reduction of case backlog for by 30% by the end of 2017;	
2. Conduct assessment on increasing the number of judges and professional associates within the Fiscal Division;	
3. Complete development of Case Management Information System (CMIS) software and criminal field system prototype for the general department, followed by the criminal field system for serious and juvenile crimes.	
4. Preparation of the hardware infrastructure of the database and computer network of courts and prosecution offices.	
5. Capacity-building activities based on a training plan and commence with implementation at the Basic Court in Ferizaj, which is the CMIS pilot model.	
Reform measure #12: Improved access to finances for SMEs through the Kosovo Credit Guarantee Fund	
1. They include the transfer of the amount of EUR 1,000,000 to KCGF. In order to functionalize the fund, the selection of the managing director and the completion of the operational structure will be carried out.	
2. Continue with signing the agreements with commercial banks in Kosovo for inclusion of their credit portfolios within the fund guarantee.	

Reform measure #13: Merging Customs and Tax Administration to establish a single Revenue Collection Agency	
1. Adoption of the Law e on Tax and Customs Agency of Kosovo	
2. Inter-institutional cooperation to achieve the gradual convergence of processes and the following integration of both institutions	
3. Complete organizational structure of the agency, paying attention to the optimization of tax collection 119 processes by minimizing resources, eliminating loses of funds and saving time.	
4. Undertake necessary legal amendment for establishment of a unified administration for revenue collection.	
Reform Measure #14: Improvement of policy and strategic framework and building capacities for research and innovation	
1. The Law on Innovation and Transfer of Knowledge and Technology will be approved, including the revision and approval of the draft strategy.	
2. Continue with the provision of the support by funding 10 small research scientific projects aimed at supporting the academic world and SMEs and 20 vouchers of innovation for medium and small enterprises.	
3. 50 short-term mobilities for scientists.	
4. 20 grants for PhD students in 500 best universities and awarding the scientist of the year reward and young scientist of the year.	
Reform measure #15: Increasing cost-efficiency of international commercial transactions (NEW MEASURE IN ERP 2017-2019)	
1. Implementing risk management in other border agencies;	
2. Effective implementation of the program for Authorized Economic Operators	
3. Operationalization of the Transit Agreement with Albania;	
4. Drafting the Legal and Regulatory Framework on advance rulings;	
5. Supplement-amendment of the Customs Code and its implementation; Supplement-amendment to the Law on Customs Measures for Protection of Intellectual Property;	
6. Sustainable operation of the National Committee for Trade Facilitation, awareness-raising and information for the private sector	
7. Time Release Study.	
Reform measure #16: Improvement of quality infrastructure	
1. Approval of the amendments of the Law on technical requirements for products and conformity assessment, as well as supplement with other bylaws and its implementation.	
2. Approval of new Law for Construction Products and its supplement with other bylaws for certain construction products and their implementation in compliance with Regulation (EU) of the European Parliament No. 305/2011;	
3. Approval of the Law on Standardization (new law) and approval/transposition of new European and International standards (4000 new standards for the period 2017-2019) giving priority to harmonized standards	
4. Transposition of Regulations for construction products (Regulation 305/2011/EU) and lifts (Directive 2014/33/EU);	
5. Cooperation and information roundtables will be organized with businesses and other stakeholders for specific applicable regulations for relevant fields (lifts, construction products, electrical equipment, textile products, and footwear and toy safety), increase in number and performance of conformity assessment bodies as well as raising awareness for businesses and other stakeholders on the role and importance of the implementation of standards.	
Reform measure #17: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula	
1. 20 new occupational standards will be drafted and verified	
2. Development of VET Core curriculum based on the new curricula of Kosovo;	
3. Revision of the VET curriculums and training curriculums and training of trainers and teachers based on the Core curriculum of MEST, MLSW;	
4. Development of teaching materials for VET for two priority profiles by MEST and MLSW and expansion of a new curriculum for preschool and I, VI, and X grades in all schools.	

Reform measure #18: Implementing and improving the teachers' carrier system	
1. Completion of the legal framework for the professional development of teachers;	
2. Training of 8000 teachers in implementation of the core curriculum for pre-primary grades and grades 1, 6, 10 in the general and vocational education;	
3. Review and approval of the strategic framework for the development of teachers;	
4. Modification and development of database for licensing and updating the catalogue and prioritization of programs accredited by MEST.	
Reform measure #19: Improvement of employment services through functioning of the Employment Agency and the active labour market measures	
1. Formal establishment of EARK is expected to be carried out, including the transfer of existing staff and assets from MLSW	
2. Complete drafting of the regulation for the advisory board, as well as the drafting of necessary sublegal acts.	
3. Licensing of non-public employment service providers to improve the delivery of employment measures (for implementation of active measures of labour market).	
4. Training of employment advisers and review of performance results.	
5. Improving the integration of the Labour Market Information System (LMIS) with the Education Management Information System (EMIS).	
6. Modernization of vocational training service provision.	
Reform measure #20: Improving the health and social services (NEW MEASURE IN ERP 2017-2019)	
1. Creating and drafting of the financing formula for social and family services (minimum 6% of the General Grant for social services);	
2. Inclusion of the "specific grant for social services" within the system for financing the municipalities by the central government, by including it in the amendment of the Law on Local Government Finances;	
3. Grants support to licensed NGOs to provide social and family services;	
4. Development, support and financing of social enterprises that provide social services;	
5. Development and promotion of Integrated Information System of social payments, which also includes statistics on gender basis;	
6. Collection of health insurance premiums from citizens; 7) Coverage of premium cost for social categories from the Kosovo Budget.	

The progress of the consultation process

Consultations on drafting the ERP 2018-2020 took place since the very beginning of the drafting process. In September/October 2017, the SPO held individual meetings with the relevant field coordinators from line ministries, while during the drafting of the document several workshops were held regarding the preparation of the measures of ERP 2018-2020 and their monitoring and reporting. In the latter, representatives from the European Commission and the OECD were also present. While on 04 October a high level meeting of the Government and the European Commission was held with representatives of both civil society and the business community.

The Economic Reform Program was published for consultation with the public on the electronic public consultation platform on 15 December 2017 and was open for comments until 11 January 2018. According to the Regulation on Minimum Standards for Public Consultation, the ERP 2018-2022 has been published together with the Consultation Document for ERP 2018-2020 which briefly presents the summary information about the document, the main goals and the consultation process and the finalization of the document.

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 than January 31, 2018.

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, EC and CSOs	04/09/2017	50 participants
3. Workshop with field coordinators <ul style="list-style-type: none"> SPO has organized two-day workshops with the ERP Coordinators, European Commission, and OECD for ERP 2018-2022. 	09-10/11/ 2017	26 participants
4. Joint meetings with ERP Coordinators and Line Ministries: <ul style="list-style-type: none"> Public Financial Management group; Trade-related Reforms group; Energy and Transport Market Reform group; Innovation, Research and Development (RDI) and Digital Economy & Education and Skills group; Labour markets; and Social Inclusion, Reduction of Poverty and Equal Opportunities group. Innovation, Research and Development (RDI) and Digital Economy & Education and Skills group. 	11.09. 2017 11.10.2017 12.10.2017 13.10.2017 13.10. 2017 13.10.2017	4 participants 7 participants 8 participants 11 participants 7 participants 11 participants
5. Workshop for the presentation of the draft of ERP 2018-2020 with civil society, Chamber of Commerce, etc.	15.01.2018	55 participants

Summary of contributions received during the consultation process

Contributions to the ERP 2018-2020 are mainly provided during the workshops held with government, civil society organisations and business representatives. In addition, valuable contributions are also provided during individual meetings with stakeholders, as well as written communications. 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 in Annex no. 1 of this report.

Next steps

The Economic Reform Program 2018-2020 has been finalized and proceeded for approval to the Government of Kosovo.

ANNEX - detailed table with information for contributors, justifications for accepted and rejected comments⁵⁹

Economic Reform Programme 2018-2020				
General comments				
<ul style="list-style-type: none"> Institute for Advanced Studies GAP - Generally, the "Economic Reform Program 2018-2020" should be more specific in the actions and objectives it aims to achieve. At many points this program is unrealistic, there is no support in the Law on Budget of the Republic of Kosovo 2018 and because it is not specified is difficult to measure. In cases the program is controversial as it once introduces access to finance from enterprises as an area where improvements have been made (page 3), but later it presents it as one of the two main problems faced by enterprises in Kosovo (page 27). Also, many criticisms of the Progress Report have not been addressed with adequate measures. Also, what is noticed in all the present ERPs is the focus on fulfilling activities, but which are not well-related to the ultimate goal of what is to be achieved. An example for this is the establishment of the Employment Agency in the Republic of Kosovo (CRAA), which is foreseen with the previous IPA and with ARE. Functionalization of the CIS has not yet been completed (all sub-legal acts have not been drafted and the Board has not been completed, but the CER is still in the phase of accommodation in new offices). But most importantly, it remains unclear what will actually change in employment and vocational training the fact that the CRA will have greater autonomy from MLSW than the former Labour and Employment Department? The CRA will have the same structure, the same staff, the same budget and the same training courses. German Embassy - Environmental services have been recognized as an emerging constraint (p.4). Unfortunately, there are no measures indicated to improve the environmental infrastructure for waste water treatment, solid waste management etc. However, this is key for the EU approximation. Kosovo needs an economically, socially and environmentally balanced development. Overall simplification of the legislation, reduction of inconsistencies and reform of the inspection system (measures 8 and 11) are important. However, it would be appreciated if the ERP would state explicitly that policies and laws have to be in line with the financial funds and capacities needed to implement the strategies, to control compliance with the laws and to secure their enforcement. British Embassy Pristina, congratulated the Strategic Planning Office and the Economic and Public Policy Department within the Ministry of Finance for producing a detailed and objective-focused economic reform programme. 				
	Comments	Commented by:	Status of Comments - Accepted, partially accepted, is	Comments (Comment on partially accepting and not accepting comments is mandatory).

⁵⁹ <http://konsultimet.rks-gov.net/Storage/Consultations/09-10-40-15122017/Economic%20Reform%20Program%20-%20Structural%20Reform%20Priorities%202018-2020.pdf>, (mentioned pages in accepted comments are in this link)

			not accepted.	
<p>Priority Area # 1: Public Finance Management. Measure #1: Improvement of public procurement through application of electronic procurement</p>	<p>1. In addition to planning for the implementation of e-procurement in all budget organizations, it is important to address other key procurement problems that affect good public finance management. According to the latest report of the General Auditor, poor planning is evident in the procurement part, either in the development of procurement procedures or in the management of contracts. The tendency to make payments to operators before the completion of works and not monitoring of capital projects, which according to the audit report in some cases do not end at all by the operators, indicates inadequate management of public finances. The measure in question should foresee steps to improve planning and halt the phenomenon of prepayments that undermine Kosovo's budget.</p> <p>2. Problems with Public Finance Management also relate to other aspects of management and transparency. Still, there is no clear financial regulation on the allocation of subsidies by budget organizations, which would eliminate opportunities for subsidies abuses; the area in which the General Auditor finds major violations every year;</p> <p>3. In order to increase control in the management of public finances, greater budget transparency is needed. Publication of financial reports by all central and local institutions, especially those obliged to publish them under applicable laws and administrative instructions, would enable greater control by the public as a measure to reduce corruption practices.</p>	GAP	Not accepted	All these issues are real and addressed with PFM Reform Strategy. The ERP measure was introduced on 2016 to focus on procurement because it is expected to have some effect on competitiveness and transparency. Once the measure is completed other PFM related measures will be introduced to ERP.
<p>Priority Area #2: Energy and transport market reform. Measure #2: Reducing energy consumption through energy efficiency measure.</p>	<p>This measure should include the increase of human capacities for the Agency for Energy Efficiency, as recommended in the Annual Progress Reports from 2015.</p>	GAP	Partially accepted	<p>This issue will be addressed through Law on Energy Efficiency, which is part of the measure. The Agency has approved its organogram and is working on its capacity building and is foreseen that the Agency will have 10 staff. So far the Agency has 5 people.</p>

<p>Priority Area #2: Energy and transport market reform.</p> <p>Measure #3: Further development of energy generation capacities</p>	<p>The construction of the New Kosovo Power Plant will affect the increase of the electricity price in the country. An increase in the energy price of about 50-60%, as emphasized by the MCC report for Kosovo and other sources, would greatly increase the operating costs of enterprises in Kosovo, which according to this program are also non-competitive in relation to the enterprises of neighbouring countries. According to the same MCC report, the price paid by businesses in Kosovo today is similar to that paid by businesses in countries such as Austria or Netherland. Whereas, such a rise in the price of energy as above would make it similar to countries like Italy. Therefore, the government needs to develop concrete measures to support enterprises at this point.</p>	GAP		<p>Further development of energy generation capacities: ERP does not go into details of contract on construction of new power plant. It provides concise overview of main obstacles when it comes to the development of energy generation capacities and stable energy supply.</p>
<p>Priority Area #3: Sectorial Developments – (Agriculture, Industry and Services)</p> <p>Measure #6: Developing private sector competitiveness through industrial development for SMEs.</p>	<p>Within this area, capital capacity and capital investments for the Agency of Industrial Property operating within the MTI should be included so that it can accomplish its mission, as recommended in the Progress Report 2016. Also, it is still unclear how the activities will be coordinated between the MTI and the new Ministry of Innovation and Entrepreneurship, as both ministries cover the same area of enterprise development.</p>	GAP	Not accepted	<p>IPR issues are important but the ERP only covers only selected priority measures of the ERP and not all activities of the line ministries. And the MTI is responsible for measure on industrial development and trade facilitation whereas the new Ministry on Innovation is responsible for RDI measures.</p>
<p>Priority Area #4: Business environment and reduction of informal economy. Measure #10: Increase judicial efficiency through reduction of court case backlog.</p>	<p>Among the highlighted problems in the European Commission Progress Report 2016, is the lack of human capacities in justice institutions. The measure should be considered as an activity and an increase in the number of Special Prosecutors, for which the report in question puts particular emphasis on budget 2018, which is surprisingly foreseen to cut the budget for salaries for Special Prosecutors. Progress Report 2016 foresees the number of staff growth in this category as a prerequisite for combating high-level corruption, which is also a step that Kosovo needs to make on its path toward the integration into the European Union.</p> <p>In 2017, the informal economy is estimated to be 31.7%. Compared with the degree of the informal economy of 2014, the informal economy has been shrinking for only 1 p.p, very low progress compared to the government's target to reduce the informal economy to 5% by 2018. It is estimated that in the informal sector more than 45,000 full-time equivalent workers</p>	GAP	Not accepted	<p>The ERP foresees the increase of number of staff in courts but it does not cover the prosecutors issue specifically. In particular, the measure aims to address judicial efficiency in addressing the court backlog and increase capacities of the fiscal division. Given EC guidelines it should measures should be specific and related to obstacles to economic growth and competitiveness.</p> <p>The new Strategy is being prepared now and this remains to be addressed there. Also, currently the Secretariat for Monitoring the Implementation of Strategy against</p>

	work, where 33.2% of personal income for households is informal.			Informality is reviewing the Action Plan of this Strategy. The 1% figure of decrease of informal economy is from 2015 assessment report, and the target of 5% is set for the deadline of 2018, which means there are still three years figures to be reported.
Priority Area #7: Education and skills. Measure #17: Reform in Pre-University Education through Curriculum Development and Implementation, TPD and Quality Assurance through Monitoring and Evaluation, and Inclusion.	According to Budget 2018, budget cuts will undergo two vital subprojects in the field of education for Teacher Training, which in 2018 is expected to decrease the budget by 46%, and that for the Curriculum Development in pre-university education that is expected to have a budget less than 29%. In 2017, Kosovo ranked the last in the region and the top five in the world from the international assessment in education, PISA, where 15-year-old students performed very poorly in all areas. The government needs to make education reforms, thus increasing spending on the above-mentioned programs that directly affect the quality of teaching.	GAP		These comments are addressed in the meeting with MEST and it has been confirmed that there is less budget than previous years for these programs. There are 3 measures related to education reforms in ERP and there allows funds provided by donors and Kosovo Budget.
Priority Area #8: Employment and Labour markets. Measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship.	Representation of women in the boards of public enterprises and independent institutions and agencies in Kosovo is very low. Out of 159 board members in 31 public enterprises, 135 are men and 24 women. Only five boards are headed by women. Similar situation is also in the independent agencies. Clear quotas should be set for the representation of women on boards of public enterprises and independent agencies in line with the Law on Gender Equality. As part of this measure is emphasized the staffing of the Employment Agency of the Republic of Kosovo during 2018, but this is not reflected in the 2018 Budget. As such, this activity is unfeasible;	GAP	Partially accepted	The staff will be reallocated from the MLSW and there are sufficient funds provided in the budget for ERP measure. The gender issues are important but the ERP only covers selected priority measures of the ERP and not all activities of the line ministry
Priority Area #9: Social inclusion, reduction of poverty and equal opportunities. Measure #20: Improvement of	The amount allocated to the Social Assistance Scheme (SNS) is currently insufficient for the 26,000 beneficiary families to overcome the extreme poverty threshold. Specifically, the amount that the beneficiaries will receive in 2018 can only cover 61% of the amount needed to overcome the extreme poverty threshold. Therefore, the amount allocated for this scheme should be increased so that the families overcome at least that threshold. According to GAP, about 20m additional euros for the SNS would be enough to achieve this goal. Such a step would have a	GAP	Partially accepted	After the consultation with EC this measure is now more focused on health insurance and its application. However these issues will be addressed in future together with MLSW as a key institution for this area.

social and health services.	multifaceted impact, among which would increase the likelihood that some of this category would find work and thus leave the scheme as well. Unfortunately, the MLSW budget for social-based social schemes has increased incomparably more than the budget of social schemes based on the economic status of beneficiaries. Social schemes for veterans, old-age pensions, former political prisoners, deputies of the 1990s are schemes based on entitlement and not necessarily going to the poorest categories. Therefore, Kosovo Government should reduce the budget of social schemes based on the category and raise the budget of social schemes based on the social and economic situation of the families in need.			
Priority Area #3: Sectorial Developments – (Agriculture, Industry and Services) Measure #6: Developing private sector competitiveness through industrial development for SMEs.	Measure #6 - Economic Development portfolio, spread in at least five Ministries, remains fragmented. Whilst we appreciate this is a political decision, we would advise for clarity of competences where overlaps occur, particularly in the case of KIESA and the portfolio of strategic investment. Furthermore, to improve the business climate and attract more investments as per Kosovo's stated objectives, this measure should also envisage: a) empowering KIESA with resources for carrying out responsibilities stipulated in the Law on Strategic Investments, and b) build a robust After Care programme as per its mandate.	British Embassy	Not accepted	Empowering KIEAS and After Care programme are part of a measure in the National Development Strategy and European Reform Agenda. Since the measure has a focus on industrial development it has not been included here. However, during the next cycle in cooperation with KIESA will be considered a broader reform measures on investment protection and promotion, coordination issues and capacities of KIESA.
Prevention and the fight against the informal economy.	Prevention and fight against informal economy – as it has already been recognised in the Programme, informal economy remains high, harming competition and business environment. We would recommend this area is given greater priority rather than only recognising it as an obstacle.	British Embassy	Not accepted	The Strategy is being reviewed now and this remains to be addressed there, which would result with a more concrete set of actions on informal economy for the next ERP cycle. The latest available figures on the size of informal economy are included in the ERP.
Priority Area #5: Innovation, Research and Development (RDI) and Digital Economy Measure#12: Improving innovation environment	Innovation is an important sector for economic growth. However, rather than concentrating only on the linkage with Universities – by which time it is too late - we would recommend better linkage with pre-University education, to create stronger ground for future innovators. Technology needs to be central to any solution in education, alongside the expansion of broadband infrastructure.	British Embassy	Partially accepted	Innovation issues will be much more stringent and better addressed with the establishment of Ministry of Innovation and Entrepreneurship and the comment on better linkage with pre-University education will be addressed in the Innovation Strategy to be drafted this year. Specific measures under the area 'Education and Skills' address VET as such, thus the new Ministry will address better linkage with pre-university education, to create stronger ground for future innovators.

Page 8	<ul style="list-style-type: none"> • Current situation: [...] “However, no quality control has been carried out to assess the effectiveness of the external audit function, although an easy ADR assessment was conducted by the Swedish National Audit Office in the first half of 2017. The Parliament uses the annual report of ADR for oversight of the executive; however the level of implementation of the recommendations remains low.” <input type="checkbox"/> Could be added: No adequate instrument exists that ensures that recommendation of the NAO are followed up. Furthermore, the Parliament Committee for Oversight of Public Finance (COPF), which reviews reports of the NAO, has little influence over the budget process as this functions lays with the Budget and Finance Committee (BFC) and the cooperation between those two committees needs improvement. <input type="checkbox"/> ADR - Explanation for the abbreviation is missing • “Structural obstacles: Based on the above analysis, the main structural barriers to the public finance management remain largely in the field of public procurement. These obstacles are related to: increasing efficiency, integrity, accountability, control over the implementation of public procurement policies and legislation, developing professional cadres in public procurement, particularly the implementation of e-procurement, increasing transparency and public confidence in public procurement procedures. Furthermore, it is considered that there is a lack of capacities of the responsible public procurement bodies, which prevents efficiency and transparency.” <input type="checkbox"/> Strengthening internal and external control in the field of public procurement should also be addressed as a priority. 	British Embassy	Accepted	It has been addressed in the final draft of ERP.
4.3.1 Public Financial Management (PFM)	Page 12 – 2017 <ul style="list-style-type: none"> • ToRs for the construction of District Heating Systems for the municipalities of Drenas, Kastriot, Prizren, Ferizaj, Gjilan, Mitrovica and Zvecan. • Concept for the further development of Kosovo Energy Efficiency Agency has been prepared. • ToRs for the Comprehensive Study on the Kosovo Energy Sector. 	German Embassy	Partially accepted	A lot of other activities are ongoing but they were not included as part of this particular ERP measure. EC often warned us that ERP should not use the Christmas Tree approach. <p>The issue of KEEA will be addressed through Law on Energy Efficiency, which is part of the measure. The Agency has approved its organogram and is working on its capacity building and is foreseen that the Agency will have 10 staff. So far the Agency has 5 people.</p>

	<ul style="list-style-type: none"> • Concept for the development of the sustainable system for the training and certification of energy auditors. <p>Page 12 – planned activities in 2018</p> <ul style="list-style-type: none"> • Agreement on the KEEA Development • Establishment of the Scheme for training and certification of Energy Auditors in Kosovo, including qualification of Energy Service Providers • Development of the Comprehensive Study on the Kosovo Energy Sector up to 2050. <p>Page 13 – planned activities in 2018</p> <ul style="list-style-type: none"> • Development of the National Building Typology for Kosovo. • Initiating the integrated political and expert dialogue for EE in Kosovo. • Feasibility Study on Prizren KFOR Camp Renewal, proposal for establishing a Regional Energy Agency <p>Page 13 – planned activities in 2019</p> <ul style="list-style-type: none"> • The continuation of integrated political and expert dialogue for EE in Kosovo. • The continuation of integrated political and expert dialogue for EE in Kosovo • Qualification of Energy Service providers – continuation <p>Page 14 – Potential risks</p> <ul style="list-style-type: none"> • Delay in the further development of Kosovo Energy Efficiency Agency is also a potential risk to the improvement of the EE sector in Kosovo 			
4.3.3 Sectorial Developments (Agriculture, Industry and Services)	<ul style="list-style-type: none"> • Investments in establishing producer organizations. <p>It is essential to increase the competitiveness of the fragmented agricultural land in Kosovo. Producer organizations are important players in the food supply chain. Interbranch organizations provide a means of allowing dialogue between actors in the</p>	German Embassy	Not accepted	We have communicated these suggestions to the ministry and is up to them to take into consideration.

<p>Measure 4 #: Investment in agricultural infrastructure and agro-processing</p>	<p>supply chain, and in promoting best practices and market transparency. Producer organizations and interbranch organizations will cover all sectors of agriculture, such as intensive production of fruits and vegetables. Furthermore, they will enhance the development of the aforementioned subsectors.</p> <ul style="list-style-type: none"> • Investments in supporting the cooperation between producer associations and interbranch organizations. This is considered as an essential element for the development of agricultural policy, especially in Kosovo with the small enterprises and fragmented agricultural structures. • Investment in creation of trademarks. <p>Investment in creation of trademarks - Quality policy, including protection of geographical indications, this will focus and coverage: food products, organic farming and other agriculture products with higher potential.</p> <ul style="list-style-type: none"> • Investments in strengthening marketing for the Kosovo products on the domestic and international markets. The consumers in Kosovo should be targeted by emphasizing below mentioned features: Kosovo agricultural products produced in a healthy nature; Processed food products are produced from local raw materials and ingredients, as value added input in the country; Domestic food, tasty; Environmental friendly; Increase job-creation in rural areas. 			
<p>Priority Area #3: Sectorial Developments – (Agriculture, Industry and Services)</p> <p>Measure 6 #: Boosting private sector competitiveness through industrial development for SMEs</p>	<p>One of the biggest challenge and obstacle for Kosovo SMEs and private sector in general is the access to foreign market, EU market. In order to also utilize the SAA between Kosovo and EU, support to access to EU market is very important for SME and private sector development in Kosovo through export promotion activities.</p> <ul style="list-style-type: none"> • Providing business related information on relevant European markets for selected sectors, market intelligence • Support to SMEs through business associations, chambers on export promotion activities enables public and private actors to promote the export and services in selected sectors • Creation of contacts and business relations between Kosovar SMEs and potential foreign (European) business partners through (B2B, fair participant, business trip delegations 	<p>German Embassy</p>	<p>Not accepted</p>	<p>Very good ideas pointed out here. With the strengthening of KIESA they will be able to take these suggestions into consideration. There are 2 measures on trade facilitation in ERP which will also improve the access of SMEs to the foreign markets.</p>

	<ul style="list-style-type: none"> • Building capacities and qualifying the public (KIESA) and private service providers (business associations, chambers) providers in providing business related information on relevant European markets and export promotion activities • International branding and positioning of Kosovo's products and services by different image improving and branding campaigns in export targeted markets for Kosovo's products and services 			
Priority Area #4: Business environment and reduction of informal economy	<ul style="list-style-type: none"> • The ERP suggests that access to finance should no longer be seen as a binding constrain for the economic growth, but instead only as a major constraints (p. 3). This is argued to be the case due to the operations of the Kosovo Credit Guarantee Fund (KCGF). We doubt that this is already the case. • Due to the extremely liquid market and the worldwide low interest rates, especially in the Euro market, the situation for getting access to finance and especially the financial terms have improved for some MSME. However, only those companies benefit from these positive sector conditions that have a good track record and high collaterals. For companies with little collaterals the access to finance still remains the biggest obstacle. The Guarantee Fund is addressing exactly this weakness, so we expect that the obstacle is not a binding constraint anymore in a year or two from now. • The access to finance as an obstacle is also reflected in the surveys by the World Bank. While 48% of the adults have a bank account, the access to finance is still critical for MSME's with little collateral (http://datatopics.worldbank.org/financialinclusion/country/kosovo and http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf). 	German Embassy	Not accepted	The KCGF is operational and the reform from the previous ERPs was accomplished. Outstanding ERP measure on property rights in immovable property will improve the use of collateral. Measure on Court Efficiency will improved the legal certainty for creditors. We looked at the study that is referred to and there are no unknown fact on it.
Priority Area #5: Research and Development, Innovation (RDI) and Digital Economy	<ul style="list-style-type: none"> • Establishment of a Kosovo Innovation fund for private sector companies, SMEs will contribute in development of innovative activities in Kosovo and will increase competitiveness and the presence of the SMEs in the international market • Innovation fund will support SMEs in Kosovo to promote and develop (export-relevant) innovative business models that will also create demand for skilled labour and employment in Kosovo 	German Embassy	Partially accepted	Very good point. To be addressed by the Innovation Strategy and also addressed currently in the ERP 2018.

Measure #12: Improving innovation environment.				
4.3.7 Education and Skills	<ul style="list-style-type: none"> • The analysis of the unsatisfactory labour market linkage with VET “due to lack of capacity and inter-institutional cooperation to ensure the common approach on drafting government policies” is not far reaching enough and doesn’t reflect the complexity of necessary intervention mechanisms to remedy the situation. Elements that are missing include a systematic and institutionalized participation of enterprises/employers in the various core processes of VET (e.g. occupational standard definition, integrated in-company training (which is different from interships) and testing and certification. The vocational schools will have to play a key role in the implementation of these core processes, an integrated human and organizational capacity building of the schools will be required to enable them the cope with these tasks. • The proposed activities for 2018 and 2019 do not seem to be far reaching enough and do not specify activities for a strategic and targeted involvement of enterprises. • With regard to EU pre-accession and the employment potentials therein, apart from local and domestic labour market requirements some attention should also be given to foreign labour market qualification requirements to foster legal migration paths. • The estimated budget allocations seem by far to low to ensure adequate implementation of a reform agenda. • A weak economic growth could lead to a reduced motivation of the local enterprises to participate actively and to contribute financially as well as in terms of personnel to the improvement of education and training opportunities and should therefore be considered as an additional risk. In addition, there is a risk that weak economic growth will result in fewer jobs. • In implementing the Reform measure #16 it will be key to include the private sector in the entire process. Concretely, more specific attention should be given to implement and test different modes of enterprise participation in VET. Only if the private sector can voice their specific demand for skilled labour force by 	German Embassy	Partially accepted	<p>Mainly addressed with the last draft of ERP. According to line miniseries that cover this area all these issues are addressed and businesses are cooperating on development of occupational standards. Issues of skills gap are also addressed on the chapter on employment and in the general analysis of obstacle to growth.</p> <p>Kosovo is implementing the national qualification framework which is based on European qualification framework.</p> <p>All ERP measures are fully funded by the budget and developing partners.</p>

	<p>occupations, the respective standards and subsequently curricula can be adequately adjusted to meet the labour market needs. It would be good to include this aspect more prominently, elaborate on approaches and processes to do this, and to thus strengthen this key aspect in the document and the subsequent measures.</p>			
<p>Priority Area #8: Employment and Labour markets</p> <p>Measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship</p>	<ul style="list-style-type: none"> • The analysis of the situation reflects fairly well the situation on employment and labour markets. Although the drop of the unemployment rate might be misleading figure, it might be a result of youth not being active in the labour market. • The lack of inter-institutional cooperation as has been outlined in the previous chapter is an additional a serious obstacle to ensure a common and effective approach. There are internship schemes but are scattered among different institutions (MEST, MTI, Ministry of Youth, MLSW different donors) not coordinated at all. • For the activity planning greater emphasis should be given to evaluation of active labour market measures and the identification of successful and innovative approaches for an up scaling. <p>Activity planning:</p> <ul style="list-style-type: none"> • With regard to the activities to conduct a study to identify sectors (at the local level) with potential for youth employment GIZ (YES Programme) will implement a study to provide a comprehensive analysis of the labour market and employment situation and its respective underlying causes (ELMA). A broad range of stakeholders will be involved in the analysis. • For the full functionalization of the EARK the development of detailed procedures and roles and responsibilities for each step of the implementation of the Labour Market Measures will be required. • Important aspects of capacity building of KEA also include capacity development on: How to better promote labour market measures; Management and reporting on the measures; Cost Benefit analysis for specific measures; Assessing the labour market needs and potential sectors in local level. 	<p>German Embassy</p>	<p>Accepted</p>	<p>Mainly addressed with the last draft of ERP. Also these issues will be addressed with the implementation of Action Plan on Youth Employment.</p> <p>Also, three key ministries covering these areas (MEST, MTI, and MLSW) signed the Memorandum of Cooperation tackling these issues.</p> <p>We are very much looking forward to the results of GIZ study.</p>

<p>Priority Area #9: Social inclusion, reduction of poverty and equal opportunities</p> <p>Measure #19: Increasing the access of young people and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship</p>	<ul style="list-style-type: none"> • The structure of this section is rather confusing; it focuses mainly on health (Health insurance fund) and social assistance (Social assistance scheme and financing models). However, social Inclusion, poverty and equal opportunities consist of much wider pull and push factors that require considering and elaborating. Even though in the previous section of “Education and Employment”, we might find some related factors that have been addressed, still we find that this programme does not consider substantially an overall reform of Social Policies with clear impact and synergies developed in chronological order by years and financial requirements for required changes in legal infrastructure and implementing mechanisms. • Some initiatives that are introduced in this draft programme seem to be repeated for several years now. We have to say that there has not been a clear and strong political will for social policy reforms yet. Unfortunately with the presented list of intended changes there will not be any in-depth analysis and intention for more essential improvement of the situation. Some initiatives are presented at the very emerging phase even though they have been initiated 5-4 years ago (e.g. health insurance fund and financing of social services). • The involvement of the municipalities in the programme is very shallow. Besides some capacity building, there is no substantial contribution required by municipalities. This is in contradiction with decentralization reforms initiatives that have been taking place for several years now, especially in social services. The role of municipalities in this programme, and especially in social inclusion and social services, should be strengthened, their role should be discussed with them and their genuine representation body, the Association of Kosovo Municipalities (AKM), maybe even with regional exchange and support organized via the network of municipal associations NALAS. • People with Special Needs have been mentioned only once as a general category with no specific elaboration of their needs and concrete activities to influence in changing their wellbeing. We consider that they remain one of the most marginalized social category in the society. • Elderly people, especially persons that reached the retirement age are also underrepresented and we did not see any concrete 	<p>German Embassy</p>	<p>Not accepted</p>	<p>It was requested by EC to give more focus on health insurance issues and due to the ERP format strictly to be followed we gave more space to this issue. As you noticed some of the activities are repeated because of delays and failure to implement them given that they are very important for structural reforms. The ERP is not intended to cover all issues and policies related to social inclusion.</p>
--	---	-----------------------	---------------------	---

	<p>action for this specific category. We are emphasizing this category, together with persons with disability, as two categories that remain most vulnerable according to our partners in the municipalities.</p> <ul style="list-style-type: none"> • There is no indication for any developmental project or activities that could use remittances in supporting some of the presented objectives and or at risk categories. There are some very attractive projects in the region that attract also foreign funding, improve employment and manage migration. • We did not find anywhere a word on migration management and specific intervention in relation to returnees, their reintegration and inclusion. Nothing about targeting youth, introducing regular migration mechanisms that could open opportunities for young people in studying, professional experience exchange and other EU integration processes. As migration and its benefits and challenges play an important role for Kosovo's economy and society this area should be addressed in more detail and be integrated in the EPR. • Social enterprises remain as one of the alternatives to be considered in future social programmes. The recently introduced law on social entrepreneurship has been heavily criticized by civil society. The main critical points are, that the law has some major tax and financial entity obstacles for social enterprises. This programme could suggest for the law to be piloted, evaluated and if needed amended in the near future, as part of this reform programme. This is a major issue also in the SoR project and we would be happy to support the development of the legal framework, the implementation practices and the capacity building both in administrations and NGOs. 			
<p>Additional Comments</p> <p>Legal and Administrative Reform</p>	<p>Page 4</p> <ul style="list-style-type: none"> • Why limit it to economic disputes? Administrative disputes (construction permits, business licenses, property registration, taxes) equally important, see also last paragraph on page 3 <p>Page 9</p> <ul style="list-style-type: none"> • Capacity building for KIPA as the competent institution to conduct public procurement training is essential and should be emphasized. 	<p>German Embassy</p>	<p>Partially accepted</p>	<p>KIPA is implementing the training and admin judges are included</p>

	<ul style="list-style-type: none"> • In addition to the civil servants, administrative judges should be trained in public procurement, possibly also joint trainings Page 30 • Activity 2 planned in 2018: What happened to the draft that was developed by MoJ? Page 32 • Impact on employment and gender issues: Informality and verbal contracts are the main reasons for gender inequality in property issues. The measure would improve this situation a lot and the link should be emphasized. 			
Waste management	<ul style="list-style-type: none"> • One underlying principle of the ERP shall be circular economy in contrast to the traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. One principle that Kosovo should implement in 2018/19 is Extended Producer Responsibility (EPR) for beverage containers, allowing for recovering respective material through the private sector. The according action is: Install an EPR System for beverage containers through the mechanism of a deposit refund system 		Not accepted	Environmental measures or environmental development issues are not part of the ERP structure as defined by EC