

ECONOMIC REFORM
PROGRAMME
2019-2021

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ECONOMIC REFORM PROGRAMME (ERP)
2019-2021

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LIST OF ABBREVIATIONS

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

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The ERP 2019-2021 drafting process was led by Minister of Finance as a National Coordinator and was coordinated by the Ministry of Finance, the Strategic Planning Office (SPO) in the Prime Minister's Office, and policy area coordinators from line ministries. Coordinators met regularly to discuss the content of the measures, their consistency with related strategic planning documents and with policy guidance received through the Economic and Fiscal Dialogue with the European Commission.

Inter-ministerial working groups met to assure that short-term activities from the draft ERP were included in the Annual Government Work Plan for 2019 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 2019 draft-budget. SPO, in cooperation with area coordinators, assured that the majority of measures are directly linked to the National Development Strategy and its implementation Roadmaps.

The Government remains committed to maintaining a stable macroeconomic environment, strengthening growth and increasing employment prospects. The overall ERP policy framework is a combination of: (1) a rules-based fiscal policy oriented towards stability of public finances and, within the available fiscal space, supporting economic growth through capital investments, increased funding for priority development areas, and tax incentives for domestic producers, and (2) a set of priority structural reforms addressing the key obstacles to economic growth, supporting the development of competitive economic sectors, and assuring that economic growth is inclusive and welfare enhancing. Fiscal policy as planned in the ERP and MTEF, supports economic growth and structural reform agenda by ensuring that the level of public investment spending remains at above 10% of GDP, and in addition to transport infrastructure, includes investments in educational and health institutions, agricultural and rural development, irrigation and waste-water treatment. In addition, the 2019 draft-budget includes substantial funding for priority areas; quality improvement of the judiciary, education and health sectors.

Box 1. Response to the targeted policy guidance adopted by the Economic and Financial Dialogue in May 2018

1. “[1.A.] Further strengthen institutional capacities of the Ministry of Finance by ensuring appropriate staffing and adequate training in order to improve macro-fiscal planning, forecasting and fiscal impact assessments. [1.B.] Prepare an options paper on the establishment of an independent fiscal oversight body for further consultations with stakeholders, including the EU.”

[1A.] During 2018, the Ministry of Finance has taken concrete actions to strengthen the capacities of the existing staff for macro-fiscal planning based on evidence and the macro-fiscal model of the Ministry of Finance. Staff was also trained in assessing the fiscal impact of new Government's political and legislative initiatives, and in integrating these estimates as part of budget revenue forecasting. An ex-post evaluation of fiscal and trade policy change was completed for the first time, and based on the assessment, the revenue forecast was updated, including an update of the fiscal impact assessments of the Stabilization and Association Agreement during the period of next medium term.

The documentation of budget revenue projections in the draft budget of 2019 has improved significantly, with a clear division between the revenues determined by the macroeconomic

changes in tax bases and the targets for reducing tax debt. Also, for the first time, the update of macro-fiscal projections has been integrated as an annex to the draft Law on Budget Appropriations. A new model for debt sustainability analysis was developed which was used in the Budget macro-fiscal framework and the ERP.

In 2018, MoF recruited three additional staff members whose primary responsibility is to support the existing staff on economic and fiscal projections. MoF is also planning to hire an additional staff of two in the beginning of 2019 (increasing the unit staff number to six economists) to further strengthen the capacities of the team and to ensure non-disruption of work process in cases of future employee turnover.

With the help of donor support, (USAID, Luxemburg government and World Bank), the staff has received training on key economic and statistical concepts and on the usage of the Model for macro-fiscal planning and forecasting. As a result of this training, now the macro staff is able to independently work with the model and extend macro-fiscal projections.

[1B.] After strengthening the capacity of the Macroeconomic Unit, the Finance Minister in 2018 has taken the decision to set up a working group that has started work on drafting a study which will identify the options for establishing oversight mechanisms independent fiscal system. These options will be further discussed with stakeholders, including the European Commission. The working group includes representatives from MoF, PMO, CBK, KAS, MLSW, MAFRD, and a representative from civil society.

2. “[2.A.] *Complete the war veteran certification and reclassification processes with a view of decreasing costs of the war veteran pension scheme in line with the current legislation.* [2.B.] *Strengthen institutional capacities at central and local government levels for multiannual investment planning, and investment project preparation and management in order to improve the execution of capital spending.*”

A special commission for categorizing the veteran list was established. Until now, the Commission’s rules of procedure has been prepared and is expected to be signed by the government.

3. “[3.A.] *Continue expanding the central bank’s analytical toolkit by developing an inflation expectations survey.* [3.B.] *Ensure that central bank purchases of government bonds and bills in the secondary market do not create a situation where CBK “de facto” finances the government.* [3.C.] *Further address the underlying legal and institutional factors hampering access to finance for SME’,* [3.D.] *while monitoring carefully high lending growth to households.* [3.E.] *Finalise the bank resolution and the crisis management frameworks to strengthen the overall resilience of the banking sector.*”

[3.A.] The Central Bank of Kosovo (CBK) has started the discussions with Financial Institutions regarding the design of the survey. These institutions are assumed to have the needed expertise in forecasting price developments as they are the primary source of data from the private sector through their lending activities. This process is expected to finalise by the end of 2019. In the meantime, as an interim solution, CBK is utilizing its available tools and might approximate inflation expectations without fully replacing information obtained from the surveys. Using **Autoregressive Models for Inflation Forecasting (ARIMA)**, CBK is making efforts to forecast inflation in the short-term horizon based on historical data. As most of the expectations surveys carried out in the neighbouring countries, most respondents (businesses or consumers) respond to the question about

inflation expectations in the next 3, 6, and 12 months with "inflation will stay unchanged from the previous period ", confirming that inflation expectations are adaptive. In the case of Kosovo, the survey conducted by the Chamber of Commerce regarding the business climate finds that more than 70% of businesses interviewed responded in this way. In this line, the projections derived from ARIMA models might provide credible signals for inflation expectations, given that they model the inflation performance based on its past behaviour.

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

[3.C.] During the past few years, effective enforcement of legislative and regulatory requirements reforms has significantly contributed to reducing barriers hampering access to credit. Particularly, there has been progress in terms of private enforcement agents and amendments to the Law on Execution Procedure. These undertakings have had a positive impact on the credit supply for the private sector , amongst other things, have also made the banks facilitate two very important aspects such as access to finance and facilitating collateral requirements, which until recently were too high, and reducing interest rates on loans.

The banking sector has recorded steady growth since the beginning of its operation in Kosovo. As of September 2018, the credit to GDP ratio was around 40.1%, making the level of financial intermediation in Kosovo to safely converge towards the average ratio of the countries in the region. As of September 2018, the annual credit growth was 11.4% (a similar growth compared to the 10.2% recorded in the previous year). Credit to corporates recorded an annual growth of 11.6% (9.0% in September 2017), whereas credit extended to households recorded an annual growth of 11.3%, indicating a slowdown compared to the same period in the previous year (12.2% in September 2017).

[3.D.] The competition in the banking sector and the low interest rate environment has favoured growth in loans to corporations, compared to loans to households. However, new loans to households marked an annual increase of 12.7%. The current loan portfolio quality is high (an NPL ratio of 2.8%), and the prospects for the main sources of finance in the economy are optimistic, however, CBK is monitoring carefully sustained high growth of lending to households, through its macro prudential policy framework.

[3.E.] Regarding the framework for the bank recovery and resolution (including liquidation), CBK has finalized the Framework and the first draft of the Primary legislation has been drafted and incorporated in the new draft of the finalized Banking Law. The secondary Legislation composed of twelve Regulations and provisions regarding of recovery and resolution, as well as the first draft of Recovery, Resolution and Liquidation Manual has been completed. Its final format will be subject to approval based on the Law on Bank and Regulations on Recovery and Resolution. Furthermore, the CBK is working intensively to finalize the Crisis Management Framework, which will incorporate the legal and institutional setting of all the stakeholders in terms of crisis identification and management both at the national level and institutional level.

4. “[4.A.] Adopt the Energy Efficiency law which includes the establishment of the Energy Efficiency Fund and Energy Efficiency. [4.B.] To adopt energy efficiency incentives for the private sector and households. [4.C.] Advance in the deregulation of electricity supply prices and adopt a plan for the gradual adjustment of energy tariffs to reflect actual costs.”

[4.A.] The Law on Energy Efficiency has been approved in the Parliament and became effective in 2018, members of the Board of Directors of the Kosovo Energy Efficiency Fund have been appointed. The Law foresees a 9 months period for the enactment of internal regulations in order to functionalize the Fund. The plan is to make the fund functional at the latest by June 2019, bringing the forecast for the first investments in projects in the spring of the year 2020.

[4.B.] Following the internal regulations draft for the Fund (June 2019), the Fund initially foresees the support of public sector investment, sustainability of the Fund, and the development of energy efficiency incentives for the private sector and households.

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

- Consumers connected to the 110 kV voltage level are de-regulated so they are subject to market prices,
- Consumers connected to the 35 kV voltage level will be de-regulated until March 31st 2019,
- Customers connected to the 10 kV voltage level will be de-regulated until March 31st 2020.

5. [5.A.] “Adopt the new Strategy and Action Plan 2019-2022 to fight the informal economy that should include qualitative and quantitative targets.”

[5.A.] The working group with the assistance of an external expert contracted by the EU office has drafted a new Strategy and Action Plan 2019-2022 to fight the informal economy, which includes qualitative and quantitative targets. This document has passed the phase of the inter-institutional consultation and the working group is currently working on preparing the document for public consultation.

6. “[6.A.] Monitor the implementation of the youth employment action plan and increase the scope of active labour market measures in particular for women. [6.B.] Conduct a skills needs analysis for identification of priority sectors to inform the review of occupational profiles and curricula. [6.C.] Complete the necessary steps for the introduction of the general health insurance scheme. [6.D.] Increase enrolment in pre-school education.”

[6.A.] The Action Plan on Youth Employment was adopted by the Government on 04 January 2018. This action plan will be evaluated three times during the plan's validity period based on indicators that are set at the level of specific objectives. Specific objectives in some cases contain more than one indicator, which in most cases are measurable indicators, but there are also some qualitative indicators. Indicators are set as medium to long term targets, whereas, the baseline is set for each indicator. Monitoring the implementation of the Action Plan should help to improve the execution of the activities envisaged in the plan and to achieve the expected results. The main objectives of this process are:

- Monitoring the implementation of the Plan activities;
- Monitoring the achievement of the Plan objectives;
- Enabling correction of the process based on recommendations derived from the information obtained from the monitoring process.

[6.B.] With the support of Lux Development, an analysis was carried out for all reports in the vocational education sector in relation to the "Report on secondary data research regarding current publications related to the Vocational Education and Training Sector in Kosovo". Additionally, in cooperation-operation with GIZ a "Report on the status of vocational education and training providers ", including schools, training centers and private institutions was drafted. There are two reports that include all the information needed for the system of vocational education and training, and guidelines for curriculum design, as well as for other policies such as investment in equipment, trainings, etc.

[6.C.] Regarding the application of the general health insurance scheme, an amendment of the Draft Law on Health Insurance and Administrative Instruction is in the process of being completed. This amendment will determine the criteria for the exemption from contribution payment, co-payment and other health insurance payments of the citizens based on a poverty test. In addition, the health insurance fund information platform will be extended and the fund will strengthen its capacities by employing 48 new employees.

[6.D.] During 2018, about 20 new private pre-school institutions were licensed that can accommodate around 1,200 children, will contribute to increasing the attendance to pre-school education.

A Concept Paper that precedes the Law on Early Childhood Education defines the key policies that the law should regulate and clarify so that the pre-school education system has the required standards to meet children needs for education and care at the early childhood level. The concept paper precedes the Law on Early Childhood Education, which is foreseen to be drafted and approved during 2019.

To improve the quality of pre-school education, MEST is designing a core curriculum for early childhood education for children aged 0-5 years. The process of drafting this document has been supported by local and international experts.

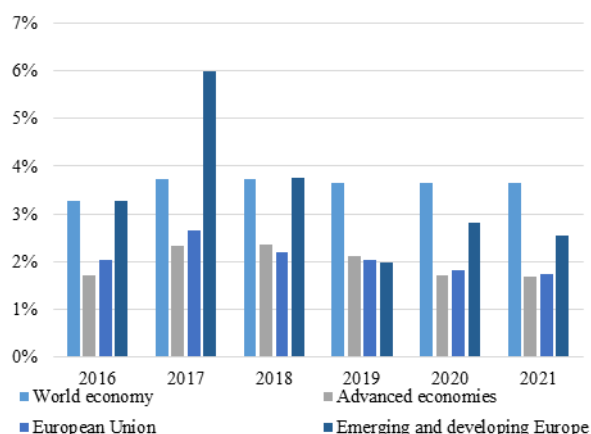
- In the process of increasing the number of facilities for inclusion of children in pre-school education, a new facility was built in Gjilan/Gnjilane municipality with a capacity of up to 120 children. Furthermore, in the municipality of Suharekë, unused spaces within two school buildings have been adapted for children aged 3-5 years, as separate classes for the preschool institution "Butterflies" in Suharekë/Suva Reka.
- 24 new private preschool institutions have been licensed in 2018, which implies the inclusion of about 1,240 children and impact an increase in the attendance of children in preschool education.
- There are 10 pre-primary classes (including 5 year old children), 4 of these classes are part of the new primary schools built in cooperation with the Save the Children organization, whereas 6 pre-primary classes have been opened in rural areas in these municipalities: Mitrovica, Klina, Gjakova, Peja, Ferizaj.

2. MACROECONOMIC FRAMEWORK

2.1. External Developments and Projections

Following the accelerated growth of the global economy that was recorded in the second half of 2017, growth has slowed during the first half of 2018. The expectations for economic growth are more pessimistic for developed economies, but developing economies are expected to continue with accelerated growth even in the medium term.

Figure 1. Real annual growth of GDP, in %



Real global growth is projected at 3.7% in 2018 and in 2019, which is 0.2 percentage points (p.p.) lower than the IMF projections in April 2018.¹ The differences between states and regions are expected to remain high. For 2018, growth in developed economies will be higher than the current trend, about 2.4%. Nevertheless, growth is expected to slow to 2.1% in 2019.

According to IMF, trade measures are expected to have negative effects on economic activities. With regard to long-term trends, economic growth is expected to fall to 1.8% in 2020, following the end of the fiscal stimulus in the US, and slightly slower growth in China. Growth is projected to fall to a trend of 1.4 percent, as the growth of working age population in developed countries continues to decline, while the overall productivity growth at the global level remains slow.

The EU economy² has entered a less dynamic development period after a steady increase over the last five years. The GDP growth forecast for the EU in 2019 is 2.0%, while the economy is expected to increase by 1.9% and 1.8% in 2020 and 2021 respectively. Real GDP growth in the Euro Area is projected to be 1.9% in 2019 and 1.7% in 2020. The HCPI inflation in the euro area is projected to increase from 1.5% in 2017 to 1.8% in 2018 and 2019, with a moderate increase of 1.6% in 2020. Export growth (goods and services) is one of the main factors for the continued economic expansion of the euro area. In 2019, exports to the Eurozone are projected to remain stable at 3.9% (3.8% in 2018) and slow down to 3.6% by 2020. Impact of import tariffs implemented by the EU as a response to US tariffs for steel and aluminium is expected to be very small due to the small weight of these goods in total imports. Labour market conditions in the Euro Area are expected to continue improving and the unemployment rate is expected to fall from 8.4% in 2018 to 7.5% in 2020³.

Germany - is expected to have a lower growth than the EU average for 2019. GDP is expected to grow by 1.7% in 2018, 1.8% in 2019 and 1.7% in 2020. Inflation is expected to be 1.8% in 2018, and 1.9% in 2019, and 1.6% in 2020. Export growth is expected to be lower than in recent years, while imports as a share of GDP are expected to grow. The labour market will

¹ World Economic Outlook, October 2018 Update.

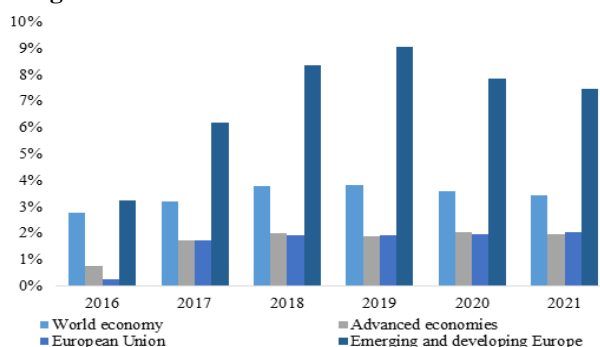
² EU Economic Forecast Autumn 2018

³ EU Economic Forecast Autumn 2018

continue improving during the medium term. Growth in private consumption is expected to increase in 2019 and be the highest in the developed Euro Area countries, this growth is mainly driven by fiscal support measures.

Switzerland - Economic growth is projected to be 3% in 2018 with a decelerating trend to reach 2% by 2020, nevertheless growth will be above the average of the last decade (about 1.5% a year). Net exports are expected to remain the main contributor to growth. The current level of interest rates, which supports the financing of fixed investment and construction, is expected to continue in the medium term. Inflation is expected to be around 1% during the forecast period.

Figure 2. Inflation



International prices⁴ increased by 3.3% during the period February-August 2018 mainly as a result of higher energy prices. The energy index increased by 11.1%. Food prices dropped by 6.4%, whereas the metal price index decreased by 11.7% during January-August 2018.

Since mid-2017, most non-food goods have recorded price increases. The most significant was the increase in oil prices - from about 30 dollars per barrel in June 2017 to over 76 dollars in June 2018, registering an increase of about 70%. This price level (the highest level since November 2014) reflected the fall in production in Venezuela, the unexpected shortages in Canada and Libya, and the fall in Iranian exports following USA sanctions. Prices dropped to about 71 dollars per barrel by August, following a decision by OPEC and oil exporters' non-members of OPEC (including Russia) to boost oil production.

Nevertheless, this increase in oil prices is expected to stabilize over the medium term, due to higher global production. Reflecting the recent increase in prices of goods, inflation in developed economies is projected to be 2% in 2018 from 1.7% in 2017. Average inflation rate in developing and developed countries, excluding Venezuela, is expected to be 5.0% in 2018, from 4.3% in 2017. Whereas, in the Euro Zone, the harmonized consumption price index is projected to increase up to 2% over the medium term.

⁴ Commodities Price Index, IMF, World Economic Outlook, October 2018

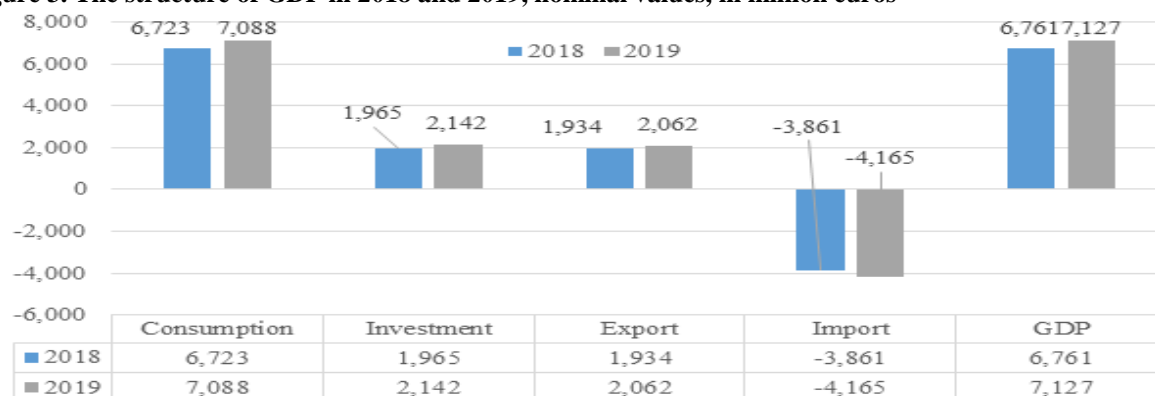
Table 1: Global Economic Indicators

	2018	2019	2020	2021
World GDP growth	3.73	3.65	3.66	3.64
EU GDP growth	2.03	1.88	1.65	1.55
Inflation in EU	1.70	1.72	1.83	1.95
Interest rates Euribor ⁵ -ECB	-0.3%	-0.2%	0.2%	
Oil Prices \$/ per barrel	69.38	68.76	65.73	63.10
Commodity prices (2005 index)	150.89	152.88	153.83	154.62
Nickel prices \$/ton	13,734.46	13,776.25	13,968.17	14,092.25
Zinc prices \$/ton	2,890.75	2,440.71	2,388.79	2,312.33
Lead prices \$/ton	2,293.41	2,139.25	2,147.50	2,147.50

2.2. Recent economic developments in Kosovo

According to Kosovo Agency of Statistics' (KAS) official preliminary data, average GDP growth during January-September 2018 was 3.9% (3.5% in Q1, 4.7% in Q2 and 3.4% in Q3). There has been a 1.1% increase in consumer prices (2018), a 2% increase in import prices during the period January-September 2018, and a decrease of 0.1% in the GDP deflator.

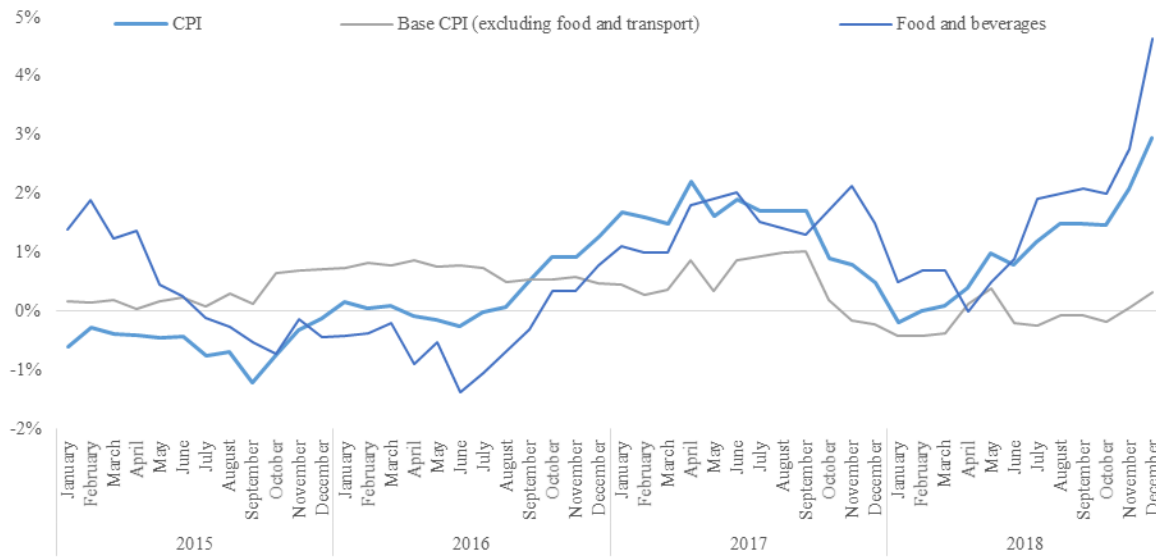
During January-September 2018, it was estimated that the highest contribution to GDP growth was consumption and investment, (consumption 5.5 p.p. and investment 3.7 p.p.).

Figure 3. The structure of GDP in 2018 and 2019, nominal values, in million euros

Consumption prices are estimated to grow by 1.1% in 2018. This growth reflects an increase in transport prices by 3.9%, which was affected by the rise in world fuel prices, an increase in prices of food products and non-alcoholic drinks by 1.6%, as well as an increase in prices of alcoholic beverages and tobacco by 2.4%.

⁵ EU forecast Autumn 2018

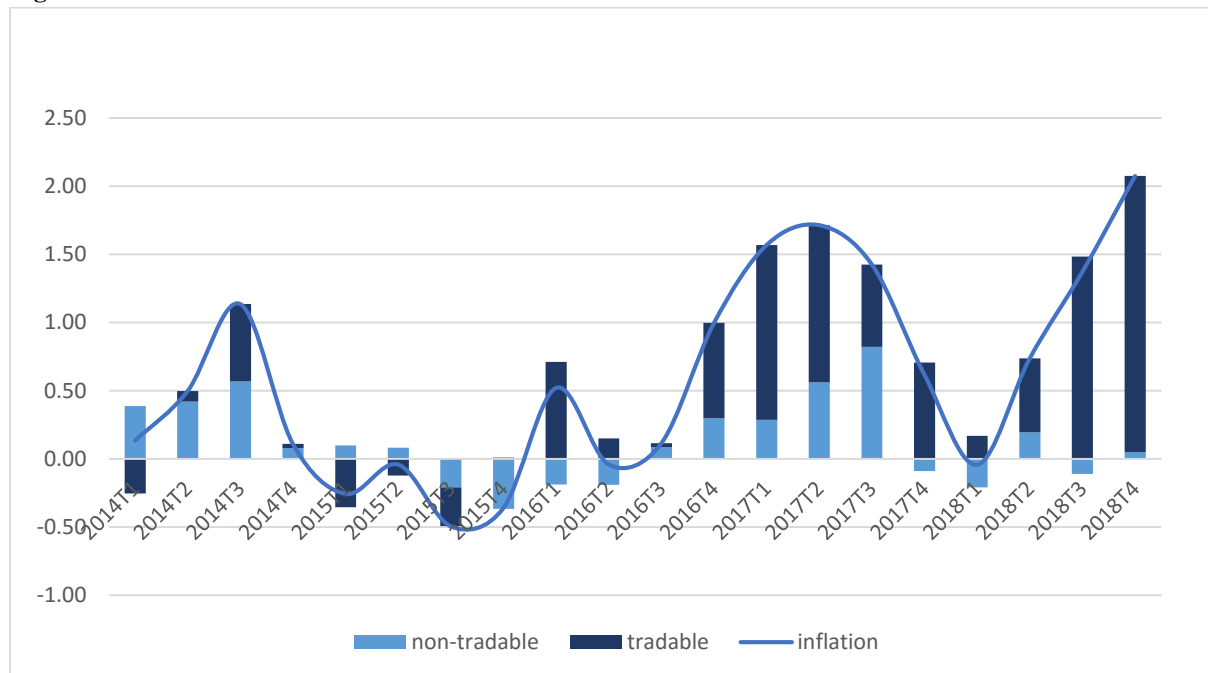
Figure 4. Price Fluctuation in Kosovo, in %



Source: KAS

Tradable and non-tradable inflation measures the contribution of domestic (non-traded) and imported (tradable) inflation to overall inflation. Market inflation is exposed to the high level of international competition, and prices were affected by such competition. On the other hand, non-tradable inflation is exposed to the low level of international competition and it is considered that prices are not affected by competition. As seen in figure 5, inflation is driven by international factors, which means from the rate of tradable inflation growth. The inflation rate for 2018 is 1.05%, which is driven by tradable inflation.

Figure 5. Contribution of tradable and non-tradable inflation to total inflation



2.2.1. Business Climate

Based on data from the Kosovo Chamber of Commerce, the business climate indicator was at a similar level in 2018 compared to the previous year. The results of the Business Climate

Indicator are presented below and there are significant quarterly variations. The current business situation in the construction sectors has worsened in the last quarter of 2018 compared to the same period of the previous year. On the other hand, other sectors have shown improvement compared to the same quarter of the previous year.

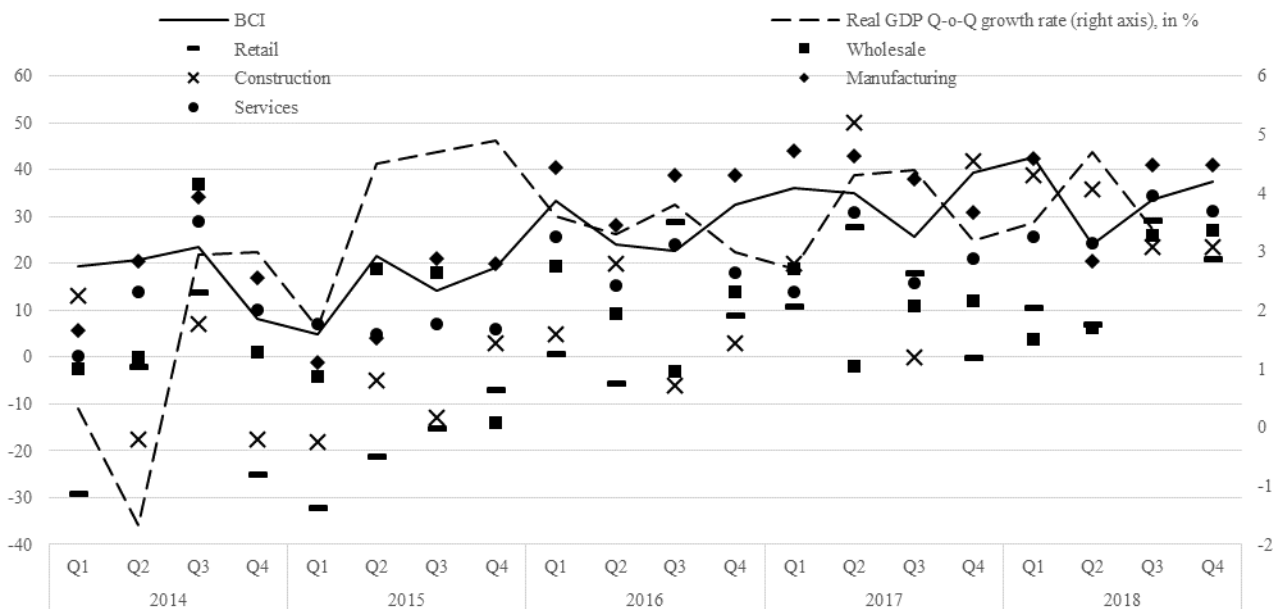
Figure 6. Business Climate Indicator (BCI), in points



‘Balance’ represents the difference between the percentage of businesses that had a positive assessment of the current business climate and those that had a negative assessment. Graph 6 shows the interplay between sectorial ‘balances’ and real GDP quarterly growth, as well as the general BCI.

Based on the data points in the graph, there is no evident correlation between BCI and GDP growth, this makes it more difficult to suggest a trend or a seasonality in the context of short series.

Figure 7. Balances of the current situation assessment’ of business sectors⁶ (featuring the Business Climate Indicator and real GDP growth)



Source: ‘The Kosovo Business Climate Findings from the 4th quarter of 2018’ KCC, SKAS, and Macro Unit Analysis

Nevertheless, the data presented in the growth are in line with the developments during previous years. Recent improvements in the BCI also reflect a better business environment.

⁶ The analysis was shortened to fit the existing series of quarterly GDP published by KAS which is available for Q1 2013-Q3 2018

2.2.2. *Employment, productivity, and wages 2014-2017*

According to the Labour Force Survey, the working age population in Kosovo in **2017** was 1.2 million people with a similar gender distribution as exhibited in the past. However, the active labour force (population ages 15-64) consisted of 513,678 people, of which only 119,027 were female. Consequently, the **labour force participation rate (LFPR)**⁷ of women was much lower than that of men (20% and 65.3% respectively), with the total LFPR standing at 42.8% for 2017, 4 p.p. higher than in 2016.

Table 2. Main labour market indicators

Indicator	2014	2015	2016	2017
Total population	1,811,521	1,757,843	1,771,604	1,793,466
Male	911,131	888,231	896,466	900,827
Female	900,390	869,612	875,138	892,639
Working age population	1,202,489	1,176,147	1,184,529	1,200,165
Male	600,481	594,262	598,639	604,443
Female	602,008	581,885	585,890	595,722
Labour force	500,251	442,716	457,831	513,678
Male	371,276	337,119	348,764	394,651
Female	128,975	105,597	109,067	119,027
Employed	323,508	296,940	331,761	357,095
Male	248,224	229,957	257,398	281,581
Female	75,284	66,983	74,363	75,514
Labour Force Participation Rate(LFPR)	41.6%	37.6%	38.7%	42.8%
Employment Rate	26.9%	25.2%	28.0%	29.8%
Unemployment Rate	35.3%	32.9%	27.5%	30.5%

Source: KAS Labour Force Survey 2017 (published June 2018)

Total population in 2017 increased by 1.2% compared to 2016, which was reflected with a 1.3% increase of the working age population. During 2017 there were 357,095 employed people in Kosovo (a 29.8% employment rate), representing an increase of 1.8 p.p compared to 2016.

Similar to previous years, the four main sectors that employed more than half of total employees in 2017 were trade (14.7%), production (13.2%), construction (12.9%) and education (9.5%). Data show significant gender employment variation for sector. Male employment was higher in the sectors of construction, trade and manufacturing, while female employment was higher in education, health and trade sectors. It should be noted that during 2017, the number of female employees with primary and secondary professional education decreased, whereas, the number of employed females with higher education increased.

Table 3 shows labour productivity and Unit Labour Costs. Comparing LFS data of 2017 to 2016, the ‘labour productivity’ on a national level has increased in comparison with 2016 while ULC decreased from 8.8% in 2016 to 3.6% in 2017.

Table 3. Labour productivity and ULC based on administrative data

Indicator	2014	2015	2016	2017
Hours worked per week per person (LFS)	41	41	41	42
Average wage (TAK)	482	510	519	528
Number of hours worked in a year per person	2,119	2,132	2,145	2,184
Employment (LFS)	323,508	296,940	331,761	357,095
Nominal GDP (in million euros)	5,567.50	5,807.01	6,070.11	6,413.86

⁷ Measured as the percentage of the working age population (people aged 15-64) that engage actively in the labour market (employed or unemployed).

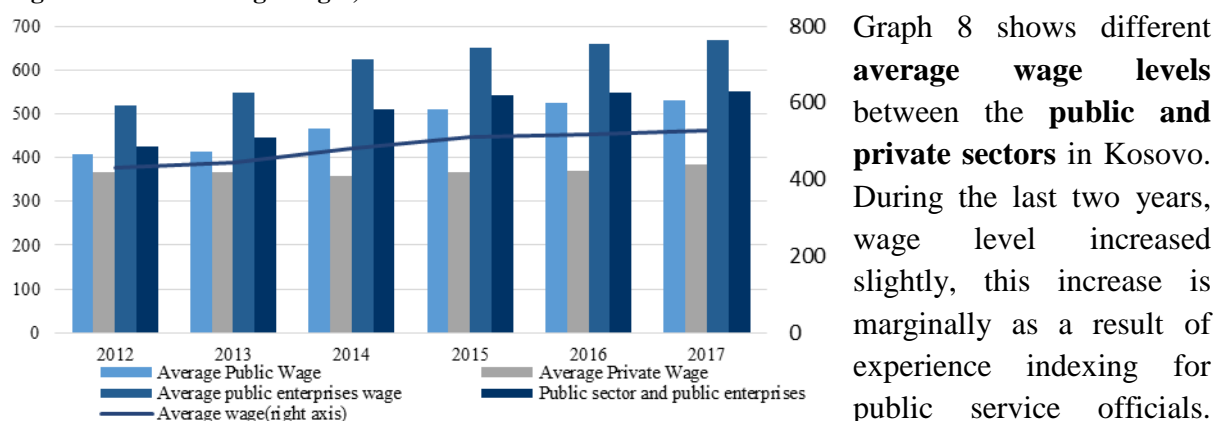
Total hours worked in the country (in million)	685.51	633.08	711.63	779.90
Labour productivity (euro of GDP per hour)	8.1	9.2	8.5	8.2
Total labour compensation(in million euros)	1,871.17	1,817.27	2,066.21	2,262.55
ULC (ratio) ⁸	0.34	0.31	0.34	0.35
Labour productivity	12.0%	12.9%	-7.0%	-3.6%
ULC⁹	-0.7%	-6.9%	8.8%	3.6%

Sources: SAK, Macro Unit analysis

Comparing the LFS data for 2017 with 2016, the labour productivity on a national level has increased in 2017. On the other hand, concerning cost competitiveness, the ratio of (Unit Labour Costs) ULC in 2017 has decreased compared to the previous year. In addition, the number of employed people increased by 7.6% in 2017.

A gradual continuation of employment growth is foreseen in the medium term. Improved business environment is expected to have a positive impact on operations of companies and increase employment opportunities.

Figure 8. Gross average wages, in Euro



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.

2.3. Medium-term macroeconomic scenario

2.3.1. Real sector projections

For the period 2019-2021, based on data published for all indicators, the Ministry of Finance revised the current forecasts from projections published in ERP 2018-2020.

As a result of changes in the base for 2018, the expected structure of economic growth differs from previous projections. Economic growth will continue to be driven mainly by consumption (public and private) and investment (public and private), but public investment is expected to play a more prominent role in GDP growth in the medium term. The usage of liquidation funds has a key role in this regard, as well as the shift of IFI financed projects in the medium term. For the period 2019-2021, average real growth is estimated at 4.6%, ranging from an estimate of 4.7% for 2019, 4.2% for 2020, to 4.8% for 2021.

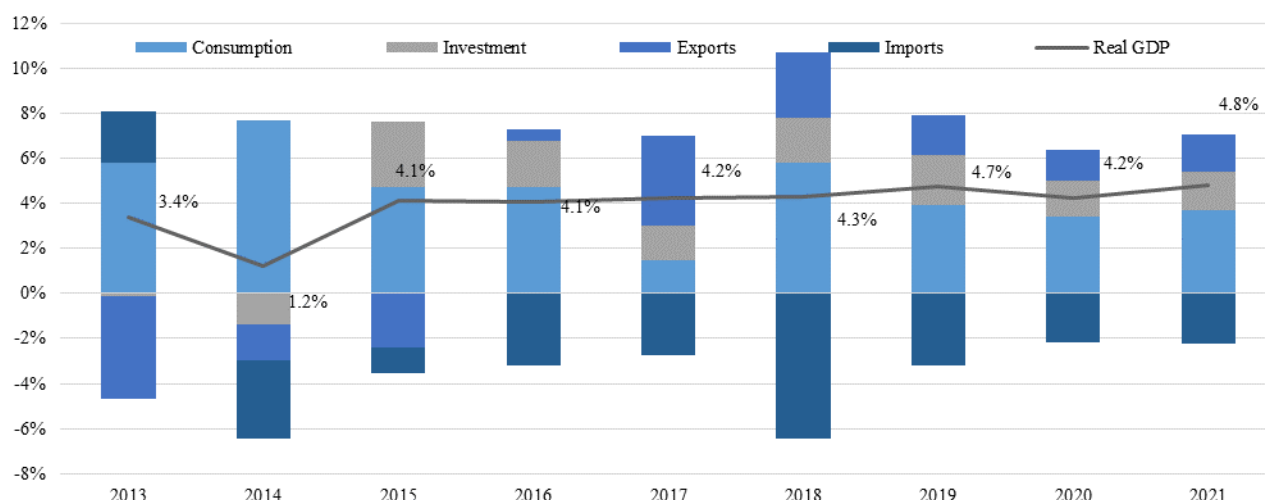
⁸ ULC represents the share of total compensation to nominal GDP

⁹ Actual ULC compared to the ULC of the previous year

Growth projections for the medium-term are driven by three key developments: a) a significant planned surge in public investment financed through lending and liquidation proceeds, b) a relatively 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 amid 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. **Total consumption** is projected to increase by 4% in real terms in 2019, continuing with an average real growth of 3.6% over 2020 and 2021, and providing an average contribution of 3.7% to real growth over the medium term.

Figure 9. Contribution to real GDP growth



In the medium-term period, the private savings rate on disposable income is estimated to increase by 5.1% in average. At the same time, the medium term projections include an ambitious investment plan, with an average growth of 6.2% over the medium-term. Against a higher savings propensity and greater business confidence, total investment is projected to provide an average contribution of over 1.9% to medium-term growth (private investment 0.8%, public investment 1.1%).

Private investment is projected to increase by 3.7% in real terms during 2019, maintaining a similar trend of around 3.7% in 2020 and 2021. Lower credit cost and improved lending facilities, including greater opportunities for IFI lending to the private sector, will provide an important stimulus to investment. In addition, the increase of capital of the Kosovo Credit Guarantee Fund is expected to further improve access to finance and enable investment credit expansion. Lastly, the new government scheme to incentivize production through exemptions of customs and excise duties for production inputs 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 12.6% in real terms in the medium term. Moreover, over 30% of public investment is projected through financing from concessional long-term loans and asset liquidation funds which are currently invested in international securities markets. As a result, an investment of around 500 million Euros within the medium trend financed through lending and through existing public funds invested outside the resident economy (instead of tax revenues which lower disposable income) is associated with much higher fiscal multipliers, and will provide a significant boost to medium-term growth.

Exports of goods are projected to increase by an average of 3.9% in real terms over the medium-term. The diversification of exports of goods experienced in 2017-2018 is also expected to accelerate over the medium-term. This is expected to result from the government's scheme to incentivize production, as well as government reforms to streamline administrative procedures, facilitate trade by reducing administrative costs, and improve quality infrastructure and market surveillance.

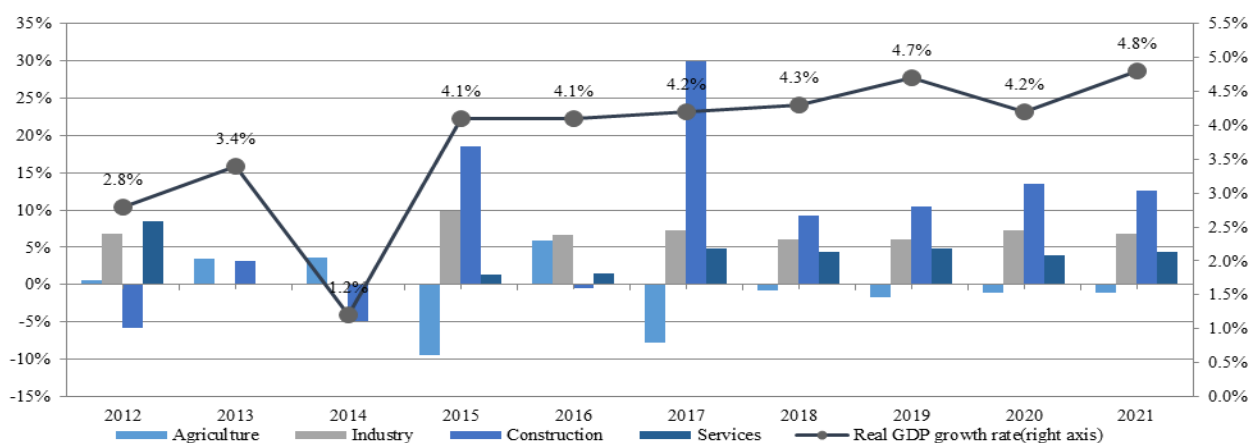
On the other hand, **exports of services** – which accounted for 23% of GDP in 2018 - are projected to increase by an average real growth rate of 5.8% over the medium term. A more optimistic EU growth outlook is associated with greater demand for Kosovo service exports, mainly through higher vacation spending of Kosovo's diaspora members, but also through higher demand for telecommunication service exports.

Imports of goods and services are projected to increase by 5.6% in 2019, and then slightly slow down to an average growth of 3.7% over 2020 and 2021. 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.

On the **production side**, the construction sector is projected to remain the largest contributor to economic growth. Similar to its historical trends, services are projected to continue their growth with an increasing trend, marking a 1.7% average real growth over the projection period. Considering the demand for exports of travel services, the level of primary and secondary income flowing to the country, and measures to improve Kosovo's touristic products, service growth is an immediate result of the current growth model. In addition, value added from the industry sector is projected to increase by an average of more than 7% over the medium-term.¹⁰ While, agriculture is expected to have a moderate growth of 1.8% throughout the medium-term.

Figure 10. Sectorial contributions to GDP growth in percentage points

¹⁰Economic activities projections incorporate judgments and historical performance, therefore should be interpreted with caution.



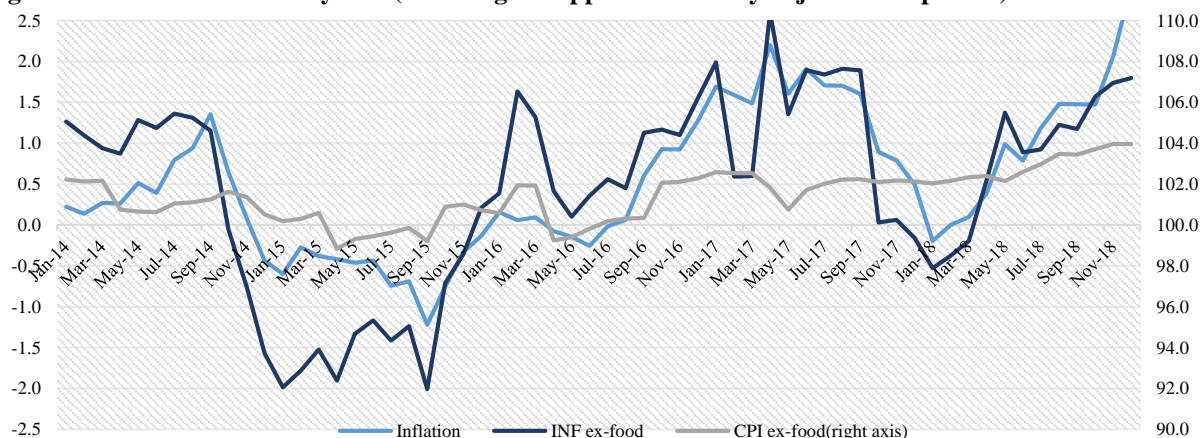
Source: KAS and DEPP/Macroeconomics Unit calculations

2.3.2. Monetary and exchange rate policy and inflation

In line with IMF’s World Economic Outlook forecast for world food and oil prices, the overall inflation in Kosovo grew at an average of 1.1% in 2018 (projection was for an increase of 1%). In 2019, the consumer price index is projected to be 1.3%, which will continue to be the same for the period 2020-2021. Import prices are projected to increase by 2% annually over the medium term, while the GDP deflator is expected to increase by 0.6% in 2019, 1.4% in 2020 and 0.8% in 2021.

Additionally, stable price levels have contributed to a relatively stable real effective exchange rate (REER)¹¹. Up to November 2018, REER¹² depreciated marginally by an average of 0.5%, and NEER appreciated by 0.2%.

Figure 11. Forecast of monthly CPI (featuring the applied seasonally adjusted component)



Source: KAS data, Macro Unit forecasts

2.3.3. The external sector and its medium-term sustainability

2.3.3.1. Exports of goods, 2018 estimates and projections 2019-2021

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

	2019	2020	2021
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During January- October 2018, the **current account deficit** was 6% of

¹¹ REER is provided by the CBK (available until September 2018)

¹² REER- is the [weighted average](#) of a country’s currency in relation to an index or basket of other major currencies, adjusted for the effects of inflation.

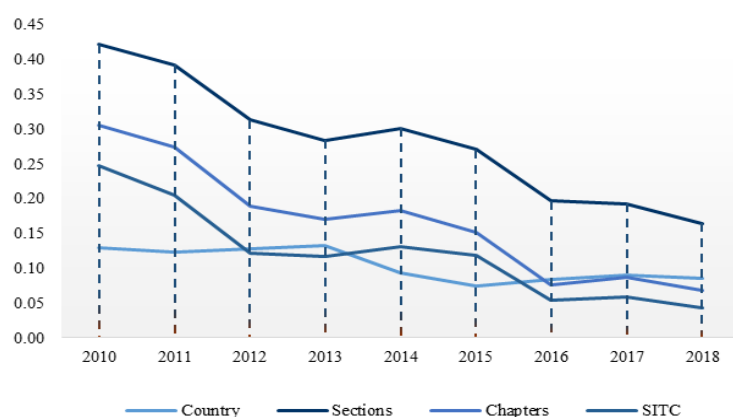
Nominal GDP	7,127	7,530	7,956
<i>Growth %</i>	5.4%	5.7%	5.7%
Export (Nominal)	2,062	2,205	2,348
<i>Growth %</i>	6.6%	6.9%	6.5%
Goods	370	394	411
<i>Growth %</i>	4.9%	6.5%	4.3%
% nominal GDP	29.0%	29.3%	29.5%

projected GDP for 2018. This indicator is expected to remain at a similar level throughout the forecasted period (averaging at -9.2 %). The trade balance for 2018 is estimated to amount around -28.5% of GDP; and average at a -29.3% throughout the 2019-2021 forecast period.

Over the medium term, total exports in real terms are expected to grow at an average rate of 5.5% for 2019 – 2021. Goods exports increase will be primarily driven by economic stimulation through the implementation of fiscal measures intended to increase domestic production. During January-November 2018, the export of goods amounted to 337.8 mil €.

To evaluate export diversification, the Herfindahl-Hirschman index¹³ was used. Graph 12 presents exports along four different dimensions which indicates a relatively good trend of export diversification.

Figure 12. Export diversification (Herfindahl Hirschman Index)-KAS



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 concerning the Kosovo's Stabilization and Association Agreement (SAA) with the EU.

Kosovo's export structure is currently weighed toward the export of base metals and mineral products, which as of November 2018 constituted 48.1% of total exports (33.7 % base metals and 14.4% mineral products). However, as can be seen in Graph 12, this concentration in export structure is steadily decreasing as producers are ramping up their production quality and capacity.

Another substantial category of exports is plastics, rubber and articles thereof, which as of November 2018 constituted 12.3% of total exports, with an annual growth rate of around 26.1%. It is expected that overall diversification of the export structure and development of higher value added exports will benefit the local economy in the medium to long term.

¹³ the Herfindahl-Hirschman index¹³ is used and measures the dispersion of trade value across exported products and destinations (lower values of the index indicate higher dispersion)

Primarily, it is anticipated that high export concentration related risks will 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 95% of Kosovo's total export destinations. The share of exports of goods to the EU has dropped in 2016, but increased in 2017 and continued to increase during 2018. On the other hand, exports to CEFTA countries during the period January-November have decreased by 6.5%. Exports to all CEFTA member countries have decreased except exports to Albania which have increased by 11.7%.

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

Exports (thousands €)	2014	2015	2016	2017	2018
EU	98,086.10	106,421.90	70,060.71	94,227.88	103,406.78
CEFTA	127,145.57	127,389.17	144,263.76	183,032.55	159,986.25
Switzerland	10,037.85	11,831.43	16,761.84	21,354.83	27,114.37
Turkey	10,365.42	8,844.84	7,630.97	7,176.94	7,845.60
China		4,274.63	11,693.95	5,603.07	1,348.32
India	27,425.46	43,888.11	9,425.45	52,606.48	30,656.13
Japan	506.54	1,675.50	84.20	184.34	173.88
Other	50,976.21	21,914.07	49,766.78	13,824.33	7,301.38
Total Exports	324,543.15	326,239.64	309,687.65	378,010.43	337,832.71
EU share to total	30.22%	32.62%	22.62%	24.93%	30.61%

Source: Calculations based on KAS, External Trade Statistics; 1/ Data available up to November 2018

2.3.3.2. Imports of goods, 2018 estimates and projections 2019-2021

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

	2019	2020	2021
Nominal GDP	7,127	7,530	7,956
<i>Growth %</i>	5.4%	5.7%	5.7%
Imports (Nominal)	4,165	4,404	4,664
<i>Growth %</i>	7.9%	5.7%	5.9%
Goods	3,502	3,708	3,932
<i>Growth %</i>	8.4%	5.9%	6.1%
<i>% nominal GDP</i>	58.4%	58.5%	58.6%

Imports of goods are expected to increase in the medium term mainly due to an increase in consumption. This increase in aggregate demand will be partially supported by import replacement as domestic producers catch up with internal demand,

however, increased demand beyond local production increase is expected to be met by imports. During January to November 2018, imports of goods increased by 10.4%, compared to the same period of last year.

Based on data from KAS, the share of different imported goods categories to total imports (high level of diversification of import products) remained roughly the same over the past years. For instance, during January-November 2018, the share of imported mineral products in Kosovo accounted for 15.25% which is slightly higher share than last year.

Table 7. The share of imported goods to total

Description	2015	2016	2017	2018
Mineral products	15.34%	11.74%	14.53%	15.25%
Base metals and articles of b:	9.89%	9.87%	10.08%	11.54%
Vegetable products	5.44%	5.30%	4.88%	4.53%
Prepared foodstuffs, beverag	13.39%	13.37%	12.99%	11.70%
Plastics, rubber and articles t	6.19%	6.75%	6.38%	6.55%
Other	49.75%	52.96%	51.14%	50.43%

Source: Calculations based on KAS, External Trade Statistics, 1/ Data available until November 2018

Table 8 presents imports from different countries and groups of countries. The table shows that the share of imports 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, which decreased by 1.5 p.p, and whose share was around 26.6%.

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

Imports (thousands €)	2014	2015	2016	2017	2018
EU	1,081,042.01	1,125,659.74	1,202,165.43	1,312,145.48	1,299,252.80
CEFTA	720,381.92	777,376.35	753,307.54	856,097.09	808,276.31
Switzerland	30,184.66	24,225.59	21,809.98	24,327.60	31,279.07
Turkey	238,268.36	252,163.75	288,502.66	292,701.46	302,186.08
China	204,789.05	232,395.01	258,485.48	275,516.65	282,181.07
India	9,462.22	14,624.49	18,960.33	17,993.28	28,107.91
Japan	11,395.54	11,746.75	11,090.51	14,342.32	11,825.54
Other	242,812.89	214,380.64	235,386.53	254,082.85	273,192.37
Total Imports	2,538,336.66	2,652,572.33	2,789,708.46	3,047,206.73	3,036,301.16
EU share to total	42.59%	42.44%	43.09%	43.06%	42.79%

Source: Calculations based on KAS, External Trade Statistics; 1/ Data available until November 2018

2.3.3.3. Trade Service, 2018 estimates and 2019-2021 projections

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

	2019	2020	2021
Nominal GDP	7,127	7,530	7,956
Export of services (nominal)	1,692	1,811	1,937
Import of services (nominal)	664	697	732
Balance	1,028	1,114	1,206
Balance % of nominal GDP	14.4%	14.8%	15.2%

The balance of services during January to October 2018 has increased by 5%, compared to the same period in 2017. Travel services dominate the service exports, comprising 80% of total exported

services, whereas import of travel services accounts only for 39% of imports of services. The balance of exports to imports of services is expected to remain relatively constant in the medium term. There is a relatively high concentration of both imports and exports of service.

2.4. Current account, 2018 estimates and projections 2019-2021

Table 10. Forecast of total Imports and exports, current account balance, in medium term period

	2019	2020	2021
Nominal GDP	7,127	7,530	7,956
<i>Growth%</i>	5.4%	5.7%	5.7%
Imports(nominal)	4,165	4,404	4,664
<i>Goods</i>	3,502	3,708	3,932
<i>Services</i>	664	697	732
Exports(Nominal)	2,062	2,205	2,348
<i>Goods</i>	370	394	411
<i>Services</i>	1,692	1,811	1,937
Current Account Balance	-681	-680	-727

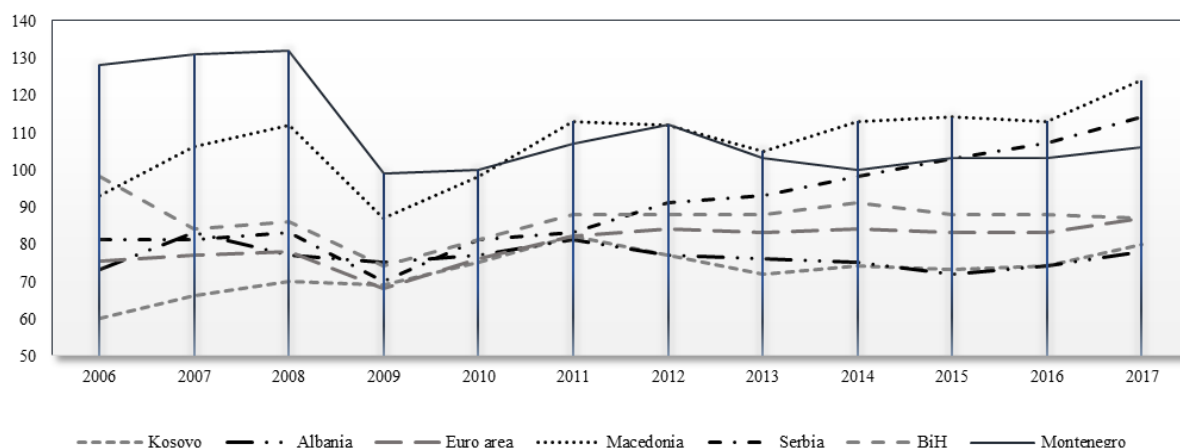
It is expected that the overall trade deficit will slightly widen, as domestic consumption and investment growth in the medium term (2019-2021) will significantly outpace growth in goods manufacturing for internal consumption. This trend is visible

in the increase of exports of goods. Nevertheless, export of services is expected to significantly outweigh import of services primarily due to expected increases in travel and diversification of exports of services toward export of IT and support centre services.

Despite being a small (land-locked) open economy with a liberal trade regime, Kosovo is characterized by low **trade openness**¹⁴. 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.

Graph 13 illustrates the low index of trade openness, particularly in comparison to neighbouring countries. Compared to 2016, the index for Kosovo in 2017 has increased. Albania, Macedonia, Serbia and Montenegro also have registered improvements.

Figure 13. Trade Openness Index, comparison to the region and Euro area



The income account has maintained a positive balance. Compensation of employees¹⁵ continues to be the largest contributor to **primary income account** balance. Until October 2018, the income from compensation of employees grew by 8.8% compared to the same period of 2017, and is expected to grow at an average rate of around 4% for the medium term 2019-2021.

Although remittances have a slower increase compared to that of last year, they continue to represent more than half of the secondary income account balance. Until October 2018 remittances amounted to 662.8 million euros, an increase of 6.3% compared to the same period

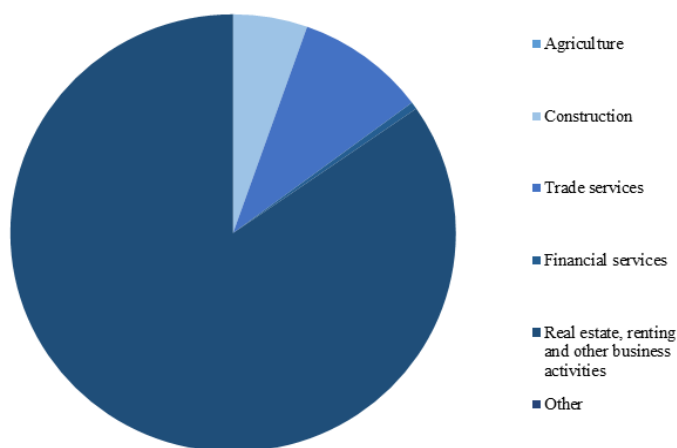
¹⁴ The trade-to-GDP ratio is calculated as the simple average (i.e. the mean) of total trade (i.e. the sum of exports and imports of goods and services) relative to GDP, and is interpreted as “the higher the index, the more influence trade has in that country’s domestic activity”

¹⁵ Revenues from the income of Kosovo employees abroad

of 2017. For the medium-term, remittances are expected to grow at an average rate of 5%, while maintaining an average share of 11.7% of GDP. This suggests that, remittances remain an important contributor to the current account balance in Kosovo.

2.4.1. Current account financing, 2018 estimates and projections 2019-2021

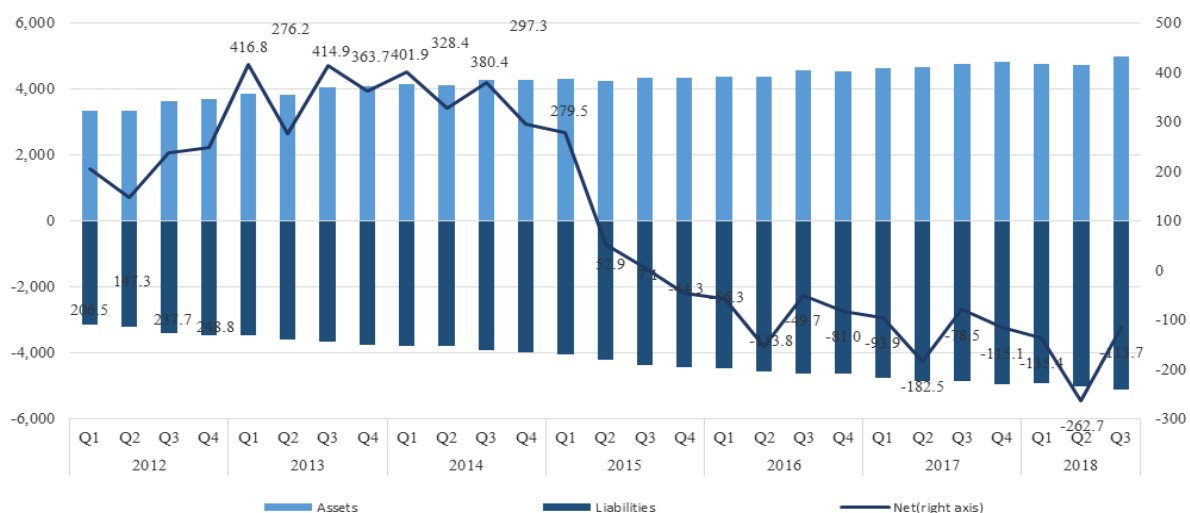
Figure 14. Structure of FDI by sectors



By October 2018, total FDI inflows amounted to around 196.7 million euros. Compared to the same period last year, FDI decreased by 13.2%. More than 86% of total FDI during the period of January-October 2018 was directed to real estate and renting activities. Trade services follow as the second largest absorber of FDI, constituting 9.6% of total FDI.

In the third quarter of 2018, the net balance of **international investment position (IIP)** reached -113.7 million euros, which reflects a 44.8% decline compared to the third quarter of the previous year. The structure of assets is dominated by portfolio investments in the form of debt, which composes around 38% of the assets, followed by other investments which compose 37% of the assets. On the other hand, direct investments continue to be the largest category within liabilities, comprising around 70.7% of total liabilities by the end of the third quarter 2018.

Figure 15. International Investment Position (IIP), end-of-period, in millions of euro



Source: Central Bank of the Republic of Kosovo (2018)

2.5. Financial sector

The main objective of the Central Bank of the Republic of Kosovo (CBK) is fostering the soundness, solvency and efficient functioning of a stable market-based financial system, encouraging the market emergence of safe financial instruments, and supporting general economic policies in Kosovo with a view to contributing to an efficient allocation of resources

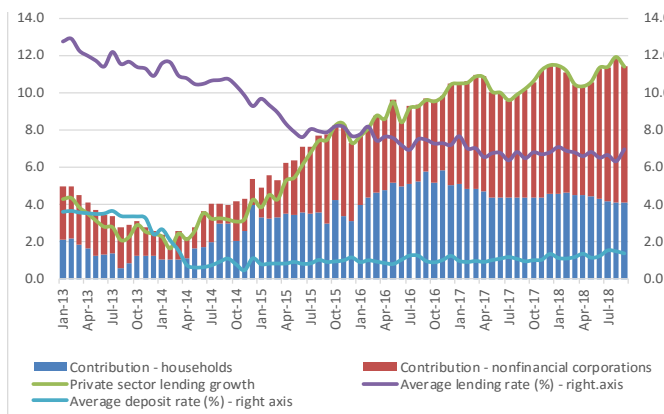
in accordance with the principles of an open market economy. The CBK acts as the regulator and supervisor of the financial system. Its main monetary policy tool is minimum reserve requirements, while it also has a limited lender of last resort function (further specified in the Regulation on Emergency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

As of September 2018, all Macro prudential indicators were above the regulatory requirements. Kosovo's financial system continued to expand and consolidate during 2018. Total assets of the financial system, excluding Central Bank of the Republic of Kosovo (CBK), marked an annual growth rate of 8.0%, standing at EUR 6.23 billion (93.1% of GDP) as of September 2018, compared to the average growth rate of last two years¹⁶ of 9.9% . Banks remain the dominant sector with 60.3% of the total financial sector assets, followed by Pension Funds and Microfinance Institutions with 26.3% and 3.5%, respectively.

Lending activity continued its accelerated growth also during 2018, owing to a strong annual increase in both lending to enterprises and households. Private sector credit grew by 11.4% as of September 2018 (Chart 16), spurred by favourable interest rates, increased competition across banks, high level of liquidity in the banking sector and improved quality of loan portfolio. Household lending remained dynamic throughout this period (although the pace has decelerated compared with same period of 2017), with an annual growth rate of 11.3% (12.2% up to September 2017). Lending to enterprises reached an annual average growth of 11.6% as of September 2018 compared with growth rate of 9.0% in same period of last year. New mortgage lending increased by 11.6% on year on year basis, as of September 2018, while new consumer loans increased by 18.5% for the reported period. New loans to enterprises grew by 4.5% annually as of September 2018, which is significantly lower compared with the annual growth rate of the same period of previous year (31.7%).

Figure 16. Private sector lending growth

¹⁶ Average of September 2017/ September 2016 (applied also to other comparisons in text)



The banking sector is sound and stable and financial intermediation shows an increasing trend. The system exhibits robust capital and liquidity buffers with regulatory capital to risk-weighted assets standing at 16.1% in September 2018 (well above the minimum required ratio of 12%) and liquid assets to short-term liabilities at 36.3% (well above the minimum

suggested of 25%). Funding risks remain moderate since banks mainly rely on domestic deposits and the system is overall liquid with a loan-to-deposit ratio amounting to 83.5% (as of September 2018). Banking sector profitability remained high, with an average return on equity ratio of 18.7% as of September 2018, and a return on average assets of 2.3%. Strong lending volumes and increasing non-interest incomes have compensated for the decreasing trend of lending interest rates. Foreign bank participation in the system is high, accounting for 87.2% of total banking sector assets (as of September 2018). Nevertheless, the degree of market concentration has continued to decline slowly. In September 2018, the market shares of the three largest banks stood at 58.4% compared to the average concentration ratio of the last two years of 62.2%. The decline in the degree of market concentration is also expressed by the Herfindahl-Hirschman Index (HHI) for assets, which dropped to 1,520 points in September 2018, compared to 1,664 points on average in the last two years.

Credit risk in the system remains low by peer standards, with the ratio of NPLs to total loans further declining to 2.8% in September 2018 and the loan-loss provisions to NPLs standing at 156.5%. Banks frequently refer to the lack of bankable projects as an obstacle to lending to corporates, thus raising concerns about the saturation of viable sectors and borrowers. Since its establishment, the Kosovo Credit Guarantee Fund provided guarantees to loans amounting to 71 million (of which 35 million guaranteed by KCGF). Guarantees provided by the KCGF had positive impact on access to finance both on the intensive and extensive margins. On the extensive margin, more than 25 percent of guarantees provided to firms with no credit history. On the intensive margin guaranteed loans had better financial terms (maturity, interest rate, amount and collateral value) than non-guaranteed loans. Although more data points are need to measure the economic impacts, initial estimates of the KCGF revealed that credit guarantees contributed to the creation of over 2600 jobs since its establishment. Financial depth, measured by the level of domestic loans to GDP, remains low (40.1 % as of September 2018). Coupled with the low loan-to-deposit ratio prevailing in the system as a whole, this points to a possibility for further deepening of financial intermediation.

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

development, access to finance should be channelled into production and tradable sectors, rather than fuelling consumer loans and real estate activity.

Deposits in September 2018 reached the value of EUR 3.21 billion (EUR 2.92 billion the average of the last two years), an annual increase of 5.4% (7.1% the average of the last two years). Household deposits, which represent the largest category of deposits, marked an increase of 6.5%, compared to the average increase of 5.1% for the past two years. The deposits of enterprises increased by 1.3% compared to the average increase of 15.6% in the past two years.

The banking sector liquidity position continued to be satisfactory during these three quarters of 2018. The liquid assets to total assets ratio stood at 36.3% in September 2018 (39.8% the average of the last two years). During the same period, the loan to deposit ratio increased to 83.5%, from the average of the past two years of 78.7%. In September 2018, non-performing loans decreased to 2.8% (4.3% the average of the last two years). Non-performing loans remain well covered by loan-loss provisions with a ratio of 156.5% (130.8% the average of the last two years). The sector remains well capitalized with a capital adequacy ratio of 16.1% that is well above the minimum regulatory requirement of 12%. As of September 2018, the average interest rate on loans stood at 7.0 %, similar to the average of the last two years. The average interest rate on loans for enterprises in September 2018 stood at 6.6% (6.4% the average of the last two years); while for households it stood at 7.4% (7.7% the average of the last two years). Interest rates on deposits during 2018 showed a tendency to increase compared with previous period. The average interest rate on deposits in September 2018 stood at 1.4% compared with the average of the last two years 1.0%, while the average interest rate for enterprises deposits increased to 1.6% in September 2018 (1.4% the average of the last two years). For household deposits, the average interest rate stood at 1.3% (0.9% the average of the last two years). The interest rate spread declined at 5.6 percentage points, compared to the average of the last two years of 6.0 pp.

As of September 2018 the total number of insurance companies that exerted their activity in the Kosovo's insurance market was 14. From these, 12 are non-life insurers while 2 are life insurers. If we refer to the origin of their capital, there is one company with foreign and mixed owned capital (Austria and Albania), seven others are locally owned, two with Slovenian capital and four with Albanian capital.

The total assets of the insurance market amounted 181.0 million Euro, with an increase of 4.6%. In September 2018, from the total assets of non-life insurance, about 43.2% (2017 – 44.4 %) are insurers with foreign owned capital, whereas 46.9% (2017 – 44.7%) are insurers with domestic capital. Other part of the insurance market is consisted by foreign owned life insurance companies with 10.0%. The assets of foreign insurance companies have had lower participation in the market compared to the same period of 2017. The total amount of gross written premium on Kosovo insurance market for this period has reached 69.1 million euro or 4.8% increase compared with the previous year (2017 - 65.9 million euro). This growth trend of gross written premiums was recorded in the non-life insurance sector, which compared to the previous period of 2017 has increased by 4.5%, whilst the life insurance sector had an increase of 14.9%. Gross written premiums in life insurance until 30 September 2018 amounted to 2.2 million euros, marking an increase of approximately 280,896 euros compared with the same period of previous year. From the total gross written premium, about 96.9% (September

2017 – 97.1%) of premiums consist of non-life insurance products, whereas 3.1% (September 2017 – 2.9%) of premiums consist of life insurance. Claims paid by September 30, 2018 reached the amount of 31.5 million euros, marking an increase from 8.2% compared to the previous period (2017 - 29.1 million). During 2018 the insurance market resulted with profit on the amount of 2.1 million euros, which shows that the insurance market had a lower profit compared with the same period of previous year which had a profit of 3.1 million euros. This positive performance comes as a result of changes in the legal framework, management of expenses, effective supervision by CBK, as well as better supervision of insurers by managements and board of directors of insurance companies.

2.6. 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 risks and potential developments, associated with economic developments expected in the medium term. The analysis of fiscal risks for ERP 2019 shows that most of the risks are less likely to materialize than in ERP 2018– 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, intensified efforts for reducing the tax gap and collecting the tax debt in the medium-term, will provide more fiscal space in the budget, will further formalize the market and support the local market competition. Compared to the ERP 2018, the external environment has become less favourable over the medium term, which translates into higher probability of realization of shocks to foreign sources of financing for the Kosovo economy (remittances, foreign direct investment, and exports). Also, higher pressures for new social transfer initiatives might produce fiscal risks for the state budget.

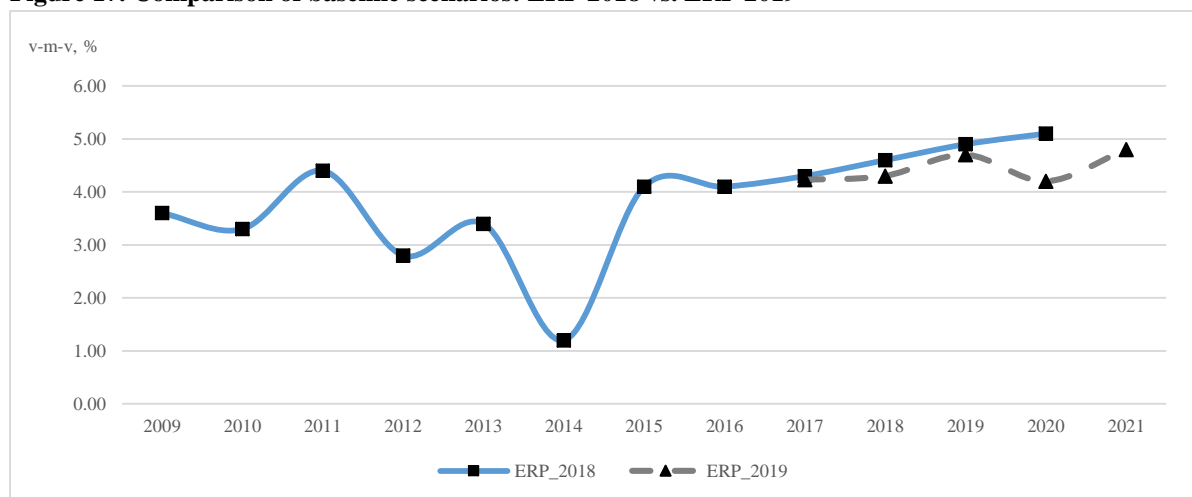
Initially, it should be noted that for the ERP 2019, the baseline scenario incorporates elements that reflect the partial materialization of a number of downside risks and potential developments identified in the ERP 2018. The baseline scenario also reflects the latest available national accounts data, which are different compared with ERP 2018. The following are the main changes incorporated in the baseline scenario, compared with ERP 2018:

- Slightly lower actual growth for the year 2017 compared to the estimated growth in the ERP 2018: The latest actual national accounts data (provided by KAS) show a real GDP growth rate of 4.2 % for 2017, while the previous estimated growth rate for 2017 was about 4.3%.
- Also, the estimated growth for 2018 is revised downwards by 0.3 percentage points, from 4.6% estimated in ERP 2018 to 4.3% in this updated version of ERP. Actual data, available from KAS, for the first three quarters of the 208, show that the economy of Kosovo on average grew by 3.9%
- The downward revision in 2018 is mainly due to deterioration of exports of goods, which registered an annual decrease of 3.1% over the January- November period. In ERP 2018, estimates of the export of goods were highly more optimistic, suggesting an annual growth rate by 5.1% in nominal terms.

- Growth of investment in 2018 is now projected lower than it was estimated in ERP 2018, down to 8% from 10.1%, mainly due to lower public investment than planned. The non-execution of the investment clause of 62 million Euros in 2018, due to barriers in its implementation or lack of disbursement, is expected to be executed mostly in 2019 and other subsequent years.

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

Figure 17. Comparison of baseline scenarios: ERP 2018 vs. ERP 2019



2.6.1. Medium term risks and potentials 2019- 2021

Over the medium- term, fiscal risks remain the same as in the previous year, but with different probability materialization for some of them. Meanwhile, we see an increased probability for materialization of development potentials compared to 2018. Overall, our basic macroeconomic baseline scenario is balanced over the 2019- 2021.

Our analysis of risk scenarios and development potentials shows that materialization of the development potentials would generate a real economic growth of about 5.7% over the medium term 2019-2021, while the materialization of fiscal risks would trigger a slowdown of real economic growth, which during the medium-term horizon would fluctuate around the 3.5% level. Meanwhile, the real economic growth in our basic scenario, on which the budget preparation for 2019 is based, is estimated at about 4.6% for the period 2019-2021.

Development Potentials

In the medium-term, growth potentials for an increase in private sector investment have increased as a result of:

Improving the doing business environment;

Undertaking of a series of fiscal reforms by the Ministry of Finance, which have helped towards removing obstacles to the development of the private sector, facilitating trade and increasing the efficiency of the Tax Administration. In addition, the implementation of fiscal measures initiated during 2018, which will also continue in the subsequent years, is expected to have a positive impact on increasing competitiveness and boosting domestic production and investment;

Realization of the potential of strategic investment through the **Investment Clause and the PAK liquidation proceeds** is expected to increase in the medium-term, because of the accelerated implementation of projects over the 2019-2021 period and higher revenues by the PAK in 2019.

Building New Energy Capabilities - With a planned investment over a 5-year period, the construction of new power generation capacities will affect the growth of total investment on top of the baseline scenario, resulting in a much higher economic growth rate. Also, investment in improving the transmission system is expected to increase.

The Economic Effects of the Stabilization and Association Agreement (SAA) are expected to generate their positive effects over the medium-term, given that the obstacles and costs of trade between Kosovo and EU countries will continue to decrease.

Downside risks

The external environment impact on external sources of financing (remittances, foreign direct investment, exports) in the medium-term is presented as an increased risk compared to the previous year. The downward revision of economic growth in the Eurozone and expectations for the slowdown of this growth in the next three years exert downward pressures on the main sources of external financing for the Kosovo economy, given that the Eurozone is the main country where the majority of Kosovar emigrants are located; where the majority of foreign direct investment originates; and where a significant part of Kosovo's exports is destined.

Reducing the Tax Gap and Tax Debt Collection: Revenue Projections are based not only on revenue growth as a result of macroeconomic developments, but also on narrowing the tax gap and on collecting tax debt in order to formalize the market and to support the local market competition. Therefore, the estimated fiscal space on which the Budget for the next three years is based, is also dependent on the success of administrative and incentive policies for narrowing the tax gap and collecting the tax debt. In the 2019 budget, unlike the previous years, clear administrative targets have been defined for reducing the tax debt stock, which are based on concrete measures to improve administration. As a result, the risk of non-realization of these targets is estimated to be lower than in previous years.

The risk of non-realization of projects related to the investment clause and liquidation proceeds has decreased, taking into account the good performance of the PAK liquidation proceeds during 2018 and the re-allocation of a number of projects under the "Investment Clause", which were ratified during 2018 but are expected to be implemented during 2019 (mostly) and in the subsequent two years.

The probability of risk materialization resulting from **the fragile capacities for domestic power generation** is estimated to decrease over the medium term, as a result of the possibility of building the "Kosova e Re" Power Plant, which is expected to provide a secure supply of electricity but also to significantly increase the contribution of private investment to real GDP growth.

The threat posed by the pressure on **new social transfers initiatives** has increased. The increased pressure to use public money as redistribution, especially when such redistribution

does not target poverty but is based on other criteria, presents a fiscal risk for a fiscal strategy which targets socio-economic development.

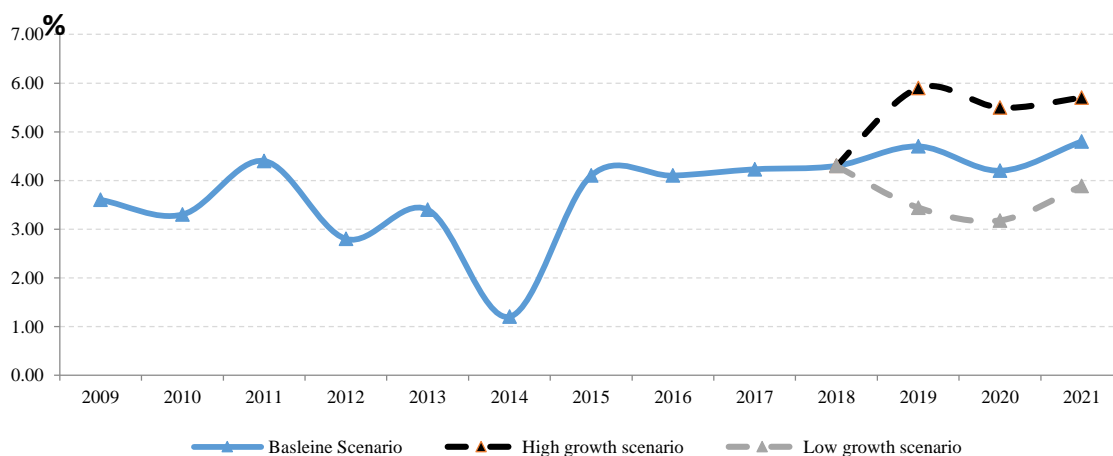
Fiscal risks due to **accumulation of delayed payments** - which may arise as a result of existing public contracts can produce financial obligations for the state budget. Over the years, this risk was particularly pronounced for the local level governance. Given the execution of the municipal budget and revenue projections at this level, we estimate that the risk remains at levels similar to the previous year.

Also, the contingent or out-of-budget risk that may come as a result of the poor performance of **Publicly Owned Enterprises** remains unchanged since 2018, following the unsatisfactory performance of public enterprises.

Results

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

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



High Growth Scenario Assumptions: incorporate into the baseline the commencement of the electricity power plant construction and higher execution of the projects financed through the investment clause than the level assumed in the baseline scenario.

- The construction of the new electricity power plant will provide additional private investment of about 1,000 million Euros over a 5-year period. More specifically, this translates into an increase of private investment amounting to 1.4% of the baseline projected GDP in 2019 and to 2% of the projected GDP in both years, 2020 and 2021.

- In the baseline scenario, for conservative purposes, the investment clause is projected to be executed at a level of 50%, 60% and 70%, respectively. In the high growth scenario, we are assuming a higher execution of the clause, at 80% for the three years.

Also, due to positive stimulus in the economy coming from total investment, a higher consumer price index is assumed for the 2019- 2021 period.

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, as follows:

- 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 an amount equal to 0.5% of the baseline projected GDP in the period of 2019-2021, at the cost of public capital spending.
- A less than expected level of execution of capital projects – where for the purposes of this exercise it is assumed that only 50% of investment clause and 70- 75% of regular budget are implemented over the medium-term.
- Electricity imports are higher as a result of lower domestic energy production. Based on the experience in year 2014, when the critical explosion in power plant “Kosova A” caused an increase in energy imports of around 45.5 million Euros, we are assuming a similar increase also in our forecast horizon in circumstances of fragile capacities of domestic energy production and assuming the non-realization of the new electricity power plant (Kosova e Re).
- Lower growth rate for goods exports, from the baseline average of 4% to 2%, as a result of lower base metal prices than those forecasted in the baseline and lower growth rate of the Eurozone and global economy.
- Lower remittance and foreign direct investment due to slowdown in the economic activity of the Eurozone. More specifically, in the low- growth scenario, we are assuming an average increase of 3% for the 2019-2021 period, while in the baseline scenario, remittances were expected to increase by 5%. Similarly, the growth rate of foreign direct investment in the low-growth scenarios is reduced to 7% on average for the medium-term, while in the baseline scenario it was assumed a higher growth rate (around 14% on average).

Regarding prices, in the low- growth scenario, it is assumed an equivalent increase in consumption prices and imports prices due to a higher imported electricity price 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 through 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 or in one of 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 4.6% to 3.5%. On the other hand, projected medium term average growth under the high growth scenario is on average 5.7%.

Table 11. Alternative macro-fiscal scenarios

Description	2019			2020			2021		
	(Low)	(Base)	(High)	(Low)	(Base)	(High)	(Low)	(Base)	(High)
Real growth (%)									
GDP	3.4	4.7	5.8	3.2	4.2	5.6	3.9	4.8	5.7
Consumption	3.6	3.9	4.6	2.2	3.8	4.1	2.8	3.8	4.4
Investment	2.0	7.7	14.3	1.6	5.3	8.7	4.3	5.7	7.3
Exports	5.5	6.1	6.1	4.0	4.7	4.7	5.1	5.6	5.6
Imports	4.0	5.6	7.9	1.2	3.7	4.6	2.7	3.8	4.4
Price changes (%)									
CPI (average)	1.5	1.3	1.4	1.5	1.3	1.4	1.5	1.3	1.4
GDP deflator	0.8	0.6	0.8	1.6	1.4	1.5	1.2	1.0	0.9
Import Prices	2.2	2.0	2.0	2.2	2.0	2.0	2.2	2.0	2.0

3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objective

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

- A budget deficit limit to 2% of GDP (annual basis);
- Additional investment through the Investment Clause (medium-term and long-term period);
- Withholding of an adequate level of fiscal reserves (annual basis), and
- A limit of 40% debt to GDP ratio (annual basis).

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

In line with the implementation of the above mentioned rules, the Government of Kosovo will pay special attention to tax policies and tax administration to ensure that any change in the

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

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

- Ensure sustainable financing of Government's public activities by ensuring that tax policies are in the function of stimulating private sector activity and generating stable revenues for the state budget;
- Mobilize revenue by expanding the tax base instead of increasing statutory tax rates.
- Simplify administrative fees and reduce the regulatory burden.
- Maintain a balanced budget structure with a dominance of capital investments to address structural barriers through improving public infrastructure.
- Provide adequate funding for priority areas such as justice, security, health and education
- Improve the effectiveness of social spending and agricultural subsidies through better targeting
- Maintain a low level of budget deficit (according to the fiscal rule definition), thus keep the public debt under control.

Based on these objectives, the 2019 budget has allocated its fiscal space resulting from higher revenue projections in: a) higher operational spending for priority sectors, and b) higher capital spending to address structural gaps. Nonetheless, one of the main fiscal challenges for achieving these objectives remains the containment of social spending schemes that are increasing year by year.

With regard to budget revenues for 2019 and subsequent years, our projections are based on reasonable assumptions on all sources of financing (tax, non-tax revenues, as well as internal and external financing).

The impact of Stabilization and Association Agreement (SAA) on revenue losses has mostly been absorbed and is fully accounted for in the medium-term. The only increase in statutory rates, is planned for tobacco excises in line with a transparent multi-year schedule which will end in 2019.

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

3.2. Budget implementation in 2018

According to preliminary fiscal data, the 2018 budget has achieved a high overall execution rate both in the revenue side and the expenditure side. The fiscal rule has been fully respected, reaching a deficit of 1.02 % of the estimated GDP, which is well below the ceiling of 2%. Furthermore, end year Government cash balance has been recorded at 4.62% of GDP, which

is also in line with the applicable fiscal rules (minimum 4.5% if funds from the liquidation proceeds are used).

Regarding revenue collection, both agencies responsible for revenue collection (TAK and Customs) have managed a good execution of the projected revenues. Tax revenues remain the highest contributor of total revenues and reached a collection rate of 97.3% in respect to projections. On the other hand, non-tax revenues are estimated to record a collection rate of 94.6% collection in regards to projections. In comparison to 2017, income from tax revenues were 6% higher in 2018.

Besides budget revenues, there has also been a good performance in other sources of financing, with the exception of financing from external borrowing, internal financing (securities and PAK financing) was in line with budget projections.

Budget expenditures, on the other hand show a tendency to be executed at a total rate of 92.7%, including an execution rate of 100% for recurring expenditure and a 76.3% execution rate for capital expenditure.

It is noted that in relation to the budget, social transfers increased as a result of the non-implementation of the war veterans' reform and the over-spending of planned expenditures for other beneficiary schemes. Despite the fact that the budget of 2018 had assumed that the re-categorization would be carried out in the war veterans' scheme, this did not happen, and as a result, spending was higher. Expenditures were higher for this category as a result of an increased number of beneficiaries when compared to the forecasts for this scheme.

Nevertheless, there was no budget review due to the good performance of revenue expectations and the general trend of expenditure.

Budget Revenue collection had a good performance regarding initial projections. Tax revenue collection reached a 97.3% collection rate while non-tax revenues reached a collection rate of 94.6%. Compared to 2017 tax revenues increased by around 4.5%, followed by an increase in non-tax revenues by around 9.1%.

Collection from VAT increased by 5.4% (in line with the projections), reflecting an increase in consumption. On the other hand, custom duties surpassed the initial projections, but remained slightly lower than those in 2017.

Despite an anticipated decrease in the import of used cars (because of the age restriction of imported cars), the authorities managed to collect around 1% more in Excise tax in 2018 when compared to 2017.

Personal income tax, as the main contributor to direct taxes, surpassed the projections by 3%. Regarding corporate income tax, taxes collected from corporates were 15.3% higher than those in 2017.

Therefore, indirect taxes recorded a 97.5% collection rate while direct taxes recorded a 100.2% collection rate.

Non tax revenue, showed a slight increase from previous period for 9.1%, however, it fell short in comparison to the initial projections. This is mainly due to shortfalls in revenues collected at the municipal level which reached only 84.1% of the projected value.

Budget expenditures were higher than in 2017, while the execution rate of different economic categories was different. For wages and salaries, the execution rate was 100.3%, goods and services 93.5%, subsidies and transfers 106.2%; capital expenditure 76.3% due to an under-execution of capital expenditure mainly due to the inability to disburse funds from the investment clause. Nevertheless, capital expenditure increased by 13.4% in comparison to 2017. In total, this led to an execution rate of around 92.7%, reflecting an increase of around 10.1% in total expenditures compared to the previous year.

To **finance the deficit** and maintain a comfortable level of fiscal buffers, the government increased the stock of domestic debt by less than 3% compared to initial projections followed by a full execution of PAK liquidation proceeds financing.

Below is a table of key parameters on the 2018 budget implementation performance.

Table 12. General Government Operations, in millions of Euros

Description	2017	2018 Budget	2018 Actual
1. Total Revenue	1,684	1,817	1,767
<i>off which: extra tax debt collection</i>		8	
<i>tax compliance gains</i>			
1.1 Tax Revenue	1,496	1,607	1,564
Direct Taxes	238	275	267
<i>Tax on Corporate Income</i>	75	84	87
<i>Tax on Personal Income</i>	137	146	153
<i>Tax on Immovable Property</i>	22	33	24
<i>Other</i>	3	12	3.7
Indirect Taxes	1,315	1,378	1,344
<i>Value Added Tax:</i>	756	819	797
<i>Customs Duty</i>	126	111	124
<i>Excise</i>	432	446	421
<i>Other indirect</i>	1	2	2.1
Tax Refunds	-58	-46	-48
1.2 Non-tax revenue	188	202	203
<i>Fees, charges, and other - Central Level</i>	103	100	109
<i>Fees, charges, and other - Local Level</i>	43	55	46
<i>Concessionary fees</i>	9	10	9
<i>Royalties</i>	31	33	25
<i>Interest income (KEC loan)</i>	3	4	4
1.3 Budget support and grants	0	7	0
2. Total Expenditure	1,766	2,104	1,947
2.1 Recurrent Expenditure	1,282	1,386	1,398
<i>Wages and Salaries</i>	550	590	592
<i>Goods and Services</i>	226	265	248
<i>Subsidies and Transfers</i>	506	526	558
<i>Recurrent reserves</i>	0	5	0
2.2 Capital Expenditure	468	694	530
<i>Regular budget financing</i>	468	546	444
<i>Debt financing through the investment clause</i>	0	62	0
<i>Liquidation proceeds</i>	0	86	86
2.3 Public Debt Interest	16	24	19
3. Budget Balance (1-2)	-82	-287	-180
4. Expenditure exempted from the fiscal rule:	27	165	111
<i>Expenditure from dedicated PAK revenue/2</i>	9	11	11

<i>Expenditure financed from municipal carried-over OSR</i>	18	6	14
<i>Capital spending from the investment clause and liquidation p.</i>	0	148	86
5. Budget Balance, as per fiscal rule definition (5+6)	-55	-122	-69
A. Financing Need:	-82	-287	-180
B. External Financing	78	87	87
C. Internal Financing	84	227	233
D. Change in usable bank balance:	79	28	168
E. Stock of Usable Bank Balance	292	319	459

3.3. Medium-term budgetary outlook

Fiscal projections for the medium term are projected to increase approximately in line with nominal economic growth. Out of total revenue. Tax revenues are expected to increase at around 6% per year, reaching a ratio of 24.3% of GDP in 2019 (from 23.8% in 2018), while averaging at 24% of GDP throughout the medium term. This projected increase, besides being affected by an increase in the tax base, also reflects the initiatives to decrease the stock of tax debt as well as conservative assumptions in compliance gains (in line with historical data). Non – tax revenues, on the other hand are expected to increase at a constant rate of 3% during the medium term, reaching 221 million by 2021.

In contrast to revenues, total expenditures are expected to decrease as a share of GDP, starting from 31% in 2018 to 32% in the medium term. The same trend applies to recurring expenditure, which are expected to grow from 20.5% of GDP in 2018 to 21.1% throughout the medium term; starting from 22% of GDP in 2019.. Wages and salaries are expected to be around 9% of GDP throughout the medium-term. Expenditures on goods and services are expected to average at around 4% of GDP for 2020-2021, starting at 5% in 2019. Following this decreasing trend, subsidies and transfers are expected to be around 8% of GDP in the medium term.

On the other hand, capital intensive projects are expected to continue to increase. Therefore, capital expenditure is projected to average around 11% of economic production.

In terms of the fiscal rule budget deficit, it is expected to be below 2% of GDP. In 2019, the deficit is expected to be close to 2% followed by a decrease in the consecutive years, reaching 1.4% in 2020 and 1.9% in 2021.

Table 13. Medium-term tax revenue projections 2019-2021, in millions of Euros

Description	2017	2018 Budget	2019 Proj.	2020 Proj.	2021 Proj.
TOTAL REVENUE	1,684	1,817	1,949	2,026	2,141
Tax revenue, net	1,496	1,607	1,731	1,800	1,909
Non-tax revenue	188	202	208	215	221
Other	0	7	11	11	11
TOTAL EXPENDITURE	1,766	2,104	2,365	2,426	2,487
Operational expenditure	1,282	1,386	1,567	1,584	1,624
Capital expenditure	468	694	770	813	835
Other	16	24	28	29	28
Budget Balance	-82	-287	-416	-400	-346
Budget Balance- Fiscal Rule	-55	-122	-145	-107	-151
Stock of Usable Bank Balance	292	319	324	339	267

Source: Treasury, Budget 2019, and estimates of the Macroeconomic Unit, MoF

3.3.1. Budget revenue projections

For the mid-term 2019-2021, revenue projections are based on general projections of economic developments in the country, as well as their impact on respective tax bases.

Furthermore, the effect of the new measures to improve the “doing business environment”, exemptions in imports duties for the production sector and technology equipment, plans for narrowing the tax gap and the informal economy, measures for increasing revenue collection efficiency in the collection agencies, with a particular focus on reducing the stock of tax debt, etc. are considered as potential for increasing the level of revenues over these projections. Nevertheless, in order to have a sustainable revenue plan, a conservative approach was applied to assess the impact of these measures.

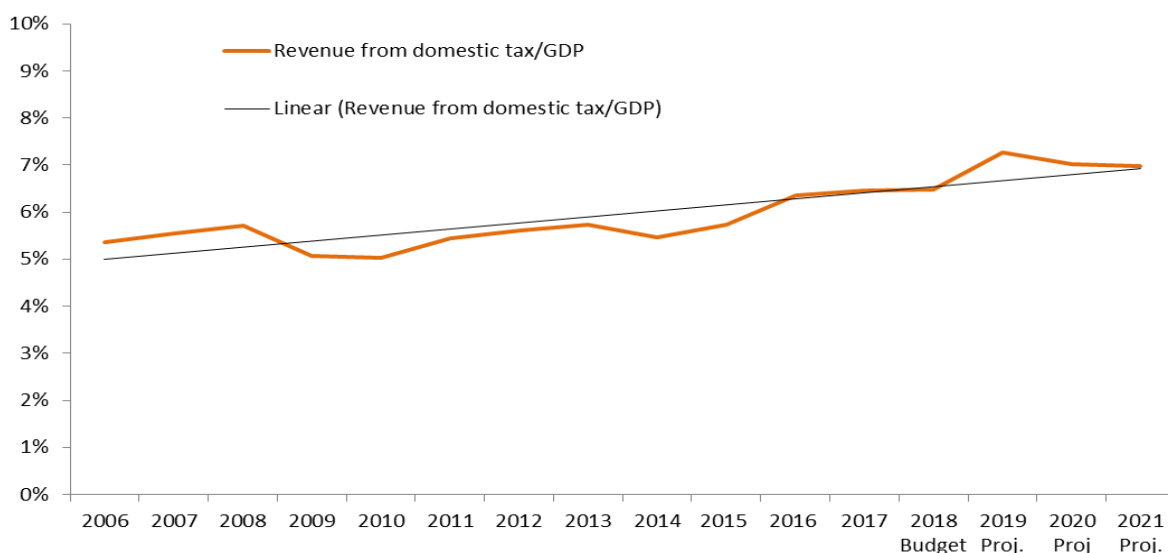
Consequently, considering economic projections for the medium-term period, as well as considering other specifics which are not reflected in the tax base, total budgetary revenues for 2019 are expected to reach the value of EUR 1,949 million. This reflects an increase of 7% or EUR 132 million compared to the budget of 2018. Moderate growth is expected to continue for the rest of the medium term 2020 and 2021, in line with the share of revenues to GDP.

The increase in total revenues comes as a result of the contribution from indirect taxes, direct taxes and non-tax revenues with participation of about 76.5%, 14.8% and 10.7% respectively, while reimbursement have a negative contribution of 2.6% . Such a structure of revenues is a result of the high trade deficit in the country's economy.

The projected increase in tax revenues is expected to be mainly supported by indirect taxes, particularly VAT and excise, while a stabilization of revenues from customs duties is expected as a result of the implementation of the free trade agreement with the EU (SAA). Additional impact is expected from the exemption of customs duties for goods needed in the production process as raw materials, as well as exemption from customs duty for IT equipment. Positive effects that may lead to higher production will reduce losses from these exemptions after the sale of final products. Revenues from direct taxes are also expected to increase gradually even though with a relatively low base.

Revenues collected domestically, historically followed the trend of economic activity in the country (see Chart 19), and are expected to have a gradual improvement. Although the bases of these revenues continue to be low, due to the design and the implementation of structural reforms, there are positive signals for a more accelerated trend of growth beyond that driven by the growth of economic activity (as a result of increased voluntary compliance and narrowing of the tax gap). Due to these reforms, revenues collected domestically are expected to increase their share to GDP by about 0.7 percentage points, with an increasing trend in years 2020 and 2021.

Figure 19. Trend of tax revenues 2006-2021



Source: *Treasury and Projections of Macro Economic unit – MF*

Regarding Tax Administration of Kosovo, it is expected that it will collect about EUR 516 million in 2019, including one-off revenues from collection of tax debt. This rate marks an increase of 15.9% compared to the budget of 2018. Specifically, revenues collected from TAK, divided into categories are expected to be as follows:

- **Corporate Income Tax**: is projected to increase by around 5.9% annually during the medium term, thus amounting to EUR 100 million by 2021, which would also reflect the increase in debt collection, and at the same time reduction of debt total stock. For 2019, there an increase of 8.4% is foreseen for this category, where a decrease in corporate tax debt stock of 10% is included.

- **VAT - domestic**: is projected to increase by 10% in the medium –term, whereas in 2019 an increase of 26.7% is foreseen amounting to EUR 258 million. This increase in projections comes as result of an increase in total consumption, where VAT remains an important indicator of private consumption development. At the same time, an increase in the efficiency in tax debt collection is expected even for this category.

- **Personal Income Tax**¹⁷: is projected to increase by 11.9% and reach the amount of EUR 163 million in 2019. This increase is based on economic developments in the country and their effects on the labour market, wage bill for the public sector, as well as on measures to increase administrative efficiency in this tax category.

Furthermore, by simplifying the tax and customs systems, continuing to increase the quality of services to taxpayers and continuing full digitalization of taxpayer services, we expect an increase in Tax Administration efficiency and increase in voluntary compliance in tax liabilities, which consequently will reflect positively in tax revenues collected domestically.

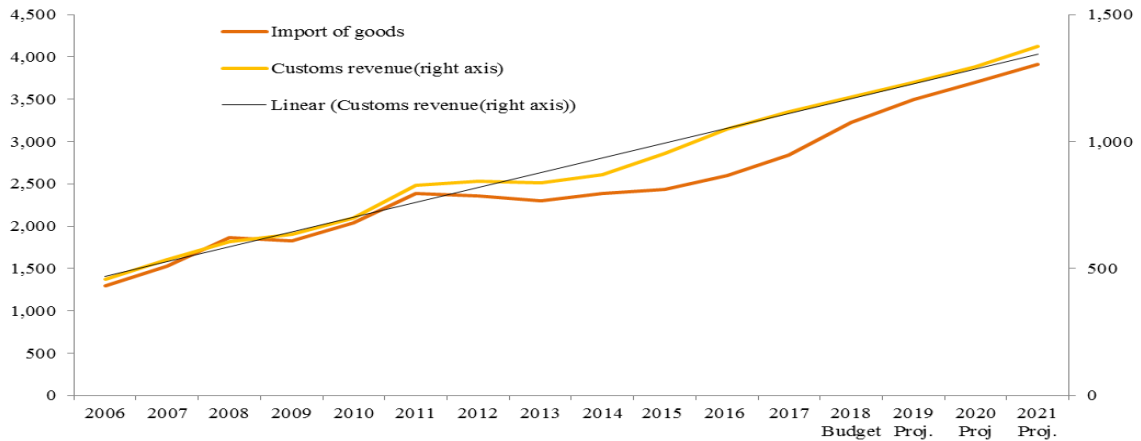
Border revenues are expected to follow the trend of imports. These revenues have historically followed the value and quantity¹⁸ of imports, excluding the effect of tax rate changes. Free Trade Agreements and new fiscal measures implemented in 2018 as well as new measures expected to be implemented in 2019, are expected to slow down the increasing rate of revenues

¹⁷This item highlights withholding tax, individual business revenue tax, as well as interest tax, rent and lottery

¹⁸ Quantity of imports is used for projection of collection of revenues from Customs and border VAT

collected at the border, whereas this will be reflected positively in an increase in domestic revenues.

Figure 20. Trend of tax revenues collected at the border and the relation with economic indicators 2006-2021



Source: Treasury and Projections of macroeconomic unit – MF

During 2019, Kosovo Customs is expected to collect 5.0% more compared to the budget of 2018. This increase in border revenues, reflected in nominal values, would amount to EUR 1,234 million. Specifically, revenues collected by Kosovo Customs for 2019 divided into categories are expected to be as follows:

- *VAT - collected at the border*: in 2019, border VAT remains the main contributor to customs revenue, accounting for over 52.5% or EUR 647 million, marking an increase of 5.1% compared to the budget for 2018. This planned increase in revenues from VAT is largely a result of expectations for increased imports in order to support increased economic activity in the country, but also as a result of better customs monitoring.

- *Income from excise*: compared to the 2018 budget, excise tax revenue is expected to increase by 4.3% and reach EUR 465 million. This planning takes into account the increase in the excise rate for tobacco products according to the excise calendar. In addition, the European policies for stopping the circulation of diesel cars will affect their price and consequently lead to an increase in the imports of these cars. Moreover, the growth of imported oil has continued throughout 2018, affecting an increase in excise revenue, despite rising prices of oil in international markets.

- *Customs Duties*: in the proposed-budget for 2019, customs duties are expected to reach EUR 120 million. This revenue is expected to come as a result of the increase in the tax base (increase of imports by around 8%), however, it also takes into account the negative effect of the SAA in the medium term.

Regarding non-tax revenues, for the period 2019, a slower growth is anticipated, which is also reflected in the slowdown in the collection of own source revenues of the municipal level. Moreover, in 2019, own source revenues at local level are expected to increase by EUR 2 million and are expected to amount to EUR 57 million. This planning remains similar also for years 2020 and 2021.

Revenue from royalties is expected to continue its constant trend in 2019, remaining at the same level as the previous year. Revenues from the concessionary fees of the "Adem Jashari" airport are expected to reach the value of EUR 11 million in 2019, marking an increase of EUR 1 million from 2018.

Table 14. Revenue Structure as % of GDP

Description	2016	2017	2018 Budget	2019 Proj.	2020 Proj.	2021 Proj.
Total Revenue	26.3%	26.8%	27.2%	27.3%	26.9%	26.8%
Tax Revenue	23.4%	23.8%	24.1%	24.2%	23.9%	24.0%
Non-tax Revenue	2.9%	3.0%	3.0%	2.9%	2.8%	2.7%

3.3.2. Budget expenditure projections

Budget expenditure in 2019 is projected to grow by 12.4 % compared to the budget of 2018. For the medium term, this growth will decelerate at 2.6% for 2020 and 2.5% for 2021. The increase in expenditure in 2019 is mainly attributed to an increase in capital projects financed through International Financial Institutions and liquidation proceeds.

Recurrent spending for 2019 is projected to increase by 13.1% in comparison with the 2018 budget. For 2020 and 2021, this growth is expected to be slower at 1% and 2.5% respectively. One of the key drivers to this increase in 2019 is goods and services category and this is due to reclassification of expenses from capital spending to this category of a) maintenance of medical equipment; b) maintenance of memorial complexes; c) Kosovo Police equipment, etc. In addition, an increase in subsidies and transfers category is projected primarily as a result of social schemes and increases in basic and contributory pensions.

Capital expenditure is planned to be about 10.9% higher compared to the budget of 2018. This growth is expected to be 5.6% and 2.8% in 2020 and 2021 respectively. This increase comprises of capital expenditure of strategic development nature financed by International Financial Institutions and from the liquidation of socially-owned enterprises. These expenditures, according to the legal provisions, are excluded from the calculation of the general deficit level according to the fiscal rule and are directed towards capital expenditure for strategic development purposes. An important part of capital investment will be the continuation of the Kijevë-Zahaq road project, the continuation of the M2 project for Mitrovica, and other investments aimed to improve physical infrastructure, digitalization and educational infrastructure.

For 2019, the **local level budget** is increased by 39.7 million compared to the 2018 budget. This increase of 8.1% in municipal budget funding reflects the increase of the total grant (by 16 million, to 196.6 million), the education grant (by 15.3 million, to 185 million), and the healthcare grant (with 5.1 million, to 53.4 million Euros).

The increase in the education grant comes mainly due to new policies that foresee the employment of 100 new assistants for children with special needs which costs around 0.5 million euros, as well as professional practice which has a cost of about 1 million euros.

2.6 million euros of additional funding are budgeted for secondary and residential health in three minority municipalities: Municipality of Strpce, Mitrovica and Municipality of Gracanica.

The **central level** budget in 2019 increased by 13.7 % and includes 216.9 million EUR additional spending compared to the 2018 budget.

In line with Government priorities, this additional spending was allocated for increased effectiveness in priority areas.

3.3.3. Expenditure Projections for Policy-Based Budget Sectors

For the **Order, Law, and Public Security**¹⁹ sector, the 2019 budget foresees budget allocations in the amount of around 204.2 million euros. This reflects 6.2% more financing compared to the 2018 budget. The additional budget is expected to enable additional support to reduce backlogs in this sector and create room for higher efficiency. Whereas, the budget for the **Defence**²⁰ sector increased by 9.4% reaching the amount of 58.7 million.

The budget for the central **Health sector** consisting of Ministry of Health and University Hospital Services increased by 17.6% compared to the 2018 budget. This growth comprises of additional allocations for essential pharmaceuticals and an increase of 47% in capital expenditure. In addition to this growth, the municipal primary health grant also increased by 10%. For the **Environmental Protection**²¹ sector, budget allocations increased by 31.9 %. This in order to support balanced and sustainable development by ensuring environmental protection and developing the proper spatial planning.

For institutions responsible for improving **Economic Affairs**²², 2019 budget appropriations increased by 4.4 % compared to the 2018 budget, amounting to around 446.5 million. Budget allocations for the Ministry of Economic Development under this sector have increased by 67 % compared to 2018 budget coming mainly from capital projects (Drinking Water Factory in Ferizaj, Energy Efficiency and Renewable Energy Project, Kosovo Digital Economy etc.).

Budget allocations for the **Education** sector consisting of the Ministry of Education, Public Universities, the Justice Academy, and the Academy of Sciences increased by 13.8% amounting to 106.8 million. Accounting for the education grant at the local level, total expenditure for the education sector amounts to 290 million EUR. This expenditure is expected to support new initiatives for education quality enhancement.

To support better governance, budget allocations in the sectors of **General Public Services**²³ have increased by 42.7% amounting to 211 million euros. For the Public Procurement Regulatory Commission which falls under this sector, the budget has increased by 30.8% compared to the 2018 budget. The budget allocation for the National Audit Office has increased by 20.3%. Whereas, to ensure the proper functioning of state diplomatic service, there was an increase of 7.7% in the operating budget of the Ministry of Foreign Affairs.

¹⁹ Ministry of Internal Affairs, Ministry of Justice, Kosovo Intelligence Agency, Agency for Free Legal Aid, Ombudsperson Institution, Constitutional Court, Kosovo Prosecutorial, Kosovo Judicial Council

²⁰ KSF

²¹ Ministry of Environment and Spatial Planning and Water Services Regulatory Authority

²² Ministry of Infrastructure, Ministry of Economic Development, Ministry of Trade and Industry, Privatization Agency of Kosovo, Regulatory Authority of Electronic and Postal Communications, Kosovo Competition Authority, Independent Commission on Mines and Minerals, Civil Aviation Authority, Railway Regulatory Authority, Air Navigation Services Agency, Energy Regulatory Office, Ministry of Innovation, Ministry of Regional Development

²³ the Assembly of Kosovo, the Office of Presidency, the Office of Prime Minister, Ministry of Finance, Ministry of Public Administration, Ministry of Local Government Administration, Ministry of Regional Development, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Diaspora and Strategic Investments, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Election. Complaints and Appeals, Agency for Protection of Personal Data, National Audit Office, Central Election Commission, Independent Oversight Board Civil Service of Kosovo and Unpredictable Expenditures

Furthermore, to ensure that there is cohesion and social development, the budget foresees 14% increase in budget allocations for institutions the **Social Protection sector** consisting of Ministry of Labour and Social Welfare. This increase of 57 million for the Social Protection sector aims at developing, implementing and coordinating policies, laws and other instruments to ensure protection and social support, skills and ability to provide services to the most marginalized groups of society. Social protection sector continues the provision of support for social categories through social protection and pension schemes, reviewing the legal infrastructure enabling the greater support for categories in need. At the same time, the budget for **Recreation, Culture, and Religion**²⁴ increased by 10.5% compared to the 2018 budget.

3.3.4. Expenditure projections by economic category

The overall government expenditure in 2019 is expected to be 12.4 % higher than that in the budget of 2018. Over the medium term and in line with economic and fiscal objectives, expenditure projections per reflect increases in all economic categories. In addition to the increase of general budget expenditures, the structure of expenditures by economic categories has marked a movement along the categories, where capital expenditure has marked the highest growth and is one of the main expenditure components.

Table 15. Medium-term expenditure projections 2019-2021, in millions of Euros

Description	2016	2017	2018 Budget	2019 Proj.	2020 Proj.	2021 Proj.
TOTAL EXPENDITURE	1,658	1,741	2,104	2365	2,426	2487
OPERATIONAL EXPENDITURE	1,221	1,282	1,386	1567	1,584	1624
Wages and Salaries	544	550	590	616	649	670
Goods and services	203	226	265	337	317	334
Subsidies and transfers	475	506	526	609	614	615
Recurrent reserves	0	0	5	5	5	5
CAPITAL EXPENDITURE	444	468	694	770	813	835
with financing from:						
Regular budget sources	444	468	546	509	533	648
Capital budget reserves	0	0	62	121	220	187
SOE liquidation proceeds	0	0	86	140	60	0
INTEREST FOR PUBLIC DEBT	19	16	24	28	29	28

Expenditure for wages and salaries: continues to hold a significant share of total expenditure. Over the medium term this projected increase is on average 4.3% for 2019, 2020, and 2021. Expenditure for this category for 2019 is expected to be EUR 616 million. On the other hand, as a share of GDP, this category of expenditures in the budget planned for 2019 is presented with a positive trend from 8.7% in 2018 to 8.6% in 2019, to continue with a gradual drop to 8.4% in 2021.

Subsidies and transfers: expenditure for Subsidies and Transfers will continue to grow during the medium-term. The budgeted expenditure for this category increased by 15.9 % compared to the budget of 2018, but growth will decelerate to 0.7% and 0.1% in 2020 and 2021, respectively. The increase in expenditure for this category for 2019 comes as a result of funding for the Law on War Veterans, increasing basic and contributory pensions, and increasing the number of beneficiaries in other schemes. As a share of GDP, subsidies and transfers during

²⁴ Ministry of Culture, Youth and Sport, Kosovo Council for Cultural Heritage, Radio Television of Kosovo, Agency for Management of Memorial Complexes, and Independent Media Commission.

2019 are expected to reach the level of 8.6%, whereas in the following years, a fall is planned to 8.2% for 2020 and 7.7% for the year 2021.

Goods and Services: Expenditures for this category in 2019 are expected to increase by 27.2 % compared to the budget of 2018, but growth will strongly decelerate over the medium term. Growth in this category for 2019 reflects mainly: reclassification of expenditure from the category of capital expenditures; higher financing needs for the maintenance of public infrastructure; and higher healthcare sector requirement for pharmaceuticals and medical supplies. In relation to GDP for 2019, expenditures for this category is about 4.7% and is projected to fall in the following years to reach 4.2% in 2021.

Capital Expenditure: capital expenditure in 2019 is planned to increase by about 10.9% in relation to the 2018 budget. Transport infrastructure will continue to have the largest share in capital expenditure. An important part of capital investment will be the continuation of the Kijevë-Zahaq road project, the continuation of the M2 project for Mitrovica, and other investments to improve local infrastructure. However, the 2019 budget has diversified capital expenditure by including projects for improving healthcare facilities and education system. In addition, there has been an increase in funding for projects on waste water treatment and irrigation. As a share of GDP, capital expenditure for 2019 has marked 10.8% to GDP ratio which shows an increase compared to the 2018 budget value, and in the following years, it is planned to maintain approximately the same share.

3.4 Fiscal Structural Balance

Structural balance represents the fiscal balance of the government, corrected for the effects or fluctuations of the business cycle, which are not directly controlled by the government. Often it is argued that the overall fiscal balance does not provide a comprehensive view of the fiscal position because this position is also influenced to a considerable extent by the business cycles, which an economy goes through. During periods, when an economy experiences accelerating economic growth, tax revenues tend to increase; while in the conditions of economic slowdown, tax revenues, especially those stemming from income and consumption, are reduced. These developments in fiscal indicators, which occur without any discretionary government intervention, help alleviate economic fluctuations and are therefore known as "automatic stabilizers". The structural fiscal balance (adjusted for business cycle) aims to measure the fiscal position "free" of these stabilizers, with the aim of better understanding the scale and intensity of discretionary fiscal policy.

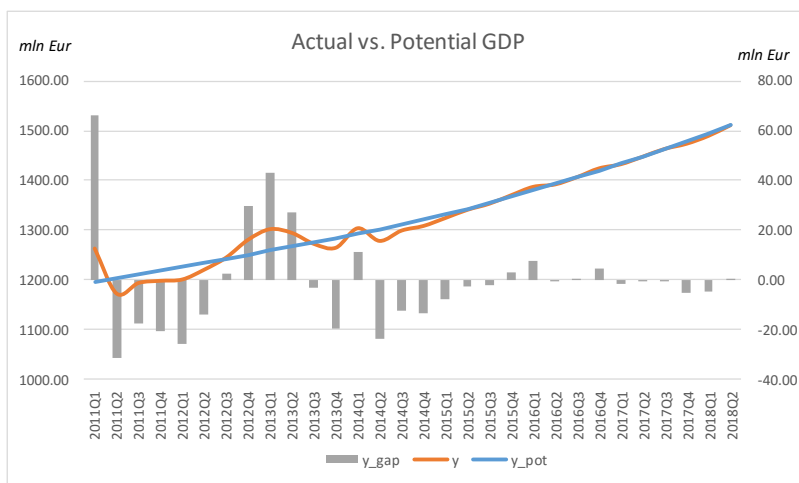
In order to obtain the structural balance, it is important to isolate the cyclical component of the fiscal balance, which is the result of the output gap in the economy. In the case when an economy is at its potential level (output gap is zero), this cycle component of fiscal balance will be zero and consequently the current fiscal balance at the same time represents the structural balance.

Assessment of the structural balance presented in this section, should be interpreted with considerable caution, considering the limited availability of the GDP data. In this updated version of ERP, structural balance is estimated using quarterly data covering the period 2011Q1: 2018Q2 (in total 30 observations). Following the methodology established in last year' submission, structural balance is calculated in two steps.

The first step consists in calculating the output gap, expressed as the percentage deviation of actual GDP from its potential level. Literature suggests various techniques for estimating potential GDP (and therefore output gap), but for purposes of this report and in circumstances of short time series, the Hodrick Prescott filter is applied²⁵. All the techniques recommended in literature provide different estimates of the output gap, both in magnitude and in the sign of this gap (positive or negative). Consequently, the structural balance assessment is sensitive to the methodology used, which suggests careful consideration of this indicator by users or policymakers. Another main issue on which this filter is heavily criticized relates to the so-called “end-point bias”, according to which the last observations of the series have an exaggerated impact on the trend at the end of the series. For the purposes of calculating the fiscal structural balance, we have addressed the “end-point bias” by extending the time series of real GDP up to the last quarter of 2021, using forecasted values.

The output gap and the potential GDP, obtained by the application of the Hodrick- Prescott filter²⁶, are presented in the graphs below.

Figure 21. Actual and potential GDP, 2011Q1: 2018Q2



One can see from the graph that the economy seems to have been growing below its potential over the period 2011Q2: 2012Q3 and over the period 2013Q3: 2014Q4; whereas for a short period (2012Q4: 2013Q2), the economy has been operating above its potential. From 2015 and onwards results obtained from the HP filter show 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 analysis²⁷. 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 16. The elasticity of tax revenues with respect to GDP²⁸

²⁵ The smoothing parameter used when applying Hodrick Prescott filter is $\lambda = 480$, suggested by ECB (Bouthevillain et al. (ECB 2001), “Cyclically adjusted budget balance: An alternative approach”)

²⁶ The Hodrick-Prescott filter is applied on Real GDP data, seasonally adjusted by Tramo Seats.

²⁷ 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.

²⁸ Differences in the elasticities presented here in comparison to those presented in the previous submission have come about as a result of the added observation points (until Q3 2018) and as a result of a different time series used for real GDP (with base year = 100 prices).

Revenue category	CIT	PIT	Indirect taxes	Other taxes	Property tax	Weighted average
Elasticity	1.79	2.98	1.74	-2.54	2.69	-
Weighted elasticity	0.09	0.22	1.3	-0.009	0.04	1.64

The cyclical component of the budget balance is calculated as the product of the weighted elasticity (derived above) with the cyclical component of the GDP (output gap). Then, we subtract this cyclical component from the headline budget balance in order to obtain the cyclically-adjusted budget balance.

Table 17. Fiscal Balance; Balance corrected for business cycle; cyclical component of budget balance and output gap

Year	Fiscal Balance (mln Eur)	Structural Balance (mln Eur)	Cyclical Components (mln Eur)	Output Gap, %
2011	-69.0	-6.6	-62.4	-0.2
2012	-128.7	-185.6	56.9	-0.7
2013	-164.0	-222.8	58.8	3.7
2014	-128.0	-12.7	-115.3	-2.9
2015	-78.0	-151.8	74.5	-0.7
2016	-54.0	-71.7	19.8	0.8
2017	-55.0	-46.2	-8.8	-0.5
2018	-69.2	-50.8	-18.4	-0.1

As Table 17 shows, the effect of the economic cycle is evident in 2013 and 2016 when the output gap was positive. The effect of cycle over the years has led to a fiscal balance better than the balance that would result if the economy of Kosovo were to operate at its potential level. In the years when the economy has operated under the potential (when the production gap has been negative), the fiscal deficit has resulted to be higher than the deficit that would result in the conditions of a positive zero.

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

Kosovo has adopted a prudent legal framework to prevent unsustainable debt practices. The Law on Public Debt, gives the Minister of Finance exclusive authorization to incur debt and negotiate conditions of international debt on behalf of Kosovo. Under the Constitution, every international agreement has to be ratified by a two-thirds majority in Parliament. The *Regulation for Issuance and Management of State Debt, State Guarantees and Municipal Debts*, requires for international loans to be negotiated by an official team that consists of members from relevant departments such as: Debt Management Unit (DMU), Legal Department, Minister's Cabinet, the Department of Economic Policies and International Financial Cooperation, the Budget Department, and the respective Budget Organizations.

The Law on Public Debt 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 public debt ceiling of 40 percent of the GDP, as well as rigid limitations on municipal borrowing. Contingent liabilities are accounted as public debt, as per this indicator. The Law on Public Debt mandates regular reporting to the Assembly (Article 15)

through the preparation of a State Debt Program, which includes a medium term debt strategy, to be submitted to Government for approval and to the Assembly for information.

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.

Debt management practices are in compliance with the primary and secondary legislation. During 2018, the primary and secondary legislation has started the process of amending and is expected to be finalized by the end of 2019.

The table below shows debt levels and their debt to GDP level²⁹.

Table 18. Total Government Debt, in million euro (unless otherwise indicated)

Description	2012	2013	2014	2015	2016	2017	2018	p.2019	p.2020	p.2021
International Debt	336.6	323.8	326.4	371.2	373.4	422.2	416.1	627.0	743.8	822.7
Domestic Debt	73.3	152.5	256.5	377.8	478.6	574.3	676.6	771.3	871.3	971.3
Total Government Debt	409.9	476.3	582.9	749.0	852.0	996.5	1,092.7	1,398.2	1,615.1	1,794.0
State Guarantees	-	-	10.0	10.0	20.0	44.0	44.0	44.0	44.0	44.0
Debt/GDP	8.4%	8.9%	10.5%	12.9%	14.2%	15.5%	16.2%	19.6%	21.5%	22.5%

3.5.1. Contingent Liabilities

At the end of 2017 the state guarantee portfolio was comprised from three state guarantees. In 2014 the Ministry of Finance issued the first guarantee in the amount of EUR 10 million, which guarantees DIFK for the credit line provided by the EBRD.

Whereas, the second international state guarantee, was issued in 2016, to the local public enterprise Urban Traffic for the loan provided by the EBRD in the amount of EUR 10 million.

Whereas during 2017 a third guarantee has been issued in the amount of EUR 24 million to guarantee the second credit line of DIFK. The table below shows state guarantee issuance from 2014:

Table 19. State Guarantees

	2014	2015	2016	2017	2018	p.2019	p.2020	p.2021
State Guarantees	10.0	10.0	20.0	44.0	44.0	44.0	44.0	44.0
Guarantee for Credit Line of DIFK	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Guarantee for Urban Traffic Pristina	0.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0

²⁹State Debt Program 2019-2021

Guarantee for Second Credit Line to DIFK	0.0	0.0	0.0	24.0	24.0	24.0	24.0	24.0
State Guarantee (% of GDP)	0.2%	0.2%	0.3%	0.7%	0.7%	0.6%	0.6%	0.6%

3.6.Sensitivity analysis and comparison with the previous programme

Regarding fiscal stability, results obtained from the low and the high scenario do not violate the fiscal rules despite changes in revenues and expenditures compared to the baseline scenario.

In the low scenario, total government revenue underperformed by an average of 1.1% compared to the baseline projections for 2019 and by 2.6% for the years 2020 and 2021. This under-performance will be more pronounced in the category of indirect tax revenues, which will be around 1.3%; 2.8% and 3.4% lower than the baseline projections in 2019, 2020 and 2021, respectively. In addition, in the low scenario a lower level of implementation for capital expenditures (financed by the regular budget, investment clause, and PAK liquidation assets) is assumed, which in average will be around 6% lower than the capital expenditure projected during 2019-2021 in the baseline scenario. While, recurrent expenditure will be about 2.4% higher than that planned in the baseline scenario. As a result of a larger decline in total government spending compared to the decline in government revenues due to slowdown in economic growth, the budget deficit over the medium term will fluctuate at the interval [-0.1%: -0.6%], while the bank balance will remain at satisfactory levels.

In the high scenario, revenues would over-perform by 1.4% in comparison to the baseline projections for 2019, and by 2.5% in 2020 and 2021. Indirect tax revenues will be higher than the projections in the base scenario by about 1.7%; 2.6% and 3.1%, respectively in 2019, 2020 and 2021. Additionally, in the optimistic scenario, a higher rate of capital spending is assumed, which will be on average 4.8% higher than the projected level of capital expenditures in the baseline over the period 2019-2021. The budget balance and the bank balance will continue to stay within the fiscal rules even during the optimistic scenario.

Table 20. Results of alternative scenarios on main fiscal indicators

Description	2019			2020			2021		
	(Low)	(Base)	(High)	(Low)	(Base)	(High)	(Low)	(Base)	(High)
mln Eur									
Total revenues	1928	1949	1977	1978	2026	2071	2079	2141	2199
Total tax revenues	1709	1731	1758	1752	1800	1845	1848	1909	1968
Direct revenues	287	289	290	299	302	307	313	319	326
Indirect revenues	1472	1492	1518	1508	1552	1592	1591	1647	1698
Total Expenditures	2117	2203	2239	2125	2279	2323	2204	2391	2410
Current expenditures	1603	1567	1567	1622	1584	1584	1664	1624	1624
Capital Expenditures ³⁰	514	636	672	503	695	739	540	767	786

3.6.1. Comparison with the previous programme

Taking into account the latest changes in the global and domestic economy, the projections have been revised and reflected in the ERP 2019.

³⁰ Capital expenditure in this table incorporate the assumptions for non-execution for each scenario.

Compared to ERP 2018, ERP 2019 projects a lower revenue collection by around 0.7% over the period 2018-2020³¹. On the other hand, overall expenditures have been revised upwards by around 4.8% compared to the previous programme.

A more complete comparison with the previous program is presented in annex 3.

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:

3.8. Sustainability of Public Finances

3.8.1. Debt Sustainability in Kosovo

Kosovo's economy continued to experience positive economic growth mainly driven by increased private consumption, total investment, and improved trade balance. With a building history of public debt since its first issuance in 2012, Kosovo continues to have the lowest debt level compared to the countries in the region. However, debt level is growing in a sustainable manner as a result of an increase in public infrastructure investment. In order to ensure that growth of the debt stock is done in a controlled and sustainable way, 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 public infrastructure, during 2015 the government amended the LPFM by introducing an investment clause that allows the Government to finance additional growth boosting projects mainly through IFIs. It is noted that initial investment projects projected through the investment clause could not be implemented during 2018 due to barriers in implementation and lack or delay of disbursements for these projects. Due to the fact that Kosovo is in need of implementing capital projects, this exercise (DSA) is conducted by incorporating the investment clause in the baseline scenario followed by further sensitivity analysis of debt subject to changes in the underlying macroeconomic and other debt-related indicators.

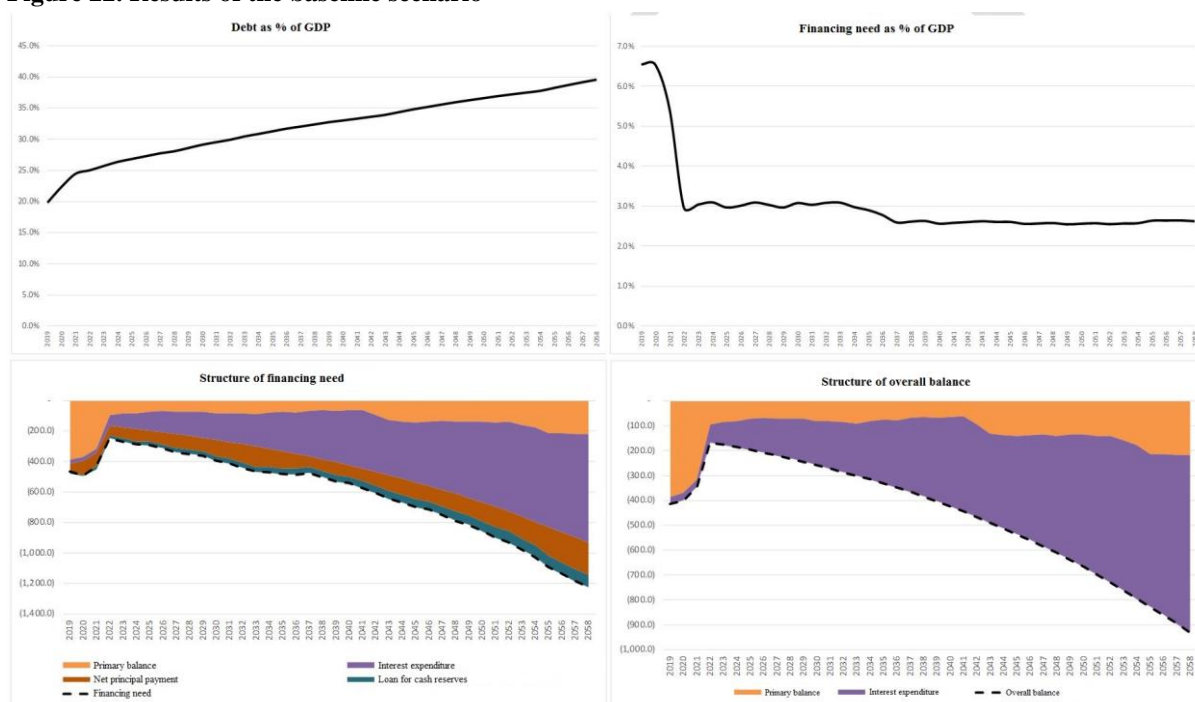
The DSA is conducted using the tool developed by the macro unit within the Ministry of Finance, and several assumptions have been made on the baseline macroeconomic indicators as well as the debt indicators, over the 40-year horizon (2019- 2058), as follows:

- Nominal GDP growth of 5.5% for the period 2022: 2032, followed by a consecutive decrease of 0.5 percentage points in each of the 3 subsequent decades;
- Total budget revenues will increase by the same rate as the nominal GDP growth;
- Interest rate on new commercial loans will increase from 4.5% during the period 2019-2029 to 10% during the period 2052- 2062;
- New concessional loan interest rate is estimated to fluctuate around 2% over the whole period (2019- 2062);
- Interest rate on domestic debt is estimated to fluctuate at a level of 5% until 2040, and then to decrease at 3% at the end of the period.

³¹ Comparison between the two programs is only for 2018-2020 since ERP 2018 does not have projections for 2021.

- Commercial loan matures in 10 years;
- Concessional loan matures in 15 years;
- Bank balance to GDP at 4.5%;
- Overall deficit to GDP at 2%;
- Investment clause is estimated around 121; 220 and 187 million Euros in 2019, 2020 and 2021, respectively; while over the remaining period of the DSA (after the year 2021), no investment clause is foreseen.

Figure 22. Results of the baseline scenario



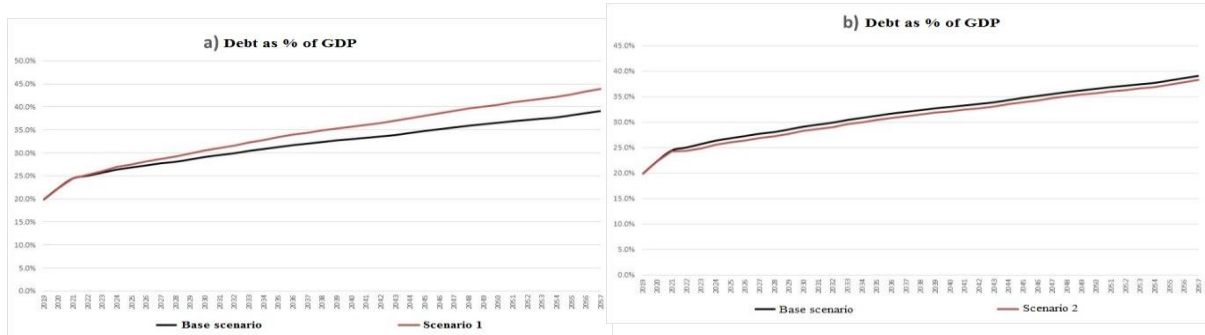
The baseline scenario (Graph 22) shows that the stock of debt will be sustainable. The debt to GDP ratio shows an increasing trend over the period, but it will stay under the threshold of 40% for the entire period. The share of interest expenditures relative to the structure of overall budget balance remains low in the early years of the forecasted horizon. However, as the financing demand grows (including deficit financing above the 2% ceiling through the investment clause) and the debt increases and interest rates on both domestic and foreign debt increase, interest expenditures will continue to capture an important fraction of the overall deficit. Also, the contribution of the primary deficit (excluding interest expenses) to the overall 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.

Lowering nominal GDP growth by 1 p.p. compared: This scenario is built on the assumption of an increase of 1 pp. in the nominal GDP growth rate compared to the base scenario. The fall in GDP by only one pp. (everything else held constant) increases the debt levels above the specified boundaries, suggesting that the threshold is breached after year 2050 (Graph 23).

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 balance, the analysis was conducted to see the movements in debt levels if the bank balance (fiscal reserve) is reduced to 3% of GDP while retaining the nominal GDP growth rate and other assumption

at the same levels as in the baseline scenario. The graph below, suggests that lowering the bank balance does not change the debt levels significantly (Graph 23).

Figure 23. Scenario analysis: Decreasing the permanent GDP growth by 1 p.p (figure on the left) and lowering the bank balance from 4.5% to 3% of GDP (figure on the right)



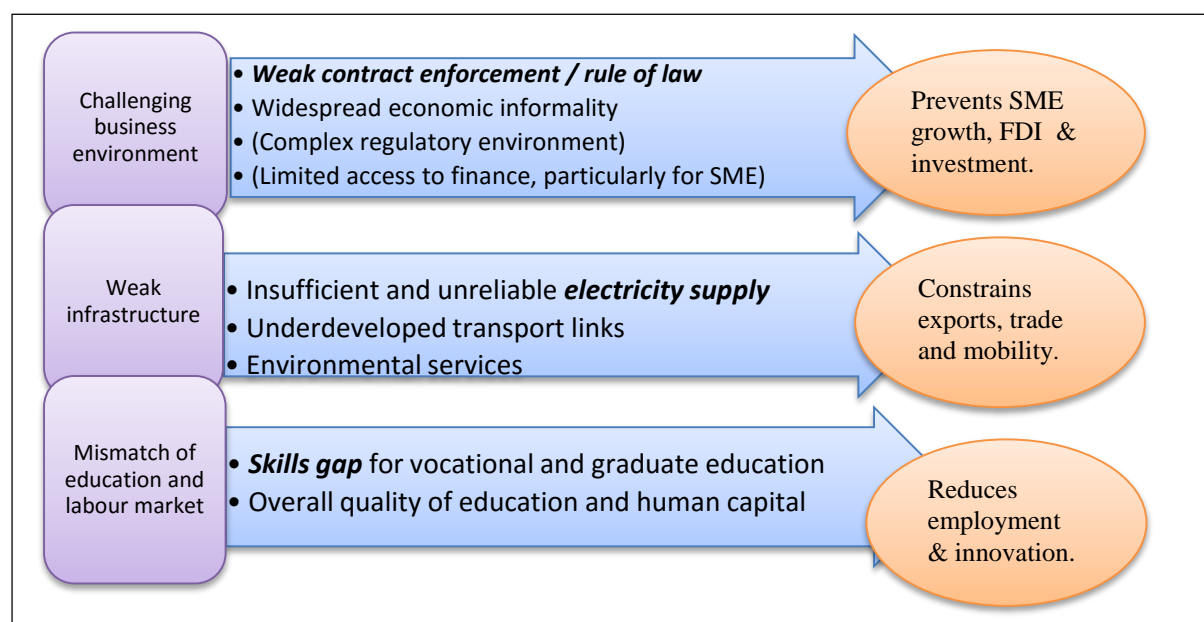
Increasing interest rates on both domestic and foreign debt: An increase by 1 pp of interest rate on both domestic and foreign debt (commercial and concessionary) over the whole forecasting period will not have a significant impact on the level of public debt or on the budget balance due to the fiscal rule constraint, but it will alter the structure of the budget balance and that of the financing need due to the increase of the interest rates expenditures.

4. STRUCTURAL REFORM PRIORITIES FOR THE PERIOD 2019-2021

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. 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.

Figure 24: 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 has been improved through the diminishment of interest rates and support in collateral provisioning. Since 2014, when the first constraints analysis for ERP was conducted, average interest rates have declined from over 9.2% to 6.8% in December 2017. In addition, the annual growth of loans to non-financial corporations, picked up from 4.3% in 2014, to 9.3% in 2017. In 2014, the total value of loans amounted to €1.88 billion or around 32.5% less than the total amount of loans in 2017. In this year the total value of loans was €2.49 billion, representing an annual increase of 11.5%. The major drivers of such a surge were the upward trend in the demand for loans coupled with the reduction of average interest rates and the extension of maturity of loans. In 2017, lending to all economic sectors has increased, but the most notable growth were in construction (26.1%), agriculture (13.4%) and the production sector (9.3%). Collateral requirements are significantly strict: banks require nearly three times the value of the loan as collateral, whereas 90% of all loans require collateral. Nevertheless, better access to finance and financial deepening, particularly for start-ups and higher risk economic activities, remain an important impetus to elevating Kosovo's growth potential, and will be further addressed by measures to improve the protection of property rights including through legalization of unpermitted construction and to improve court efficiency in economic disputes.

Business environment strongly improved, but challenges remain. In the 2019 World Bank Doing Business Report (WB DBR), Kosovo maintained an improved ranking, as noted by a

higher score compared to the WB best practice benchmark and the recognition of reforms in construction permit issuance, as well as tax and customs administration. Most notable progress was achieved in areas of starting a business, getting credit and trading across borders. Significant improvements were also achieved in enforcing contracts and resolving insolvency, but there is still a huge gap compared to the best performing countries. While the application of the recently adopted new Law on Business Organizations is expected to significantly improve protection of minority investors.

Informal economy is estimated to have shrunk, but remains large and an important obstacle.

A recent study³² 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.³³ The value of uncollected direct taxes was estimated at 107 million EUR, or 1.8% of GDP. The informal economy has been identified as a key challenge in the Competitiveness Outlook, especially in regards to the ‘tax wedge’, it includes also low scores under the informal employment reduction indicator. In 2016 and 2017, average tax revenue growth surpassed nominal economic growth and net positive yields from tax policy changes, indicating a further contraction of the tax gap. Nevertheless, further measures are required to enhance domestic revenue mobilization and ensure a level-playing field through increased formalization, including through a more performance-based tax administration which fosters voluntary compliance and addresses the prevalence of excessive tax arrears.

Weak contract enforcement and rule of law remain a binding constraint. A total of 1124 unsolved economic cases were counted at the beginning of 2018. Throughout the year, 659 cases were accepted and 697 cases were solved – resulting in the reduction of backlog by 3.7%. Marginal improvements have also been recorded by international indicators; for example, in the WB Governance Indicators for year 2017, which are normalized within a range from -2.5 to + 2.5, Kosovo’s score for rule of law was -0.42, while for control of corruption the score was estimated at -0.5. Despite these incremental improvements and indications that negative perceptions may be exaggerated (0see MCC Constraints Analysis), weak contract enforcement and the rule of law in general remain a binding constraint. Also, more could be done in the areas of corruption proofing legislation, assessments of corruption risks in public institutions, awareness raising and coordination of anti-corruption reforms.

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 once Kosovo is admitted to ENTSO-E. In a recent survey by Kosovo's Chamber of Commerce,³⁴ almost 90% of companies stated that improvements to the KEDS network did not enhance their competitiveness, and two thirds found the cost of electricity and the tariff system to be a major problem for their business. The WB DBR 2019 ranks Kosovo 113th in the world for the ease of getting electricity.

Investment in the roads and railway network, important for facilitating trade flows and labour mobility, continued during 2017 and 2018. Compared to electricity supply, underdeveloped

³²Assessment 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.

³³Survey 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.

³⁴ Energy Sector in Kosovo – "Millions Euro Barrier - Electricity", Kosovo's Chamber of Commerce, 2017.

transport links are considered to be a less binding constraint. However, given that growth in transport activities generates a range of external costs and can raise logistics costs, Kosovo should incorporate sustainability, resilience and long-term competitiveness as central policy objectives.

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. Environmental externalities certainly affect the citizens' health and quality of life, but their negative impact on competitiveness may become more pronounced in future. Nevertheless, measures included in this ERP also address some of the environmental issues (through increased energy efficiency, renewable energy sources or a cleaner coal-generation 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.³⁵ 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 informality reduces the number of formal jobs. Lack of child-care facilities and institutional care for the elderly, combined with a lack of flexible work arrangements and cultural biases, discourages female labour force participation.

4.2. Summary of reform priorities

The following section provides 20 priority structural reform measures identified for the Economic Reform Programme covering the period 2019-2021. 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. These measures include also a list of Key Performance Indicators which are identified for monitoring and evaluating the effects of reform measures on specific segments or sectors of the economy. Indicators have been presented in the narrative form of the Programme, but further details about are presented also in the Annex 5 – List of Key Performance Indicators. The measures

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

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.

I. Energy and transport market reform

Measure #1: Reduction of energy consumption through energy efficiency measures – aims at implementation of EE measures in the public and household sector, thus contributing to the reduction of consumption, to achieve energy savings targets of 92ktoe or 9% of final electricity consumption.

Measure #2: Further development of energy generation capacities – it aims to ensure sustainable energy supply through construction of new generation capacities and investments in RES.

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

Measure #3: Structural changes in agro-processing sector – includes measures supporting increase of production, decrease the import of agricultural products, supporting investment projects in rural infrastructure and restructuring the physical potential of the farm as well as direct support for agricultural production.

Measure #4: Consolidation and inventory of agricultural land – addressing land fragmentation and increase farm size through improvement of policy and legal framework on agricultural land, in addition to implementation of volunteer inventory and consolidation projects.

Measure #5: Increase of competitiveness in the manufacturing industry – it aims to improve the competitiveness in the manufacturing industry by placing a special emphasis on the mechanisms that improve cooperation between SMEs, enhance networking, improve public-private dialogue, and increase production quality in industrial production sectors.

Measure#6: Enhancing competitiveness in the tourism and hospitality Sector – its purpose is to promote the development and competitiveness of the tourism by promoting tourism products, promoting development of products in order to penetrate the tourism market, cooperating with relevant stakeholders, applying tourism and hospitality standards, and improving the legal infrastructure.

III. Business environment and reduction of informal economy

Measure #7: Adoption of evidence-based policies and addressing administrative burdens – the purpose of the measure is to simplify legislation and establish a regulatory impact assessment system, including reduction of administrative burden for businesses.

Measure #8: 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.

Measure #9: Increase the efficiency of the judiciary in resolving cases - this measure aims to improve the efficiency of the judiciary in addressing economic disputes by reducing the number of backlog cases through the implementation of case management information system (CMIS).

Measure #10: General Inspection Reform - The measure aims at the reform of inspections through improvement of inter-institutional coordination and digitalization of the inspection process.

Measure #11: Reduction of Informal Economy - The objective of the measure is improvement of the quality of State of the law and Economic Governance in Kosovo as constrain to economic growth and formal employment generation. This measure is part of the broader policy measures that the government of Kosovo is planning to undertake through the Strategy against informal economy.

IV. Research, development and innovation and the 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 supporting innovation activities in general.

Measure #13: Expansion of relevant ICT network infrastructure and services 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.

V. Trade related reforms

Measure #14: Trade facilitation by increasing the cost-effectiveness of international trade transactions – it aims to increase cost effectiveness of international trade transactions by simplifying and standardizing all border formalities and procedures.

Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products – it aims to further develop the quality and safety of infrastructure by aligning national legislation with the EU acquis, coordinating the inter-institutional system with businesses and other stakeholders, and membership in European and international organizations.

VI. Education and Skills

Measure #16: Increase of quality of vocational education and training based on labour market requirements - 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.

Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education - this measure aims to improve quality at all levels of pre-university education and to increase attendance at this level with a particular focus on preschool education.

Measure #18: Reform in Pre-University Education – it aims to achieve reforms in higher education through the completion and implementation of the legal infrastructure of higher education, advancing and developing mechanisms for quality assurance and increasing participation in international programs for higher education and research.

VII. Employment and labour market

Measure #19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship – this measure aims to increase participation and employment in particular of women and youth by addressing the challenges of labour force skills and the discrepancies between market and supply needs through further strengthening the capacity of public employment services, expanding the range of services and active labour measures.

VII. Social protection and inclusion

Measure #20: Improvement of social and health services – it aims at creating a sustainable health financing system, with particular emphasis on the establishment of compulsory health insurance and functioning of the health insurance fund.

4.3.ANALYSIS BY AREA AND THE STRUCTURAL REFORM PRIORITIES

4.3.1. REFORMS IN ENERGY AND TRANSPORT MARKET

a. Analysis of the main obstacles

State of play: Despite the significant improvement of all performance indicators of the electricity sector, work still needs to be done to ensure sustainable energy supply for businesses, services and households. Significant improvement has been made in the quantity and quality of heating supply for citizens of Prishtina. Indicators measuring duration of power outage per consumer are 62.1 hours outage and 34.7 hours outage, respectively. Electricity requirements are mainly covered by domestic production and partly (10-14%) by imports. The total demand of the electricity system in 2017 was 5686 GWh. The power plants have produced 5300 GWh (96.8%) while the RES central have produced a total of 179.25GWh or 3.2% of the total electricity generation. Petroleum requirements are covered 100% by imports. Heating requirements are largely covered by biomass (mainly firewood) and electricity mass, while central heating covers 3-5% of the requirements. Kosovo does not have any natural gas infrastructure. The production of electricity is carried out by two power plants; Kosovo A and Kosovo B, both having outdated and inefficient technology which is not environmentally friendly and therefore resulting with unstable supply. In this regard, the need for investment in new generation capacities is important, so that it addresses also environmental concerns – closure of TPP Kosova A and rehabilitation of TPP Kosova B.

Electricity produced by RES currently accounts for only about 3% of the total produced electricity. As for the current capacity, coal has 57% of total energy capacity, 28% oil, 14% biomass and the rest are hydro and solar. In terms of new energy capacities, they increased for 64.85 MW in 2018 from renewable energy sources. Despite numerous legal and regulatory measures undertaken towards full market liberalization, their effects continue to be very limited since the Transmission System Operator (TSO) does not have control over cross-border

electricity flows as a result of non-implementation of the Energy Agreement between Kosovo and Serbia.

In terms of energy efficiency, a very high potential for energy savings has been identified mainly in the residential sector. The Law on Energy Efficiency has been approved, which includes the establishment of a fund to support energy efficiency investment. The Energy Regulatory Office Board (ERO), on October 30, 2018, has issued a decision on retail electricity tariffs to be applied by the Universal Service Provider (FSHU - KESCO). According to this decision, the new tariffs to be applied from 1 November 2018 to domestic households will remain the same, while those of industrial, commercial and public lighting customers will drop by 5%. This is part of the plan to reduce the subsidization of electricity tariffs between group tariffs with particular emphasis on the elimination of subsidization of electricity tariffs of commercial and domestic customers, which is expected to be completely eliminated during the following year subsidy between group tariffs.

Regarding transportation, Kosovo's geographical position underlines the importance of developing an efficient road network by fully integrating it with neighbouring countries and the region. Roads represent more than 90% of the transport infrastructure in length and 98% in terms of providing services. Kosovo has a "high density of road transport", but when measured as "average length of road per thousand people", road density is at an average level. Considering projects taking place in the field of transport, and those to take place by 2019, the state of the road transport will be significantly improved and will have an impact on economic development.

As regards the railway sector, SEETO has defined the main railway corridors for South-East Europe, and Kosovo is part of these corridors with railway route 10 (Leshak - Hani i Elezit) which belongs to the comprehensive network of SEETO and connects Kosovo with Serbia and Macedonia. Kosovo railways has a length of 335 km of open railway line, 105 km in stations and 103 km industrial lines, but railway lines have to be modernized in order to enable better transport services. Legislation on railways is in line with EU legislation and enables opening of the rail market for providing transport services for passengers and goods.

Regarding air transport, Kosovo has no special law on transportation of goods, but this type of transport is provided along with the transport of passengers. The Kosovo Government is drafting civil aviation policies that will be part of the revision of the Multimodal Transport Strategy, which will be developed in 2019.

Structural obstacles: Main obstacles in the **transport sector** are: (i) Inadequate maintenance of existing roads; (ii) Poor condition of the railway lines; (iii) Lack of railway rolling stock; (iv) Lack of a functional railway in the north between Kosovo and Serbia due to political barriers. Main obstacles in the **energy sector** are: (i) Out-dated Power Plants (ii) Low diversity of energy sources (iii) Lack of efficient electricity use by businesses. The increase in electricity demand is due to: (i) The use of electricity for space heating; (ii) 11% of the power distribution system is used in an unauthorized manner; (iii) Technical losses in the electricity distribution system amounting to about 13%; (iv) inefficient use of energy, in particular in the residential sector.

Impact of structural obstacles: The unsustainability of the energy supply has a negative effect on competitiveness, increasing costs and adversely impacting businesses. The prices of

electricity in the industry sector are higher than in most of the countries in the region, negatively affecting competitiveness. Another obstacle is the continuation of Serbia's obstruction in the energy sector. In the area of transport, inadequate international links increase the time and the cost of transport and travel, thereby reducing trade movement and workforce mobility resulting with negative impact on employment. Inadequate international rail connections reduce the level of passenger and freight transport and have a negative impact on the development of competition in rail transport.

1. Reduction of energy consumption through energy efficiency measures

Description of the measure: As a continuation of previous programme, main objectives of this measure are: implementation of EE measures in public and private buildings and households, achieving energy saving targets of 92ktoe or 9% of final electricity consumption, and increasing investment in projects through the EE fund. The measure is based on the National Energy Efficiency Action Plan, NDS and the Energy Sector Strategy. A study which shows what percentage of the target achieved will be published in June 2019. The reduction in energy costs will help businesses and boost private investment.

a. Planned activities for 2019: 1) Implementation of EE measures in about 50 public buildings and commence implementation in 30 other public buildings (MED); 2) Implementation of EE measures in households in 600 houses, and in 5 multi-storey buildings and installing meters for measuring heat consumption and thermostatic valves for about 3000 households in Prishtina (MED/MFK) 3) Grants allocation for Efficiency Measures for Women's Businesses (MFK); 4) Construction of district heating in Gjakova with biomass energy sources (MED); 5) Functionalising the EE Fund; 6) Implementation of investment plan for strengthening, network expansion and medium voltage projects to reduce technical and commercial losses (KESCO).

b. Planned activities for 2020: 1) Implementation of EE measures in about 25 public buildings (MED/ KAEE); 2) Implementation of EE measures in households in 1200 homes, and in 10 multi-storey buildings and installing meters for measuring heat consumption and thermostatic valves for about 4500 households in Prishtina (MFK); 3) Grants allocation for Efficiency Measures for Women's Businesses (MFK); 4) Establishment of the Board of directors and adoption of both IR packages for the EE fund. 5) Implementation of investment plan for strengthening, network expansion and medium voltage projects to reduce technical and commercial losses (KESCO).

c. Planned activities for 2021: 1) Implementation of EE measures in households in 1200 homes, and in 10 multi-storey buildings and installing meters for measuring heat consumption and thermostatic valves for about 4500 households in Prishtina (MFK); 2) Grants allocation for Efficiency Measures for Women's Businesses (MFK) 3) Implementation of investment plan for strengthening, network expansion and medium voltage projects to reduce technical and commercial losses (KESCO).

Expected impact on competitiveness: The Implementation of EE measures will contribute both the reduction of consumption and cost of electricity, contributes positively in employment increase and orientation of electricity towards economic development, will boost private sector investment. Furthermore, the enhancement of energy security and efficiency may have a positive impact on the increase of investments, thus on improving the market competitiveness. Finally, the reduction of technical losses will help reduce the total cost of energy.

Key Performance Indicators:

- a) The energy intensity of GDP was 0.048 Toe in 2015, while the 2021 target is 0.043 Toe.
- b) The energy consumption per employee was 8.12 toe/employee in 2016 and the target for 2021 is 7.93 toe/employee.
- c) Realized technical and commercial losses have declined from 24.5% in 2016 to 24.0% in 2017, whereas the target for 2021 is to diminish these losses further to 18.9%.

Estimated cost of activities and source of funding: The total cost of implementing this measure from the Kosovo budget, loans, IPA funds and grants is expected to be around 68,931,475.00 € for 2019-2021. Of this total amount of 6,900,000.00 €, annual allocation from Kosovo Budget is as follows: 2, 900, 0000.00 € for 2019, 2,000,000.00 € for 2020 and 2,000,000.00 for 2021. IPA funds are 10,000,000.00 for 2020. Project loans are 11,550,000 € for 2019, € 9,950,000 for 2020 and € 3,000,000 for 2021. Funds from MCC will be € 7,227,151 for 2019, € 10,238,182 for 2020 and € 10,066,142 for the year 2021.

Expected impact on employment and gender: The implementation of EE projects creates opportunities for job creation through manufacturing and construction enterprises. Based on the World Bank project indicators for 2018, the implementation of EE measures in 32 buildings is expected to result in 7494 beneficiaries as building users, where at least 33% of them are women. Furthermore, the activity “Grant allocation for efficiency measures for women's business” would contribute to the employment of women, increase of women’s participation in the labour market, reduction of poverty and women empowerment in general.

Potential risks: Delays in establishing the financial mechanism represent lack of incentives for investors and for development and implementation of EE programs/projects, resulting in failure to achieve planned savings targets. Stalling of transposition of the new European Union EED directive into EE law and other energy laws may also affect investments. Under the efficiency measures for women's businesses there may also be limited opportunities for participation and co-financing as well as inadequate organizational capacities by key stakeholders (households, associations of condominium owners, municipalities, the private sector, etc.).

2: Further development of energy generation capacities

Description of the measure: The main objectives of this measure are: The development of new energy generation capacities and the improvement of energy security. This measure is in line with the country's strategic priorities expressed through the NDS and the Energy strategy. With regards to new capacities, six (6) hydro power plants with a total capacity of 31.31 MW have been installed, whereas in terms of solar energy, two (2) generators with photovoltaic panels are operating at a total capacity of 0.6 MW. In 2018-2020, the extra total photovoltaic generation will be 6.6MW, 3MW and 0.4 MW respectively. In terms of the other energy sources, wind, one (1) wind turbine is operating with a capacity 1.35 MW and one (1) other wind generator from 32.4 MW is expected to be installed by the end of year. In November 2017, the 5-year plan of capital investments was submitted to ERO for review and approval, based on which the technical and commercial losses reduction curve has been designed. In order to address the problem of long-term security of energy supply, the Energy Strategy 2017-

2026, envisaged a capacity of 1436 MW in 2025 out of which 450 MW are from renewable sources. With this production capacity it is foreseen to produce about 7703 GWh of electricity a year out of which 934 GWh or 12.1% comes from Renewable Sources. This will cover local energy needs, while one part will be exported to the regional market and beyond, mainly in the summer season.

a. Planned activities for 2019; 1) Commencement of construction of TPP Kosova e Re (MED); 2) Implementation of fourteen new projects of small HPPs with total installed capacity of 61.8 MW (MED); 3) Implementation of two new wind energy projects with a total installed capacity of 32.4 MW (MED); 4) Implementation of two solar Energy projects with total capacity of 3MW and 0.4MW total.

b. Planned activities for 2020: 1) Continuation of physical construction of the TPP Kosova e Re (MED); 2) Implementation of fourteen new projects from small HPPs with total installed capacity of 37.86 MW, (MED); 3) Implementation of three new wind energy projects with total installed capacity of 105 MW, (MED); 4) Drafting of the National Energy and Climate Plan (MED).

c. Planned activities for 2021: 1) Continuation of physical construction of the TPP Kosova e Re.

Expected impact on competitiveness: Uninterrupted, qualitative, reliable, and cost-effective electricity supply is one of the key conditions for sustainable business development and increased business competitiveness. The implementation of this measure increases the security of electricity supply as a condition for increasing competitiveness.

Key Performance Indicators:

a) The percentage of energy generated from RES was 18.8% in 2016, whereas the target for 2021 is that the energy generated from such sources amounts to 25%.

b) The level of CO₂ emissions was 6.68 tons in 2016 and the target for 2021 is to cut the level of these emissions to 6.00 tons.

c) The capacity of production from RES in 2016 was estimated to be 27 GWh, while in 2018 this rose to 349 GWh. The target for 2021 is to further increase this capacity to 420 GWh.

Estimated cost of activities and source of funding: The total cost for implementing this measure from the Kosovo budget is expected to be around € 6,000,000 for 2019-2021. Out of this amount € 2,000,000 are for 2019, € 2,000,000 for 2020 and € 2,000,000.00 for the year 2021.

Expected impact on employment and gender: TPP Kosova e Re project is estimated to have an effect on social issues and on employment over the 5-year construction period (2018-2022). The project is expected to contribute with EUR 200 million per year in GDP growth (or 3% GDP value added only by this project). Further, the development of RES projects will have effects on increasing employment and annual investments by EUR 70 million.

Potential risks: Investments on development of electricity generation capacities are foreseen to be made by private investors. Recurrence of an economic crisis may pose a risk to investments in these projects and consequently make private investors reduce planned

investments. Another risk is the obtaining of private investments, since the World Bank withdrew from the original proposal.

4.3.2. SECTOR DEVELOPMENTS (AGRICULTURE, INDUSTRY AND SERVICES)

a. Analysis of the main obstacles

State of play: The share of **agriculture sector** in GDP marked a decline but remains significant with 10.8 % of GDP in 2017. From the 2014 agriculture census, it is estimated that 86,620 people are employed in agriculture full time, of which 50% are family members engaged in the farm, consequently in 2017 there was an increase of 4.2% as compared to 2016. A higher turnover was marked in the food processing within the agriculture business activities or agro-industry in 2017, with a turnover amounting to 227.4 million €. From other branches of agro-industry, the production of beverages had a turnover of 95.7 million €, followed by animal and crop production, hunting and related services, which had a turnover of 48.mil €. An approximate turnover was marked by wood and wood products industry, with an annual turnover of 35.1 million €. During 2008-2016, the lowest share of export (1-24) in the total export (1-98) was in 2011 with 8.2%, while a higher share was achieved in 2017 (16.2%). In the trade exchange of agricultural products, it is noted that there is a slight trend of export increase for the years 2008-2017. The largest increase in the export value of agricultural products was in 2017 (61.3 mil €), which represents an export increase of 35.5% more than in 2016. It is worth mentioning that the amount of export in EU countries for 2017 was over 18.3 million €, which compared to the previous year is 53.4% higher.

As in the other countries, the development of agro-industry was given special attention through development Program Policies, considering it as a job-generating sector, on which the wellbeing of a great number of people depends directly or indirectly. Investing in the development of agro-industry does not only increase the income of farmers, but also creates new employment opportunities in rural areas. Based on the KAS data, it can be seen that, starting from 2012 to 2014, the average share of agricultural activities recorded in the business register against other activities was 7.6%. Starting from 2015, there is an increase of 9.6%, followed by an increase of 10.4% in 2016, while in 2017 this share was 8.9%. Regarding the increase in the number of activities in agriculture, the most rapid growth was marked in 2015, with 945 agricultural activities or 40.2% more than in 2014, continuing with increase in 2016 to 1,090 activities, or 15.3% more than in 2015. While in 2017 there were 268 less businesses compared to 2016 or a decline of 24.6%. Based on the data from KAS, agro-businesses marked an increase from year to year. From 2011-2016, the total average turnover for these years was 307 mil. €, continuing with an increase of 19.9% in 2017 compared with the average of six years (2011-2016).

The share of industry sector in GDP is comparable to some of the regional countries. The relative size of economic activities is measured by GDP data, where for 2017 real GDP growth in Kosovo compared to 2016 was 4.23%. In addition to other economic activities in GDP, in this real growth, the construction sector accounts for 8.6%, extractive industry 3.1% and processing industry 3.0%. The private sector still has a low level of development and continues to be characterized by lack of knowledge and innovation, insufficient knowledge of financial reporting, lack of product quality, access to information, proper networking, followed by low

capacity in terms of the quantity of production and labour able to cope with the relatively large demand. These weaknesses result in low incomes and result that Kosovo products are not competitive on international markets.

As far as the services sector is concerned, it is important to note that service activities are the main pillar of Kosovo's private sector. Service activities create 87.3 percent of total enterprise turnover in the economy and represent 88.8 percent of total spending. Trade in services for the period January-September 2018 totalled 1652 million Euros. Of this amount, the total export amounted to Euro 1178.2 million, while the import amounted to Euro 473.8 million. This shows a positive trade balance of 704.4 million Euros. If we compare it to the same period January to September 2017, we see that the export of services was 1129.1 million euro, while the imports resulted 410.3 and 718.8 million euros in the international trading of services.

The main sectors that contributed to a positive trade balance for the period January-September 2018 are: Travel (tourism) with a balance of 769.7 million Euros, followed by government services with 14.8 million Euros, construction services with 11.2 million Euros. Travel and tourism services are mainly attributed to Kosovo's diaspora and foreign nationals working in Kosovo. It is estimated that the growth in tourist business activity over the last two years was about 25%, while the growth expectations in the coming 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.

Kosovo is at a moderate level of tourism development as a sector, one of the largest in the job creation industry compared to other sectors. The largest number of tourists in Kosovo is during the summer. International visitors have increased in number throughout the year with the largest increase from 2015 to 2017, and overnight stays have increased almost year-round, about 13% year-on-year. By 24,616 visitors in 2008 to 86,032 visitors in 2017.

Structural obstacles: *The main structural obstacles hindering the development of agricultural sector* remain unchanged and they are related to the small average farm size, land fragmentation, irrigation infrastructure, storage capacities, land market non-functioning and inefficiency, weak and non-functional links between primary producers and processors and between producers and market and lack of specialisation. Regarding food safety and compliance with quality standards the level of implementation of both domestic and EU standards remains low.

Main obstacles to the overall development of the industry sector are related to the low level of FDI and the challenges associated with the emergence of industrial clusters. In particular, poor cooperation between companies and educational and research institutions and lack of innovation is involved. As a result of these constraints and enterprise structure, industrial production is dominated by low value production, lack of innovation, and lack of competitiveness in foreign and domestic markets.

Despite the positive developments of recent years, the tourism products and services available are still limited. The key obstacles in this sector remain the lack of an adequate legal framework and proper institutional coordination, with little information about tourist sites, beauties and available products and services. There is no development of potential tourist products in the community and 'tour' operators in rural and mountainous areas that can be offered for sale. As

a result, the current level of development of the tourism sector remains far from its potential with incomes and employment opportunities that remain untapped.

3. Structural changes in agro-processing sector

Description of the measure: The development of the agro-rural sector continues to be one of the key priorities and it is planned to have special treatment in the upcoming midterm period 2019-2021. In this regard, the measure will focus on the role and importance of financial offer for the measures of rural development to support of production growth, decrease of the import of agricultural products and at the same time increase of employment. These measures will aim at supporting investment projects in restructuring the farm's physical potential as well as direct support for agricultural production.

a. Planned activities for 2019: 1) Development of Agriculture Rural Development Programme 2021 – 2027; 2) Development of master plan for irrigation of agricultural land at country level 3) Improvement of irrigation infrastructure, 1200 ha of agricultural areas under irrigation; 4) Provision of services for the education and training of 4000 farmers; 5) Implementation of the program for direct payments for raising the areas in the grain sector, horticulture sector and homeland, supporting 29,200 farmers, 60,000 ha of land, 16,500 heads and 11,000 hives; 6) Implementation of the program for investments in physical assets of agricultural economies and investments in physical assets in the processing and marketing of agricultural products by supporting 557 projects; 7) Investment on the construction of the storage with large capacities for storage, selection and packing of fruits and vegetables in the region of Mitrovica; 8) Investment on establishing the factory for processing organic waste in the region of Gjilan, and investment on establishing a factory for boiler production in the region of Peja.

b. Planned activities for 2020: 1) Adoption of ARDP 2021 – 2027; 2) Implementation of the program for direct payments for raising the areas in the grain sector, horticulture sector and homeland, supporting 30.000 farmers, 65,000 ha of land, 17.000 heads and 11,000 hives; 3) Implementation of the program for investments in physical assets of agricultural economies and investments in physical assets in the processing and marketing of agricultural products by supporting 650 projects; 4) Investment on the construction of the storage with large capacities for storage, selection and packing of fruits and vegetables in the region of Mitrovica; 5) Investment on establishing the factory for processing organic waste in the region of Gjilan and investment on establishing a factory for boiler production in the region of Peja.

c. Planned activities for 2021: The main activities under this point will be related to the implementation of the measures arising from the ARDP 2021-2027 and aimed at achieving the objectives of this program. The measures to be implemented during this planning period will be in line with the new 2021-2027 program.

Expected impact on competitiveness: Implementation of these measures will improve the quality standards of fruit and vegetable production, improve farm infrastructure and equipment, in order to achieve sustainability and competitiveness for all sectors supported, such as fruits and vegetables and their products in the internal and external market. It will improve also hygiene and food standards in the dairy, meat, logistics and fruit and vegetable processing industries.

Key performance indicators:

- a) The percentage of extra value added/per year was 30.90% in 2016, 38.29% in 2018 and it is targeted to be 52.43% in 2021.
- b) The indicator on the number of new jobs was 1,047 in 2016, increasing to 1,579 in 2018 and it is targeted to be 2,400 in 2021.

Estimated cost of activities and source of financing: Implementation of these activities will be in the form of public-private partnerships, 60/40% co-financing grants, and some measures at 65/35%, in favour of the private sector. The total cost is expected to be around €154,765,562, from the Kosovo budget is expected to be around €145,915,559 for 2019-2021. Of this amount €44,772,690 for 2019; €49,526,669 for 2020 and €51,616,199 for 2021, while the cost from the WB loan is expected to be €8,850,003 for three years, of which €2,950,000 for 2019; 2,950,001 for 2020 and € 2,950,002 for 2021.

Expected impact on employment and gender: Implementation of this measure will have direct impact to employment, including employment of women – as shown in the indicator above.

Potential risks: The only challenge regarding this measure will be the increase of transparency, the lack of logistical capacity for control in the field and the obstacles in properly adapting the program to the needs of the sector.

4. Consolidation and inventory of agricultural land

Description of the measure: Consolidation and inventory of agricultural land is one of the main means to restructure agricultural land, which will have an impact on: solving legal ownership issues of the participants in the unfinished consolidation and registration of owners' property in the Immovable Property Rights Register (IPRR) in the Municipal Cadastral Office. Determining the quality and the classes of land, increasing the size of the farm, in order for the farmer to be competitive in the market, and with the completion and registration of owners in IPRR will be enabled the creation and development of the land market as a very important prerequisite in the free market economy.

a. Planned activities for 2019: 1) Development of Concept Document on Inventory of Agricultural Land; 2) Development of Concept Document on Regulation of Agricultural Land; 3) Voluntary consolidation of 25 ha of agricultural land in the Municipality of Rahovec; 4) Further regulation and protection from the unplanned change of destination of agricultural land by supporting municipalities in the preparation of municipal zoning maps in Peja, Drenas, Podujeva, Gjilan and Lipjan; 5) Development of national integrated system GIS – database.

b. Planned activities for 2020: 1) Voluntary consolidation of 25 ha of agricultural land in the Municipality of Rahovec; 2) Further regulation and protection from the unplanned change of destination of agricultural land by supporting municipalities in the preparation of municipal zoning maps in 5 other municipalities; 3) Development of GIS Web application; 4) Report on the classification of agricultural lands according to World Reference Base for Soil Resources (WRB) system, soil fertility, heavy metals, water quality, and determining areas prone to natural risks.

c. Planned activities for 2021: 1) Voluntary consolidation of 25 ha of agricultural land in the Municipality of Rahovec; 2) Further regulation and protection from the unplanned change of destination of agricultural land by supporting municipalities in the preparation of municipal zoning maps in 5 other municipalities; 3) Development of GIS Web application; 4) Report on the classification of agricultural lands according to World Reference Base for Soil Resources (WRB) system, soil fertility, heavy metals, water quality, and determining areas prone to natural risks.

Expected impact on competitiveness: Volunteer inventory and consolidation projects would have an impact on increasing farm size, property access, and property issue resolution. Consolidation projects would contribute to sustainable development of agricultural and rural areas. The implementation of the incomplete land consolidation projects would help to implement the Parcel Identification System project, the fair allocation of subsidies from the state budget to owners and users of these properties, better control of land properties and better monitoring of these subsidies.

Key Performance Indicators:

a. A total of 5277 ha of agricultural land was consolidated in 2015, while in 2021 the total of consolidated agricultural land is set to increase to 5302. In 2015, 8616 ha were registered in the immovable property rights register, whereas the target for 2021 is to reach 8641 ha.

Estimated cost of activities and source of funding: The total cost for implementing this measure is expected to be around € 3.802.668 for 2019-2021. Out of this amount € 1,402,668 are for 2019; € 1,200,000 for 2020 and € 1,200,000 for the year 2021. Of the Kosovo budget will be € 702,668 for 2019 and € 500,000 for 2020, 2021 and from GIZ will be € 700,000 for 2019, 2020 and 2021.

Expected impact on employment and gender: It will have positive impact to employment and gender, as it will increase capacities of farms and therefore greater investment potential.

Potential risks: Lack of cooperation and lack of expression of readiness by citizens for voluntary land consolidation. The main assumption on which voluntary land consolidation lies is the ability of the Ministry to provide free technical assistance and support related to the transaction cost as a powerful incentive to which farmers may react.

5. Increase of competitiveness in the manufacturing industry

Description of the measure: The measure continues from the previous programme and aims to improve the competitiveness of manufacturing industry sectors by placing a special emphasis on mechanisms that improve cooperation between SMEs, enhance networking with other regional and EU companies, improve public-private dialogue, and increase production quality in industrial production sectors in order to increase exports and replace imports. Sectors with greater industrial potential that will be supported through this measure are: metal processing, textile and leather processing, wood processing, construction materials and plastics and rubber sector. This measure is derived from the NDS, NPISAA and the Government Program 2017-2021.

a. Planned activities for 2019: 1) Analysis of data on development of Industrial Sectors; 2) Study of the value chain for one of the sectors with the greatest potential of industrial development; 3) Organization of at least 10 international fairs and ensure participation of 70

manufacturing companies with export potential; 4) 15 SMEs will be subsidised in product certification and counselling for increasing competitiveness and export; 5) Construction of the physical infrastructure of three economic zones, namely business parks (Suhareka, Viti and Vushtrri); 6) Organisation of 4 investment forums aimed at supporting and increasing investment and exports.

b. Planned activities for 2020: 1) Amendment of the law on Economic Zones; 2) Analysis of data on development of industrial sectors; 3) Study of the value chain for one sectors with the greatest potential of industrial development and the development of the database for selected sector; 4) Organization of at least 10 international fairs and ensure participation of 70 manufacturing companies with export potential; 5) 15 SMEs will be subsidised in product certification and counselling for increasing competitiveness and export; 6) Construction of the physical infrastructure of three economic zones, namely business parks (Suhareka, Viti and Vushtrri); 7) Organisation of 4 investment forums, aimed at supporting and increasing investments and export.

c. Planned activities for 2021: 1) Analysis of annual report on policy development in industrial sectors; 2) Study of the value chain for one sector with the greatest industrial potential and establishment of the database for selected sector; 3) Organization of at least 10 international fairs and ensure participation of 70 companies with export potential; 4) 15 SMEs will be subsidised in product certification and counselling for increasing competitiveness and export; 5) Organisation of 4 investment forums, aimed at supporting and increasing investments and export,

Expected impact on competitiveness: Implementation of this measure will have an impact on improving the production of industrial sectors and improving the dialogue between the public and private sector. This measure increases production quality in the industrial production sectors, which is also aimed at increasing exports and replacing imports. Policy development in the industrial sectors will have an impact on creating new opportunities and identifying areas for improving the business environment as well as networking enterprises in sectors with development potential through the value chain.

Key Performance Indicators:

- a) The share of the processing industry in general export was 55.23% in 2016, whereas the target for 2021 is to increase this share to 62%.
- b) The share of the manufacturing industry in total GDP, was 10.49% in 2016 and the objective is to surge to 12% in 2021.
- c) The trend of exports in the processing industry was negative for 6.70% in 2016, and has fluctuated to positive 18.45% in 2017. The foreseen target for 2021, is to have a 2% increase as compared to 2017.

Estimated cost of activities and source of funding: The total estimated cost of implementing this measure is expected to be around € 13,700,000 for the years 2019-2021 of which € 13.400.000 are allocated from the Kosovo budget and € 300.000 from donors. Of the total amount for 2019, € 5,300,000 are from BRK and € 100,000 from donors; for 2020, € 3,900,000 are from BRK and € 100,000 from donors; and for 2021, € 4,200,000 are from BRK and € 100,000 from donors.

Expected impact on employment and gender: Implementation of this measure is expected to create employment opportunities for about 450 people a year. Provision of consultations to increase competitiveness and exports as well as to establish start-up businesses within this measure will result in a significant number of female beneficiaries.

Potential risks: Some of the main risks regarding the implementation of this measure include: the lack of financial capital for businesses to increase the potential for development and integration, the lack of readiness of all relevant stakeholders to act on the same pace in order to increase the quality of their products for export. Lack of finance could be improved through the Kosovo Credit Guarantee Fund (KCGK) by providing easier access to finance for Kosovo companies that will contribute to the creation of jobs, economic growth and the growth of opportunities for under-served economic sectors and categories such as women, minorities, farmers, entrepreneurs and youth.

6. Enhancing competitiveness in the Tourism and Hospitality Sector

Description of the measure: The purpose of this measure is to promote development and competitiveness of the tourism sector in order to increase economic value of tourism, increase employment and improve the quality of services. The measure aims to increase the touristic offer by promoting tourism products, promoting development of products in order to penetrate the tourism market, cooperating with relevant stakeholders, applying tourism and hospitality standards, and improving the legal infrastructure according to European practices. The measure is a continuation from ERP 2018 and is directly linked to the Draft Private Sector Strategy and the Government Programme. Also the measure is related to subsidies for the development of rural tourism through the Agriculture and Rural Development Program and, in terms of promoting cultural heritage, it is also linked to the National Strategy for Cultural Heritage.

a. Planned activities for 2019: 1) Drafting of the Strategy on Tourism (MTI); 2) Drafting of the Law on Tourism (MTI); 3) Drafting of sub-legal acts deriving from the Law on Tourism (Administrative Instruction on Classification and Categorization of Hotel Facilities, Administrative Instruction on Licencing of Traveling Agencies and Administrative Instruction on Touristic Guides) (MTI); 4) Investment on the development of rural tourism and farm tourism 25-30 farms in traditional project of the rural and farm tourism (MAFRD); 5) Development and operationalization of the web portal for tourism of the Republic of Kosovo (MTI);

b. Planned activities for 2020: 1) Drafting of other sub-legal acts deriving from the Law on Tourism (Administrative Instruction on Setting Criteria for Tourist Areas, Administrative Instruction on Accommodation Tax); 2) Certifying Tourist guides (MTI); 3) Assessing potentials and group approaches (clusters) for the development of tourism in different regions and areas in Kosovo (MTI); 4) Investment on the development of rural tourism and farm tourism 25-30 farms in traditional project of the rural and farm tourism (MAFRD).

c. Planned activities for 2021: 1) Development of touristic products in cultural heritage areas (Lipjan, Gracanica, Prizren); 2) Digitalization of tourist destinations and their inclusion in the tourism web portal, 3) Investment on the development of rural tourism and farm tourism 25-30 farms in traditional project of the rural and farm tourism (MAFRD).

2. Expected impact on competitiveness: Increasing the quality of services and of the tourism offer directly influences the increase in the consumption of tourist services and participation in

tourist value chains, providing an opportunity to add more value to the local tourism industries and hence promoting employment and increase of wellbeing. This measure will affect the reduction of informality in the tourism sector and the promotion of competitive values in the region and the EU countries.

3. Key performance indicators:

- a) The number of employees in the tourism sector was 21.3 thousand in 2016 and has increased to 25 thousand in 2018. It is foreseen that in 2021, 32.025 thousand individuals will be employed in this sector.
- b) The number of total overnight stays in 2016 was 193,996 and reached 200 thousand in 2018. The target for 2021 is 290 thousand.
- c) The number of international arrivals in 2016 was 83,710 and increased to 92 thousand in 2018. The target for 2021 is 120.440.

Estimated cost of activities and source of funding: The total estimated cost for the implementation of this measure for the years 2019-2021 is expected to be about EUR 1.763.000 were EUR 582.000 for 2019, EUR 593.000 for 2020 and EUR 588.000 for 2021.

Expected impact on employment and gender: Tourism development will be expanded to rural and mountainous areas aimed at the increase of employment therein by increasing family businesses where women will have easy employment opportunities, especially in the field of culinary services and handicrafts. By the end of 2021, the number of employees in the field of tourism is expected to increase by about 35%. The participation of female employees in the field of tourism is intended to increase by about 20% by 2021 compared to 3,800 employees in 2017.

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 there is a lack of sufficient cooperation. The Tourism Council will address the challenges faced by stakeholders involved in this field, as well as will coordinate activities with potential donors and the government to provide professional training in the field of tourism.

4.3.3. BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY

a. Analysis of the main obstacles

State of play: According to the World Bank Doing Business Report, Kosovo is among the top 10 economies worldwide with the most notable improvements. This year Kosovo ranks the 44th out of 190 countries on the ease of doing business, the 13th on starting a business, 12th on borrowing, 51st on trading across borders, 100th on construction permits, 95th on protecting minor investors, 113th on access to electricity, 50th on enforcing contracts, 44th on paying taxes, 37th on registering property and 50th on resolving bankruptcy.

According to this report, it has strengthened the property rights regime, making it easier to obtain construction permits by simplifying the inspection system through an internal engineer. Kosovo is also taking measures to address large-scale informality in the immovable property sector as an impediment to securing a dynamic land market. Kosovo, in particular, is taking

measures to provide access to efficient and affordable administrative processes to obtain legal recognition of rights that are currently exercised *de facto*.

The report states that Kosovo has facilitated the payment of taxes by allowing taxpayers to claim the value added tax return through a standard form of value added tax return. It should be noted that, in addition to the progress in the above-mentioned indicators, it has regressed on several other important indicators such as: starting a business, protecting small investors, accessing electricity, enforcing contracts, registering property and resolving bankruptcy.

Insufficient efforts to further develop and promote the activities of private sector in Kosovo continue to create the need for greater partnership between the public and private sectors. This means that the policy and legislation making process is not adequately guided by detailed analysis of the potential economic costs and benefits; consequently, the need to assess possible impacts during the decision-making process is not identified. In other words, these impacts are not systematically analysed in the current framework for the preparation of government decisions, even though this is contrary to the rules for environmental impacts of infrastructure projects regarding which Kosovo has established a regulatory framework.

From another aspect, the informality and lack of financial transparency regarding individual earnings and business income, 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.

As several studies and assessment in the area of informal economy and tax gaps have shown the extent of informal economy in Kosovo is above 30% of GDP with substantial losses for major direct and indirect taxes. Estimations of tax gap until 2014 show that the respective tax gaps for these major taxes go between 30-40%.

The presence of such a large extent of informal economy is harmful to the economic governance as it undermines the fair competition and employee generation in different vital sectors of Kosovo's economy such as construction, services in general and especially Wholesale and Retail, Accommodation, Restaurants and Transports that employ a large part of Kosovo's active working force given the high level of employment (30%).

Structural obstacles: Business environment has improved but significant 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; large scale informality in the immovable property sector translates into a discrepancy between official cadastral records and *de facto* possession, thereby contributing to tenure insecurity and weak land market.

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.

b. Reform measures

7. Adoption of evidence-based policies and addressing administrative burdens

Description of the measure: In light of substantial reforms to simplify legislation and establish a regulatory impact assessment system, this measure aims to improve evidence-based policy development and legislation drafting, and ensure a proper consultation process. In this regard, the current system of Concept Documents for the drafting of policy and legislative proposals that will eventually be replaced by an impact assessment system will be strengthened. This measure is in line with the NDS and the amended Strategy for Better Regulation.

a. Planned activities for 2019: 1) Approval of Concept Document on Administrative Burden (OPM); 2) Initiation of the administrative burden reduction programme as per the defined target with the concept document and initiation of the process for simplification, merging and repealing of licences and permits (OPM); 3) Continuing the staff training on application of guidelines and analytical tools for ex-ante policy assessment (12 training will be organized in total) (OPM); 4) Capacity Development for Standard Cost Model - Provision of training for SCM by certified trainers (total of 6 training activities by the end of 2019) (OPM);

b. Planned activities for 2020: 1) Continuation of the process of simplification, merging or repealing 10% of licenses and permits compared to 2018 (456 licenses and permits) by the end of 2020 (OPM); 2) Further staff training on application of guidelines and analytical tools for ex-ante evaluation of policies (in total, 12 training activities will be organized (OPM); 3) Provision of training for SCM by certified trainers (6 training sessions by the end of 2020 (OPM);

c. Planned activities for 2021: 1) Implementation of the administrative burden reduction programme in line with targets set out in the concept document (OPM); 2) Assessing the use of SCM measurements in the Concept Documents approved for the given year, including Obligatory Information for Businesses (OPM); 3) Further staff training on application of guidelines and analytical tools for ex-ante evaluation of policies (in total, 12 training activities) (OPM);

Expected impact in competitiveness: The quality of policies and legislation will improve and the unnecessary obstacles will be removed. Introduction of the standard cost model will foster the understanding of the impact of legislation on businesses and citizens. The SME test will make policymakers and decision-makers aware of the specific needs of businesses, and in particular micro-enterprises that are dominant in Kosovo's economic structure. The regulatory competitiveness check will contribute to a more competitive business environment and an improved business and regulation profile in Kosovo compared to other countries in the region.

Key performance indicators:

- a) The target for simplification, merging and repealing of licenses and permits is 10% in 2021, from a baseline of 456 licenses and permits.

Estimated cost of activities and source of funding: The cost for implementing activities is expected to have a budgetary impact of €500,600 for 2019-2020. In 2019 this cost will be in the amount of €136,000 and in 2020 €64,000. These funds have been planned in the 2019 budget, and projections for 2020. The cost of implementing the activities is covered in the form of grants provided as budget support by development partners to the OPM, and in the form of expertise support amounting to €300,000 for the period 2019-2021.

5. Expected impact on employment and gender: Improving the business environment will contribute to economic growth by encouraging new businesses and to formalization of business

activities. In addition, the introduction of additional policy analysis tools focused on increasing competitiveness is accompanied by the integration of gender impact assessment into the policy development process. This will contribute to a policy and regulatory framework that is gender-oriented and compliant with Kosovo's gender equality agenda.

6. Potential risks: We consider that the risk level is low based on the fact that the necessary financial conditions and the policy framework have been created and the increase of the relevant staff in the OPM will contribute the implementation of these activities. Inter-institutional coordination remains to be improved.

8. Securing rights to property by addressing informality in the immovable property sector

Description of the measure: As a continuation of the reforms set out in PRE 2016-2018 to strengthen the property rights system, this measure focuses on addressing the wide informality in the property rights sector by regulating Kosovo's legislation on property rights. The measure is based on the NDS and the National Property Rights Strategy. At the end of the implementation of these measures, strategic efforts should be directed at issuing subordinate and administrative acts.

a. Planned activities for 2019: 1) Drafting secondary legislation and other administrative measures arising from the Law on Non-Contested Procedure, Law on Notary and Law on Inheritance - addressing discrepancies between legal acts; dual jurisdiction of courts and notaries to process claims of unquestioned inheritance; providing affordable notarial and reasonable taxes; and the establishment of protective measures for the protection of women's property rights (MoJ); 2) Establishment and the full functionalization of the Division for the Supervision of Free Professions (MoJ); 3) Drafting secondary legislation arising from Law on Kosovo Property Comparison and Verification Agency (KPCVA, OPM); 4) Transformation of the Official Gazette into a unified electronic platform for notification of parties to legal property proceedings, including inheritance procedures and procedures of the KPCVA; 5) Integration of Municipal Cadastral Offices into Kosovo Cadastral Agency and simplification of registration procedures based on the integrated law on cadastre, including the Law on Cadastre and the Law on Establishment of a Property Register (MESP); 6) Drafting of secondary legislation for implementation of the Law on Treatment of Illegal Constructions, with the purpose of completing the legalization process. (MESP); 7) Abolition of municipal taxes on the transfer of ownership and application of the fees foreseen by AI 08/2014 for Immovable Property Registration Services fees by the Municipal Cadastral Offices (MESP).

b. Planned activities for 2020: 1) Reporting on the implementation of the KPCVA Law regarding the establishment of requests for legal recognition of non-formal property rights by the Property Claims Commission of KPCVA (OPM, KPCVA); 2) Comparison and verification of Kosovo cadastral data with those displaced in Serbia during the war (KPCVA).

c. Planned activities for 2021: 1) Evaluation of the mandate of KPCVA to address informality deriving from informal contracts (OPM); 2) Continuation of comparison and verification of Kosovo cadastral data with those displaced in Serbia, if the process starts in 2020 (KPCVA).

The expected impact on competitiveness: Creating an effective property rights system creates legal certainty for investors and consequently increases investment opportunities, which

creates more opportunities for citizens to use property as collateral and therefore improves access to finance. Strengthening property rights also improves the business environment indicators, including property registration and administration, as well as property dispute resolution.

Key Performance Indicators:

- a) The indicator on the increase of requests in notarial office for settlement of old inheritance, in 2019 this is expected to increase in 20% and the target for 2021 is 50%.
- b) By 2021, 3000 requests for formalization of informal transactions per year by the KPCVA will be completed.
- c) By 2021 30% of obsolete cadastral data related to ownership in the Kosovo Cadastral Agency's geoportal, contributing to symmetric information about a dynamic and fair market of immovable property.

Estimated cost of activities and source of funding: The total cost of implementing this measure is € 972,000, with 84,500 € covered by the Kosovo Budget, and the rest 845.500 € covered by development partners (USAID and EC). The breakdown according to the planned years is 486.650.00 € for 2019 and 193.115.00 € for 2020 and 250.235 € for 2021.

The expected impact on employment and gender: Empowerment of property rights contributes to the reduction of gender inequality. For women and girls, widespread informality in the property sector when a property is exchanged outside the formal system excludes those possessions or inheritances on which they have legitimate rights. Owning property, women are economically independent by using the property as collateral for obtaining bank loans for starting a new business that creates new jobs or receiving subsidies for the effective exploitation of agricultural land.

Potential risks: There is consensus in the political spectrum on the strengthening of property rights as a prerequisite for sustainable economic development. The adoption of the legislation resulting from this measure depends on the dynamics and agenda of the Assembly of Kosovo.

9. Increase the efficiency of the judiciary in resolving cases

Description of the measure: This measure aims to improve the efficiency of the judiciary in addressing economic disputes by reducing the number of backlog cases through implementation of case management information system (CMIS). The focus on improving the efficiency of judiciary should be to reduce the number of cases through incentives and faster court settlements, temporary increase of staff for case resolution and strengthening capacities of the Administrative Department (Fiscal Division of the Basic Court in Pristina) including areas of taxation and customs. This measure is a continuation of ERP 2019-2021 and is based on NDS and ERA.

a. Planned activities for 2019: 1) Engagement of 14 professional associates by USAID; 2) Continuing the recruitment of professional associates in basic courts (KJC); 3) Functionalization of CMIS in Prishtina region including the Court of Appeal and the Supreme Court (KJC); 4) Recruiting of 12 trainers in CMIS project for Prishtina region (KJC);

b. Planned activities for 2020: 1) Judges appointed in 2018, following the completion of initial training, will begin resolving cases, which will have a direct impact on the backlog of cases (KJC); 2) Functionalization of CMIS in Prishtina region in the civil area (KJC); 3) Further

advancement of CMIS (KJC); 4) Continuing training and support for CMIS system users (CMIS project).

c. Planned activities for 2021: 1) Functionalization of CMIS in Prishtina region in the civil area (KJC); 2) Further advancement of CMIS (KJC); 3) Continuing training and support for CMIS system users; 4) Advancing statistical reports with detailed data in order to increase the efficiency and performance of the courts (KJC); 5) Interoperability of CMIS with the police system (KJC).

Expected impact on competitiveness: Time-saving from reducing the time and cost of deciding on cases is great. According to the analysis, the value of one saved day is EUR 8.1 defined as the marginal cost of judgments/arbitration divided by marginal time-saving. Using this parameter, the quick disposition of one case saves EUR 2.5 thousand and when this is multiplied by the total number of incoming cases, the total value of savings for the society is EUR 140 million. Another impact consists of increasing the investors' trust in the justice system and increasing investments.

Key performance indicators:

- a) Case backlog reduction was 7% in 2018 and by 2021 the target is that the reduction of backlog increases to 30%.
- b) The indicator measuring the full functionalization of CMIS was 24% in 2018 and is planned to further increase in 2019 to 70% with a target of achieving 100% in 2021.

Estimated cost of activities and sources of funding: Implementation cost for this measure is expected to be €3,556,184 for the period 2019 - 2021 with 2,056,184€ covered by the Kosovo Budget. The breakdown according to the planned years is: 2019 - 618,728€; 2020 - 618,728€; and 2021 818,728 €. The rest 1,500,000€ covered by grants: 750.000€ for 2019 and 750,000€ for 2020.

Expected impact on employment and gender: Reducing the time for resolving cases and increasing court efficiency and legal security will be beneficial for anyone seeking justice in the courts especially businesses.

Potential risks: The main risks are related to the will of various actors within the judicial system and expectations for implementation of the reforms.

10. General Inspection Reform

Description of the measure: The measure aims at reforming the inspection with the purpose of achieving two objectives: Reducing the types of inspections bodies to 16 or 18 to address lack of inter-institutional coordination between the central and local government, including double inspection bodies, and secondly aims to improve efficiency by digitalizing the process, increasing the inspection approach. Therefore, a more effective control will also reduce informality by supporting qualitative and regulated business and production. This measure is consistent with the NDS and ERA.

a. Planned activities for 2019: 1) Approving the new Law on Inspections (MTI); 2) Amending horizontal legislation, including the secondary legislation where necessary to implement new law on inspections (MTI/OPM); 3) Establishing the Central Inspections Office to coordinate inspections and adjusting the existing organizational structure (MTI/OPM);

b. Planned activities for 2020: 1) Amending the horizontal legislation by enabling and regulating the inspections reform (MTI/OPM); 2) Building human capacities, which implies training of inspectors and other relevant officials, preparing them for full implementation of the new concept of inspections (MTI/OPM); 3) Development and implementation of the electronic platform ‘E-Inspector’ and equipping inspectors of bodies with specialized electronic equipment which enables inspectors to connect with each other and share information/reports in real time (MTI/OPM).

c. Planned activities for 2021: 1) Building human capacities, which implies training of inspectors and other relevant officials preparing for full implementation of the new concept of inspections (MTI); 2) Development and implementation of the electronic platform ‘E-Inspector’ and equipping inspectors of inspection bodies with specialized electronic equipment which enables inspectors to connect with each other and share information/reports in real time (MTI).

Expected impact on competitiveness: This measure aims at establishing a unified system which ensures sustainable cross-institutional cooperation, efficient supervision and full transparency of inspection authorities in exercising supervision and accountability activities while implementing their legal powers and responsibilities. This is expected to improve competitiveness by facilitating the environment of doing business and reducing the oversight burden of businesses.

Key performance indicators:

a) The number of addressed/handled consumers’ complaints has increased from 92 in 2017, to 144 in 2018. While for 2021 a target of 350 is set for this indicator.

Estimated cost of activities and source of funding: Total cost for implementation of this measure is €9.029.730 for years 2019-2021. From the Kosovo budget will be 141,000 €, respectively: 28,200 €, for 2019, 56,400 € for 2020 and 56,400 € for 2021. This includes also the WB loan in the amount of 8,888,730€, annually 2019 - 1,955,492€, 2020 - 2,933,238€ and 2021 - 4, 000.000€.

Expected impact on employment and gender: The proposed measure does not have a direct impact on employment, but it improves administrative effectiveness in terms of inspections and reduces the burden of review on businesses.

Potential risks: Strong structural change requires administrative capacities capable to apply new concepts. We may encounter lack of such capacity and lack of willingness.

11. Reduction of Informal Economy

Description of the measure: The objective of the measure is improvement of the quality of State of the law and Economic Governance in Kosovo as constrain to economic growth and formal employment generation. In addition the country Fiscal Policy is of vital importance for macroeconomic growth and employment policies; hence the reduction of informality and increase of fiscal revenues (23-24% of GDP) is crucial for increasing the quality of the state of the law in general. The measure is compatible with the draft strategy against informal economy 2019-2023. It is also in line with NDS and NPISAA.

a. Planned activities for 2019: 1) Economic and Regulatory Impact assessment of the most efficient and effective threshold for lowering actual 500 € /transaction for inter-business cash business transaction. 2) Economic and Regulatory Impact Assessment of introduction of obligatory electronic payment for i) all wages and salaries of employees in all sectors of activity ii) employment, unemployment and social/health security payment to all Kosovo's residents. 3) Amending necessary legal framework, approving and issuing secondary legislation for implementation of selected options under activities 1 and 2; 4) Improvement of business statistics through automatic link and update procedures in respective management information systems in order to reflect the real economic activity; 4) Economic and Regulatory Impact Assessment of providing access to Tax Administration in all financial transactions (banking sector) and real estate transactions.

b. Planned activities for 2020: 1) Ex post assessment of implementation of measures 1, 2 and 3 and calculation of effects in fiscal revenues, formal employment generation, tax gaps (both theoretical and compliance gap in line with methodologies of IMF and EU). 2) Drafting of necessary corrective measures, amendments and implementation. 3) Provision of Statistics and publication for the public at large.

c. Planned activities for 2021: 1) Continuation of ex-post 2 years basis of effects of implementation of all measures and reporting.

Expected impact on competitiveness: Reduction of informal economy is going to improve the business environment in general, fair competition and therefore enhance the quality of growth towards those sectors with competitive advantages, thus more opportunity to generate sustainable employment of its actual work force.

Key Performance Indicators:

a) There was no measurement for the Tax Gap Reduction in 2018, however in 2019 this indicator is expected to increase to 50%, while the target for 2021 is to reach 100%.

b) In 2018, there was no measurement for the reduction of informal economy. This is expected to change in 2019, and the reduction of informal economy is targeted to reach 100% in 2021

Estimated cost of activities and source of funding: The costs for 3 impact assessment for 2019 would be 150,000 € and it is calculated that each of those assessment will cost around 50.000 €. The rest of activities consist of administrative costs that are absorbed from national budget during the normal course of activity. For 2020 and 2021 there would be no additional costs as the methodologies developed in 1st year (2019) would be only implemented.

Expected impact on employment and gender: The main impact in employment would be on improvement of formal employment levels in sectors with the highest level of informality.

Potential risks: There is no other risk besides the political will and determination of national authorities to follow with this agenda of reforms. As the commitment of authorities has been expressed in main national policy documents the risk remains low to moderate. It would be monitored and mitigated through continuous policy dialogue at the highest levels of political decision making.

4.3.4. RESEARCH AND DEVELOPMENT, INNOVATION AND DIGITAL ECONOMY

a. Analysis of the main obstacles

State of play: Kosovo's RDI system is one of the most underdeveloped in the region. It was ranked as penultimate in the 2016 OECD Report and achieved poor results in all four policy areas: RDI policy governance; research base; private sector RDI activities; and business-academia collaboration. The Government has approved the Law on Innovation and Transfer of Knowledge and Technology. According to the Law No. 04/L-135 on Scientific-Research Activities, Kosovo should allocate 0.7% or EUR 14 million annually for science and innovation, although there is an increase of funds (2019 annual allocation for this category are €1,600,000) remains very low.. There is no statistical data on private (business) spending on R&D. However, SMEs aimed at developing innovative products or activities have not expressed any interest in absorbing aid through 'vouchers' and other institutional support.

Kosovo has four research-scientific institutions involved as partners in Horizon 2020 projects. Kosovo's position within this framework program does not allow institutions to be a bearer and this reduces the possibility of benefiting from this program, even though Kosovo has already signed an agreement to participate in the EU programs. The projects developed so far in scientific research institutions have been focused on scientific work, while the commercialization of research-scientific activity has not shown any development. Establishment of the Ministry of Innovation and Entrepreneurship has marked an increase of funding for innovation activities. The MIE has begun drafting the Strategy on Innovation and Entrepreneurship. Better coordination between MEST and MIE is required in this area. Kosovo has been involved with the smart specialisation platform and it is expected to draft a Smart Specialisation Strategy.

Digital economy - Landline telecommunications networks are widespread in urban areas but not in all rural areas. Fixed line penetration reached 3.5% compared to EU average of 24%. Penetration of mobile telephony reaches about 103% of the population and it is estimated that 91% of the population are internet users through the 3G and 4G networks compared to 126% in EU; Penetration of internet through landline network is estimated to cover 90% of households compared to 87% in EU. Upon the entry into force (November 2012) of Law No. 04/L-109 on Electronic Communications, the licensing regime was removed and the general authorization regime for inclusion in electronic communications activities was established.

According to data reported to RAEPCC, investments in telecommunication infrastructure have declined steadily. During 2015, they were close to EUR 52 million or 0.9% of the total GDP, during 2016 they were about EUR 30 million or 0.5% of the total GDP, while in 2017 they were about EUR 27 million or 0.42% of the total GDP. The overall use of ICT in the industry is still limited and its competitive benefits are not properly understood by many firms, especially by MSMEs (Micro, Small and Medium Enterprises). In broadband connections, the focus should be on uncovered areas to improve Kosovo's position compared to the countries of the region (by the end of 2017, the broadband lines penetration rate at the country level was 15.13% of the population, mainly focused on cities).

At the level of ICT sector companies there is a need for a capacity building with a focus on applying standards for the provision of services related to new software and applications. It is

estimated that about 2000 employees are employed in the ICT sector, or less than 1% of the total number of employees compared to 3.7% in the EU level. Of the 571 businesses registered as having ICT as their primary activity, only about 120 of them are businesses providing ICT product services, while others are businesses that sell and repair hardware.

Structural obstacles: The main obstacle are: lack of a legal framework and policies to support R&D, fragmented activities and support; inadequate soft infrastructure (e.g. RDI experts/consultants) and strong infrastructure (e.g. labs, equipment); lack of public and private investment in RDI; failure to participate in the Horizon 2020 programs hampers enterprises from cooperation in the field of smart growth aimed at new industries. Also, the lack of cooperation between the private sector, the public sector and higher education institutions hampers the effective transfer of knowledge, resulting also in the loss of opportunity for economic development.

The lack of expansion of broadband internet infrastructure adversely affects the productivity and global competitiveness of companies and reduces opportunities for self-employment, remote work, digital learning, and digital trading. The distribution of ICT infrastructure in Kosovo is relatively unbalanced, resulting in a lack of access to broadband infrastructure. Research reports have shown that there are difficulties in finding new staff with the necessary skills in the ICT field.

b. Plans for priority reforms

12. Improvement of Innovation and Entrepreneurship environment

Description of the measure: This measure aims to establish a good legal basis in the field of scientific research and innovation and to increase funding of projects in the field of innovation and entrepreneurship. The Ministry of Innovation and Entrepreneurship (MIE), in the framework of this measure, aims to stimulate innovative ideas and activities in order to increase economic and institutional productivity, develop entrepreneurship and private initiative through innovation focused on business development (SMEs, start-ups) and at the same time promote close cooperation between the academy, the public sector and the private sector. This measure is related to the NDS, ERA, NPISAA and MTEF.

a. Planned activities for 2019: Drafting and adoption of the Law on Innovation and Entrepreneurship, including also sublegal acts: AI on the establishment and functionalization of Innovation Centres; AI on establishing the mechanism for implementation of the I&E Fund (MIE) 2) Adoption of the Strategy for Supporting Innovation and Entrepreneurship (MIE); 3) Continuation of direct financial support for innovative ideas, projects and activities to SMEs, start-ups and NGOs (MIE); 4) Functionalization of the already established centres and establishment and Regional I&E Centres in Gjakova, Peja, Mitrovica and Gjilan; 6) Commence with establishment of mechanism for implementing the I&E Fund (MIE); 7) Grants for scientific projects and short-term mobility of scientists, grants for Innovation Vouchers and PhD studies (MEST); 8) Drafting and approval of other sub-legal acts deriving from the Law on Innovation and Transfer of Knowledge (MEST); 9) Developing the Mapping of Infrastructure for Research, Innovation and Development (MEST);

b. Planned activities for 2020: 1) Continuation of direct financial support for innovative projects and activities to SMEs, start-ups and NGOs; 2) Functionalization of the Regional

Innovation and Entrepreneurship Centres: development of incubators and equipment of centres with laboratories and other necessary equipment; 3) Drafting of the secondary legal infrastructure; 4) Continuation of the functionalization of mechanism for implementing the I&E Fund; 5) Grants for scientific projects and short-term mobility of scientists, grants for Innovation Voucher and PhD studies.

c. Planned activities for 2021: 1) Continuation of direct financial support for innovative projects and activities to SMEs, start-ups and NGOs; 2) Drafting of the secondary legal infrastructure; 3) Grants for scientific projects and short-term mobility of scientists, grants for Innovation voucher and for PhD studies.

Expected impact on competitiveness: Implementation of the measure will increase the performance of existing enterprises and the opening of new businesses with a view to generating new jobs (with priority on women and the youth), increase competitiveness and potential of Kosovar businesses to export products and services. Stimulation and orientation of the youth for education and training in science, technology and vocational schools.

Key performance indicators:

a) A total of 200, SMEs, start-ups and NGOs, were supported in 2018. The target for 2021, for this indicator is to reach 220.

Estimated cost of activities and source of funding: The cost for implementing the activities for this measure are € 36,825,003 for years 2019-2021. From Kosovo budget will be 33,625,000 € in which 10,775,000 € for 2019, for 2020 will be 11,425,000 € and 2021 will be 11,425,000 €. Funds from IPA will be 2,000,000 € in which 1,000,000 € will be in 2020 and 1,000,000 € on 2021. Other grand's are 1,200,000 € in which 400,000 € are divided for 2019 - 2021.

Expected impact on employment and gender: Direct financial support through Innovation and Entrepreneurship Fund or Grant to SMEs and start-ups clarifies the Government's intention to increase employment (with priority on women and the youth). According to the criteria of the program for the implementation of the evaluation criteria for subsidies to projects and innovative ideas, the MIE scores with 10 more points the projects that are run by women and the youth. Also, the priority in education and training will be given to the advancement of women and youth.

Potential risks: The stagnation of inter-institutional cooperation; Stagnation of cooperation between the private sector, the public sector and the academia for implementing the innovative ideas and projects in enterprises; Reduction of the Innovation and Entrepreneurship Fund; Stability of start-ups and their transformation into stable businesses with potential for growth; Population of Regional Innovation and Entrepreneurship Centres; Lack of necessary expertise of academic staff on innovation, science, technology, digital economy for human capacity building.

13. Expansion of relevant ICT infrastructure networks and services for the socioeconomic development

Description of the measure: The measure is a continuation from the ERP 2018-2020 and aims at expanding access to and use of ICT through the expansion of broadband infrastructure in uncovered areas, strengthening human capital, supporting digital businesses, and digitizing other businesses. Kosovo Digital Economy Programme will be supported through external

funding (World Bank) for which a financing agreement has been signed. KODE will be implemented during 2019-2023. This measure is in line with the NDS, the Kosovo Digital Agenda 2013-2020 and the Kosovo IT Strategy. Regarding the digitalization of traditional businesses and for 2020 and 2021 is foreseen the Improvement of environment for e-commerce/e business and "Support to digitalisation of SMEs" which foresees assessment of ICT needs of SME's and will offer support to SMEs addressing the needs through specialized consultancy services.

a. Planned activities for 2019: 1) Expansion of broadband infrastructure in uncovered areas through the KODE program – Phase I; 2) Development of human resources on digital economy and support to digital businesses – delivery of trainings for at least 400 youngsters; 3) Functionalization of the technological park for the needs of ICT businesses. 4) Implementation of the project for the establishment of Creative Centres for Kosovo's High Schools.

b. Planned activities for 2020: 1) Expansion of broadband infrastructure in uncovered areas through the KODE program – Phase II; 2) Development of human resources on digital economy and support to digital businesses - delivery of trainings for at least 400 youngsters; 3) Digitalization of traditional businesses and the increase of the use of ICT technologies in the private sector – Phase I.

c. Planned activities for 2021: 1) Expansion of broadband infrastructure in uncovered areas through KODE program - Phase III; 2) Development of human resources on digital economy and support to digital businesses - delivery of trainings for at least 400 youngsters; 3) Digitalization of traditional businesses and increase of the use of ICT technologies in the private sector - phase II.

Expected impact on competitiveness: The WB study concludes that the increase in penetration of fixed broadband infrastructure by 10% will be followed by an increase of 1.21% of GDP in developed economies and 1.38% of GDP in developing economies. Creating appropriate conditions through the expansion of the relevant network infrastructure and the provision of broadband services will enable the improvement of access to international markets, development of new business models, allowing people and companies to work regardless of their location and with flexible schedules, and generally the acceleration of procedures and processes, thus enhancing economic dynamism and improving competitiveness, the labour market and business environment.

Key performance indicators:

a) The number of cadastral zones covered with fixed broadband infrastructure was 37 in 2018. This is expected to increase to 90 in 2019, while the target for 2021 is 190.

b) The number of public institutions with broadband internet access through the KODE Program was 43 in 2018. The target for 2021 is that this indicator reaches 155.

Estimated cost of activities and source of funding: The total cost of implementing this measure is expected to be around €23,386,087 for 2019-2021. Out of this total amount, €4,136,087 will be allocated from the Kosovo budget as follows: 2019- €856,087, 2020 - €1,640,000 and 2021 - €1,640,000. A number of activities will be supported through IPA 2017 funds, with €750,000 per year during 2019-2022. Activities related to the implementation of broadband infrastructure expansion in the uncovered areas will be financed through a WB loan

that is expected to be disbursed as follows: €2,000,000 in 2019, €6,000,000 in 2020, and €9,000,000 in 2021.

Expected impact on employment and gender: This measure will have a positive impact on employment by expanding the opportunities for digital work, with a particular focus on the youth, women and people with disabilities. As a direct result of the second component of the KODE Program, there are plans to create 400 new jobs in IT software businesses, and there are plans to deliver ICT training to 2000 persons who could potentially be considered as getting new jobs (employed or self-employed).

Potential risks: Possible risks to the implementation of planned activities can be considered eventual delays in the implementation of projects. Other potential risks are also limited absorption capacities among potential ICT workforce and businesses. As a mitigating activity, a detailed review, at the early stage of the activity's implementation, of potential ICT workforce and existing ICT businesses has been foreseen in relation to activity admission criteria by using the most efficient ICT tools for testing and assessment of potential candidates.

4.3.5. TRADE-RELATED REFORMS

a. Analysis of the main obstacles

State of play: 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. 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, etc. 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 Report 2019 Kosovo made exporting easier by streamlining customs clearance at the border.

In addition to the abovementioned, Kosova has signed the Joint Declaration of Cooperation with EFTA States in November 2018, which leads to an FTA with EFTA States during 2019.

Structural obstacles: In addition to the reduction in administrative costs, development 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 exports and increase the cost of imports, which affects both the majority of domestic 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.

b. Plans for priority reforms

14. Trade facilitation by increasing cost-effectiveness of international trade transactions

Description of the measure: This measure will address and reduce barriers to trade, especially through simplification and standardization of all formalities and procedures at borders, which are expected to reduce the cross-border costs and time. Kosovo has already taken obligations in the regional and global level, through CEFTA, SAA, WTO and WCO. Trade facilitation respectively addressing and reduction of barriers are elaborated in the Strategy for Development of Private Sector 2017-2021, NDS; Government Programme and NPISAA

a. Planned activities for 2019: 1) Amending/supplementing, harmonizing the Custom and Excise Code (CEC) and AI of CEC, other laws applicable for Customs, activities and strategies; (MoF/Customs); 2) Licencing of Authorised Economic Operators (AEO) (Customs); 3) Drafting and finalizing the feasibility of National Single Window (MTI-Customs-ISA); 4) Development and approval of the new Law on Internal Trade (MTI); 5) Negotiating agreement with EFTA States (MTI); 6) Adhere in PEM Convention (MTI-MFA); 7) Establishing the platform to adhere in WTO (MTI); 8) Rationalization of the list of fees and charges and Licences related to import and export (MTI); 9) Conduct of the Time Release Study (Customs).

b. Planned activities for 2020: 1) Finalise exchange of information through SEED+ from border agencies at national level (Customs); 2) Preparation for the platform of NCTS project (Customs - MoF); 3) Development and approval of the new Law on External Trade (MTI); 4) Development of the new document on Trade Policies (MTI); 5) Ratification by the Kosovo Assembly of agreement with EFTA States (MTI); 6) Examination of the process for initiating negotiations for a membership in WTO (MTI); 7) Rationalization of the list of fees and charges and Licences related to import and export (MTI); 8) Establishing the platform for Single Window (Customs).

c. Planned activities for 2021: 1) Finalise the exchange of information at regional level SEED+ of CEFTA countries (Customs); 2) Start of the implementation of NCTS (Customs-MoF); 3) Start of negotiations for a membership in WTO (MTI);

Expected impact on competitiveness: Estimates show that trade facilitation can reduce trade costs by an average of 14.3% and increase the global trade up to USD 1 trillion per year, with greater benefit for poor countries. International 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%. According to OECD, trade facilitation is related to easier, cost-efficient, quicker and more effective transactions, thus facilitating trade flows.

3. Key performance indicators:

- a) Time of customs clearance in imports and exports: the first will be improved from a baseline of 2.44 hours in 2016, decreasing further in 2018 to 2.22 hours. For 2021 a further decline is planned, with a target of 2 hours for import clearance; the second will be improved from 1.39 hours in 2016 and 1.30 hours in 2018. This is planned to decrease to 1.10 hours in 2021.
- b) The indicator on the reduction of fees and charges and licenses for imports/exports shows that in 2018 the former is €352 and the latter 63. The target for 2021 for fees and charges is to decline further to €320, while for licenses is to diminish to 50.
- c) The number of authorisation for AEO is 0 for 2018, while the target for 2021 is 9.

Estimated cost of the activities and source of funding: The total cost for the next three years will be EUR 342,000. divided for the next three years with €114,000 per year. Of these, €30,000 will be funded from the central budget, €60,000 from IPA and €24,000.00 from other grants.

Expected impact on employment and gender: So far local institutions and business associations have not conducted any research that would illustrate the impact of trade facilitation on employment but based on international research, measures undertaken in the area of trade facilitation can result on global benefits with up to 21 million new jobs, with more than 18 million new jobs for developing countries and up to 3 million new jobs in developed countries.

Potential risks: Risks related to the implementation of the measure and activities include lack of regional cooperation; lack of cooperation between respective ministries and border agencies; delays on approving and implementing the legislation; delays on implementing projects, risks related to different obstacles regarding regional representation and membership in international organizations related to trade and trade related issues.

15. Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products

Description of the measure: Further development of quality infrastructure (Standardization, Accreditation, Metrology, Conformity Assessment - Technical Regulation and Market Inspectorate) by aligning national legislation with the EU acquis and its implementation, as a basis for strengthening and coordinating the inter-institutional system with businesses and other stakeholders, as well as membership of Quality Infrastructure pillars in European and international organizations. The overall objective for further development of the Quality Infrastructure and Market Surveillance is further approximation and implementation of EU legislation in order to: increase the safety and quality of construction products, services provided in the domestic market as well as integration in the EU and other markets; eliminating technical barriers to trade and effective market surveillance by competent authorities. The construction sector is one of the biggest contributors to Kosovo's GDP (7.06% in 2017)³⁶ and the contribution of this sector has shown a steady growth over the years. Therefore it is crucial

³⁶ Data are from the Statistical Agency of Kosovo 2017

that the construction products that are traded and incorporated in construction's works should be safe and qualitative.

a. Planned activities for 2019: 1) Drafting of the Administrative Instruction for the System of Performance Assessment and Verification of Constancy of Performance (AVCP) of construction products; 2) Establishing of the Contact Point for construction products; 3) recruitment of 4 officials for metrological supervision; 4) Designation and accreditation of certification bodies and testing labs for the area of construction products); 5) capacity building for supervision of construction products (3 training modules); 6) Promotion of quality infrastructure with all stakeholders (organization by all QI pillars of at least four business events, conformity assessment bodies and national chambers of commerce); 7) Provision of technical assistance for at least three (3) manufacturers of construction products. Support the manufacturers to meet the requirements to affix the CE marking in their products 8) Drafting and implementing the Sectorial Market Surveillance Programme based on the legislation in force by prioritizing the construction products 9) Study of national legislation covering certain product groups for the fulfilment of obligations under Articles 34-36 of TFEU; 10) Signing of the Multilateral (MLA), respectively Bilateral (BLA) Agreement with the European cooperation for Accreditation (EA) for testing labs, which means the mutual recognition of test reports issued by these labs;

b. Planned activities for 2020: 1) Evaluation of implementation of the Sectorial Market Surveillance Programme, regarding the implementation of the technical legislation on construction products; 2) Expansion of accreditation schemes according to new requirements (EN ISO / IEC 17065) including those of technical regulations; 3) Establishment of laboratory for pre-packaging and accreditation of KMA laboratories; 4) Drafting of a national plan for meeting the obligations under Articles 34-36 of TFEU regulating the free movement of goods; 5) Membership of KMA in relevant European and international organizations (BIPM);

c. Planned activities for 2021: 1) Review of the Law on General Product Safety 2) Drafting of sub-legal acts for construction products such as doors and windows, concrete, aggregates, and concrete products 3) Signing of the Multilateral (MLA), respectively Bilateral (BLA) Agreement with the European cooperation for Accreditation (EA) for inspection and certification bodies;

Expected impact on competitiveness: A sustainable regulatory system enables domestic manufacturers that by improving the safety and quality of construction products could be competitive with products bearing the CE marking and the placement on the market of products certified at the same level as products from EU. This system will ensure business competitiveness increase by enabling them to access international markets and reduce trade imbalance for construction products. More competitive businesses enable a better environment for increase of employment a thus give basis for a steady growth.

Key performance indicators:

a) The trade balance of construction products was negative for around €208.95 million in 2016, decreasing further to negative €232.85 million in 2017. The target for 2021, is that the trade balance shrinks to negative €155 million.

Estimated cost of activities and source of funding: The total cost for implementing the measure for the next three years is €2,204,330, respectively €687,359 for 2019, € 930,104 for 2020 and €586,867 for 2021. Of these funds, € 430,600 is provided from the central budget (€ 136,867 for 2019, € 156.866 for 2020 and € 136.867 for 2021). Of IPA funds, the total amount of funding will be € 500,000, divided as follows: 150,000 € for 2019; 200,000 € for 2020 and 150,000 € for 2021. While through the World Bank loan project, the total amount of funding is: €1,273,730 respectively 400,492 € for 2019, 573,238 € for 2020 and 300,000 € for 2021.

5. Expected impact on employment and gender: Further development of the regulatory system on construction products, is expected to have even greater impact on society by promoting private sector investments, opening new jobs as well as encouraging businesses to implement standards to achieve the safety and quality of construction products and stakeholder services. Also the measure is expected to have even greater impact on society by promoting private sector investment, opening new jobs such as and encouraging businesses to implement standards to achieve the safety and quality of construction products and stakeholder services.

6. Potential risks: Potential risks for this measure may be the non-membership in European and international organizations, delays in legislation adoption and implementation, and lack of professional technical capacities.

4.3.6. EDUCATION AND SKILLS

a. Analysis of structural obstacles

State of play: In recent years, progress has been made in skills development, quality improvement and access to education. In 2017-2018³⁷, the attendance of children in preschool education (3-5 years) was 36%, pre-primary (5 years) 92.4%. In pre-school education 45.9% are females, and 54.1% are males. At pre-primary level (5 years) 48.2% are females, while 51.8% are males. In private pre-school institutions, there are 45.3% females and 54.7% males, while at pre-primary level 46.7% are females and 53.3% are males. In primary education (grades 1-5), the gross enrolment rate was 98.4%, in lower secondary education (grade 6-9) was 91.2% while in upper secondary education (grade 10-12) was 90.2%.

In State Matura Exam in June, 73.3% of pupils passed the exam, while in August, 62.7% of pupils passed the exam. The result of the ninth grade achievement test was 61%. After Kosovo's participation in the international PISA test in 2015 for the first time (69th place out of 72 countries), the final stage has been held in 2018 where it is expected to have an increase compared to 2015.

From 2012 until now, 95% of qualified teachers have been licensed with a career license. Positive developments have been achieved in teacher advancement and requalification programmes. This includes continues training of teachers (2017 – 9300 and during 2018 – 5412) to implement the new CF, for pre-primary education, grades 1, 6 and 10 (for general gymnasiums).

However, the implementation of teacher performance assessment should be carried out for teachers' career development (which will have effect on motivation and quality improvement in education), developing a teacher licensing database, sustainability of training, capacity

³⁷ In 2016-2017, inclusion in pre-school education (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%.

building for the Curricula trainers, the preparation of two vocational development programs based on the Curricula for teaching methodology, the review of the administrative instruction for teacher funding, the drafting of AI for the promotion of career teachers.

Inclusion of pupils in upper secondary vocational education in the academic year 2017-2018 is 52.1% while in the academic year 2016-2017 it was 51.6%. MEST, in order to match the VET with the labour market, has drafted curriculum framework for the VET system, in which included the private sector and other stakeholders in this field, based on the needs of the labour market. This framework is based on the Classification of Occupations of Kosovo (ISCO 08) used by the United Nations, the ILO organization, and contains guidelines for drafting occupational standards, core curricula for profiles in cooperation with the economic sector and based on ISCED-Foet that are the areas used by UNESCO and the OECD. Although it is still being worked on, there is still a great need to link the labour market with VET, capacity building and inter-institutional cooperation to ensure the same approach towards drafting government policies.

Inclusion in higher education has increased in recent years and current figures rank Kosovo among the regional countries with the highest number of students per 100,000 inhabitants. The number of study programmes still remains high in higher education institutions. The matching of programmes with labour market requirements is still a challenge. One achievement in this context is the drafting and adoption of regulations on advisory bodies in the public higher education institutions where the advisory bodies have been established.

Structural obstacles: Main obstacles in the education sectors are horizontal and vertical, thus directly related to levels of education but there are also common obstacles. In this regard, in the *pre-school education obstacles* are related to: low inclusion of children in pre-school education resulting from lack of physical infrastructure, regulation and licensing of private institutions, professional development of educators and the development of national instruments for determining the quality of pre-school education. *In compulsory education*, the obstacles are related to the inclusion of students, quality, and this is evident to marginalized groups, Roma, Ashkali and Egyptian communities and pupils with disabilities. Skills development for most relevant professional area. Other obstacles continue to be teacher training in the pedagogical area, the instructors' qualification, cooperation with businesses for professional practice, and supply of schools with IT infrastructure. Mechanisms and practices of quality assurance remain undeveloped; development of teachers according to the criteria and standards of the strategic framework for the TPD and linkage of the ranks with the payment system.

In general, mismatch between vocational education and training and labour market affects the reduction of investments, as well as the growth of unemployment and poverty and hampers the economic development of the country. Consequently, in the long run, the obstacles presented affect the skills of the workforce. Failure to adopt and implement the action plan for the curriculum framework of the VET system, occupational standards, and core curriculums for profile for the academic year 2018/2019 will have adverse effects on the labour force in the economic sector. An analysis of the skills needed to identify priority sectors needs to be done to continuously support the reviewing of professional profiles and core curricula for profile.

b. Plans for priority reforms

16. Increase of quality of VET based on labour market requirements

Description of the measure: Increase of quality in VET is intended to be achieved through drafting and review of standards, curricula³⁸, teaching materials and professional practice in enterprises and schools, supply of workshops and matching VET with labour market requirements through cooperation with enterprises. In this regard, the AI on the conditions and criteria governing the establishment of dual forms of vocational education and training, in which prior learning and experience are realized in the enterprise, should be implemented. This measure is related to the NDS, KESP, NPISAA, MTEF, and ERA.

a. Planned activities for 2019: 1) Development of 25 occupational standards and their verification; 2) Training of 40 instructors/trainers and teachers based on the new curriculum; 3) Developing and piloting of the specific funding formula for VET based on cost per profile; 4) Development of teaching materials based on the new curriculum; 5) Supply of 10 vocational schools with adequate equipment for priority profiles after the situation analysis; 6) Continuation of the school-business agreements for professional practice.

b. Planned activities for 2020: 1) Drafting and reviewing new occupational standards and their verification as needed, and according to labour market demand; 2) Training of 40 instructors/trainers and teachers based on the core curriculum from MEST, MLSW; 3) Amending the funding formula of the specific grant of education based on the cost per sector and profile; 4) Designing teaching materials based on the new curriculum as needed, and according to labour market demand; 5) Supply of 10 vocational schools with adequate equipment for priority profiles after situation analysis; 6) Continuation of school-business agreements for professional practice.

c. Planned activities for 2021: 1) Monitoring of the implementation of integrated curricula based on occupational standards; 2) Training instructors/trainers and teachers on work-based learning 3) Supply of vocational schools with adequate equipment for priority profiles after the situation analysis; 4) Continuation of the school-business agreements for professional practice.

Expected impact on competitiveness: Implementation of this measure impacts development of workforce competencies, increases the product quality and enterprise efficiency, promotes innovation, and creates opportunities for employment and self-employment of up to 30% for the period 2019-2021.

Key performance indicators:

a) In 2016, 20 curricula were integrated in VET schools, while in 2018 there was no recorded integration. Until 2021 a total of 300 curricula (from 2016 and onward) are planned to be integrated in the system, with the objective of integrating 150 curricula solely in 2021.

b) A total of 40 teachers were trained for the new VET curriculum in 2017. A further increase is planned for 2021 as 230 teachers are planned to be trained in this regard.

Estimated cost of activities and source of funding: The total cost for implementing this measure is expected to be €3,795,144 for 2019-2021, out of which €150,000 are from the

³⁸ Core curricula for profiles have not been reviewed because the base document for the Curriculum Framework for VET has been drafted. Guidelines for drafting core curricula have been drafted also and teacher training was based on those guidelines. The funding formula for VET has been analysed in cooperation with other relevant institutions and these analyses will complement the review of the financial formula for pre-university education, part of which will also be the formula for VET.

central budget, €3,000,144 are from the municipal budget and 645,000 are planned from other grants. For 2019, the total amount is €1,759,048 out of which €105,000 are from the central budget, €1,000,048 are from the municipal budget and €645,000 from other grants. For 2020, there is EUR 30,000 from the central budget and €1,000,048 is from the municipal budget. For 2021, there is €15,000 from the central budget and €1,000,048 from the municipal budget.

Expected impact on employment and gender: In the long run, this measure increases the quality in the education system, employment opportunity, improves the quality of workforce, and contributes to investment growth and economic development.

Potential risks: Procurement procedures for implementing the implementation plans are risks that have followed us during the implementation of the 2018 action plan for realization of activities.

17. Improvement of the quality and increase of the inclusion of children in pre-university education

Description of the measure: Based on KESP and the NSD, through this measure will be addressed the legal and physical infrastructure to increase the inclusion of children in pre-school education, quality programs will be developed which will have effect on building basic skills and reducing inequalities and preparing students with knowledge and skills that will result with the quality of learning at other levels. Increase of inclusion and equal opportunities for development is to be achieved through increasing the number of public preschool institutions and drafting the core curriculum for pre-school education. Following the adoption of the Concept Document, the Law on Early Childhood Education will be drafted in 2019, which will regulate and clarify standards required and necessary to meet the children needs for education and care at the level of early childhood. This measure is directly related to the priorities of the Government, the 2020 EU Strategic Framework, NDS, KESP, MTEF, and NPISAA.

a) Planned activities for 2019: 1) The Law on Early Childhood Education (MEST); 2) Completion of 4 new facilities of preschool institutions; 3) Development and implementation of subject programmes by subjects and grades³⁹; 4) Professional development of 6000 teachers based on MEST priority programmes and teacher performance evaluation.

b. Planned activities for 2020: 1) Finalization, piloting and monitoring of the core curriculum for early childhood education for the age 0-5 years old in 7 pre-school institutions; 2) Completion of the construction of 3 new facilities of pre-school institutions; 3) Development and implementation of subject programmes by subjects and grades⁴⁰; 4) Continuation of renewal of the license, promotion for 200 teachers for 3 % of teachers; 5) Professional

³⁹Implementing curricula for grades 3, 8 and 12 in all schools of the Republic of Kosovo in the academic year 2019-2020; Implementing the curriculum for the Albanian language course for students of non-Albanian communities for grades 3, 6 and 10 in the academic year 2019-2020 in those schools that pupils choose this subject; Drafting curricula for grades 4 and 9 in Albanian, Turkish and Bosnian as well as their implementation in 72 pilot schools in the academic year 2019-2020; Drafting a curriculum for the Albanian language course for students of non-Albanian communities for grades 4,7 and 11 and piloting them in those schools that pupils choose this subject.

⁴⁰ Review and finalization of subject programmes (for grades 4, 5, 9, which will be implemented in all schools in Kosovo during 2020/2021. Drafting Albanian language programmes for non-Albanian pupils for grades 5, 8, 9, 12; these programs are implemented (piloted) in all schools, where students choose this subject during the academic year 2019/2020);

development of teachers based on MEST priority programmes and teacher performance evaluation⁴¹

c. Planned activities for 2021: 1) Implementation of the core curriculum for early childhood education for the age 0-5 years old in all pre-school institutions; 2) Commencement of construction of 1 facility and completion of 6 new facilities of pre-school institutions; 3) Implementation of subject programmes/curricula⁴²; 4) Evaluation of the Curriculum implementation process;

Expected impact on competitiveness: This measure impacts the improvement of the quality of teaching and learning, the preparation of pupils for life. It also improves the increase of inclusion in pre-university education with a particular focus on pre-school education, which impacts the increase of the quality in education and minimization of inequalities in society, combating discrimination, avoiding marginalization and exclusion, and providing well-being for all.

Key performance indicators:

a) The indicator measuring the increase of the number of children in pre-school institutions for 3-5 years old was 33.6% for the 2016/17 academic year, whereas the target for the academic year 2021/22 is 44%.

a. For 5 years old, the indicator measuring the increase of the number of children in pre-school institutions was 87.6% for the academic year 2016/17, and the target for 2021/22 is set at 100%.

b) A total of 4500 teachers were trained to implement the new curriculum and other programs in 2016. In 2021 the number of teachers partaking in these training is targeted to be 6000, and as a result within this timeframe in total 36,712 teachers are expected to be trained in this regard.

c) The achievement value in PISA international test, in 2015, were 347 for reading, 378 for science and 362 for mathematics. The target is to surpass 430 in all three fields in 2021.

Estimated cost of activities and source of funding: The total cost for 2019-2021 is expected to be €8,430,892. For 2019, €6,688,161 are planned, out of which €1,688,161 are from the central budget and €5,000,000 from IPA. For 2020, €909.970 are planned from the central budget and for 2021, €832,761 are planned from the central budget.

Expected impact on employment and gender: This measure increases the opportunities for the promotion of teachers without gender-based employment and the quality of reform implementation in the education system, which will improve the quality of the workforce and contribute to the growth of investment and economic development.

Potential risks: Non-sustainability until the end of the reform cycle, non-mobilization of the mechanisms for implementing the curriculum such as MEST, MED, School, Parent, limited

⁴¹ According to Law no. 06/L-046 on the Education Inspectorate which entered into force in August 27, 2018

⁴² Implementation of subject programmes/curricula for grades 4, 5, 9, which will be implemented in all schools in Kosovo during 2020/2021. Implementation of Albanian language subject programmes for pupils of non-Albanian communities for grades 5,8,9,12; these programmes are implemented in all schools where students choose this subject during the academic year 2020/2021)

capacity for implementation at the municipal level, and coordination at the central and local level.

Reform measure #18: Reform in Higher Education

1. Description of measure: Reform in higher education is to be achieved through the completion and implementation of the legal infrastructure of higher education,⁴³ advancing and developing mechanisms for quality assurance and increasing participation in international programs for higher education and research. This measure is related to the NDS, KESP, ERA, NPISAA and MTEF.

a. Planned activities for 2019: 1) Completion and implementation of legal infrastructure of higher education (adoption of the Law on higher education and completion of secondary education); 2) Drafting and adoption of the Law on Kosovo Accreditation Agency; 3) Application of new international standards (re-assessment by ENQA and EQAR); 4) Drafting of the AI on the HEI funding formula; 5) Increasing participation in international programs for higher education and research; 6) Signing of the Regional Agreement on Regulated Professions; 7) Creating a Database for Professional Qualifications based on the EU Database for Professional Qualifications.

b. Planned activities for 2020: 1) Drafting of sublegal acts complementing the Law on KAA; 2) Establishment of mechanisms for monitoring higher education quality; 3) Increasing participation in international programs for higher education and research. 4) Matching academic programs with the labour market; 5) Analysis on the profiling of HEIs; 6) Piloting a regulated profession.

c. Planned activities for 2021: 1) Promotion of the mechanisms for monitoring higher education quality; 2) Commencement of HEIs profiling process; 3) Increasing participation in international programs for higher education and research; 4) Matching academic programs with the labour market; 5) Piloting two regulated professions.

Expected impact on competitiveness: The implementation of activities envisaged within this measure impacts the enhancement of HEI's competitiveness as well as the creation of new jobs, the reduction of inequalities and the level of poverty.

Key performance indicators:

a) The professor to student ratio has been valued at 1.67 in 2016, while the target for 2021 is to have a ratio of 1.29.

b) The number of mobility/scholarships ratio in international programs was 98 in 2016 and has increased to 220 in 2018. In the forthcoming years this value is expected to increase further with the target of reaching 250 in 2021.

Estimated cost of activities and source of funding: The total cost of implementing this measure for 2019-2021 is expected to be 3,177,781 €. For 2019, the total cost is 1,095,527 € out of which 792,707 € are from the KCB, while 302,820 € from other grants. The total cost for 2020 is 1,101,127 € out of which 798,307 € from the central budget while 302,820 € from

⁴³ The Law on higher education has been reviewed again, and currently is under parliamentary procedures for approval.

other grants and the total cost for 2021 is 981.127 €, out of which 678,307 € from the central budget and 302,820 € from other grants.

Expected impact on employment and gender: The main focus is the establishment of a labour market analysis system at national, regional and local level for the establishment of mechanisms for a sectorial skills forecast based on employer and employee surveys, in order to meet the current demand of higher education providers, for those who graduate and for labour market participants. Information collected for the labour market should include mechanisms to assess the access, participation and representation of women and men in the labour market, as well as possible measures that may be taken to mitigate any discrepancies.

Potential risks: The failure of graduates to get employed due to the structural economic problems of the public and private sector in Kosovo, as well as the prolongation of the adoption of the Law on higher education and relevant acts.

4.3.7. EMPLOYMENT AND LABOUR MARKET

a. Analysis of main obstacles

State of play: Almost two-thirds of Kosovo's population is of working age (15-64 years). It is expected that the working age population will increase rapidly over the next decade as Kosovo is among the countries with the youngest population in Europe. Even though there are slight moves compared to 2016, still 57.2 % of the working age population are not economically active (in 2016 there were 61.3%), which means that they are not employed and have not been active in search of employment over the past four weeks and/or are not ready to start work within two weeks. Out of 42.8 % of the economically active population, (in 2016 it was 38.7 %), 30.5 % (156,583 persons) are unemployed (in 2016 it was 27.5 % or 126,070 persons). This implies that 69.5% (357,095) of economically active persons are employed, by establishing an employment to population ratio (employment rate) of 29.8 %.

There are still great gender differences in the labour market. Only one in five (20.0 %) women of working age are active in the labour market (in 2016 there were 18.6%), compared to about three-fifths (65.3 %) of the men of working age (in 2016 there were 58.3). Within the labour force, the unemployment is higher for women than for man (36.6 % compared to 28.7 %) (In 2016 there were 31.8 % compared to 26.2 %). The employment rate among the working age women is only 12.7 %, compared to 46.6 % for men, approximately equal to the previous year. This very low level of unemployment among women derives from the combination of low participation in labour force and high unemployment. Women were mainly employed in the education, health and trade sectors (48.4 % of employed women). Men were mainly employed in the construction, manufacturing and trade sectors (employing 45.9 % of the employed men).

Unemployment among young people is very high in Kosovo. In 2017, young people in Kosovo were twice as likely to be unemployed compared to adults. Among people aged 15-24 and in the workforce, 52.7 % were unemployed (in 2016 it was 52.4). Unemployment is also high in young women (63.5 %) (In 2016 it was 65.4) than young men (48.4%) (2016 it was 47.2). Almost one third (27.4 %) of people aged 15 to 24 years old in Kosovo were not enrolled in education, employment or training (NEET). This figure is 31.4 % for young women compared to 23.8 % for young men, (in 2016 it was 30.1 %, 34.2 % for young women and 26.5 % for young men.)

The majority of those employed report to be working fulltime. 94.1 % of the interviewees reported to work fulltime in their main job. The reasons to work part time vary between the genders, as the women, by taking over the role of family care, reduce the hours available for employment. The most common reason why men not work fulltime was the lack of a fulltime job. 23.1 % of the employed persons belonged to the category of unstable employment category. This means that they are either employed in their business (workers for own account), or contribute to a family business (paid or unpaid). Only 29.4 % of employed persons had a permanent contract in their main job, while 70.6 % had a temporary contract, without significant differences between men and women. Persons who had temporary contracts were asked why they had this kind of contract and 89.4% of the respondents reported that there was no other contract available.⁴⁴

Structural obstacles: Inactivity and unemployment remain chronic problems of Kosovo, especially among women and youth; the level of informality and working conditions also remain problematic; the labour market is characterized by a large gender imbalance. The number of jobseekers registered in the EO that benefit from the services and the ALMMs remains relatively small, mainly as a result of the staffing and budget constraints of the EARK. The poor capacities of employment services impede the effective linkage of jobseekers to employers, provision of training and other employment facilities; Mismatch of market demands with the necessary skills; Lack of mechanisms to ensure the quality of services provided by VTCs. Therefore, as a summary of the main obstacles and problems remain limited human capital for the needs of the knowledge industries; mismatch of market demands with the necessary skills; high levels of inactivity and inactive force, especially in women and youth; high levels of informality in the labour market and inadequate working conditions.

19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship

Description of measure: This measure continuation of previous programme and aims to increase participation and employment in particular of women and youth in Kosovo by addressing the challenges of labour force skills and the discrepancies between market and supply needs. This will be achieved by further strengthening the capacity of public employment services, expanding the range of services and active labour measures and improving their quality, including entrepreneurship development. In the field of vocational training, the focus will be on improving the quality of the programs and their better compliance with the labour market. The NDS has defined several general priorities and measures in the field of employment and education, whereby the main aim is to provide relevant institutions with the assistance of increasing employment and improving employability for young people and women. The measure is particularly relevant in the Sector Strategy 2018-2022, and the Action Plan for Youth Employment Enhancement, as a cross-cutting and institutional plan whose main objective is to increase employment and improve employability for the youth.

a. Planned activities for 2019: 1) Further capacity building of the MLSW and EARK to design, implement, monitor and evaluate active labour market measures: 2) Validation of

⁴⁴ Labour Force Survey 2017- <http://ask.rks-gov.net/media/3972/anketa-e-fuqis%C3%AB-pun%C3%ABtore-2017-1.pdf>

profiles, development of 15 standards, 15 curricula and 15 learning packages; 3) Implementing active labour market measures focusing on young people and women (increase of mediations in the ALMM for 10% and the development and implementation of the self-employment and entrepreneurship program); 4) On-going modernization of service and vocational training programs; 5) Supporting voluntary work initiatives, contributing to youth employment; 6) In-service training for newly graduated from higher education (KIESA);

b. Planned activities for 2020: 1) Validation of profiles, development of 10 standards, 10 curricula and 10 learning packages; 2) Expanding and implementing active labour market measures focusing on young people and women; 3) Further capacity building and expansion of quality services in vocational training, focusing on vulnerable groups; 4) Supporting voluntary work initiatives, contributing to youth employment (MCYS); 5) In-service training for newly graduated from higher education (KIESA);

c. Activities planned in 2021: 1) Expanding employment services and ALMMs, and increasing their efficiency and quality; 2) Monitoring and evaluating the effects of ALMMs (including vocational training) in sustainable employment; 3) Re-accreditation of profiles, development of 5 curricula based on occupational standards and 5 learning packages for VTC needs; 4) Further capacity building and expanding of qualitative services in vocational training.

Expected impact on competitiveness: Strengthening the capacity of public employment services will have positive effects on increasing competitiveness and improving quality for market demands and jobseekers' needs. In particular, the regulation that will enable services from non-public service providers will also impact the reduction of the cost for this service, expanding its range, and, in the mid-term, will lead to achieving greater targets in terms of mitigating unemployment. Expanding opportunities for beneficiaries of different categories, especially to young age groups which will benefit through knowledge training and entrepreneurship culture, and more importantly, benefit from projects related to active labour market measures, as well as projects that support the opening of new jobs through micro grants from relevant ministries is of particular importance. Provision of additional training, curriculum adaptation and similar actions will have an impact on improving vocational training which will result in greater matching of supply and labour market demand.

Key performance indicators:

- a) The indicator on the employment rate was 29.8% in 2017 with the objective of reaching 33.6% in 2021.
- b) The number of young people benefiting from ALMP in 2017 was 3328, with expected increases in 2022 reaching 4025 individuals.
- c) The number of young women benefiting from ALMP in 2017 amounted to 3022. The target for 2022 is to have 3654 women benefiting from ALMP.

Estimated cost of activities and source of funding: For implementation of this measure is planned 3,310,000 € for 2019-2021. For 2019, is planned 3,310,000 € in which 3,080,000 are from Kosovo budget and 230,000 from other grants. For 2020 is planned 2,555,000 € in which 2,405,000 are from Kosovo budget and 150,000 from other grants and for 2021 is planned 2,495,000 € in which 2,465,000 are from Kosovo budget and 30,000 from other grants.

The expected impact on employment and gender: The whole measure as such has a direct impact on employment and gender issues. Non-inclusion of women in the labour market, high unemployment of this gender and the youth are the direct focus and target.

Potential risks: Some of the risks are related to the lack of budget to expand the activities of active labour market measures; insufficient public employment services staff at central and local level; failure to reduce the gap in skills development.

4.3.8. SOCIAL INCLUSION, REDUCTION OF POVERTY AND EQUAL OPPORTUNITIES

a. Analysis of main obstacles

State of play: 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 EUR 1.82 per day, and 5.2% of the population live below the extreme poverty line of less than EUR 1.32 per day.⁴⁵ The households most affected by poverty are those whose main source of income is social assistance (70.7) and contract work. Regarding income distribution, the Gini coefficient in 2015 was relatively small 23.2% (24.1% in 2014 and 23.2% in 2013). 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).⁴⁶ Public spending on social protection and the amount of pension expenditures and social assistance schemes has increased from 3.6% of GDP in 2009 to 6.1% in 2016. As part of the total public spending, the total spending of social protection rose from 12.7 % in 2009 to 21.7 % in 2016. Expenditures for the social assistance scheme as part of GDP declined from 0.7 % of GDP in 2009 to 0.48 % of GDP by 2016. The involvement of women in the economy and other spheres of life are low. In leading positions, there are 19.9% women at the central level and 19.7% at the local level, 14.36% of employees in the whole public administration are women, while 12% are members of minorities. Labour market participation rate of women is 21.4%.

The gross product of Kosovo is about €3,300, which makes Kosovo one of the poorest countries in Europe. The main source of household income according to HBS 2016 are salaries from the private and public sector, followed by pensions, own business incomes, and remittances, which have marked a decrease of 1% compared to 2015. Consumption per household in Kosovo during 2016 was €7.539 whereas per capita it amounted to €1.460 which marks a slight increase of 0.5% compared to 2015. 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).

In response to concerns about unemployment and social exclusion, Kosovo has adopted the Law on Social Enterprises which aims to address three goals: financial sustainability of social service delivery; raising the quality of social services; and employment of people who live in

⁴⁵World Bank/KAS (April 2017) "*Consumption Poverty in the Republic of Kosovo 2012-2015*"; See at: <http://ask.rks-gov.net/media/3186/stat-e-varferise-2012-2015.pdf>

⁴⁶<http://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-news/treguesit-kryesore-te-anketes-se-grupimeve-te-treguesve-te-shumefishte-e-njohur-si-mics>

social need. The main objective of this law is to contribute to the development of the social economy through the creation of social enterprises that address social issues, including employment and the provision of services and goods in the interest of society. We also aim to develop a secondary legal and operational framework for the development of social entrepreneurship, including the organization of their functioning, and mechanisms for registration, control and oversight rules.

The epidemiological patterns suggest that health care services at the primary level are critical to improve these health outcomes.

Structural obstacles: 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 EUR 81 million 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. 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. One of most important steps to introduce health insurance scheme is realization of poverty test of social categories. The number of citizens and families in need of social protection, health care and other services of this nature, continues 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. 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, long-term unemployed persons as well as other vulnerable groups. 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.

b. Priority reform plans

Reform measure #20: Improvement of social and health services

Description of measure: This measure foresees a series of activities aimed at preserving and improving the health of citizens through the implementation of activities aimed at creating a sustainable health financing system, with particular emphasis on the establishment of compulsory health insurance and functioning of the health insurance fund. As regards the successful implementation of the health care reform, the measure foresees the development and

functioning of the health information system, which is a precondition for data-driven decision-making. Measures also foresee activities aimed at providing equal access to health services as well as further strengthening of capacities for the provision of specific health services. For the purpose of proper planning and fair distribution of funds in the health sector, this also foresees the review and redesign of the formula for the specific health grant that is dedicated to the primary healthcare provided in the municipalities. The measure is in full compliance with the Health Sector Strategy 2017-2021 and its strategic objectives. The measure is also in compliance with the Government Program 2017-2021 and the National Program for the Implementation of SAA.

a. Planned activities for 2019: 1) Strengthening administrative capacities of the Health Insurance Fund (through the employment of around 48 officials); 2) Scheme for compensation of medications bought outside of hospital; 3) Carrying out cardio-surgical health services covering 70% of patient needs; 4) Expansion of health services in all municipalities through home visits, particularly to mothers and children; 5) Carrying out 50,000 home visits in 2019 (cost within the framework of government grant for primary health care); 6) Starting the implementation of the Poverty Test of Social Categories, regarding exemption from payment of Health Insurance premiums; 7) Design and approval of the new formula for the government health grant. The institution responsible for the implementation of these activities is the Health Insurance Fund, the Ministry of Health and the Ministry of Labour and Social Welfare.

b. Planned activities for 2020: 1) Carrying out cardio-surgical health services covering 90% of patient needs; 2) Collection of premiums from public sector employees; 3) Carrying out 60,000 home visits. The institutions responsible for the implementation of these activities are the Health Insurance Fund, HUCSK, Ministry of Health and Municipalities.

c. Planned activities for 2021: 1) Provision of consultancy services in Primary Health Care; 2) Execution of payments for health insurance services for insured individuals (continues every year); € 3) Provision of health services in pre-school and school institutions; 4) Carrying out cardio-surgical health services covering 100% of patient needs. The institutions responsible for the implementation of these activities are the Health Insurance Fund, HUCSK, and Ministry of Health.

Expected impact on competitiveness: Implementation of the measure will reduce inequalities in health through the provision of equal access, as well as economic growth and development. The move will have an impact on improving health indicators and providing financial protection from poverty due to large spending on health care,

Key performance indicators:

- a) The contributions collected from all public institutions employees was 0% in 2016, while the target for 2021 is 100%
- b) In 2016, 18% of citizens did not have access to basic health services due to economic reasons, however in 2021 the target is to reduce it to less than 5%.
- c) The cardio-surgical health services for patients that have received treatment was at 50% in 2016, while for 2021, the target for this indicator is to reach 90%.

Estimated cost of activities and source of funding: The total estimated cost for implementing this measure 2019-2020 is expected to be EUR 10,952,707. For 2019, is planned 4,764,924 €

in which 2,364,924 are from Kosovo budget, 2,100,000 from local government budgets and 300,000 from other grants. For 2020 is planned 4,012,629 € in which 1,912,629 are from Kosovo budget, 2,100,000 from local government budgets and for 2021 is planned 2,175,154 € which are from Kosovo budget.

The expected impact on employment and gender: Overall, the measure is expected to have a positive impact on social welfare as well as improve labour market performance and competitiveness. This measure will have an impact on the comprehensive approach by covering services from the list of health care services for all social and gender categories, at an affordable cost. It also contributes to the improvement of social services, especially for marginalized groups, persons with special needs, minorities and contributes to gender equality.

Potential risks: Possible delays in the approval of the amendment-supplement to the Law on Local Finances; possible delays in amending-supplementing the necessary legislation, inability to hire staff in the health insurance fund due to restrictive measures by the MoF with regard to public sector employment. All of these risks could cause the postponement of the decision on collecting premiums according to 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 2019-2021 ERP will be 360,345,157.00 € (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.

The total direct budgetary impact arising from the implementation of 20 envisaged structural reforms amounts to € 271,454,737 for the period 2019-2021. The total possible non-budgetary funding (including borrowings) is expected to be at € 89,190,420. Out of this amount, 19,930,000 € is IPA committed funds.

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 as well as labour market reforms.

Table 10a: Cost of 20 structural reform measures of ERP 2019-2021:

Year	Salaries	Goods and Services	Subsidies and transfers	Capital expenditure	Total
2019	€ 336,600	€ 18,182,816	€ 64,354,716	€ 33,326,554	€ 116,200,686
2020	€ 338,283	€ 10,865,778	€ 81,685,905.84	€ 36,193,843.16	€ 129,083,810

2021	€ 339,974.50	€ 9,204,803.50	€ 76,826,412.88	€ 28,989,470.12	€ 115,360,661
Total	€ 1,014,858	€ 38,253,398	€ 222,867,035	€ 98,509,867	€ 360,645,157

Table 10b: Funding of 20 structural reform measures of ERP 2019-2021:

Year	Central budget	Local budgets	Other national public finance sources	IPA Funds	Other grand's	Project loans	To be determined	Total
2019	€ 77,010,033	€ 3,116,548	€ 7,227,151	€ 5,960,000	€ 3,695,970	€ 19,155,984	€ 35,000	€ 116,200,686
2020	€ 78,542,669	€ 3,116,548	€ 10,238,182	€ 12,010,000	€ 2,719,935	€ 22,406,476	€ 50,000	€ 129,083,810
2021	€ 81,120,916	€ 1,016,548	€ 10,066,142	€ 1,960,000	€ 1,907,055	€ 19,250,000	€ 40,000	€ 115,360,661
Total	€ 236,673,618	€ 7,249,644	€ 27,531,475	€ 19,930,000	€ 8,322,960	€ 60,812,460	€ 125,000	€ 360,645,157

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process for the preparation and approval of the Economic Reform Programme 2019-2021 as well as the consultation of national stakeholders during the preparation process is presented in this section. To coordinate the process, on June 12, 2018 the Government of the Republic of Kosovo has adopted the decision to initiate the drafting of Economic Reform Programme 2019-2021 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 2019-2021, 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 (DEPIFC) 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 June 27, 2018 SPO invited ministries and other institutions to a kick-off meeting, in order to request contributions to the ERP drafting process. On the same date, a high-level meeting was organized on Economic Reform Program 2019-2021 led by Kosovo Prime Minister and Director General for Enlargement.

In September 18th 2018 an evaluation mission with the OECD was held to provide comments/feedback to the coordinators of respective fields to work further on consolidation and operationalization of measures. Afterwards individual meetings with coordinators were held, where all OECD comments/feedback were addressed, and the first draft was introduced to EC on November 20, 2018. 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 organizations 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 was published for public consultation in the government platform from date: 18.12.2018 to 11.01.2019 (<http://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40547>). A report on results of public consultations will be presented under Annex II of the Programme.

ANNEX 1: UPDATE OF TABLES OF ERP 2019-2021

Table 1a: Macroeconomic prospects

Percentage %, unless otherwise indicated	ESA Code	2017	2017	2018	2019	2020	2021
		Level (mn EUR)					
1. Real GDP at market prices	B1*g	6,326.600	4.2	4.3	4.7	4.2	4.8
2. Current GDP at market prices	B1*g	6,413.900	5.7	5.4	5.4	5.7	5.7
Components of real GDP							
3. Private consumption expenditure	P3	5,289.300	1.8	6.0	3.5	4.1	4.0
4. Government consumption expenditure	P3	873.400	-0.5	5.5	6.5	-0.2	1.9
5. Gross fixed capital formation	P51	1,638.800	5.7	5.9	7.7	5.1	5.5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	103.400	3.7	28.2	7.7	8.8	9.3
7. Exports of goods and services	P6	1,679.500	16.8	11.0	6.1	4.7	5.6
8. Imports of goods and services	P7	3,257.800	5.4	12.2	5.6	3.7	3.8
Contribution to real GDP growth							
9. Final domestic demand		7,801.5	3.0	7.4	6.0	4.9	5.2
10. Change in inventories and net acquisition of valuables	P52+P53	103.4	0.1	0.4	0.1	0.2	0.2
11. External balance of goods/services	B11	-1,578.3	1.2	-3.5	-1.4	-0.8	-0.6

Table 1b: Price developments

Percentage changes, annual averages		2017	2018	2019	2020	2021
1. GDP deflator	%, yoy	1.4	1.1	0.6	1.4	0.8
2. Private consumption deflator	%, yoy	1.5	1.0	1.3	1.3	1.3
3. HICP	%, yoy	1.5	1.0	1.3	1.3	1.3
4. National CPI change	%, yoy	1.5	1.0	1.3	1.3	1.3
5. Public consumption deflator	%, yoy	1.3	4.4	2.0	3.1	1.6
6. Investment deflator	%, yoy	5.5	0.9	1.2	1.5	1.5
7. Export price deflator (goods & services)	%, yoy	1.8	1.9	0.5	2.1	0.9
8. Import price deflator (goods & services)	%, yoy	3.4	2.1	2.2	2.0	2.0

Table 1c: Labour markets developments

	ESA	2017	2017	2018	2019	2020	2021
	Code	Level					
1. Population (thousands)		1,793.5	1,793	1,791	1,797	1,804	1,809
2. Population (growth rate in %)		1,793.5	0.1	-0.1	0.4	0.3	0.3
3. Working-age population (persons)[1]		1,200.2	1,200.2	:	:	:	:
4. Participation rate		42.8	42.8	:	:	:	:
5. Employment, persons [2]		357.1	357.1	:	:	:	:
6. Employment, hours worked[3]		779,895.5	779,895	:	:	:	:
7. Employment (growth rate in %)		7.6	7.6	:	:	:	:
8. Public sector employment (persons)		87,531.1	87,531	:	:	:	:
9. Public sector employment (growth in %)		9.3	9.3	:	:	:	:
10. Unemployment rate [4]		30.5	30.5	:	:	:	:
11. Labour productivity, persons[5]		17,717	-3.2	:	:	:	:
12. Labour productivity, hours worked[6]		779.9	-4.9	:	:	:	:
13. Compensation of employees	D1	2,263	9.5	:	:	:	:

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

Table 1d: Sectorial balances

Percentages of GDP	ESA code	2017	2018	2019	2020	2021
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-7.7	-6.6	-8.3	-9.7	-9.2
<i>of which:</i>						
- Balance of goods and services		-27.2	-25.9	-28.5	-29.5	-29.2
- Balance of primary incomes and transfers		19.3	19.4	20.4	19.9	20.2
- Capital account		0.2	-0.2	-0.2	-0.2	-0.2
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-6.4	-4.2	-2.9	-4.8	-5.2
3. Net lending/borrowing of general government		-1.3	-2.4	-5.4	-4.9	-4.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	2017	2018	2019	2020	2021
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	6,414	6,761	7,127	7,530	7,956
Investment ratio (% of GDP)		26.9	27.3	28.2	28.5	28.9
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		2.7	0.6	2.1	1.8	1.5
2. Industry (excluding construction)		7.5	8.2	7.0	7.1	7.0
3. Construction		8.6	9.6	7.6	8.6	8.6
4. Services		2.7	1.2	1.6	1.9	1.6

Table 1f: External sector developments

Million Euro unless otherwise indicated		2017	2018	2019	2020	2021
1. Current account balance (% of GDP)	% of GDP	-6.8	-8.1	-9.6	-9.0	-9.1
2. Export of goods	mn EUR	379.1	352.5	370.2	394.1	411.1
3. Import of goods	mn EUR	2,843	3,229	3,502	3,708	3,932
4. Trade balance	mn EUR	-2,464	-2,877	-	-3,313	-3,521
				3,132		
5. Export of services	mn EUR	1,318	1,581	1,692	1,811	1,937
6. Import of services	mn EUR	538	632	664	697	732
7. Service balance	mn EUR	780	949	1,028	1,114	1,206
8. Net interest payments from abroad	mn EUR	16.4	23.6	28.0	29.0	28.0
9. Other net factor income from abroad	mn EUR	68.5	116.1	105.1	147.8	159.4
10. Current transfers	mn EUR	1,162	1,238	1,288	1,343	1,401
11. <i>Of which</i> from EU	mn EUR	:	:	:	:	:
12. Current account balance	mn EUR	-437.1	-549.5	-	-680.0	-727.0
				682.4		
13. Foreign direct investment	mn EUR	250.0	187.5	262.5	189.0	249.5
14. Foreign reserves	mn EUR	-69.8	20.0	30.0	40.0	40.0
15. Foreign debt	mn EUR	:	:	:	:	:
16. <i>Of which</i> : public	mn EUR	:	:	:	:	:
17. <i>O/w</i> : foreign currency denominated	mn EUR	:	:	:	:	:
18. <i>O/w</i> : repayments due	mn EUR	:	:	:	:	:
19. Exchange rate vis-à-vis EUR (end -year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
20. <i>Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	0.0	0.0	0.0	0.0	0.0
21. Net foreign saving (lines 21-25; percentages of GDP)	% of GDP	:	:	:	:	:
22. Domestic private saving	% of GDP	15.3	15.2	14.5	14.9	14.6
23. Domestic private investment	% of GDP	21.1	21.1	21.1	21.1	21.1
24. Domestic public saving	% of GDP	:	:	:	:	:
25. Domestic public investment	% of GDP	7.3	7.9	8.9	9.2	9.6

Table 1g: Sustainability indicators

	Dimension	2013	2014	2015	2016	2017	2018
Current Account Balance	% of GDP	-3.4	-6.9	-8.6	-8.3	-6.8	-8.1
Net International Investment Position	% of GDP	4.9	3.5	-0.7	-1.3	-1.8	-1.7
Export market shares	%, yoy	:	:	:	:	:	:
Real Effective Exchange Rate	%, yoy	0.4	0.2	-1.8	-0.1	0.3	-0.5
Nominal Unit Labour Costs	%, yoy	9.7	0.0	-8.8	9.7	2.9	:
Private sector credit flow	% of GDP	29.3	29.2	29.8	31.2	32.9	34.3
Private sector debt	% of GDP	23.0	24.1	25.7	25.9	24.8	23.6
General Government Debt	% of GDP	:	:	:	:	:	:

Table 2a: General government budgetary prospects

		2017	2017	2018	2019	2020	2021
	ESA code	Level	7	8			
Net lending (B9) by sub-sectors							
1. General government	S13	-82.1	-1.3	-2.4	-5.4	-4.9	-4.0
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1,684.2	26.3	26.1	27.4	26.9	26.9
7. Total expenditure[1]	TE	1,766.2	27.5	28.5	32.8	31.8	30.9
8. Net borrowing/lending	EDP.B9	-82.1	-1.3	-2.4	-5.4	-4.9	-4.0
9. Interest expenditure	EDP.D41	-16.4	-0.3	-0.3	-0.4	-0.4	-0.4
10. Primary balance[2]		-98.5	-1.5	-2.7	-5.8	-5.3	-4.4
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,553.2	24.2	23.8	25.0	24.6	24.7
12a. Taxes on production and imports	D2	1,315.2	20.5	19.9	20.9	20.6	20.7
12b. Current taxes on income and wealth	D5	238.0	3.7	4.0	4.0	4.0	4.0
12c. Capital taxes	D91	0.0	:	:	:	:	:
13. Social contributions	D61	0.0	:	:	:	:	:
14. Property income	D4	0.0	:	:	:	:	:
15. Other (15 = 16-(12+13+14)) [4]		130.9	2.0	2.3	2.4	2.3	2.2
16 = 6. Total revenue	TR	1,684.2	26.3	26.1	27.4	26.9	26.9
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,553.2	24.2	23.8	25.0	24.6	24.7
Selected components of expenditures							
17. Collective consumption	P32	776.0	12.1	12.4	13.4	12.8	12.6
18. Total social transfers	D62+D63	506.3	7.9	8.3	8.6	8.2	7.7
18a. Social transfers in kind	P31=D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	506.3	7.9	8.3	8.6	8.2	7.7
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	-16.4	-0.3	-0.3	-0.4	-0.4	-0.4
20. Subsidies	D3	:	:	:	:	:	:
21. Gross fixed capital formation	P51	467.5	7.3	7.8	7.1	7.1	8.1
22. Other (22 = 23-(17+18+19+20+21)) [6]		32.8	0.5	0.3	4.1	4.2	2.8

23. Total expenditures	TE [1]	1,766. 2	27. 5	28.5	32.8	31.8	30.9
p.m. compensation of employees	D1	:	:	:	:	:	:

Table 2b: General government budgetary prospects

	ESA code	2017	2018	2019	2020	2021
Net lending (B9) by sub-sectors						
1. General government	S13	-82	-162	-388	-371	-318
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	1,684	1,766	1,949	2,026	2,141
7. Total expenditure[1]	TE	1,766	1,928	2,337	2,397	2,459
8. Net borrowing/lending	EDP.B9	-82	-162	-388	-371	-318
9. Interest expenditure	EDP.D41 incl. FISIM	-16	-19	-28	-29	-28
10. Primary balance[2]		-98	-181	-416	-400	-346
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,553	1,612	1,781	1,854	1,965
12a. Taxes on production and imports	D2	1,315	1,344	1,492	1,552	1,647
12b. Current taxes on income and wealth	D5	238	268	289	302	319
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0	0	0	0	0
15. Other (15 = 16-(12+13+14)) [4]		131	155	169	172	175
16 = 6. Total revenue	TR	1,684	1,766	1,949	2,026	2,141
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,553	1,612	1,781	1,854	1,965
Selected components of expenditures						
17. Collective consumption	P32	776.0	839.9	953.2	965.2	1,004
18. Total social transfers	D62 + D63	506.3	558.3	609.5	613.8	614.7
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	506.3	558.3	609.5	613.8	614.7
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	(16.4)	(18.7)	(28.0)	(29.1)	(28.2)
20. Subsidies	D3	:	:	:	:	:
21. Gross fixed capital formation	P51	467.5	530.1	509.0	532.8	648.0
22. Other (22 = 23-(17+18+19+20+21) [6]		32.8	18.7	293.5	314.0	220.3
23. Total expenditures	TE [1]	1,766.2	1,928.3	2,337. 2	2,396. 6	2,458.9
p.m. compensation of employees	D1	:	:	:	:	:

Table 3: General government expenditure by function

% of GDP	COFOG Code	2017	2018	2019	2020	2021
1. General public services	1	4.2	2.2	3.0	3.4	3.6
2. Defence	2	0.5	0.8	0.8	0.8	0.8
3. Public order and safety	3	2.4	2.8	2.9	2.7	2.6
4. Economic affairs	4	6.5	6.3	6.3	5.8	5.5
5. Environmental protection	5	0.2	0.8	1.0	1.2	1.2
6. Housing and community amenities	6	0.6	0.2	0.2	0.2	0.1
7. Health	7	2.8	2.2	2.4	2.3	2.2
8. Recreation, culture and religion	8	0.7	0.8	0.8	0.8	0.8
9. Education	9	4.4	1.4	1.5	1.4	1.4
10. Social protection	10	6.3	6.0	6.5	6.3	6.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	27.5	28.5	32.8	31.8	30.9

Table 4: General government debt developments

% of GDP	ESA code	2017	2018	2019	2020	2021
1. Gross debt [1]		15.5	16.2	19.6	21.5	22.5
2. Change in gross debt ratio		1.5	1.9	2.2	1.8	1.1
Contributions to change in gross debt						
3. Primary balance [2]		1.5	2.7	5.8	5.3	4.4
4. Interest expenditure [3]		-0.3	-0.3	-0.4	-0.4	-0.4
5. Stock-flow adjustment		0.2	-0.5	-3.2	-3.1	-2.9
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		-1.9	-1.9	-2.4	-2.1	-1.7
Other relevant variables						
6. Liquid financial assets [8]		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA Code	2017	2018	2019	2020	2021
1. Real GDP growth (% , yoy)	B1g	4.2	4.3	4.7	4.2	4.8
2. Net lending of general government	EDP.B.9	-1.3	-2.4	-5.4	-4.9	-4.0
3. Interest expenditure	EDP.D.41	-0.3	-0.3	-0.4	-0.4	-0.4
4. One-off and other temporary measures [1]		:	:	:	:	:
5. Potential GDP growth (% , yoy)		4.1	4.6	4.5	4.4	4.5
Contributions:						
- labour		:	:	:	:	:

- capital	:	:	:	:	:
- total factor productivity	:	:	:	:	:
6. Output gap	-0.1	-0.3	0.0	-0.2	0.2
7. Cyclical budgetary component	-0.1	-0.3	:	:	:
8. Cyclically-adjusted balance (2-7)	-1.2	-2.1	:	:	:
9. Cyclically-adjusted primary balance (8+3)	-1.4	-2.4	:	:	:
10. Structural balance (8-4)	:	:	:	:	:

Table 6: Divergence from previous programme

	2017	2018	2019	2020	2021
1. GDP growth (% points)					
Previous programme	4.3	4.6	4.9	5.1	:
Latest update	4.2	4.3	4.7	4.2	4.8
Difference (percentage points)	-0.1	-0.3	-0.2	-0.9	:
2. General government net lending (% of GDP)					
Previous programme	-1.4	-3.9	-3.4	-3.0	:
Latest update	-1.3	-2.4	-5.4	-4.9	-3.0
Difference	0.1	1.5	-2.0	-1.9	:
3. General government gross debt (% of GDP)					
Previous programme	15.8	17.6	19.2	20.0	0.0
Latest update	15.5	17.4	19.6	21.4	20.0
Difference	-0.2	-0.2	0.5	1.5	20.0

Table 7a: General government guarantees

% of GDP	2018	2019
Public guarantees	0.8	0.7
Of which: linked to the financial sector	0.8	0.7

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

	Dimension	2017	2018	2019	2020	2021
Short-term interest rate	Annual average	-0.3	-0.3	-0.2	0.2	:
Long-term interest rate	Annual average	0.3	0.5	0.7	0.9	:
USD/EUR exchange rate	Annual average	1.1	1.2	1.2	1.2	:
Nominal effective exchange rate	Annual average	2.1	5.0	0.6	0.0	:
Exchange rate vis-à-vis the EUR	Annual average	1.0	1.0	1.0	1.0	1.0
Global GDP growth, excluding EU	Annual average	:	:	:	:	:
EU GDP growth	Annual average	2.4	2.1	1.9	1.8	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	54.8	75.1	80.6	76.7	:

Table 9. Selected employment and social indicators

	Data source	2012	2013	2014	2015	2016	2017
1. Labour market participation rate (%) total (20-64 years old)	LFS (KAS)	36.9	40.5	41.6	37.6	38.7	42.8
- male	LFS (KAS)	55.4	60.2	61.8	56.7	58.3	65.3
- female	LFS (KAS)	17.8	21.1	21.4	18.1	18.6	20
2. Employment rate (%) total	LFS (KAS)	25.6	28.4	26.9	25.2	28	29.8

- male	LFS (KAS)	39.9	44	41.3	38.7	43	46.6
- female	LFS (KAS)	10.7	12.9	12.5	11.5	12.7	12.7
3. Unemployment rate (%) total	LFS (KAS)	30.9	30	35.3	32.9	27.5	30.5
- male	LFS (KAS)	28.1	26.9	33.1	31.8	26.2	28.7
- female	LFS (KAS)	40	38.8	41.6	36.6	31.8	36.6
4. Long-term unemployment rate (%) total		n/a	n/a	n/a	n/a	n/a	n/a
- male		n/a	n/a	n/a	n/a	n/a	n/a
- female		n/a	n/a	n/a	n/a	n/a	n/a
5. Youth unemployment (15-24 yrs) rate (%) total	LFS (KAS)	55.3	55.9	61	57.7	52.4	52.7
- male	LFS (KAS)	52	50.4	56.2	54.2	47.2	48.4
- female	LFS (KAS)	63.8	68.4	71.7	67.2	65.4	63.5
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %	LFS (KAS)	35.1	35.3	30.2	31.4	30.1	27.4
7. Early school leavers, in % (Eurostat)		n/a	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	n/a
9. GINI coefficient		n/a	n/a	n/a	n/a	n/a	n/a
10. Inequality of income distribution S80/S20		n/a	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	n/a
12. Health expenditure in % of GDP		n/a	n/a	n/a	n/a	n/a	n/a
13. At-risk-of-poverty before social transfers, % of the population		n/a	n/a	n/a	n/a	n/a	n/a
14. Poverty rate		n/a	n/a	n/a	n/a	n/a	n/a
15. Poverty gap		n/a	n/a	n/a	n/a	n/a	n/a
Other indicators used in the EU Social Scoreboard							
16. Real adjusted GDHI- per capita in PPS(Index 2008=100)							
17. Impact of social transfers (other than pensions) on poverty reduction							
18. Self-reported unmet need for medical care							
19. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)							

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

Table 10a: Costing of structural reform measure: Measure #1: Reduction of energy consumption through energy efficiency measures⁴⁷								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019			2,000,000	19,677,151	21,677,151			
2020			10,000,000	22,188,182	32,188,182			
2021				15,066,142	15,066,142			
Table 10b: Financing of structural reform measure: Measure #1: Reduction of energy consumption through energy efficiency measures								
Year	Central budget	Local budgets	Other national public finance sources MCC	IPA funds	Other grants	Project loans	To be determined	Total
2019	2,900,000		7,227,151			11,550,000		21,677,151
2020	2,000,000		10,238,182	10,000,000		9,950,000		32,188,182
2021	2,000,000		10,066,142			3,000,000		15,066,142
Table 10a: Costing of structural reform measure: Measure #2: Further development of energy generation capacities⁴⁸								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		2,000,000			2,000,000			
2020		2,000,000			2,000,000			
2021		2,000,000			2,000,000			
Table 10b: Financing of structural reform measure: Measure #2: Further development of energy generation capacities								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	2,000,000							2,000,000
2020	2,000,000							2,000,000

⁴⁷ The total cost of implementing this measure from the Kosovo budget, loans, IPA funds and grants is expected to be around 68,931,475.00 € for 2019-2021 while the cost of private investment for 3 years will be 98,646,000.00 €. Of this total amount of 6,900,000.00 € comes from the Kosovo budget as follows: 2,900,000.00 € for 2019, 2,000,000.00 € for 2020 and 2,000,000.00 € for 2021. IPA funds are 10,000,000.00 € for 2020. Project loans is 11,550,000 € for 2019 € 9,950,000 for 2020 and € 3,000,000 for 2021. Funds from MCC will be € 7,227,151 for 2019, € 10,238,182 for 2020 and € 10,066,142 for the year 2021.

⁴⁸ The total cost for implementing this measure from the Kosovo budget is expected to be around € 6,000,000 for 2019-2021. Of this amount 2,000,000 € for 2019, 2,000,000 € for 2020 and 2,000,000.00 € for 2021, while the cost of private investments for 3 years is expected to be 1,684,231,000 €, of which € 1.3 billion will be invested in New Kosovo power plant and € 384,231,000 in renewable energy investments.

2021	2,000,000							2,000,000
Table 10a: Costing of structural reform measure: Measure #3: Structural changes in agro-processing sector⁴⁹								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019			46,785,359.00	937,332.00	47,722,691			
2020			51,417,483.84	1,059,185.16	52,476,669			
2021			53,432,870.88	1,133,328.12	54,566,199			
Table 10b: Financing of structural reform measure: Measure #3: Structural changes in agro-processing sector								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	44,772,691					2,950,000		47,722,691
2020	49,526,669					2,950,001		52,476,670
2021	51,616,199					2,950,002		54,566,201
Table 10a: Costing of structural reform measure: Measure #4: Consolidation and inventory of agricultural land⁵⁰								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		702,668		700,000	1,402,668			
2020		500,000		700,000	1,200,000			
2021		500,000		700,000	1,200,000			
Table 10b: Financing of structural reform measure: Measure #4: Consolidation and inventory of agricultural land								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	702,668				700,000			1,402,668
2020	500,000				700,000			1,200,000

⁴⁹ The total cost for implementing this measure is expected to be around € 154,765,562, from the Kosovo budget is expected to be around € 145,915,559 for 2019-2021. Of this amount € 44,772,690 for 2019; € 49,526,669 for the year 2020 and € 51,616,199 for the year 2021, while the cost from the WB loan is expected to be € 8,850,003 for three years, of which € 2,950,000 for 2019; 2,950,001 per year 2020 and 2,950,002 € per year 2021.

⁵⁰ The total cost for implementing this measure is expected to be around € 3.802.668 for 2019-2021. Out of this amount € 1,402,668 is for 2019; € 1,200,000 for 2020 and € 1,200,000 for the year 2021. Of the Kosovo budget will be € 702,668 for 2019 and € 500,000 for 2020, 2021 and from GIZ will be € 700,000 for 2019, 2020 and 2021.

2021	500,000				700,000			1,200,000
Table 10a: Costing of structural reform measure: Measure #5: Increase of competitiveness in the manufacturing industry⁵¹								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		100,000	2,050,000	3,250,000	5,400,000			
2020		100,000	2,050,000	1,850,000	4,000,000			
2021		100,000	2,050,000	2,150,000	4,300,000			
Table 10b: Financing of structural reform measure: Measure #5: Increase of competitiveness in the manufacturing industry								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	5,300,000				100,000			5,400,000
2020	3,900,000				100,000			4,000,000
2021	4,200,000				100,000			4,300,000
Table 10a: Costing of structural reform measure: Measure#6: Enhancing competitiveness in the Tourism and Hospitality Sector⁵²								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		82,000	500,000		582,000			
2020		93,000	500,000		593,000			
2021		88,000	500,000		588,000			
Table 10b: Financing of structural reform measure: Measure#6: Enhancing competitiveness in the Tourism and Hospitality Sector								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	547,000						35,000	582,000
2020	543,000						50,000	593,000
2021	548,000						40,000	588,000

⁵¹ The total estimated cost of implementing this measure is expected to be around EUR 13,700,000 for the years 2019-2021, of which EUR 13,400,000 are allocated from the Kosovo budget and EUR 300,000 from donors. Of the total amount for 2019, EUR 5,300,000 are from BRK and EUR 100,000 from donors; for 2020, EUR 3,900,000 are from BRK and EUR 100,000 from donors; and for 2021, EUR 4,200,000 are from BRK and EUR 100,000 from donors.

⁵² The total estimated cost for the implementation of this measure for the years 2019-2021 is expected to be about EUR 1.763.000 were EUR 582.000 for 2019, EUR 593.000 for 2020 and EUR 588.000 for 2021.

Table 10a: Costing of structural reform measure: Measure #7: Adoption of evidence-based policies and addressing administrative⁵³ burdens								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	0	236,000	0	0	236,000.00			
2020	0	164,600	0	0	164,600.00			
2021	0	100,000	0	0	100,000.00			
Table 10b: Financing of structural reform measure: Measure #7: Adoption of evidence-based policies and addressing administrative burdens								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	136,000.00				100,000			236,000
2020	64,600.00				100,000			164,600
2021					100,000			100,000
Table 10a: Costing of structural reform measure: Measure #8: Securing property rights by addressing informality in the immovable property sector⁵⁴								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	0	0	486,650	0	486,650			
2020	0	0	235,115	0	193,115			
2021	0	0	250,235	0	250,235			
Table 10b: Financing of structural reform measure: Measure #8: Securing property rights by addressing informality in the immovable property sector								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	42,500				444,150			486,650
2020	42,000				193,115			235,115
2021					250,235			250,235

⁵³ The cost for implementing activities to achieve the set targets is expected to have a budgetary impact of EUR 500,600 for the next two years (2019-2020). In 2019 this cost will be in the amount of EUR 136,000 and in 2020 EUR 64,000. These funds have been planned in the budget for 2019 and in the projections for 2020. The cost of implementing the activities is covered under the Office of the Prime Minister in the form of grants provided as budget support by development partners, and in the form of expertise support amounting to EUR 300,000 for the period 2019-2021

⁵⁴ The total cost of implementing this measure is € 972,000, with 84,500 € covered by the Kosovo Budget, and the rest 845.500 € covered by development partners (USAID and EC). The breakdown according to the planned years is 486.650.00 € for 2019 and 193.115.00 € for 2020 and 250.235 € for 2021.

Table 10a: Costing of structural reform measure: Measure #9: Increase the efficiency of the judiciary in resolving cases⁵⁵								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	0	618,728		750,000	1,368,728			
2020	0	618,728		750,000	1,368,728			
2021	0	818,728			818,728			
Table 10b: Financing of structural reform measure: Measure #9: Increase the efficiency of the judiciary in resolving cases								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	602,228		16,500		750,000			1,368,728
2020	602,228		16,500		750,000			1,368,728
2021	802,228		16,500					818,728
Table 10a: Costing of structural reform measure: Measure #10: General Inspection Reform⁵⁶								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		28,200		1,955,492	1,983,692			
2020		56,400		2,933,238	2,989,638			
2021		56,400		4,000,000	4,056,400			
Table 10b: Financing of structural reform measure: Measure #10: General Inspection Reform								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	28,200	0	0	0	0	1,955,492	0	1,983,692
2020	56,400	0	0	0	0	2,933,238	0	2,989,638
2021	56,400	0	0	0	0	4,000,000	0	4,056,400

⁵⁵ The implementation cost for this measure is expected to be EUR 3,556,184 for the three upcoming years 2019 - 2021 with 2,056,184 € covered by the Kosovo Budget. The breakdown according to the planned years is 618,728 € for 2019, 618,728 € for 2020 and 818,728 € for 2021. The rest 1,500,000 € covered by grand's were 750.000 € for 2019 and 750,000 € for 2020.

⁵⁶ The total cost for the implementation of this measure is 9.029.730 euros for years 2019-2021. From the Kosovo budget will be 141,000 € in which for 2019 will be 28,200 €, for 2020 will be 56,400 € and 2021 will be 56,400 €, and loan with the amount of 8,888,730 € from WB in which for 2019 will be 1,955,492 €, for 2020 will be 2,933,238 € and 2021 will be 4, 000.000 €.

Table 10a: Costing of structural reform measure: Measure #11: Reduction of Informal Economy⁵⁷								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		150,000			150,000			
2020								
2021								
Table 10b: Financing of structural reform measure: Measure #11: Reduction of Informal Economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	150,000							150,000
2020								
2021								
Table 10a: Costing of structural reform measure: Measure #12: Improving entrepreneurship and innovation environment⁵⁸								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		425,000	6,750,000.00	4,000,000	11,175,000.00			
2020		425,001	8,400,000.00	4,000,000	12,825,001.00			
2021		425,002	8,400,000.00	4,000,000	12,825,002.00			
Table 10b: Financing of structural reform measure: Measure #12: Improving entrepreneurship and innovation environment								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	10,775,000				400,000			11,175,000
2020	11,425,000			1,000,000	400,000			12,825,000
2021	11,425,000			1,000,000	400,000			12,825,000

⁵⁷ The costs for 3 impact assessment for 2019 would be 150,000 € as they have to introduce a survey and it is calculated that each of those assessment will cost around 50.000 €. The rest of activities consist of administrative costs that are absorbed from national budget during the normal course of activity. For 2020 and 2021 there would be no additional costs as the methodologies developed in 1st year (2019) would be only implemented.

⁵⁸ The cost for implementing the activities for this measure are planned to be EUR 36,825,003 for 2019-2021. From Kosovo Budget will be 33,625,000 EUR in which 10,775,000 for 2019, for 2020 will be 11,425,000 and 2021 will be 11,425,000. Funds from IPA will be 2,000,000 in which 1,000,000 will be in 2020 and 1,000,000 on 2021. Other grand's are 1,200,000 EUR in which 400,000 EUR are divided for 2019 - 2021.

Table 10a: Costing of structural reform measure: Measure #13: Expansion of relevant ICT network infrastructure and services for socio-economic development⁵⁹								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		750,000	2,000,000.00	856,087	3,606,087.00			
2020		750,000	6,000,000.00	1,640,000	8,390,000.00			
2021		750,000	9,000,000.00	1,640,000	11,390,000.00			
Table 10b: Financing of structural reform measure: Measure #13: Expansion of relevant ICT network infrastructure and services for socio-economic development.								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	856,087			750,000		2,000,000		3,606,087
2020	1,640,000			750,000		6,000,000		8,390,000
2021	1,640,000			750,000		9,000,000		11,390,000
Table 10a: Costing of structural reform measure: Measure #14: Trade facilitation by increasing the cost-effectiveness of international trade transactions⁶⁰								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	0	114000	0	0	114000			
2020	0	114000	0	0	114000			
2021	0	114000	0	0	114000			
Table 10b: Financing of structural reform measure: Measure #14: Trade facilitation by increasing the cost-effectiveness of international trade transactions								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	30,000			60,000	24,000			114,000
2020	30,000			60,000	24,000			114,000
2021	30,000			60,000	24,000			114,000

⁵⁹ The total cost of implementing this measure is expected to be around EUR 23,386,087 for 2019-2021. Out of this total amount, EUR 4,136,087 will be allocated from the Kosovo budget as follows: EUR 856,087 for 2019, EUR 1,640,000 for 2020 and EUR 1,640,000 for 2021. A number of activities will be supported through IPA 2017 funds, with EUR 750,000 per year during 2019-2022. Activities related to the implementation of broadband infrastructure expansion in the uncovered areas will be financed through a WB loan that is expected to be disbursed as follows: EUR 2,000,000 in 2019, EUR 6,000,000 in 2020, and EUR 9,000,000 in 2021.

⁶⁰ The total cost for the next three years will be 342,000.00 € divided for the next three years with 114,000 € per year. Of these, 30,000 € will be funded from the central budget, 60,000 € from IPA and 24,000 € from other grants.

Table 10a: Costing of structural reform measure: Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products⁶¹								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	19,800.00	267,067	0	400,492	687,359			
2020	19,899.00	336,967	0	573,238	930,104			
2021	19,998.50	266,869	0	300,000	586,867			
Table 10b: Financing of structural reform measure: Measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	136,867			150,000		400,492		687,359
2020	156,866			200,000		573,238		930,104
2021	136,867			150,000		300,000		586,867
Table 10a: Costing of structural reform measure: Measure #16: Increase of quality of vocational education and training based on labour market requirements⁶²								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019		1,750,048.00			1,750,048			
2020		1,030,048.00			1,030,048			
2021		1,015,048.00			1,015,048			
Table 10b: Financing of structural reform measure #16: Increase of quality of vocational education and training based on labour market requirements								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	105,000	1,000,048			645,000			1,750,048
2020	30,000	1,000,048						1,030,048
2021	15,000	1,000,048						1,015,048
Table 10a: Costing of structural reform measure: Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education⁶³								

⁶¹ The total cost for implementing the measure for the next three years is 2,204,330 € respectively 687,359 € for 2019, 930,104 € for 2020 and 586,867 € for 2021. Of these funds, 430,600 € are provided from the central budget (136,867 € for 2019, 156,866 € for 2020 and 136,867 € for 2021). Of IPA funds, the total amount of funding will be 500,000 €, divided as follows: 150,000 € for 2019; 200,000 € for 2020 and 150,000 € for 2021. While through the World Bank loan project, the total amount of funding is: EUR 1,273,730 € respectively 400,492 € for 2019, 573,238 € for 2020 and 300,000 € for 2021.

⁶² The total cost for implementing this measure is expected to be EUR 3,795,144 for 2019-2021, out of which 150,000 are from the central budget, EUR 3,000,144 are from the municipal budget and 645,000 are planned from other grants. For 2019, the total amount is EUR 1,759,048 out of which EUR 105,000 are from the central budget, EUR 1,000,048 are from the municipal budget and EUR 645,000 from other grants. For 2020, there are EUR 30,000 from the central budget and EUR 1,000,048 are from the municipal budget. For 2021, there are EUR 15,000 from the central budget and EUR 1,000,048 from the municipal budget.

⁶³ The total cost for 2019-2021 is expected to be EUR 8,430,892. For 2019, EUR 6,688,161 are planned, out of which EUR 1,688,161 are from the central budget and EUR 5,000,000 from IPA. For 2020, EUR 909,970 are planned from the central budget and for 2021, EUR 832,761 are planned from the central budget.

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2019		5,888,161		800,000.00	6,688,161.00
2020		309,970	100,000	500,000.00	909,970.00
2021		732,761	100,000		832,761.00

Table 10b: Financing of structural reform measure: Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	1,688,161			5,000,000				6,688,161
2020	909,970							909,970
2021	832,761							832,761

Table 10a: Costing of structural reform measure: Measure #18: Reform in Pre-University Education⁶⁴

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2019		392,820	702,707		1,095,527
2020		372,820	628,307		1,001,127
2021		352,820	628,307		981,127

Table 10b: Financing of structural reform measure: Measure #18: Reform in Pre-University Education

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	792,707				302,820			1,095,527
2020	798,307				302,820			1,101,127
2021	678,307				302,820			981,127

Table 10a: Costing of structural reform measure: Measure #19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship⁶⁵

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2019		230,000	3,080,000		3,310,000
2020		150,000	2,405,000		2,555,000
2021		30,000	2,465,000		2,495,000

⁶⁴ The total cost of implementing this measure for 2019-2021 is expected to be 3,177,781 €. For 2019, the total cost is 1,095,527 € out of which 792,707 € are from the KCB, while 302,820 € from other grants. The total cost for 2020 is 1,101,127 € out of which 798,307 € from the central budget while 302,820 € from other grants and the total cost for 2021 is 981,127 €, out of which 678,307 € from the central budget and 302,820 € from other grants.

⁶⁵ For implementation of this measure it is planned 3,310,000 € for 2019-2021. For 2019, is planned 3,310,000 € in which 3,080,000 are from Kosovo budget and 230,000 from other grants. For 2020 is planned 2,555,000 € in which 2,405,000 are from Kosovo budget and 150,000 from other grants and for 2021 is planned 2,495,000 € in which 2,465,000 are from Kosovo budget and 30,000 from other grants.

Table 10b: Financing of structural reform measure: Measure #19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	3,080,000.00				230,000.00			3,310,000
2020	2,405,000.00				150,000.00			2,555,000
2021	2,465,000.00				30,000.00			2,495,000
Table 10a: Costing of structural reform measure: Measure #20: Improvement of social and health services⁶⁶								
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total			
2019	316,800	4,448,124			4,764,924			
2020	318,384	3,694,245			4,012,629			
2021	319,976	1,855,178			2,175,154			
Table 10b: Financing of structural reform measure: Measure #20: Improvement of social and health services								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2019	2,364,924	2,100,000				300,000		4,764,924
2020	1,912,629	2,100,000						4,012,629
2021	2,175,154							2,175,154

Table 11: Reporting on the implementation of the structural measures of the ERP 2018-2020

Reform Measure #1: Improvement of public procurement through application of electronic procurement		Stage of reform implementation (1-5)
Activities planned for 2018	1. Full implementation of electronic procurement in all budget organizations	5
	2. Capacity building of public procurement officers and economic operators on public procurement and application of e-procurement;	5

⁶⁶ The total estimated cost for implementing this measure 2019-2020 is expected to be EUR 10,952,707. For 2019, is planned 4,764,924 € in which 2,364,924 are from Kosovo budget, 2,100,000 from local government budgets and 300,000 from other grants. For 2020 is planned 4,012,629 € in which 1,912,629 are from Kosovo budget, 2,100,000 from local government budgets and for 2021 is planned 2,175,154 € which are from Kosovo budget.

	3. Development (advancement) and maintenance of the electronic procurement system;	5
Description of implementation and explanation if partial or no implementation	<p>1. As of 01.01.2017, the use of the e-procurement platform has become mandatory for all budget organizations of the central level and local level as well as for public enterprises for procurements with medium and high value, while starting from 01.01.2018 the e-procurement platform become mandatory for all type of procurements above 1000Euro or for 98% of all procurement activities.</p> <p>Moreover the PPRC by mid of 2018 issued a decision with regard to electronic bid submissions. According to this decision starting from July 5th, 2018 no physical bids are allowed for all centralized procurement activities conducted by CPA and starting from September 1st, 2018 no physical bids are allowed for all procurements with high value.</p> <p>While based on an internal short-term plan of the PPRC the objective is that starting from January 1st, 2019, electronic submission of the bids will be mandatory for all procurement types and values, and no physical bid submission shall be allowed.</p> <p>2. The PPRC, with the aim of facilitating and supporting the contracting authorities at all levels, has initiated a continuous TRAINING process which will continue as long as it is considered necessary and/or requested by CAs and EOs.</p> <p>During this period, the PPRC in cooperation with KIPA provided training on “Basic Procurement”, “Code of Ethics in Public Procurement”, “E-Procurement and Ethics” and “Contract Management”. Trainees included judges, internal auditors, business representatives, and directors of municipal departments, officials engaged in Opening and Evaluation Commissions, and school principals of some municipalities. Altogether 1070 participants benefited from such training.</p> <p>3. All types of information and documents published in the e-procurement system are public, accessible and available for all interested parties, economic operators, physical persons, civil society, etc.</p> <p>Actually about 6000 Economic Operators and 15,000 users are registered and actively using the e-procurement system for procurement activities, including use of different type of guidelines, regulations and operation manuals which are published in the system and available for all interested parties. The most important starting from September 1st 2018 signed contracts are published in full content. Within the e-procurement system the PPRC monitoring department has a dedicated role and functionality through which is granted access to data in real time and at any phase of the procurement activity.</p>	
Reform Measure #2: Reducing energy consumption through energy efficiency measures		Stage of reform implementation (1-5)

Activities planned for 2018	1. Approval of the Law on Energy Efficiency	5
	2. Evaluation and decision-making on modalities of the financing mechanism to support investments in Energy Efficiency within the EE Law;	5
	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;	5
	4. Feasibility study for the construction of district heating systems for Drenas, Kastriot, Prizren, Peja, Ferizaj, Gjilan, Mitrovica and Zvecan;	0
	5. Expansion of the Co-generation Network for the Municipality of Prishtina;	3
	6. Construction of central heating plant in Gjakova with biomass energy source;	0
	7. Installation of Power Management Software in 6 municipalities for all facilities managed by the Municipality (Pristina, Podujeva, Mitrovica, Gjakova, Drenas, Prizren).	3
Description of implementation and explanation if partial or no implementation	1. The law on energy efficiency has been approved.	
	2. The Kosovo Energy Efficiency Fund is established by the EE law as an independent, autonomous and sustainable non-profit legal entity to enable the Government of Kosovo to achieve its EE-policy objectives. It has the right to: invest in EE-projects and receive any return of investment, receive and provide grants and donations and other financial instruments. It has full operational and administrative autonomy and shall operate on a sustainable basis with sufficient fees or resources to cover its administrative and operating costs.	
	3. The energy efficiency measures in 60 public buildings containing the activities mentioned above have been fully implemented. The funding by the German Government, World Bank and the Kosovo Budget respectively have gone as scheduled.	
	4. A request was made to the WBIF to do those feasibility studies, but we have been officially informed that this application will not be supported by them.	
	5. The implementation of the expansion of the Co-generation Network for the Municipality of Prishtina has started.	

	6. District Heating Company JSC Gjakova has been waiting to the construction of the Cogeneration Plant, but did not take any measures in the absence of financial means.	
	7. Installation of Power Management Software in 6 municipalities for all facilities managed by the Municipality (Pristina, Podujeva, Mitrovica, Gjakova, Drenas, and Prizren) the implementation has started.	
Reform Measure #3: Further development of energy generation capacities		Stage of reform implementation (1-5)
Activities planned for 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;	4
	2. Implementation of three projects of solar power plants with a total capacity of 9 MW;	4
	3. Implementation of five small hydropower projects with a total installed capacity of 22.1 MW, private investment;	3
Description of implementation and explanation if partial or no implementation	1 The progress regarding the development of TPP Kosova e Re project: a) Some activities are not fully finished. b) The construction contract is in its final phase c)The drafting of the studies have been completed	
	2. During 2018 two projects of solar power plant with total capacity 6 MW are finished and now are in operation. The other project with 3 MW capacity is in the construction phase and expected to be in operation by 2019.	
	3. The construction of five small hydropower projects with total installed capacity of 22.1 MW has continued during 2018 and expected to be in operation in 2019.	
Reform Measure #4: Investments in the agricultural infrastructure and agro-processing		Stage of reform implementation (1-5)

Activities planned for 2018	1. Investment in physical infrastructure – increase production areas in the horticulture sector: greenhouses, long living trees, small trees, vineyards, seed plots;	4
	2. Investment in physical infrastructure – increase production capacities in farming and poultry, new stables for production of milk, meat, laying hens and broilers;	4
	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
	4. Investment in irrigation system: expanding new canals of primary, secondary and tertiary irrigation system;	5
	5. Investment in modernization of systems and electronic registry (FADN, IACS, SLIPS, REF, animal registry, trade statistics registry).	5
Description of implementation and explanation if partial or no implementation	1. As per Investment in physical infrastructure – increase production areas in the horticulture sector there are 109 applications approved for greenhouses, vineyards – grape sector, and 18 applications were approved.	
	2. For increasing investment in physical infrastructure especially in poultry - eggs sector there are 4 applications approved, for milk production for cows 71 applications approved and for milk production for sheep and goats 25 applications approved.	
	3. Investment in agro-processing there are 27 applications approved from which for milk processing 4 application approved, for meat processing 3 application approved, for fruits and vegetables 16 applications approved for wine production 4 applications approved.	
	4. For investment in irrigation system there are 3 projects realised during 2018 on expansion of irrigation system in municipality of Mitrovica- Frasher village 6097 meters, municipality of Vushtria villages Pantine and Samadrexhe 35800meters and municipality of Prizren villages Pirane, Landovice, Tupec and Krajka 13877 meters.	
	5. Regarding the modernisation of systems the software for FADN is established where all the standard results for years 2015, 2016 and 2017 are included also the system for trade statistic registry is finished and all trade data from 2005 till 2017 are in the system, as per IACS, LPIS, REF and animal registry they are operating and updating their data according the needs.	

Reform Measure #5: Expanding farms through consolidation and regulation of agricultural land		Stage of reform implementation (1-5)
Activities planned for 2018	1. Integration of processed data into the spatial data base;	1
	2. Files from completed projects in the Municipality of Drenas and Vushtrri inserted into the Registry of Immovable 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.	
Description of implementation and explanation if partial or no implementation	1. Integration of processed data into the spatial data are not finished, the data are not integrated yet into the spatial data base.	
	2. For municipality of Vushtria the data are registered 60% into the Registry of Immovable Property Rights, as per municipality of Drenas the data are not registered. The project of unregulated agricultural land improvement in the Municipality of Drenas has been completed in 21 cadastral zones, with a surface of about 4,725. Since there have been complaints from the participants of the co-financing project and according to the legal provisions in force that makes MAFRD a second administrative instance for appeal, MAFRD during this period has reviewed all complaints (12) and based on the legal provisions it has returned for reconsideration to the Municipal Commission for Compensation or sent to the competent court for further proceedings, upon completion of court proceedings, cases are ready to be entered into the Immovable Property Rights Register -IPRR.	
	3. Continuously individual discussion is going on with farmers included in the project.	
	4. The project has been prepared and is in the review phase with owners of agricultural land in the municipality of Rahovec, this will be a pilot project.	
Reform Measure #6: Developing private sector competitiveness through support to industrial SMEs		Stage of reform implementation (1-5)
	1. Drafting and approving the Strategy for Private Sector Development 2018-2022, including industrial	4

Activities planned for 2018	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;	5
	3. Implementation of recommendations from the FDIP and improvement of the dialogue between central and local government and other stakeholders;	4
	4. Promoting and supporting enterprises in the existing 4 industrial parks, 2 business parks, 1 agro-industrial zone and 1 technology park;	3
	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);	5
	6. Creating and promoting a database of SMEs as potential suppliers and subcontractors;	4
	7. Supporting and increasing the cooperation with diaspora business networks in order to increase investments and exports.	5
Description of implementation and explanation if partial or no implementation	1. The Strategy for Private Sector Development 2018 - 2022 has been drafted, approval is expected.	
	2. Analytical work to support industrial policy a) Value chain analysis in the wood sector, sub-sector for construction and furniture b) A report on the development of industrial sectors is finalized and published on the MTI web site c) Meetings have been held with associations of manufacturing sectors in order to increase cooperation: wood, textile, ICT, rubber and plastic association.	
	3. 1. Meetings with Focus Groups in 7 regions of Kosovo were held and identification of business challenges were presented at the Forum for Industrial Policy Development (FDIP). 3.2 The report was drafted by the FDIP, followed by recommendations that were forwarded to the Cabinet of the Minister of MTI.	
	4. During the year 2018 financial support for three (3) economic zones (Suharekë, Viti and Vushtri) was provided for the construction of physical infrastructure (electricity, roads, water supply, sewerage, etc.)	

	<p>5.1. Five companies have applied for the certification of the product, while for the consulting scheme has applied only one enterprise, which are in the evaluation phase.</p> <p>5.2 Business Practice, in March of this year, has completed 140 students and we are in preparation for the next phase</p> <p>5.3 The "Women in Business" fair ended in early August, with over 20 businesses and NGOs attending.</p>	
	6. Creating and promoting a database of SMEs as potential suppliers and subcontractors, Develop a database for SMEs, the Wood sector and the Textile sector.	
	7. Six information sessions were held in order to increase the cooperation with diaspora networks.	
Reform Measure #7: Development of tourism products in Kosovo touristic regions		
	Stage of reform implementation (1-5)	
Activities planned for 2018	1. Adoption of Concept Document and drafting of Law on Tourism;	5
	2. Identifying international standards for improving quality of tourism and accommodation services;	4
	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;	5
	4. Encouraging relevant institutions and organizations for the establishment of tourist signalisation according to regulations in force;	4
	5. Supporting businesses in development of rural tourism and agro-tourism;	
Description of implementation and explanation if partial or no implementation	1. The Concept Document on the Law on Tourism was adopted. The concept was approved by the Government on July 17, 2018, The Law on Tourism was finalized and the public discussion phase was completed;	
	2. Two international standards have been identified for improving the quality of tourism and hotel services;	
	3. Regarding the Identification of the tourist product in the Anamorava tourist region were developed surveys as well as meetings with the respective municipalities. The report on the identification of the tourism product of the Anamorava Region has been finalized and was shared with the respective municipalities in this region;	

	<p>The administrative instruction on tourism and cultural heritage signalization was drafted by MCYS in cooperation with MTI. The document has passed the stage of public discussion and is expected to come into force at the end of December. During the round tables meetings with the relevant stakeholders we have informed them for this legal regulation;</p> <p>Ministry of Agriculture, Forestry and Rural Development is implementing this measure and monitoring the process.</p>	
Reform Measure #8: Adoption of evidence-based policies and reducing administrative burdens		
	Stage of reform implementation (1-5)	
Activities planned for 2018	1. Development of a Concept Document for reduction of administrative burden, including setting out relevant targets;	4
	2. Establishment of a Better Regulation Unit;	5
	3. Training of civil servants on applying guidelines and analytical tools for ex-ante policy evaluation and consultation process;	5
	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
	5. Carry out three ex-post legislative evaluations;	5
	6. Finalizing the database framework for impact assessment with data for further improvement of evidence-based policy.	4
Description of implementation and explanation if partial or no implementation	<p>1. Development of a Concept Document for reduction of administrative burden, including setting out relevant targets;</p> <p>It is considered an activity implemented because it is in the final drafting phase. It is planned to be approved by the Government in the first half of this year-2019.</p> <p>During the year 2018 the drafting of the Concept Document on Administrative Burden Reduction continued. There were 4 working group meetings and 3 meetings of several members with businesses and local producers in order to get familiar with the difficulties and problems they encounter in their business operations. By the end of 2018 a draft of the CD was prepared and it is expected to be sent for preliminary consultations in the first quarter of this year.</p>	

	<p>2. Establishment of a Better Regulation Unit - The process for introducing better regulation policies is established and implementation responsibilities are attributed. This process was also reaffirmed in the last meeting of the Council of Ministers for PAR conducted in December 2018. It was also confirmed in the discussions with SIGMA and the European Commission, fulfilling the 5th indicator of Direct Budget Support under the Agreement of IPA 2 for Kosovo.</p>
	<p>3.3. Training of civil servants on applying guidelines and analytical tools for ex-ante policy evaluation and consultation process;</p> <ul style="list-style-type: none"> - Responsible offices within the Office of the Prime Minister for the implementation of new guidelines and analytical tools for ex-ante policy evaluation and consultation process during 2018 have organized the following trainings; - Government Coordination Secretariat organized three day trainings for implementation of new guidelines for 25 Working Groups. Number of civil servants trained is 167. Part of these trainings were also 2 additional trainings with total of 37 participants focused on the ex-ante analysis of the EU Acquis transposition policies, carried out in cooperation with MEI and certain ministries. <p>Training on Policy Communication (based on the Guidelines and Manual for Drafting Concept Papers) was held and attended by 14 officials from the Office of the Prime Minister and 11 ministries.</p> <p>The Gender Equality Agency held 7 daily training sessions where 250 participants (180 were women and 73 were men) were trained. The Gender Impact Assessment Tool was also presented to participants in the trainings organized by GCS from the TL of SIDA's project at AGE.</p> <p>The Office of Good Governance during 2018 conducted 8 training sessions for officials in line ministries for public consultation. These eight training sessions involved 157 participants. The sessions were realized for the coordinators for public consultation and four of these training sessions were held in line ministries.</p> <p>Regarding the ex-post evaluation of legislation, the Legal Office organized trainings for a total of 22 participants from 10 different public institutions.</p> <p>Based on the above data, the total number of training participants for 2018 was 647.</p>
	<p>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 - The Standard Cost Model is now fully integrated into the requirements for drafting Concept Documents, and the manual on SCM was drafted. The process of selecting candidates for Training of Trainers for the Standard Cost Model was completed in cooperation with KIPA, and the first meeting of this group was held to</p>

	continue with the full training agenda from January of next year.	
	5. Carry out three ex-post legislative evaluations - During the year 2018, four (4) evaluation reports were approved: Ex-post Assessment Report of the Law no. 04 / L-215 on Citizenship of Kosovo; and The ex-post evaluation report of Law no. 03 / L-40 on Local Self-Government; Ex-post Assessment Report of Law No. 04 / L-074 on Agriculture and Rural Development and Ex-post Assessment Report of the Law no. 05 / L -020 on Gender Equality	
	6. Finalizing the database framework for impact assessment with data for further improvement of evidence-based policy - Regarding the database framework for policy development, it will be achieved through the development of the Impact Assessment Database and essential steps were taken to complete this. In this context, the expert engaged through the SIDA project at the OPM has finalized framework of the database and is continuing its completion until the finalization of this process in February 2019.	
Reform Measure #9: Securing property rights by addressing informality in the immovable property sector		Stage of reform implementation (1-5)
Activities planned for 2018	1. Adopt the amendments to the Law on Ownership and Other Real Rights;	3
	2. Drafting a new Law on Public Property;	5
	3. Finalise and approve concept document on a new Law on the Transformation of the Rights of Use on Immovable Socially Owned Property;	4
	4. Finalize and approve the draft Law on Urban Construction Land.	4
	5. Adopt the “Inheritance Package”—Law on Inheritance, Law on Uncontested Procedure, Law on Notaries;	5
	6. Draft and approve a Concept Document for amending the Law on Contested Procedure;	5
	7. Draft and approve a Concept Document for the most effective legal procedure for the recognition and registration of sales made through verbal contracts.	4
	8. 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;	3
	9. Repeal all municipal tariffs on the transfer of ownership that are in violation of AI 08/2014 on Fees for	2

	Immovable Property Registration Services;	
	10. Organize awareness campaigns on the importance of formalizing and registering property rights in the cadastral register.	0
Description of implementation and explanation if partial or no implementation	1. Implementation on going. MoJ prepared the first draft. The draft law will be incorporated into the Civil Code. Civil Code Project 2 is undergoing. CCP2 organized outreach events to discuss issues which the new draft law addresses.	
	2. MoJ has finalized the Draft Law on Public Property. The draft Law is proceeded to the Government for review and approval.	
	3. Draft Concept Document on a new Law on the Transformation of the Rights of Use on Immovable Socially Owned Property is prepared, public consultation is concluded, and all received comments are reviewed and appropriately incorporated into the final draft.	
	4. Draft Law on Construction Land is finalised. The draft law is pending calculation of financial cost and will be proceeded to the Government soon.	
	5. Finalized. The Law No. 06/L-008 on Amending and Supplementing the Law No. 2004/26 on Inheritance in Kosovo and Law No. 06/L-007 on Amending and Supplementing the Law No. 03/L -007 on Out Contentious Procedure and Law No. 06/L -010 on Notary are published on Official Gazette.	
	6. MoJ finalized Draft Concept Document on Contested Procedure and it is approved by the Government.	
	7. USAID Property Rights Program in cooperation with the Office of the Prime Minister and the Kosovo Property Comparison and Verification Agency (KPCVA) finalised the amendments of the KPCVA Law, to create an expedited procedure for formalizing informal property rights stemming from verbal or informal contracts. The Draft Law is currently at the parliamentary proceedings.	
	8. First Draft amending and supplementing the Law on Cadastre is finalized. Drafting process is ongoing in consultation with other stakeholders.	
	9. All municipalities implements the AI 08/2014 on Fees for Immovable Property Registration Services, but there are a few municipalities that charge the citizens with additional taxes for transfer of immovable property. This tax is in contradiction with the legislation. Ministry of Local Government Administration shall recommend and advise the municipalities to repeal the tax on transfer of the immovable property.	

	10. Until now the Kosovo Cadastral Agency did not allocate budget to organise awareness campaigns on the importance of formalizing and registering property rights in the cadastral register. With the support of the World Bank Project there is readiness to cooperate with other stakeholders and organise such awareness campaigns.	
Reform Measure #10: Increase judicial efficiency through reduction of court case backlog		Stage of reform implementation (1-5)
Activities planned for 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;	5
	2. Finalise and adopt the assessment for the increase of the number of judges and professional associates in Fiscal Division;	5
	3. Completing the first stage of CMIS development;	5
	4. Arranging and conducting training for functionalizing CMIS in the courts;	4
	5. Expand the functioning of CMIS in five respective regions according to the plan.	4
Description of implementation and explanation if partial or no implementation	1. In 2018, KJC recruited 112 supporting staff in all Basic Courts of Kosovo including professional associates.	
	2. On 01.11.2018 Basic Court in Pristina assigned two judges to the Administrative Department - Fiscal Division, actually there are nine (9) judges in their support are professional associates and legal support staff.	
	3. CMIS is developed for all case types in three court instances (Basic Court, Court of Appeal and Supreme Court): Criminal and Civil Cases, and Minor Offence Cases.	
	4. As per the plan, the CMIS for criminal cases is implemented in 17 courts of five regions, region of Ferizaj, Gjilan, Prizren, Gjakova and Peja. CMIS for civil cases is piloted in Basic Court of Ferizaj in the period of time November 1, 2018 until December 15, 2018. Training and rollout of the CMIS for civil cases will be held from beginning of the year 2019.	
	5. CMIS Project, from January 2019 will expand training and rollout of the CMIS for civil cases in five regions, and at the same time the project will expand training and rollout in Prishtina and Mitrovica for all case types.	

Reform Measure #11: General Inspection Reform		Stage of reform implementation (1-5)
Activities planned for 2018	1. Adoption of a harmonized law on inspections which will lay the foundations for a risk-based approach to inspections;	4
	2. Evaluation of existing inspections, followed by eliminating unnecessary or merging of inspection activities.	4
Description of implementation and explanation if partial or no implementation	1. The concept document has been approved and the law has been drafted, but it needs further consultations since many stakeholders are involved, the plan is to adopt the law during 2019.	
	2. The existing inspections have been evaluated while drafting the concept document, the new structure will be adopted after the adoption of the horizontal law in inspection, and the plan is to adopt the new structure by the end of this year.	
Reform Measure #12: Improve Entrepreneurship and Innovation environment		Stage of reform implementation (1-5)
Activities planned for 2018	1. Drafting secondary legislation deriving from Law on Innovation and Knowledge Transfer and Technology;	0
	2. Drafting Law on Innovation and Entrepreneurship and the Innovation Strategy (MIE);	4
	3. Drafting secondary legal infrastructure based on the Law on Innovation and Entrepreneurship (MIE);	0
	4. Development of business incubators and at least of 3 new Innovation Centres;	5
	5. Developing entrepreneurship and innovative ideas through training programs/consulting;	0
	6. Functionalization of National Entrepreneurship and Innovation Council;	5
	7. Direct financial support to SMEs, start-up businesses, private initiatives for the purpose of developing innovative ideas for service, products or process.	4

Description of implementation and explanation if partial or no implementation	1. Drafting secondary legislation deriving from Law on Innovation and Knowledge Transfer and Technology has not started yet.
	2. The Concept Document for the draft Law on Innovation and Entrepreneurship was drafted and expected to be adopted in Q3 2019. The National Strategy for Innovation and Entrepreneurship is in public consultation phase and expected to be adopted in Q1 2019
	3. The secondary legal infrastructure based on the Law on Innovation and Entrepreneurship postponed for Q1 2020.
	4. MIE in 2018 has established 2 Regional Centers for Innovation and Entrepreneurship, in Prishtina within the Faculty of Mechanical Engineering premises, in Ferizaj at the former Cultural House in close cooperation with municipality and university. While, in Mitrovica within Public University “Isa Boletini” and Peja University “Haxhi Zeka” compound we are in process of establishing new centre for I&E. Transformation of the German KFOR Camp in Prizren into the “Park of Innovation and Training “is a joint project of the Government of the Republic of Kosovo and the Federal Government of Germany. The MIE should be implementing authority on behalf of the Government of Kosova. For this destination MIE will invest 8 million euros for 3 years.
	5. Developing entrepreneurship and innovation ideas through training programs/consulting will start in 2019 during implementation phase of start-up’s ideas and projects (grant beneficiaries applicants) will develop their ideas for new products or services in Regional Centres for I&E.
	6. National Council for Innovation and Entrepreneurship is functional.
	7. Program for direct financial support for 2018 has been launched. From 7.15 million euro allocated for subsidies and transfer category has benefited these schemes of grant: 2.3 million euro 63 NGOs beneficiaries; 1.2 million euro 160 Start-Ups beneficiaries; 3.0 million euro SME-s no beneficiaries, this scheme has been cancelled due to exceeding legal deadlines for payment execution by governmental budget. 1.2 + 1.2 million euro matching fund for SME-s, MIE with CETEP project is in evaluation process- implementation body is ICK (Innovation Centre of Kosovo).
Reform Measure #13: Expansion of relevant ICT infrastructure networks for socio-economic development	
Stage of reform implementation (1-5)	

Activities planned for 2018	1) Implementation of pilot project for expansion of broadband Infrastructure that will include four or more lots (rural areas);	5
	2) Concluding agreement with the WB on the loan for investment during the following years for implementation of KODE Program;	5
	3) Adopting and operationalizing technological park for ICT business's needs.	4
Description of implementation and explanation if partial or no implementation	<p>1. As part of preparation for Digital Inclusion component of KODE program, Ministry of Economic Development of Kosovo during this year has implemented a number of pilot projects for extension of broadband infrastructure in uncovered rural areas. Fourteen (14) pilots for expansion of broadband infrastructure have been implemented, which included 40 villages. The completed pilots are: Lot 1 – Breznicë-Kozaricë; Lot 2 – Oshlan-Hercegovë-Balincë-Liqej; Lot 3 – Pjetërshan-Kusar-Dol; Lot 4 – Pouskë. Also, other lots are being implemented: Lot 5 – Zym-Karashëngjergj; Lot 6 – Stubëll e Epërme-Letnicë; Lot 7 – Pobërxhë-Voksh-Bogë; Lot 8 - Rahovë-Zhazhë-Lipë-Boletin; Lot 9 - Gërgoc-Zhabel-Bardhaniq-Ratish; Lot 10 – Gadish-Sllakovc-Kishnapol-Zhegoc-Vërbicë e Zhegocit; Lot 11 – Llabjan-Dragoc; Lot 12 – Prapashticë-Koliq-Keqekollë; Lot 13 – Rekë e Allagës - Joshanicë (Stankaj); and Lot 14 – Firzë-Zhub-Zylfaj.</p> <p>For implementation of these fourteen pilots, have been spent budget in the amount of € 1,190,000.</p> <p>2. The financing agreement between the Ministry of Finance and the World Bank in the amount of EUR 20.7 million was signed on 20 July 2018. Whereas, the Law on the Ratification of this Agreement has been approved by the Assembly of the Republic of Kosovo on 20.09.2018. During November-December, the CODE Implementation Unit was established and from the beginning of 2019 the implementation of this program will begin.</p> <p>3. The project for adopting and operationalizing of technological park for ICT businesses is being implemented. As part of the agreement with the beneficiary - STIKK (Association for Information Technology of Kosovo), MED undertook the realization of most of the works necessary for the adopting and operationalizing of the Park (works of architecture, machinery, electricity, water and sewerage). This part of the work has almost been finalized, or expressed in percentage about 90% realized.</p>	
Reform Measure #14: Trade Facilitation - increasing the cost-effectiveness of international trade transactions		Stage of reform implementation (1-5)

Activities planned for 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
	2) Regulation of fees for the use of custom terminals through drafting Administrative Instruction for Management of Customs Terminals;	2
	3) Draft Legislation for Digital Signature;	2
	4) Preparation of the platform, procedures and request to adhere in the NCTS;	3
	5) Implementation of the Enterprise Content Management	5
Description of implementation and explanation if partial or no implementation	1. A meeting organized by World Bank with Customs Administration and MTI was held in November 2018. The aim of the meeting was to conduct a gap analysis study on the implementation of the National Single Window concept.	
	2. Administrative Instruction for the use of custom terminals for Management of Customs Terminals is drafted and has been preceded for further procedures to the Ministry of Finance.	
	3. Draft law for Digital Signature is drafted and has been sent to the Assembly for further procedures.	
	4. Ministry of Finance in April 2018 has sent to DG TAXUD the request for accession of Kosovo in CTC as well as gaining the observer status at the EU Common Transit Countries Working Group, and the decision is expected to be taken in the Joint Committees meeting to be held on 4 December 2018, in Brussels.	
	5. Installation of modules for ECM is finished and now Custom Administration is under preparatory phase of testing and it is expected to introduce the completed modules. Modules for digitalization of Business Process are finished for: Archive Office, International Cooperation, Tariff, Evaluation, Laboratory, Origin, Economic Impact, Excise, etc., and will be start to use from 1 January 2019.	
Reform Measure #15: Further improvement of quality infrastructure and strengthening market surveillance, with focus on construction products		Stage of reform implementation (1-5)
Activities planned for 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;	5

	2) Approval of sub-legal acts for implementation of laws under activity 1;	4
	3) Adopt new standards by prioritizing harmonized standards for construction products;	4
	4) Signing a multilateral agreement with the European Accreditation Corporation for testing laboratories;	0
	5) Establishment of quality management system for metrology laboratories;	4
	6) Promotion of quality infrastructure by providing specific technical assistance to manufacturers of construction products.	4
Description of implementation and explanation if partial or no implementation	1. During this period 4 laws have been approved: Law No. 06/L-019 on Standardization, Law no. 06/L-033 on Construction Products, Law no. 06/L-037 on Metrology and Law no. 06/L-041 on Technical Requirements for Products and Conformity Assessment;	
	2. 12 bylaws approved for implementation of laws under activity 1. The only exception is the by law deriving from the Law on Construction Products.	
	3. During this period 587 European Standards have been adopted as Kosovo standards.	
	4. The multilateral agreement with the European cooperation for Accreditation (EA) for testing labs has not been signed due to delays in regulating/defining the organizational structure of DAK, the functioning of the DAK Management System has encountered stagnation, so DAK failed to make the closure of non-conformities, which was an initial condition to be met before the European cooperation for Accreditation was required to assign the evaluation team in November 2018. On November 2018 the new General Director of DAK has been appointed.	
	5. The process has started for 4 metrology labs: mass, thermometry, volume and flow pressure and force.	
	6. Three (3) trainers from the SIDA project “Quality Infrastructure in Western Balkan Countries” have been certified and will provide trainings to manufacturers of construction products. Moreover with the support of this project “Guide on Construction Products” for the manufacturers have been drafted. This activity has taken place on 18 December 2018.	
Reform Measure #16: Harmonization of skills supply and demand by drafting occupational standards and reviewing curricula		Stage of reform implementation (1-5)

Activities planned for 2018	1) Developing 25 occupational standards to be verified by the NQA;	4
	2) Review of 20 VET curricula and training of 40 trainers and teachers based on core curriculum;	3
	3) Reviewing specific funding formula for VET based on cost per sector and profile.	2
Description of implementation and explanation if partial or no implementation	<p>1. The National Qualification Authority during 2018 has verified a total of 11 professional standards:</p> <p>1. Driver Instructor; 2.Vegetable farmer; 3.Preserver of vegetables, fruits and other similar to this profession; 4.Vinedresser; 5.Tailors, Furriers and Hatter; 6.Designer, cutter and textile worker and other similar to this profession; 7. Tourist agent and travel information agent; 8. Assistant for nutrition and food safety; 9.Construction worker; 10.Crop workers; 11.Production workers (manual workers) – Manual packagers.</p> <p>These standards of profession have been drafted: Interior design - wood products; Carpenter and Woodworking. Technical Engineering Technician (Level 5); Hydraulic and plumber (level 4); Mechanics and electrical assemblies (level 4) and Roof installation and fitting installers.</p>	
	2. Based on the Decision of the Secretary General of MEST, number 2-2145, a group of experts and coordinators for the core curricula of VET was established. The group will coordinate the process of compilation of subject programs for grades 10-12, while expert groups have started reviewing curricula for grade 10. The 40 trained trainers are trained and are now part of working groups for reviewing and drafting curricula.	
	3. Regarding the funding of the Vocational Education and Training Centers, with the support of the World Bank and GIZ, cost analysis has been carried out for several profiles (medicine, economy and some technical profiles), which will complement the funding formula to be developed according to the Strategic Education Plan 2017-2021. An analysis of total spending over the past two years was carried out to compare it with current spending. In July, all spending data in vocational schools were collected from the treasury and are being analysed. The funding formulation for pre-university education is being analysed and provides for the revision of the formula for VET schools as part of pre-university education. For this purpose, a working group has been set up with representatives of the Ministry of Finance.	
Reform Measure #17: Reform in Pre-University Education		Stage of reform implementation (1-5)
	1) Development of database for licensing under the new scheme of EMIS data integration system;	2

Activities planned for 2018	2) Teachers performance assessment (5%) that are promoted by licensing system;	2
	3) Student assessment for level 5, 9 and 12 and publication of results;	4
Description of implementation and explanation if partial or no implementation	1. It is in the final evaluation phase of the bidding and we are awaiting the selection of the winning company for the development of central systems, in which system which will also integrate the current basis for the licensing of teachers.	
	2. In the fourth quarter of 2018, based on Law 06 / L-046 on Education Inspectorate in the Republic of Kosovo, AI 04/2017 on the Assessment of the Performance of Educational Institutions in Pre-University Education, AI 14/2018 on Performance Evaluation of the teachers, the Education Inspectorate has carried out these activities: - Evaluation of the performance of educational institutions in pre-university education started in seven (7) schools in the country. The main aspects for assessing school performance are: Quality Areas (Vertical Quality aspect), Quality Criteria (Expansion) and Performance Indicators (In-Depth Evaluation). - School performance assessment has started with 217 teachers in over 60 schools in 25 municipalities in Kosovo. The main aspects of teacher performance assessment are: Quality Areas and Standards set out in the Strategic Framework for Teacher Development in Kosovo.	
	3. Student assessment for level 5 was not realized because of the organization of the TIMSS Test for IV grade in the selected classes at the country level. In the Matura Examination in June, 27750 students were enrolled, while passing was 73.3%, whereas in the August period there were 3750 students and passing 62.5%. The ninth grade test was held in May and the result was 61%. With the support of the WB Project KESIP MEST has selected a company to cooperate in increasing the credibility and validity of national tests. After Kosovo's participation in the international PISA test in 2015 for the first time (ranked 69 out of 72 countries), 2018 is the final stage where it is expected to increase compared to 2015. The results of the tests are published on the MEST website.	
Reform Measure #18: Increasing the Quality and Competitiveness in Higher Education		Stage of reform implementation (1-5)
Activities planned for 2018	1) Review and completion of HE legal infrastructure;	3
	2) Functionalization of Higher Education Information Management System (HEMIS);	4
	3) Initiating the process of development of ranking system for HEIs (establishing a ranking system)	0

	management unit);	
	4) Increase of participation in international programs for higher education and scientific research.	4
Description of implementation and explanation if partial or no implementation	<p>1. The Law on Higher Education was approved by the Government of Kosovo in November 2018. An Administrative Instruction 01/2018 "Recognition of Platforms and International Revised Magazines" has been drafted and approved which regulates the process of advancement of academic staff in HEI.</p> <p>A new Administrative Instruction on the Procedure and Criteria for the Selection and Appointment of National Quality Council members UA 05/2018 was approved. After a call for nomination and open call for applications, an independent Committee has selected the members of the National Quality Council. The Administrative Instruction 15/2018 on Accreditation was amended to include a provision for the establishment of Appeals Committee. MEST is also in the process of finalizing a concept document for the Law on Kosovo Accreditation Agency.</p> <p>After the adoption of the Law on Regulated Professions, the drafting of administrative instructions has begun. Since MEST as sponsor of the law in coordination and cooperation with other institutions has established the Negotiating Team for Recognition of 4 Professional Qualifications (general practitioner, dentist, architect, construction engineer) with the Western Balkan countries.</p> <p>Administrative Instruction no. 12/2018 "On the Principles and Procedures for Recognition of Diplomas, Diplomas and Qualifications of Higher Professional and University Schools Required by the Republic of Kosovo" was approved in September 2018 to facilitate easier recognition of diplomas.</p>	
	<p>2. Functionalization of Higher Education Information Management System (HEMIS) was piloted in some higher education institutions in 2017 and has been fully operational in 2018. The administrative instruction for HEMIS in October 2018 was revised, which eliminated the shortcomings in this system, through which HEMIS is established and functioning. Also, the AI determines the efficiency, reliability and accountability of the data in the system, the rights and responsibilities of MEST and higher education institutions in Kosovo, legal deadlines for registration and placement of data, deadlines for reporting student lists, etc.</p>	
	<p>3. Initiating the process of development of ranking system for HEIs (establishing a ranking system management unit) has no progress due to lack of capacity and support.</p>	
	<p>4. MEST has supported Kosovo students with scholarships for studies in the deficit areas of public universities (technique, agriculture, education, natural sciences that are foreseen also in the NDS) and people with special skills - in total over 600</p>	

	<p>students per year for bachelor levels and master. Also, within the framework of international cooperation, over 220 mobility and scholarships for foreign studies have been supported, including in areas matching labour market requirements, such as 50 scholarships a year in agriculture, nature science or food technology.</p> <p>MEST supports participation in the Horizon 2020 program by coordinating the program, supporting the National Contact Points by thematic areas as well as organizing relevant training of contact points. Based on the EC 'Minimum Standards and Guiding Principles' basic document, a regulation has been prepared and approved to regulate the structure, funding and functionalization of Kosova Contact Points for the European Framework Program for Research and Innovation-Horizon 2020.</p> <p>In full coordination with the MEST NCP, the European Commission, the Directorate for Research and Innovation, conducted the two-day information seminar (13-14.11.2018) on the opportunities offered by the Horizon 2020 program. Approximately 90 hosts for each day benefited from this session information.</p> <p>Together with the National Contact Points, the first edition of the "newsletter" (Newsletter NCP Kosovo) was realized, which will be distributed to all interest groups. This document seeks to inform the public about the opportunities offered by the Horizon 2020 program, and to promote the country-wide support mechanisms for the program, as well as to promote the work of the National Contact Points. With the support of the HERAS project the National Contact Points were trained.</p> <p>Kosovo has participated in 11 Projects of Horizon 2020. During 2018, 7 new project applications were lodged. Kosovo has an overall application success rate of 18.3%. Generally, Kosovo has made 67 applications for Horizon 2020, of which 62 were deemed to fulfil the criteria and 11 were awarded. In order to support the participation in Horizon 2020, MEST has supported the promotion of the program by implementing the regulation for national contact points for Horizon 2020. Based on EU enlargement policy, Kosovo shall have an upgraded status. The Horizon EU program which will be implemented between 2021-2027 shall improve Kosovo future prospects in research and innovation.</p>	
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		Stage of reform implementation (1-5)
Activities planned for 2018	1) Conducting a study to identify sectors (local level) with potential for youth employment;	4
	2) Full functionalization of the EARK through improvement of infrastructure and capacity building;	5
	3) Further capacity building of EARK on design, implementation, monitoring and evaluation of ALM measures;	4

	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;	4
	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;	3
	6) Development of a module for providing employment migration services as well as the career guidance module within Labour Market Information System (LMIS);	5
	7) Support for voluntary work initiatives, contributing to youth employment;	5
	8) Apprenticeship for newly graduated from higher education (KIESA)	5
Description of implementation and explanation if partial or no implementation	1. A local labour market study on youth employment is in the process. All stages of the study have been completed and in the first quarter of 2019 the publication of the study findings is expected to be published. Questioner and other stages are designed in cooperation with the EARK and everything has gone well.	
	2. Full functionalization of the EARK through improvement of infrastructure and capacity building has advanced. The Agency is fully functional and continues to build technical staff capacities through various projects. With the Swiscontact project, training of 14 Employment Advisors was made on employment counselling and entrepreneurship. Also, 16 employment advisor for grants monitoring were trained.	
	3. The capacity building of the Agency for the design, implementation, monitoring and evaluation of active labour market measures continues. New measures have also been developed especially for vulnerable groups. There is a new regulation on Active Labour Market Measures which is in full function.	
	4. Implementation of active labour market measures for focus groups (increase of ALM mediations with 11%) and development and implementation of the self-employment and entrepreneurship program. The target of increasing employment by 11% is in the process of reaching. Until the end of November this year, about 2692 jobseekers employed through Active Labour Market Measure.	
	5. With support from EYE, standards-based curricula and teaching packages are developed in 4 (four) qualifications; Milk Processing, Bakery, Hairdresser, Make Up Artist. With the support of the DVV-international, printing of these books has been	

	<p>made with teaching materials in the necessary exemplars for candidate work in VTC training cabinets, Also supported by EYE are finalizing the curricula and teaching packages based on the professional standards for 2 qualifications for tailor and car mechanics, where by the end of the year are expected to be finalized.</p> <p>Regarding accreditation of previous learning and qualifications from NQA, there are selected the institutions that will be piloted for recognition of previous learning where from the Vocational Training Centers was selected VTC-Gjilan in the qualification of Welding, QAP Gjilan has applied for accreditation according to the procedures and the format applied by the NQA and is waiting for the evaluation of the application to enter the accreditation process;</p> <p>Supply with equipment of VTC-Prizren for the Bakery profession in and computer supply of two ICT cabinets; 16 Computers for VTC Prishtina and 16 computers for VTC-Peja from the DVV-International organization, as well as with the Budget of the Republic of Kosovo have been supplied with advanced equipment in these profiles: Kitchen, Pastry, Woodwork, Welding, Automechanic, Graphic Design and Milk Processing;</p> <p>6. Career orientation platform has been developed in the Labour Market Information System and has been launched on 30 November 2018. The SITP link is http://sitp.rks-gov.net/.</p> <p>7. Electronic platform for volunteers in Kosovo has been developed. http://kosovovolunteers.org/ and on this platform so far have registered 3455 volunteers. We have 184 active organizations registered on the Platform, 135 opportunities created for volunteering.</p> <p>8. At the end of 2017, KIESA has started the program for apprenticeship of newly graduated students and ended in March 2018, where 200 students have been certified for completing this practice. The main purpose of this project is the development of small and medium enterprises in Kosovo, the formation of new cadres and the implementation of theoretical knowledge in practice.</p>	
Reform Measure #20: Improvement of social and health services		Stage of reform implementation (1-5)
Activities planned for 2018	1) Extension of Health Insurance Fund System Platform;	1
	2) Strengthening administrative capacities of the Health Insurance Fund through employment of 24 officials;	4

	3) Application of providing home health services and adoption of a basic package of health services;	5
	4) Strengthening capacities for provision of cardiology and cardio-surgery services;	4
	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;	2
	6) Drafting concept document for regulation of social services;	5
	7) Designing the funding formula (specific grant) and criteria for budget allocation by municipalities related to social services;	3
	8) Drafting the secondary and operational legal framework for development of social entrepreneurship; Involvement of beneficiaries in training and employment programs.	1
Description of implementation and explanation if partial or no implementation	1. Health insurance fund is in the process of preparation to develop and functionalize health information platform. The health information platform for Health insurance fund will be fully implemented by the end of 2019	
	2. Health Insurance fund has hired six employees until December 2018. In the process of recruitment are seven employees.	
	3. Ministry of health through Main Family Medicine Centres has provide 12,940 home visits during January-November 2018.	
	4. Ministry of Health has functionalized the second operative hall. The total investment has reached 2.1.milion euro.	
	5. The draft of Administrative Instruction regarding categories, for exemption from payment of premiums for health insurance has been prepared. No further developments regarding Poverty Test. The Working Group under the direction of the Director of the Social Insurance Fund and the World Bank Support, in October 2018, have drafted the initial draft Administrative Instruction and the Operational Manual.	
	6. The Concept Document of Social Services by the Working Group led by MLSW was in public consultation until December 5, 2018, and is planned to proceed to approval by the Government.	
	7. Ministry of Health has prepared proposal for funding formula (specific grant on health) for primary health care. Draft Report and Analysis on Social Services Financing from the EU Support Project was drafted in November 2018, approved by the Kosovo Government Concept Document on Local Government Finance, within which the MLSW proposal is included for the creation of a Special Grant for Social Services.	
	8. In November 2018, was approved by the Assembly of Kosovo Law on Socially Owned Enterprises, we are waiting until the end of the year to be signed by the President of Kosovo and then start with the start of preparations for the secondary legal framework which we are providing support with technical assistance from the project of the EU Office.	

ANNEX 2: EXTERNAL CONTRIBUTIONS TO THE ERP 2019-2021

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) 2019-2021 is a document drafted on a regular annual basis through which, by linking the medium-term macro-fiscal framework and economic policies with priority of the Government, the process of implementing reforms becomes clearer. ERP contains medium-term macroeconomic projections (including GDP growth, inflation, trade balance and capital turnover), budget plans for the next three years and an agenda for structural reforms that includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation.

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

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

For the structural reform agenda, area coordinators have been appointed as set out in the EC guidelines, as follows: Energy and Transport 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 2019-2021 the Economic Reform Program planning phase, individual meetings were held with all the area coordinators in the relevant ministries, while high level political meetings took place during the document development as well as workshops with representatives of ministries.

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

The progress of the consultation process

Consultations on drafting the ERP 2019-2021 took place since the very beginning of drafting process. On 27th of June, SPO launched the ERP 2019-2021 process with participation of civil society organizations and business sector. In September/October 2018, the SPO held individual meetings with the relevant field coordinators from line ministries, while during the drafting of the document several meetings took place for the preparation of the measures of ERP 2019-2021 and their monitoring and reporting during October-November period as well. While on 18th of September a high level meeting of the Government and the European Commission was held.

The Economic Reform Program was published for consultation with the public on the electronic public consultation platform on 18th of December 2018 and was open for comments until 8th of January 2019, according to the Regulation on Minimum Standards for Public Consultation.

Following the closing of the consultation process, all contributions received were analysed and on the basis of them the necessary amendments to the document have been completed so that the final version is submitted to the government for approval and must be submitted to the European Commission no later January 31, 2019.

Methods of Consultation	Methods of Consultation	Number of participants / contributors
1. Publishing on the Web / Electronic Platform	15 working days	2 Contributors
2. High level meeting between GoK and EC and OECD	18/09/2018	50 participants
3. Joint meetings with ERP Coordinators and Line Ministries <ul style="list-style-type: none"> • Trade-related Reforms group; • Sectorial Developments (Agriculture, Industry and Services); • Energy and Transport Market Reform group; • 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. 	20 Oct – 30 Nov	6 participants 9 participants 8 participants 5 participants 6 participants 4 participants

Summary of contributions received during the consultation process

Contributions to the ERP 2019-2021 are mainly provided during the workshops held with line ministries. There was also contribution through the online public consultation platform.

Other Issues

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

Next steps

The Economic Reform Program 2019-2021 has been finalized and proceeded for approval to the Government of Kosovo.

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

Economic Reform Programme 2019-2021				
General comments				
<p>Institute for Advanced Studies GAP – has commented on Energy and transport market reform, respectively on Measure ‘Reduction of energy consumption through energy efficiency measures’ and Measur2: Further development of energy generation capacities; Priority Area #2 Sectorial Developments – (Agriculture, Industry and Services) Measure 5: Increase of competitiveness in the manufacturing industry; Priority Area 5 Trade related reforms - Measure #14: Trade facilitation by increasing the cost-effectiveness of international trade transactions; and Priority Area #7: Education and skills. Measure #16: Increase of quality of vocational education and training based on labour market requirements and Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education - this measure aims to improve quality at all levels of pre-university education and to increase attendance at this level with a particular focus on preschool education. The measure addresses policy guidance #.</p> <p>It also provided a cross-cutting comment section on impact on the labour market and gender issues where they concluded that do not provide any explanation of how gender impact assessment will be measured in the given area, but only show the potential positive impact on the labour market in general.</p> <p>American Chamber of Commerce – The ACC commented in general as below and all these are overall comments that can be addressed in the future. Regarding the new proposed measures by ACC, the new proposed measures can be taken into account during next ERP cycle given that the max mum number of measures for ERP is 20, which is now completed.</p>				
	Comments	Comment ed by:	Status of Comments - Accepted, partially accepted, and is not accepted.	Comments (Comment on partially accepting and not accepting comments is mandatory)

Priority Area 1 Energy and Measure # 1: Reduction of energy consumption through energy efficiency measures	To be added as an indicator "Electricity consumption for heating by households (kWh / m2)". Data on this indicator can be collected by the Kosovo Agency of Statistics as part of the Household Budget Survey. This is one of the key indicators that show the effect of energy efficiency measures over the years.	GAP	Not accepted	This indicator can be taken into account next year given that the nature of activities of ERP for this year, because our aim is to reduce the energy consumption aiming at achieving at energy saving targets of 92 ktoE or 9% of final electricity consumption.
Measure #2: Further development of energy generation capacities	The construction of the New Kosovo Power Plant will have result with the increase of electricity prices in the country. This is confirmed by an official ERO report which in their conservative model estimates that the impact of Kosova e Re construction on retail electricity tariffs will be 51.7%. This report has been submitted to the Assembly and MPs. In our analysis, where we have built a model that includes more variables, such as investments expected to take place in the energy field according to MED, it turns out that the impact on electricity tariffs will be more pronounced, about 60.4%. ⁶⁷ The ERP 2019-2021 does not mention the potential risks, the risk of rising electricity tariffs as a result of the new power plant Kosova e Re and the impact that will be especially on families financed funded by the Social Assistance Scheme;	GAP	Not accepted	Not incorporated because the decision on investor is still not taken and WB withdrew from the original proposal.
	The key performance indicator on "Percentage of energy produced from renewable energy sources" contains inaccurate data. As you can see in the next indicator, the production capacity of RES in 2017 was 76 MW, which means that even if all this capacity was used throughout the year, it could produce a maximum of 665 GWh or 13% of total energy for 2017. While from the report for 2017 of the Energy Regulatory Office	GAP	Not accepted	According to MED, data on the key performance indicator on "Percentage of energy produced from renewable energy sources" - is correct.

⁶⁷ GAP Institute. Impact of TPP "Kosova e Re" on electricity tariffs, 2018. Source: <https://bit.ly/2uLijzo>.

	<p>(ERO) it is understood that from 77.09 MW net production capacity from RES are produced 179 GWh which represents 3.4% of total electricity production. Given that the Energy Strategy of the Republic of Kosovo 2017-2026 determines the target of RES participation in gross final energy consumption rather than energy production then the percentage would be even lower than 3.4%. Whereas, if it is intended to generate total energy from different sectors and sources, such as fuel, heat and electricity, the table should be corrected and clarified better. Although, based on the unit presented for this indicator, GWh, it is understood that it is only about electricity; Also, in the description of the same measure, incorrectly are presented the figures that says that by the power plants are produced 5300 GWh of electricity while the RES is 179.25 GWh, in total 5479.25 GWh. Total output from power plants and RES in 2017 was 5300 GWh, with 5121 GWh being produced from power plants and 179 GWh from RES, - 5300 GWh (see ERO 2017 report);</p>			
<p>New measure: Develop liberalization of the electricity market</p>	<p>In addition to the two measures presented, it also is important to address the development of liberalization of the electricity market. Although the Energy Regulatory Office (ERO) has approved the roadmap for liberalization of the electricity market, the entry into function of TPP Kosova e Re will make it difficult for this purpose.</p> <p>Activity 2019: ERO should provide the evaluation of the contract signed with Contour Global for the impact of this project on the energy market liberalization roadmap even if these two are compatible.</p>	GAP	Not accepted	<p>The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note.</p> <p>Also, regarding the importance to address the development of liberalization of the electricity market, it can be foreseen for next cycle of ERP.</p>

Priority Area #2 Sectorial Developments – (Agriculture, Industry and Services): Measure #5: Increase of competitiveness in the manufacturing industry	It is necessary that in 2019 to add as an activity ‘a study to assess the impact of current economic areas on the promotion of production, employment growth, and the percentage of use of space in them. Moreover, it should be estimated how many businesses in these areas were created, while those displaced from some other location did they increased the number of workers or production. Also, the report should address the challenges of each of these economic zones. Thus, activity ‘7) Financial support for the construction of the physical infrastructure of the three economic zones, respectively business parks (Suhareka, Viti and Vushtrri)" should be potentially pushed for the year 2020 depending on the findings of the study	GAP	Not accepted	Upon approval for creation of these three economic zones, the study does not present a reform
	To be added as an activity for 2019 to this measure “the adaptation of the Law on Economic Zones to the EU acquis” as recommended and the Progress Report for Kosovo 2018.68	GAP	Accepted	The activity for 2019 to this measure “the adaptation of the Law on Economic Zones to the EU acquis” as recommended and the Progress Report for Kosovo 2018.69 – IS ACCEPTED AND WILL BE INCORPORATED IN ERP.
Priority Area #3 Business environment and reduction of informal economy: New Measure - Development of Competitiveness	New Measure: Development of Competitiveness In addition to the measures presented, it is important to have additional measures for the development of competitiveness that also emerge as recommendations from the 2018 Progress Report. The State Aid Department lacks human capacity to investigate and make decisions on projects, grants or subsidies which violate the Law on State Aid. With an official and a director, it is almost impossible to exercise the mandate for verification, auditing, and forbidding state aid measures. Also, the five-member State Aid Commission, which is responsible for implementing the State Aid Law, has not yet been appointed. The lack	GAP	Not accepted	The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note. However, this proposal can be taken into account for next cycle and also the main goal of ERP is to address obstacles to competitiveness.

⁶⁸ European Commission, Kosovo 2018, Report, page 65. Source: <http://bit.ly/2uZViIP>.

⁶⁹ European Commission, Kosovo 2018, Report, page 65. Source: <http://bit.ly/2uZViIP>.

	of implementation of this legislation enables an unfair competition in the market. Therefore, activities for 2019 should include the increase of the staff of the State Aid Office and the establishment of the State Aid Commission.			
Measure #14: Trade facilitation by increasing the cost-effectiveness of international trade transactions	This measure addresses properly the issues raised and the responses to policy recommendations from the Economic and Financial Dialogue between the EU, the Western Balkans and Turkey, but these objectives should also include the possibility of establishing reciprocity measures as set out in Article 42 of the CEFTA Agreement which coincides with the decision of the Government of the Republic of Kosovo no. 01/76 on the imposition of a 100% tax on imported products originating in Serbia and Bosnia and Herzegovina and by Decision no. 06/82 where the first decision is amended to include the imposition of a tax on internationally recognized brands which produce in Serbia and Bosnia and Herzegovina	GAP	Not accepted	The nature of ERP is not relevant with this comment

<p>Priority Area #7: Education and skills. Measure #16: Increase of quality of vocational education and training based on labour market requirements and</p> <p>Measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education</p>	<p>These measures are clear and also the share of more children in pre-school and the construction of four facilities of preschool institutions is also supported by budget allocation for kindergarten construction for 2019, 2020 and 2021, but with regard to the objective of the purchase of equipment for 10 vocational schools in capital projects in the Draft Budget of 2019 only the construction of schools and the infrastructure regulation of the existing ones are included whereas there is clearly no distinction between the purchase of equipment for professional schools for priority profiles. Therefore this issue should be more explicitly elaborated or removed as an activity.</p> <p>Also, according to the latest monitoring report of the GAP Institute, PIPS, and GJPS, tools for VET profiles have been provided by the Treasury and the VET Division has collaborated with WB, GIZ and MF to come up with one formula for funding pre-university education, which also includes VET, but in draft budget 2019 no capital project is foreseen in this regard. Meanwhile, in the ERP, the reformulation of this formula is foreseen.</p>	GAP	Not accepted	This is subject to the agreement with KfW and other donors.
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Cross-cutting Comment	All measures from 14-20 regarding the section on impact on the labour market and gender issues do not provide any explanation of how gender impact assessment will be measured in the given area, but only show the potential positive impact on the labour market in general. If this issue is not addressed, which means it does not explain the impact on gender, then it should be removed from the subsection in the part of the analysis of the current state of the respective measure.	GAP	Not accepted	This section is decided by EC Guidelines Note on ERP preparation and it belongs to them to decide about this.
	<p>Structural Reform Priorities for the Period 2019-2021</p> <p>1. "Access to finance is no longer an obligatory barrier" (p.51)</p> <p>The American Chamber of Commerce highly values the engagement of the governing institutions in the possibility of a more easy access to finance that has affected the decline in nominal interest rates on commercial loans and resulting in a more favourable environment for the establishment, development and expansion of businesses, among others. This is also reflected in the study conducted by the American Chamber of Commerce "Private Sector Pulse on MSA" with a sample of 500 businesses, conducted during the 2018, where it turned out that about 20% of businesses consider access to finance as a major challenge. However, the high level of over 80% of inactive women in the labour market and at a rate of only 12% of employees raises the need for a profound review of women's labour market issues. In addition to the rate of employment, it turns out that only 10% of them are owned by private businesses. Based on these facts, the American Chamber of Commerce estimates that the issue of women's access to finance should be considered a top priority as it poses a crucial obstacle to inclusive economic growth.</p>	American Chamber of Commerce	Nor accepted and neither rejected since it is more an assessment.	It can be taken into account in the next ERP cycle

	<p>2. "The environment of doing business has improved strongly, but the challenges remain." (P.52)</p> <p>The World Bank Report on the Doing Business for 2019 recommends measures to be taken and continuing reforms in this regard. Kosovo turns out to have lost 4 positions in ranking, due to the implementation of reforms that other states have taken by taking the World Bank sample. The low level of private sector and public sector dialogue identified by the American Chamber of Commerce over the last few years contributes to the deteriorating business environment, which is reflected in low foreign direct investment rates in recent years others. The American Chamber of Commerce believes that free trade is an important factor in enabling economic growth through increased efficiency and innovation, export opportunities as well as higher quality and lower-priced goods for consumers. Therefore setting non-tariff and tariff barriers is out of the question and commitments in the context of free trade agreements</p>	American Chamber of Commerce	Not accepted	ERP does not take into account decision out of its scope
	<p>3. "Informal economy is estimated to have diminished, but still remains a major and important obstacle." (P.52)</p> <p>Based on the American Chamber of Commerce studies on the Private Sector Pulse and the SAA, the informal economy and unfair competition are a key problem in the development of the private sector. Therefore, the American Chamber of Commerce estimates that the informal economy should be treated with a high priority in order to guarantee fair competition. The American Chamber of Commerce considers that the decline of the informal economy from 43% of GDP in 2013 to 32% in 2015 is a positive indicator, however, no improvement has been noted in the last period from 2015 to 2019. In this way, the positive effects generated by the 2013-2015 policies which have been successful have been reflected in the continuous growth of the private sector as well,</p>	American Chamber of Commerce	Accepted	Informal economy is qualified among top priorities therefore is in the ERP as a single measure from this cycle

	however these policies have proved unsuccessful in lowering informality rates in the years to come.			
	<p>4. "Poor implementation of contracts and the rule of law remain an obligatory obstacle" (p.53)</p> <p>The latest American Chamber of Commerce's perception of corruption found that over 75% of businesses believe that corruption in Kosovo is systematic, while the factors that enable corruption are the weak rule of law, the lack of political will to fight corruption and the deficient framework while over 50% of businesses surveyed believe the level of corruption has remained the same compared to five years ago, where only 15% of businesses reported corruption cases to the relevant authorities. The American Chamber of Commerce estimates that an efficient and accountable judiciary would be vital to eradicating corruption, while perception of corrupt justice institutions ruins business confidence and discourages their active role in reporting corrupt actions. The American Chamber of Commerce since 2013 through the National Council for Economic Development has raised the need for amending the Public Procurement Law in order to promote the inclusion of arbitration clauses in public procurement contracts. In addressing economic issues, the American Chamber also supports the initiative of the Minister of Finance, Bedri Hamza, for the establishment of an Independent Oversight Board for resolving complaints to the Tax Administration and Customs, as such would significantly reduce the time needed to resolve disputes and would result in greater efficiency.</p>	American Chamber of Commerce	Nor accepted and neither rejected since it is more an assessment.	It can be taken into account in the next ERP cycle
	<p>5. "In the infrastructure, insufficient and unsustainable supply of electricity is still an obligatory obstacle" (page 53)</p> <p>The unstable electricity supply over the years has caused multi-million-dollar damage to the domestic industry and has hampered the</p>	American Chamber of	Nor accepted and neither rejected since it is	It can be taken into account in the next ERP cycle

	strengthening of the manufacturing sector in the country. In addition to the positive developments in recent years in terms of increasing the stability and predictability of supply, Kosovo continues to face the immediate need to create new generation electricity capacities. Building a new power plant will enable Kosovo to expand its generation capacity and consequently reduce its dependence on electricity imports. Existing power plants operate with very old technologies, while a more serious defect will face Kosovo's energy crisis, and will increase dependence on imports, thus fuelling the rise in energy prices. On the other hand, the American Chamber appreciates the adoption of the Law on Energy Efficiency, which foresees the establishment of an Energy Efficiency Fund from which public institutions will benefit initially, but is foreseen to be extended to the private sector in the future. Also, the role of the Energy Regulatory Office is to be assessed in lowering the rates charged for electricity to businesses, however, Kosovo remains the only country where rates are higher for the private sector than for households	Commer e	more an assessment.	
	6. "The skills gap between education / training and labour market needs remains a compulsory obstacle to growth and employment" (pp. 53-54) The American Chamber of Commerce states that the education system in Kosovo needs radical reform, taking into account the best practices of developed European Union countries and beyond. In this regard, Kosovo lacks a dual education system that would enable theoretical and practical students to be trained and that has proved to be extremely successful.	American Chamber of Commer e	Accepted	According to MEST, actions are taken in this regard.
Measure #1: Empowering women in entrepreneurship through	Description: This measure means that access to finance is considered a matter of high importance and not as an obstacle which is not mandatory, as a problematic is obviously and specifically for women entrepreneurs and aspirants. Women face a high level of inactivity and unemployment, and access to finance is quite difficult, often due to the	American Chamber of Commer e	Not accepted	The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note. However, these proposals can be addressed on next ERP cycle

facilitating access to finance.	lack of collateral among other issues, and therefore high importance should be attached to access to finance in order to guarantee the development of all social strata.			
Measure #2: Development of public-private dialogue and the re-functionalization of the National Council for Economic Development	Description: The American Chamber of Commerce has witnessed a significant deterioration of the public-private dialogue, which has also resulted with political interference on economic affairs of businesses. This measure would serve to guarantee the development of public-private dialogue as well as re-functionalization of the National Council for Economic Development, consisting of members from various interest groups, to enable reforms that are consistent with the current need for Kosovo's overall economic development, which would be reflected and improved in the environment of doing business.	American Chamber of Commerce	Not accepted	The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note. However, these proposals can be addressed on next ERP cycle
Measure #3 Promotion of arbitration as an alternative method for dispute resolution	Description: The high number of cases and the lengthy time required to settle disputes increases the need for applying a measure that allows for alternatives. Settling the cases through arbitration procedures would enable a more rapid and efficient handling of cases, thus enabling simpler operations among prosecutors and judges dealing with economic issues. Arbitration as an alternative method of dispute resolution would significantly reduce the time needed for case settlement and would directly increase the efficiency of the structures for rule of law and contract enforcement.	American Chamber of Commerce	Not accepted	The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note. However, these proposals can be addressed on next ERP cycle
Measure #4: Development of the dual education system and the Committee for	The skills gap between education and lab or market needs is a problem that needs to be tackled immediately as it is reflected in high unemployment rates, exit of human capital etc. The dual education system in some of the EU Member States has resulted in developing appropriate profiles for the labour market, and this measure aims to initiate procedures for the development of the dual education system which enables theoretical training as well as practical work for students	American Chamber of Commerce	Not accepted	The number for proposed measures is maximum 20 measures as decided by EC Guidelines Note. However, these proposals can be addressed on next ERP cycle

Development of Curriculum:	then consequently meets the needs of the labour market. At the same time, it is necessary to establish a Curriculum Development Committee composed of educational institutions, the private sector as well as governing bodies, which would directly address the ongoing developments in the various economic sectors and enable academic development of students taking into account the labour market needs.			
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ANNEX 3: COMPARISON WITH THE PREVIOUS PROGRAMME

Document	Description	2016	2017	2018 proj.	2019 proj.	2020 proj.	2021 proj.
ERP 2018	Total revenues	1,608	1,725	1,829	1,938	2069	
	Total expenditures	1,672	1,811	2,092	2,183	2297	
	Current spending	1,221	1,309	1,386	1,420	1458	
	Capital expenditures	444	501	694	751	827	
	Primary balance	-64	-86	-264	-245	-228	
	<i>Overall balance (as per fiscal rule)</i>	<i>-54</i>	<i>-96</i>	<i>-122</i>	<i>-109</i>	<i>-70</i>	
	GDP	6,070	6,345	6,737	7,132	7624	
	Overall deficit as % e GDP	-0.90%	-1.50%	-1.80%	-1.50%	-1.0%	
	Bank balance as % of GDP	3.50%	4.50%	4.50%	4.50%	4.4%	
	Current expenditure as % of GDP	20.20%	20.90%	20.80%	20.20%	19.4%	
ERP 2019	Total revenues	1,608	1,684	1,817	1,949	2,026	2,141
	Total expenditures	1,672	1,766	2,104	2,365	2,426	2,487
	Current spending	1,221	1,282	1,386	1,567	1,584	1,624
	Capital expenditures	444	468	694	770	813	835
	Primary balance	-64	-82	-287	-416	-400	-346
	<i>Overall balance (as per fiscal rule)</i>	<i>-54</i>	<i>-55</i>	<i>-122</i>	<i>-145</i>	<i>-107</i>	<i>-151</i>
	GDP	6,070	6,414	6,761	7,123	7,529	7,961
	Overall deficit as % e GDP	-0.90%	-0.86%	-1.83%	-2.04%	-1.43%	-1.90%
	Bank balance as % of GDP	3.50%	4.55%	4.72%	4.55%	4.50%	3.36%
	Current expenditure as % of GDP	20.20%	19.99%	20.50%	22.01%	21.04%	20.39%
Difference	Total revenues	0.0%	-2.4%	-0.7%	0.6%	-2.1%	
	Total expenditures	0.0%	-2.5%	0.6%	8.3%	5.6%	
	Current spending	0.0%	-2.0%	0.0%	10.4%	8.6%	
	Capital expenditures	0.0%	-6.7%	0.0%	2.5%	-1.7%	
	Primary balance	0.0%	-4.6%	8.7%	69.7%	75.3%	
	<i>Overall balance (as per fiscal rule)</i>	<i>0.0%</i>	<i>-42.6%</i>	<i>-0.2%</i>	<i>33.2%</i>	<i>53.4%</i>	
	GDP	0.0%	1.1%	0.4%	-0.1%	-1.2%	
	Overall deficit as % e GDP	0.0%	-42.7%	1.4%	35.9%	42.6%	
	Bank balance as % of GDP	0.0%	1.0%	5.0%	1.2%	2.3%	
	Current expenditure as % of GDP	0.0%	-4.3%	-1.4%	8.9%	8.4%	

ANNEX 4: INVESTMENT CLAUSE

Box 2. The Investment Clause

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

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

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

As another condition of the investment clause was for the Ministry of Finance to produce twice per year a narrative report for the implementation of the projects under this provision. The last report on this instrument consisted of 7 projects, and the upcoming report which will be produced in November 2018 will include projects below which are also part of the budget tables for 2019. The reduction in the number of projects included in the investment clause is a result of the Government's decision to only include projects which are mature enough to start implementation in 2019.

As said previously, the Investment Clause encompasses 7 capital projects, 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 first grant agreement from EU contribution is ratified now and we are expecting the signing of the second grant agreement with the EU during early December 2018. Civil works are expected to commence in the beginning of next year because the tendering for phase one has already been completed.
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 2019.
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 was signed in the second quarter of 2018. Civil works are expected to commence in 2019.

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 initiated 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 was ratified by the Parliament. The estimated cost of the project is EUR 20.8 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 Prishtina region)** - the Ministry of Environment and Spatial Planning is the implementing institution for this project. Financing of this project will be done by the framework agreement between the Government of the Republic of Kosovo and the Government of France, which was ratified during 2017. Based on the agreement the project is valued to be EUR 86 million.
8. **Construction of Ring Road Prishtina** – the implementing institution for this project is the Municipality of Prishtina. The project is in the process of evaluation from the Banks, EBRD and EIB. The agreement will be signed and ratified during 2019 and the civil works are expected to commence during the fourth quarter of 2019 or beginning of 2020.
9. **Construction of Waste water treatments for Municipality of Mitrovica and Municipality of Gjilan** – the Regional Water Companies of Mitrovica and Gjilan are the implementing institutions for this project. The financing agreements will be signed during 2019 with EBRD and EIB for 50% of the financing, while the rest, 50% will be financed with a grant from WBIF. After the ratification of the agreements, the implementation will commence during the fourth quarter of 2019 or beginning of 2020.
10. **Construction of Waste water treatment in Podujeva** – the municipality of Podujeva is the implementing institution for this project. The financing agreement is signed with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. After the ratification of the agreement that is in process, the implementation will commence during the first half of 2019.
11. **Construction of a water supply system for the Municipality of Ferizaj** - the municipality of Ferizaj is the implementing institution for this project. The financing agreement will be signed during year 2018 with Raiffeisen Bank International, which acts on behalf of Austrian Ministry of Finance. After the ratification of the agreement, the implementation will commence during the first half of 2019.
12. **Construction of a water supply system for the Municipality of Istog** – the municipality of Istog is the implementing institution for this project. The financing agreement will be signed during year 2018 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. After the ratification of the agreement, the implementation will commence during the first half of 2019.
13. **Construction of Waste water treatment in Shtime** – the municipality of Shtime is the implementing institution for this project. The financing agreement will be signed during year 2018 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of Finance. After the ratification of the agreement, the implementation will commence during the first half of 2019.
14. **Construction of a water supply system for the Municipality of Graçanica** – the municipality of Graçanica is the implementing institution for this project. The financing agreement will be signed during year 2018 with Unicredit Bank Austria AG, which acts on behalf of Austrian Ministry of

Finance. After the ratification of the agreement, the implementation will commence during the first half of 2019.

15. **Real Estate Cadaster and Geospatial Infrastructure Project (REGIP)** - the implementing institution for this project is Kosovo Cadaster Agency. The assessment of total project cost is 16.5 million US Dollars. The financing agreement (FA) between Government of Kosovo and International Development Association (IDA WB) is in the process of negotiations and expected to be signed in 2018 however, the project implementation is expected to commence during 2019 after FA ratification.
16. **Financial Sector Strengthening Project (FSSP)** - the implementing institution for this project is Kosovo Credit Guarantee Fund (KSGF). The objective of the Project is to improve access to finance for Small and Medium Enterprises. The assessment of total project cost is estimated at 20 million EURO. Project is under design and it is expected to be negotiated in 2019.
17. **Traffic and Transportation Safety Project** -The control System will perform the complex traffic enforcement tasks with Fixed Enforcement Stations, Mobile Enforcement Station, Mobile Enforcement Equipment, Mobile Enforcement Units and Portable Enforcement Units. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Project is under design by Ministry of Infrastructure as implementing agency.
18. **Replacement of Asbestos – Cement Pipes in Gjakova Municipality** - Replacement of the water supply pipe lines of asbestos - cement material, which were installed 55 years ago, in the town of Gjakova. Through this investment, the need to support the supply of drinking/tap water for the next 30 years will be fulfilled. The implementation agency is the Municipality of Gjakova. The project has been approved by National Investment Committee (NIC) and will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
19. **Waste Water Treatment Plant in Ferizaj Municipality** – This project includes the design, construction and maintenance of collecting systems (Wastewater Treatment Plant) in Ferizaj Municipality. This project will be implemented by Municipality of Ferizaji. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
20. **Sewage System in Deçan Municipality** - Zone 1: Sewage system for Strelc villages. Zone 2: Sewage system for Dubovik villages and part of Isniq village. Zone 3: Sewage of villages Lëbushë, Isniq and Prapaqan. This project will be implemented by the Municipality of Deçan. The project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
21. **Catchment for Drinking Water in Verboc village/Drenas Municipality** - The construction of the catchment for drinking/tap water in Verboc village, will supply drinking/tap water in Drenas Municipality. This project will be implemented by Municipality of Drenas. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the

Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.

ANNEX 5: LIST OF KEY PERFORMANCE INDICATORS

Reform measure #1: Reduction of energy consumption through energy efficiency measures						
INDICATOR: Energy intensity of GDP						
Unit	Toe					
Values						Target
2015	2016	2017	2018	2019	2020	2021
0.049	0.048					0.043
INDICATOR: Energy consumption per employee - toe/employee						
Unit	Ktoe					
Values						Target
2015	2016	2017	2018	2019	2020	2021
8.32	8.12	8.26				7.93
INDICATOR: Realized technical and commercial losses (%)						
Unit	GWH					
Values						Target
2015	2016	2017	2018	2019	2020	2021
26.6%	24.5%	24.0 %	22.7%	21.4%	20.1%	18.9%
Reform measure #2: Further development of energy generation capacities						
INDICATOR: Percentage of energy generated from renewable energy sources						
Unit	GWH					
Values						Target
2015	2016	2017	2018	2019	2020	2021
18.5%	18.8%	18.4%	21.3%			25%
INDICATOR: Level of CO2 emissions						
Unit	Ton					
Values						Target
2015	2016	2017	2018	2019	2020	2021
7.18	6.68	7	6.68			6.00
INDICATOR: Capacity of production from RES						
Unit	GWH					
Values						Target
2015	2016	2017	2018	2019	2020	2021
0	27	76	349	425	470	565
Reform measure #3: Structural changes in agro-processing sector						
INDICATOR: Percentage of extra value added/per year. (%)						
Unit						
Values						Target
2015	2016	2017	2018	2019	2020	2021
	30.90	34.43	38.29	44.49	49.90	52.43
INDICATOR: Number of new jobs						
Unit	No					
Values						Target
2015	2016	2017	2018	2019	2020	2021
	1,047	1,503	1,579	2,000	2,160	2,400
Reform measure #4: Consolidation and inventory of agricultural land						

INDICATOR:							
Unit	Ha						Target
Years	2015	2016	2017	2018	2019	2020	2021
Consolidation of Agricultural Land	5277				25		5302
Registration of consolidated land in the immovable property rights register	8616				8641		8641
Reform measure #5: Increase of competitiveness in the manufacturing industry							
INDICATOR:							
Unit: Number in %							
Years	Values				Target		
Years	2014	2015	2016	2017	2021		
Share of the Processing Industry in General Export	67.58%	66.13%	55.23%	55.83%	62%		
Share of the Manufacturing Industry in total GDP	10.34%	10.78%	10.49%	11.47%	12%		
Trend of exports in processing industry	(8.65%)	(2.76%)	(6.70%)	18.45%	2 % increase planned		
Reform Measure#6: Enhancing competitiveness in the Tourism and Hospitality Sector							
INDICATOR:							
Unit: Number in thousands							
Unit	Values*						Target
Years	2015	2016	2017	2018	2019	2020	2021
No. of employment in the tourism sector	19.800	21.300	23.800	25.000	27.000	29.000	32.025
No. of total overnight stays	202,041	193,996	192,847	200.000	220.300	250.701	290.000
No. of international arrivals	79.238	83.710	86.032	92.000	100.000	108.000	120.440
Reform measure #7: Adoption of evidence-based policies and addressing administrative burdens							
INDICATOR: % e simplified, merged or repealed licences and permits							
Unit	%						
Years	Values					Target	
Years	2015	2016	2017	2018	2019	2020	2021
			0	0	0		10%
Reform measure #8: Securing rights to property by addressing informality in the immovable property sector							
INDICATOR: % increase of requests in the notarial office for settlement of old inheritance cases.							
Unit	%						
Years	Values					Target	
Years	2015	2016	2017	2018	2019	2020	2021
				20%	30%		50%
INDICATOR: Number of requests for formalization of informal transactions per year by the KPCVA							
Unit	No						
Years	Values					Target	
Years	2015	2016	2017	2018	2019	2020	2021
			0	1000	2000		3000
INDICATOR: % of updated of obsolete cadastral data related to ownership in the Kosovo Cadastral Agency's geoportal, contributing to symmetric information about a dynamic and fair market of immovable property							

Unit							%
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
			0	10%	20%	30%	
Reform measure #9: Increase the efficiency of the judiciary in resolving cases							
INDICATOR: Reducing case backlog							
Unit							%
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
			7%	10%	20%	30%	
INDICATOR: Full functionalization of CMIS							
Unit							%
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
			24%	60%	80%	100%	
Measure #10: General Inspection Reform							
INDICATOR: Number of addressed/handled consumers complaints							
Unit							%
Values						Target	
2017	2018	2019	2020	2022	2023	2021	
92	144	200	300	400	450	350	

Reform measure #11: Reduction of Informal Economy							
INDICATOR: Tax Gap Reduction (CIT, VAT, PIT) %							
Unit	To be calculated on the basis of ex ante assessment but on average and according to international standards between 0.02% to 1% of GDP or in value for Kosovo 14-60 ml euro. The effect is realized for more than 50 % in the first year and the rest in the next two years.						
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
				50%	70%	100%	
INDICATOR: Reduction of Informal Economy							
Unit	To be calculated on the basis of ex ante assessment but on average and according to international standards between 0.04-2.28% of GDP. The effect is realized for more than 50 % in the first year and the rest in the next two years.						
Values						Target	

2015	2016	2017	2018	2019	2020	2021
				50%	70%	100%

Reform measure #12: Improvement of Innovation and Entrepreneurship environment

INDICATOR: Number of supported SMEs, start-ups and NGOs

Unit							No
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
			200	150	200	220	

Reform measure #13: Expansion of relevant ICT infrastructure networks and services for the socioeconomic development

INDICATOR: Number of cadastral zones covered with fixed broadband infrastructure

Unit							Number
Values						Target	
2015	2016	2017	2018	2019	2020	2021	
			37	90	140	190	

INDICATOR: Number of public institutions with broadband internet access through the KODE Program

Unit	Number					
	Values					Target
2015	2016	2017	2018	2019	2020	2021
			43	100	130	155
Measure 14: Trade facilitation by increasing the cost-effectiveness of international trade transactions						
INDICATOR: Time of custom clearance in Imp/Exp						
Unit / hour	Customs clearance time in hours (Time has been calculated only as the average customs clearance time)					
	Values					Target
	2016	2017	2018	2019	2020	2021
Imp.	2.44	2.32	2.22	2.15	2.10	2.00
Exp.	1.39	1.80	1.30	1.20	1.15	1.10
INDICATOR: Reduction of fees and charges and Licences for Imp/Exp						
Unit	Pc					
	Values					Target
	2016	2017	2018	2019	2020	2021
Fees and charges			352	345	335	320
Licences			63	60	55	50
INDICATOR: Number of Authorisation for AEO						
Unit	Pc					
	Values					Target
2015	2016	2017	2018	2019	2020	2021
			0	3	6	9
Reform measure #15: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with focus on construction products						
INDICATOR: Trade balance of construction products						
Unit	Euro					
	Values *					Target
YEAR	2016	2017	2018	2019	2020	2021
Export	30,796,534	40,561,415	51,500,000	63,500,000	76,000,000	90,000,000
Import	239,749,337	273,410,628	283,500,000	271,500,000	260,000,000	245,000,000
Trade Balance	(208,952,803)	(232,849,213)	(232,000,000)	(208,000,000)	(184,000,000)	(155,000,000)
Reform measure #16: Increase of quality of vocational education and training based on labour market requirements						
INDICATOR: The number of integrated curricula in VET schools						
Unit	No					
	Values					Target
2015	2016	2017	2018	2019	2020	2021
	20	4	0	100	26	150
INDICATOR: Trained teachers for the new VET curriculum						
Unit	No					
	Values					Target
2015	2016	2017	2018	2019	2020	2021
0	0	40	40	50	100	230
Reform measure #17: Improvement of the quality and increase of the inclusion of children in pre-university education						
INDICATOR: Increase of the number of children in pre-school institutions						

Unit	%					
Values						Target
	16/17	17/18	18/19	19/20	20/21	2021/2022
3-5 years old	33,9	36,0	38,0	40,0	42,0	44,0
5year old	87,6	92,4	94,0	96,0	98,0	100
INDICATOR: Number of teachers trained to implement the new curriculum and other programs						
Unit	Enter the unit for measuring the indicator					
Values						Target
2015	2016	2017	2018	2019	2020	2021
0	4500	9300	5412	6000	5500	6000
INDICATOR: The achievement value in the PISA international test						
Unit						
Values						Target
Value of achievement	2015	2018	2021	2024		2021
Reading	347	400+	430+	460+		430+
Science	378	400+	430+	460+		430+
Mathematics	362	400+	430+	460+		430+
Reform measure #18: Reform in Higher Education						
INDICATOR: PROFESSOR-STUDENT RATIO						
Unit						
Values						Target
2015	2016	2017	2018	2019	2020	2021
0	1,67	1,57	1,47	1,37	1,30	1,29
INDICATOR: Increase the number of mobility/scholarships in international programs						
Unit						
Values						Target
2015	2016	2017	2018	2019	2020	2021
0	98	142	220	230	240	250
Reform measure #19: Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship						
Indicator/s	Basis 2017	Target 2020	Target 2022			
Employment rate	29.8%	31.6%	33.6%			
Number of Young people benefiting from ALMP	3328	3727	4025			
Number of Women's benefiting from ALMP	3022	3384	3654			
Reform measure #20: Improvement of social and health services						

Indicators	Base indicator (2016)	Target result (2020)	Target result (2021)
Contributions collected from all public institution employees	0%	100%	100%
Cardio-surgical health services for patients that have received treatment	50%	70%	90%
Citizens with no access to basic health services due to economic reasons	18%	12%	under 5%